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## **COMMONWEALTH SYNTHESIS REVIEW OF FOUR COUNTRY-OWNED POVERTY REDUCTION STRATEGIES**

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# **MONITORING DONOR AND IFI SUPPORT FOR COUNTRY-OWNED POVERTY REDUCTION STRATEGIES**

## **An Overview of Four Country Studies carried out for the Commonwealth Secretariat**

### **Introduction**

Over the period 2004 to 2006 the Commonwealth Secretariat sponsored four studies to monitor implementation of the Poverty Reduction Strategy (PRS) process in Commonwealth countries. The purpose was to provide independent monitoring of how the PRS process, and support for it from international institutions, donors and others, was working, as seen from the perspective of recipient countries. Each study was carried out jointly by a local research institution or consultant and a UK based consultant. The four studies are:

- a) Monitoring Donor and IFI Support Behind Country-owned Poverty Reduction Strategies in The United Republic of Tanzania. Peretz and Wangwe. August 2004.
- b) Monitoring Donor and IFI Support Behind Country-owned Poverty Reduction Strategies in Ghana. Aryeetey and Peretz. August 2005.
- c) Monitoring Donor and IFI Support for Poverty Reduction Strategies: Malawi. Chipeta and Peretz. August 2006.
- d) Monitoring Donor Support to Poverty Reduction Strategy in Bangladesh: Rethinking the Rules of Engagement. Prepared by Professor W Mahmud, with Dr B Mukherjee acting as Commonwealth Secretariat Consultant. August 2006.

2. They were discussed at successive annual meetings of Commonwealth Finance Ministers, in 2004, 2005 and 2006. Executive summaries of the four studies are annexed to this overview.

3. Events have moved on in all four countries since the studies were completed, and of course each country's circumstances are unique. But a number of common themes emerge from the studies that seem likely to continue to be relevant in the four countries and elsewhere. Issues emerging in Tanzania which was one of the first countries to adopt a PRS and in Ghana, where the initial PRS was launched in 2002, are likely to be the ones faced in other PRS countries in due course. (In Malawi the original PRS was also launched in 2002, but failures in macroeconomic policy and subsequent shortfalls in donor support meant it only began to be effectively implemented after a gap of several years, and rebuilding trust between government and development partners is a continuing process; in Bangladesh the PRSP was launched towards the end of 2005). The following paragraphs discuss themes emerging from the studies under six headings: design of the strategy; the extent of country ownership, and how to strengthen it; implementation; accountability; alignment of development partner support; and improving donor practices and procedures and cutting transactions costs.

### **Design of Poverty Reduction Strategies**

5. Countries have been learning from weaknesses in first generation Poverty Reduction Strategies, and at the time of the studies Tanzania, Ghana and Malawi were in the process of incorporating these lessons into their second generation strategies. Key lessons include the following:

- *Practicability.* What countries need as a basis both for their own policies and for external support is a comprehensive but practical medium term national development strategy, defining an approach for all key aspects of development policy. Comprehensive does not mean exhaustive or highly detailed; but the strategy does need to cover all the issues that are key to successful development and poverty reduction. Practical means that the complexity, ambition and in some cases time frame of the strategy needs to match a country's ability to implement it. Particularly in countries where implementation capacity is relatively weak, it is important to identify a relatively limited set of achievable actions and expenditure priorities, which should be the strategy's focus. Indeed in some cases it may be sensible to cost only those actions set out for the first year of the strategy, and rather than seeking to set out anything resembling a medium term expenditure plan simply illustrate a range of scenarios for later years.
- *Focus.* Early PRSs, written in the first years of the century, tended to be focussed excessively on policies and sectors that national officials thought to be of most interest to development partners, such as health, education and social protection – with less emphasis on other policies critical for development such as policies to enhance economic growth and create employment. This may partly explain the emergence or continuation in some countries of parallel national development strategies alongside the PRSs – in Tanzania a “Medium Term Plan for Growth and Poverty Reduction”, in Ghana the “Coordinated Programme for Economic and Social Development” and in Malawi the Malawi Economic Growth Strategy. At the time of the studies these parallel strategies were in the process of being integrated into second generation PRSs with much stronger emphases on economic growth and private sector development – in some cases with a name change (in Malawi to the Malawi Growth and Development Strategy) to reflect the new more comprehensive nature of the strategy. As discussed further below, some donors have been slow to adapt to this change of emphasis, preferring to focus on “aid popular” interventions with a direct poverty focus rather than, for example, the investments in infrastructure and energy which are also essential for poverty reduction.
- *Ambition.* A further lesson is that some of the early PRSs lacked ambition in the sense that they were based on IMF agreed macroeconomic programs that typically made conservative assumptions about possible aid flows and in some cases were difficult to adjust if aid flows turned out stronger than allowed for. Countries have been learning the advantages of illustrating more than one medium term scenario, showing the faster progress that could be made with different levels or modalities of external assistance.

### **National Ownership and How to Strengthen it**

6. The studies reveal ownership to be a complex issue with many dimensions. There are issues of ownership among the key central ministries; ownership among a wider group of officials at national and local level responsible for implementing the strategy; national ownership as endorsed by the elected government and Parliament; ownership by stakeholders such as the business sector and civil society; and ownership or at least a degree of understanding of the strategy among the general population. In countries eligible for HIPC debt relief it appears that many of these dimensions of ownership were undermined initially by a widespread perception that the only reason for preparing PRSPs was to qualify for debt relief, and that PRSPs had to be “approved” by the boards of the IMF and World Bank in

Washington. This is hardly surprising given the origin of the concept. Changes made in IMF and World Bank procedures after 2004 may have lessened this perception to some degree, and the studies suggest that ownership on most dimensions has strengthened over time – but in all four countries at the time of the studies national ownership was far from complete. It is not proving easy to remove the perception that PRSs are primarily linked to the provision of external support, rather than being central national frameworks for growth and poverty reduction.

- While the studies all find a high degree of ownership in the central departments (planning ministries or commissions, or in Tanzania the Vice President’s office, and finance ministries), in many cases ownership and understanding of the strategy in implementing ministries was much less. Ownership and understanding among officials at the local level, including those with key implementation responsibilities, appeared to be even lower. The studies all suggest the need for greater efforts not only to involve implementing ministries and local authorities more in strategy preparation, but also to ensure that they understand the strategy when it is agreed and ensure that it is implemented.
- Parliaments had had little if any involvement with PRS processes at the time of the studies. In Tanzania in 2004 there appeared to be a widespread lack of awareness of the existence of the PRS among Parliamentarians – an indication of how far there was to go to fully integrate the PRS into national processes. A common theme from the studies is the need for formal Parliamentary scrutiny and endorsement of PRSs, as a symbol of true national ownership, and the role that civil society organisations (CSOs) and others could play in informing Parliament and improving the quality of Parliamentary debate.
- CSOs were in all cases much involved in the process of developing initial PRS documents, and this has led to continuing involvement and some degree of ownership among the CSO community. In Malawi, for example, CSOs are putting much effort into spreading knowledge of the PRS among groups responsible for its implementation, Parliamentarians and elsewhere. Business and private sector representatives, by contrast, have felt much less involved, but were beginning to feel more involved in the preparation of second generation PRSs with their stronger emphasis on growth and private sector development.
- A further common theme from the studies is the importance of outreach to the general population, once a strategy is adopted, and the role that public accountability and monitoring, for example by CSOs, can play in implementation.

## **Implementation**

7. The studies were concerned with the whole PRS process, including implementation, recognising that however well conceived or well written a strategy document is it has little value unless it is implemented. Poor implementation was a key weakness, particularly in Malawi where the whole PRS process following the initial PRSP went badly off track. A number of common themes emerge from the studies, focused on different ways to improve financial management:

- The need, ideally, for the strategy to be linked to a properly sequenced annual cycle of review of the PRS and its implementation, preparation of medium term expenditure plans (usually in the form of medium term expenditure frameworks – MTEFs), budget preparation, budget implementation, and monitoring budget outturns. Where implementation capacity is weak there needs at least to be a firm link between the strategy and annual budget preparation.
- The important and continuing role that finance ministries can play, in cooperation with planning ministries/commissions, in ensuring that annual departmental budgets are clearly and transparently linked to the strategy. This requires effective arrangements for challenging ministries’ budget bids and for monitoring and evaluating outturns to ensure that plans when agreed are executed effectively.

### **Moving from Accountability to Development Partners to National Accountability**

8. A further theme of the studies is the importance of developing and strengthening systems of domestic accountability. Over the years development partners have established quite elaborate arrangements for ensuring accountability to themselves for governments’ development strategies and progress made in implementing policies and projects. Arrangements for continuing policy dialogue with budget support groups of donors, and also at the sector level, have acted to strengthen such accountability to donors further. To avoid undermining moves to strengthen national accountability development partners, including the international financial institutions (IFIs), need over time to draw back from these arrangements, while governments need to strengthen their own arrangements for accounting to Parliament and people for the country’s development strategy and its implementation. In particular:

- Governments should move to developing and presenting to Parliament the policy contents of IMF letters of Intent, like PRS documents, as their own policy statements. (For the IMF the Government could then simply send a covering letter enclosing the Government’s policy document).
- Similarly, where policy assessment frameworks (PAFs) are developed in cooperation with development partners these should be treated and presented as government statements of policy intentions, with the government, not donors, responsible for monitoring and reporting progress on its commitments.

9. These and other improvements in governance require domestic political commitment; without that donor support for the institutions of governance and accountability will not be effective.

### **Donor Alignment**

10. From the outset of the PRS approach, and most explicitly in commitments made in the Paris Declaration on Aid Effectiveness in 2005, donors have agreed that where a country has a viable PRS in place then external aid will be aligned with country priorities as set out in that strategy. The studies – and subsequent discussions among Commonwealth Finance Ministers suggesting similar experiences in other countries - throw much light on what progress is being made in practice on these commitments and what more needs to be done. It is a process likely

to take some time, involving as it does reconciling systems and priorities of individual donors with those of country governments.

- One highly positive development has been the shift out of support for individual projects, each requiring separate negotiation and not always within the government's priorities, towards general budget support and support for sector strategies through basket funding arrangements. The studies suggest that in the past aid provided for individual projects has not only sometimes been in conflict with national priorities but also not been captured properly in government financial and other statistics, undermining the country's financial and resource allocation systems. Some donors have preferred to bypass the Government and channel aid through NGOs. Moreover in some countries projects have in the past been subject to frequent cancellations, particularly where projects were inadequately informed by local knowledge of what works and what does not, leaving a substantial proportion of committed aid unutilised.
- There is however some way to go to achieve a situation where development partners simply accept the government's priorities as set out in the PRS and sector strategies and support them. Both budget and sector support are still subject to separate negotiated conditions. As suggested above it would seem preferable for these policy commitments to be presented for what they are – more specific government commitments made within the framework of the PRS for which the government holds itself accountable in the first instance to its Parliament and people.
- Where confidence among development partners is weak it may be more realistic to seek to establish arrangements where donors can channel funds into sector baskets – SWAps – rather than expecting a rapid move towards a more substantial measure of direct budget support.
- Where funding for sector baskets or individual projects continues it will be important to ensure that it falls within overall government priorities, and as far as possible is accounted for within government systems. This applies also to aid delivered through NGOs, where it is important to develop the NGO/Government partnership: donors should not be seeking to deliver aid through NGOs as a way of circumventing government. Where support for a project or sector does not fall within government priorities, on occasion governments should be prepared to say “no”.

### **Improving other Donor Practices and Procedures**

11. The Paris Declaration contains many other commitments to improve donor practices and procedures and aid modalities, to reduce transactions costs for recipients and improve aid effectiveness, for example using country systems where possible. But progress in implementing these commitments at the country level remains slow – perhaps in some cases reflecting stronger ownership of the Paris principles by agency policy staff at headquarters than by staff operating on the ground.

- One issue for recipients is a concern that despite its other advantages, budget financing could prove less stable and predictable than project finance. In particular, there is seen by many to be a risk that budget support donors could suspend the totality of their budget support because of relatively modest policy disagreements or political events.

Some donors are showing the way by making firm long term commitments for at least substantial parts of their budget support.

- Another issue is the continuing large numbers of inward donor visiting missions which place high demands both on government and development partners. Where missions are technical they can of course add value. The problem arises when – as is too often the case – they provide little technical added value but tie up the scarce time of senior officials. Increasingly elaborate systems of local consultation machinery add further demands on the time of the same officials. The best approach – being pioneered by some of the countries that were studied – is probably to cut back visiting missions to an absolute minimum and to try to focus more on local consultation, and to set a clear annual timetable for joint consultations with all budget donors and IFIs.
- Despite improvements in Government financial management and accounting systems these are still being used too little by donors, reflecting agency rules or operational habits that should be changed.
- A closer local development partnership of the kind that is being developed in all four countries will require other changes from development partners. All significant partners need to organise themselves locally so they can engage effectively in policy discussion in-country. In some cases this may require more local staff, but more importantly it will require empowerment of local staff by head offices to take decisions locally; better arrangements for continuity when local staff rotate; and implementation of arrangements for specialisation among development partners, assigning different donors or agencies the acknowledged lead in different sectors or policy issues.
- In too many cases donor coordination is still being driven by donors rather than by recipient governments. The early experience in Tanzania, being drawn on elsewhere, suggests that strong government leadership can do much – and is usually welcomed by donors - to make progress in implementing in each country the global commitments that have been made to align donor support behind country strategies, and to coordinate and harmonise donor practices and procedures to reduce the administrative burden on government.
- In too many cases also monitoring and evaluation of progress on this agenda – essentially implementation of the Paris Declaration on Aid Effectiveness – is being carried out by donors. Tanzanian experience points to the potential value in all countries of setting up arrangements for truly independent monitoring of progress made on these issues.

### **Concluding Comment**

12. One final lesson that emerges from these studies and subsequent discussions at meetings of Commonwealth Finance Ministers is the potential value to countries from being able to learn from each others' experiences in developing and implementing PRSs. It is hoped that the four studies summarised here will encourage further interaction between countries facing similar issues in implementing a PRS approach and handling their relationships with development partners.



## **Monitoring Donor and IFI Support Behind Country-owned Poverty Reduction Strategies in The United Republic of Tanzania. August 2004.**

### **EXECUTIVE SUMMARY**

This is the first in a series of country reports to be prepared under a Commonwealth Secretariat project to monitor implementation of the Poverty Reduction Strategy (PRS) process in Commonwealth countries. The purpose is to provide independent monitoring of how the PRS process, and support for it from international institutions, donors and others, is working, as seen from the perspective of recipient countries. We have focused the report and our findings on a set of key issues intended to serve as a template for future country reports produced under this project. Given the United Republic of Tanzania's relatively extended experience with the Poverty Reduction Strategy Paper (PRSP) process we have focused as much on areas where others can learn from Tanzania's experience as on areas for attention in Tanzania.

#### *Successes and Areas for Attention in the PRS Process in the United Republic of Tanzania*

2. Experience with developing and implementing the Tanzanian Poverty Reduction Strategy has been generally positive. It benefited from a number of pre-existing and parallel processes in Tanzania, and has evolved during the first three years of implementation in ways that have improved the process and point to further changes needed in future, many of them already under way. As the Government completes its review and prepares its new PRS, we see scope for improvements in five areas, recognising that in many cases steps are already being taken to introduce changes on the lines we suggest.

##### *i. Establishing Full National Ownership*

**3. There is a need to further broaden ownership, strengthen domestic accountability, and embed the PRS and its implementation better in national processes including the budget process. It will be important to remove the continuing perception that the PRS is primarily linked to the provision of external support and to establish the PRS as the central national framework for growth and poverty reduction.**

4. While developed through a broad-based participatory process, it is widely accepted that country ownership of the initial PRS in 2000 was not deep, ownership has grown and continues to grow through experience in implementation. In government, ownership is still strongest in the central departments, the Ministry of Finance (MoF) and Vice-President's Office (VPO), and there is less full awareness of the PRS elsewhere in government. Sector ministries have their own strategies and implementation plans that they do not always see as linked with the PRS. There are also still some disconnects with the Public Expenditure Review and Medium Term Expenditure Framework (PER/MTEF) and budget decision processes, although the Government is working to rationalise all these processes within the National Budget and PRS frameworks. Outside of government awareness is more limited, with a widely shared perception that it is a strategy prepared more for external partners than as the guiding domestic strategy. The participatory approach and greater transparency, in both

strategy formulation and implementation, have been generally positive experiences. In the current preparation of a new PRS more time is, correctly, being left for such engagement, including participation by the private sector, whose engagement up to now has been minimal, and Parliament. We would emphasise in particular the importance of the following:

- a. *Action to increase awareness of the PRS among parliamentarians and local councillors and their involvement in the process.* True national ‘ownership’ of the process would and should be reflected in increased accountability to the people, and greater parliamentary involvement, as is beginning to happen in the PRS review, seems crucial to the political sustainability of the process. Similarly, it will be important to achieve greater awareness of the process and involvement among local councillors, who are responsible for the local development machinery.
- b. Other parallel actions may be needed to help establish the PRS as the guiding national strategy, including for example *more frequent high level policy statements giving it this status and adopting a new national name for the strategy, dropping the Bretton Woods Institution nomenclature.*
- c. *A particular area where the quality of participation and discussion needs to be improved is in relation to macroeconomic policy.* Many feel excluded from the debate on this central aspect of policy. The technical nature of some of the macro-policy issues should not be seen as a reason for limiting debate but rather as a challenge to those concerned – in government and in the International Monetary Fund (IMF) – to frame issues in a way that makes them accessible and understandable to non-experts.
- d. The PRS should be both a national strategy and also accepted by development partners as the basis for their support. *In due course there should be little or no need for separate conditionalities negotiated with partners.* All government commitments/agreed actions should be set out either in the PRS itself or in parallel more detailed public government policy statements.
- e. *Nor should the PRS as a national policy document, once approved by government, be subjected to a process that gives the appearance of requiring external approvals by the IMF and World Bank (the Bretton Woods Institutions – BWIs), or any other external partners.* Obviously BWIs and other external partners have to make their own decisions about how much support to give, but it will be important to avoid any appearance of giving BWI ‘approval’. This may require changes in BWI procedures, which in any event should focus more on assessing the whole PRS process, including implementation arrangements, and much less on the quality of individual documents.
- f. *Joint Staff Assessments (JSAs) carried out by the BWIs of the PRSP and PRSP progress reports would then cease to be linked to any concept of BWI ‘approval’.* JSAs would still be useful, both in informing decisions in the BWIs about the degree and nature of their support, and in providing feedback to the country. But to fulfil these functions effectively JSAs need to be candid, focus on the whole PRS process, including implementation arrangements, draw on or at least report the views of other development partners, and be carried out to a timetable linked to government decisions rather than BWI board schedules – perhaps produced on a regular annual basis at the time of the budget.

*ii. Establishing the PRS as a Comprehensive Strategy for Growth and Poverty Reduction*

**5. The new PRS should complete the process already begun, of transforming what was originally a more narrowly focused strategy into a comprehensive national strategy for growth, development and poverty reduction.**

6. The 2000 PRSP set out a relatively narrow strategy, focused on macroeconomic policy and key social investments, and at the time this helped focus action on the key policy priorities. In subsequent reviews it has steadily broadened into a more comprehensive strategy for growth, poverty reduction and development – a process intended to be taken further in the course of preparation of the new PRS, and consistent with the decision to make the new PRS more outcomes focused. We emphasise in particular that:

- a. *A more comprehensive strategy does not mean sacrificing priority setting – indeed it makes it even more important to be explicit and specific about priorities. But priorities need to be set recognising the contribution of all sectors and policies to desired outcomes, and their interrelationships. This will also help to spread ownership of the PRS throughout government.*
- b. *It should be made clear that the new PRS encompasses the recently published Medium Term Plan for Growth and Poverty Reduction.*

7. Taken together with other recommendations above these actions will all help the process of developing the PRS into what it should become: the central national framework for actions to support growth and poverty reduction.

*iii. Better Integrating and Simplifying National Policy-Making and Implementation*

**8. Implementation of the PRS needs to be more fully integrated with national policy-making and budget processes, which themselves need to be streamlined and rationalised.** This is well recognised in the Ministry of Finance which has been working to rationalise all the related processes within the National Budget and PRS frameworks.

9. A fully successful PRS process requires all related government processes to be well linked together, and all those concerned with its implementation to see the strategy as an integral part of the work of their ministries and institutions, not as a separate activity for which responsibility lies in the VPO or MoF. In particular:

- a. *A firmer link between the PRS, sector strategies, and budget decisions is needed. As we believe is planned, it will be useful to take the opportunity of the current PRS review to see if these various existing parallel processes could be rationalised to some degree and integrated better together.*
- b. *It will also be important to build capacity across government, with increased support from development partners, to strengthen the Government's ability to lead the process. As important as building new capacity are the steps discussed below for reducing some of the current demands of time and attention placed on government by development partners.*

*iv. Aligning Support from Development Partners with the PRS*

**10. While there has been some progress, perhaps more than in many other countries, there is scope for much more to be done to align external support better with the country priorities set out in the PRS.** This is a process likely to take some time if it is to be sustainable, involving as it does reconciling systems and priorities of individual donors with those of the Government.

11. One highly positive development has been the shift out of support for individual projects, each requiring separate negotiation and not always within the Government's priorities, towards general budget support and support for sector strategies through basket funding arrangements. That said, there is some way to go to achieve a situation where development partners simply accept the Government's priorities as set out in the PRS and sector strategies and support them. Both budget and sector support are subject to negotiated conditions. This reflects development partners' concerns that may relate more to uncertainty about PRS implementation than questioning or seeking to add to the PRS itself. Partners seem increasingly willing to give the Government space to make its own policy decisions, though there is scope to go further in this respect also. To make progress the following actions seem particularly important:

- a. *A combination of greater self-restraint by donors – focusing only on issues they see as of major concern – reform of government implementation and decision and financial management processes as discussed above, and better data about out-turns and intermediate outputs.* This would allow all to be assured that the PRS is being implemented effectively. The planned streamlining of government decision-making procedures should both reduce the number of occasions when inputs are needed and give greater clarity about the points in decision-making where constructive interventions by partners would be most useful.
- b. We also hope there can be rapid progress, as suggested above, to a situation where those issues and actions that particular partners or groups of partners wish to highlight in more detail than in the PRS are handled by setting them out as government commitments in government documents, rather than as separate negotiated 'conditions' for IMF, World Bank and other external support.
- c. *In the short to medium term there are a number of factors that suggest that in Tanzania a steady increase in volumes of aid would be productive and effective in driving progress to meeting the Millennium Development Goals.*

*v. Improving the Modalities of External Support*

**12. There is also a need to build further on past achievements in improving the modalities and effectiveness of external support, implementing in Tanzania the global 'Rome' agenda on aid harmonisation.** We highlight the following actions:

- a. As noted above, the move to general budget support financing has many advantages. But there are still substantial levels of funding to sector baskets and to individual projects. If these forms of financing continue it will be important to ensure that they fall within overall government priorities and as far as possible are accounted for within government systems.

- b. There is a concern that despite its other advantages, budget financing could prove less stable and predictable than project finance. In particular, there is seen by many to be a risk that budget support donors could suspend their support because of relatively modest policy disagreements or political events. *Those providing budget support are committing themselves to give general financial support for implementing the PRS – and as that is a medium term strategy their commitment should be medium term also, perhaps set out in the form of a rolling multi-year ‘contract’ setting out support to be expected, with disbursements only disrupted in the most serious circumstances.*
- c. The combination of continuing high levels of inward development partner missions and a highly elaborate system of local consultation machinery places high demands both on government and development partners. Where missions are technical they can of course add value – the problem arises when – as is too often the case – they provide little technical added value but require scarce time of senior officials. The best approach will be to try to *focus more on local consultation, and at the same time taking steps to rationalise the local consultation machinery.*
- d. A closer development partnership on the ground in Tanzania will require changes from development partners. *All significant partners need to organise themselves locally so they can engage effectively in policy discussion in-country.* In some cases this may require more local staff, but more importantly *it will require empowerment of local staff by head offices to take decisions locally; better arrangements for continuity when local staff rotate; and implementation of arrangements for specialisation among development partners, assigning different partners the acknowledged lead in different sectors or issues.*
- e. We suggest underpinning these proposals – as we believe to be planned – with *a new and strengthened Tanzania Assistance Strategy (TAS).*
- f. It will also be assisted by *continuing the arrangement for carrying out a periodic independent assessment of how the process is working, through the Independent Monitoring Group (IMG).* It is widely accepted that the reports from this group continue to add value.

### ***Lessons for other Countries and for the International Community***

13. Many of these lessons from the Tanzanian experience may have relevance in other PRSP countries and for the international system. We would highlight the following in particular:

- The whole PRS process, including implementation, is more important than individual documents. To be effective, PRSs need to be comprehensive, setting strategy for all policies relevant to growth and poverty reduction. And they should be fully integrated into the government systems for taking decisions, setting budgets and implementing policy, with ownership throughout government not just in the central departments.
- Stronger engagement of Parliaments is crucial if the process is to be politically sustainable.
- As PRSs develop, as they should, into central national development strategies covering all aspects of policy relevant to growth and poverty reduction, it

appears increasingly inappropriate for there to be even the appearance of approval by the BWIs.

- As PRSs develop into strategies accepted by development partners as a basis for their support, it should also be possible to move away from separate donor and agency negotiated conditionalities, with policies and commitments where necessary spelt out in greater detail than in the PRS in separate government policy documents.
- Some of the Tanzanian arrangements for monitoring and improving donor alignment and harmonisation, such as the TAS and IMG, might usefully be replicated in other countries.
- The trend to stronger local policy dialogue has important implications for development partners – notably the need for an empowered local presence to participate effectively, phasing out missions from capitals and head offices, and implementing local arrangements for different partners to take the lead on different issues.
- Budget support finance has many advantages. To allay concerns about its medium-term predictability it should carry with it a medium-term commitment from development partners, with disbursements only to be disrupted in the most serious circumstances.

## **Monitoring Donor and IFI Support Behind Country-owned Poverty Reduction Strategies in Ghana. August 2005.**

### **EXECUTIVE SUMMARY**

This is the second in a series of reports monitoring implementation of the Poverty Reduction Strategy (PRS) process in Commonwealth countries. The purpose is to provide independent monitoring of how the PRS process, and support for it from international institutions, donors and others, is working, as seen from the perspective of recipient countries. In preparing the report we have drawn on a number of previous studies and held a series of discussions in Ghana with representatives of government, private sector, civil society and development partners. With only three years experience of implementing the Ghana PRS (GPRS), it is too early to say much about final outcomes and results, and our focus, therefore, is more on processes and intermediate outcomes.

### **Successes and Areas for Attention in the Ghana Poverty Reduction Strategy Process**

2. Developing and implementing the GPRS has been a learning process, and the second GPRS, to be launched this summer, has benefited from its lessons. As GPRS II is developed and implemented it will be important to continue to learn from the experience of implementing GPRS I. Recognising that in most cases relevant improvements are already under way, we see scope for improvement in six areas.

#### *i. Establishing full national ownership of the GPRS process*

3. Fully integrating the GPRS into the national policy framework has proved a difficult and continuing task, partly as a result of the origins of the first GPRS – which was drawn up in some haste and with an emphasis on policies believed to be important to qualify for HIPC debt relief. Even with the development of the new GPRS this summer the process is not yet complete. We see a need for action in the following areas.

- a. *Further steps could be taken to set the strategy more firmly in the context of Ghana's constitution and national political processes.* The Government sees the GPRS as its central strategy for development. But under Ghana's constitution the government is required to develop and present a "Coordinated Programme for Economic and Social Development" (CPESD); and to use processes in generating development priorities that start at the local level with district development plans – the opposite of processes used in generating both the first and second GPRSs, which have been top down rather than bottom up. A fully nationally owned process might be expected to be based on the national constitution rather than a pattern suggested by the BWIs. The new GPRS has taken a step in this direction as it is also being presented as a new CPESD. But the process of preparation has still been top down, rather than the process envisaged in the constitution and the planning laws, with only minimal engagement of local government and district assemblies. It may not be too soon to begin considering whether the process for preparing the next GPRS, to be launched in three years time, should be brought more fully into line with Ghana's constitutionally mandated political process.

- b. *The content of the GPRS should cover all elements of a national development strategy.* If key elements are missing or given insufficient priority the strategy is unlikely to succeed. It is also essential for enhancing ownership across government: all ministries and agencies need to feel part of the process. We see the emphasis in the new GPRS on economic growth, and the policies and infrastructure needed to promote it, as well as on continued social investment, as entirely welcome in this respect. A clear macroeconomic framework and prioritisation are also essential, not least to ensure continued progress in reducing real and nominal interest rates as an important contribution to growth and investment. We hope this macroeconomic framework can be set out both in the GPRS and in annual progress reports in a way that provides a basis for more effective dialogue – for example with civil society and parliament – than was achieved on this aspect in the first GPRS. We also note that representatives of the private sector feel they have had insufficient chance to provide input to the new GPRS and hope further opportunities can be given over the months ahead as the strategy is developed and implemented.
- c. *Sector ministries and agencies should see their sector strategies as clearly linked to and flowing from the GPRS.* We believe that there is progress in this direction, but also some way to go. Despite efforts to involve sector ministries more in preparation of the new GPRS, their representatives have not always provided an effective two way link, and for this and other reasons preparation of the new GPRS has not been fully successful in providing the opportunity it should have for rethinking sector strategies.
- d. Strengthening and rationalising the implementation process will also help embed the PRS process better into the national policy framework, *but it will be important for all elements, including policy assessment frameworks and letters of intent to the IMF to be seen and presented as national policy documents for which the government is responsible – and not as documents negotiated with or imposed by development partners.*
- e. *Finally, we see an essential role for parliament in approving the strategy, and holding the government to account for its implementation.* Parliament itself needs to build up its capacity to exercise an effective accountability role, and we believe civil society organisations can and should provide much assistance in this respect – devoting as much if not more effort to interacting with parliament as they do to interactions with government and development partners.

ii. Strengthening and rationalising the implementation process

4. The recognition that it is the whole PRS ‘process’ that matters much more than the PRSP itself (however well written) is itself welcome. *Ongoing efforts to strengthen and rationalise public financial management and accountability arrangements in Ghana are therefore central to success – not only in implementing the GPRS but also in deepening national ownership and establishing an efficient relationship with development partners.* The process encompasses or should encompass links with sector strategies and action plans, the annual PRS reviews (APRs), agreement each year on a policy assessment framework (PAF) and revised medium term expenditure framework (MTEF) and MTP, the annual budget process, and also implementation and monitoring of results achieved on the ground. Each of the following elements needs further attention.



- a. A PAF that relates directly to the GPRS and APR, seen as a statement of government policy intent, rather than as a document negotiated with donors.
- b. An MTEF that includes all relevant expenditure, including donor financed projects, showing expenditure by programmes aligned with the GPRS.
- c. Clear government decisions each year on the macroeconomic framework and the macroeconomic constraints affecting budget decisions.
- d. An annual budget that includes all relevant expenditure, showing expenditure proposals and outturns by programme, aligned with the MTEF and GPRS.
- e. Arrangements for auditing and tracking to ensure that spending is productive and reaches the front-line services for which it is intended.
- f. A logical annual sequence of decision-taking, starting with the GPRS APR, leading to a revised MTEF, with the first year of the MTEF set out in more detail in the annual budget proposals.

*iii. Enhancing central government capacity*

5. Implementing these changes will require further strengthening of capacity in the MoFEP and NDPC – and probably some consideration of the relative roles and relationships between these two bodies.

- a. *At the MoFEP capacity needs strengthening for both its macroeconomic management and budget management tasks.* The government needs to be able to make its own calculations and forecasts of GDP and growth, revenues and expenditures – rather than rely on the IMF as it does at present - and so determine the fiscal parameters for annual budget decisions. Similarly it needs a larger and more professional group of staff handling budget preparation, implementation and auditing. In both cases this means recruiting people with the right skills: in neither case is it satisfactory to rely on external consultants. This is unlikely to be achieved without raising pay levels for professional staff sufficiently to recruit individuals for the MoFEP and statistical service with the right levels of competence.
- b. *At the NDPC there is a similar need to upgrade full time staff and reduce reliance on consultants. In addition, given its central role in the GPRS process, we would like to see NDPC's role strengthened in two ways:* increasingly close involvement of the NDPC with the MoFEP, and PAF, MTEF, budget and other annual financial management processes; and stronger political leadership for the NDPC both inside and outside government from the highest level in Cabinet.

*iv. Moving from accountability to development partners to national accountability*

6. Over the years development partners have established quite elaborate arrangements for ensuring accountability to themselves for the government's development strategies and progress made in implementing policies and projects. Arrangements for continuing policy dialogue with the MDBS group of donors, and also at the sector level, have acted to strengthen such accountability further. To avoid undermining moves to strengthen national

accountability development partners need over time to draw back from these arrangements, and rely more on the government's arrangements for accounting to parliament and people for the country's development strategy and its implementation. A donor representative told us he looked forward to the day when he first learned of government plans sitting in the public gallery of parliament, rather than at private meetings between government and development partners – a hope that we share.

- a. Changes already made in procedures in the BWIs should help to reduce any impression that the GPRS itself has to be “approved” in Washington. But we believe partners can do more to remove any impression that the macro-framework, or PAF, is “written in Washington”. They should accept that the process is and should be seen to be government led; and the Government should publish the relevant documents, including its letters of intent to the IMF, as setting out policies for which the government is responsible and accountable to parliament and people, rather than as texts negotiated with development partners.
- b. As domestic financial management and accountability is strengthened, development partners must be ready to draw back. For example, sector level meetings should become less frequent, with partners only interacting at key points in the annual policy cycle; and partners must become more willing to accept the government's own regular financial and statistical reports as indicators of progress.

v. Increasing external support and aligning it better with country priorities

7. Aid flows to Ghana have been increasing substantially in recent years, and there is a good prospect of further increases in future so long as policy reform continues on track. We believe that with the further improvements in the GPRS process, especially in financial management, and attention to service delivery on the ground and with the improvements being made in modalities for support by development partners, *Ghana will be able to make effective use of steadily increasing aid flows over the years ahead.* The MDBS arrangements, in particular, provide a good framework for a substantial scaling up of aid, and we would encourage donors to channel increased resources in this way as far as possible. Most donors, particularly those giving budget/sector support, appear to have been trying to take the government's policies and priorities set out in the GPRS and sector strategies as the basis for their support; but we see several issues that will need attention in future.

- a. While the macro frameworks in the GPRS, and annual progress reports, are reasonably well aligned with those in the PRGF, this is at least in part because the government has in practice left it to IMF staff to construct the macro programme in both documents. As noted above, we think that like other GPRS processes, the government's macroeconomic strategy should be – and be seen to be – government-led, with government accountability to parliament and people (and not to the IMF).
- b. The trend towards budget or sector wide support is clearly helping align support better with government strategies. If, as we suggest, the PAF was presented not as a document negotiated with partners but as a simple statement of Government policy derived from the GPRS but setting out objectives and targets in more detail – perhaps as part of the GPRS/APR - then the MDBS group of donors could indicate which of the proposed actions they would take as benchmarks influencing future levels of

support. At present the PAF has the appearance to some of being a negotiated document listing a set of donor imposed “conditions”.

- c. The trend to financial support through the MDDBS or in sector support through SWAPs has also in practice helped increase the predictability of aid flows. Compared with significant shortfalls against commitments in earlier years, MDDBS donors have disbursed 100 per cent of their commitments over the last 2 years. Most of them are also in practice making multi-year commitments, and we urge others to move swiftly to follow suit. A country like Ghana that is financing 40 per cent or more of its budget from donor flows has to have a reasonable assurance of the continuity of such flows.
- d. At the sector level the perception in government is that some partners providing support for sector funding baskets seem not always to be willing to simply follow the government’s lead, seeking to influence or change sector strategies by earmarking funds. We have even greater concerns about the continued support provided by nearly all partners for individual projects. It is by no means clear that all projects supported fall within government priorities as set out in the GPRS, central budget documents and sector strategies. In general, we feel that the government could and should take a stronger stand to ensure that where donors prefer to support individual projects, all such projects are within the government’s programme and priorities, and in line with GPRS priorities. At a minimum, all planned and actual donor project outlays should be promptly reported to government so they can be included in sector and overall expenditure planning and monitoring. On occasion, the government should be prepared to say “no”.

*vi. Implementing commitments by development partners to reduce transaction costs*

8. *Development partners can and should do more to reduce strains on government by implementing in Ghana the global commitments they have made on harmonization and coordination of donor practices.* Efforts are already being made by some partners in this respect, particularly those engaged on the MDDBS group. But there is a large agenda, with much to be done, and it would help if the government itself were to take a stronger lead in driving change in donor behaviour.

- a. A key element will be reform of the budget planning, and financial management and control systems, as noted above. At the same time it will be important to move to a situation where all continuing support to individual projects is properly included in the budget envelope, and if possible accounted for within normal government systems – cutting out parallel systems.
- b. All members of the MDDBS, including the Bank and Fund, have agreed to a timetable which involves joint missions at a critical point in the annual process and this appears to be working well. In other respects those engaged in the MDDBS group believe that initially it may have increased rather than reduced transactions costs. Over time it will be important to act to reduce these costs for example by reducing the number and frequency of MDDBS and sector group meetings. It will also be important to continue efforts to reduce the number of visiting donor missions and to establish quiet periods of the year when no missions visit.

- c. Other important donor actions to reduce transaction costs include acceptance within the MDBS group of “lead agencies” on different issues; and the trend among many donors to decentralize decision-taking to local offices.
- d. The Government could give a stronger lead to all these efforts, increasing awareness across ministries of the agreed global agenda for better alignment and harmonisation of donor procedures and practices; holding partners in Ghana to the global commitments they have made and setting out an agreed programme of change; and instituting a system for monitoring compliance and implementation by partners.
- e. The Government could also consider implementing periodic independent and transparent reviews of donor practices and progress in implementing a programme of change.

### **Lessons for other Countries and the International Community**

9. What lessons would we draw from this study for other countries and the international community? In general, experience with the PRS process in Ghana seems to confirm many of the lessons from elsewhere, in particular:

- the importance of respect for pre-existing national processes in enhancing national ownership;
- the need for the strategy to cover all policies relevant to development, including, crucially, policies for promoting growth and private sector development, as well as social priorities;
- the importance of the whole PRS process, including implementation arrangements;
- the central importance in this respect of establishing good systems of public financial management, including monitoring and evaluation, firmly linked to the PRS;
- the parallel importance of establishing and strengthening arrangements for national accountability to parliament and people, both for the strategy and its implementation;
- the need for donors to stand back, respect national processes, and ensure that where they provide project or sector support it is firmly grounded in country priorities, with spending included and accounted for in national budgets;
- the many benefits of budget or sector wide support as aid modalities in relation to the traditional project based approach;
- the need for donors also to take a range of actions to reduce transactions costs and the parallel need for the government to take a lead in holding partners to their global commitments in this respect.

## **Monitoring Donor and IFI Support for Poverty Reduction Strategies: Malawi. August 2006.**

### **EXECUTIVE SUMMARY**

This is the third in a series of reports monitoring implementation of the Poverty Reduction Strategy (PRS) process in Commonwealth countries. The purpose is to provide independent monitoring of how the PRS process, and support for it from international institutions, donors and others, is working, as seen from the perspective of recipient countries. In preparing the report we have drawn on a number of previous studies and held discussions in Malawi with representatives of government, private sector, civil society and development partners. Even if the Malawi PRS (MPRS) had been implemented effectively, which it was not, it would be too early to say much about final outcomes and results. Our focus, therefore, is more on processes and intermediate outcomes.

2. The MPRS was developed in the early 2000s at the request of the Bretton Woods Institutions, and as in other countries suffered from a widely held perception of being developed simply in order to qualify for HIPC debt relief. It was intended that it should draw on a number of previous national development strategies, though in practice we think the linkage was weak. It was developed with a relatively strong degree of public participation, although there were some weaknesses in the process. After its adoption the government identified one missing element – the lack of attention to ways to stimulate private sector led growth – and complemented the MPRS with the Malawi Economic Growth Strategy (MEGS). But the main problems that have emerged have been in implementation. There was at best only a modest connection between the strategy and annual budget allocations, and even less relationship with budget outturns. Because of the failures in macroeconomic policy, donor support was less than anticipated. And final results, in terms of growth and measured changes in poverty levels have been disappointing.

3. We have tried to identify the main causes of failures and successes in MPRS implementation, and to draw out lessons for the future: the lessons for the new Malawi Growth and Development Strategy and its implementation. A number of these conclusions may have relevance also in other countries with similar experiences of mixed success in implementation of their initial poverty reduction strategies.

#### ***Successes and Failures in the MPRS and its Implementation***

4. *How far was the strategy nationally “owned”* and how far was it perceived as imposed from outside? Ownership has many dimensions, but in most dimensions there was relatively weak country ownership of the original MPRS, adopted in 2002. Other than in the core ministries that led design of the strategy, it was seen more as a process undertaken to meet donor and BWI requirements than as a development strategy deriving from domestic processes.

- Lack of ownership at a political level was demonstrated by decisions over most of the period covered by the MPRS to depart significantly from its priorities in government expenditure decisions. Outside the core team even the key sector and implementing

ministries did not, initially at least, feel wholly part of the process, and few have fully aligned their strategies with the MPRS. Moreover ownership appears to be very limited where in some ways it matters most – at the district level which is responsible for so much of the implementation.

- Outside of government, there was no formal Parliamentary approval process. The private sector felt the original MPRS paid too little attention to the needs of business. Somewhat paradoxically it seems that the group with the strongest sense of ownership of the MPRS may have been civil society. Certainly, CSOs have put and are putting much effort into spreading knowledge of the MPRS among groups responsible for its implementation, among Parliamentarians and elsewhere.

5. *Was the strategy itself well conceived?* It is now widely accepted that there were some important weaknesses:

- There was insufficient selectivity and prioritisation and little if any consideration of alternative strategies. While a national development strategy should be comprehensive, in a country like Malawi, with limited capacity, it is essential clearly to identify priorities for action.
- As noted, the 2002 MPRS's growth/private sector/infrastructure pillar was generally seen to be weak. And while the strategy identifies a number of cross-cutting issues, only HIV/AIDS is beginning to be mainstreamed into sector policies and many see the analysis of gender issues as seriously inadequate.
- There was no attempt in the MPRS to assess how much extra assistance Malawi could effectively absorb to make faster progress towards meeting the MDGs.
- Although there were monitoring indicators in the MPRSP and the subsequent Monitoring and Evaluation Master Plan the government failed to create an effective monitoring and evaluation system
- Finally, we think the government could usefully have put more effort into outreach to communicate the strategy once it was adopted, explaining it both to the general population and to those on the ground responsible for its implementation

Given the track record with the MPRS, and limited financial management capacity in the MOF, we hope the new MGDS which will replace it will be seen as a flexible medium term strategy to be converted year by year into annual budgets. While it is right to try to cost the first year of implementation, it would be a mistake to try to draw up anything like a five year expenditure plan.

6. As noted, *the record of implementation* is poor.

- Over most of the MPRS period budget expenditures had little relationship to MPRS priorities, a result in large part of lack of ownership and political commitment. Progress has also been slow in implementing aspects of the MPRS that require policy actions but do not have budgetary consequences. For the future core departments need to play a more effective role in ensuring that policy commitments in the strategy are carried through and executed effectively.

- The government has been slow to create the monitoring and evaluation capacity needed to ensure that the strategy ultimately produces results. We welcome the progress now being made in this respect, and also the intention to establish a mechanism for periodic independent monitoring and evaluation of implementation of the strategy and support being given to it by development partners.

7. *In principle most donors have been willing, or say they have been willing, to align their support with the MPRS*, though in practice over most of the MPRS period this was not tested because of the breakdown in macroeconomic management and MPRS implementation, and consequent withdrawal of donor support. There is now the prospect, which we welcome, of an increased volume of support coming in the form of budget or sector wide support. But some donors remain resistant to this trend and most continue to provide support in the form of individual projects.

- For the future, it will be important for the government to know of all relevant donor expenditure and planned expenditure, whether it is provided through the budget or in project support, to inform budget priority setting and resource planning.
- While budget support linked to a single policy assessment framework agreed between donors and the government will in the long term be the best modality to ensure donor alignment, we recognise that encouraging donors to switch substantially to budget support in Malawi will take a significant period of confidence building. It may therefore be sensible over the next few years to give priority to the development of sectoral support through sector SWAps, building on the experience in the health sector
- These developments need to be underpinned by a major effort, as discussed above, to link the strategy transparently to annual budgets, developing financial management and information capacity as needed.

8. We believe improvements now being made in the strategy and implementation process will significantly increase Malawi's capacity to absorb aid effectively. Malawi should as a result be able to make better use of aid flows already available as well as make effective use of steadily increasing aid flows over the years ahead. We would therefore encourage the Government, as we believe is planned, to make an assessment of how much aid could usefully be absorbed, and help towards meeting the MDGs, if it were available.

9. Relatively little progress has been made so far in *implementing in Malawi the global agreements to better harmonise and coordinate donor practices and procedures*, and as in other countries, making progress in this respect will require strong leadership from the Ministry of Finance. We welcome and encourage the intention of the MOF to provide such leadership in working with development partners. Without such an effort, as aid flows increase, donors will be placing an ever increasing burden on government ministers and senior officials, as numbers of parallel reporting requirements, donor missions and local consultation committees expand.

### *Lessons for the Future and for Other Countries*

10. Our report is being written shortly before the expected launch of the new Malawi Growth and Development Strategy (MGDS), which replaces the MPRS. We believe that the conclusions noted above will all be relevant to the successful design and implementation of the MGDS, and have listed in the concluding section of our report what we believe to be the key points in this respect.

11. Several of the lessons from Malawi's experience that may be applicable in other countries that have encountered difficulties implementing first generation poverty reduction strategies. We list what we see as the key points in the concluding section of our report. In addition to points noted above we observe that Malawi is demonstrating the power of learning from the experience of other countries, and indeed, where appropriate, importing systems and procedures developed in other countries. We believe that governments can learn more from other governments in this respect than they are likely to learn from international institutions and other development partners.



## **Monitoring Donor Support to Poverty Reduction Strategy in Bangladesh: Rethinking the Rules of Engagement. August 2006.**

### **EXECUTIVE SUMMARY**

The World Bank and the IMF have linked their assistance to low-income countries with the preparation of a Poverty Reduction Strategy Paper (PRSP). This is intended to promote national ownership of a pro-poor development strategy. The PRSP process is also increasingly being accepted as providing a basis for support from other international aid agencies and bilateral donors. In the Paris Declaration of March 2005, the developed countries made the pledges (a) to align aid efforts according to the country-owned PRSP, (b) link aid to partner country's PRSP implementation and refrain from aid conditions that are not consistent with PRSP, and (c) to have mutual accountability between donors and the partner country.

2. The purpose of this study is to examine how the donor agencies in Bangladesh are responding to the new aid ideas and redefining their rules of engagement in support of the PRS process. At the moment, almost all monitoring and evaluation of donor assistance in Bangladesh is by donors themselves, raising the question: who will monitor the donors? The Economic Relations Division (ERD) of the government, which is supposed to be the gatekeeper for the aid inflows, has very little capacity for such monitoring.

3. The preparation of the PRSP in Bangladesh has been directly linked to accessing the Bank-Fund programme assistance under a medium-term policy framework. Thus, although the PRSP is the result of an entirely home-grown effort, its policy agenda is likely to have been pre-empted to some extent by the Bank-Fund supported policy framework. However, given the long tradition of state planning in the country in the form of Five Year Plans, there is likely to be a political demand for the PRSP, even if the demand may in part be of a populist nature. It is almost certain that an incoming government will have little option but to adopt the PRSP process in some form or another.

4. Ownership, however, is a complex issue. There is a crucial difference between ownership of PRSP preparation and that of its implementation. For example, is the participatory approach and openness to be continued beyond PRSP preparation to implementation? Will the government commit to a transparent and accountable process of monitoring? The reluctance of the government to do away with the existing Official Secrecy Act casts some doubt about how far the government will be willing to open up its budgetary operations for independent monitoring. Given the powerful vested interests that tend to lose from improved governance of public spending, support for PRSP monitoring may be wanting as implementation proceeds.

5. The PRSP emphasises the need for improving the institutions of economic and political governance and puts forward a wide-ranging policy agenda in this regard. There seems to be, however, a lack of specificity and prioritization in the proposed governance reforms, suggesting that ownership needs to be broadened within the government. It is noteworthy that the PRSP puts the enactment of law regarding right to information only under "future priorities". Again, while the PRSP advocates for improvement of government

procurement procedures, its policy agenda do not include compliance with procurement regulations to be monitored “through an independent annual procurement review” and through civil society surveillance, as is proposed in the recently released World Bank’s Country Assistance Strategy for Bangladesh.

6. The Paris Declaration emphasises the need for translating the PRSP into “prioritised results-oriented operational programmes” and relating these programmes to annual medium-term budget frameworks (MTBF). At the time of the presentation of the national annual budget for FY07, the Ministry of Finance prepared a MTBF document containing an analysis of the “medium term budget strategy” for the period FY07 – FY09 as well as the budgetary plans of 10 line ministries for the same period. But, it is doubtful whether the ministries have the capacity and manpower to prepare plans according to the PRSP. A key element of PRSP monitoring will be to strengthen the budgetary accounting mechanisms relating to auditing, public procurement and the tracking of expenditure to show the use of funds. Among other things, this would need “timely, transparent and reliable reporting on budget execution”, to quote from the Paris Declaration.

7. The development partners generally agree about the need to align their overall support to Bangladesh on the basis of the PRSP approach. There is much less agreement about how to achieve such alignment, particularly when it comes to the details of aid modalities. One overriding concern of the donors is about the perceived low “aid absorptive capacity” of the country due to weak governance. There are frequent aid cancellations and a large part of committed aid remains unutilised. Thus, helping Bangladesh to overcome the governance-related constraints has become at least as important a donor concern as meeting the resource needs for actual investment programmes.

8. The coordination of aid at the national level is undertaken in Bangladesh by a Local Consultative Group (LCG). While in principle government’s participation is welcome, aid co-ordination remains very much donor-driven; government representation in the consultative process is generally weak and ineffective. More recently, a framework of collaboration between the government and donors, called *Bangladesh Harmonization Action Plan*, has been prepared to implement the pledges of the Rome and Paris Declarations, but its implementation remains a far cry.

9. The perception of weak governance and widespread corruption inhibits donors to rely on government systems for procurement, financial reporting and programme monitoring. This hugely increases the cost of aid delivery and creates a large administrative burden on the government. In 2003, a new procurement regulation was introduced by the government following the guidelines of the multilateral donors; but donors still think that further improvements will be needed to plug the loopholes. As a result, the government has to still comply with a multiplicity of donors’ procurement regulations. Adopting a multi-donor sector-wide approach - such as the health and population sector’s HNPSP or the primary education sector’s PEDP II - also does not always help. The PEDP II has to comply with six different procurement rules. In the health sector’s HNPSP, there is provision for setting up a number of project support units, which would be tantamount to running a parallel administration bypassing the government systems.

10. In recent years, the Economic Relations Division (ERD) of the government received about 250 missions annually. Different donors have often fielded parallel missions for the same purpose. Consultations with donors take up an inordinate amount of time of government

officials. To reduce such burden, possible approaches tried elsewhere include: establishing a regular and well spaced annual cycle of consultation meetings and declaring “quiet” periods in the year; avoiding parallel missions and sharing of the results of mission findings among relevant donors; specialisation among donor representatives according to expertise so that all donors need not be represented in the same meetings particularly in the case of sector-wide programmes

11. In preparing the recent country assistance strategies, donors have apparently attempted to align their strategies and policies with the PRSP. That does not necessarily mean that the implementation of the PRSP will require donors to do things differently. Since project aid accounts for the bulk of all aid, what really matters is how the strategies and policies are translated into projects and programmes. The officials of the donor agencies complain that the government agencies do not have the competence to articulate the country’s aid needs and prepare aid-worthy project proposals.

12. While it is largely true that the government agencies lack capability, the way donors prepare their project proposals often leaves much room for improvement. Donor-designed projects, like most government projects, usually have a top-down approach that is inadequately informed by local knowledge of what works and what does not. Often donor agencies tend to push the aid agenda of their headquarters or apply global templates in designing projects without adequate feedback about local cultural traditions and institutional characteristics. An unpublished completion report on the World Bank’s Country Assistance Strategy (FY01 – FY04) found that most of the aid cancellations had been due to the need for project restructuring, pointing to the fact that the original project designs had lacked realism and did not take into account ground level realities.

13. The response to the governance problem varies among donors. The small bilateral donors have the option to shift to another country. Their aid headquarters go by the overall governance signals coming out of the country; in this respect, Bangladesh’s being repeatedly ranked as the most corrupt country by the Transparency International has had an adverse impact. For example, Bangladesh used to be the largest recipient of Danish aid worldwide in the early 1990s, but since then Bangladesh has been relegated to the 6<sup>th</sup> or 7<sup>th</sup> position. The large donors such as the “big four”- the World Bank, ADB, Japan and DFID - tend to have different perspectives. Because of their relatively large aid portfolios, they have a larger stake in the country’s overall economic performance and they can exercise enough leverage in effectively engaging with the government regarding policy reforms.

14. The World Bank’s volume of assistance to Bangladesh has gone through troughs and highs, which has much to do with the shifts in the Bank’s strategy of how to deal with the country’s governance problem. Thus, immediately before the Development Support Credits (DSCs) could be provided to Bangladesh in FY03, the Bank’s aid pipeline to the country had become thin because of the Bank’s increasing disengagement from a large number of sectors including infrastructure and energy, where progress in policy reforms had been lacking. More recently, however, the Bank has shifted its stance in favour of working from within critical sectors rather than disengaging from them and waiting for reforms to occur.

15. Donor support for improving the institutions of governance can hardly be effective unless the government is a willing partner and is committed to achieving the goals. There are over one hundred donor-supported projects that are being currently implemented covering areas such as police, justice or anti-corruption. While donors’ support towards good

governance is encouraging, the effectiveness of the above types of projects needs careful scrutiny.

16. There have been frequent cancellations of aid to on-going projects and premature termination of projects. Public monitoring of “mutual accountability” would be greatly served if donors and the government could agree to make the reasons of such actions public.

17. Some donors have preferred the NGO route of aid delivery; the USAID currently delivers almost 90 percent of aid through NGOs, European Union 45 percent and DFID 25 percent. The donors face here a dilemma. On the one hand, given the inefficiencies of the government machinery, NGOs can be used for effective delivery of basic services. On the other hand, this approach is liable to have a disabling effect on the donors in engaging in the governance debate regarding public service delivery. There is also an increasing recognition of the need for government-NGOs partnership and for ensuring better accountability of the NGOs, such as through strengthening local governance. It is important that donors coordinate their efforts in this area and do not act at cross purposes.

18. There has been a more recent shift of donor emphasis in promoting human rights and good governance through NGO-led community mobilisation. Donor funding has undoubtedly played the key role in enabling NGOs to deliver effective services in such areas as basic health, informal education and microcredit. Whether donor-funded NGO initiatives can be equally effective in the above new areas of emphasis is yet to be tested. It is difficult to find measurable indicators to monitor the success of such initiatives; and this makes the problem of NGO accountability even more difficult. Moreover, since such activities can often take on the character of campaigns of political nature, the funding by donors may become a contested issue.

19. There is no easy answer regarding how to do aid in a governance-challenged environment such as exists in Bangladesh. It should be noted, however, that in spite of governance-related constraints, Bangladesh has achieved notable success in accelerating GDP growth and reducing poverty. Even far more impressive have been the improvements in social and human development indicators, particularly in respect of infant and child mortality, female school enrolment and the adoption of birth control. It remains a puzzle how Bangladesh could make such remarkable progress in social development despite widespread poverty and poor governance in public service delivery. The early gains from the adoption of easy low-cost solutions, the contribution of NGOs towards raising public awareness, favourable budgetary allocations and donor support have all helped. However, sustaining the positive trends in poverty reduction and human development may become increasingly difficult without larger social spending and a further acceleration in GDP growth. It needs also to be noted that the gross aid received by Bangladesh is much lower compared to the average of low-income countries both as a proportion of GDP and in per capita terms; and this disparity has been increasing over the years. It thus poses a challenge to the donor community to find ways of helping Bangladesh to achieve its development goals.