

Implementing the Paris Declaration Commitments and Building on the Accra Agenda for Action

Background Paper

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Executive Summary

This paper examines the ADB's performance in meeting its international commitments on aid effectiveness under the Paris Declaration at the time of the Accra High Level Forum on Aid Effectiveness (September 2008). The results are sobering: like many other donors, the Bank is not fully on track to meet its Paris Declaration targets by 2010, and much remains to be done by both the ADB and its development partners. Nonetheless, recent internal assessments suggest that the reform process launched by Bank Management in 2005 is already yielding results.

Overview of Performance

According to the OECD's 2008 survey, which provides a global benchmark for measuring performance in this area, the Bank performed above average in two areas that are critical in the context of the global economic crisis: predictability and reporting aid on budgets. Relative to other donors, the Bank disburses its funds in a timely and realistic fashion and works well with client countries to ensure that these funds are recorded in national budgets and accounting systems. An assessment of the Bank's performance over time also demonstrates progress in the use of country public financial management systems and in the reduction of the number of parallel project implementation units.

On the other hand, the Bank performed less well than other donors in four areas measured by the survey:

- Providing technical assistance that is aligned with client country needs and is coordinated with the work of other development agencies;
- Coordinating its missions and country analytic work with the work of other development agencies;
- Integrating its parallel project implementation units within client countries' institutional and administrative structures; and
- Using partner countries' procurement and public financial management systems.

The first two areas pose particular challenges for the Bank, whose performance has been hampered by certain modalities of its operations: the Bank has a large share of stand-alone projects and programs that are challenging to coordinate with other donors. However, as the Bank increases the share of budget support and programmatic approaches in its operations and raises staff awareness of the importance of harmonization and coordination with other donors, performance in these areas is expected to improve. Other positive factors that are likely to enhance performance in the near future are ongoing decentralization, the delegation of authority to Field Offices, and institutional and business process reforms.

This said, Bank Management recognizes that the institution will need to do much more to improve its standing, especially in areas where the indicators show a regression in performance between 2005 and 2007. This will require further streamlining the Bank's operational business processes and improving country implementation capacity. Also, the high transaction costs of harmonizing and coordinating with others, both in terms of time and in terms of the use of staff resources, pose a challenge to the Bank as well as to other donors. Moreover, the Bank will need the support of its shareholders in easing policies and guidelines that still constrain optimal performance on the Paris commitments, including those on increased use of country procurement and PFM systems and common arrangements.

Actions Taken by the Bank since 2005

To overcome these challenges, Management has taken a number of decisive actions:

- Restructuring the Operations Vice-Presidency responsible for country and regional programs and policy and establishing the new Results and Quality Assurance Department as a focal point for managing institutional change aimed at enhancing aid effectiveness;
- Upgrading the fiduciary function to a full-fledged Procurement and Fiduciary Services Department and reforming the Bank's procurement procedures, including amending the rules of origin for ADF countries, making it easier for the Bank to use country

procurement systems and participate in common financing arrangements at the country level;

- Integrating Readiness Reviews in program/project approval processes, creating a more results-focused monitoring and supervision framework for projects, and promoting timely completion reporting;
- Implementing an enhanced decentralization strategy, including the opening and staffing of 23 of 26 planned Field Offices¹ and delegating them additional authority;
- Increasing the Bank's participation in Joint Assistance Strategies, its use of programmatic approaches, its pooled funding arrangements and its budget support operations, thereby making greater use of country systems; and
- Functioning as an active member of the OECD-DAC Working Party on Aid Effectiveness and its Executive Committee, and co-leading the Global Partnership on Managing for Development Results. These roles will increase the African voice in global aid effectiveness discussions and help expedite the implementation of international agreements at both the Bank and the RMC level.

The Way Forward

Recognizing the necessity of immediate action, the Bank is taking several important initiatives in addition to the medium-term reforms outlined above, as a means to boost the Bank's performance before the next High Level Forum scheduled for 2011. These measures include the following:

- *Top-level communication:* Senior Management will clearly signal the importance of meeting the commitments the Bank made in the Paris Declaration and the Accra Agenda for Action. The Bank is also planning regular awareness-raising activities and operations and Field Office staff training initiatives to allow for the systematic integration of its Paris Declaration commitments in all Bank operations.
- *Corporate incentives and accountabilities:* The Bank will review and address some of its key incentives and accountabilities with a view to improving its performance on aid effectiveness.
- *Regional support facility:* The Bank is establishing a regional support facility aimed at supporting implementation of the Paris Declaration at the country level. A dedicated help desk will provide specific guidance to assist Field Offices as well as client countries in translating the Paris principles into operations on the ground. Special attention will be given to the use of country systems, integrated project implementation units and coordinated actions at the country level (technical assistance, missions and country analytic work).

While it is recognized that reforms require time to yield results, the financial crisis has added to the urgency of delivering timely and quality development assistance. In this regard, the Bank is making more efforts to improve the responsiveness, quality and development effectiveness of its interventions. At the time of the Accra High Level Forum, the Bank was far from meeting the 2010 Paris Declaration targets. However, it is now better positioned to deliver results in terms of both the Paris targets and country-level outcomes and impacts. The steps outlined above are expected to contribute to significantly improved Bank performance by the time the next forum² is held in 2011. With the support of its shareholders and through enhanced coordination and collaboration with other development partners and RMCs, the Bank will ensure that the reforms undertaken and measures introduced achieve their goal of improving aid effectiveness.

¹ These figures include the Temporary Headquarters in Tunis (operational), and the office in South Africa (planned).

² The fourth High Level Forum on Aid Effectiveness is scheduled for the second half of 2011 in Seoul, South Korea.

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Abbreviations

ADB	African Development Bank
ADF	African Development Fund
DAC	Development Assistance Committee
DFID	United Kingdom Department for International Development
OECD	Organisation for Economic Co-operation and Development
PFM	Public Financial Management
PIU	Project Implementation Unit
RMCs	Regional Member Countries

IMPLEMENTING THE PARIS DECLARATION COMMITMENTS AND BUILDING ON THE ACCRA AGENDA FOR ACTION

1. Introduction

- 1.1 Improving aid effectiveness is a long-standing commitment of the African Development Bank (ADB or the Bank) Group. As a signatory to the Paris Declaration, the Bank Group subscribed to principles of ownership, alignment, harmonization, managing for results and mutual accountability. These principles are also important to African Development Fund (ADF or the Fund) recipient countries. With the Paris Declaration, donors committed to improving their systems and practices in order to deliver better quality and more effective aid. Partner countries also committed to using resources in a transparent manner to support their national development agendas. Like all signatories to the Paris Declaration, the Bank Group faces key challenges in fulfilling these commitments.
- 1.2 The Paris Declaration is distinct from previous international agreements because its signatories agreed on a results framework for monitoring progress. Twelve indicators and targets were set for 2010 (see Annex I): of these, seven are applicable to donors.³
- 1.3 The Organisation for Economic Co-operation and Development (OECD) organized two surveys—in 2006 and 2008—to monitor progress in implementing the Paris Declaration. The second survey in 2008 provided the basis for reviewing progress at the Third High Level Forum on Aid Effectiveness held on September 2 to 4, 2008 in Accra, Ghana. In preparing for the Accra forum, the Bank worked closely with other development partners by leading work, for example, on regional consultations in Kigali, Rwanda, in April 2008 for the Accra deliberations. The High Level Forum endorsed the Accra Agenda for Action as the main outcome document outlining a set of key actions that partner countries and donors committed to take.
- 1.4 The objective of this paper is twofold: (i) to inform the ADF Deputies of the Bank's standing in terms of implementing the Paris Declaration commitments; and (ii) to outline key post-Accra Bank follow-up actions designed to accelerate progress. The Paris Declaration global targets set for 2010 are used as a benchmark for assessing Bank progress.
- 1.5 This paper is based on information from the two Paris Declaration monitoring surveys undertaken in 2006 and 2008^{4,5}. The data used in this paper cover 17 African countries⁶ that participated in both surveys. In Annex II, data for the 25 African countries⁷ that took part in the 2008 survey can be found.
- 1.6 The rest of this paper is organized in three sections: Section 2 assesses progress; Section 3 outlines factors that influence the Bank's performance, describes how the Bank plans to address these challenges and lays out Bank-specific post-Accra High Level Forum actions; and Section 4 concludes the discussion.

³ Two of these seven are split into two sub-fields, making a total of nine areas applicable to the Bank.

⁴ Organisation for Economic Co-operation and Development. 2007. 2006 Survey on Monitoring the Paris Declaration. *OECD Journal on Development*. Volume 8, No. 2; and Organisation for Economic Co-operation and Development. 2008. *2008 Survey on Monitoring the Paris Declaration: Making Aid More Effective by 2010*.

⁵ In April 2007, the Bank undertook an internal survey in order to validate the results of the 2006 OECD-DAC Monitoring Survey. The results from the internal survey were then used for the paper entitled "Implementation of the Paris Declaration Commitments" distributed for the third ADF-11 replenishment meeting in Bamako in September 2007 (this formed the basis for the relevant paragraphs in the ADF-11 Deputies' Report). The internal survey yielded results that were broadly comparable to the OECD Survey. In order to avoid duplicating work, the Bank has participated fully in the OECD-DAC survey process. This report is therefore based on the 2008 OECD Survey.

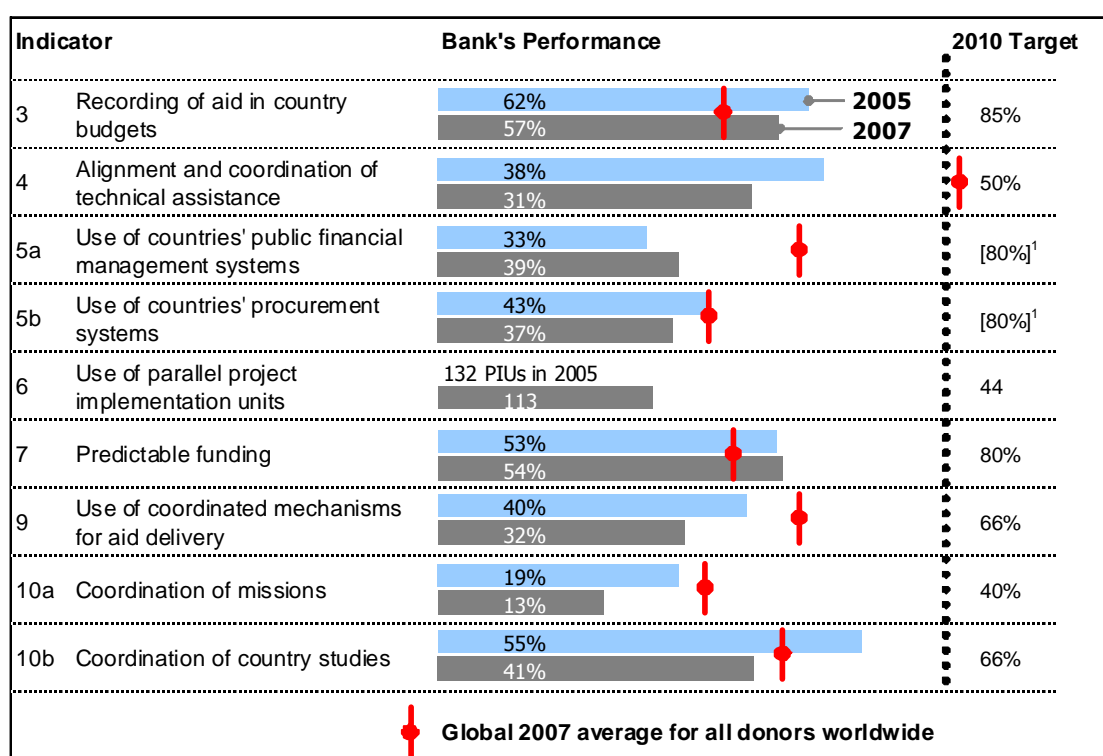
⁶ These countries are Benin, Burkina Faso, Burundi, the Democratic Republic of Congo, Egypt, Ethiopia, Ghana, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia.

⁷ The additional countries are Cameroon, Central African Republic, Chad, Gabon, Kenya, Madagascar, Morocco and Sierra Leone.

2. Progress in Implementation

- 2.1 This section presents the Bank's implementation of the Paris commitments using data from the OECD Baseline Survey carried out in 2006 (reference year 2005) and the subsequent survey carried out in 2008 (reference year 2007)⁸. The next survey is scheduled for 2011 (reference year 2010). As no data are available from an OECD survey for 2008, an attempt has been made to gauge the Bank's progress in 2008 through ongoing internal monitoring and assessment.
- 2.2 The status of progress in implementing the seven Paris Declaration indicators and targets that are applicable to the Bank is presented in Figure 1 and discussed below. Figure 1 also shows the average scores of all 31 donors active in a total of 55 countries that participated in the 2008 survey, and lists the 2010 targets for each indicator. See Annex III for a chart that compares the Bank's rank to the ranks of other donors on each indicator.⁹

Figure 1: Bank Group Progress Toward the Paris Targets



Note 1: The targets for Indicators 5a and 5b are determined on a country-by-country basis and cannot be aggregated. The global international objective is to achieve 80% of aid flows using recognized country systems.
Source: OECD 2008 Survey on Monitoring the Paris Declaration

- 2.3 The results presented for 2005 and 2007 indicate that while the Bank is advancing on a few indicators, overall progress lags behind expectations and for most indicators, serious efforts remain to be made. This trend is not specific to the Bank: the overall results of the 2008 survey show that many countries and donors have registered little change since 2005. Despite significant advances in some countries and some areas, therefore, progress is generally not fast enough. A considerable acceleration of change by the international community as a whole will be needed if the targets for 2010 are to be achieved. Nonetheless recent evidence suggests that the Bank improved on a number of indicators in 2008.

⁸ See the OECD publications for an explanation of the methodology used (http://www.oecd.org/document/0/0,3343,en_2649_15577209_41203264_1_1_1_1,00.html). Concerns with the OECD data are outlined in Annex IV.

⁹ The data is derived from the 2008 Paris Monitoring Survey, Annex B: Donor Data.

- 2.4 The Bank's performance in 2007 compared to 2005 is examined with respect to three categories: areas with positive progress, areas with limited/no progress or with regress but with good standing relative to other donors, and areas where progress has failed to meet the Bank's internal commitments. Overall, the results show that the Bank performs relatively well on indicators directly relevant to strengthening countries' ownership of their development process. The Bank has made notable progress in the use of country public financial management (PFM) systems and the use of existing government structures for the implementation of Bank-financed programs. Moreover, the Bank is in good standing on the predictability and alignment of its assistance to country priorities, as well as on the timely disbursement of funds. In contrast, the Bank faced serious challenges in its provision of coordinated technical assistance, its use of country procurement systems, its use of common arrangements and its undertaking of joint missions - areas that ongoing institutional and operational business process reforms aim to address.¹⁰ Improved results in these areas are expected in years to come. Details of Bank performance on the seven Paris indicators is provided here.

Areas with Positive Progress

- 2.5 Of the seven Paris Declaration indicators that are applicable to donors, the Bank has made progress towards two: using country PFM systems (**Indicator 5a**) and avoiding parallel implementation structures (**Indicator 6**).
- 2.6 **Indicator 5a – Donors use country PFM Systems.** In Paris, donors pledged to increasingly channel their aid through country, rather than donor, PFM systems. Use of country PFM systems by the Bank improved from 33 percent of aid volume in 2005 to 39 percent of aid volume in 2007. Nonetheless, both percentages remain below the 47 percent average of all 31 donors who participated in the 2008 survey. The Bank will need to maintain the pace of its improvements in order to meet the 2010 target. Ongoing monitoring indicates that the Bank is on the right track.
- 2.7 **Indicator 6 – Donors avoid the use of parallel project implementation units (PIUs).** Donors committed to avoiding the use and reducing the stock of PIUs outside national implementation structures by two-thirds by 2010. The objective of this initiative is to encourage donors to make greater use of country systems and to support countries' efforts to develop capacity. Between 2005 and 2007, the Bank reduced the number of its parallel PIUs in the 17 countries surveyed from 132 to 113. While this reduction represents progress, it leaves much work to be done to reach the target of 44 parallel PIUs in these countries by 2010. Greater efforts must be made to support countries in building their capacity so that more of the tasks currently performed by parallel PIUs can be integrated into existing government implementation structures. While recognizing the important and often necessary role which PIUs play, the Bank will also examine ways of both avoiding new parallel PIUs in new projects and programs and reducing the stock of existing parallel PIUs, for example by merging PIUs implementing different ongoing Bank projects in the same country or merging with PIUs implementing other donors' projects.

Areas with Limited/No Progress or Regress but with Relative Good Standing

- 2.8 Again comparing 2007 to 2005, the Bank has failed to show tangible advances or has backslid on a number of indicators. Nonetheless, on three indicators, it holds a relatively good standing compared to other donors. These indicators are as follows: aid flows are aligned on national priorities (**Indicator 3**); aid is more predictable (**Indicator 7**); and more joint country analytic work takes place (**Indicator 10b**).
- 2.8.1 **Indicator 3 — Aid flows are aligned on national priorities.** This indicator measures the percentage of aid flows to the government sector that is reported in partner countries' national budgets. The objective is to ensure that by 2010 at least 85 percent of aid is accurately captured in the budgets of partner countries (and is therefore an indicator of not only development partners' performance as concerns alignment but also of beneficiary countries' capacity for comprehensive and realistic budgeting). The

¹⁰ These reforms are described in more detail in the Mid-Term Review paper entitled "Impact of Institutional and Business Process Reforms on Programming and Delivery".

average score for the 31 donors included in the 2008 OECD monitoring survey is 45 percent. At 57 percent, the Bank's score is therefore above average (the Bank ranks sixth among the 31 donors: see Annex III) and is very similar to the scores of institutions such as the European Commission and the Inter-American Development Bank and bilateral donors such as Belgium, Germany and the United Kingdom. Improved Bank performance is expected by 2010 as all Bank operations become increasingly aligned to Poverty Reduction Strategy Papers and other National Development Plans by means of newly generated Results-Based Country Strategy Papers. In addition, completion of the Bank's decentralization efforts should help foster deeper dialogue and strengthen the alignment of priorities. Capacity-building efforts and timely information provided by the Bank on indicative multi-year allocations over a period of 3 years will strengthen the accuracy of partner countries' budgeting. Indeed, internal assessments indicate that the Bank made steady progress in 2008.

- 2.8.2 **Indicator 7** — *Aid is more predictable*. This indicator measures the difference between aid scheduled and aid effectively disbursed and recorded in countries' accounting systems within the year for which it was scheduled. The objective is to halve the proportion of aid not disbursed within the fiscal year for which it was scheduled. At the same time, it evaluates whether recipient countries accurately recorded the disbursements received. The Bank's performance was 53 percent in 2005 and 54 percent in 2007. While countries had on occasion received more than the amount scheduled, in most cases the Bank disbursed less than was scheduled and/or the country recorded less than was received. The average for all donors is 43 percent and the Bank's performance compares with that of Denmark and the Netherlands (the Bank ranks ninth). In this regard, the Bank's ongoing institutional and business process reforms have already improved the timeliness of its budget support operations and reduced delays in loan and grant effectiveness. Accordingly, these reforms, together with capacity-building activities in recipient countries, are expected to accelerate the Bank's performance in this area.
- 2.8.3 **Indicator 10b** – *More joint country analytic work takes place*. This indicator commits donors to coordinating their economic and sector work and other knowledge products at the country level. Donors' performance on this indicator varies widely: some achieved rates of 70 percent and above while others scored as low as zero. The Bank's performance of 41 percent is in line with that of Austria, Italy and the Inter-American Development Bank and is just below the average of 44 percent. With 20 out of 31 donors yet to meet the 2010 target of 66 percent, the gap is significant for many, including the Bank. However, progress on this indicator is within reach as the product of ongoing, targeted efforts to coordinate Bank analytic work and knowledge products with the work and products of other major partners (see country-specific examples in the boxes, further). Recent evidence suggests that the Bank is on its way to meeting this target.

Areas with Insufficient Progress Compared to the Bank's Internal Commitments

- 2.9 The Bank's performance in 2007 as compared to 2005 is insufficient with regard to several indicators, making it necessary to make special efforts to accelerate progress in these areas. The indicators in question are as follows: technical cooperation is aligned and coordinated (**Indicator 4**); donors use country procurement systems (**Indicator 5b**); donors use common arrangements or procedures (**Indicator 9**); and donors coordinate their missions (**Indicator 10a**).
- 2.9.1 **Indicator 4** - *Technical assistance is aligned and coordinated*. The objective of this indicator is to strengthen country capacity through coordinated support by ensuring that at least half of all technical cooperation is implemented through coordinated programs that are consistent with partner countries' national development strategies. Results show that Bank performance in this area dropped from 38 percent in 2005 to 31 percent in 2007. While other donors show similar figures, this performance falls short of the average donor performance of 59 percent, which has already surpassed the 2010 target of 50 percent. Targeted efforts are therefore required to improve Bank performance in these areas in cooperation with beneficiary countries. With more

attention to project design, increasing participation by the Bank in Joint Assistance Strategies and joint consultations between a given government and the donor community¹¹, joint statistical capacity-building efforts and enhanced partnership arrangements, progress is expected in the years to come. To this effect, the Bank is empowering its Field Offices within the context of its efforts to strengthen the country focus of its operations. As these developments are recent (2006-2007), they are not yet reflected in the data.

- 2.9.2 **Indicator 5b** – *Donors use country procurement systems*. The Bank's use of country public procurement systems fell from 43 percent to 37 percent between 2005 and 2007 and is therefore not in line with the aim to increase its use of these systems. In 2007, the average use for all donors was 44 percent, and the Bank performed as well as the Global Fund to Fight AIDS, Tuberculosis and Malaria, and Switzerland. It should be noted that this indicator is especially sensitive to the use of budget support, which often uses country systems. This is an area in which the Bank is expected to show improvement as countries build their capacity in the field of procurement, as measures to reform internal procurement systems bear fruit, and as efforts to implement the actions outlined in the Bank's paper on the use of country systems¹² (including the piloting of innovative approaches) are pursued. Legal and policy constraints to the use of country procurement systems have, however, limited the Bank's performance in this area (Section 3).
- 2.9.3 **Indicator 9** — *Donors use common arrangements or procedures*. This indicator addresses the need to deliver aid within the framework of program-based approaches and in coordination with other donors. It aims to channel 66 percent of aid through program-based approaches such as budget support and the sector-wide approach by 2010. As shown in Chart 1, the Bank's performance on this indicator dropped from 40 percent to 32 percent between 2005 and 2007 (the 2007 average of all donors was 44 percent). The Bank's score in 2007 is comparable to the scores of France and of Japan. Significant improvement in Bank performance on the use of programmatic approaches is expected as a result of the amendment of the ADF Articles of Agreement related to the rules of origin for procurement, which now allow the Bank to enhance its participation in pooled funding arrangements. Given that this amendment only came into force on March 31, 2009, results are not yet reflected in the data.
- 2.9.4 **Indicator 10a** – *Donors coordinate their missions*. This indicator requires donors to coordinate their missions. Meeting the 40 percent target for this indicator has proven to be difficult for most donors as only eight met the target and the average score only reached 21 percent. At 13 percent, the Bank's standing is comparable to that of Canada, Spain and the Asian Development Bank. Increased involvement in pooled funding arrangements and programmatic approaches and a strengthened role for Field Offices in coordinating and planning missions, will help the Bank improve its performance in this area. Ongoing monitoring and internal assessments show increased participation in joint missions in 2008 and 2009.

¹¹ Nine Joint Assistance Strategies and seven joint consultations took place in the 2005-2009 period.

¹² African Development Bank. 2008. *Bank Group Approach Towards Enhancing The Use Of Country Systems*. ADF/BD/WP/2007/100/Rev.3 (16 July 2008). This approach was approved by the Board of Directors at its July 2, 2008 meeting.

3. Factors Influencing Progress and Actions Taken by the Bank

- 3.1 This section explores internal and external factors which have affected the Bank's performance towards the Paris Declaration targets in the past and to a certain extent, continue to do so. The internal factors are mainly related to the Bank's culture, mindset and focus; project design and the readiness of operations at the time of approval; operational rules and business processes; non-performing loans and ageing projects in the Bank's operational portfolio; and the nature and scheduling of Bank technical assistance and missions. In certain cases, legal and policy constraints hinder progress; in other cases, performance is a function of procedures or behavior. The external factors are mainly related to challenges at the country level.
- 3.2 Since 2005, Bank Management has pursued far-reaching reforms as regards policies, institutional restructuring and business processes to improve institutional performance and delivery capacity in general. In addition, the Bank has taken targeted measures to address the internal and external factors that specifically constrain its progress in achieving greater aid effectiveness. These reforms and measures are described in greater detail in the ADF-11 Mid-Term Review papers entitled "Progress on Implementing the ADF-11 Results Measurement Framework" (especially Chapter 5: Progress on Reforms: The Action Plan on Quality and Results) and "Impact of Institutional and Business Process Reforms on Programming and Delivery". As the reforms take hold throughout the institution, the influence of the factors outlined below is expected to gradually diminish. The adoption of the Accra Agenda for Action provides an added impetus for critical reforms in certain key areas.

Internal Factors

- 3.3 An internal factor that has much affected Bank performance has been its strong focus on the approval of new projects. This focus stems from the desire to meet the lending targets which constitute part of the Bank's Key Performance Indicators. In combination with a lack of readiness of programs and projects for implementation at the time of approval, this phenomenon has adversely impacted performance related to Indicator 7 (aid is more predictable): the lapse between project approval and first disbursement has delayed project implementation and frequently caused actual disbursements to lag behind schedule. This situation has been compounded by the Bank's disbursement rules and processes, which are perceived as slow and cumbersome. To improve project design and quality-at-entry, the Bank is piloting a mandatory "Readiness Review" process for all new programs and projects. The Bank is also improving its business processes, rules and procedures in various ways such as the streamlining of procurement procedures. Finally, greater involvement of well-equipped Field Offices is also expected to reduce delays in effectiveness and disbursement. Some positive results from these efforts can already be seen, for example in Burkina Faso and Rwanda (Box 1).
- 3.4 The pressure to lend and to deliver results more quickly, in addition to a general focus on stand-alone rather than joint operations, has detracted attention from and squeezed the resources available for the harmonization and alignment agenda. Coordinating technical assistance and increasing program-based approaches, joint missions and analytical work with other donors (Indicators 4, 9, 10a and 10b) as well as ensuring alignment with country priorities (Indicator 3) require significant effort and additional resources. Meeting these transaction costs has not only been a challenge for the Bank but for the donor community at large, as noted by the OECD monitoring surveys. The Bank is undertaking sensitization campaigns and training for task managers and Field Office staff in a sustained effort to mainstream the Paris Declaration and Accra Agenda for Action principles and commitments into all project cycle activities.
- 3.5 The Bank's decentralization process, which is advancing but has not yet fully yielded the expected results, also influences performance on these and other indicators. Pursuing policy dialogue with country authorities and designing, coordinating and participating (or coordinating the participation of others) in technical cooperation projects/programs, missions and analytic work takes place more easily at the field level. However, the staffing of Field Offices, the delegation of authority and decision-making power to Field Offices, and the

division of labor between headquarters and Field Offices is not yet optimal. Under the Enhanced Decentralization Strategy, 23 of 26 planned Field Offices have been opened and have benefited from measures to strengthen staff in a tailored manner, taking into account country specificities and the Bank's strategic positioning imperatives in its RMCs. Devolving responsibilities to and empowering the Field Offices through the delegation of authority is underway. However, the decentralization process is not progressing as quickly as planned, having encountered a number of challenges as described in the Mid-Term Review paper entitled "Independent Evaluation of the Decentralization Strategy and Process at the ADB". Nonetheless, the strategy and measures pursued are expected to contribute to improved harmonization and alignment, joint action with other development partners, the use of country systems and the timely implementation of Bank programs and projects. Positive examples are already apparent: see the boxes on the experiences of ADB's Field Offices in Burkina Faso, Rwanda, Malawi, Ghana and Mozambique.

- 3.6 Bank progress in meeting the targets for Indicators 5a, 5b and 9 has been constrained by a combination of factors including (i) the rules of origin relating to procurement, which restricted the Bank's participation in pooled funding arrangements such as sector-wide approaches; (ii) the limits placed on the amount of budget support that can be given to RMCs from ADF resources (25 percent of the PBA envelope); (iii) restrictions on the use of country systems¹³ and (iv) strict prior review and reporting requirements to meet the Banks' fiduciary obligations. These factors have also contributed to the Bank's concentration on stand-alone projects, which in turn make it more challenging to: (i) coordinate technical cooperation (Indicator 4); (ii) undertake joint missions with other donors (Indicator 10a); and (iii) avoid parallel PIUs (Indicator 6). Some of these policies can only be changed by the ADF Deputies, the Board of Directors and/or the Board of Governors. The ADF Articles of Agreement relating to the rules of origin for procurement have recently been amended (effective 31 March 2009), paving the way for enhanced Bank participation in pooled funding arrangements in ADF countries¹⁴. Further similar support from shareholders will be required to address the remaining constraints which impede progress in these areas.
- 3.7 Over-optimistic disbursement planning and the reluctance of recipients and task managers to cancel non-performing projects and programs are other factors that have impacted the Bank's performance. These tendencies have contributed to an increase in the average age of the portfolio, to lower-than-expected disbursement rates, and to a high stock of parallel PIUs (Indicators 6 and 7). On-going efforts to improve quality at entry and to streamline the procurement procedures through enhanced delegation of authority and assignment of an increased number of procurement experts to regional and country field offices are expected to lead to higher disbursement rates. In addition, appropriate measures to clean up the Bank's non-performing and ageing projects are underway, with the Operations Committee undertaking periodic reviews and making decisions on old projects and programs. A revision of the reallocation policy for cancelled projects and programs is also foreseen.
- 3.8 Finally, the nature and scheduling of the Bank's technical cooperation assistance and missions have not been conducive to advancing the harmonization and alignment agenda and have affected the Bank's performance on Indicators 4 and 10a. It is to be noted that the bulk of the Bank's technical cooperation is provided as a complement to specific investment projects, and not generally as part of a broader technical assistance program. Similarly, most Bank missions are directly linked to Bank-funded projects. More effort is therefore required to align these stand-alone interventions to country capacity-building objectives and to coordinate with other stakeholders where appropriate. Bank performance in these two critical areas is expected to improve gradually as staff awareness is raised on the importance of providing coordinated technical assistance and conducting joint missions and as authority is delegated to the field, for example by empowering Field Offices to coordinate and enforce mission timing and meeting schedules. Increased involvement in basket/pooled funding arrangements with other donors is expected to lead to more coordinated technical assistance and joint missions.

¹³ For example, the Bank's Procurement Rules permit the use of country procurement systems for National Competitive Bidding but not for International Competitive Bidding.

¹⁴ The rules of origin for ADB financing have not been amended; there are therefore two sets of policies.

Box 1: The Experience with Decentralization in Burkina Faso and Rwanda

Burkina Faso

The Bank's Field Office in Burkina Faso has made a clear difference since the office opened in 2006. Before this time, project supervision was weak, with missions conducted from Tunis by an expert who was responsible for supervising five projects in one week. Now, with sufficient staff on the ground, more than 50 percent of supervision is performed by the Field Office. Projects begin more quickly and the time it takes for an approved project to become effective has been reduced from 19 months in 2006 to 6.5 months in 2008. The average time to review procurement bids has declined from 144 to 54 days, and the number of projects at risk has declined from 12 in 2006 to just one in 2008.

Rwanda

The Bank's Rwanda Field Office has also improved project supervision and reduced turnaround time in the processing of procurement and disbursement requests, thereby improving the quality of the portfolio. Disbursement increased from 12.1 percent in late 2005 to 50.8 percent by mid-2008. Average project age declined from 5.5 to 5.2 years between 2005 and 2008. The Field Office presence has also made a difference in aid coordination and harmonization for budget support operations, as well as enhancing Bank participation in joint missions for sector evaluations and co-financing of projects. The Bank has collaborated with the United Kingdom Department for International Development (DFID) on a fiduciary risk assessment, and at the request of the Government, is working with DFID and the World Bank on growth analytics for Rwanda. The Budget Support Harmonization Group of donors, which the Bank co-chaired for the first half of 2008, discusses budget and public financial management issues with the Government on a regular basis.

External Factors

- 3.9 Like other donors, the Bank has encountered challenges at the country level. Many ADF countries do not have robust capacity in terms of the strong institutions, systems, and human resources necessary to effectively manage the development process. Weak institutional and human capacity is a bottleneck in the design of good policies and programs, causes delays in program and project implementation, hampers donors' use of country systems, and inhibits strong country leadership and effective donor coordination (Indicators 3, 4, 5a, 5b and 7).
- 3.10 In order to improve performance on these indicators, the Bank will need to invest more effort into using its portfolio of operations to strengthen country capacity, in particular as regards (i) the accurate budgeting and recording of aid in national accounting systems, (ii) planning and procurement capacity and (iii) effective donor coordination. To strengthen country capacity, the Bank is enhancing its support through targeted interventions covering both institutional and human development in African countries. These interventions are coordinated with other development partners wherever possible. In this context, it might be useful to create a "Paris Declaration champion" in-country who has the authority, knowledge and capacity to coordinate donors and line ministries alike. The Bank should also increase awareness of its rules and procedures.

Actions Taken

- 3.11 Under the leadership of the President, the Bank has undertaken a number of significant steps to increase aid effectiveness. Firstly, the Vice-Presidency for Country and Regional Programs and Policy was restructured to pay more attention to quality, harmonization and effectiveness. This involved establishing the Department of Quality Assurance and Results and the Procurement and Fiduciary Services Department. Other steps include greater participation in Joint Assistance Strategies and coordinated capacity-building programs; participation in Common Performance Assessment Frameworks; closer alignment with national priorities; improvements in project design, including the avoidance of new parallel PIUs¹⁵; the greater use of programmatic approaches¹⁶; and the indication of ADF country allocations over a 3-year timeframe.

¹⁵ No PIU is the default option while establishing a PIU is the exception and has to be fully motivated and explicitly approved.

¹⁶ For example, 12 of the 20 programs approved under the Rural Water Supply and Sanitation Initiative have adopted a programmatic approach and are based on national programs.

- 3.12 The Bank is also implementing additional measures to improve performance and overcome remaining challenges. A key element is the deliberate choice of quality over volume, operational selectivity in areas of comparative advantage, and improved quality-at-entry for new projects and programs (including coordination with other donors) before approval. Moreover, through ongoing decentralization, the Bank is enhancing the capacity of its country and regional offices to strengthen policy dialogue, information-sharing and collaboration with the authorities of RMCs and other donors and further improve performance in the areas of harmonization and alignment, predictability, coordinated technical cooperation and analytic work and joint missions. Examples of these actions are highlighted in boxes throughout this paper. In collaboration with other donors, the Bank will also explore modalities of playing a greater role in building the capacity RMCs need to implement their development programs. This role can include resource mobilization, co-financing and staff exchanges.
- 3.13 The Bank and its Management are committed to leading regional efforts to implement the Paris and Accra commitments and ensure that Africa's voice is heard in the international discourse on aid effectiveness. The Bank will continue to play an active role as a member of the OECD-DAC (Development Assistance Committee) Working Party on Aid Effectiveness and its Executive Committee, and as co-leader of the Cluster on Global Partnership on Managing for Development Results. Similar to the pre-Accra event held in Kigali, Rwanda, in April 2008, the Bank will organize a regional event designed to drive progress on aid effectiveness both within the Bank and its RMCs. This event will be held later this year.

Box 2: Implementing the Paris Declaration Commitments in Malawi, Ghana and Mozambique

Malawi

The Bank's Malawi Field Office is making headway in implementing the Paris Declaration commitments. In 2008, the Field Office stepped up efforts to deepen country dialogue with the Government and other donors, and within the framework of the Malawi Development Assistance Strategy, the Field Office participated in 12 sectoral and thematic working groups. The Bank's participation in these groups led to several co-financed operations in Malawi, including water and sanitation and rural economic development projects. The Malawi Field Office is expected to make tangible progress in the use of program-based approaches, joint missions and joint analytic work, and to halve the stock of parallel project implementation units from eight to four by year-end 2009.

Ghana

The Bank's Field Office in Ghana has also been actively supporting its efforts to fulfill the Paris Declaration and the Accra Agenda for Action commitments. In 2008 and 2009, the Field Office jointly coordinated five missions. Significant achievements were also made in joint sector reviews and co-financing arrangements. In 2009, the Ghana Field Office participated in a joint sector review of the agriculture sector. The Bank also mobilized a total of UA 152.83 million in co-financed bilateral and multilateral funds. On the policy dialogue front, the Ghana Field Office has been actively participating in 13 out of the 17 sector-working groups. The Bank, jointly with 10 other development partners, provides budget support within the Multi-Donor Budget Support Program.

Mozambique

The Bank's Mozambique Field Office is a member of the group of 19 donors jointly supporting a single government reform program. It has accomplished significant achievements: 40% of the ADF portfolio is in the form of budget support, the Bank has made a long-term commitment to the country, in the form of multi-annual agreements, and the Bank has undertaken joint missions with the World Bank, the International Fund for Agricultural Development, DFID, the Deutsche Gesellschaft für Technische Zusammenarbeit, the United Nations Development Program and the Organization of the Petroleum Exporting Countries. The Bank is also a member of 8 sector working groups, and has chaired the roads donor working group since 2007. With reinforced staffing the Bank is actively participating in other important groups where it has been underrepresented in the past (economic, governance, public sector reform, decentralization, public financial management). The Mozambique Field Office also led a joint study aimed at assessing the impact of financial crisis on the Mozambican economy.

Building on the Accra Agenda for Action

- 3.14 In addition to these actions to improve Bank performance, the Bank is also implementing the Accra Agenda for Action. This agenda, which was adopted on September 4, 2008, calls upon all donors and partner countries to take concrete and faster action in selected key areas with a view to accelerating progress. These key priority actions include the following:
- Immediately finalizing and using plans for implementing the Paris commitments regarding the use of country systems;
 - Making public all conditions linked to disbursements;
 - Providing full and timely information on annual commitments and actual disbursements; and
 - Providing regular and timely information on rolling 3 to 5-year expenditure and/or implementation plans.
- 3.15 The Bank Group has already started fulfilling a number of these key commitments. First, in July 2008, it set out an approach paper for enhancing the use of country systems in Bank Group operations (see footnote 10). The Bank will work with other donors, especially the World Bank, to objectively assess the quality of country systems and enhance its collaboration with other donors in building these systems. The Bank will engage RMCs in policy dialogue when the use of country systems becomes a challenge and will agree on alternative implementation arrangements as necessary and on a case-by-case basis.
- 3.16 Second, with regard to publicly disclosing all conditions linked to disbursement, the current enhanced review process ensures that Bank operational conditions are systematically anchored to countries' relevant strategies. Task Managers and Country Teams will continue to ensure that all conditions attached to loan and grant agreements are relevant, realistic and agreed upon with recipients.
- 3.17 Third, the Bank is making steady progress toward providing regular and timely information on its expenditure and/or implementation plans and its annual commitments and disbursements. Indicative ADF country allocations are determined at the beginning of the 3-year ADF-cycle and are communicated to the RMCs accordingly. Disbursements of resources committed to individual programs and projects are based on a schedule agreed upon with the beneficiary as part of the program/project approval process.
- 3.18 Looking ahead, the Bank could, as a signatory to the Paris Declaration and an active participant in the Accra Agenda for Action, encourage emerging development partners who have not fully committed to these documents to implement some of the agreements' key principles, not least that of ensuring country ownership of aid inflows and improving transparency and legitimacy in order to increase aid effectiveness.
- 3.19 These efforts will have a positive impact on fulfilling the Bank's commitments on aid effectiveness under the Paris Declaration and the Accra Agenda for Action. While some efforts will take longer than others to yield results and especially to be reflected in the disbursement figures used by the OECD monitoring survey, improved Bank performance is expected by 2010.

4. Conclusion

- 4.1 Evidence shows that while the Bank has made progress towards increased aid effectiveness, progress is insufficient and the pace of change is slow. Indeed according to the 2008 monitoring survey, donors and partner countries as a whole have made significant advances in some areas, but these advances are not uniform across countries and donors, and many areas register no change against the baseline established in 2005. Faster action is needed if the Bank is to achieve the targets set for some key indicators.

- 4.2 Overall, the survey results are an urgent call for action on the part of partner countries and donors alike. The financial crisis has added to the challenge of delivering timely and quality development assistance. For that reason, efforts to improve the quality and effectiveness of aid must be stepped up. The Bank has been reforming its business processes and operations since 2005. Raising staff awareness; improving project design, quality-at-entry, monitoring and supervision, and results reporting; and strengthening capacity at the country level through decentralization and the delegation of authority are just a few examples. Improvements on some Paris indicators may only become possible as these changes take their full effect and as existing multi-year agreements expire and new programs are put in place. For some indicators, the prospects are good.
- 4.3 Recognizing the necessity of immediate action, the Bank is undertaking certain targeted initiatives in addition to the medium-term reforms outlined above. These initiatives are expected to boost its performance ahead of the next High Level Forum scheduled for 2011. The measures in question include the following:
- *Top-level communication:* Senior Management will clearly signal the importance of meeting the Bank's commitments under the Paris Declaration and the Accra Agenda for Action. The Bank is also planning regular awareness-raising and training of operations and Field Office staff to allow for the systematic integration of Paris Declaration commitments into all Bank operations.
 - *Corporate incentives and accountabilities:* The Bank will review and address some of its key incentives and accountabilities with a view to improving its performance on aid effectiveness.
 - *Regional support facility:* The Bank is establishing a regional support facility aimed at supporting implementation of its Paris Declaration commitments at the country level. A dedicated help desk will provide specific guidance to assist Field Offices, as well as client countries, in translating the Paris principles into operations. Special attention will be given to the use of country systems, integrated PIUs and the coordination of actions at the country level (technical assistance, missions and country analytic work).
- 4.4 To address these important challenges, the Bank will need to coordinate and cooperate closely with recipient countries and other actors. It will also need its shareholders' support. These elements and ongoing measures will put the Bank in a position to meet its aid effectiveness targets.

Annex I: Paris Declaration Indicators and Targets for 2010

Indicators of Progress (To be measured nationally and monitored internationally)

Ownership		Target For 2010	
1	<i>Partners have operational development strategies</i> — Number of countries with national development strategies (including poverty reduction strategies) that have clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets.	At least 75% of partner countries have operational development strategies.	
Alignment		Targets For 2010	
2	<i>Reliable country systems</i> — Number of partner countries that have procurement and public financial management systems that either (a) adhere to broadly accepted good practices or (b) have a reform program in place to achieve these.	<p>(a) Public financial management – Half of partner countries move up at least one measure (i.e., 0.5 points) on the PFM/ CPIA (Country Policy and Institutional Assessment) scale of performance.</p> <p>(b) Procurement – One-third of partner countries move up at least one measure (i.e., from D to C, C to B or B to A) on the four-point scale used to assess performance for this indicator.</p>	
3	<i>Aid flows are aligned on national priorities</i> — Percent of aid flows to the government sector that is reported on partners' national budgets.	Halve the gap — halve the proportion of aid flows to government sector not reported on government's budget(s) (with at least 85% reported on budget).	
4	<i>Strengthen capacity by co-ordinated support</i> — Percent of donor capacity-development support provided through co-ordinated programmes consistent with partners' national development strategies.	50% of technical co-operation flows are implemented through co-ordinated programmes consistent with national development strategies.	
5a	<i>Use of country public financial management systems</i> — Percent of donors and of aid flows that use public financial management systems in partner countries, which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	Percent of Donors	
		Score *	Target
		5+	All donors use partner countries' PFM systems.
		3.5 to 4.5	90% of donors use partner countries' PFM systems.
		Percent of Aid Flows	
		Score *	Target
5+	A two-thirds reduction in the % of aid to the public sector not using partner countries' PFM systems.		
3.5 to 4.5	A one-third reduction in the % of aid to the public sector not using partner countries' PFM systems.		
5b	<i>Use of country procurement systems</i> — Percent of donors and of aid flows that use partner country procurement systems which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	Percent of Donors	
		Score *	Target
		A	All donors use partner countries' procurement systems.
		B	90% of donors use partner countries' procurement systems.
		Percent of Aid Flows	
		Score *	Target
A	A two-thirds reduction in the % of aid to the public sector not using partner countries' procurement systems.		

		B	A one-third reduction in the % of aid to the public sector not using partner countries' procurement systems.
6	<i>Strengthen capacity by avoiding parallel implementation structures</i> — Number of parallel project implementation units (PIUs) per country.		Reduce by two-thirds the stock of parallel project implementation units (PIUs).
7	<i>Aid is more predictable</i> — Percent of aid disbursements released according to agreed schedules in annual or multi-year frameworks.		Halve the gap — halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.
8	<i>Aid is untied</i> — Percent of bilateral aid that is untied.		Continued progress over time.
Harmonisation		Targets For 2010	
9	<i>Use of common arrangements or procedures</i> — Percent of aid provided as programme-based approaches.		66% of aid flows are provided in the context of programme-based approaches.
10	<i>Encourage shared analysis</i> — Percent of (a) field missions and/or (b) country analytic work, including diagnostic reviews that are joint.		(a) 40% of donor missions to the field are joint.
			(b) 66% of country analytic work is joint.
Managing For Results		Target For 2010	
11	<i>Results-oriented frameworks</i> — Number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programmes.		Reduce the gap by one-third — Reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third.
Mutual Accountability		Target For 2010	
12	<i>Mutual accountability</i> — Number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in this Declaration.		All partner countries have mutual assessment reviews in place.

Important Note: In accordance with paragraph 9 of the Declaration, the partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) comprising OECD/DAC members, partner countries and multilateral institutions, met twice, on 30-31 May 2005 and on 7-8 July 2005 to adopt, and review where appropriate, the targets for the twelve Indicators of Progress. At these meetings an agreement was reached on the targets presented under Section III of the present Declaration. This agreement is subject to reservations by one donor on (a) the methodology for assessing the quality of locally-managed procurement systems (relating to targets 2b and 5b) and (b) the acceptable quality of public financial management reform programmes (relating to target 5a.ii). Further discussions are underway to address these issues. The targets, including the reservation, have been notified to the Chairs of the High-level Plenary Meeting of the 59th General Assembly of the United Nations in a letter of 9 September 2005 by Mr. Richard Manning, Chair of the OECD Development Assistance Committee (DAC).

***Note on Indicator 5:** Scores for Indicator 5 are determined by the methodology used to measure quality of procurement and public financial management systems under Indicator 2 above.

Source: OECD website (<http://www.oecd.org/dataoecd/57/60/36080258.pdf>)

Annex II: ADB's Progress toward Meeting the Paris Declaration Targets

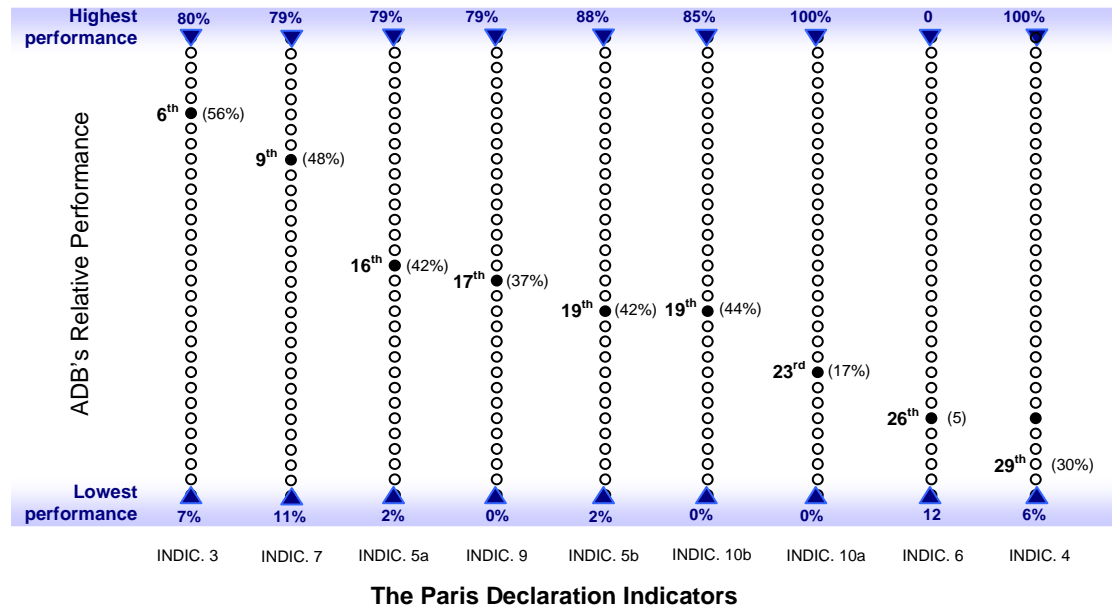
Indicator		ADB's Performance and Targets				All Donors
		2005	2007		2010	2007
		17 Countries	17 Countries	25 Countries	Targets	55 Countries
3	Aid is recorded in country budgets	62%	57%	56%	85%	45%
4	Technical assistance is aligned and coordinated	38%	31%	30%	50%	59%
5a	Use of country PFM systems	33%	39%	44%	[80%] ¹	47%
5b	Use of country procurement systems	43%	37%	42%	[80%] ¹	44%
6	Use of parallel PIUs	132	113	121	44	2473
7	Funds are predictable	53%	54%	48%	80%	43%
9	Use of coordinated mechanisms for aid delivery	40%	32%	37%	66%	44%
10a	Coordination of missions	19%	13%	17%	40%	21%
10b	Coordination of country studies	55%	41%	44%	66%	44%

Key: PFM = public financial management; PIU = project implementation unit

Note 1: The targets for Indicators 5a and 5b are set on a country-by-country basis and cannot be aggregated. The global international objective is to achieve 80 percent of aid flows using the country systems recognized.

Annex III: ADB's Performance Relative to the Performance of Other Donors

This chart presents the ADB's standing relative to the standing of other performers on each indicator, using the full data set for all the countries that participated in the 2008 survey. Note that the 31 donors have simply been ranked in order of performance, without any account of the differences between them. There are in fact great differences between global institutions such as the World Bank, large bilateral donors like the United States and smaller donors like Luxembourg.



Annex IV: Data Issues

We have a number of remarks about the data used in the OECD monitoring surveys. First, it should be noted that the DAC has since 2006 adjusted certain baselines and targets due to additional data becoming available, and has applied changes in the methodology for measuring some indicators. Second, in 2008, use was made of unweighted averages, whereas in 2006-2007, weighted averages were presented. The figures in Chart 1 are therefore not fully comparable to those contained in the September 2007 paper and to the relevant paragraphs in the ADF-11 Deputies' Report.

A general caveat concerning the OECD monitoring survey data is that it comes from different sources (donors and beneficiary governments), which may interpret the indicators and the data requirements differently. Also, the data captures one point in time in a situation that fluctuates from year to year. In addition, the data is based on disbursements (not approvals) during a given year, meaning that the projects concerned were approved up to several years earlier, when the Paris Declaration had not yet been adopted. Finally, it should be noted that outliers may strongly influence the aggregate averages presented here.