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DEVELOPMENT CO-OPERATION DIRECTORATE

SENIOR LEVEL FORUM ON DEVELOPMENT EFFECTIVENESS IN FRAGILE STATES

Harmonisation and Alignment in Fragile States

Draft Report by Overseas Development Institute (ODI), United Kingdom

Meeting in London, 13-14 January 2005

This draft ODI report was commissioned by the DAC Learning and Advisory Pricess on Difficult Partnerships, and is submitted as one of the key documents for consideration at the Senior-Level Forum on Development Effectiveness in Fragile States to be held in London, United Kingdom on 13-14 January 2005.

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ABREVIATIONS AND ACROYNMS

ADB	Asian Development Bank
ALDI	Agriculture-Led Development Industrialisation Programme (Ethiopia)
APR	Annual Progress Review (World Bank)
AusAID	Australian Agency for International Development
CAS	Country Assistance Strategy (World Bank)
CAP	Country Assistance Plan (DFID)
CAP	Common Appeal Process (UN)
CG	Consultative Group (donor conference)
CHAP	Common Humanitarian Action Plan (UN, OCHA led)
CIDA	Canadian International Development Agency
CNRT	Timorese National Resistance Council
DAC	Development Assistance Committee (OECD)
DFID	Department for International Development (UK)
DRC	Democratic Republic of Congo
EC	European Commission
FAO	Food and Agriculture Organisation (UN)
FTS	Financial Tracking System
GHD	Good Humanitarian Donorship initiative
GFT	Government of Tajikistan
GoT	Government of Tanzania
HAP	Harmonisation Action Plan
HQ	Head Quarters
IFIs	International Financial Institutions
IMF	International Monetary Fund
I-PRSP	Interim-Poverty Reduction Strategy Paper (World Bank)
JAM	Joint Assessment Mission (World Bank)
JSA	Joint Staff Assessment (World Bank)
LAP	Learning and Advisory Process on Difficult Partnerships (DAC)
LICUS	Low Income Countries Under Stress (World Bank)
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MTEFs	Medium-Term Expenditure Frameworks
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PAF	Performance Assessment Framework
PRDE	Poverty Reduction in Difficult Environments (Policy Division, DFID)
PRGF	Poverty Reduction Growth Facility (IMF)
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit (World Bank)

PRSP	Poverty Reduction Strategy Paper
RGC	Royal Government of Cambodia
SEDP	Socio-Economic Development Plan (Cambodia)
SPA	Strategic Partnership with Africa
SWAp	Sector Wide Approach
TACU	Tajik Aid Coordination Unit
TRM	Transitional Result Matrices (World Bank)
UN	United Nations
UNAMA	UN Assistance Mission Afghanistan
UNDAF	UN Development Assistance Framework
UNDP	UN Development Programme
UNDG	UN Development Group
UNOCHA	UN Office for the Coordination of Humanitarian Affairs
UNTAET	UN Transitional Administration in East Timor
USAID	US Agency for International Development
WB	World Bank

EXECUTIVE SUMMARY

1.   This study was commissioned by the Learning and Advisory Process of the OECD DAC. It brings together two concurrent focuses of work in the international development assistance community. The first focus is on 'fragile states' or 'difficult partnerships', emerging from both from the challenge of meeting the MDGs through tackling poverty in these environments and the renewed focus on improving governance and institutions in weak institutional environments. The second is the evolving agenda around donor behaviour and aid effectiveness as articulated particularly in the Rome agenda on harmonisation and alignment.

2.   The underlying questions that this study addresses are:

- How relevant is the harmonisation and alignment agenda to difficult partnerships?

- What is the experience of harmonisation and alignment in these situations?

- What are the lessons that can be drawn from this experience for donors particularly?

3.   While there is general agreement among donor governments that engaging in difficult partnerships is an imperative, there is no clear consensus on now to engage. This study concludes that harmonisation and alignment are proving a useful way of helping to draw up a framework for engaging more effectively in fragile states. More than that, it appears that this agenda may be even more relevant in difficult than 'normal' environments. Aligning donor activities behind national policies and systems would in a number of contexts seem to be a precondition for fragile states to begin to restore their ownership of their domestic policy processes; unharmonised and unaligned behaviour on the part of donors can certainly undermine this ownership and damage further a weak institutional environment. After looking at some of the experience of aid in these situations to date, the report goes on to draw some specific conclusions and practical recommendations on how to take the alignment and harmonisation agenda forward in the context of very realistic constraints and challenges that face donors and their partners in fragile states.

4.   This study first examines the concepts of harmonisation and alignment and difficult partnerships, and provides a rationale for why harmonisation and alignment appear to be particularly relevant in these settings (chapters 1-3). It then goes on to analyse different types of experiences in fragile states to date (chapter 4). The obstacles as well as possible entry points to harmonisation and alignment in difficult partnerships are considered in chapter 5. The final chapters deal with emerging approaches to monitoring and outline the lessons and recommendations from the study.

5.   The categorisation of difficult partnerships or fragile states is not straightforward. This report uses the DAC approach, which characterises difficult partnerships as those low income countries with a lack of political commitment or weak capacity to develop and implement pro-poor policies in the partner country. Additionally, there may or may not be levels of isolationism, political repression including extensive human rights violations, and ongoing, wide spread armed conflicts.

The relevance of the harmonisation and alignment agenda in difficult partnerships

6.   Alignment describes the relationship between the priorities (as reflected in strategies, policies and budgets) and systems of a government and those of donors to that government. Alignment is closely linked to ideas around increasing the level of ownership of those policies and systems by a government, and thus

it is hoped, the effectiveness of implementation of those policies or systems. Harmonisation refers to the extent of coherence in approaches, policies and systems between donors. Coherence can also refer to the extent of consistency of approach within and across donor governments between the security, political, humanitarian and development policy domains.

7.   These issues and relationships are proving to be particularly relevant in difficult partnerships because:

- These difficult contexts are subject to the same unintended impacts that make alignment and harmonisation agendas relevant in other countries. This includes the cycle whereby the systems of weak states are avoided by donors, parallel systems and prioritisations are set up; the cumulative impact of this and associated transactions costs weaken states still further and hamper the development of any downward accountability or social contract to a population.

- There are particular characteristics in difficult partnerships that make harmonisation and alignment, as well as coherence, even more important in the context of high levels of complexity and fragmentation of actors on both the donor and partner side. This might include for example a range of agencies from the donor side (including development, humanitarian, security, and diplomatic), and a similarly broad range of actors from the partner's side.

Four clusters of experiences of harmonisation and alignment

8.   Difficult partnerships take place in a variety of contexts with rather different implications for moves towards harmonisation and alignment. In this study, four clusters of countries emerged across the range of contexts.

9.   *Strong or significant country leadership:* In the cases of Afghanistan and East Timor, country leadership has provided for substantial levels of alignment in key areas. In those contexts harmonisation is important to minimise transaction costs for government. It was also noted that in a number of these situations, recipients felt that a confrontational approach with international actors was sometimes necessary under these circumstances to ensure space for domestic process to take shape.

10.   *Strong donor leadership:* An interesting cluster of experience emerged around countries with a single, dominant or very limited number of closely cooperating donors. This includes situation such as Sierra Leone, Nauru and the Solomon Islands. Here harmonisation is less important due to the limited number of donors and alignment is generally strong with some degree of fusing of donor and country systems. National ownership may however be a very real concern in these situations.

11.   *Weak/fragile country leadership and fragmented donors:* This cluster of countries included situations such as in Cambodia, Nepal and Tajikistan. They are commonly characterised as hosting fragmented or even competing donors, and a government which struggles to provide clear policies or systems to align with. There are usually some elements of the alignment and harmonisation agendas that are beginning to be addressed slowly. Attention is usually focused on policy debates with systems alignment issues falling behind.

12.   *The most difficult partnerships:* These situations are characterised by, isolationist (whether by lack of interest or explicit intent) regimes, often with particularly severe concerns around legitimacy, or countries where there are wide spread levels of ongoing armed conflict. The cases discussed here include Myanmar, Angola, Burundi and Haiti. Possibilities of alignment with government priorities are generally extremely limited; however, harmonisation efforts do have significant potential in these contexts.

Obstacles, entry points and emerging approaches

13.   A particular obstacle to policy alignment in difficult partnerships is the perceived lack of policies to align to. In some cases, donors may erroneously assume that policies are absent. Another obstacle is the presence of multiple policy frameworks with unclear or highly politicised interrelationships. Donors must make sensitive choices about which framework to align to, or support the authorities in reconciling these different policies.

14.   Emerging approaches include attempts to support government capacity development to take the lead of policy formulation and the budget process, the use of PRSs in weak institutional environments and the adoption of a number of tools and approaches. These include common assessments, frameworks and strategies for policy formulation; and the use of pooled financing mechanisms for the national budget or programs, sectors and projects. More work is needed to evaluate the efficacy of these different approaches as entry points for donors. This work should also consider the efficacy of alignment behind sectoral or regional strategies where national strategies have not developed, and the advantages and disadvantages of engaging in processes led by non-government actors (whether donors or civil society).

15.   In the absence of government leadership on policy priorities, harmonisation and prioritisation of donor action is vital in order to create the enabling environment for country leadership to emerge at a later stage and to create positive synergies between interventions. This might take place through such instruments as Joint Assessment Missions or Multilateral Donor Trust Funds, or it might fall to a lead donor. Existing donor networks at country level are also important channels, although these may need to be extended to include humanitarian and military actors, civil society or others. Although donors appreciate in theory the necessity of harmonised prioritisation, practical progress is limited and there are very different ideas about what this prioritisation might look like in practice.

16.   Where government strategies and policies do exist in a form with which donors will engage, donors place strong emphasis on the political commitment to implement these policies. Commitment of the government to implementation is seen as an entry-point for donors; where it is lacking, donors tend to move to state-avoiding activities which place low emphasis on policy alignment. This tends to mean that the question of systems alignment is ignored, and in some cases that parallel systems are created which create harmful institutional impacts on existing state institutions.

17.   Donors tend to believe that policy alignment is a necessary condition for systems alignment, when this is disputable. There are possibilities for moving forward with systems alignment even in the absence of alignment on policy priorities. As with policy alignment, key obstacles to systems alignment are the weakness (or perceived absence) of government systems, or the presence of multiple systems. However, it should be remembered that donors tend to have trouble aligning with official systems even where they are relatively strong. Some obstacles exist within donor agencies themselves, rather than in the relationship with a difficult partner.

18.   The presence of humanitarian relief agencies in many difficult partnership contexts has serious implications for alignment. The sheer number of players creates problems, but the main difficulty is the practice of humanitarian agencies to provide state-avoiding aid, with major impacts on the local economy including the labour market. This may not be problematic in the short-term, but major difficulties arise when these practices become entrenched during the transition out of the crisis.

19.   In some cases, donors are concerned that to align their policies with those of the recipient would unjustly legitimise a government. This is an important and very real concern. However the question of systems alignment may be addressed separately. Donors could explore the possibility of 'shadow' systems alignment, whereby donors work to be compatible with national systems without subjugating them to

government priories or policies. Possibilities include putting aid 'on-budget' but not 'through budget', working with existing administrative boundaries, and providing information to the recipient in terms that are compatible with their national systems such at the budgetary classifications and cycle.

20.   'Shadow systems alignment' does not require that the policies of a government be supported where this is not considered possible. It also does not imply anything about the amount of resources that should flow through any particular modality. It also does not suggest that the recipients should control the resources. It does, however, imply that the eventual (long-term) aim of aid is that the government should be providing services and acting for poverty reduction, and that donors should establish systems that do not thwart this goal.

21.   Where there is weak capacity, donors and recipients should work to focus on a limited number of tasks rather than try to spread limited human, financial and institutional capital over a range of tasks simultaneously. A useful exercise can be to map the goals of intervention over a period of a number of years, and select and sequence activities accordingly. This may imply not focusing on myriad of 'quick impact' projects, but mapping the critical path of key interventions to ensure appropriate selectivity and focus.

22.   This discussion should cover not only official development aid, but also humanitarian aid and aid delivered through non-governmental organisations. At present, donor groups may not always include all relevant parties. Partner countries may find it useful to develop between themselves, and perhaps civil society organisations, a means of monitoring donor behaviours against Rome Commitments. If a standard template could be developed, and a number of countries used it to monitor donor compliance, then a useful feedback mechanism for donors could be provided. The coherence agenda also requires further investigation into appropriate mechanisms for ensuring coherence both within donor government branches (security, political, development, humanitarian) and across governments.

Recommendations for harmonisation and alignment in difficult partnerships

Recommendation 1: Undertake diagnostics of the country's processes and systems

23.   To improve alignment, donors should first ensure that they have a sound understanding of the following through undertaking the necessary diagnostics including:

- Systems, processes and mechanisms for strategy and policy formulation and planning at central and local level.

- Key operative policies both centrally and in important sectors.

- The implementation and monitoring systems associated with these policies.

- Administrative layers and boundaries.

- The budget systems and how they are related to one another.

Recommendation 2: Where possible, align donor activities to all stages of the government's strategy, policy and implementation cycle, including its systems

24.   The stages of the policy cycle include: vision and goal setting, strategy formulation, policy formulation, planning and budgeting, financing channels, contracting, implementation, monitoring and reporting. Donors need to address alignment issues along all the stages of this cycle, as a failure to do so

will undermine the positive impact of alignment. An effective mechanism is to ensure that financing flows are streamlined and attached to a budget and a series of programs.

25.   If it is not immediately apparent that a government has adequate capacity in all elements of the policy cycle, the focus should be on creating the space and enabling environment for such capacity to emerge rather than donors substituting for weak capacity. It may be appropriate to consider how the capacity for strategy and policy management within government can be strengthened, rather than investing in the creation of such capacity within external actors alone.

26.   This requires actions from both sides of the partnership; on the government's side, it requires a focus on how to improve the policy formulation and implementation process, so as to create an environment where trust between citizens and government on the one hand, and government and donors on the other, can be enhanced, and where the quality of policy and systems can be substantively improved. On the donors' side, it requires imaginative approaches through dialogue, programming and provision of technical assistance to catalyze and support efforts to improve the government's capabilities.

27.   Even when a set of policies and priorities has not yet emerged which the donor community considers adequate for their purposes, attention should be paid to systems alignment or shadow systems alignment. Implementation mechanisms and systems can be designed to allow some services to be delivered on a programmatic basis, that are sufficiently modular and flexible to allow for transfer of ownership to national authorities as soon as appropriate.

Recommendation 3: Where alignment is not possible, harmonise

28.   Harmonisation between donors can have useful impacts in cases where alignment is not possible. However, harmonisation should take place in order to allow alignment to take place at a later stage. Accordingly, harmonisation of donor approaches should focus on the creation of mechanisms that enhance, and do not undermine, the emergence of country leadership and ownership. In this context, the most important focus is the creation of the enabling conditions for country leadership and systems alignment or shadow systems alignment. This process is best addressed opportunistically by donors or a donor identifying an area where they can pragmatically build on opportunities or relative successes.

29.   Where alignment is not considered possible, harmonization can still make a significant improvement to a situation. Beneficial harmonization activities can include efforts to minimize the transaction costs and therefore stress placed on partner capacity, particularly through minimization of the number of reports, assessment and other missions, procurement systems, financial management systems, and other project rules and requirements. Joint funding of programs between donors, delegated authorities, selectivity and sensible divisions of labour between donors can make significant contributions. Lastly, coherence in political dialogue, imposition of conditionalities and other messaging within and across donor governments between the political, security, development and humanitarian domains could enhance the impact and effectiveness of such dialogue, subject of course to the particular stances of the international community and the desired goals in any particular context.

Recommendation 4: Selectivity and sequencing of interventions are critical

30.   Where state institutions are weak, it is likely that donors share the goal of strengthening those institutions, and that attempting to carry out a large number of activities across multiple agencies will lead to failure. Therefore, the number of interventions should be limited in number, prioritized and sequenced to take account of existing institutional capability, as well as to mobilize additional capacity. Focus may be on provision of basic law and order through administrative and policing functions, or may include the

provision of basic services. In this context, a prioritization of the provision of a large number of small projects through fragmented and often expensive delivery mechanisms may be misplaced.

Recommendation 5: Support policy making and aid management in partner government

31.   If it is true that a major constraint to both country ownership and progress on alignment in weak institutional environments is the weakness in management capacity within partner governments, then identification of means to improving this capacity is urgent. The ways in which technical assistance is provided to partners to support the analysis and management of policy and implementation needs to be examined and improved. Approaches to supporting the development of domestic leaders and managers within the public sector generally and aid management specifically need to be developed. The focus required seems to be on providing better incentives, training and twinning opportunities, as well as more effective technical assistance.

Recommendation 6: Monitor progress with alignment and harmonisation

32.   Monitoring of progress with alignment and harmonisation should take place at country level. Donors should consider the range of elements around the policy and budget cycle including their own and their implementing agents' activities. Consideration should be given to mechanisms by which partner governments and civil society can monitor donor behaviour through the creation of mutual accountabilities.

1. INTRODUCTION

33.   This report has been commissioned by the Learning and Advisory Process of the OECD DAC as part of a series of inputs to the Senior Level Forum on Development Effectiveness in Fragile States scheduled for January 2005. This paper first explores the relevance of harmonisation and alignment approaches in the context of difficult partnerships. It then identifies different attributes of difficult partnerships from both the partner and the donor perspectives, and analyses cases of donor engagement in each context. Finally it identifies constraints to alignment and harmonisation, mechanisms for monitoring progress, and proposes a series of lessons and recommendations.

1.1   The fragile states discussion

34.   Over the last months, there has been high level policy focus on the conditions in sets of countries termed "difficult partnerships". While there is still a significant lack of terminological clarity around this area, amongst the range of terminology there appear to be a common set of challenges that have been identified across the group of countries termed "fragile states" or "difficult partnerships".[1] The conditions within this group of issues or countries are increasingly seen as a key global challenge, because of the incidence of extreme poverty and weak institutions, and in many cases instability and conflict. This work uses the DAC language around difficult partnerships under which it was commissioned. [2] These challenges are discussed further in section 3.

35.   This prioritisation has arisen from a number of sources:

- First, the events of September 11th 2001 brought attention to the linkage between global insecurity and the incidence of poverty, social exclusion and weak institutions in particular countries and regions, and the erosion of state institutions and their ability to deliver services to their citizens is now identified as potentially contributing to a security risk.

- Second, it has become clear that in order to meet the Millennium Development Goals in the required timeframe, particular attention must be paid to those living in "fragile states", as it is estimated that about a third of people in absolute poverty live in these contexts[3].

- Third, the trend in recent years has been to provide incentives for good governance through rewarding well-performing countries with further resources. The corollary of this policy - disengaging from poorly performing countries - is however increasingly acknowledged as not being an option.

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[1]   Key differences between these terminologies are focused around objective definitions (specific characteristics of a country) vs. subjective definitions (perceptions/nature of the relationship). For more discussion on this issue see Moreno Torres & Anderson, 2004 and Macrae et al 2004.

[2]   DAC characterizes difficult partnerships as "countries where there is a lack of political commitment and weak capacity to develop and implement pro-poor policies". *Development Cooperation in Difficult Partnerships*, DAC 2002. The World Bank has adopted a categorization "Low Income Countries Under Stress (LICUS). DFID has categorized a similar set of countries as "fragile states".

[3]   "How important are difficult environments to achieving the MDGs?" Poverty Reduction in Working Environments Working Paper 2, DFID 2004

- Finally, the issues of transition between humanitarian actors engaged to prevent or mitigate disaster and the restoration of the state's capabilities are still the subject of debate. Humanitarian modalities are being mobilised to engage in situations beyond the incidence of disasters with implications for the development of institutions in the medium term. As a consequence of this range of factors, the challenges of engaging effectively in countries with often extremely weak institutions, isolationist governments and high incidence of poverty are now central to debates in the security, foreign affairs, development and humanitarian arenas.

Box 1. CIDA on Haiti

'Some favour humanitarian aid as a final resort for the time being. But 'for the time being' implies that we are waiting for something to happen. Would that be for the problems to solve themselves or for them to reach such a pitch that they provoke a final confrontation?. It is no longer a question of waiting for a hypothetical end to the crisis but, rather, of developing a cooperative relationship with a difficult partner.'

Source : CIDA, 2003

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36.   Donors are, for the most part, agreed that there is a need to enhance their engagement with difficult partners rather than withdraw or only channel aid through humanitarian or non-governmental channels (DAC 2003b). The reasons given for wishing to engage are however varied, including international security, prevention of conflict, and meeting the MDGs (see Harmer & Macrae, 2004). Specific recent initiatives include: USAID work on fragile states, DAC LAP on difficult partners, World Bank LICUS, DFID's PRDE team. Others, including in the draft Sachs report, recommend that in some types of difficult partnership, where there is little willingness to put in place good governance, donors should not make significant commitments, and instead channel their aid through NGOs.

Box 2. World Bank and OECD on difficult partnerships, 2002

In 2002 the World Bank and OECD presented a joint assessment[4] of the challenges posed by difficult partnerships and recommended a shared set of principles that included:

- Recognising the risks of disengaging.

- Engaging differently, e.g. by improving analysis of country issues and context, focusing on knowledge more than finance, using grants rather than loans where feasible, intensifying coordination, and emphasising coherence of donor policies.

- Establishing working principles for transition countries emerging from conflict or in the early stages of policy turn-arounds.

- Improving policies, institutions and governance to promote pro-poor change, by playing a catalytic role to build ownership for reform, seeking both short-term pay-offs for "zero-generation" reforms and longer-term transformational impacts, keeping the reform agenda highly focused, strengthening capacity of both government and civil society, improving the environment for the private sector, and supporting peace building activities in conflict-affected areas.

- Maintaining basic social services.

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37.   However, at present, the agenda on difficult partners is still being explored, and the nature and scope of emerging solutions is still unclear. The international community is far from a consensus on the way to proceed in these countries. The DAC notes that key elements of ownership of policy reforms and commitment to poverty reduction are missing, so that a DAC partnership model is not necessarily appropriate. It also notes that the odds of success of traditional conditionality approaches are particularly

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4   Joint Presentation on Working for Development in Difficult Partnerships/LICUS, October 2002.

low (DAC 2001). The emerging approaches to policy and process conditionality are currently under general review within the World Bank; review of the suitability and effectiveness of conditionality in difficult partnerships might require additional focus.

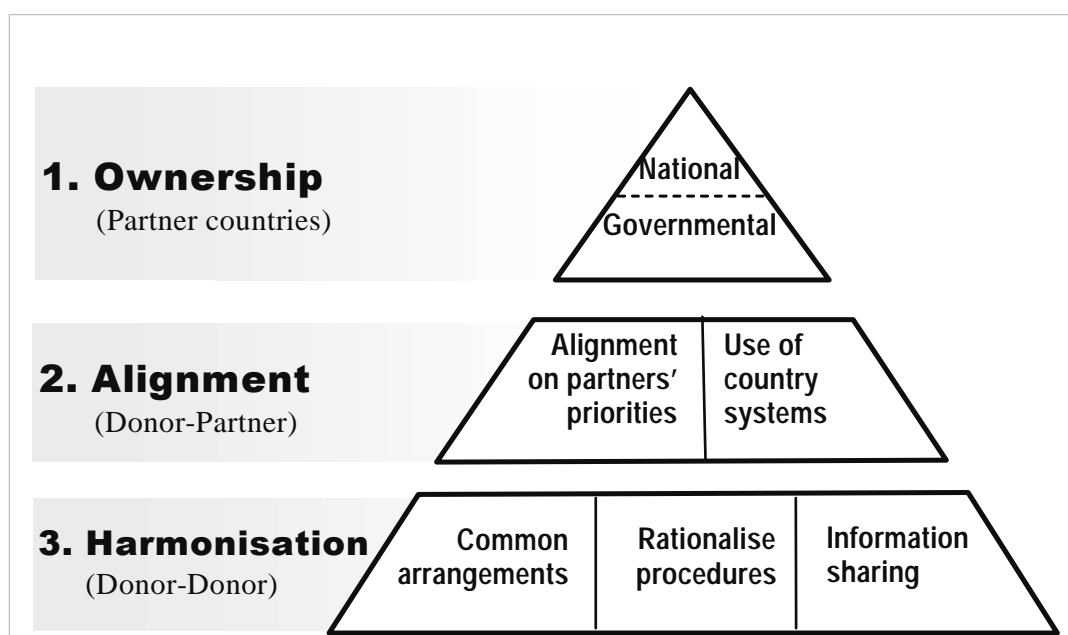## 1.2 The harmonisation and alignment discussion

38. The Rome Declaration, building on the Monterrey Conference, developed a set of principles for donor behaviours in general. [5] The Rome Declaration on Harmonisation and the DAC guidelines for Harmonising Donor Practices for Effective Aid Delivery have provided a baseline of principles, procedures and practices for donor behaviours. The core principles in these documents are respecting partner priorities, supporting partner leadership in development assistance coordination, reducing transaction costs, and improving aid effectiveness through harmonisation and alignment. The intention is that improved harmonisation and alignment will help the overarching goal of enhancing, or at a minimum, not undermining national ownership of policy formulation and implementation.

39. In recent DAC studies, the approaches reflected in the Rome Declaration have been represented in the pyramid reproduced below. Although closely related, alignment (the relationship of donors to their partners) needs to be distinguished from harmonisation (the relationship between donors). Alignment has been defined by DAC as alignment to partners' priorities, and use of that country's systems. Accordingly, alignment refers to a set of practices according to which donor organisations use recipient country strategies, policies and priorities (usually through the budget) as a guide for their own assistance priorities, and in which donor organisations use the recipient's administrative (and other) systems for their aid management.

40. Harmonisation is taken to refer to common arrangements amongst the donor community, rationalised procedures and information sharing between donors. The ultimate objective of harmonisation is an ability to interact more effectively with a partner countries priorities and systems. In this sense aim of donors sharing information, rationalising procedures and developing common arrangements is to 'harmonise to align'. Harmonisation of approaches is related to the goal of greater coherence between and across donor governments, particularly between the political, security, development and humanitarian domains, which are increasingly recognised by the international community as inherently inter-related.

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[5] The Rome Declaration on Harmonisation was issued in Italy on 25 Feb 2003 and built on the International Conference on Financing for Development was held from 18-22 March 2002 in Monterrey, N.L., Mexico.

Figure 1. The Rome Commitment on Harmonisation and AlignmentFigure 1. The Rome Commitment on Harmonisation and Alignment

Adapted from DAC 2004d

41.   This study focuses on harmonisation and alignment issues. In addition the LAP has commissioned a separate study to assess policy coherence of donor country governments between different policy aspects, including security, political and developmental.

42.   The alignment agenda is broader than the debate about choice of aid instruments and general budget support. For example, systems alignment means working to be compatible with existing administrative systems such as the national budget, and working through or with these systems rather in parallel with or contradiction to them. Being aligned as a donor does not necessarily mean putting funds through national systems to be controlled by the authorities, particularly in the short term.

43.   Table 1 presents the range of activities within the policy and implementation process that will be examined in the case studies below. In practice this involves a focus on the planning and resourcing or budget cycle.

Table 1. Stages of the policy and implementation processesTable 1.   Stages of the policy and implementation processes

Donors	*National process*
Policy alignment	Vision and goal setting
	Strategy formulation
	Budget formulation and policy setting
Systems alignment	Financial disbursement channels
	Contracting
	Implementation arrangements
	Monitoring and evaluation
	Reporting

44.   There is a growing recognition that the set of issues around alignment, harmonisation and ownership in difficult partnerships needs to be addressed at the country level. Relevant evidence and initiatives include:

- Continued work on Good Humanitarian Donorship.

- World Bank and IMF policy statements on post-conflict funding.

- Work by the UN, the World Bank work and bilateral donors on the development of Transitional Results Matrices for use in fragile state environments.

- Bilateral donors' post-conflict reconstruction units (UK, US).

45.   It notable that the main focus of most initiatives is on harmonisation (within the donor community) and on policy alignment (aligning donor priorities to the priorities of the authorities). Systems alignment is not a high priority so far, perhaps because it is regarded as less important. Also, these broader initiatives are in the very early stages of being operationalised at country-level. Among country-level actors there is recognition that current aid practices at times undermine development goals, but there is confusion about how to go about implementing this agenda in practice.

46.   The following sections contain first a discussion of the case for harmonisation and alignment in difficult partnerships, then a discussion of a number of case studies of the state of alignment and harmonization in a number of countries. The report then identifies some obstacles to and entry points for better donor behaviour in these contexts, followed by some emerging lessons and a discussion of monitoring mechanisms.

2. THE CASE FOR ALIGNMENT AND HARMONISATION IN DIFFICULT PARTNERSHIPS

47.   It may not be immediately apparent that the alignment and harmonisation agendas are relevant in difficult partnerships. Donors may assume that where a partner country's political will or capability for implementing effective policy is severely lacking, it is best to work around the state as much as possible and substitute for the state by delivering services directly to citizens. There may be an assumption that any costs of working around the state are outweighed by the benefits of providing services directly to a country's citizens.

48.   This work has concluded that the alignment and harmonisation agendas are relevant in difficult partnerships for two reasons. Firstly, these relationships may suffer from the same unintended impacts that make the alignment and harmonisation agenda relevant in other countries, and secondly, difficult partnerships have particular characteristics that may actually make alignment and harmonisation more important.

49.   In brief, the generic agenda develops as follows, but please see the Rome Declaration for more detail.

- Aligning to government systems and policies is a way of building capacity and ownership. Donors work in countries where government institutions are weak to a greater or lesser degree. Donors do not trust weak or dysfunctional official systems or find existing government policies to be incoherent or inadequately prioritized. Typically they choose to work around these, providing their own strategies, policies and programs and building their own parallel project implementation units or other 'state-avoiding' systems. This process is replicated across a large range of donor agencies and their implementing agents, all with separate systems, priorities and approaches.

- An unintended result of this is that the capacity of the state is undermined or does not develop. In addition state legitimacy is corroded or inhibited from developing as it is not the primary vehicle for delivering services to its population. Central government planning and policy processes (such as the national budget) become increasingly irrelevant as line ministries turn directly to different donors for funds rather than to the ministry of finance. This encourages a vicious circle whereby donors avoid these systems even more. This undermines capacity and inhibits the development of the proper functions of a state.

- Additionally, an aid-dependent government becomes accountable to donors for its actions, rather than to its population, while donors are primarily accountable to domestic electorates rather than recipients. There are very real tensions around government's upwards accountability (to donors), competing demands for accountability to different donors and the government's downwards accountability (to the population). These tensions are not easily resolved, but in many aid-dependent countries there is presently a striking imbalance in favour of an (often confusing) array of upwards accountabilities at the expense of downwards accountability. This competition and imbalance leads to a (further) loss of accountability of the government to its people. Aligning to government priorities is, with caveats, one way of promoting downward accountability.

50.   Donors working in difficult partnerships face these unintended consequences just as they do in other relationships. However, there are also particular features of difficult partnerships that further strengthen the case for considering harmonisation and alignment.

51.   First of all, partner governments in "difficult partnerships" often have weaker institutions and governance systems than in many other developing countries. As such, the incentives for donors to work around, rather than with or through, these systems are often much stronger. At the same time, the benefits of focusing limited capacity on real priorities, which may include security and basic services, may be undermined by a proliferation of projects spanning many sectors. This means that the possibility of undermining development goals by diverting much-needed capacity from the already-weak state to a plethora of activities is more pronounced and potentially more disastrous.

52.   Second, some of these governments may be engaged in re-establishing their legitimate relationship to the population following state-failure or other crisis. In particularly fragile states, tensions between upward accountability to donors and downwards accountability to the population may emerge. Donor behaviour that does not respect the priorities of the government has the potential to undermine the nascent 'social contract' between the government and its people. Of course, not all governments or all parts of a government are engaged in building legitimate accountable relationships in this sense. Not legitimating such governments or government actors is a particular challenge in difficult partnerships. Donors need to consider their behaviour carefully in light of each of these imperatives.

53.   Third, besides differences in scale of the international presence and the degree of engagement, there are also likely to be substantial differences in the types of actors present in a difficult partnership. Post-conflict or post-crisis environments attract a particularly wide variety of actors. There are likely to be more types of donor agencies involved, and sometimes more departments of donor agencies. There may be an international military presence. Country authorities are likely to be fragmented, with unclear relationships between different elements of the government or indeed competing authorities (such as 'warlords'). All of these factors mean that the interface between the international actors and the national actors has the potential to be very fragmented and extremely complex.

54.   There are also likely to be humanitarian actors involved to varying degrees, with varying remits and mandates. In relation to the alignment agenda, these actors are likely to be specifically mandated to provide services in lieu of the government. Their aid modalities are state-avoiding, and do not focus on building the capacity of the state. A rapid or sustained influx of aid to humanitarian actors will lead to the creation of an organizational footprint that will draw financial and human resources away from other activities. Although this may be hard to avoid and of limited significance in the short-term, humanitarian modalities are often extended beyond their designed use and remain engaged for the medium-term and thus contribute to the problems outlined above.

55.   All of these factors mean that the harmonisation and alignment agenda is at least as important in difficult partnerships as in other countries, although in different ways. This has been recognised in a number of recent papers. In Carnahan *et al* 2004, the authors explore how alignment and harmonisation issues are important in post-conflict Afghanistan. A conference on 'The Practical Implications of Post-Conflict Peacebuilding for the International Community' (2004) recognised that assistance in these circumstances is rather more supply-driven than necessary, with consequences for government ownership. It is recognised in the DAC that 'lack of co-ordination is especially harmful in environments where resources are scarce and entry points few.' (DAC 2002b).

56.   This is not to say that alignment or harmonisation are solutions to all the wide variety of problems that beset these difficult partnerships. However, it is clear that without some changes in donor behaviour, development actors may undermine their own stated goals. Alignment particularly is better seen as a necessary but not sufficient condition for improved outcomes for their populations and the achievement development goals such as the MDGs.

3. CHARACTERISING DIFFICULT PARTNERSHIPS

57.   The DAC characterises difficult partnerships as those between donors and countries where there is a lack of political commitment *or* weak capacity to develop and implement pro-poor policies on the part of the partner country. In addition, the DAC notes that these countries tend to be prone to political repression, human rights violations, high levels of corruption, and violent conflict. (See *Development Cooperation in Difficult Partnerships*, DAC 2002.)

58.   There emerged two main characteristics of 'difficult partnerships'- the first where a partner country was in or recently emerging from internal or external conflict, and the second where, despite the absence of actual conflict, there exist weak institutions and an inadequate set of governance arrangements.

59.   A key element of the core definition is the recognition that there are two dimensions to consider: political commitment (or willingness) to development and implement pro-poor policies, and capacity to do so. These two dimensions, willingness and capacity, are not unrelated categories and may indeed have the same root cause. Patronage systems in many countries channel resources to the state, while simultaneously ensuring that the state does not have incentives to reduce poverty. Patronage thus supplies capacity whilst weakening political commitment to poverty reduction. However, donors experience lack of willingness and capacity in different ways and these terms do provide a useful way of drawing comparisons across very different environments. Additionally it is useful to consider further the nature of willingness (in particular who is 'willing' and the leverage or traction that they have within domestic politics) and the nature of capacity (in particular the capacity of central administration to make 'stroke of the pen' reforms versus local administrative capacity to implement).

60.   Another distinction arises from the nature of behaviours of a particular donor, or set of donors and international actors. In some circumstances, there will be a multiplicity of donors, political representations and perhaps military and humanitarian actors. In others, there will be a more limited set of actors, and in some circumstances only one significant donor. The nature of the field of donors will have the potential to define the nature of the donor-partner relationship.

61.   From these multiple dimensions and the analysis of a series of case studies, four clusters of experience have emerged.

- The first of these is where the partner provides strong or significant leadership.

- The second is where there is strong leadership provided by a single (or small number) of donors or international actors, in some cases by the temporary assumption of sovereignty of that actor.

- The third cluster is where there is weak leadership provided by the partner country, and a set of donors who are collectively characterized by fragmentation.

- Lastly, a set of country situations exist where policy leadership is absent or of a nature to preclude the formation of a partnership, either because of the existence of a regime considered to be illegitimate, the presence of widespread civil war or war diverting attention and resources to war responses rather than civilian administration, or isolationist regimes which do not want to engage in partnerships. This cluster has been dubbed "the most difficult partnerships".

62.   In seeking to establish a series of clusters, it should be recognised that the political, social, and economic dynamics of each country context will be specific, and cases exhibited characteristics of more

than one cluster. It is recognized that the 'difficult partnerships' terminology bundling of post conflict and weak capacity states with unwilling states seems problematic; for example, Afghanistan shows strong commitment and ability to articulate its framework, and happens to be post-conflict.

63.   There is no agreed list of "difficult partnership" countries, and this paper will not attempt to provide a definitive list of these countries. Those countries considered in this paper are considered difficult partners according to various criteria. Some are considered because they appear on widely accepted lists of crisis, failing, failed, fragile or weak states, and score poorly on World Bank Country Political and Institutional Assessments (see Macrae et al, and Torres & Anderson, both 2004). Others were selected by interviewees within the donor community as examples of difficult partnerships from the perspective of their own organisations. There is no agreed list of difficult partnerships, as in may cases there is a difference of opinion within the donor community as to which partnerships are difficult, and the nature of the partnerships evolves over time.

64.   Given that clusters emerged on the basis of a number of different variables, countries can appear in more than one cluster, but are assigned to one on the basis of the dominant characteristics of any given situation. The countries considered particularly in this paper are:

1.   Strong or significant leadership from partner government

- Afghanistan

- East Timor

- Sudan

2.   Strong leadership from a single donor/ international organisation (which may also have assumed sovereignty)

- Sierra Leone

- Nauru

- Solomon Islands

- Papua New Guinea

3.   Weak leadership/ fragmented donors

- Nepal

- Cambodia

- Tajikistan

- Central African Republic

- Republic of Congo

4.   Most difficult contexts (illegitimacy, ongoing wide spread conflict, isolationism)

- Afghanistan under the Taliban regime

- Myanmar

- Burundi

- North Korea

- Angola

4. EXPERIENCES AND CONSIDERATIONS IN APPLYING/ADAPTING HARMONISATION AND ALIGNMENT

65.   This section examines a series of case studies, within the framework of the four clusters set out above.

4.1   Strong or significant country leadership

66.   A number of examples of cases were found where significant elements of country leadership have emerged. These situations provided a foundation for donors to focus their efforts around a country-led strategy, and set of policies and/or systems. Accordingly, the emphasis that emerged in this cluster is on alignment rather than harmonisation issues. Where credible country leadership does exist harmonisation is less significant. The role of harmonisation in these cases is for donors to coordinate between themselves to minimize transaction costs for the government. To the extent that donors set up parallel, donor-led financing and implementation mechanisms, harmonisation is relevant to minimize the adverse impacts of these parallel systems.

67.   *Afghanistan* emerged as the strongest recent example of country leadership on strategy, policy and systems designed. *East Timor* also demonstrated elements of strong country leadership, although challenged by the fragmentation of authority between the UN (with sovereign control), the World Bank (which administered the trust fund) and the emerging government. *Sudan* presents an immediate challenge, where the aspiration is that a harmonised approach by donors can lead to the emergence of country leadership.

68.   *Afghanistan: providing something to align to from the start.* Afghanistan provides an example of what can be accomplished when there is strong technical leadership from the government to guide donors, both in terms of policy alignment and in terms of systems alignment. Despite political collapse, the government's administrative systems had proved relatively resilient and enduring. (see Evans *et al* 2004).

69.   The transition government in Afghanistan insisted from the outset that it take a leadership role in strategy, policy and systems design. This included both in preparation and consultation on the National Development Framework, leadership of the budget process and design of national programs and projects as the key implementation mechanisms. What is notable about the Afghanistan arrangements is the agreement from an early stage that the government would lead strategy and policy formulation through the budget process and the ensuing degree of coordination and distribution of labour both among donors and within the government. Donors agreed relatively early that they would structure their interactions according to the CG process, and thereby disband a number of parallel coordination groups. UNDP provided support to the government from early in the process to build capacity for aid coordination that has now evolved into the Development Budget and External Relations Unit of the Ministry of Finance. The central focus is now on fully integrating external finance into the national budget and strengthening the implementation mechanism for public expenditure through the national programmes.

70.   A multi-donor trust fund was set up within months of the Bonn Agreement to finance both recurrent costs of government and programmes and projects. Under a World Bank grant, the government contracted with international firms in procurement, financial management and auditing to oversee funds that were submitted through this trust fund. The trust fund has worked effectively to ensure predictability of financing for the recurrent budget (mainly wages of government employees). However, significant resources have continued to flow outside this system, both by a few large donors who prefer to manage their program through contracting implementers directly, and through the UN agencies which organised

appeals directly to donors in parallel with the budget process. As a result, the key national programs of government remained under-resourced.

71.   ***East Timor*** provides an example of strong willingness on the part of the Timorese coupled with attention to alignment issues by the international development community. A relationship was established pre-independence through the 'Friends for Timor' forum. This was followed by a Joint Assessment Mission (JAM) between the World Bank, the UN, and the Timorese (with 50% of the mission composed of Timorese representatives). The JAM led to the creation of a prioritised set of policies with costings attached, which were then funded through the Trust Fund for East Timor. A local group (the CNRT or Timorese National Resistance Council, a relatively representative quasi-political body) conducted further exercises to prioritise these policies, to which donors then responded. Thus, donors aligned their assistance with a country-led policy framework.

72.   Systems alignment in East Timor has followed a similar pattern to that in Afghanistan. The Trust Fund accounts for around 40% of aid, which was initially ring fenced and 'on-budget' aid rather than 'through budget'.[6] Over time, the Trust Fund and the associated policy framework has become a general budget support framework for around a dozen donors. The Transitional Results Matrix was developed in East Timor to guide immediate post-conflict priorities; it continued to be used by the government and donors to monitor performance, and to inform budget decisions.

Box 3. East Timor: Lessons Learned

A World Bank working paper written in 2002, "The East Timor Reconstruction Program: Successes, Problems, Tradeoffs," identified the following lessons for financial mobilisation and donor coordination:

- Financial mobilisation works best when donors are presented with a comprehensive needs assessment that addresses the overlap of humanitarian assistance and reconstruction financing and establishes a link between recurrent and development expenditures. Joint presentation of humanitarian and development/reconstruction needs maximises resources – there is no crowding out effect.

- Involving donors in planning and active joint monitoring of progress (through the JAM, the six monthly meetings, the benchmarks and joint sector missions, in the case of East Timor) is an effective way to encourage strong engagement and timely realization of pledges.

- Complex sources of aid financing are particularly difficult to manage and prioritise transparently in a post-conflict situation of low capacity. This could be at least partly addressed through efforts to simplify, in particular through rationalising the budgetary processes, together with specific investment in capacity-building of government officials and popular communication of programs on aid.

- A coordinated set of reconstruction benchmarks across political, institutional, economic and social fields, together with frequent donor meetings, is a useful mechanism to focus efforts and maintain momentum.

- Trust funds can leverage coordination even when they channel less than half the available reconstruction funds, but require specific coordination efforts (such as joint donor missions) to achieve this impact.

- The budget provides the best anchor for Government-led aid coordination. Specific capacity-building efforts need to be made early in the process to develop a budget that can function as the coordinating tool for a multiplicity of actors, where all donors dialogue with the government, in a timeframe consistent with the budgetary cycle, on the prioritization of resources.

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[6]   "Off-budget" projects are those where donors provide no information to the national budget system about the project. Government are thus unable to take this project into account in their own budgeting procedures. "On-budget" projects, on the other hand, are those where the donor provides relevant information to the Ministry of Finance about the project, and does so in terms that are compatible with the national budget. These should both be differentiated from projects whose resources are controlled by the MoF and where resources are allocated through the budget (these might be called "through-budget" projects).

73.   However, in the early stages the complexity of funding sources meant that more effective systems alignment proved very difficult. While much was achieved, at a political level different budget committees dealt with different types of funds and there was a general lack of cohesion in the system. The lack of coordination common amongst humanitarian agencies became a pressing problem and attempts to develop a working budget system were fraught with difficulties.

Box 4. Budgeting in East Timor

"An immediate challenge was to develop a budget for the 2000–01 fiscal year, a process that lasted from March through June 2000 and that was hampered by lack of accurate information, shortage of qualified Timorese and international personnel, and confusion concerning the mandates of the international institutions involved…   In particular, the rules surrounding what different sources of funding from trust funds could and could not be spent on, and the differing mental models of a number of participants added to the challenge. A further complexity was the inexperience in budgeting, financial planning, and management of a significant majority of the international staff placed in the UNTAET administration."

Source : Carnahan et al, 2004

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74.   ***Sudan:*** *a possibility for country leadership?* In Sudan there is a current and very real attempt to apply the DAC principles to a most difficult partner situation. The forum for these attempts has been Intergovernmental Authority on Development and International Partners (IGAD) which includes both the government and rebel groups (the Parties), as well as international participants from political, humanitarian and economic organisations. The emphasis of the approach so far has been on policy rather than systems alignment through the Joint Assessment Mission (JAM) process being undertaken by the UN and World Bank together with the Parties. This should be the basis for alignment and harmonisation around a Poverty Eradication Strategy for Sudan that will be supported by donors following the signing of a comprehensive Peace Agreement.

Box 5. Sudanese proposed ground rules for donors' harmonising to align include:

Donor behaviour is recognised as especially important in light of the special challenges of sustaining the peace in Sudan, particularly the ethnic and historical complexities, the asymmetrical governance structure, high levels of poverty and limited capacity to handle international assistance. The rules proposed include:

- Building on the JAM process to develop effective policy dialogue between the Parties and development partners, based on a shared vision for development and poverty eradication. Developing operational fora for donor coordination that are led by the Parties.

- Joint donor offices and joint donor operations in the south as well as the north.

- Lead donor-arrangements and effective division of labour among partners, for example through thresholds for donor participation in the various sectors; and

- Utilizing the mechanisms and indicators emerging out of the JAM and Poverty Eradication Strategy to monitor performance.

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75.   However, some key opportunities remain to ensure that effective systems as well as policy alignment takes place. Firstly, donor decision-making processes must allow for the appropriate degree of government ownership and decision-making, through a budget process that is not rendered meaningless through pre-emptive programming decisions. Secondly, the Multi Donor Trust Fund rules for disbursement will need to be aligned behind selective programmes, rather than a myriad of projects, and behind the budget process. Thirdly, the parallel financing of a number of smaller projects that do not allow for transparency or systematic allocation of financing should be avoided.

76.   From these examples, some general lessons emerged:

- The earlier a country-led, unified strategy can emerge, the better, to prevent fragmentation; the earlier donors can back a country-led strategy, policies and systems, the earlier these can develop.

- Where country leadership has emerged, a confrontational approach with some international actors was often required to ensure that the space existed for domestic processes to be organised. This seems to suggest a need for safeguards in place to ensure that multiple donors do not rush to fill the 'strategy vacuum', but rather work to create an enabling environment.

- There is large variation between donors as to the likelihood that they will support the emergence of country leadership. Some donors' internal policies and incentives are such that "business as usual" applies, and they will still prepare parallel bilateral strategies, policies and systems without reference to the country systems. Given range of response, it requires courage on the part of donors to be a first mover to back the country's strategy, and the role of the MDBs and IFIs in validating a country strategy can here be critical.

- The ability of actors to agree on a single strategic framework, a single budgeting process, and streamlined financing channels for aid are a critical determinant of success for the partnership.

4.2   Strong donor leadership

77.   An interesting and unexpected cluster of experience emerged around examples of countries where a strong lead donor has taken on the task of re-building the state. This is the case is Sierra Leone (UK), a number of the Pacific Islands such as Nauru, and the Solomon Islands (Australia). These relationships are also not typically development relationships only: in *Sierra Leone* there was strong military engagement by the UK, while in *Nauru* the Australian immigration authorities were heavily engaged.

78.   In these cases, the lead donor is providing such dominant input that there are no enduring concerns around harmonisation of the donors in general. There is also *de facto* alignment between the lead or strongest donor and the country systems, and often with some degree of fusing of donor and country systems. However, there are concerns around the sustainability of such an approach and the possible impacts of this approach on the level of ownership by the national authorities.

79.   In these cases, the donor may well choose to provide general budget support through the existing national budget system as the most effectively way of prevent collapse, providing space for the system to become viable again, and maintaining whatever there is of existing service delivery. In this sense, they are aligned with the national budget system. This happened in *Nauru*, the *Solomon Islands* and in *Sierra Leone*.

80.   However, the donor will typically overhaul the existing policies and systems of the state to a large degree. Australia's approach in Solomon Islands and Papua New Guinea, for instance, relies heavily on 'in-line personnel', where technical personnel are placed in senior positions to serve as national civil servants. These individuals have the authority to make significant decisions, thus the level and nature of reform of government systems and policies is often highly dependent on their individual judgements. In *Nauru*, for instance (a small country once wealthy due to phosphate deposits but rendered bankrupt when the deposits ran out), the pre-existing health system consisted of flying individuals (and their families) to Australia for treatment. When AusAID placed in-line personnel in the health ministry, entirely new sector policy and systems were designed and introduced.

81.   It is worth noting that the pattern of strong donor leadership was followed to a certain extent in East Timor owing to the position of the UN mission vis a vis the national authorities. The fact that East

Timor was a UN Transitional Authority for a period meant that UN staff took over key political positions. However, the UN decided that these individuals would not represent government in international meetings, and they became more like high-ranking civil servants.

82.   In the **Solomon Islands**, AusAID conducted an assessment and found that existing administrative systems had broken down or were inappropriate. After some attempts to work with these systems, the donor eventually created new systems. This was characterised by one interviewee as 'reverse alignment'. However, government policy had been strongly in favour of investment in the productive sectors (rather than social sectors) and the Australians aligned their aid with this prioritisation.

83.   In the **Pacific Islands** more generally there have been a number of cases where a small number of donors have worked to 'harmonise to align'. While this is not exactly the same as the situation in countries where there is a single lead donor, the end result is similar when the donors work very closely together. AusAID and NZAID are coordinating in a series of activities, such as 'tripartite programming' with Samoa, common administrative arrangements for scholarship management and joint funding for small projects. In September 2004, the Cook Islands signed an agreement for a joint New Zealand and Australian aid program. Under this agreement, NZAID will manage the day-to-day operations of the combined program and the three governments will meet regularly to set strategic directions.

84.   In **Papua New Guinea** the joint program of activities that have been agreed between AusAID, the Asian Development Bank, and World Bank that includes a joint public expenditure review and rationalization initiative with PNG government ownership, joint performance monitoring and reporting, and regular six monthly consultation meetings. NZAID is also a coordinating donor in a health SWAP in partnership with AusAID, UN agencies and the PNG government.

4.3   Weak/fragile country leadership and fragmented donors

85.   In this cluster of country experiences, there are a range of different scenarios. These range from cases where there are small number of strong but competing donors, to larger numbers of poorly organised donors; and cases where partner governments range from those attempting to put in place strategies, policies and systems and lead the donors to an alignment agenda, to those national authorities which are not engaged in such attempts. In this group of countries, two major questions emerge. The first question is the extent to which donors are able to align behind a country's strategic and policy framework, and/or to align behind its systems, even in partial or rudimentary form. A corollary to this is whether donors can do more to facilitate the space for country leadership to emerge. The second question is the extent to which, in the absence of possibilities for alignment, harmonisation between donors can be useful.

86.   Some countries, including Nepal, Cambodia, Tajikistan, Central African Republic, Liberia and Democratic Republic of Congo, are seeing some engagement in the alignment and harmonisation agenda, mainly in terms of policy alignment. In these cases, policy frameworks are emerging that provide at least the beginnings of a framework for donors to work with. Systems alignment is much weaker but there are attempts to make some progress in this area. In these cases, both the number of donors and the complexity of the donor community, and the factionalised nature of the government, can be obstacles to greater alignment. The interface between the donors and the government is highly fragmented.

87.   In **Nepal**, the government has a PRS, an MTEF, and a PRSC, and in addition has just created a Harmonisation Action Plan (HAP), which also addresses elements of alignment and enjoys considerable ownership. However, there are a large number of donors in Nepal who are still concerned with being able to attribute specific development outcomes to their own particular activities and spend. This means that they are reluctant to act in ways which reduce their own visibility, such as allowing their priorities to be

defined by the authorities. A group of like-minded donors supports the HAP but there are considerable numbers who are unlikely to fall in with it unless the government asserts itself.

88.   In *Cambodia*, there have been historical problems with alignment and harmonisation that have led to challenging situations today. In 2000 (early in the PRSP initiative) the World Bank decided to press for a separate PRS process in addition to the existing (constitutionally mandated) national development plan, which was supported by the Asian Development Bank. This has led to two separate policy tracks with separate sectoral implementation and monitoring systems. Although this situation is being addressed, donors have struggled to know which policy or system to align to. More recently, a mission from the UN Millennium Project arrived to look at how to meet the MDGs in Cambodia. Just as the two previously parallel approaches were being drawn together, this mission produced another 'long-list' of priorities. Much frustration seems to have resulted from this new additional process which was seen to be undermining the fragile consensus that had been built amongst donors and which was adding complexity to an already convoluted relationship between donors and the administration. Nevertheless, donors have recently signed the 'Cambodia Declaration', modelled on the Rome Declaration, and a comprehensive National Action Plan for Harmonisation and Alignment was endorsed at the recent Consultative Group meeting.

89.   Harmonisation of the complex donor community in Nepal is proving to be an important precursor to alignment. Those sectors that have received relatively well-harmonised assistance from the donor community (education, for instance) are now emerging as sectors where plans are sufficiently strong to enable donors to align their assistance accordingly. In other sectors there are differences of views between donors which have proved to be an obstacle to alignment (governance, in particular). (see *Case Study for Module 4 of the Joint Donor Staff PRSP Training; Vietnam, September 2003; Donor Coordination, Alignment of Assistance and Harmonisation of Policies and Procedures; The Cambodian Case).*

Box 6. Systems alignment in Cambodia

    "A significant proportion of aid does not go through the central budget process because of the practice by donors of direct funding to project implementers (with salary supplements to staff in the project implementation units). This results in a proliferation of different procurement, disbursement, auditing, and monitoring procedures and in inadequate government ownership. This practice also impairs the government's ability for resource allocation and financial planning."

Source : Case Study for Module 4 of the Joint Donor Staff PRSP Training; Vietnam, September 2003; Donor Coordination, Alignment of Assistance and Harmonisation of Policies and Procedures; The Cambodian Case

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90.   One of the reasons why the alignment agenda is moving slowly in Nepal and Cambodia is the long history of projectised aid that provides perverse incentives to the various government agencies through which it is channelled. Government agents do not have incentives to promote alignment, in part because projectised and fragmented aid allows individuals more (and more valuable) opportunities for power and also corruption. These historical patterns are very hard to reverse despite other more favourable conditions for alignment such as some government leadership and functioning (though multiple) administrative systems.

91.   In *Tajikistan*, there is also evidence of the alignment agenda slowly taking root. In 2001 the government created the Tajik Aid Coordination Unit (TACU) in the office of the President. The CG meeting was held in Tajikistan itself for the first time in 2003 and donors agreed to strengthen aid coordination and harmonisation (see ADB 2003). DFID has developed a framework for donor cooperation. Also, the Joint Staff Assessment of the 2003 PRS Annual Progress Report (APR) says that donors have slowly aligned their assistance and coordinated their efforts, and notes that the World Bank and ADB jointly conducted their Country Portfolio Performance Review in 2004.

92.   However, policy alignment is not strong in Tajikistan. This is at least in part because government priorities and donor priorities are different. A paper on PRS in LICUS (Thornton and Cox 2004) notes that the government wishes to prioritise infrastructure development while the donor community wishes to prioritise social spending. The situation is made more complicated by the possibility of eventual accession to the European Union (with attendant policy implications for candidate countries), and the presence of some large donors who are not party to the Rome Declaration (Russia, India, Saudi Arabia, the Kuwait Fund, and China).

93.   There are again signs that systems alignment is extremely weak. The 2003 PRS Progress Report notes that donors operate on various budget cycles, scales and durations of projects, with varying accountability and control rules. The TACU director states, "Quite often these agencies install fragmented programs which may not be fully integrated to GFT policies." (UN OCHA 2002) He also notes that the NGOs which are used to channel aid are often reluctant to inform government of progress on their projects. There are also disbursement problems – he explains that donors had disbursed only 54% of commitments for 2001/2002 (see www.irinnews.org).

94.   In *Central African Republic*, Liberia and Congo the amount of leadership national authorities are providing in seems to be a degree weaker. In CAR and Liberia, the model being followed is of a UN and World Bank Joint Assessment Mission that provides the basis for a 'Transitional Results Framework'. These pre-PRS transitional implementation matrices aim to provide a road map for the government and donors to begin to address high priority issues in the short and medium-term, as well as providing a coordination and monitoring tool.

95.   The challenges in taking the harmonisation and alignment agenda forward in the absence of any real country leadership are illustrated by the experience to date in the *Democratic Republic of Congo*. The alignment and harmonisation agenda has been hampered by low levels of government ownership and engagement in the political dialogue with donors and the absence of any integrated framework that links a vision of economic and social development strategy to the political and security transition framework. The harmonisation agenda has thus been predominant and with a focus on information exchange in bi-annual consultative group meetings and sector and thematic group level coordination activities. The recent donor workshop identified a number of actions that could be taken to put in place a more comprehensive harmonisation approach for DR Congo that included:

- Developing a simple planning tool to integrate political, security and development initiatives, (similar to the results transition framework being adopted in other countries).

- Integrating regional and national level initiatives by organizing a multi-country meeting focused on coordinating cross-border policies and activities, harmonising agendas and timetables for consultative group meetings in the region, and exploring the option of establishing regional offices for coordinated cross-country programming.

- Reducing the number of missions and using joint missions and information sharing to meet donor needs, such as sector assessments and shared analysis.

- Improving coordination practices by bringing outside experts from LAP to help local donors learn about practices in other countries, seeking synergies with the good humanitarian donor-ship initiative, and building on existing good practices of joint supervision and operations in the regional Multi-Country Demobilisation and Re-integration Program.

- Increasing government ownership through expanded participation in substantive donor meetings

96.   A significant gap which remains in this approach is evident in helping to catalyze governments to develop sensible aid management approaches and find mechanisms to move towards systems alignment.

4.4   The most difficult partnerships

97.   The fourth cluster includes a variety of contexts:

- those countries where the regime is highly illegitimate and not recognised diplomatically by a number of members of the international community (such as *Taliban Afghanistan*)

- those countries which are isolationist, where donors do not consider themselves able to align behind a country's policies, including Myanmar,

- those countries where there is on-going wide-spread conflict and instability where focus is on immediate stability rather than development of medium or long-term policy such as in Burundi.

98.   In these cases, there is little or no movement towards either policy or systems alignment but harmonisation by donors on both their diplomatic engagement and their aid programming is important. Here harmonisation between donors at a minimum can introduce economies of scale in activities, and lead to greater learning and sharing of information between donors so as to be able to engage more to influence government and develop interventions more effectively once conditions allow. In these environments developing coherent and clear messages to the partner governments is extremely important. This harmonisation is important both between different international actors and between the political and the aid community.

99.   ***Myanmar: Donor Disharmony and Incoherence.*** The general experience of Myanmar (Burma) is a contrast to the partner-led model of cooperation for poverty reduction embodied in the Rome Declaration, and underscores the importance of harmonised coherence among donors in engaging most difficult partnerships. For more than a decade the donor community has struggled with engagement strategy for Myanmar. While there is broad consensus backed by UN resolutions about the need for political reconciliation between the military authorities and National League for Democracy and improvements in human rights conditions, poverty is widespread and social conditions are deteriorating. The last World Bank led consultative group meeting was in 1988, and regular Article IV Consultations with the IMF have produced no meaningful policy dialogue or reforms in macroeconomic management since the mid 1990's. Since 1998 a series of meetings of concerned countries and multilateral organisations have been held without the participation of Myanmar authorities to seek a coordinated strategy of working through the UN Special Envoy to link progress in political reconciliation and human rights with willingness of the donors to expand humanitarian and development assistance.

100.   The lack of trust and good will between the donors and government is extreme and the linkage between political and economic engagement has produced no significant progress on the political agenda, while social conditions continue to deteriorate. Donor disharmony over engagement policy in practice is one factor contributing to this impasse. Policies run the whole spectrum from strong economic sanctions from the United States, to weaker sanctions from Europe, to "constructive engagement" by most of ASEAN, to significant if limited programs of bilateral assistance on the part of neighbouring Thailand and China and also Japan for bilateral reasons. Altogether, donor disharmony has sent mixed signals to the government, probably stiffening their resistance to cooperative dialogue. The Bangkok Process is an alternative approach that has been promoted by Thailand that aims to foster cooperative dialogue by inviting the government to participate and excluding the countries most critical of engagement. This has not yielded positive results on national reconciliation either, and has resulted in increased divisiveness among the donors and reluctance of the Myanmar authorities to participate.

101.   The entry points identified to date by the donor community have been the IMF Article IV Consultation with participation from World Bank and Asian Development Bank as a form of minimum engagement. Joint missions are seen as important both because they permit the development banks to maintain a minimum level of engagement and understanding of economic and social conditions, and because they represent opportunities to build trust in the neutrality and objectivity of the International Financial Institutions in keeping with their mandates, so that there is a basis to build a cooperative relationship and assistance program when political developments permit.

102.   *North Korea:* Another interesting entry point for a highly isolationist government was identified in the Korea Peninsula Energy Development Organisation (KEDO) as a way of engaging with the Democratic Peoples Republic of Korea. KEDO was created in 1995 to provide heavy fuel oil to DPRK and to construct two light water nuclear reactors; this was a means to implement a political agreement for containing North Korean nuclear weapons development under the Agreed Framework negotiated between the United States and North Korea. Twelve countries and the European Union are members of KEDO and coordinate mobilisation of funds and policies for delivery of 500,000 tons of fuel oil and implementation of the light water reactor (LWR) project. KEDO is a political organisation carrying out an economic mandate. It has negotiated protocols for implementation of its mandate and has developed cooperative working relations with the North Korean authorities.

103.   KEDO was created and run by foreign affairs specialists, not development assistance specialists. There are serious questions about the technical aspects of the design of the LWR project, its economic justification, and future operational viability, reflecting the reality that it was understood all along by the parties that this was political project. But in its operations, ironically, KEDO has applied Rome principles much more successfully than is generally appreciated. While the KEDO oil shipments have been halted and the LWR project suspended as a result of the on-going nuclear crisis on the Korean peninsula that is being addressed through the Six Party Talks process, KEDO experience in fact demonstrates many of the harmonisation and alignment agenda in an extreme case of difficult partnership. There is ownership on the part of the government. There is a high degree of information sharing among donors. There is a well-established mechanism for donor coordination in both policy and funds mobilization. There is a pooled financing mechanism. And there is a single monitoring and accountability framework. While the political rationale for KEDO has been overtaken by events, and its future may be short-lived, KEDO's practical experiences are worth studying by the development community. With appropriate adjustments to its mandate and membership, KEDO might even have a place in a future multilateral engagement framework for reconstruction of the North Korean economy, if the Six Party Talks succeed in reaching an agreement that will resolve the nuclear crisis.

104.   *Angola:* Whilst not isolationist in the same way, the fact that the Angolan government is resource-rich and thus not aid dependent means that its level of engagement with the donor community is rather limited. The government has attempted to write an I-PRSP but has failed to provide the three-year macroeconomic framework that is necessary for IMF assistance, and has provided "no material evidence of a commitment to poverty reduction" (Evans, 2003). Donors find it difficult to align to this policy statement and the Angolan government has not actively sought to secure their buy-in or provide systems for donors to align to.

105.   In *Burundi*, which is aid-dependent and is hosting several humanitarian actors at present, a Financial Tracking System was instituted in order to track humanitarian aid flows under the Consolidated Appeal Process. Although the FTS is not strictly a government system to which donors could align, it provides a good example of the kinds of systems that donors institute in the absence of government leadership and yet continue to find it difficult to align to. A study for the Good Humanitarian Donorship Pilot found that funding is inadequately reported to the FTS, making it impossible to analyse funding flows with any degree of credibility. The report also flags that the different fiscal years of the various agencies

involved will also affect the reporting of contributions, and notes that there are considerable funds flowing into the country outside the UN's CAP (Bijojote and Bugnion 2004). This does raise question around the relationship between the CAPS, the FTS and the national budget system. A lesson from Burundi is that systems for alignment and harmonisation amongst the donor community require ongoing efforts from donor agencies, and are not in themselves magic bullets.

Box 7. Togo: Joint Framework for International Aid

"Under the LICUS initiative, donors will aim at enhancing the effectiveness of their assistance programs through closer cooperation and coordination…(The strategy) would enable donors to plan their re-engagement processes within an integrated framework, taking account of the countries priorities in the short to medium terms. Eventually, upon satisfactory progress towards the normalization of Togo's relations with its major partners, a joint multi-donor assessment mission would be organized followed by an informal donor meeting….The EU and bilateral donors will take the lead on the political dialogue and related activities on democratization and human rights…The Bank, UNDP and others will lead assistance as appropriate, focusing on governance and civil society engagement, on the basis of their mandates and relative comparative advantages…"

Source : World Bank and UNDP Country Re-engagement Note, August 2004

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5. OBSTACLES AND ENTRY POINTS TO HARMONISATION AND ALIGNMENT IN DIFFICULT PARTNERSHIPS

106.   This section draws together the obstacles to alignment and harmonisation that have emerged from the country experiences. First it turns to **policy alignment** issues and the harmonisation challenges faced in these. The second section looks at **systems alignment** and the concurrent harmonisation issues. The last two sections draw of the specific challenges associated with humanitarian modalities and the serious tensions around alignment and legitimising authorities that donors do not want to legitimise in anyway.

5.1   Policy alignment

107.   The most fundamental obstacle for donors to policy alignment is the perceived absence of policies around which donors can align. In a minority of extreme cases, the authorities may not provide any policies for donors to engage with, whether because of conflict or other reasons. As has been seen, one approach has been for the lead donor to take over the task of "state-building", although there are concerns about the sustainability of this approach and the impact on national ownership.

108.   If this approach is not taken, donors will face the question of how to support countries in developing appropriate policies for them to align to but without stifling the potential for national ownership. In some cases, patience and self restraint seem to be the main requirement, as in East Timor. In this case, some sectoral ministries invested time in developing and agreeing policy internally, which took some time and slowed their ability to deliver services in the short term. However, these ministries are now producing better policy frameworks that donors are find it easier to align to.

109.   However, it is important to note that even in countries where there has been extreme disruption to political and administrative systems, policy frameworks may in fact exist or can be created if the space is given for country leadership to emerge. Post-conflict societies may have strong leaders with clear visions of the country's future, as in Afghanistan, although there may be severe weaknesses in policy development. **Donors should not assume that there are no policies or policy making capacity in place at all, just as they should not assume that the existence of a policy document is evidence of a working policy process**. It is extremely important for donors to be clear about the realities of the environment, and to attempt to make realistic assessments about working through or engaging with (rather than ignoring) existing policy frameworks, and not attempting to crowd out or rush the pace of strategy and policy formulation.

110.   A very real obstacle to policy alignment may in fact be the existence of multiple policy frameworks, as in Cambodia. The stark lack of harmonisation was demonstrated by the development of the PRS in addition to the SEDP, resulting in two different national-level policy statements with associated implementation and monitoring systems. The unclear relationship between these policies has been a key obstacle to alignment. In Cambodia, donors and government are now working to reconcile these frameworks. East Timor provides another example, where some donors chose to align their aid around the policy priorities espoused by a particular group, the CNRT. Another obstacle is those countries where the territory is effectively divided amongst political and administrative systems that bear little relationship to one another such as in Sudan. Donors here face politically sensitive choices in choosing which policies or policy processes to align with or harmonise around.

111.   One key question that donors consider when making choices about policy alignment is the level of political commitment to implement those policies. "Lack of political commitment" or "willingness" is a

vague concept for the most part and the terms are used quite loosely by agencies. **It is important to recognise that the lack of political commitment that is perceived in Cambodia or Tajikistan is of a different sort and on a different scale than that perceived in Myanmar.** Some agencies prefer to identify the authority's lack of legitimacy as the key element in more problematic cases (USAID). This raises some interesting questions around the relative focuses between internal legitimacy (which can be seen as the link between government ownership and a wider sense of ownership within the country as a whole) and external legitimacy (which is perhaps more about the relationship between the national government and external actors).

112.   Willingness is seen to be more important than capacity in many respects. In some cases, this is because donors are prepared to provide capacity themselves, as in the Solomon Islands and Nauru. In these cases, the high willingness of the recipient governments to engage was what enabled the Australians to take this approach.

113.   Interviewees were of the opinion that donor agencies have the tools to deal with low capacity, but are less able to operate in low willingness environments. Where willingness is seen to be lacking, agencies tend to move towards state-avoiding activities which are less likely to promote alignment. There is recognition that willingness can be extremely narrow or shallow, consisting of perhaps just one or two individuals in a ministry that wish to engage with a pro-poor reform agenda. However, even this minimal level of willingness can be enough to provide donors with an entry point. It can also be enough to spur some agencies on to align with national policies to some degree, although not necessarily. In the absence of this minimal demonstration of willingness, policy alignment is very unlikely to happen, and therefore systems alignment is even less likely.

114.   Donors are aware that although this minimal level of willingness provides an entry point for dialogue, it does not provide the kind of political traction that can ensure policy implementation. This is particularly true in environments where there are highly fragmented systems or a lack of territorial integrity. It is also the case in countries such as Afghanistan, where key counterparts may lose posts in elections or cabinet reshuffles depending on the political situation. Donors are beginning to engage in analysis that can assist them in understanding these dynamics better, through work such as the World Bank's Expected Utility Stakeholder Model or DFID's Drivers of Change work.

115.   Another question that donors ask themselves in making decisions about policy alignment is the content of those policies. There may be differences in opinion between the donor community and the authorities as the appropriate way forward. The example of Tajikistan has already been noted, where the government prioritises infrastructure development while donors wish to prioritise social sectors (see Thornton and Cox 2004). Another example is Ethiopia, where the PRSP included the Agriculture-Led Development Industrialisation programme that had previously been a source of contention with donors. A more general change in the relationship between donors and the authorities meant that debates around the ALDI became less of a fundamental stumbling block in dialogue, and allowed some policy alignment to take place.

116.   It is clear that prior assumptions about willingness by donors, and the level of trust between the donors and the authorities, will play a role in these cases. Differences in opinion can lead to a relatively technical dialogue about what is actually best for poverty reduction, especially if donors are prepared to recognise that their own policy preferences may be open to debate. Alternatively, the difference in opinion can be taken as a signal that the government is not really committed to poverty reduction. The degree of trust and prior assumptions about willingness will partially determine the nature of the dialogue and how the difference in opinion is interpreted by the donor community.

117.   It has emerged as important that donors respond to weak or absent policy frameworks in a coordinated and harmonised way, especially where there are many donors and no single lead donor. If there is genuinely no government policy to align to, an uncoordinated response on the part of the donor community can complicate the situation and fragment the government more than is necessary. Government actors may receive different signals from different donors, and will have difficulty prioritising their actions (e.g. Cambodia). It is here that a coherent political and development policy position across the donor community that encourages the partner government to craft an appropriate strategy and policy development process may have value.

118.   There are other well-known obstacles to coordinated and harmonised donor action. The DAC notes that: "Differing objectives tend to lie at the heart of lack of co-ordination. These different objectives can arise from three sources: differing analysis; differing remits; or differing domestic pressures." (DAC 2001) For instance, in countries where the international security concerns of the developed world are being played out, the international politics of developed countries can be a real hurdle to coordination on the ground. Also, "development partners tend to divide according to their own interests in the context of difficult partnerships" (CIDA 2003).

5.2   Systems alignment

119.   Systems alignment means working to be compatible with national systems, and working with or through these systems rather than around them or in conflict with them. Central to the development of state systems is the budget cycle. Public finance systems provide the technical, and more importantly, the political linkage between policy making, prioritisation, resources allocation and national accountability processes.[7] Both policy and particularly systems alignment issues focus on the main elements and timing of national budget processes or on the development of them.

120.   It is clear that donors often perceive that policy alignment to be a necessary condition for systems alignment. In the absence of a policy framework that donors can align to, there is very little consideration of systems alignment issues. However, this assumption was also increasingly recognised as debatable by interviewees. **It is possible for donors to make progress towards systems alignment even in the absence of policy alignment.** For instance, donors can announce their commitments at a time relevant to the national budget cycle, even if their priorities are different to the national priorities. Equally, donors can provide data formatted in terms of national budget years, even while there are debates around what policy priorities should be. Although lack of policy alignment is perceived to be an obstacle to systems alignment, it is not an absolute barrier.

121.   A further perceived obstacle to systems alignment is the extreme weakness or indeed lack of key administrative systems. It seems that donors may sometimes assume that systems are absent when this may not in fact be the case. A 'Guide to Government in Afghanistan' (Evans *et al* 2004) notes that despite political collapse, the administrative arrangements of the country proved to be fairly resilient and basically sound. It notes that in such an environment "reform proposals that cut across existing, well-entrenched and well-understood procedures present serious risks of confusion and parallel structures." (p xvii). In the case of the Solomon Islands, donors conducted a multi-donor economic governance evaluation mission to assess the state of administrative systems. Donors found that the systems were broken down or inappropriate, but agencies made this judgement based on an informed assessment rather than assuming systems were absent or weak.

122.   One hurdle is again that of multiple systems. Even in environments that are not considered difficult, the authorities may present several budgeting systems, several policy frameworks with associated

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7   For more on the role of budget processes see ' Why Budget Matter' ODI Briefing Paper, May 2004 (ODI 2004c)

implementation and monitoring systems, or sector systems that do not fit with central systems. The unclear relationship between these different processes is an obstacle to systems alignment at the best of times, but continued dialogue with the authorities may provide some clarity.

123.   Extremely fragmented and dysfunctional systems are common in difficult partnerships. In Angola, for example, a national budget was approved in late 2002, which "by March 2003 had already become obsolete in terms of its exchange rate and inflationary assumptions." A revised 2003 budget was approved by parliament in July 2003, and consolidated budgetary and extra-budgetary operations (IMF 2004). Although this budget system appears to be quite dysfunctional, it does exist. If donors tend to avoid working with this system at all, it is likely to become even further undermined.

124.   In all these cases, donors could be aiming to work in a way that is simply *compatible with* government systems, rather than trying to work through them. This might be called 'shadow systems alignment', and would allow for greater actually alignment as and when it becomes possible.

125.   It is worth noting that donors have difficulty aligning even when there are administrative systems that are not multiple or fragmented. SPA (2004) finds that alignment in the countries surveyed has "a long way to go", although countries surveyed were mostly relatively 'good performers', and the donors surveyed were those providing general budget support.

126.   Thus it is not surprising that donors do not align even to the relatively strong systems of a particular difficult partner. An example is the opportunity for donors to provide their support "on-budget", even if they cannot allocate funds "through-budget". As one interviewee stated, a "multiplicity of off-budget projects is the norm" in these environments. For instance, donors continue to fail to provide information to the government in terms of the national budget year even in Afghanistan where there is strong leadership from the government in this respect. No donors have synchronised their support with the national budget cycle in Cambodia. The World Health Organisation organised health service delivery in Cambodia along a per capita basis that ignored administrative boundaries. Although this may have been technically sensible at the time, the commune system is now beginning to become more active and this incompatibility is creating serious problems around policy implementation and political accountability. It is very rare for donors to provide information to any Ministry of Finance in terms that are compatible with budget categories. In these cases, obstacles to systems alignment are likely to be requirements within donor agencies or a lack of concerted effort to address the issue.

127.   A forthcoming study on 'Incentives for Harmonisation in Aid Agencies' (ODI 2004b) notes a number of factors that affect how agencies respond to the alignment and harmonisation agenda. Donor country domestic political pressures are important, with some politicians very concerned with visibility, and civil society and private sector generally opposed to moves which might undermine their funding. The attitude and depth of commitment of senior management is crucial for bringing about concrete moves towards alignment, as are the existence of clear policy guidelines and flexible operating procedures. Organisational features like decentralisation, relationships between country and sector staff, and the availability of staff who are specifically focused on harmonisation issues, are also important. Disbursement targets tend to provide negative incentives for harmonisation and alignment.

128.   The study goes on to note that few agencies are currently promoting a shift towards the internal skills necessary for harmonisation and alignment. This was borne out by this review – one interviewee noted that the capacity of their own agency is relatively weak when it comes to handling harmonisation and even more so with alignment issues. Where staff members are predominantly expected to manage projects, for instance, policy dialogue or inter-donor dialogue can be difficult and unproductive. The *Incentives* study notes that formal standards for promotion are not usually linked to harmonisation or alignment achievements.

129.	Donors vary in their ability to meet the requests of governments for more predictable aid. There are donors who would be unable to meet a recipient's request for longer term commitments (such as commitments over three years) under their existing legal systems, while there are others who make good attempts to be more predictable in some environments. With difficult partners, the question of predictability becomes more problematic. Donors tend to argue that the predictability of funding in part depends on the recipient's ability to meet commitments; in volatile environments or in circumstances where the ability to implement commitments is very low due to lack of territorial control, for instance, donors are likely to try to avoid longer term funding.

130.	Finally, there is the issue of the opportunity cost of coordination activities for donor agencies – resources spent coordinating with other agencies and with government are not spent on other things, things that are more tangible and consequently might be considered more worthwhile. This is especially important when staff are engaged in coordination and alignment efforts that are felt to be unproductive, for instance when the terms of reference for a working group are not clearly defined or overlap with that of another group, or when a group meets more often than is necessary.

## 5.3	Humanitarian actors

131.	A striking feature of many of those countries that are characterised as difficult partnerships is the presence of multiple humanitarian relief agencies and actors. Interviewees from the development sectors were generally of the opinion that the presence of these actors provides a serious obstacle to both policy and systems alignment.

132.	In part, the problems introduced by humanitarian actors arise from the sheer numbers of players involved. As noted in *para 53*, a large number of players creates a complex interaction between the authorities and the international community, thus making both harmonisation and alignment more difficult. There are initiatives to address the problems of harmonisation and coordination, such as the CAP and UNDAF, as well as the Good Humanitarian Donorship agenda.

133.	There are some examples where a wide range of players have worked together effectively. Afghanistan (during the Taliban regime) is a relatively good example of donor agencies instituting strong systems in the absence of government leadership. The Strategic Framework for Afghanistan was developed with substantial negotiations between the UN agencies and other donors, and linked the UN agencies and aid strategies of the major donors (the Afghanistan Support Group) into a single framework. However, at the level of implementation, a number of different actors with parallel management systems persisted.

134.	There are also examples where otherwise good progress on harmonisation and alignment was undermined by the actions of the humanitarian community. In East Timor, for instance, development agencies (including the UN) had spent considerable time fostering ownership amongst the Timorese, and had worked to align donor priorities with the priorities established by the Timorese. The Consolidated Appeal Process of the humanitarian agencies was initiated without concern for national ownership and without concern for work that had already been done through the Joint Assessment Mission. Interviewees felt that this was one example of a growing and potentially destructive tension within the international community. Similarly, interviewees felt that in the Afghanistan case, the two CAPs competed with and undermined the budget process, and drove the creation of parallel implementation systems across the country to implement a range of small projects that were not even-handed in their system of resource allocation.

135.	There are also some hurdles to effective harmonisation amongst the range of players involved, although these are not explored in detail here. There are concerns that fundraising requirements for NGOs and bodies like the UN foster competition rather than cooperation, even at the country level. There is an

urgent need to find a mechanism to satisfy the requirements of the UN agencies to raise financing for their operations in a way that does not undermine the need for alignment around a country's strategy. This is especially true where the partner leadership may be unwilling to endorse projects and programs managed directly by the UN at costs the partner considers prohibitively high.

136.   However, the main reason why humanitarian actors affect the alignment agenda is their remit. Humanitarian agencies (both the UN and other implementing agencies such as NGOs) provide state-avoiding services to populations. Humanitarian actors are committed to the principles of impartiality, which is supported by practices of neutrality and independence, which limit the degree to which they can engage with political bodies in the countries they work in. They are not concerned with capacity building, and typically do not concern themselves with questions of how their aid practices may be undermining the governments of the countries they act in.

137.   This paper is not arguing that pure humanitarian intervention is in anyway inappropriate. State-avoiding interventions are at times necessary. Indeed, **short-term interventions that are state-avoiding are unlikely to have the kinds of adverse impacts that justify attention to alignment in other circumstances. However, difficulties arise when these practices are no longer short-term and become entrenched during the transition out of the crisis.**

138.   There are well documented difficulties with transitioning between the two fundamental streams of humanitarian aid and development aid. There are difficulties with the fact that many agencies continue to provide humanitarian aid after the 'crisis' has passed, using modalities that are not necessarily suited to development goals and using agencies that are not good at building capacity. State-avoiding aid remains active longer than it should, and continues to fund activities outside of the government systems and priorities.

139.   In Afghanistan, for instance, the Interim Administration began in January 2002 with a clear national vision and moved quickly to establish systems and policies with which the international community could align (thus facilitating state-supporting approaches to aid). Under a World Bank emergency grant, the government hired international procurement, financial management and audit agents to administer funds for its key programs under the trust fund, quickly creating an accountable system. However, in the first years, international resources for service delivery were primarily channelled through the UN and NGOs rather than through the government, with the exception of a small group of like-minded donors including UK, Netherlands, Denmark and Norway. Although the government was providing the necessary framework for state-supporting aid, the international community was unable to quickly make the transition from state-avoiding activities. Given that neither the agencies nor the government had the capacity to administer large amounts of aid at the start of the process, the donors collectively chose to create organisational systems in the agencies and NGOs rather than the government, which further undermined management capacity in government as key staff were drawn into high-paying agency and NGO jobs, and created a large amount of infrastructure (clinics, schools, hospitals) that were not linked to the ministries of health or education and thus remain unstaffed.

140.   There are long-running debates about the best ways to transition from humanitarian aid to development aid. At present, the existence of an either/or switch is not always helpful. In countries that are currently receiving development aid but are at risk of conflict or worsening conflict, there are difficult decisions to be made which are exacerbated by the existence of an either/or switch between humanitarian and development assistance. In Nepal, for instance, if the conflict escalates, donors may withdraw aid completely or switch their development aid to humanitarian modalities. This would have impacts on harmonisation and alignment, and may undo gains that have been made so far.

141.   Several important actors are blurring their mandates, in part to address this problem (and in part to access funding). The World Bank is legally prevented from working in emergencies, but has developed an approach based on transitional safety nets to allow them to move closer to that terrain. UNDP has established the Crisis Bureau. In addition, bilateral donors are creating post-conflict reconstruction units. In post-conflict situations, it is likely that a number of international players will have diplomatic as well as in some cases, military presence, and will pursue their national interests bilaterally. The military has become another major player in the provision of small-scale services and infrastructure in Afghanistan- through the Provincial Reconstruction Team model- and in Iraq. Regardless of this debate, it is clear that actors engaged in the transition out of humanitarian aid must engage with the alignment agenda to a greater degree to avoid undermining the very goals they seek.

5.4   Humanitarian actors

142.   Another obstacle to alignment is the very real concern amongst donor agencies that to align their policies with the policies or systems of a partner may serve to legitimise a recipient that should not be treated as legitimate. Such concerns are evident in the relationship with Myanmar, and also played a part in decisions around engagement in Nauru. There were related concerns amongst some parts of the donor community when the IFIs decided to re-engage in the DRC on the strength of an I-PRSP developed by a few key reformers, before the Inter-Congolese Dialogue had reached resolution (see Evans 2003). It is worth noting that the Article of Agreement for the IFIs prevent them making explicit use of political criteria in their decision to engage.

143.   There are no easy answers to this problem. However, once donors *do* decide to engage in a country, whether through state-avoiding means (such as humanitarian aid) or state-supporting means, the question of alignment does arise. Policy alignment may indeed be impossible, if the position of the authorities is completely at odds with the position of the international community, but, if so, there remains an unraised question around systems alignment.

144.   There may be (tacit) concerns that to use the systems of partners such as these would also be legitimising in some way. At this point, it is important to distinguish arguments about alignment from the issue of the choice of aid instruments. **It is clear that general budget support is perceived to have a legitimising effect, as does indeed any support that essentially hands control of the money to the authorities. However, it may be worth exploring a middle way whereby donors make their systems *compatible* with government systems without in fact relinquishing control of their finances** – 'shadow systems alignment'. This might mean putting projects 'on-budget', rather than 'through-budget'. In this case, the authorities would be informed of resource flows as part of their national budget process, but control of the resources would remain with the donor agency. To take a different sort of example, it might mean that NGOs work with the local administration boundaries already established by the state, rather than working across these boundaries.

145.   Additionally, decisions to align aid systems to state systems need not mean that large amounts of resources flow through these channels. Large quantities of aid can have a legitimising effect, but flows can be kept small until donors feel the time is right to increase them. The key point is that the structures should be compatible with state systems; then when larger amounts of resources do flow, they will not provide perverse incentives to the authorities or undermine state structures.

6. EMERGING APPROACHES AND LESSONS

146.   A number of tools and approaches have been used in recent years to attempt to improve harmonization and alignment on strategy and policies. The issues and range of tools available are summarised in Table 2. While a significant amount of anecdotal evidence is available on the strengths and weaknesses of these approaches, there has as yet been no systematic evaluation of the potential of different tools in difficult partnerships. This appears to be a priority for further work.

6.1   Diagnostic exercises

147.   One of the most important ways in which donors can improve alignment is to improve their understanding of the official policies and systems to which they might eventually align or need to rebuild. **It is not helpful to assume that there is nothing there, as this is rarely true, even in the most extreme cases of collapse such as Somalia.** Donor agencies should ensure that they have a through and detailed understanding of the following:

- Systems and mechanisms for policy and planning at central level

- Key operative policies both centrally and in important sectors

- The implementation and monitoring systems associated with these policies

- Administrative layers and boundaries

- The budget systems and how they are related to one another.

148.   One of the key blocks to donor coordination in difficult partnerships is differing assessments of the existing institutional environment (DAC 2001). Therefore, in order to move forward with alignment, **this diagnostic exercise should be carried out jointly between actors, or by one agency on behalf of several.** Good examples include the 'Guide to Government in Afghanistan' (primarily funded by the European Commission, with additional support from Switzerland and Sweden, the United Nations Assistance Mission in Afghanistan (UNAMA), and the World Bank) and the Multi-Donor Economic Governance Mission to the Solomon Islands (including Australia, New Zealand, and the Pacific Islands Forum).

149.   There are some existing tools on which donors can build in ensuring their understanding of the territory. For instance, the Joint Staff Assessment of the PRSP (and APR) assesses one policy framework in relevant countries (Angola, Nigeria, Cambodia, Nepal, and Tajikistan). In addition, the IMF PRSP/PRGF Evaluation recommends that the JSA should report the views of third parties on the PRS, thus providing other donors with an opportunity to influence the agenda as well. The World Bank routinely carries out a number of relevant country studies that could inform practice. Work by DFID on Drivers of Change is potentially useful in these situations.

150.   The World Bank notes that a Joint Assessment Mission (JAM) is a good way to initiate development of a common country strategy. A JAM groups national leadership and technical counterparts and donors in teams responsible for drafting a strategy, thus drawing together the relevant players in one conversation about priorities. Common needs assessments (jointly between donors and preferably led by government and incorporated into budgeting processes) may be a useful tool. Common Appeals Processes

(CAP) organized by the UN system may be useful, although care should be taken to ensure that they do not substitute for emerging national policy and interact adequately with the NGO community.

151.   **In general, common assessments are a potentially powerful tool for facilitating harmonisation and thus also alignment**. Donor information requirements range across a wide variety of areas, including the political scene, the humanitarian situation, assessments of needs, and others. An example of donors agreeing to carry out joint assessments is the World Bank/UNDP/UNDG initiative on Multilateral Needs Assessments; a joint World Bank/ UNDG Guide has now been produced. The Joint Assessment Mission at the first stage of building a Transitional Results Framework is another potential area for collaboration.

152.   The move towards common assessments can be a difficult step for some donors to take. In Nigeria, USAID used World Bank/DFID assessment tools after the regime change, but this was a very significant internal shift in USAID that took a lot of effort. USAID felt that this effort was unrewarded because of the lack of visible change in the development performance of the country. However it is important to bear in mind that such changes in donor practice are only ever a necessary rather than sufficient condition for meeting broader development goals.

6.2   Policy alignment

153.   The established means of determining and coordinating policy is of course the **budget**. However, the budget can only function as an effective strategy and policy coordination tool where it reflects all public expenditure, and in many cases external flows of assistance are not captured in the budget process sufficiently to make it a comprehensive tool. Where a government takes the lead in preparing its own strategies, policies and budget process in such a way as to engender trust with the donor community, the nature of the process will be established by government without the need for external instruments. The CDF approach and more recently the PRSP and I-PRSP processes provide frameworks for such approaches. There is no obvious reason why PRS processes should not be undertaken in difficult partnership contexts, and given their increasing prevalence the substitution of other tools may be a case of reinventing the wheel.

154.   Where there is strong policy leadership provided by the country authorities, and where donors are comfortable about working with the authorities, donors are provided with policies around which they can align. There may be disagreements about the content of some of the policy, but these may be resolved through ongoing discussion with the authorities. Failing to work with the existing policy framework is likely to lead to the unintended consequences.

155.   Where there is little leadership by the government or where there are many donors of relatively equal strength, the harmonisation of the donor community is the most important mechanism for improving policy alignment. The entry points for this are likely to be quite context-specific and may build upon existing donor meeting of some kind, whether a **Consultative Group** or a more informal network, although these may not include humanitarian agencies or NGOs. In Cambodia, the World Bank is currently proposing a new Working Group on Poverty Monitoring, Assessment and Policy to address concerns with duplicative and sometimes competing donor initiatives in this area. Membership will include the RGC as well as donor agencies. Similarly, the Reform and Development Group in Nepal will probably be a forum for addressing alignment issues. It is important that these groups operate with a clear mandate and expectations, to avoid frustrations and poor use of resources.

156.   Given that the central tool of policy coordination and strategy development should be the budget, yet some actors do not align themselves to the budget process, the question remains as to whether other

tools might be useful. Some additional tools include the Structured Process for the Harmonization of Development Assistance developed by NATO planners in Afghanistan, and the use of donor compacts.

157.   Other tools being developed to assist with the development of policy-making capacity include **Transitional Results Frameworks** (TRF) and corresponding Matrices (TRM) which were developed in East Timor, and have been used in Liberia, Haiti and the Central African public and are underway in Sudan.   The TRF is matrix of priority actions and outcomes that is negotiated between the donor community and the authorities.   In particular, the TRF is envisaged as a way to operationalise PRS principles in fragile states, aiming to be a simple operational tool which also includes a focus on political and security issues which PRSs have tended to omit.   There are also lower expectations around public participation is such processes. For donors, the TRF can theoretically act as a basic framework for donor engagement to prioritise and harmonise assistance. Questions that will need to be determined are whether the TRF should function as a precursor or in parallel to the PRS process; the relationship of a TRF to domestic policy processes which might already be in place; and the relative roles of the World Bank, UN and international security actors as counterparts to such a process, given their relative mandates and the proposed scope of the tool. TRMs have also been used as a donor-government compact in Timor-Leste where the transitional support program includes donor commitments to provide technical assistance and finance, which are monitored alongside government-led actions.

158.   The central factor seems to be less the imposition of any particular tool, and more the commitment by donors to a set of principles, including to coordinate around a single strategic process to ensure policy coherence across different domains. More work needs to be done on the effectiveness of any particular tool.

Box 8. Transitional results framework in Liberia

In August 2003, Liberia signed a Comprehensive Peace Agreement. Three months later, a joint needs assessment mission took place led by the United Nations Development Group and the World Bank. With participation from the transitional government, an innovative framework was produced, setting out the transition to stability.

The framework addresses security, diplomacy, and development aspects, acknowledging that progress has to be made in all areas. Expected results were defined for every six months during the transition. Contributions by donors and the transitional government to achieving these results were laid out clearly.

In this post-conflict environment, where needs are urgent and widespread, and capacity very low, the framework is the government's tool for prioritising and sequencing actions. It is also, importantly, supposed to serve as a means of communicating with the public and managing expectations.

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159.   **Multilateral Donor Trust Funds**, often administered by the World Bank (such as those in East Timor and Afghanistan) or by the UN, can be a useful mechanism to catalyze alignment and harmonisation behind a single set of agreed policies and priorities. If managed effectively they can allow the government to fund its priority needs, as reflected in its budget, such as payment of salaries or provision of basic services. If the right rules are established then MDTFs can also provide the most effective basis for aligning with government systems to ensure predictability in the flow of funds; they can ensure that donors cannot cherry-pick their favourite projects leaving some essential ones un-financed; and they can provide an additional layer of accountability through dedicated financial management, procurement and/or auditing. However, some large donors have been unwilling to contribute to such funds, citing slowness of disbursement, or lack of ability to show earmarking to their domestic constituencies as key reasons for their unwillingness. A key challenge here if trust funds are to be used in future is to design ways to allow donors to receive publicity and credit amongst their domestic populations while their funds are not allocated to specific, tangible projects.

160.   One practice that has been emphasised in the literature and in interviews is the creation of the role of **lead donor** in particular sectors. Interviewees felt that a strong leader from the international

community has been able to act as a catalyst in over coming some of the collective action problems associated with harmonisation and establishing priorities within the donor community. The lead donor can also take an important role in facilitating the relationship between the wider donor community and the authorities. In addition such lead donors can also channel information between the authorities and the donor community, thus reducing transactions costs to a certain degree, as well as reducing the possibility that the government will receive conflicting messages. It is important to remember, however, that reliance on a lead donor means that if this donor does not do their job well, there can be serious implications for the development prospects of the country. The existence of lead donors may crowd out emerging policy leadership from the partner country, and may lead to the import of differing systems from the lead donor's country resulting in a mixture of financial management and organisational practices across the bureaucracy. In Afghanistan, where the security sector was divided between 5 lead nations, this fragmentation of systems has occurred to some extent.

161.   Where the government cannot provide leadership (say in the immediate aftermath of conflict), it is crucial that the donor community speak does not speak with multiple and contradictory voices about priorities. The Strategic Framework for Afghanistan and the UN Special Mission to Afghanistan is a good example of a harmonised donor community speaking with one voice. Multilateral Donor Trust Funds administered by the World Bank on behalf of a group of donors are also an important mechanism for harmonisation.

162.   Where there are concerns about legitimising a government and thus reluctance about being seen to align to any degree with official priorities, the donor community again needs to ascertain within itself the priorities for dialogue and action. Mechanisms for this are likely to take place at the international level rather than in-country, but are likely to be quite context-specific. Here, entry points may be provided through sector and thematic groupings that allow trust to be established between donor and government actors and build towards mutual understanding and joint work.

163.   It may be possible to extend policy dialogue to include civil society as well as national governments, as was the case in East Timor before independence. In this way, donors are working towards a broader conception of national ownership, rather than the narrower conception of government ownership.

164.   In countries where there is no government leadership and one donor provides a strong lead, the question of harmonisation is less important. Also, depending on the policies of the donor, the question of alignment may be less pressing if they essentially take over the operations of the state (see Section 4.2).

6.3   Shadow systems alignment

165.   This analysis stresses that all forms of aid can be compatible with state systems to some degree in difficult partnerships. There are valid reasons for persisting with state-avoiding methods of aid delivery and service provision in many difficult cases, but this need not mean that state structures are ignored.

166.   It may be helpful to think of this idea as 'shadow systems alignment'. This implies organising aid delivery in such a way as to be compatible with existing or future state structures rather than duplicating or undermining them. It does not mean that state-avoiding aid should become state-supporting aid. It also does not imply anything about the amount of resources that should flow through any particular modality. Finally, it does not imply that the recipients should control the resources. It does, however, imply that the eventual (long-term) aim of aid is that the government should be providing services and acting for poverty reduction, and that donors should establish systems that do not thwart this goal.

Box 9. Shadow systems alignment

Such an approach might be useful in situations where there is a:

- Lack of, competing or multiple systems

- Concerns about legitimising a particular government or authority

- Serious concerns about the intentions of the authorities towards their own population

- A significant and prolonged humanitarian presence

If there is nothing to 'align to', interventions need to be 'shadow' aligned. This approach needs to start with assessing the available formal and informal policies and systems. (There is invariably more available than is first assumed). These can then be built on, adapted and reformed, which is more effective than designing and introducing entirely new policies and systems, particularly in low capacity environments.

Shadow systems alignment is a state-avoiding approach but one that is 'future-proof'. It does not give an authority or government control over resources, but does use structures, institutions or systems which are parallel but compatible with existing or potential organisation of the state. It aims to avoid creating a diversionary institutional legacy that can undermine or impede the development of a more accountable and legitimate future relationship between the people and their governments.

The key to shadow 'systems' alignment is to ensure system compatibility. The design of external interventions is made based on the parallel but consistent or compatible organisational structures and operational procedures. A central element of this is about providing information in a compatible format (e.g. budget years and classifications). Additional operational practice may include using the same or at least compatible:

- Administrative layers or boundaries

- Planning and budgeting cycles

- Budget classifications

- Accounting, procurement and audit systems

- Monitoring and evaluation systems

- Staffing structures and hierarchies

In practice alignment is a question of degree. Shadow 'systems' alignment is a way of overcoming the negative effects of 'non-alignment' but is not dependent of policy alignment or handing control over resources to the authorities.

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167.   In southern Sudan it is undoubtedly the case that NGOs will be the main service delivers for a number of years. However, this does not mean that they cannot supply these services in a way that is compatible with provincial and district boundaries and use the same budget cycle and accounting system as government. This 'future-proofing' of aid delivery means the systems that are established for aid delivery do not inadvertently undermine the systems of the state. It also means that service delivery can be more easily handed over the authorities in due course when this is felt to be appropriate.

168.   There is a question of timeliness and opportunity cost – to understand what systems already exist takes some resources, which some actors may not feel is time well spent in an emergency. However, given that even emergency humanitarian aid structures tend to become somewhat entrenched in these countries, it would appear that some time spent planning how to make these systems more compatible with the systems not only of other donors but the systems of the recipient would be time well spent.

169.   In some cases, the establishment of a select number of programmatic implementation mechanisms on a nation-wide basis ("national programmes") may be appropriate, for example as labour-creation or community block grant schemes. These can generate considerable economies of scale in terms

of focusing capacity on a small number of programme management teams which can deliver across the nation, rather than a large number of project management teams which can diffuse limited capacity.

170. There are a number of caveats to the systems alignment agenda. There are difficult choices to be made in some countries, where there may be contested power or fragmented control of territory, and thus fragmented policy statements and systems. There can also be divergent policies in place even in relatively unfragmented countries. Donors must therefore either support the reconciliation of these systems or make sensitive choices about which ones they will support.

171. The success of such 'shadow systems alignment' will also depend on the flexibility of such interventions to evolve and adapted. Post-conflict and crisis environments are likely to be rapidly changing, what is appropriate at one stage may rapidly become less appropriate. The four pillars of the interim civilian administration in Kosovo could be considered an example of this. While it was initially appropriate, it is now an obstacle to moving forwards. Another example discussed was the Community Driven Development intervention, the Community Empowerment Project, designed by the World Bank in East Timor. This was initially well integrated with local government administration systems. However, it has failed to adapt with the changes of government and abolition of different tiers of administration.

172. This analysis does not answer the question of whether any level of support is legitimising of a government. Instead, it assumes that **if support is at all valid in these circumstances, it should be delivered in such a way as to be compatible with the medium- to long-term ambition of handing over to national authorities**. There seems to be no particular reason why such an approach cannot be undertaken in a way that does not support and foster 'unwillingness' in a regime.

6.4 Harmonization and coherence

173. Where alignment is not possible or desirable, and even where alignment takes place, harmonization between donors is critical. In all cases of difficult partnerships where a number of donors are active, harmonisation remains relevant to create synergies and economies of scale (for example through joint donor assessments and missions); to reduce transaction costs (for example through harmonising the type and number of reports required by donors and the procurement and financial management rules where bilateral projects and programs continue); and to enhance the impact of dialogue and incentives (through ensuring the most effective combination of conditionalities and dialogue). **An area which has not yet been adequately explored in recent work is the optimal assignment of donors to sectors, with a view to avoiding fragmentation of a single donor across multiple sectors, yet also avoiding the emergence of "orphan" sectors where too few or no donors are active**.

174. Where alignment is not possible or desirable in a difficult partnership, harmonization becomes particularly important. Given the weak institutional environment, there is additional imperative to simplify and reduce the administrative burden brought by donor projects and programs. Local coordination mechanisms and decentralized decision making authorities may be useful in these contexts.

175. Further, a harmonized approach between donor governments that is coherent across domains and that forms the basis for improved dialogue with the partner government can be essential. Where donors are not coherent, it can be that security sector reforms undermine administrative reform or the reverse, or that different donor governments interact at cross-purposes with an already fragmented regime, exacerbating existing tensions or conflicts. Here, finding mechanisms, through donor and other fora, to bring all actors to a coherent approach is the major challenge.

176. A commitment to coherence seems to be the most important lesson, which will in turn lead to agreement on the most appropriate way to organise the actors around a strategic planning process in a

particular context. The approaches to ensuring coherence will vary according to context and the nature of the presence of actors and the limitations on their engagement in different types of sectors. For example, the World Bank is constrained in terms of its involvement in political or security issues. Some initiatives are emerging to ensure coherence within governments through creating teams that bring together security, political and development actors in some donor governments; there is an open question as to how these initiatives will interplay with the efforts made through multi-lateral institutions to bring coherence across governments. Other initiatives include the use of military planning capabilities, such as utilised in Afghanistan to prepare a "Structured Process for the Harmonization of Development Assistance". More work will be needed to assess the appropriateness of different tools to different contexts.

6.5   Selectivity and sequencing

177.   A key lesson where there is weak capacity is to focus on a limited number of tasks rather than try to spread limited human, financial and institutional capital over a range of tasks simultaneously. A useful exercise can be to map the goals of intervention over a period of a number of years, and select and sequence activities accordingly. For example, it may be that the restoration of law and order is a requirement for other activities to start, and so the formation and training of a police force is one of the most urgent priorities; in turn, the organisation of a police force will require at least a rudimentary public finance system in order to ensure reliable salary payments. Mapping the critical path of key interventions with collaboration of key donors and the partner where appropriate, can be a useful tool to ensure appropriate selectivity and focus.

178.   In this context, it may be that the recent emphasis on QIPs (Quick Implementation Projects) in the aftermath of conflict and/or a peace agreement may be misleading. Surveys in Afghanistan showed that the population attached far higher priority to the restoration of an accountable civil service, customs collection and payments system, and the commencement of large, multi-year infrastructure projects, than to the provision of a myriad of small projects which they considered cost-ineffective. In such cases, it might be far more important to organize and implement an effective public information campaign explaining the budget and timeline for investment than to organize projects to start immediately with inevitable high costs.

179.   Where donors are providing policy leadership, the existence of several strong donors can be particularly unhelpful resulting in direct competition between their objectives and interventions. These differing policy priorities can be difficult to navigate and implement for a government with extremely limited capacity. To strengthen the possibilities for ownership, it is important that donors reach agreement ideally behind government leadership, but otherwise amongst themselves, in order to selective about their priorities and interventions. The importance of selective donor action in the absence of government leadership has been established in several fora, and the principle of prioritisation is well-understood and accepted. The DAC, for instance, notes that working in difficult partners requires that aid is coordinated behind a "limited, realistic set of objectives", and reinforcing priorities through concerted efforts (DAC 2002b).

180.   However, there are currently very different conceptions about what donor-led prioritisation means in practice. USAID, for instance, has quite general notions of what it means to prioritise activities in a country, stating that their priorities are: "1. Political, 2. Security; 3. Economic 4. Social." In East Timor, on the other hand, the TRM (developed between the UN, the World Bank, and the Timorese) prioritised specific actions, rather than sectors.

181.   The World Bank's LICUS agenda stresses the need for 'zero-generation reforms' that meet four criteria:

- Be selective - focus on only one or two reform goals

- Generate modest but visible results in the short-term to help build momentum for future reform

- Avoid areas which generate political or social tensions

- Be realistic in term of implementation capacity

182.   Their examples of zero-generation reforms include the case of Somalia, where the World Bank, UNDP, and FAO have launched a joint project for the certification of livestock for export in Somalia. Transitional Results Matrices may also provide a means of prioritising reforms, although care must be taken that these do not crowd out or substitute for country-owned strategies developing. These issues are linked to selectivity and sequencing of priorities which are discussed further below.

7. MONITORING MECHANISMS

183.   It is important that monitoring of progress towards harmonisation and alignment in difficult partnerships should happen at country level. It is possible that an inter-country survey of donor behaviour in difficult partnerships would be useful (following in the footsteps of the SPA/DAC survey on harmonisation and alignment), but it is more likely that monitoring on an individual country basis would be more useful at this stage. This is because monitoring information must feed into country level processes and relationships to make bring about change, and direct feedback is likely to be most useful in the early stages.

184.   In countries where government is not providing a lead on these issues, it may be that monitoring progress on alignment requires some minimal degree of harmonisation before it can be effective and feed back into relationships. Harmonisation within the donor community is at a very early stage in some countries and donors may not have strong networks to discuss issues of alignment (for instance, in Angola, where there is no CG). In this case the donor community may wish to track progress with harmonisation as a first stage.

185.   The Good Humanitarian Donorship Pilot in the DRC suggests a few indicators for tracking progress with the GHD agenda:

- conducting and using a joint needs assessment

- reducing earmarking

- PRS/UNDAF and CHAPs should inform one another (and especially general country analysis),

- all partners (including government) should participate in drafting a humanitarian strategy and implement accordingly

186.   In most of the countries considered here there is some minimal level of harmonisation and an inter-donor forum in which to discuss issues of further harmonising to align and alignment itself. In these cases, there are a number of possible options. In some countries, such as Cambodia, it may be possible to follow the Tanzanian model where an Independent Monitoring Group tracks the relationship between donors and the GoT. The JSA of the PRS and related documents is also an opportunity for considering alignment issues (see the Cambodia JSA of the APR, 2004 and the Tajikistan JSA of the APR, 2003). Equally, it may be possible for a single donor to press ahead with alignment, in which case they may wish to monitor progress with alignment as suggested below.

187.   It would be useful to have an exercise in which donors themselves consider the current state of alignment. An initial approach could be for donors (individually or more helpfully in groups) to reflect on the following elements of alignment and suggest realistic ways forward within their donor groups. These need to be considered whether or not the national authorities make explicit demands for such approaches.

- The extent to which donors reviewed and appraised the current state of authorities policies and systems and the extent to which donors have explicitly used such reviews as the as the basis of their country strategy.

- The extent to which donor strategies are linked to the recipient's official policy statements, goals and targets, and the extent to which the activities proposed by government are in fact funded by donors.

- The extent of joint analytical work between donors and with national governments and authorities.

- The extent to which donors disburse funds in line with their commitments and according to the recipient's budget cycle.

- The extent to which donors provide complete and timely information on forecasts and actual expenditures (whether or not the authorities demand this).

- The extent to which donors are able to provide information in terms of the recipient's budget year and in terms of the recipient's budget classifications.

- The extent to which aid is delivered in line with existing administrative boundaries (including local government boundaries).

- The extent to which donors are contracting implementing agencies and NGOs to work in line with national planning and budget cycles, and administrative systems.

- In the absence of a government that is considered sufficiently representative or where there are concerns around broader national ownership, the extent to which donor programming attempts to enhance national ownership of policy, and the extent to which such approaches reinforce rather than undermine national systems.

188.   This discussion should cover not only official development aid, but also humanitarian aid and aid delivered through non-governmental organisations. At present, donor groups may not always include all relevant parties. In Nepal, for instance, the National Action Plan for Harmonisation indicates that the representation of NGOs and other key stakeholders on coordination mechanisms is weak or non-existent.

189.   Partner countries may find it useful to develop between themselves, and perhaps civil society organisations, a means of monitoring donor behaviours against Rome Commitments. If a standard template could be developed, and a number of countries used it to monitor donor compliance, then a useful feedback mechanism for donors could be provided.

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Table 2. Summary of harmonisation and alignment issues around the policy and budget cycle in difficult partnerships Table 2. Summary of harmonisation and alignment issues around the policy and budget cycle in difficult partnerships

	Stage of policy process	Alignment	Harmonisation	Current tools
Policy alignment	Needs assessment (in post-conflict situations)	If a post-conflict situation, the Government may lead a needs assessment.	If there is no or no legitimate government, donors may conduct a joint needs assessment to meet urgent needs.	Joint needs assessment
	Vision/ goals setting	Donors align to Government's vision of the future of their country	Donors set interim goals for activities in the country; if there is no legitimate government, these should be limited.	CDF type framework (e.g. National Development Framework)
	Strategy formulation	Donors align to Government's strategy formulation process (whether PRS or PRS-like instrument)	If the facilitation of a process by which a Government puts forward a strategy/ policy is not possible, donors may agree on one between themselves.	PRS, MDG plan, (or national equivalent)
	Budgeting and policy setting	The Government forms a budget and donors align their funding to its priorities, through its systems.	If there is no legitimate government, and there is a crisis requiring an emergency response, donors and agencies may jointly issue an appeal, limited to meeting urgent needs, to bridge the time until the government is able to resume service delivery and allocate resources through the budget.	Budget CAP
Systems alignment	Financing	Financing capital and recurrent costs flows through the budget and treasury systems; donors pool their financing through these systems, with extra layers of accountability through special accounts, Trust Funds where necessary.	If there is no legitimate government, or inadequate government systems such that budget support is not possible, the following financing systems can be considered: 1. Trust Funds to fund programs/ recurrent costs. 2. Pooled financing of programs and projects.	Budget support/ PRS support, Trust Funds, delegated funds, program support, project financing.
	Contracting	Contracting of programs and projects takes place through government procurement agents.	Donors harmonize their requirements to the governments' system, and share a capacity building approach to strengthen the government's contracting and tendering systems. Contracting of programs and projects, if managed directly by donors, should be pooled where possible, and use the same sets of practices and procedures as each other.	
	Implementation mechanisms	Management of programs and projects by the government, contracted to agencies, NGOs and private sector where appropriate, financed through the budget, supported by government-managed TA where necessary.	Joint implementation mechanisms/ national programs may be established, managed through common arrangements, to be transferred to government as soon as legitimate government is established.	Donor-funded, jointly managed programs (e.g. national programs, social funds)
	Monitoring and evaluation	Government undertakes monitoring, evaluation and audit of its own programs. Donors use these systems for their own information needs.	Donors undertake common monitoring and evaluation of programs. IMF, MDBs, UN and bilateral donors agree on division of labour. Donors may agree on joint conditionalities through multi-lateral institutions, or through a donor – government compact.	
	Reporting	Government reports on implementation of budget and policies. Donors use these systems for their own information needs.	Donors harmonise their internal reporting arrangements. Donors work towards using government's own reporting structures.	

8. CONCLUSIONS AND RECOMMENDATIONS

8.1. Conclusions: The Harmonisation and Alignment Agenda in Difficult Partnerhsips

190. A central conclusion of this report is that the harmonisation and alignment agenda is proving to be even more relevant in difficult partnerships than in 'normal' contexts. The issues that make harmonisation and alignment important in general, such as the tendency for parallel systems and competing demands to be harmful to weak institutions, are often even more acute in difficult partnership contexts. Additionally, the range and type of actors present on both sides of the partnership not only make harmonisation and alignment not only more pressing, but also give it a greater potential pay off.

191. The agenda around ownership, alignment, and harmonisation in difficult partnerships is only just beginning to be articulated at headquarters level in donor agencies. There is some emerging recognition that this set of issues needs to be addressed at country level but there is not a particularly clear vision on how to move forward on this. Such discussion as there is focuses on problems of donor harmonisation and policy alignment, with much less attention to systems alignment.

192. The extent and nature of harmonisation and alignment in difficult partnerships varies considerably across the case studies examined. There emerged four clusters of experience. There are a few cases where alignment is relatively strong (Afghanistan, East Timor), a few where the alignment agenda is moving forward slowly (Cambodia, Nepal, Tajikistan), and several where there is little or no alignment (Angola, Burundi, Myanmar). There are also some countries where a single donor is essentially rebuilding the state and alignment issues take on a different complexion (Sierra Leone, Nauru, Solomon Islands).

193. Progress in terms of harmonisation varies similarly between case studies, with harmonisation being most relevant to cases where no alignment is possible to a government's policies or systems. In these cases, efforts at harmonisation between donors become relevant.

194. One obstacle to policy alignment in difficult partnerships is the perceived lack of policies to align to. In some cases, donors may be erroneously assuming that policies are absent. Another obstacle is the presence of multiple policy frameworks with unclear or highly politicised interrelationships. Donors must make sensitive choices about which framework to align to, or support the authorities in reconciling these different policies.

195. In the absence of government leadership on policy priorities, harmonisation and prioritisation of donor action is vital in order to create the enabling environment for country leadership to emerge at a later stage and to create positive synergies between interventions. This might take place through such channels as Joint Assessment Missions or Multilateral Donor Trust Funds, or it might fall to a lead donor. Existing donor networks at country level are also important channels, although these may need to be extended to include humanitarian and military actors, civil society or others. Although donors appreciate in theory the necessity of harmonised prioritisation, practical progress is limited and there are very different ideas about what this prioritisation might look like in practice.

196. Where government strategies and policies do exist in a form with which donors will engage, donors place strong emphasis on the political commitment to implement these policies. Commitment of the government to implementation is seen as an entry-point for donors; where it is lacking, donors tend to move to state-avoiding activities which place low emphasis on policy alignment. This tends to mean that

the question of systems alignment is ignored, and in some cases that parallel systems are created which create harmful institutional impacts on existing state institutions.

197.   Donors tend to believe that policy alignment is a necessary condition for systems alignment, when this is disputable. There are possibilities for moving forward with systems alignment even in the absence of alignment on policy priorities.

198.   As with policy alignment, key obstacles to systems alignment are the weakness (or perceived absence) of government systems, or the presence of multiple systems. However, it should be remembered that donors tend to have trouble aligning with official systems even where they are relatively strong. Some obstacles exist within donor agencies themselves, rather than in the relationship with a difficult partner.

199.   The presence of humanitarian relief agencies in many difficult partners has serious implications for alignment. The sheer number of players creates problems, but the main difficulty is the practice of humanitarian agencies to provide state-avoiding aid. This is not problematic in the short-term, but major difficulties arise when these practices become entrenched during the transition out of the crisis.

200.   In some cases, donors are concerned that to align their policies with those of the recipient would unjustly legitimise a government. This is an important and very real concern. However the question of systems alignment may be addressed separately. Donors could explore the possibility of 'shadow' systems alignment, whereby donors work to be compatible with national systems without relinquishing control of their resources. Possibilities include putting aid 'on-budget' but not 'through budget', working with existing administrative boundaries, and providing information to the recipient in terms that are compatible with their national systems.

201.   A key lesson where there is weak capacity is to focus on a limited number of tasks rather than try to spread limited human, financial and institutional capital over a range of tasks simultaneously. A useful exercise can be to map the goals of intervention over a period of a number of years, and select and sequence activities accordingly. This may imply not focusing on myriad of 'quick impact' projects, but mapping the critical path of key interventions to ensure appropriate selectivity and focus.

8.2   Recommendations

Recommendation 1: Undertake diagnostics of the country's systems

202.   To improve alignment, donors should first ensure that they have a sound understanding of the following through undertaking the necessary diagnostics, through institutional assessments and/or needs assessments:

- Systems and mechanisms for strategy and policy formulation and planning at central and local level.

- Key operative policies both centrally and in important sectors.

- The implementation and monitoring systems associated with these policies.

- Administrative layers and boundaries.

- The budget systems and how they are related to one another.

Recommendation 2: Align donor activities to all stages of the government's strategy, policy and implementation cycle, including its systems

203.   The stages of the policy cycle include: vision and goal setting, strategy formulation, policy formulation, planning and budgeting, financing channels, contracting, implementation, monitoring and reporting. If donors fail to align to any stage of this cycle, this will undermine the positive impact of alignment. An effective mechanism is to ensure that financing flows are streamlined and attached to a budget and a series of programs.

204.   If it is not immediately apparent that a government has adequate capacity in all elements of the policy cycle, rather than donors substituting for this immediately, focus should be paid on how donors can assist in creating the space and enabling environment for such capacity to emerge. It may be appropriate to consider how the capacity for strategy and policy management within government can be strengthened, rather than investing in the creation of such capacity within external actors alone.

205.   This requires actions from both sides of the partnership; on the government's side, it requires a focus on how to improve the policy formulation and implementation process, so as to create an environment where trust between citizens and government on the one hand, and government and donors on the other, can be enhanced, and where the quality of policy and systems can be substantively improved. On the donors' side, it requires imaginative approaches through dialogue, programming and provision of technical assistance to catalyze and support efforts to improve the government's capabilities.

206.   Even when a set of policies and priorities has not yet emerged which the donor community considers adequate for their purposes, attention should be paid to systems alignment or shadow systems alignment. Implementation mechanisms and systems can be designed to allow some services to be delivered on a programmatic basis, that are sufficiently modular and flexible to allow for transfer of ownership to national authorities as soon as appropriate.

Recommendation 3: Where alignment is not possible, harmonise in order to align

207.   Harmonisation between donors can have useful impacts in cases where alignment is not possible. However, harmonisation should take place in order to allow alignment to take place at a later stage. Accordingly, harmonisation of donor approaches should focus on the creation of mechanisms that enhance, and do not undermine, the emergence of country leadership and ownership. In this context, the most important focus is the creation of the enabling conditions for country leadership and systems alignment or shadow systems alignment. This process is best addressed opportunistically by donors or a donor identifying an area where they can pragmatically building on opportunities or relative successes.

208.   Where alignment is not considered possible, harmonisation can still make a significant improvement to a situation. Beneficial harmonization activities can include efforts to minimise the transaction costs and therefore stress placed on partner capacity, particularly through minimization of the number of reports, assessment and other missions, procurement systems, financial management systems, and other project rules and requirements. Joint funding of programs between donors, delegated authorities, selectivity and sensible divisions of labour between donors can make significant contributions. Lastly, coherence in political dialogue, imposition of conditionalities and other messaging within and across donor governments between the political, security, development and humanitarian domains could enhance the impact and effectiveness of such dialogue, subject of course to the particular stances of the international community and the desired goals in any particular context.

Recommendation 4: Selectivity and sequencing of interventions are critical

209.   Where state institutions are weak, it is likely that donors share the goal of strengthening those institutions, and that attempting to carry out a large number of activities will lead to failure. Therefore, the number of interventions should be limited in number, prioritised and sequenced to take account of existing institutional capability, as well as to mobilize additional capacity. Focus may be on provision of basic law and order through administrative and policing functions, or may include the provision of basic services. In this context, a prioritization on the provision of a large number of small projects through fragmented and often expensive delivery mechanisms may be misplaced.

Recommendation 5: Supporting policy making and aid management in partner government

210.   It is true that a major constraint to both country ownership and progress on alignment in weak institutional environments is the weakness in management capacity within partner governments, then identification of means to improving this capacity is urgent. The ways in which technical assistance is provided to partners to support the analysis and management of policy and implementation needs to be examined and improved. Approaches to supporting the development of domestic leaders and managers within the public sector generally and aid management specifically need to be developed. The focus required seems to be on providing better incentives, training and twinning opportunities, as well as more effective technical assistance.

211.   The ways in which technical assistance is provided to partners to support the analysis and management of policy and implementation needs to be examined and improved. Approaches to supporting the development of domestic leaders and managers within the public sector through better incentives, training and twinning opportunities, as well as more effective technical assistance need to be developed. While pooling technical assistance funds is a useful first step, the efficacy, costs, reporting arrangements and internal incentives of Western technical assistance providers remains an issue. Options to be examined could include training and networking processes for domestic cadres, finding mechanisms to ensure technical assistance is accountable to partners instead of only to donors, building in mechanisms to technical assistance to ensure technology transfer, and finding better mechanisms for South-South learning from countries which have managed a successful transformation out of aid.

Recommendation 6: Monitoring of progress with alignment and harmonisation should take place

212.   Monitoring of the extent of donor progress with alignment and harmonisation should take place at country level. While donors should consider simple mechanisms by which they monitor their own progress with harmonization and alignment, consideration should also be given to mechanisms by which partner governments and civil society can monitor donor behaviour and to the creation of mutual accountabilities.

9. ANNEXES

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9.2   DAC Alignment and Harmonisation in Difficult Partnerships: Survey Framework

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Please Note:
The following gives an outline of the types of issues we would like to cover and experience we would like to collect during a max. 45 mins interview. Please do not attempt to fill it in: it is not a questionnaire. We will discuss the issues with you during the phone call.

Preamble
- Definitions of Alignment and Harmonisation- **see power point attached.**
- Looking the issues in relation to partner government/authorities willingness and capacity, as well as level of donor engagement

Background questions

Donor

General status of relationship with particular country (inc formal diplomatic dialogue, military, etc)?

Aid flows and instruments used?

Donor priorities?

Country willingness and capacity

Willingness – who in govt? strength of their position? Outside govt?

How significant/fragile is this (potential) coalition, particularly the state actors?

Capacity- central and local; how and where is it distributed/missing?

Alignment

	Types of Alignment		
	Priorities e.g. PRS, national plan, etc	**Systems** *Central* e.g. Ministries	*Decent* e.g. local govt/service deliv
Experiences			
Nature of partner priority/system		budget / planning cycle	programming mirrors admin levels of government (province-district…)
Extent of current alignment			
Obstacles			
What are they for priorities/systems alignment?			
Entry points			
What would it take to move forward on different aspects of alignment?			
Monitoring Progress			
What would constitute progress?			
Potential indicators?			
Issues for the future			

Harmonisation

General attitude/approach to harmonisation

	Types of harmonisation		
	Information Sharing	**Simplifying Procedures**	**Common Arrangements**
Experiences			
Initiatives taken?			
Which donors were involved?			
How was leadership exercised ?			
What was the role of the government/civil society?			
Your perceptions of the positive and negative aspects?			
Obstacles			
What obstacles to harmonisation have you experienced?			
Recommended Practices			
What do you consider to be the priorities and messages for both donors and partners?			
Monitoring Progress			
Harmonisation Indicators			
Issues for the future			