

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

WORKING PAPER 15

Evaluating Progress Towards Harmonisation

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PREFACE

This study was undertaken as part of the programme of evaluation studies commissioned by the Evaluation Department of the Department for International Development (DFID). Evaluation Department is independent of the spending divisions in DFID, and reports to the Management Board through the Director General (Corporate Performance and Knowledge Sharing).

The study begins by defining *harmonisation* and identifies what development benefits of harmonisation are anticipated. It discusses an approach to developing an evaluation framework for assessing those anticipated benefits. Finally, the study examines the current evidence base for development benefits in the context of Tanzania, Mozambique and Bangladesh.

The evaluation is expected to be of interest because it generates improved understanding around the anticipated strategic outputs of harmonisation: more effective aid (including reduced transactions costs) and greater country ownership of aid programmes, which, ultimately, leads to improved development outcomes.

This study is a first step. It was initially conceived as a think piece to help DFID prepare for the DAC High Level Meetings in March 2005. The work focused on the DFID perspective angle initially and argues that it is too premature to attempt to evaluate any outcomes with any degree of confidence. However, the findings can be used to establish a theoretical underpinning for future evaluations and, as the harmonisation agenda progresses, the findings will provide a reference base for joint-evaluative work with partner governments and other donors being taken forward by the OECD/DAC.

The author of this report is Paul Balogun. Kate Tench of Evaluation Department managed the process. Additional inputs were provided Greg Brief and Fiona Shera from the Aid Effectiveness team.

Full responsibility for the text of this report rests with the authors. In common with all evaluation reports commissioned by DFID's Evaluation Department, the views contained in this report do not necessarily represent those of DFID or of the people consulted.

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Glossary

ADB	Asian Development Bank
AfDB	African Development Bank
BPHC	Bangladesh Population & Health Consortium
BS/BoPs	Budget Support/Balance of Payments Support
CG	Consultative Group
DAC	Development Assistance Committee
DFID	Department For International Development
DP	Decision Point
ESP	Essential Service Package
FPHP	Fourth Population & Health Project
GBS	General Budget Support
GoB	Government of Bangladesh
GoM	Government of Mozambique
HIPC	Highly Indebted Poor Countries
HLF	High Level Forum
HPSO	Health Programme Support Officer
HPSP	Health & Population Sector Programme
HPSS	Health & population Sector Strategy
IDA	International Development Association
IDP	Internally Displaced Persons
IMF	International Monetary Fund
IMG	Independent Monitoring Group
JAS	Joint Assistance Strategy
MDGs	Millennium Development Goals
MoF	Ministry of Finance
MoU	Memorandum of Understanding
NEPAD	New Partnership for Africa's Development
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation & Development
OVI	Objectively Verifiable Indicator
PAP	Programme Aid Partners
PCC	Project Coordination Committee
PER	Public Expenditure Review
PFM	Project Finance Management
PIU	Project Implementation Unit
PRBS	Poverty Reduction Budget Support
PRS	Poverty Reduction Strategy
SPA	Strategic Partnership for Africa
SWAp	Sector Wide Approach
TA	Technical Assistance
TORs	Terms of Reference
UNDP	United Nations Development Programme
VPGAE	Vietnam Partnership Group on Aid Effectiveness
WB	World Bank
WP-EFF	Working Party on Aid Effectiveness & Donor Practices

EXECUTIVE SUMMARY

S1. *Context*

S2. In the Rome Declaration on Harmonisation (2003) donors committed to both:

- reviewing and identifying ways to amend, as appropriate, individual institutions' and countries' policies, procedures, and practices to facilitate harmonisation
- work to reduce donor missions, reviews, and reporting, streamline conditionalities, and simplify and harmonise documentation.

S3. Department For International Development (DFID) published its own Harmonisation Action Plan in February 2003. Senior managers now want to know if these internal efforts to foster harmonisation will make a difference to aid effectiveness and why. Finding new evidence to answer this demand means assessing DFID's actions within the context of wider harmonisation initiatives by all stakeholders at country level.

S4. It may also be premature, as it will take time for the impacts to become apparent at country level. The question therefore becomes whether the commitment to evaluate progress at country level in the Paris Declaration on Aid Effectiveness (March, 2005) will met DFID's needs in the medium term. In the interim, it is possible that evidence already exists, based on reviews of harmonisation actions, which predate the Rome Declaration.

S5. This paper therefore:

- discusses the difficulty in defining precisely what harmonisation is
- identifies what the expected development benefits of harmonisation are
- discusses an approach to developing a usable evaluation framework for assessing harmonisation and hence the implications for fulfilling the Paris Declaration commitment to evaluate progress and experience
- examines whether evidence of the developmental benefits or costs of harmonisation is already available through a review of documentary evidence available from three countries – Tanzania, Mozambique and Bangladesh

S6. *Findings*

What is harmonisation?

S7. Harmonisation is the co-ordination and merging of processes, institutions and systems among aid agencies and is the focus of this paper. This is different from alignment, which is development assistance coherence with and integration into the government systems and institutions of the receiving country. In practice, discussion of

harmonisation and its anticipated benefits in the reviewed literature is never separated from discussion of the benefits of enhanced alignment and country ownership. The term harmonisation is therefore normally used as a collective noun covering all three issues.

S8. This makes any attempt to isolate the benefits of harmonisation extremely difficult. Experience during this work strongly indicates the difficulties of getting stakeholders to discuss harmonisation, and its benefits, when using the narrower meaning.

S9. The default position is always to confound discussion of the benefits of harmonisation, alignment and country ownership. However, this does not reflect a lack of clarity among stakeholders. Rather, it reflects the reality for development agency staff that harmonisation and alignment are really two sides of the same coin and which of these two is chosen is greatly influenced by issues such as country ownership and government capability.

S10. Identification of the range of key harmonisation actions is also challenging. The Organisation for Economic Cooperation and Development - Development Assistance Committee's (OECD-DAC's) working party on Aid-Effectiveness and Donor Practices (WP-EFF) identifies a core set of harmonisation actions, but some harmonisation actions that are commonly seen as key by country level development staff are not explicitly identified by the WP-EFF.

S11. Examples include harmonisation on *per diem* rates for government staff, codes of conduct minimising the contracting of key government staff by donors to meet their own immediate needs and donor-government dialogue carried on outside of the formal systems. The issue of harmonisation of donor agency support to civil society is also not covered under the Rome Declaration.

The benefits from harmonisation?

S12. Drawing on conventional wisdom, and the Rome Declaration literature, allows one to start to identify how harmonisation between donor systems is expected to impact upon development effectiveness (see basic evaluation framework at Figure 2). Immediate benefits identified are through a reduction in transaction costs and a general increase in the efficiency of management of aid delivery for both donors and recipient governments.

S13. The increased efficiency benefits to partner governments are then assumed to feed through into an increase in the quality of management of governments' own policy, planning and budgeting processes. This then leads to faster economic growth and achievement of Poverty Reduction Strategy (PRS) objectives.

Developing an Evaluation Framework

S14. The key questions for DFID senior management identified in the Terms of Reference (ToRs) for this work are:

- whether harmonisation leads to improved aid effectiveness and greater country ownership in delivering poverty reduction

- what harmonisation inputs (as described in the DFID Action Plan) are more or less efficient and effective in delivering this
- are there significant contextual factors which impact on these findings, this includes a range of supplementary questions, such as: what is the most effective speed and sequencing of harmonisation activities and is harmonisation more effective where led by Government or by donors, e.g. is it the case that harmonisation in aid dependent countries is more effective if led by Government and vice versa

S15. Answering these questions needs an evaluation framework that is designed to identify the contribution of harmonisation to enhancing the efficiency and effectiveness of the overall aid management system at country level. The main finding is that it is impossible at present to develop a usable evaluation framework to answer these questions. However what needs to be done to create such an evaluation framework is clear.

S16. An evaluation framework assumes that a deductive evaluation approach will be used. The job for the evaluator is to gather evidence and data to assess what has happened against the framework and then make appropriate judgments and conclusions on efficiency, effectiveness and impact. There are two basic assumptions underpinning such an approach;

- that the evaluation framework, based either on theory or empirical evidence, clearly predefines the key actions necessary to efficiently and effectively deliver the desired impact
- that the key contextual factors which determine what can be done and what will be most efficient and effective, given the particular circumstances, are known, understood and reflected in the framework

S17. At present, neither the theory nor the empirical evidence necessary to meet either of these assumptions is available. As importantly, gathering the necessary empirical evidence would require development of new evaluation/research methodologies that won't impose unacceptable burdens on stakeholders in-country when used.

S18. The causal chain shown in the present evaluation framework is therefore very much a preliminary attempt to represent conventional wisdom and does not include the detailed predefined actions at key points necessary to carry out a deductive type of evaluation.

S19. However, it is also true that the evaluation framework undoubtedly represents a reasonable hypothesis given our understanding of how organisations and institutions operate. It can therefore be used to frame both discussion of the possible benefits of harmonisation and to advance stakeholders' overall understanding of harmonisation and how it may contribute to aid effectiveness.

S20. Further developing the evaluation framework would require:

- *gathering empirical evidence of the actual interactions between harmonisation, alignment and country ownership that have occurred at country level and how harmonisation has been implemented in a range of countries.* A key product of this work would be to identify the full range of immediate benefits from harmonisation, and the degree to which there are benefits beyond the normal transaction cost declines that are normally identified
- *developing feasible methodologies for measuring the immediate benefits of harmonisation.* Methodologies for measuring administrative cost savings from harmonisation, such as a decrease in the management costs from reducing the number of project implementation units (PIUs) when harmonising within a common basket fund, are available. However, time savings are the most significant immediate harmonisation benefits that are normally expected. Unfortunately, donor agencies and governments do not collect the necessary data to allow this to be measured. This would require them to routinely collect data on the behaviour of individual employees, their motivations, incentives and effort spent on different tasks necessary to measure such time savings. Nor do they collect information on staff objectives and strategic behaviour in negotiations with staff of other organisations necessary to examine other assumed benefits. Experience in previous attempts also shows that attempting to collect such information imposes unacceptable transaction costs of its own on country level staff and government officials. Therefore evidence of shifts in transaction costs is almost entirely based on reporting key informants' opinions on whether or not they have shifted or declined
- *developing a feasible methodology to establish a plausible, evidence-based, linkage between the assumed immediate benefits and the assumed improvements in management of a government's policy, planning and budgeting systems.* Evaluators that have attempted this in the past have concluded that it is methodologically impossible, since attempting to isolate and quantify the contribution of one factor in such a complex institutional context is impossible

S21. In conclusion, until these challenges are solved, evaluations should not be expected to provide the evidence demanded by DFID's senior management on systemic improvement in the aid management systems at country level due to harmonisation. However, evaluations could be used to identify an increased number of case studies that illustrate how the lack of harmonisation in specific cases reveals the problems of the overall aid management system.

Existing evidence of the benefits of harmonisation?

S22. A range of systems that monitor aspects of harmonisation are already in place. These include the monitoring programmes of the OECD-DAC's WP-EFF and the Budget Support Working Group of the Strategic Partnership for Africa (SPA), in country initiatives such as the Independent Monitoring Group in Tanzania, the Programme Aid Partners monitoring system in Mozambique, and the Vietnam Partnership Group on Aid Effectiveness (VPGAE) and monitoring of National Harmonisation Action Plans.

S23. These will all contribute to providing a robust picture of the status of implementation of harmonisation and alignment across a range of countries. However, these systems are unlikely to provide a rich source of empirical evidence on the actual benefits of harmonisation or alignment, or how these have been achieved.

S24. The attempt to identify the benefits of harmonisation in Mozambique, Tanzania and Bangladesh suggests that progress in the harmonisation and alignment agenda has been made mostly around the use of programmatic forms of aid delivery. In these three countries, it is also clear that what evidence is available about harmonisation derives from reviews of programmatic aid.

S25. Review of documented evidence from three countries – Tanzania, Bangladesh and Mozambique – does provide some evidence of a reduction in transaction costs from harmonisation. However, in all cases, the levels of administrative cost savings identified are relatively modest. This does not mean that harmonisation is not worthwhile, but reflects the following issues.

- harmonisation is never the primary focus of reviews and evaluations
- in the absence of a consensus on terminology and the relevant theoretical or empirical material, evaluators have not documented these issues in any depth

S26. Review of pertinent evaluations (mostly of Sector Wide Approaches (SWAs) and partnership) also provides some evidence of shifts in transaction costs due to action on harmonisation in its broader sense (harmonisation and alignment). This suggests that there is little evidence that transaction costs have declined due to alignment/harmonisation, as a decrease in administrative transaction costs is counter-balanced by an increase in coordination transaction costs.

S27. Most such studies also note that this finding may reflect the significant start-up investment required for setting up aligned or harmonized systems. As the systems become more established, and trust between partners increases, transaction costs are expected to decline. Little evidence substantiating the expectation that transaction costs will decline in the medium term has been published.

S28. Conclusions

S29. The evidence necessary to judge whether harmonisation leads to improved aid effectiveness and greater country ownership in delivering poverty reduction, or identify which harmonisation inputs (as described in the Action Plan) are more or less efficient and effective in delivering these outcomes, is not currently available.

S30. The findings also suggest that it is premature to initiate a large-scale evaluation of harmonisation based on an evaluation framework, as assumed in the ToRs for this work. Significant investment in a learning approach to develop the empirical evidence necessary to then develop an evaluation framework that is agreed among stakeholders is first required.

S31. This needs to be allied with commissioning of work on whether or not the necessary feasible methodologies can be developed. Assuming that the commitment to evaluate progress at country level in the Paris Declaration on Aid Effectiveness (March,

2005) successfully solves these challenges, the basis for then addressing the questions posed by senior management will then be in place.

S32. Meanwhile, evaluations could be used to identify an increased number of case studies that illustrate how the lack of harmonisation in specific cases reveals the problems of the overall aid management system and so maintain the political commitment required to implement the harmonisation agenda.

INTRODUCTION

1. Evaluating Progress towards Harmonisation

1.1 The Rome Declaration on Harmonisation (2003) identifies the need to harmonise the operational policies, procedures, and practices of donor institutions with those of partner country systems to improve the effectiveness of development assistance and thereby contribute to meeting the Millennium Development Goals (MDGs).

1.2 This is identified as a response to growing evidence that, over time, the totality and wide variety of donor requirements and processes for preparing, delivering, and monitoring development assistance are generating unproductive transaction costs for, and drawing down the limited capacity of, partner countries. Donors therefore committed to both:

- reviewing and identifying ways to amend, as appropriate, individual institutions' and countries' policies, procedures, and practices to facilitate harmonization
- work to reduce donor missions, reviews, and reporting, streamline conditionalities, and simplify and harmonise documentation

1.3 The Rome Declaration further invited donors and partner countries to elaborate indicators to measure progress over time in harmonisation and alignment. These were developed by the Task Team of the OECD-DAC's Working Party on Aid Effectiveness and Donor Practices (WP-EFF) and are organised around the three key dimensions of the Rome Declaration (ownership, alignment, and harmonisation).

1.4 Results of a WP-EFF commissioned baseline survey on progress in 14 countries will be presented at the Second High-Level Forum on Harmonisation and Alignment of Aid Effectiveness in Paris (February 2005). The Paris Declaration on Aid Effectiveness (March, 2005) is also expected to include a commitment that:

“Country level reviews should be complemented by independent cross-country evaluation processes as well as existing peer review mechanisms, to provide a more comprehensive understanding of how increased aid effectiveness contributes to meeting development objectives.”

1.5 DFID published its own Harmonisation Action Plan in February 2003. Senior managers now want to know if the internal actions identified as fostering enhanced harmonisation will make a difference to aid effectiveness and why. Key questions identified in the ToRs for this work are:

- whether harmonisation leads to improved aid effectiveness and greater country ownership in delivering poverty reduction
- what harmonisation inputs (as described in the DFID Action Plan) are more or less efficient and effective in delivering this

- are there significant contextual factors which impact on these findings? This includes a range of supplementary questions, such as: what is the most effective speed and sequencing of harmonisation activities and is harmonisation more effective where led by Government or by donors, e.g. is it the case that harmonisation in aid dependent countries is more effective if led by Government and vice versa

1.6 Finding new evidence to answer this demand means assessing DFID's actions within the context of wider harmonisation initiatives by all stakeholders at country level. It may also be premature as it will take time for the impacts to become apparent at country level. The question therefore becomes whether the commitment to evaluate progress at country level in the Paris Declaration on Aid Effectiveness (March, 2005) will meet DFID's needs in the medium term. In the interim, it is possible that evidence already exists, based on reviews of harmonisation actions, which predate the Rome Declaration.

1.7 This paper therefore:

- discusses the difficulty in defining precisely what harmonisation is
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- examines whether evidence of the developmental benefits or costs of harmonisation is already available through a review of documentary evidence available from three countries – Tanzania, Mozambique and Bangladesh

1.8 The ToRs may be found at Annex 1.

2. What do we mean by harmonization?

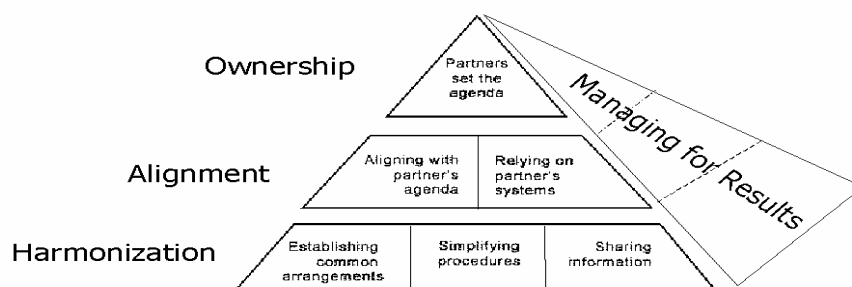
2.1 The starting point for this work is an agreement on what harmonisation means. At present this is complicated since the term harmonisation, within the context of the Rome Declaration, has two usages within the international community.

2.2 First, it is used as a synonym for the wider range of activities related to strengthening partnerships with partner governments and thus includes the concepts of country ownership, alignment and a narrower definition of harmonisation (as being something between donors) within it. It also includes the assumption that effective partnerships not only require donors to act according to these concepts, but also that:

- partner governments take a leadership role in setting the development agenda and in coordinating donor efforts
- development assistance is increasingly delivered in accordance with partner countries' priorities
- donors rely upon partner country systems and procedures

2.3 In practical terms it means that all of the activities supported by the OECD-DAC's Working Party on Aid Effectiveness and Donor Practices (WP-EFF), as illustrated in Figure 1 below, are discussed as part of the 'harmonisation' agenda.

Figure 1. Aid Effectiveness Pyramid



2.4 The narrower meaning of harmonisation focuses on the co-ordination and merging of processes, institutions and systems among the aid agencies. This is separate from alignment, which is development assistance coherence with and integration into the systems and institutions of the receiving country's government and usually with a special focus on the PRS. The ideal is that harmonisation among donors is led by the relevant Government Authority and is an integral part of the Government institutions and systems. It therefore assumes that donors change their behaviour to support:

- development of common arrangements for planning, managing & delivering aid
- the gradual simplification of procedures and specific requirements in order to reduce their burden on partner governments
- the sharing of information to promote transparency and improve coordination

2.5 These are the activities encompassed in the base of the triangle in Figure 1 and are the focus of this paper. Below, specific actions between donors, which should be examined under each of the three broad areas as identified by the OECD-DAC's WP-EFF are shown, as are those associated with alignment.

Actions associated with	
Harmonisation	Alignment
<p>A. Development of common arrangements for planning, managing and delivering aid</p> <ul style="list-style-type: none"> • Increased use of joint diagnostic reviews • Collaboration and Joint Strategies • Joint Operations • Joint Financing Arrangements • Common Procedures for Project Environmental Assessment <p>B. The gradual simplification of procedures and specific requirements in order to reduce their burden on partner governments</p> <ul style="list-style-type: none"> • Streamlining conditionality • Reducing number of field missions • Reducing number of reports required by donors • Harmonising Financial Management and Procurement procedures • Delegated Cooperation <p>C. The sharing of information to promote transparency and improved coordination.</p> <ul style="list-style-type: none"> • Allow access by partner government and other donors to agency's country analytical work. • Increase use diagnostic reviews from other agencies. • Introduce systems for donors to regularly disclose commitments and disbursements at country and sector level. 	<p>A. Donor Actions</p> <p>Base donor country strategies, programmes and policy dialogue on partners' national development strategies and results frameworks.</p> <ul style="list-style-type: none"> • Draw, as much as possible, conditionality from partners' national development strategies. • Rely on country-owned monitoring and evaluation systems to track progress against the objectives set out in partners' national development strategies. • Use country systems and procedures where these provide reasonable assurance that aid will be effectively used for agreed results. <p>B. Partner country Actions</p> <ul style="list-style-type: none"> • Base national development strategies on sound macro-economic and poverty diagnoses. • Translate these national strategies into operational, results-oriented frameworks with clear policy commitments, improved strategic prioritisation of programmes and costing. • Further strengthen the results orientation of national development strategies by increased focus on developing monitoring and evaluation systems useful for managing results. • Establish mechanisms to monitor progress in implementing national development strategies that are firmly embedded in domestic institutions.

2.6 Some harmonisation actions commonly seen as key by country level development staff are not explicitly identified in the table above. Examples include harmonisation on *per diem* rates for government staff, codes of conduct minimising the contracting of key government staff by donors to meet their own immediate needs and donor-government dialogue carried on outside of the formal systems. The issue of harmonisation of donor agency support to civil society is also not covered under the Rome Declaration.

3. What are the benefits expected from harmonization?

3.1 Harmonisation is seen as a response to the observation that donor requirements and processes for preparing, delivering, and monitoring development assistance are generating unproductive transaction costs for, and drawing down the limited capacity of, partner countries. Beyond this general statement of conventional wisdom, there appears to have been little discussion, or detailed analysis, on precisely how specific harmonisation, or alignment, actions are expected to cut transaction costs or excessive demands upon government partners' capacity.

3.2 For example, within the DAC Guidelines on Harmonising Donor Practices for Effective Aid Delivery¹, discussion of harmonisation and its anticipated benefits is not separated from discussion of the benefits that would accrue from action on alignment and country ownership. This is also the case for the Rome Declaration itself. In both cases, this reflects the fact that the broader definition of harmonisation is used. It is also true that the actions identified in the Guidelines should be seen as a distillation of 'conventional' wisdom due to the approach used to identify them.

3.3 Ten broad areas where action by donors would improve aid management efficiency and effectiveness were identified. These were derived not from research or evaluation but from survey and consultative processes that solicited the opinions of people within the donors and partner governments.

3.4 Post-Rome, the WP-EFF has introduced the aid effectiveness pyramid (fig. 1 above) as a conceptual framework for visualising how the wide range of actions advocated relate to each other. However, to date, how precisely the actions identified within the pyramid are expected to impact upon aid effectiveness, which lies outside the pyramid, has not been explained.

3.5 Within the pyramid, the detailed expected linkages (and directions of causality) between the three levels have also not been described in any detail, beyond the following broad statements:²

Read from top to bottom. Partners begin by setting the agenda for achieving development results (such as the MDGs), and donors respond to this lead by aligning their support with the countries' results-oriented strategies and relying on partners' systems. At both of these levels, capacity strengthening and institutional development are essential. At the base of the pyramid, donors initiate the complementary actions of establishing common arrangements, simplifying procedures, and sharing information. At all levels of the pyramid, a focus on results is essential: the country's development agenda must be oriented toward the growth and poverty reduction results it expects to achieve.

Read from bottom to top, the pyramid illustrates the stages of maturity in the aid relationship and the separable, but reinforcing, gains expected at each stage. In

¹ Found at <http://www.oecd.org/dataoecd/0/48/20896122.pdf>

² Report prepared for the 2nd High Level Forum (Paris) on Harmonisation, Alignment, Results: Report on Progress, Challenges and Opportunities (page 14)
<http://www.aidharmonisation.org/download/252896/HLF-2FinalENGLISHReport.pdf>

almost any circumstance, including in the most fragile country environments, the bottom-tier actions —adopting common approaches (e.g., for disbursement, procurement, and accounting), simplifying procedures (e.g., reporting requirements), and sharing analysis—can improve the impact of aid or at least reduce its costs. The ultimate objective is to move up the pyramid. In the most evolved country situations, partner governments not only establish clear priorities and results-based strategies, but also communicate how they want donors to collaborate and in what forms. If a donor remains unwilling to join this common effort, the partner nation may decide to forgo that source of aid.

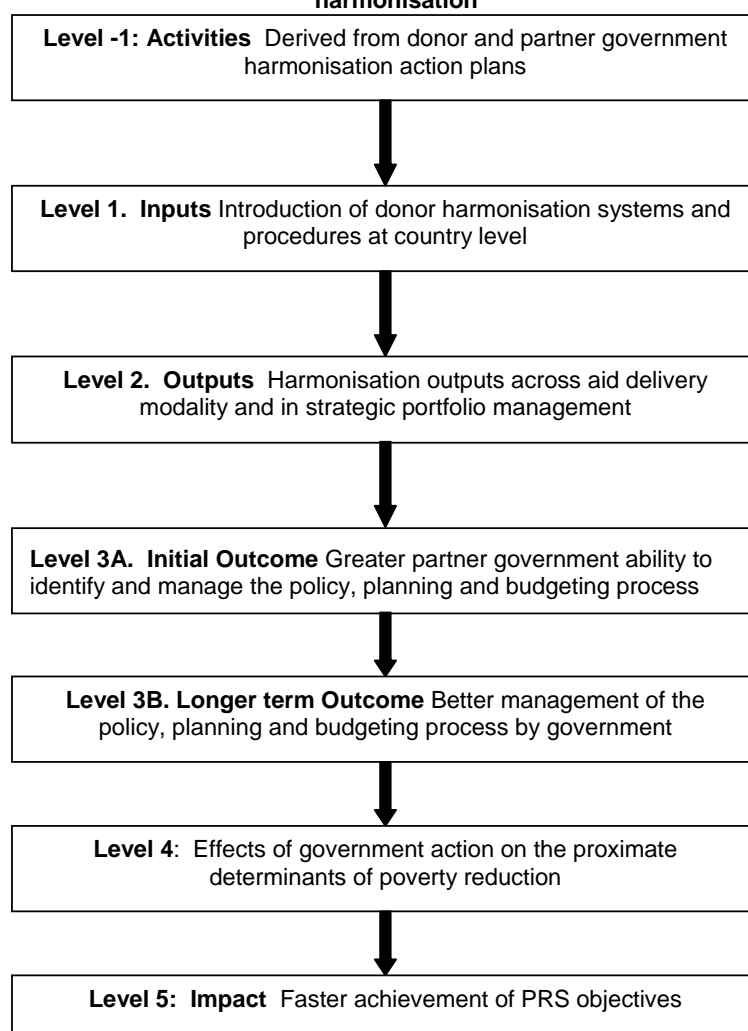
3.6 In conclusion, the issues identified above are also common in the more general literature which reviews the affects of harmonisation; either in the context of assessing the benefits and costs of differing aid delivery modalities or in the context of government-donor partnerships. It is also true of DFID's own Harmonisation Action Plan.

4. Developing an Evaluation Framework

4.1 Drawing on conventional wisdom, and the Rome Declaration literature, allows one to start to identify how harmonisation between donor systems is expected to impact upon development effectiveness. Immediate benefits identified are through a reduction in transaction costs and a general increase in the efficiency of management of aid delivery for both donors and recipient governments.

4.2 The increased efficiency benefits to partner governments are then assumed to feed through into an increase in the quality of management of governments' own policy, planning and budgeting processes. This then leads to faster economic growth and achievement of PRS objectives. This is laid out in Figure 2 below, which is a preliminary version of an evaluation framework, and is used for examining the benefits in a particular country. A more detailed version of the framework is at Annex 2.

Figure 2. Evaluation Framework for evaluation harmonisation



4.3 The framework is developed to address the key questions for DFID senior management identified in the ToRs:

- whether harmonisation leads to improved aid effectiveness and greater country ownership in delivering poverty reduction
- which harmonisation inputs (as described in the DFID Action Plan) are more or less efficient and effective in delivering this
- are there significant contextual factors which impact on these findings? This includes a range of supplementary questions, such as: what is the most effective speed and sequencing of harmonisation activities and is harmonisation more effective where led by Government or by donors, e.g. is it the case that harmonisation in aid dependent countries is more effective if led by Government and vice versa

4.4 Answering these questions needs an evaluation framework that is designed to identify the contribution of harmonisation to enhancing the efficiency and effectiveness of the overall aid management system at country level. It must also allow linkage of the DFID-internal actions identified in the Harmonisation Action Plan with what happens at country level.

4.5 Examining the logic underlying Figure 2, Level -1 (Activities) covers the large number of commitments found within donors' Harmonisation Action Plans. These commitments include implementing internal reforms aimed at facilitating harmonisation at country level. Normally, an evaluation framework would not include this level, but its inclusion reflects the need to have a framework that allows DFID to assess the efficiency and effectiveness of the actions identified in its own Harmonisation Plan.

4.6 In practice, linking analysis from Level -1 activities carried out within a specific donor agency to the in-country Level 1 inputs by a range of donors would be carried out as a separate but related piece of analysis to the main multi-partner evaluation.

4.7 Level 1 then focuses on the examination of these reforms within the systems of the donors at country level and what they actually do. For instance do donor country teams understand the simplified systems and procedures designed at headquarters? Are staff clear on what is now permissible and what is not permissible?

4.8 The Outputs of these changes (Level 2), since harmonisation is a cross cutting approach, which will register as increases in the efficiency and efficacy with which the various aid delivery instruments and the overall donor strategic portfolio are managed in a particular country. For example, an increase in the level of silent partnering or acceptance of harmonized project cycle management procedures in the development and administration of a common pool of funding within a sector.

4.9 A key weakness in the present evaluation framework is the lack of precisely defined objectively verifiable indicators (OVIs) at the output level (level 2). However, until the framework has been applied in a range of countries, and in the absence of sufficient evidence of the expected causal relationships between harmonisation, alignment and country ownership, it is impossible to define a set of 'generic' OVIs at this level. Three examples are given below that illustrate the difficulties in pre-defining OVIs:

Example 1: Silent partnering - Three donors and a hospital³

Three major donors in the health sector agreed to cofinance construction of a building. The ministry involved put up the land for the building. However, each donor had its own procurement procedures, which made it difficult to find a common approach to construction of the building.

The three donors were not able to pool their contribution in a common fund, because the rules of the agencies specifically prohibited channelling money to another agency, which was the approach originally agreed upon. One donor did not require a competitive bidding process, whereas the other two did. In addition, none of the agencies could accept the procedures of any of the others, and two out of the three agencies were unwilling to adopt Bolivian rules, which were considered the most complex of all the alternatives.

Various approaches were discussed and a “thematic” approach was considered. One donor would finance the design, another the construction works, and the third could contribute the remaining elements such as paint, air conditioning, electrical apparatus, and lavatories. In the end, however, for practical and administrative reasons, and to avoid one agency blaming another if something went wrong, it was agreed that each donor would finance particular floors, procuring the materials and hiring builders according to its own standards and procedures.

In this case, the idea was that agency A would finish the first two floors, after which donor B would build the third floor, followed by donor C which would finish the building. However, additional snags developed, especially regarding the extra time the project as a whole would take. As a result, and after lengthy debates, one of the donors withdrew from the project and the other two signed an agreement regarding their intentions of constructing the building.

Only after a revision of one donor’s regulations and numerous coordination meetings, the donor contributing less accepted the rules of the donor putting up the bulk of the funds required, and in the end only one contractor was hired instead of the three previously envisaged, with just one engineer supervising construction. One of the financing agencies was designated to oversee the entire process. The above process took two years before even the foundation stone was laid.

Example 2: Harmonisation or alignment under PRBS?

Under Poverty Reduction Budget Support (PRBS), donors mostly align around use of government systems, rather than harmonisation between their own systems. Options for harmonisation, rather than alignment, are found in setting of (i) conditionalities and (ii) reporting requirements. However, the case of Mozambique, which is discussed more fully in Section 5, illustrates the difficulties in defining what the expected harmonisation benefits actually are.

In practice, involved donors have aligned around a single report format, which is mostly reliant upon data drawn directly from Government of Mozambique’s

³ Copied from Box 11 in the Bolivia Case Study for the Evaluation of the Comprehensive Development Framework, CDF Secretariat, World Bank, May 2002.

(GoM's) own systems. Most of the benefits of a single reporting format used for reporting to all involved donors therefore are alignment benefits, and the harmonisation benefits would be those for harmonisation and agreement on data which is not automatically generated from within the GoM's own information systems between the donors.

This example is also interesting since Ministry of Finance (MoF) staff have claimed that a secondary, unanticipated, benefit of a single reporting format has been to decrease demands on their time from these donors' project design and appraisal teams, who would normally have expected to discuss macroeconomic management and Project Finance Management (PFM) issues with the MoF. The existence of the regular reports for those donors providing PRBS meets this need, therefore cutting out the need for such meetings.

Example 3: Projects lead to high transaction costs due to a lack of alignment and harmonisation?

Brown et al (2000)⁴ discuss the case of Vietnam, where priority was given to using aid funds to fund one-off capital investments. In this case, the funds would have been used to deliver a project, whether managed by individual donors or by the government.

In such a case, assessing the benefits of harmonisation between donors or alignment by donors with government systems needs to be balanced against a wider range of costs and benefits. For example, in the Vietnam case, a major attraction of the project approach was to overcome institutional inefficiencies within the government systems and so speed up implementation.

4.10 The above examples clearly illustrate the difficulties in trying to develop 'generic' OVIs that could be applied across most country situations.

4.11 In most literature, level 2 benefits discussed are normally transaction cost declines, although the above examples show that the benefits and costs of harmonisation extend beyond simple transaction cost savings. However, while discussion of transaction costs is widespread, consistent use of a common terminology to discuss the main types of transaction costs associated with aid delivery has not been achieved.

4.12 In this report, the typology used by Brown et al (2000) is used, in which aid transaction costs are defined as the costs arising from the preparation, negotiation, implementation, monitoring and enforcement of agreements for the delivery of Official Development Assistance (ODA). These take three forms:

- **administrative costs:** They arise from inputs of resources needed for the transaction. Main costs include administrative overheads, in particular staff time
- **indirect Costs:** They result from the impact of the delivery mechanism on the achievement of development goals. Examples of indirect costs are undermining

⁴ Adrienne Brown, Felix Naschold, Tim Conway, and Adrian Fozzard (2000) *Aid Transaction Costs in Viet Nam*. Centre for Aid and Public Expenditure (CAPE), Overseas Development Institute

government ownership and policy consistency of ODA and public expenditure more generally; disbursement delays (and possible effects on future commitments), reduced effectiveness (as resources may go to lower priority areas), and overfinancing of capital vis-à-vis recurrent expenditure. It should be noted that most transaction costs here will relate to the degree of alignment of donors with government policy, rather than harmonisation between donors

- **opportunity costs:** They measure the benefits forgone from alternative applications of the resources consumed in the transaction. For instance, senior officials need to trade off their time between aid management and policy development

4.13 A lack of consistency in clearly differentiating between the redistribution of transaction costs between development partners and their absolute decline across the development partners and whether they can be attributed to alignment or harmonisation is also prevalent in many discussions of the benefits of harmonisation. For example, a shift in transaction costs from the donors to government should be attributed to alignment rather than harmonisation.⁵

4.14 However, donors often only align around particular aspects of a government's systems and procedures, and may therefore still require donor specific procedures for reporting, auditing and monitoring, or the drafting of financing agreements. In such situations the possibility arises for the reduction in transaction costs due to harmonisation between donors around a specific set of joint donor procedures or requirements, where donors have not aligned around the use of government systems.

4.15 Administrative transaction cost savings (mainly in terms of time availability and keeping competent government staff within government, rather than in project implementation units) allied with greater transparency by donors on the level of resources both committed and expended is then assumed to impact at Level 3A (Greater partner government ability to identify and manage the policy, planning and budgeting process).

4.16 Level 3A therefore assumes that government staff give undue priority and attention to administering donor sponsored activities rather than to their regular duties or are seconded/move into project implementation units, so weakening internal government capacity. Freeing up time through harmonisation for key government staff increases the

⁵ Some argue that the movement of aid administration responsibilities from donor run systems onto government systems should not be seen as a transfer of transaction costs, since these administrative functions are core government responsibilities anyway. The counter argument is that transfer of aid management responsibility onto government systems does impose transaction costs, since the need for accountability for donor funding to donor governments still remains. An additional problem with the transfer of responsibility and transaction costs is that this transfer should also generate benefits, often of an intangible nature, such as improvements in the government's reporting and auditing mechanisms. These transaction "benefits" are most likely to result where aid is delivered using government systems, and the additional costs of managing the aid transaction are attributable to activities which will result in system-wide improvements. In this context, it is important to consider not only the additionality of the project/programme management arrangements but also the impact of these activities, in order to isolate only the pure transaction costs for measurement. The problem here is that many of the benefits that arise from specific transaction governance arrangements are intangible – e.g. closer co-ordination between government and donors and increased management capacity – and so are notoriously difficult to value.

time available to them to focus on managing government business and therefore enhances the efficiency and effectiveness of *all* public expenditure management, including that financed by ODA.⁶

4.17 Unfortunately, attempting to establish a plausible linkage between level 3A and 3B (Better management of the policy, planning and budgeting process by government) is considered infeasible with the current methodologies available. The issue in terms of benefits at this level is not whether or not key government staff have more time available, but rather how they choose to utilize that additional time and the effectiveness with which it is used.

4.18 Donor agencies and governments do not normally collect the necessary intra-organisational data on the behaviour of individual employees, their motivations, incentives and effort spent on different tasks necessary to measure such time savings and the value added from the alternative use of such time savings. Nor do they collect information on staffs' objectives and strategic behaviour in negotiations with staff of other organisations necessary to examine other assumed benefits.

4.19 Experience in previous attempts also shows that attempting to collect such information imposes unacceptable transaction costs of its own on country level staff and government officials. Therefore evidence of shifts in transaction costs is almost entirely based on reporting key informants' opinions on whether or not they have shifted or declined.

4.20 A separate possible benefit at this level (3B) from harmonisation accrues from the commitment under the Rome Declaration for donors to regularly disclose commitments and disbursements at country and sector level to government, so increasing the possibility of managing the overall envelop of resources available and avoiding the danger of duplication of funding.

4.21 A potential benefit mentioned occasionally but not reflected in Figure 2 is the influence of harmonisation on the volume of aid delivered, since high transaction costs may discourage donors and governments from entering into agreements and also reduce disbursement rates. There is reason to believe that this has occurred for example in the Bangladesh Health SWAp, for instance where it may be argued that the use of pooled funding has resulted in the earlier availability of funds to Government of Bangladesh (GoB) and a higher disbursement rate than was observed under the totally unharmonised conditions prevalent in the mid 1990s.

4.22 Beyond level 3, linking improvements in public expenditure management to development outcomes is the same challenge as faced in the evaluation of General Budget Support, and therefore the same approach can be adopted.

⁶ A related benefit of harmonisation under the Rome Declaration is the commitment to introduce systems for donors to regularly disclose commitments and disbursements at country and sector level. Ensuring that aid resources are at least registered 'on-budget' is therefore essential for reducing transaction costs arising from duplication and mismatching funding against government priorities.

5. Refining and applying the Evaluation Framework – The Challenges

5.1 A separate paper outlining issues and options for an evaluation of harmonisation has been produced for EvD. This section only highlights key issues in further developing and then applying the framework.

5.2 Strengthening the framework

5.3 Use of an evaluation framework assumes that a deductive evaluation approach will be used, in which the evaluation framework reflects a body of theory or existing empirical evidence. The task for the evaluator is then to gather evidence, or data, to assess the evaluated against the framework. At present, no suitable bodies of theory or empirical evidence exist upon which to construct the evaluation framework.

5.4 Hence, the causal chain shown in Figure 2 of this report is very much a preliminary attempt to represent conventional wisdom and should be expected to change significantly as more evidence becomes available. However, it is also true that the evaluation framework undoubtedly represents a reasonable hypothesis given our understanding of how organisations and institutions operate.

5.5 This strongly suggests that the need is to start with an inductive approach to examining the benefits of harmonisation (and alignment) as the basis for amassing sufficient empirical evidence upon which to strengthen the evaluation framework.

5.6 In this case, the possibilities of using in-country exercises such as the Tanzania biennial Independent Monitoring Group report or the annual Programme Aid Partners (PAP) monitoring exercise would need to be explored, as well as the feasibility of using the framework to enhance the quality of the significant number of joint evaluations being undertaken by members of the Evaluation Network. For example, the recently completed basic education evaluations.

5.7 An inductive approach would generally be expected to use the following approach:

- first, one starts by identifying what the major changes in the institutional environment required for more effective development assistance. These provide the analytical starting point for the evaluation and are the 'dependent variable' that must be explained and need to be defined with the key stakeholders in each institution. In this case an institution can be defined as the whole development institution in a country or the development institution at the level of a particular sector. In this case, the dependent variable is the effectiveness of management by government of the financing and institutional framework for public spending and public policy (Level 3B)
- step 2 would be to get the facts on **what** has changed from over a period of time to the dependent variable and what the key organisations within that institutional environment have done (for instance what harmonisation measures have they taken). The inductive approach differs here from the deductive approach in that

the evaluation approach aims to establish the **empirical facts** about changes in the dependent variable and of various possible explanatory variables before moving onto trying to identify what the causes of actual observed are

- step 3 would be to begin analysing **how** changes have occurred. Unlike in the case of the normal deductive approach, in the inductive approach, the evaluator would make no *a priori* **assumptions** about the efficiency of harmonisation initiatives compared to other possible explanatory variables
- step 4 is to reach conclusions on **why** these changes have occurred and what can be learned? Effectively to what extent can we infer that observed changes are at all due to harmonisation

5.8 Of course, application of an inductive approach is just as difficult as using a deductive approach, but is probably more suited to our present state of knowledge. For instance, it allows to start to define the currently unclear directions of causality are between country ownership, alignment and harmonisation.

5.9 Measurement of the benefits

5.10 Measurement of benefits is a further significant challenge. Identification and measurement of aid transaction costs presents several conceptual and practical problems for which no agreed methodologies currently exist and would therefore need to be developed.

5.11 Assessing savings in terms of administrative transaction cost savings from level 1 to 2 is possible.⁷ Such analysis would need to be carried out for each aid delivery modality, with the counterfactual used in each case being unharmonised use of that aid modality. The Bangladesh example does indicate how some such costs (such as the cost of maintaining separate PIUs) may be measured, but attempts to measure administrative time savings have been generally unsuccessful. For example, Brown et al (2000) concluded that:

'This study had originally been conceived in order to quantify such transaction costs in Viet Nam. Surveys were developed, and interviews carried out accordingly. It became apparent however that:

- *it is very difficult to gather quantitative information on transaction costs. This is partly because there is no tested methodology available to measure them, and partly because availability of data in Viet Nam was more limited than expected. The approach adopted therefore focuses more on the qualitative aspects of transaction costs*
- *measuring transaction costs in Viet Nam in itself incurs unacceptably high transaction costs. This had the result that some respondents were unwilling to take part, and all found it very difficult and time consuming to complete the questionnaire. For example all government respondents found the quantitative questions impossible to answer - none were able to break down or cost their time*

⁷ Direct transaction costs arise from inputs of resources needed for the transaction. The main such costs are administrative overheads, in particular staff time.

according to the distinct activities identified, which in itself is revealing (Paragraphs 1 and 2)

5.12 Experience therefore suggests that the most feasible approach to measuring such administrative transaction costs will be through triangulating the perceptions and opinions of those actively engaged. In such an approach, the practical problem be establishing with respondents when there has been an overall decrease in administrative transaction costs rather than a shift in transaction costs.

5.13 For example, in the Tanzania example below, there is obviously a saving in transaction costs because of the shift to a single reporting system for all donors supporting PRBS. However, unless care is taken, many respondents will assume that the counterfactual is project aid. It is much more difficult to calculate whether there have been savings in transaction costs due to harmonisation from using PRBS rather than projects to deliver this aid.

5.14 In many cases, transaction costs may have been transferred from the donors to the government systems in a shift from harmonised projects to harmonised PRBS and while theoretically possible to quantify whether or not there have been such administrative savings, experience suggests that such an attempt may impose unacceptable transaction costs in itself.⁸

5.15 Indirect and opportunity costs are inherently unobservable and so are not susceptible to measurement.

5.16 However, if a more rigorous, but also feasible, methodology for assessing transaction costs could be devised, it would have very significant benefits for establishing an evidence base on the benefits of both harmonisation and alignment, as well as for assessing the costs and benefits of alternate aid delivery modalities.

5.17 More widely, examinations of transaction costs in other fields have used approaches that have imputed these costs from the behaviour of economic agents, using a variety of statistical techniques, and then ranked them ordinally (in other words: qualitatively). This does therefore suggest that there may be approaches that can be used to examine transaction costs that may be both feasible and more robust than those currently in use. However, this remains to be tested.

5.18 Evaluating harmonisation or evaluating alternative aid delivery modalities?

5.19 Analysis necessitates (i) examining the shifts in transaction costs across all of the major aid delivery modalities used in a particular country and (ii) assessing how transaction costs are shifted between stakeholders due to greater donor harmonisation.

⁸ See Adrienne Brown, Felix Naschold, Tim Conway, and Adrian Fozzard (2000) *Aid Transaction Costs in Viet Nam*. Centre for Aid and Public Expenditure (CAPE), Overseas Development Institute, paragraphs 1-2 and 20. They point out that many of the activities relating to ODA agreements would have to be undertaken by government if the activities were financed from internal resources. Consequently, these activities may only be considered as sources of transaction costs where they are additional to those that would be undertaken by government anyway. The application of donor specific procedures for reporting, auditing and monitoring, and the drafting of financing agreements would be examples.

5.20 However, key points in figure 2 are that the real benefits of reduced transaction costs should be examined at the level of the partner government's ability to use the time and capacity savings and increased knowledge of aid flows productively to more effectively manage the overall business of government, on the assumption that better resource allocation decisions (especially of national resources which dwarf aid) will then lead onto faster growth and poverty reduction.

5.21 A major challenge when evaluating harmonisation is how to separate an examination of the costs and benefits of harmonisation from the debate about the relative merits of alternative aid delivery modalities and especially the relative balance between programmatic and projectised aid delivered in a particular country.

5.22 This is clearly revealed in the discussion of evidence from Mozambique and Tanzania below in Section 6. It is feasible to examine perceptions of how direct transaction costs have changed, and been shifted between groups, under each aid delivery modality.

5.23 However, extending the analysis into considering the relative costs and benefits of differing proportions of say programmatic and project aid in a particular country would be significantly more challenging and would imply commissioning of a potentially massive piece of work. This is illustrated by the on-going evaluation of general budget support, which is the most resource intensive joint evaluation commissioned to date, yet only focuses on a sub-set of the issues that would need to be examined here.⁹

⁹ The GBS evaluation for example does not examine performance of a countries portfolio of projects, which would be necessary here.

6. Evidence of the impact of harmonization?

6.1 Harmonisation in Tanzania¹⁰

What has happened?

6.2 To understand what has happened to transaction costs it is first necessary to understand what has happened to the volume and types of aid found in Tanzania. In real terms, the volume of aid flows decreased from 1992/93 through 1995/96, before starting to increase again. By 2002/03, aid volumes in real terms were over 70% greater than in 1992/93.

6.3 The External Finance Department of Tanzania's MoF reports that in FY 2003 PRBS and Highly Indebted Poor Countries (HIPC) relief comprised slightly more than 50% of all aid flows, common basket funds were some 17% and projects slightly over 30%.

6.4 In value terms, the level of non-programme aid peaked in 1999/2000 and has subsequently declined slightly. However, in 2002/03 the volume of non-programme aid was still double in real terms what it had been in 1992/93 and projects remain very significant in Tanzania. At line ministry level, only in the health and education sectors there has been a clear and unequivocal shift away from project funding to budget funding (including GBS) and basket funding; this does not appear to be the case in any other sector to date.

6.5 The Government of Tanzania has been undertaking donor-supported measures to improve its management of development processes and systems and increase donor harmonisation since 1994. This started with the first Helleiner Report in 1995 which set out 22 recommendations for improving the relationship between donors and the Government and steps to be taken by the Government, with assistance from the donor community, in order to strengthen its own internal systems and processes.

6.6 Based on the Helleiner report and following a change of government in 1995, a dialogue between the Government and donors was initiated in 1996. In February 2002, the government and donors jointly appointed an Independent Monitoring Group (IMG), which produced a further 35 recommendations to government and donors on strengthening harmonisation and alignment.

6.7 Concurrently, in 2002, the Government finalised a Tanzania Assistance Strategy, which laid out a set of principles and best practices for the management of external assistance and included a specific undertaking by the donors to harmonise their rules and procedures in order to enhance government ownership. It is therefore unsurprising that the OECD-DAC's survey of progress in harmonisation and alignment (September 2004) concluded that the harmonisation agenda was well established in Tanzania. For

¹⁰ This example has in the main been drawn from Booth, D., A. Lawson, T. Williamson, S. Wangwe and M. Msuya (2004) Joint Evaluation of General Budget Support in Tanzania, 1995-2004. Report to the Government of Tanzania and the Poverty Reduction Budget Support (PRBS) Development Partners. Nov. 2004.

information, details of progress against the specific action areas commonly identified by the OECD-DAC on harmonisation are at Annex 3.

Have transaction costs declined?

Overall conclusion

6.8 Three major studies have been completed since late 2002, which comment upon aspects of the status of harmonisation in Tanzania and its possible benefits and costs.¹¹ It should be noted that this case study focuses in the main on harmonisation in the context of the use of General Budget Support (GBS) and there may be other significant harmonisation benefits. Unfortunately, these have not been assessed and documented and therefore cannot be included in this case study.¹²

6.9 All three studies are clear that donors have made strong efforts to harmonise aspects of their aid management in Tanzania and that there have been significant shifts in who bears what transaction costs.

6.10 While there are strong indications that the transaction costs associated with managing PRBS have declined due to harmonisation and it is probable that key MoF staff have more time as a result of harmonisation around the unified Performance Assessment Framework, as yet there is no evidence that this has actually allowed them to markedly improve public expenditure management.

6.11 In other words, there is some evidence that harmonisation under PRBS has contributed to the efficiency of management of PRBS, but none that increased efficiency has led to increased development effectiveness.

6.12 All three studies also suggest that there is little evidence that the overall transaction costs of external assistance in Tanzania have fallen significantly over the past decade and conclude that overall transaction costs will not decrease significantly without a significant decrease in the number of projects and further evolution in the management of the common basket funds.

6.13 Within this context, only two donors (DFID & the EC) have had an explicit policy to shift from projects towards PRBS, while most have favoured “programmatic approaches” and the 3 largest project funders (World Bank (WB), African Development

¹¹ These studies are: (i) IMG (2002) Enhancing Aid Relationships in Tanzania: Report of the Independent Monitoring Group, Report submitted to the Tanzania Consultative Group Meeting, December 2002; (ii) Odén, B. and T. Tinnes (2003) Tanzania: New aid modalities and donor harmonisation. NORAD Report 8/2003; and (iii) Booth, D., A. Lawson, T. Williamson, S. Wangwe and M. Msuya (2004) Joint Evaluation of General Budget Support in Tanzania, 1995-2004. Report to the Government of Tanzania and the Poverty Reduction Budget Support (PRBS) Development Partners. Nov. 2004.

¹² Examples would include: (i) The current development of the Joint Assistance Strategy, which while initiated by the donor community, is now being driven forward by the Government of Tanzania; (ii) The refocusing and invigoration of the Development Partners Group under the chair the UN Resident Representative; and (iii) The rebirth of the Consultative Group relationship.

Bank (AfDB) and Japan) have no explicit policy to reduce project funding to the public sector. Neither is a shift from project funding to PRBS explicit policy in the Tanzania Assistance Strategy.

6.14 The above conclusions are neither a simple endorsement that all aid needs to be channelled through PRBS nor that harmonisation has not had an impact on aid management in Tanzania. Rather, it is an illustration of the complexity of the relationships between harmonisation and development effectiveness.

Transaction costs and PRBS

6.15 In 2004/05, US\$400 million of donor funding, which along with HIPC, will represent over 20% of total Government of Tanzania expenditure, will be channelled through PRBS. It is undoubtedly true that the transaction costs associated with managing these funds have been reduced due to harmonisation.

6.16 At a minimum, the agreement to accept use of a single Unified Performance Assessment Framework by the fourteen donors that contribute such funding represents a significant reduction in transaction costs to the Ministry of Finance compared with a situation in which the MoF needed to prepare 14 separate reports. Now, the MoF prepares a single report every six months, which is mostly based on information available under statutory or ad hoc reporting requirements, which already exist within government. This is seen as highly significant by Ministry of Finance officials.

6.17 The MoF also reports that use of the unified Performance Framework has further reduced transaction costs, since improved understanding of government policy amongst the donors has decreased the need for MoF briefings to donors' project design teams and country strategy teams. This directly impacts on one of the major transaction costs commonly identified, which is the number of mission demands upon key government staff.

6.18 For the donor partners, the perception is that reduced transaction costs for administering PRBS to Government entailed an initial increase in transaction costs to themselves, necessary to create the Performance Assessment Framework. However, transaction costs to the involved donors are now seen as falling, as the systems become more institutionalised.

6.19 In at least one case, the EC, the reduced administration costs of PRBS has also allowed the agency to directly capture administrative cost savings, by reducing the number of project administrative staff employed in its country office. However, the problems of harmonizing arrangements across 14 partners are also becoming increasingly evident and a further set of proposals was prepared in August 2004 (by the outgoing coordinator of the group) for streamlining the management structure of the PRBS group and for improving the interaction between the technical and political (Heads of Cooperation) levels within the PRBS agencies.

6.20 The example of harmonisation around PRBS also clearly shows that the proposed relationship between harmonisation and increased government ability and capacity is not a simple linear one. In this case, the significant improvement in the capacity of staff within the Tanzanian MoF in the late 1990s preceded moves by the donors to harmonise their requirements, and may even have been a major driving force for harmonisation.

6.21 The proposition is that harmonisation should lead to the MoF staff having more time to manage public expenditure management and that this should in turn lead to more effective management. While it is probable that key MoF staff have more time as a result of harmonisation around the unified Performance Assessment Framework, as yet there is no evidence that this has actually allowed them to markedly improve public expenditure management.

6.22 In Tanzania, it instead appears that such potential time benefits are swamped by more significant constraints in the public expenditure management system, including the continued high transaction costs of managing project and common basket funds and the increased demands for consultation found with the introduction of common basket funding and PRBS.

6.23 These transaction costs apply to both the MoF and, more importantly, to the Tanzanian line ministries and are the reason that all three recent studies state that overall transaction costs will not decrease without a reduction in the level of projects. However, these issues are well known to the involved stakeholders and there is evidence that they are being addressed.

Aid dialogue related transaction costs

6.24 The rapid increase of programme aid modalities has increased the number of new processes linked to the monitoring of the programmes, which are not sufficiently harmonised between themselves nor aligned in the budget and financial management systems, as shown in the table below.

Forum	Headquarter participation	Topics	Frequency of meetings
<i>Overall level:</i>			
Consultative Group	Yes	Good governance, macro economy, poverty etc.	18 months interval
Poverty Policy Week	No	Draft PRSP progress report, Poverty and Human Development Report	Annually (September)
Public Expenditure Review	Partly	Medium-Term Expenditure Budget, PER sector reports, PER external evaluation report	Annually (May)
<i>Budget support and sector baskets:</i>			
Budget support facility (PRBS)	For some donors	Monitoring of progress	Two annual meetings /reviews
SWAp (health and education)	No	Monitoring of progress	Annual review, quarterly meetings
Local Government Reform Program (LGRP)	No	Monitoring of progress	Annual review, quarterly meetings
<i>Sector level:</i>			
PER sector working groups	No	Sector studies	Differs, several over a year
Other government – donor sector groups	No	Ongoing programs/projects, sector issues in general	Differs, but often several times a year

6.25 Development of a new streamlined annual calendar to link the annual PRS review process with the MTEF/budget cycle and integrate the various aid consultation processes, such as the Consultative Group (CG) meeting may be the first step to harmonising such demands across government and therefore decreasing transaction costs.

6.26 As suggested under the Rome Declaration, there have also been moves to enhance the sharing of information to promote transparency and improve coordination. Only Japan does not now regularly disclose its commitments and disbursements at country and sector level, and an increasing amount of non-programmatic funding is now included within the budget.

6.27 While this has helped strengthen the MoF's authority relative to the line agencies in the annual public expenditure review process, serious issues remain over the fact that much of this funding is not subject to the government's budget process. Donors have also moved to increasing access to their own analytical work and several now place analysis on a national website. Examples of donors carrying out joint diagnostic reviews are also found.

Transaction costs and the project portfolio

6.28 There has been a significant reduction in the number of projects in the budget. In the early 1990s there were up to 4000 projects in the rolling plan and budget. Now there are less than 1000. So donors appear to be spending more money on fewer projects and fewer larger projects may mean that transactions costs are lower for both donors and line ministries.

6.29 However, the reality is that the number of donor projects in the public sector remains high, with 1000 projects accounting for only 17% of aid flows in FY 2003. Prospects that transaction costs in these projects have been reduced are probably slim since many donors report that they continue to use their own external systems, sometimes in combination with or as a supplement to government systems, when administering their projects.

6.30 The recent initiative under the Tanzania Assistance Strategy to develop a Joint Assistance Strategy (JAS) which would replace the individual Country Assistance Strategies may foster a move to silent partnering, which has been rare to date, and so further reduce the number of projects.

6.31 It is hoped that during the process of developing a Joint Strategy, specific agencies will agree to become "lead agencies" for particular sectors, and other agencies be encouraged to adopt "silent partner" roles in these sectors. This benefit would obviously be additional to the more obvious harmonisation benefit of lower transaction costs from having one Joint Assistance Strategy rather than individual Country Assistance Strategies for each donor.

Transaction Costs and common basket funds

6.32 The case of common basket funds is more complex. Common basket funds do offer the potential benefit from economies of scale and lower transaction costs if donors will harmonise their procedures and requirements. However, the perception of the

Tanzanian experience has been that there have been substantial transactions costs around creating and managing common basket funds because common basket funds have essentially been large projects, with the attendant requirement for financing agreements, parallel reporting processes to donors, and separate arrangements and triggers for disbursement.

6.33 When new baskets and pooling arrangements are established, there has also been a tendency among the participating donors to add all their individual conditions and monitoring indicators into the basket system. In the case of the education sector common basket fund, such issues delayed launching of the fund by nearly three years.

6.34 However, the most recent example of a common basket fund does suggest a willingness by donors to harmonise their procedures and requirements. Under the Capital Grants facility under the Local Government Support Programme, donors funding various area-based programmes have agreed to fold their funding into a single development grant for local governments.

6.35 Although a common basket fund, this is likely to result in significant efficiency gains. Mainly this is because it replaces a set of unevenly spread projects with multiple modalities with a single countrywide grant for delivering discretionary development financing locally. However as it is also linked to capacity building, and a system of incentives for upgrading local performance, it offers a channel of financing that is planned to evolve into the national grant for development financing, and so replace the need for separate development grants under health and education for instance.

6.36 With the common basket funds, whether transaction costs have or will decline, or be shifted, depends upon the way the basket fund is administered. Issues here include the type of funding modality (i.e. separate or pooled funding), degree of harmonisation of procedures (separate donor procedures or harmonised application of procedures of recipient country), the type of programme management (i.e. parallel donor structures or incorporation in regular administrative structures of recipient country) and participation in institutions of coordination (e.g. in sector groups).

6.37 In the case of the education sector fund, donor coordination and harmonisation is handled by a joint secretariat. This necessitates a continuous consultative process among the donors to ensure that the coordinator acts on behalf of the group. Although this is a time-consuming activity for the donors, it is considered that it still lowers transaction costs, compared with maintaining separate project implementation units, for the line ministry compared to a situation where all aid agencies had individual agreements, missions etc.

6.38 The Public Expenditure Review (PER) basket appears to have transferred transaction costs from donor agencies to Tanzanian authorities, as the responsibility for procurement and implementation has moved to them, whereas the basket for diagnostic work on Zanzibar, uses the lead donor model and the procurement of the consultants is with the lead donor United Nations Development Programme (UNDP). This means less transaction costs for all the other donors and probably also less transaction costs on the Zanzibar side.

6.39 Harmonisation in Mozambique

6.40 In this review, while evidence of the impacts of harmonisation is based upon the opinions and perceptions of major involved stakeholders, to be acceptable as evidence it is necessary that these views and perceptions have been triangulated between the stakeholders. In the case of Mozambique, review of available material suggests that there is no evidence available upon the impact of harmonisation. This does not mean that harmonisation activities have not been carried out but reflects two main issues:

- in the case of the large amount of support managed through PRBS it is too early to expect to be able to identify evidence that harmonisation has had an effect. Significant harmonisation across donors only started with the signing of a Memorandum of Understanding (MoU) between the relevant 15 donors (G-15) and the Government of Mozambique on 5th April 2004.¹³ Specific actions under the MoU for the G-15, and a supporting monitoring matrix, were agreed to at the September 2004 Mid-Year Review between Government of Mozambique and the G15. The matrix is based on the results of the 2004 Baseline Survey of Programme Aid Partner performance in 2003, carried out by an independent team of consultants¹⁴. The first section of the matrix reflects specific and broad commitments G-15 donors signed up to in the MoU. The second section reflects broader aid effectiveness objectives to be monitored, which are not specifically set out in the MoU but reflect the determination declared by G-15 in the MoU to work in the spirit of the New Partnership for Africa's Development (NEPAD), the Monterrey Consensus and the Rome Declaration on Harmonisation
- while there have been harmonisation initiatives at sector level since at least 1996, no reviews aiming to identify and assess the impact of harmonisation at sector level have been carried out¹⁵

6.41 The present case of Mozambique does illustrate one of the major challenges for assessing the impact of harmonisation, which is the debate over the relative merits of alternative aid delivery modalities. Batley et al (2004)¹⁶ state that:

¹³ Canada decided to join the G-15 in November 2004, but has yet formally to do so. Outside the G16, there are donors - such as the USA, Japan and Spain - which collaborate with the Group, coordinating aspects of their aid and participating in some working groups without contributing to budget support. USAID has considered the possibility of joining (USAID 2004) but rejected it. The Japanese Government, which offers import support and food aid as well as project aid, is also currently considering its position. In the meantime it aims to work within the same frameworks as the G16.

¹⁴ Baseline Study on PAP Performance in 2003 – September 2004 – Report to the G15 Programme Aid Partners and Government of Mozambique by Richard Gester and Alan Harding.

¹⁵ Harmonisation has been most advanced in the agriculture, health and education sectors, where harmonisation has occurred through the use of both sector level budget support and the use of projectised basket funding for government activities. Examples of silent partnering are also found in Mozambique, but again the impact of these in terms of administrative savings have not been systematically documented.

¹⁶ Batley, R., C. Certan, A. Cumbi, A. de Groot and C. Harvey (Nov. 2004) Evaluation of General Budget Support: the case of Mozambique. GBS Country Evaluation, Phase 1 Report.

“ While it is dangerous to caricature complex positions, the G16 could be described as containing two or three 'groups' (or at least positions). Before going on, however, it should be pointed out that all donors that offer general budget support also give other forms of aid. On the one hand the EC, Netherlands and the UK, backed by the World Bank and International Monetary Fund (IMF), argue for rapid progress towards budget support. This first group is concerned that support to sector budgets might stand in the way of unification in the national budget - "We can only improve the budgetary system by using it". On the other hand, for example, the Nordic states and Switzerland argue for a 'building blocks' approach in which budget support and sector support go hand-in-hand towards a future in which both are integrated into a national financial management system. The concern of this second group is that too rapid a commitment to budget support will stretch the capacity of government ministries and present problems of fiduciary risk. Thirdly, the more recent members of G16 - for example, Germany, Portugal, Italy - have initially made small contributions, gaining a seat at the table from which their position may evolve.”

6.42 The divergent views of the concerned donors are reflected in the relevant indicator in the 2004 matrix, which is a tracking indicator of the share of Budget Support/Balance of Payments Support (BS/BoPS) in these donors' total aid (excl. aid to NGOs and private sector), rather than a timebound target of the proportion. The matrix also states that where appropriate donors will increase the volume of BS/BoPS and turn other aid modalities into BS/BoPS.

6.43 The challenge therefore is in terms of what added value an evaluation of harmonisation will add in such a context. The example of Tanzania above suggests that the Mozambique evaluation conclusion would be that the benefits of harmonisation around PRBS have been constrained by the effects of other aid modalities on the operation and effectiveness of government financial planning and expenditure systems.

6.44 This conclusion assumes that the counterfactual used is a greater proportion of budget support. However, many would argue that this conclusion is misleading, since it does not recognise the divergent views on the risks involved in the counterfactual (both to governments in terms of predictability and donors in terms of fiduciary risk) or of the feasibility of the government being able to effectively disburse and utilise large aid flows to address poverty reduction.

6.45 Harmonisation in Bangladesh – The case of the health sector SWAp

History

6.46 Aid to the health sector has always been a substantial proportion of total funding provision for health and family planning services in Bangladesh, with the Government's contribution tending to range between 60%-70%. Harmonisation efforts in the sector started in 1992 with a consortium of donors joining together to fund the World Bank-led Fourth Population and Health Project (FPHP). Between 1992 and 1998, in any given year there were 130-150 different projects financed by government and different donors.

6.47 However, it was recognised that Ministry's ability to deliver health services had been compromised both by its previous history as a manager of projects and also the

influence of the cadre system within the GoB civil service. Both had become deeply institutionalised, and in response to much urging from donors the government had created a separate Family Planning Directorate with a separate cadre of civil servant for delivering family planning services.

6.48 This Directorate had also started to provide maternal and child health services, thus creating duplication as well as rivalry between the health and family planning cadres. The conclusion was that the system that had developed was grossly inefficient, and not well suited to deliver integrated health services.

Development of a SWAp

6.49 In response, a new Health and Population Sector Strategy (HPSS) was developed in the mid 1990s, and finalised in 1997. Implementation of the new strategy was in turn supported by the Health and Population Sector Programme (HPSP), a SWAp designed to ensure that government action and resources make a cost-effective contribution to the priority health needs of the poor, particularly women and children. HPSP started 1 July 1998.

6.50 HPSP is the composite 5-year programme, which includes SWAp financing and management modalities, plus the requisite reforms needed to implement the SWAp and to reform the way in which the Ministry operates. Its main elements are:

- greater commitment to basic services for the poor through an Essential Service Package (ESP), attracting an increasing share of resources
- progressive adoption of a sector-wide management approach, with integration of external assistance into ministry programmes rather than continuing over 100 separate projects
- reorganisation of the Ministry through integration of the Health and Family Welfare wings at Upazilla level (sub-district) and below levels; decentralisation and strengthening of management, and increased partnerships with the NGO and private sectors

6.51 Approval of the radical HPSS/HPSP along with Ministry's approach during HPSP development indicates GoB's strong commitment to improving health sector performance despite the lack of wider public sector reform in Bangladesh. It must also be recognised that the deep reaching reform agenda associated with the Bangladesh SWAp is being implemented against a backdrop of minimal overt political commitment to, or movement towards, generalised civil service reform, coupled with an entrenched, reactionary and powerful civil service.

6.52 Added to the lack of impetus for reform from within the system, in Bangladesh pressure groups and interest lobbies are strongly developed, not least in the form of powerful trades unions. These are strong players within the health sector. It is part of political folklore that a strike by doctors contributed to the collapse of a previous government.

GoB / Development Partner Management Arrangements

6.53 There is no formal memorandum of understanding between the SWAp partners that defines their relationship or roles or responsibilities. The document that acts in this role is the formal credit agreement between the GoB and the World Bank. Whilst this

was a consequence of circumstance, the lack of a specific MoU is increasingly considered problematic.

6.54 It has resulted in the relationship between the partners tending to drift back towards “project mode” with the pool funding donors occasionally resorting to the use of conditionalities. It also has the consequence that while the responsibilities and the reforms expected of the Ministry are well defined and laid out, the changes necessary in the working methodologies of the donors are not defined. Many would argue that in the Bangladesh SWAp experience, the Ministry and the GoB have been more prepared and able to review their working practices than the donors have been. The Ministry has recently drafted an MoU for discussion with the donors.

Lessons Learned on MoUs

- a memorandum of understanding between the partners in a SWAp is a very important document
- this is not only as it defines Government responsibilities, but also as it defines donor roles and behaviour
- many would argue that the Bangladesh SWAp experience has been that the Ministry and the GoB have been more prepared to review and change their working practices than have been the donors. An MoU may help donors to adapt to SWAps as much, if not more, than Government

Pooling Funds

6.55 The long-term vision is that all external resources for the sector will be channelled through the Government and Development Partners funding pool. However, in the early years it was anticipated that some development partners would continue to provide support in kind (Technical Assistance, commodities and equipment, funding direct to NGOs) or in the form of earmarked grants and loans for specified activities or budget items.

6.56 It was hoped that as HPSP proceeded donors would move towards pool funding at a variable pace, depending on individual constraints, and a rising share of the external support would be provided through the pooled funding and common procedures. In 1998-2000, along with GoB funding, pool funding of US\$341 million was provided by the International Development Association (IDA), DFID, SIDA and the Netherlands.

6.57 The Netherlands has been the purest advocate of pooling, committing all its funds to the pool and resisting and arguing against parallel funding. In contrast, within the World Bank's IDA trust fund some donors reached agreement that some of their money would be earmarked, i.e. not fully in the pool (e.g. CIDA support of Project Coordination Committee (PCC)), or ring fenced (e.g. IDA HIV/AIDS funding) for particular activities. ~~In 2001, the EC also joined the pool contributing US\$ 61 million to the pooled financing arrangements.~~

Deleted: In the third year

Pool fund plus

6.58 Some donors who committed to the pool also wished to continue parallel funding outside the pool. While these activities are reflected to a greater or lesser extent in the Annual Operation Plans, the funding is direct from the Decision Point (DP) to the agency. An example of this approach is DFID. DFID is a pool funder, but funds Technical Assistance (TA) to support HPSP directly and funds NGOs in support of HPSP through the directly managed Bangladesh Population & Health Consortium (BPHC). The reason given for this approach is primarily to increase flexibility in the early years of the SWAp process, or to continue commitments to an existing project.

Parallel Funding

6.59 A large number of donors continue to support from outside the pool. This is for a variety of reasons, both theoretical (principally that they do not fully support the SWAp approach as they have concerns over outcomes) and financial (that the SWAp mechanism does not meet their requirements for disbursement or accountability). Another reason may be that they are unsure of their role in a SWAp process. The main donors who have remained parallel funders are USAID; the UN agencies; Japan and the Asian Development Bank (ADB).

Lessons Learned – Pool Funding vs. Parallel Funding

- the methodology employed in Bangladesh has had the singular success that ALL donors are committed to supporting the SWAp, because it does allow flexible parallel funding
- this means that all Internally Displaced Persons (IDP) funding activities are reflected in Ministry Annual Operations Plans, and all health sector expenditure is potentially captured by Ministry
- in addition, the rapid spending parallel funds (particularly for the provision of essential TA) have meant that vital aspects of the reform work have gone forward despite the procurement problems of the pool
- donors are finding difficulty in establishing the appropriate mechanisms to report parallel expenditure in a timely manner to Ministry (Line Directors are required to report monthly) and differing financial years create problems. This should be anticipated in SWAp design (*See Financial Management*)
- the availability of parallel funded TA reduces pressures to make the pool funded procurement mechanisms work and preserves the remnants of the projectised system

Have transaction costs declined?

6.60 The rapid increase of programme aid modalities has increased the number of new processes linked to the monitoring of the programmes, which are not sufficiently harmonised between themselves nor aligned in the budget and financial management systems, as shown in the table at Annex 4.

6.61 Implementation of the vision of a sector wide approach has been handicapped because the tensions between the Bangladesh Population & Health Consortium, which

has directly managed TA in support of the SWAp, the Steering Committee of the Health Programme Support Office (HPSO), which aims to co-ordinate the donor support for the sector programme, the non pool financing donors and the World Bank.

6.62 In truth, donors were a long way from a common view of a sector programme in 1998 but many of these prejudices and misunderstandings remain. The SWAp has therefore become synonymous with pooled financing and how this should be administered rather than with improved policy dialogue and a broadening of the understanding of the health sector choices.

6.63 Transaction costs for donors participating in the pool are not seen to have been reduced, with no decrease in the frequency of meetings while donor staff time given to operational issues has increased without significant capacity building within the Ministry of Health. Heads of pool financing donor agencies are concerned that the future SWAp, which has been under development for over 18 months, will still require excessive inputs of staff time without achieving policy impact. Meanwhile the heads of non pool financing donors still see bilateral relationships with GoB as more fruitful which risks undermining future collaboration by the pool donors.

6.64 However, the evidence is not entirely negative. For example, pooling of funding is likely to be a significant factor in the increased disbursement rates observed over time. During the first four years (1992-1996) of implementation of the World Bank-led Fourth Population and Health Project, which was funded by a consortium of donors, only 12 percent of the committed consortium funds were utilised.

6.65 However, in the first two years (1998-2000) of the Health and Population Sector Programme SWAp, more than 35% of the committed pooled funds were utilised and disbursed. This increased rate of disbursement reflected different organisational arrangements, as under the SWAp a more efficient approach to reimbursement across all of the pooled funds was used.

6.66 Efficiency-wise, the move to pooled funding can be seen to have saved transaction costs through the simple elimination of the need to rent office space for individual PIUs. In this case, saved rent is calculated to be in the region of US\$ 0.5 million a year, while overall cost savings for project management was over US\$1.0 a year have been estimated.

7. Conclusions

7.1 This work originated from DFID senior managers wanting to know if internal efforts to foster harmonisation are making a difference to aid effectiveness and, if so, why. The ToRs proposed two approaches to meeting this demand.

- a review to see if evidence already exists, mostly based on reviews of harmonisation actions which predate the Rome Declaration
- production of an Issues and Options paper to discuss options for taking forward the design of a full multi-partner evaluation of harmonisation. The probable inclusion of a commitment to evaluate progress at country level in the Paris Declaration on Aid Effectiveness (March, 2005) suggests that this question be modified to also discussing the degree to which this commitment would meet DFID's own needs in the medium term

7.2 Evidence necessary to judge whether harmonisation leads to improved aid effectiveness and greater country ownership in delivering poverty reduction, or to identify which harmonisation inputs (as described in the Action Plan) are more or less efficient and effective in delivering these outcomes, is not currently available.

7.3 The findings also suggest that it is premature to expect that a multi-partner evaluation of harmonisation based on an evaluation framework be launched as assumed in the ToRs for this work. Significant investment in a learning approach to develop the empirical evidence necessary to then develop an evaluation framework that is agreed among stakeholders is first required. This needs to be allied with commissioning of work on whether or not the necessary feasible methodologies can be developed. Assuming that the commitment to evaluate progress at country level in the Paris Declaration on Aid Effectiveness (March, 2005) successfully solves these challenges, the basis for then addressing the questions posed by senior management will then be in place.

7.4 Meanwhile, evaluations could be used to identify an increased number of case studies that illustrate how the lack of harmonisation in specific cases reveals the problems of the overall aid management system and so maintain the political commitment required to implement the harmonisation agenda.

Annex 1: Terms of Reference

EVALUATION OF DFID'S PROGRESS TOWARDS HARMONISATION

PHASE 1: EVALUATION (EXISTING EVIDENCE AND QUALITY ASSURANCE) / ISSUES AND OPTIONS PAPER

Background and rationale

Harmonisation is central to the agenda...

1. The DAC's Rome High Level Forum (Feb 2003) committed donors including DFID to enhance harmonisation by identifying opportunities and implementing activities and incentive structures to drive forward harmonisation¹⁷. This has now been termed the 'Rome Agenda' and DFID is strongly committed to it, both in terms of delivery and monitoring implementation through Director's Delivery Plans and through the annual Departmental Report to the UK Government. A DAC High Level Forum (HLF) on 'Aid Effectiveness: Harmonisation, Alignment and Results' is to be held in Paris from 28 Feb to 2 March 2005 to follow up on progress with the Rome Agenda.
2. Harmonisation is the commitment made by donors to rationalise their multiple, and often uncoordinated, activities in ways that maximise the collective efficacy of aid under country ownership¹⁸. Thus, the expected strategic outputs of harmonisation are more effective aid (including reduced transactions costs) and greater country ownership of aid programmes leading to improved development outcomes.
3. DFID has set out monitorable harmonisation and alignment targets and performance indicators for both Headquarters and 24 country programmes in the 2003 Harmonisation Action Plan. These are also included in Director's Delivery Plans as appropriate. The recent DFID response to the DAC on 'Donor Self Reporting on progress in implementing the Rome Agenda' lists progress in more detail at various levels. Annex 2 of the self report notes DAC and DFID indicators for monitoring progress in delivering harmonisation but these do not go far beyond the input level.
4. As part of DFID's commitment to harmonisation, a PRS and Harmonisation team has been established in Policy Division. This team has initiated a study on incentives for harmonisation amongst donors to help drive forward progress. DFID country teams have also reviewed their progress in harmonisation. The DAC Working Party on Aid Effectiveness has commissioned surveys of progress in harmonisation since Rome in 14 partner countries to help build the evidence base.

¹⁷ The full text of commitments can be found in the Rome Declaration on Harmonisation, February 25, 2003.

¹⁸ DAC Working Party on Aid Effectiveness and Donor Practices (Issues Paper for 2nd HLF on Aid Effectiveness), Paris, 19 Oct 2004.

...but there is limited evidence on the impact of harmonisation.

5. However, despite there being numerous activities in place to take forward the harmonisation agenda and to monitor communication and implementation of harmonisation inputs, there is less clarity on evidence of the outputs, outcomes or impact of these harmonisation inputs (either intended or unintended – the recent joint GBS evaluation literature review found harmonisation to weaken ownership by partner Governments for example). Evidence is also lacking on more or less effective harmonisation practices. Moreover, the effects of harmonisation on domestic donor accountability and on restricting donor flexibility/responsiveness are also untested.
6. These gaps were noted by the Secretary of State in discussing progress on harmonisation in October and an evaluation to provide this evidence was requested at the DFID SCS Leadership day in November. It is critical that these gaps be filled from a DFID perspective in order to help us move forward in implementing the harmonisation agenda and in order to ensure we do it in ways which maximise the effectiveness of our development programme.

Why evaluate in this way, at this time?

7. It would be ideal to consider the impact of harmonisation practices in a harmonised way with development partners (both donors and partner Governments). However, as a pragmatic first step to help DFID prepare for the forthcoming DAC HLF, this work will focus on the DFID angle initially. The findings should however be shared with other partners to facilitate learning. The issues and options paper however should consider the feasibility, benefits and risks of taking forward a harmonisation evaluation jointly with development partners over the medium term – this can then be discussed in the follow up to the HLF.
8. In addition to informing the HLF, both the evidence review and Issues and Options work from Phase 1 will also help expand the evidence base to inform the proposed 2005 multi-year DFID action plan on harmonisation being taken forward by the PRS and Harmonisation Team in Policy Division.

Approach and Methods

Review of existing evidence / quality assurance

9. A theory based model will be employed and the review will sketch out an evaluation framework from the available materials linking DFID's harmonisation inputs to outputs, outcomes and impacts and noting major risks at each level (the 2003 Action Plan is a key resource for this). It should also explore the definitions of harmonisation and transactions costs implicit in DFID's policy.
10. A desk based evaluation literature review (including specific country level data) will form the bulk of the methods for Phase 1 tracking evidence against the framework including intended and unintended effects (e.g. costs of harmonising conditionality to partner Governments). This will be done together with phone-based interviews with key DFID staff in Evaluation Dept, Policy Division, at least 3 country offices (but noting incentive issues hence balancing this with other donor views/partner Government

views where possible) and the DAC Secretariat. Tanzania offers excellent existing material for a case study, which could be followed up by phone if necessary.

11. If helpful and on the approval of EvD, questionnaires can be circulated more widely but not where data are already available or have recently been collated (to avoid overburdening DFID staff and our partners). It would be helpful to visit at least one country programme where harmonisation is considered to be at an advanced stage of progression to provide some quality assurance to the DAC self assessment and to further test the evaluation framework. Precise locations to be agreed with DFID idc (EvD and Country Programme Heads).

Evaluation questions

12. Although definitions remain unclear, the appropriate depth of definition is beyond the scope of an evaluation (although when eliciting views from country offices, it would be valuable to capture interpretations of the concept). Hence using the definitions from the Action Plan, the focus of the evaluation will be to answer the questions:
 - i. Does harmonisation lead to improved aid effectiveness and greater country ownership in delivering poverty reduction?
 - ii. What harmonisation inputs (as described in the Action Plan) are most or less efficient and effective in delivering this?
 - iii. Are there significant contextual factors which impact on these findings? (this includes a range of supplementary questions such as: what is the most effective speed and sequencing of harmonisation activities; is harmonisation more effective where led by Government or by donors, e.g. is it the case that harmonisation in aid dependent countries is more effective if led by Government and vice versa? Etc.)
13. A realistic counterfactual should be developed to illuminate the alternative path to harmonisation as currently defined. Phase 1 will consider these questions and counterfactual development as far as is possible although it will not be able to address these in a rigorous way given time constraints. Therefore, phase 1 should also highlight gaps in existing knowledge and make recommendations for further evaluation work.

Issues and Options Paper

14. A separate Issues and Options paper should supplement the review – the main audience for this report will be EvD (Mike Hammond and Kate Tench). This paper should present and discuss options for design of a fuller evaluation including: gaps in available evidence, policy space and demands for evidence, interest of other donors, feasibility in evaluating jointly, cost of delivery (absolute and opportunity), value in improving effectiveness, feasibility of assessment and suggestions for the approach and methods to be employed (including counterfactual development and sampling frameworks) which could be employed. The issues and options paper should be presented clearly with a summary of key recommendations for moving forward with a full evaluation¹⁹.

Inputs

¹⁹ Note the PRS and harmonisation PD team are designing indicators for the action plan; this study could help inform that process but should not duplicate.

15. Up to 9 combined person. Estimated breakdown as 4 weeks desk based evaluation framework and literature review, 2 weeks country missions and interviews, 3 weeks drafting, amending and presenting (precise allocations within the total flexible and to be agreed with DFID in the consultant's workplan).

16. Relevant materials and groups will include:

- OECD - DAC Working Party on Aid Effectiveness and Donor Practices (contact Simon Mizrahi (simon.mizrahi@oecd.org); DFID contact Sam Sharpe, Head Aid Effectiveness Group, Policy Division s-sharpe@dfid.gov.uk)
 - Especially the Task Team on Harmonisation and Alignment (Greg Briffa, Policy Division leads for DFID g-briffa@dfid.gov.uk)
- EU ad hoc Working Party on Harmonisation including Harmonisation Action Plan (Greg Briffa)
- DFID's 2003 Harmonisation Action Plan
- DFID's Donor Self Reporting on progress in implementing the Rome Agenda including annexes
- Policy Division's Diagnostic Study on Incentives for Harmonisation in development agencies.
- OECD-DAC Survey on Harmonisation & Alignment: Country Studies and Synthesis (www.oecd.org/dac)
- DAC Guidelines: Harmonising donor practices for effective aid delivery
- Papers for Nordic + proposed evaluation of Harmonisation in Zambia
- DAC Joint Learning and Assessment (JCLA) Nicaragua
- Papers for Africa Workshop on Harmonisation in preparation for HLF2 (Nov 04, Dar Es Salaam)
- CDF evaluation 2003
- Joint GBS evaluation literature review (Oct 04) and Tanzania GBS evaluation report (Nov 04)
- PRSP/PRGF (IMF) and PRS (World Bank) evaluation reports, 2004
- WHO-DFID Partnership evaluation (Ev651, Sept 04)

It is worth noting that the bulk of the plethora of material available on harmonisation does not address effects or impacts of harmonisation so is unlikely to help deliver evidence against the evaluation questions. But it does contain useful conceptual information.

Outputs and timing

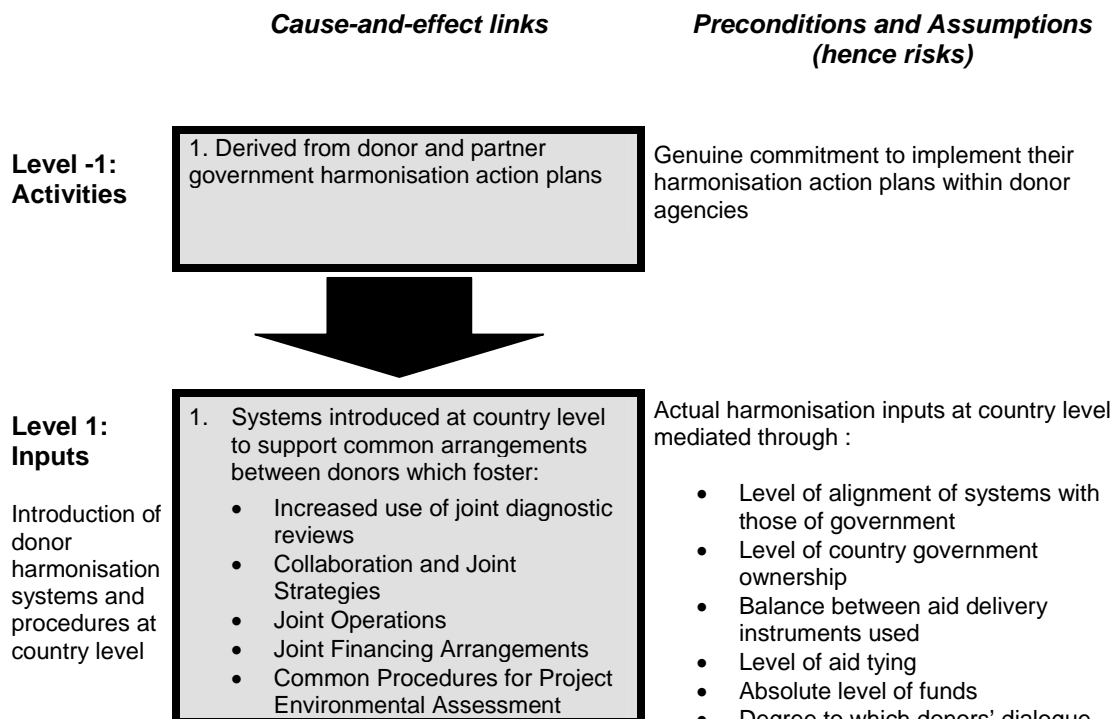
- Contract for Phase 1 to begin on 22 November 2004 and run until 15 March 2005.
- Workplan and evaluation framework draft for comment and discussion w/c 6 Dec
- Draft final report for comment (including evidence review and country data) 12 January 2005
- Final report w/c Feb 7 in plain English, suitable as briefing for Ministerial team with annexes as necessary
- Presentation to DFID officials in preparation for DAC HLF in London w/c Feb 14 (including powerpoint slides for use by EvD/AE Team in briefing Ministers)
- Issues and options paper for evaluation of DFID's harmonisation programme – timing to be confirmed (up to mid March 2005) but helpful to have at least indicative recommendations by mid Feb.

Contact

17. The evaluation will be lead by EvD's Team 2: Aid Effectiveness, Growth and Investment. Kate Tench (Team Leader / Economic Adviser: k-tench@dfid.gov.uk, Tel 01355 84 3639) will lead the work supported by Joe Reid (Programme Manager: j-reid@dfid.gov.uk , Tel 01355 84 3961).
18. The main audience for the work in DFID will be the Aid Effectiveness Group in Policy Division, headed by Sam Sharpe. Specifically, the Harmonisation and PRS team in Policy Division and Greg Briffa / Matthew Sudders in particular. The theme of this work is of strategic importance to Ministers and DFID's Top Management who will wish to contribute to draft reports (via EvD) and for whom reports should be written in preparation for the DAC HLF in Paris in Feb/March 2005.

Team 2: Aid Effectiveness, Growth and Investment
Evaluation Department
DFID
19 November 2004

Annex 2: Detailed Evaluation Framework for assessing the impact of Harmonisation



Cause-and-effect links

**Preconditions and Assumptions
(hence risks)**

<p>2. Option for simplification of procedures introduced at country level which foster:</p> <ul style="list-style-type: none"> • Streamlining of conditionality introduced • Reduced number of field missions from HQ • Reduced number of reports required by donors • Financial Management and Procurement procedures between donors harmonised • Delegated Cooperation introduced
<p>3. Systems introduced by donors at country level which foster sharing of analysis and diagnostic reviews between donors, principally allowing:</p> <ul style="list-style-type: none"> • Increased access by partner government and other donors to agency's country analytical work. • Increased use diagnostic reviews from other agencies. • Systems introduced for donors to regularly disclose commitments and disbursements at country and sector level.



**Level 2:
Outputs**
Harmonisation outputs across aid delivery modality and in strategic portfolio management

<p>1. Increased harmonisation in development and administration of Poverty Reducing Budget Support increases aid management efficiency.</p>	<p>Partner governments have ownership of the process</p>
<p>2. Increased harmonisation in development and administration of Sector Budget Support increases aid management efficiency.</p>	
<p>3. Increased harmonisation in development and administration of government administered Common Basket Fund increases aid management efficiency.</p>	
<p>4. Increased harmonisation in development and administration of donor administered Common Basket Fund.</p>	

Cause-and-effect links

**Preconditions and Assumptions
(hence risks)**

5. Increased harmonisation in development and administration of projects increases aid management efficiency.
6. Increased harmonisation in development and administration of donor's strategic portfolio management increases aid management efficiency.



**Level 3A:
Initial
Outcome**

<p>Greater partner government ability to identify and manage the policy, planning and budgeting process</p> <ul style="list-style-type: none">• Decreased administrative transaction costs for government staff entailed by the need to learn and then implement multiple procedural systems increases their time available to manage government business.• Increased transparency leads to increased inclusion of donor resources in the overall budget.• Increased transparency of donor funding decreases opportunities for corruption and for internal conflict within government due to the capture of donor resources by particular ministries.• Decrease in competent government staff working in project implementation units increases the number of competent staff available to manage the government's own policy, planning and budgeting process.• Use of common systems across projects increases the efficiency of project development and management, so increasing the rates of disbursement of funds
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<ol style="list-style-type: none">1. Government is committed to budget reform, and this has been internalised in the civil service.2. Transaction costs are significant.3. There were significant inefficiencies in previous allocations.4. Predicatability of donor funding.
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Cause-and-effect links

***Preconditions and Assumptions
(hence risks)***

**Level 3B:
Longer
term
outcome**

Better management of the policy, planning and budgeting process by government:

- Budget allocations more closely reflect policy priorities
- Greater number of competent staff working within government on government business increases the quality of the annual policy, planning and budget processes at both central and line ministry levels.
- Increased transparency in donor resources available leads to greater allocative efficiency in the overall budget

1. Recipient government is empowered to:
 - to use the budget to bring public sector programmes into line with government goals (including poverty reduction)
 - to align PRSP processes with government systems and cycles
2. Intra-government incentives and capacities are strengthened, so that:
 - official reporting lines are more respected (vertical through government to cabinet, not horizontal to donors)
 - public-service performance incentives are strengthened, so that policies are made and implemented, audit and procurement systems work, and corruption is reduced
3. Democratic accountability is enhanced through:
 - greater role of parliament in monitoring budget results
 - accountability through domestic institutions for donor-financed spending being enhanced

so that conditions for all-round democratisation are thereby improved



Cause-and-effect links

**Preconditions and Assumptions
(hence risks)**

<p>Level 4: Effects of government action on the proximate determinants of poverty reduction</p>	<ul style="list-style-type: none">• Macro-economic environment is favourable to private investment and growth• Government policies inspire greater business confidence (e.g. on corruption, property rights, stable expectations)• Regulation of private initiative works to ensure equity, efficiency and sustainability• More effective and accountable government improves administration of justice and respect for human rights• Sector policies include public actions to address major market failures, including those arising from gender inequalities• Public services are as well-funded, effective and pro-poor (including gender-aware) as possible under current resource constraints	<ol style="list-style-type: none">1. Central bank sterilises inflows so as to avoid negative effects on incentives to firms and households via exchange- and interest-rates2. Confidence is not powerfully weakened by factors outside national control, e.g. regional instability3. Legitimacy of state is sufficient for regulatory role of public sector to be accepted4. Threats to national security do not become so acute that justice and rights are unable to share in general improvements in accountability and capacity5. Sector authorities do not confuse intervention to correct market failures with state interventions that prevent markets developing6. Service personnel are responsive to better and more pro-poor funding and management
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<p>Level 5: Faster achievement of PRS objectives</p>	<ul style="list-style-type: none">• Defined in the PRS	
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Annex 3: Actions on harmonisation in Tanzania

A. Development of common arrangements for planning, managing and delivering aid	
A1. Increased use of joint diagnostic reviews	<p>An annual evaluation of fiscal performance is conducted jointly by bilateral donors and the World Bank. A Joint World Bank-DfID Country Financial Accountability Assessment (CFAA) for mainland Tanzania was completed in 2001 and a similar exercise was conducted recently for Zanzibar. A joint World Bank-AfDB Country Procurement Assessment Review (CPAR) was completed in 2003.</p> <p>Eight diagnostic reviews carried out by single donors between 2001 and 2003.</p>
A2. Collaboration and Joint Strategies	<p>Establishing sector-working groups in priority sectors.</p> <p>Developing a Joint Assistance Strategy (JAS) which would replace the individual Country Assistance Strategies currently produced by each donor and delineate specific agencies as "lead agencies" for particular sectors, whilst encouraging others to adopt "silent partner" roles in these sectors is an initiative under the Tanzania Assistance Strategy.</p>
A3. Joint Operations	
A4. Joint Financing Arrangements	
A5. Common Procedures for Project Environmental Assessment	
B. The gradual simplification of procedures and specific requirements in order to reduce their burden on partner governments	
B1. Streamlining conditionality	<p>No.</p> <p>Formal agreement establishing conditions for suspension of budget or sector level support not in place. An initial attempt to define common conditionalities in the PRBS' Performance Assessment Framework was abandoned. The PRBS memorandum of Understanding (MOU) states that the suspension will only be considered for a following fiscal, rather than within a fiscal year and that in the event of any issues arising, reconciliation will be sought through a joint meeting of donors and the government.</p> <p>A more consistent criticism, which appears irrefutable, is that the processes of dialogue and conditionality are completely interwoven. This has two effects: firstly, it crowds out the space for a dispassionate, objective and non-</p>

	<p>committal sharing of views. Secondly, it undermines ownership because it creates the impression that conditionality has no boundaries, that any policy, institutional or administrative issue might be raised as a potential reason for not disbursing PRBS funds.</p> <p>MOUs exist in many sectors but they tend not to detail explicitly circumstances for within-year suspension of support.</p>
<p>B2. Reducing number of field missions</p>	<p>In 2003, approximately 230 missions were fielded, with approximately 5% of all missions being undertaken jointly between donors. Three donors (the Netherlands, UN and World Bank) accounted for more than half of the total number of missions.</p> <p>The local CG Group in Tanzania has established a calendar of major events, including missions, aimed at reducing and harmonising donor related events, and improving the alignment with Government processes. There is also agreement between Government and the CG Group to keep a certain period free from missions (silent period), in particular to reduce the pressure during the most intense budget preparation period and the budget session in the Parliament.</p> <p>The number of bilateral missions has been reduced in those sectors where SWAps are established (health and education). In most sectors formal or informal working groups are established and well functioning.</p>
<p>B3. Reducing number of reports required by donors</p>	<p>A number of aid agencies have abolished their annual reviews and the policy dialogue has to a large extent been moved to a low key, local level as part of other processes, such as the PER, the PRBS and the PRS-related activities.</p> <p>Common Unified Performance Assessment Framework for budget support (14 donors) has been introduced which requires single six monthly report to all involved donors and mostly uses information available from government systems.</p> <p>Co-financing mechanisms have also reduced the number of reports required by the agencies. This tendency is enhanced when SWAp donors and budget support providers accept joint reports. The reduction of the number of reports also depends on to what extent Government manages to deliver them</p>

	on time.
B4. Harmonising Financial Management and Procurement procedures	A joint procurement, financial management and disbursement assessment is being undertaken by a group of donors for multi-donor pooling through government systems for the health sector SWAp development programme. Not all donors active in the sector participate in the basket funding regularly shared information on their country analytic work mechanism and a number of programmes are outside the SWAp.
B5. Delegated Cooperation	<p>Of the 16 donors that responded to the DAC Harmonisation survey, three (Germany, Finland and the Netherlands) reported that were undertaking tasks on behalf of another donor. A further four (UK, Ireland, USA and World Bank) stated that were acting for others to some extent. Examples here included Ireland co-chairing the Local Government Reform Programme with the Netherlands, a USAID arrangement with DfID to take the lead in the area of parliamentary strengthening and World Bank participation in thematic discussions under the lead of relevant PRBS group donors.</p> <p>Half of the donors responded that they had no delegated cooperation agreements in place in 2003.</p> <p>Division of labour within the donors' various budget support and sector programme support groups might also be seen as examples of silent partnering. The leadership of the PRBS group and SWAp groups rotate between member donors, which saves time and effort, as one or two donor agencies are responsible for contacts with the relevant Tanzanian authorities on behalf of the whole group. This is also used within the PRBS group in maintaining relations with the World Bank and IMF. It strongly facilitates participation in major reviews, such as the annual PER external review as well as when linking up the PRBS processes with those of the PRSC. However, many involved agencies are reluctant to behave as totally silent partners, since sector and budget support normally has a stronger policy content than projects.</p>
C. The sharing of information to promote transparency and improved coordination.	
C1. Allow access by partner government and other donors to agency's country analytical work.	Two donors (World Bank, IMF) state that regularly share their analytical work on the national website, www.tzonline.org , in hard copy format, through the local development partners group, sector working groups and the PER and Poverty Monitoring System Research

	& Analysis groups (which provide an opportunity to produce analytical work in an institutionalised government process).
C2. Increase use diagnostic reviews from other agencies.	In the three years 2001-3, 10 diagnostic reviews were undertaken in Tanzania, two involving more than one donor and producing an action plan.
C3. Introduce systems for donors to regularly disclose commitments and disbursements at country and sector level.	<p>Improving the forecasting of project disbursements for inclusion in the budget and promoting increased use of the IFMIS system to capture project expenditures is an objective in the Tanzania Assistance Strategy.</p> <p>Twelve donors disclose multiyear commitments. Norway also does subject to caveat that commitments are subject to annual parliamentary approval. Japan does not.</p>

Annex 4: Programme aid modalities

Forum	Headquarter participation	Topics	Frequency of meetings
<i>Overall level:</i>			
Consultative Group	Yes	Good governance, macro economy, poverty etc.	18 months interval
Poverty Policy Week	No	Draft PRSP progress report, Poverty and Human Development Report	Annually (September)
Public Expenditure Review	Partly	Medium-Term Expenditure Budget, PER sector reports, PER external evaluation report	Annually (May)
<i>Budget support and sector baskets:</i>			
Budget support facility (PRBS)	Under PRSP Credit Support	Monitoring of progress	Annual Meeting and quarterly review
SWAp (health and education)	Pooled funding for Health Sector	Monitoring of progress	Two annual meetings /reviews
Local Government Reform Program (LGRP)	No	Monitoring of progress	Annual review, quarterly meetings
<i>Sector level:</i>			
PER sector working groups	No	Sector studies	Differs, several over a year
Other government – donor sector groups	No	Ongoing programs/projects, sector issues in general	Differs, but often several times a year