

## ANNEX I

### Components of PFM Systems and Indicators of their Use

The table below maps the components of PFM systems and the scope for their aid capture as identified in the CABRI/SPA aid on budget report (Mokoro Ltd (2008)) with indicators measuring the extent to which aid flows use country systems utilised in the monitoring of the Paris Declaration and in the PEFA framework. The PEFA framework also contains specific high level indicators measuring the strength of individual PFM components (see Annex II).

SPA/CABRI Definition aid on budget report	Paris declaration 2008 monitoring survey definition	PEFA
<p><b>On Plan</b>                      Programme and project aid spending integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions.</p>	<p><b>Indicator 3:</b> Aid flows are aligned to national priorities.                      Although there is no specific indicator to measure progress in reflecting programme and project aid into strategic plans and MTEF, indicator 3, to some extent, requires alignment of aid flows with national priorities.</p>	<p><b>Indicator D2:</b> Financial information provided by donors for budgeting and reporting on project and programme aid.                      In order to score A for this indicator: All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's classification system.</p>
<p><b>On budget</b>                      External financing, including programme and project financing, and its intended use reported in the budget documentation.</p>	<p><b>Indicator 5a:</b> Use of budget execution procedures                      The 2008 Survey on Monitoring the Paris Declaration set out four criteria, of which donors needed to meet three to record their aid as using country PFM systems.</p>	<p><b>Indicator D3:</b> Proportion of aid that is managed by use of national procedures. The use of national procedures means that the banking, authorisation, procurement, accounting, audit, disbursement and reporting arrangements for donor funds are the same as those used for government funds.  <b>Indicator PI-7 (ii):</b> Extent of unreported government operations: Income/expenditure information on donor-funded projects which is included in fiscal reports.</p>
<p><b>On parliament (or "through budget")</b>                      External financing included in the revenue and appropriations approved by parliament.</p>	<p><b>Indicator 5a:</b> Use of budget execution procedures (as above).                      • Under the first criterion, funds need to be included in the annual budget that is approved by the country legislature.</p>	<p><b>No specific PEFA indicator:</b> However, D3 to some extent mirrors the intention of the "On Parliament" typology.</p>
<p><b>On treasury</b>                      External financing disbursed into the main revenue funds of government and managed through government's systems.</p>	<p><b>Indicator 5a:</b> Use of budget execution procedures (as above).                      • Under the second criterion, funds need to be subject to established country budget execution procedures.                      • Under the third criterion, funds are to be both deposited and disbursed through the established country treasury system. Under the fourth criterion, separate bank accounts should not be opened for donor funds.</p>	<p><b>Indicator D3:</b> Proportion of aid that is managed by use of national procedures. The use of national procedures mean that the banking, authorisation, procurement, accounting, audit, disbursement and reporting arrangements for donor funds are the same as those used for government funds.</p>

SPA/CABRI Definition aid on budget report	Paris declaration 2008 monitoring survey definition	PEFA
<p><b>On accounting</b> External financing recorded and accounted for in government's accounting system, in line with government's classification system.</p>	<p><b>Indicator 5a:</b> Use of national financial reporting. The criteria for the 2008 Survey indicate that:</p> <ul style="list-style-type: none"> <li>• donors should not require separate accounting systems to satisfy their own requirements; and</li> <li>• financial reports prepared using the country's established financial reporting arrangements should be the only reports required.</li> </ul>	<p><b>Indicator D3:</b> Proportion of aid that is managed by use of national procedures. The use of national procedures mean that the banking, authorisation, procurement, accounting, audit, disbursement and reporting arrangements for donor funds are the same as those used for government funds. Indicator PI-7 (ii): Extent of unreported government operations: Income/expenditure information on donor-funded projects which is included in fiscal reports.</p>
<p><b>On audit</b> External financing audited by government's auditing system.</p>	<p><b>Indicator 5a:</b> Use of national auditing requirements. To qualify, donors should not make additional requirements on government for auditing (except for exceptional audits) but rely instead on the audit opinions issued by the country's supreme audit institution and on the governments' normal financial reports and statements. In the 2008 Survey definitions,</p> <ul style="list-style-type: none"> <li>• funds need to be subject to audits carried out under the responsibility of the supreme audit institution (SAI). Moreover, under normal circumstances, additional audit arrangements are not requested.</li> </ul> <p>Donors must meet at least one of the following criteria:</p> <ul style="list-style-type: none"> <li>• there is no requirement to have audit standards that are different from those adopted by the SAI; and</li> <li>• the SAI is not required to change its audit cycle to audit the donor funds.</li> </ul>	<p><b>Indicator D3:</b> Proportion of aid that is managed by use of national procedures. The use of national procedures mean that the banking, authorisation, procurement, accounting, audit, disbursement and reporting arrangements for donor funds are the same as those used for government funds.</p>
<p><b>On report</b> External financing included in <i>ex post</i> reports by government.</p>	<p><b>Indicator 5a:</b> Use of national financial reporting. The criteria for the 2008 Survey indicate that</p> <ul style="list-style-type: none"> <li>• donors should not require separate accounting systems to satisfy their own requirements; and</li> <li>• financial reports prepared using the country's established financial reporting arrangements should be the only reports required.</li> </ul>	<p><b>Indicator D3:</b> Proportion of aid that is managed by use of national procedures. The use of national procedures mean that the banking, authorisation, procurement, accounting, audit, disbursement and reporting arrangements for donor funds are the same as those used for government funds.</p>
<p><b>On procurement</b> Externally-financed procurement follows the government's standard procurement procedures</p>	<p><b>Indicator 5b:</b> Use of country procurement systems. Donors use national procurement procedures when the funds they provide for the implementation of projects and programmes are managed according to the national procurement procedures as they were established in the general legislation and implemented by government. This means that donors do not make additional, or special, requirements on governments for the procurement of works, goods, and services.</p>	<p><b>Indicator D3:</b> Proportion of aid that is managed by use of national procedures. The use of national procedures mean that the banking, authorisation, procurement, accounting, audit, disbursement and reporting arrangements for donor funds are the same as those used for government funds.</p>

## ANNEX II

## Overview of the PEFA PFM/High-Level Performance Indicator Set

### A. PFM OUT-TURNS: Credibility of the budget

- PI-1 Aggregate expenditure out-turn compared to original approved budget
- PI-2 Composition of expenditure out-turn compared to original approved budget
- PI-3 Aggregate revenue out-turn compared to original approved budget
- PI-4 Stock and monitoring of expenditure payment arrears

### B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency

- PI-5 Classification of the budget
- PI-6 Comprehensiveness of information included in budget documentation
- PI-7 Extent of unreported government operations
- PI-8 Transparency of inter-governmental fiscal relations
- PI-9 Oversight of aggregate fiscal risk from other public sector entities
- PI-10 Public access to key fiscal information

### C. BUDGET CYCLE

#### *C(i) Policy-Based Budgeting*

- PI-11 Orderliness and participation in the annual budget process
- PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

#### *C(ii) Predictability and Control in Budget Execution*

- PI-13 Transparency of taxpayer obligations and liabilities
- PI-14 Effectiveness of measures for taxpayer registration and tax assessment
- PI-15 Effectiveness in collection of tax payments
- PI-16 Predictability in the availability of funds for commitment of expenditures
- PI-17 Recording and management of cash balances, debt and guarantees
- PI-18 Effectiveness of payroll controls
- PI-19 Competition, value for money and controls in procurement
- PI-20 Effectiveness of internal controls for non-salary expenditure
- PI-21 Effectiveness of internal audit

#### *C(iii) Accounting, Recording and Reporting*

- PI-22 Timeliness and regularity of accounts reconciliation
- PI-23 Availability of information on resources received by service delivery units
- PI-24 Quality and timeliness of in-year budget reports
- PI-25 Quality and timeliness of annual financial statements

#### *C(iv) External Scrutiny and Audit*

- PI-26 Scope, nature and follow-up of external audit
- PI-27 Legislative scrutiny of the annual budget law
- PI-28 Legislative scrutiny of external audit reports

### D. DONOR PRACTICES

- D-1 Predictability of direct budget support
- D-2 Financial information provided by donors for budgeting and reporting on project and programme aid
- D-3 Proportion of aid that is managed by use of national procedures

## ANNEX III

### *PEFA linkage with the CPIA Questions*

The three dimensions of CPIA Q.13 each correspond to the specific PEFA indicators as follows (although the calibration differs substantially):

CPIA Q.13 (a): PEFA PI-5, PI-6, PI-7, PI-11, PI-12, PI-27.

CPIA Q.13 (b): PEFA PI-1, PI-2, PI-4, PI-16 (ref. notes i and iii).

CPIA Q.13 (c): PEFA PI-22, PI-24, PI-25, PI-26 (ref. note ii).

For CPIA Question 14 the links are as follows:

CPIA Q.14 (b): PEFA PI-13, PI-14, PI-15

Note (i): PI-16 is the best approximation to “budget monitoring” in the CPIA calibration without overlapping with “in-year fiscal reports” in CPIA Q.13(c). Budget control systems are referred to only for CPIA scores of “3” and “4”.

Note (ii): Requirements corresponding to PI-10 kick in only for a score of “6” in the CPIA rating, which no country is reaching.

Note (iii): PI-20 (i) would have been appropriate to include but was excluded because of the inappropriateness of the other dimensional scores.

## ANNEX IV



## *The Paris Declaration on Aid Effectiveness*

### Ownership, Harmonisation, Alignment, Results and Mutual Accountability

#### **I. STATEMENT OF RESOLVE**

1. We, Ministers of developed and developing countries responsible for promoting development and Heads of multilateral and bilateral development institutions, meeting in Paris on 2 March 2005, resolve to take far-reaching and monitorable actions to reform the ways we deliver and manage aid as we look ahead to the UN five-year review of the Millennium Declaration and the Millennium Development Goals (MDGs) later this year. As in Monterrey, we recognise that while the volumes of aid and other development resources must increase to achieve these goals, aid effectiveness must increase significantly as well to support partner country efforts to strengthen governance and improve development performance. This will be all the more important if existing and new bilateral and multilateral initiatives lead to significant further increases in aid.
2. At this High-Level Forum on Aid Effectiveness, we followed up on the Declaration adopted at the High-Level Forum on Harmonisation in Rome (February 2003) and the core principles put forward at the Marrakech Roundtable on Managing for Development Results (February 2004) because we believe they will increase the impact aid has in reducing poverty and inequality, increasing growth, building capacity and accelerating achievement of the MDGs.

## Scale up for more effective aid

3. We reaffirm the commitments made at Rome to harmonise and align aid delivery. We are encouraged that many donors and partner countries are making aid effectiveness a high priority, and we reaffirm our commitment to accelerate progress in implementation, especially in the following areas:

- i) Strengthening partner countries' national development strategies and associated operational frameworks (e.g. planning, budget, and performance assessment frameworks).
- ii) Increasing alignment of aid with partner countries' priorities, systems and procedures and helping to strengthen their capacities.
- iii) Enhancing donors' and partner countries' respective accountability to their citizens and parliaments for their development policies, strategies and performance.
- iv) Eliminating duplication of efforts and rationalising donor activities to make them as cost-effective as possible.
- v) Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries' priorities, systems and procedures.
- vi) Defining measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary safeguards and environmental assessments, in line with broadly accepted good practices and their quick and widespread application.

4. We commit ourselves to taking concrete and effective action to address the remaining challenges, including:

- i) Weaknesses in partner countries' institutional capacities to develop and implement results-driven national development strategies.
- ii) Failure to provide more predictable and multi-year commitments on aid flows to committed partner countries.
- iii) Insufficient delegation of authority to donors' field staff, and inadequate attention to incentives for effective development partnerships between donors and partner countries.
- iv) Insufficient integration of global programmes and initiatives into partner countries' broader development agendas, including in critical areas such as HIV/AIDS.
- v) Corruption and lack of transparency, which erode public support, impede effective resource mobilisation and allocation and divert resources away from activities that are vital for poverty reduction and sustainable economic development. Where corruption exists, it inhibits donors from relying on partner country systems.

5. We acknowledge that enhancing the effectiveness of aid is feasible and necessary across all aid modalities. In determining the most effective modalities of aid delivery, we will be guided by development strategies and priorities established by partner countries. Individually and collectively, we will choose and design appropriate and complementary modalities so as to maximise their combined effectiveness.

6. In following up the Declaration, we will intensify our efforts to provide and use development assistance, including the increased flows as promised at Monterrey, in ways

that rationalise the often excessive fragmentation of donor activities at the country and sector levels.

### **Adapt and apply to differing country situations**

7. Enhancing the effectiveness of aid is also necessary in challenging and complex situations, such as the tsunami disaster that struck countries of the Indian Ocean rim on 26 December 2004. In such situations, worldwide humanitarian and development assistance must be harmonised within the growth and poverty reduction agendas of partner countries. In fragile states, as we support state-building and delivery of basic services, we will ensure that the principles of harmonisation, alignment and managing for results are adapted to environments of weak governance and capacity. Overall, we will give increased attention to such complex situations as we work toward greater aid effectiveness.

### **Specify indicators, timetable and targets**

8. We accept that the reforms suggested in this Declaration will require continued high-level political support, peer pressure and co-ordinated actions at the global, regional and country levels. We commit to accelerate the pace of change by implementing, in a spirit of mutual accountability, the Partnership Commitments presented in Section II and to measure progress against 12 specific indicators that we have agreed today and that are set out in Section III of this Declaration.

9. As a further spur to progress, we will set targets for the year 2010. These targets, which will involve action by both donors and partner countries, are designed to track and encourage progress at the global level among the countries and agencies that have agreed to this Declaration. They are not intended to prejudice or substitute for any targets that individual partner countries may wish to set. We have agreed today to set five preliminary targets against indicators as shown in Section III. We agree to review these preliminary targets and to adopt targets against the remaining indicators as shown in Section III before the UNGA Summit in September 2005; and we ask the partnership of donors and partner countries hosted by the DAC to prepare for this urgently.<sup>1</sup> Meanwhile, we welcome initiatives by partner countries and donors to establish their own targets for improved aid effectiveness within the framework of the agreed Partnership Commitments and Indicators of Progress. For example, a number of partner countries have presented action plans, and a large number of donors have announced important new commitments. We invite all participants who wish to provide information on such initiatives to submit it by 4 April 2005 for subsequent publication.

### **Monitor and evaluate implementation**

10. Because demonstrating real progress at country level is critical, under the leadership of the partner country we will periodically assess, qualitatively as well as quantitatively, our mutual progress at country level in implementing agreed commitments on aid effectiveness. In doing so, we will make use of appropriate country level mechanisms.

11. At the international level, we call on the partnership of donors and partner countries hosted by the DAC to broaden partner country participation and, by the end of 2005, to propose arrangements for the medium term monitoring of the commitments in this

Declaration. In the meantime, we ask the partnership to co-ordinate the international monitoring of the Indicators of Progress included in Section III; to refine targets as necessary; to provide appropriate guidance to establish baselines; and to enable consistent aggregation of information across a range of countries to be summed up in a periodic report. We will also use existing peer review mechanisms and regional reviews to support progress in this agenda. We will, in addition, explore independent cross-country monitoring and evaluation processes – which should be applied without imposing additional burdens on partners – to provide a more comprehensive understanding of how increased aid effectiveness contributes to meeting development objectives.

12. Consistent with the focus on implementation, we plan to meet again in 2008 in a developing country and conduct two rounds of monitoring before then to review progress in implementing this Declaration.

## II. PARTNERSHIP COMMITMENTS

13. Developed in a spirit of mutual accountability, these Partnership Commitments are based on the lessons of experience. We recognise that commitments need to be interpreted in the light of the specific situation of each partner country.

### OWNERSHIP

Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions

14. **Partner countries** commit to:

- Exercise leadership in developing and implementing their national development strategies<sup>2</sup> through broad consultative processes.
- Translate these national development strategies into prioritised results-oriented operational programmes as expressed in medium-term expenditure frameworks and annual budgets (**Indicator 1**).
- Take the lead in co-ordinating aid at all levels in conjunction with other development resources in dialogue with donors and encouraging the participation of civil society and the private sector.

15. **Donors** commit to:

- Respect partner country leadership and help strengthen their capacity to exercise it.

### ALIGNMENT

Donors base their overall support on partner countries' national development strategies, institutions and procedures

#### Donors align with partners' strategies

16. **Donors** commit to:

- Base their overall support – country strategies, policy dialogues and development co-operation programmes – on partners' national development strategies and periodic reviews of progress in implementing these strategies<sup>3</sup> (**Indicator 3**).
- Draw conditions, whenever possible, from a partner's national development strategy or its annual review of progress in implementing this strategy. Other conditions would be



included only when a sound justification exists and would be undertaken transparently and in close consultation with other donors and stakeholders.

- Link funding to a single framework of conditions and/or a manageable set of indicators derived from the national development strategy. This does not mean that all donors have identical conditions, but that each donor's conditions should be derived from a common streamlined framework aimed at achieving lasting results.

## Donors use strengthened country systems

17. Using a country's own institutions and systems, where these provide assurance that aid will be used for agreed purposes, increases aid effectiveness by strengthening the partner country's sustainable capacity to develop, implement and account for its policies to its citizens and parliament. Country systems and procedures typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring.

18. Diagnostic reviews are an important – and growing – source of information to governments and donors on the state of country systems in partner countries. Partner countries and donors have a shared interest in being able to monitor progress over time in improving country systems. They are assisted by performance assessment frameworks, and an associated set of reform measures, that build on the information set out in diagnostic reviews and related analytical work.

19. **Partner countries** and **donors** jointly commit to:

- Work together to establish mutually agreed frameworks that provide reliable assessments of performance, transparency and accountability of country systems (**Indicator 2**).
- Integrate diagnostic reviews and performance assessment frameworks within country-led strategies for capacity development.

20. **Partner countries** commit to:

- Carry out diagnostic reviews that provide reliable assessments of country systems and procedures.
- On the basis of such diagnostic reviews, undertake reforms that may be necessary to ensure that national systems, institutions and procedures for managing aid and other development resources are effective, accountable and transparent.
- Undertake reforms, such as public management reform, that may be necessary to launch and fuel sustainable capacity development processes.

21. **Donors** commit to:

- Use country systems and procedures to the maximum extent possible. Where use of country systems is not feasible, establish additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures (**Indicator 5**).
- Avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes (**Indicator 6**).
- Adopt harmonised performance assessment frameworks for country systems so as to avoid presenting partner countries with an excessive number of potentially conflicting targets.

## Partner countries strengthen development capacity with support from donors

22. The capacity to plan, manage, implement, and account for results of policies and programmes, is critical for achieving development objectives – from analysis and dialogue through implementation, monitoring and evaluation. Capacity development is the responsibility of partner countries with donors playing a support role. It needs not only to be based on sound technical analysis, but also to be responsive to the broader social, political and economic environment, including the need to strengthen human resources.

23. **Partner countries** commit to:

- Integrate specific capacity strengthening objectives in national development strategies and pursue their implementation through country-led capacity development strategies where needed.

24. **Donors** commit to:

- Align their analytic and financial support with partners' capacity development objectives and strategies, make effective use of existing capacities and harmonise support for capacity development accordingly (**Indicator 4**).

## Strengthen public financial management capacity

25. **Partner countries** commit to:

- Intensify efforts to mobilise domestic resources, strengthen fiscal sustainability, and create an enabling environment for public and private investments.
- Publish timely, transparent and reliable reporting on budget execution.
- Take leadership of the public financial management reform process.

26. **Donors** commit to:

- Provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules (**Indicator 7**).
- Rely to the maximum extent possible on transparent partner government budget and accounting mechanisms (**Indicator 5**).

27. **Partner countries** and **donors** jointly commit to:

- Implement harmonised diagnostic reviews and performance assessment frameworks in public financial management.

## Strengthen national procurement systems

28. **Partner countries** and **donors** jointly commit to:

- Use mutually agreed standards and processes<sup>4</sup> to carry out diagnostics, develop sustainable reforms and monitor implementation.
- Commit sufficient resources to support and sustain medium and long-term procurement reforms and capacity development.
- Share feedback at the country level on recommended approaches so they can be improved over time.

29. **Partner countries** commit to take leadership and implement the procurement reform process.

30. **Donors** commit to:

- Progressively rely on partner country systems for procurement when the country has implemented mutually agreed standards and processes (**Indicator 5**).
- Adopt harmonised approaches when national systems do not meet mutually agreed levels of performance or donors do not use them.

### Untie aid: getting better value for money

31. Untying aid generally increases aid effectiveness by reducing transaction costs for partner countries and improving country ownership and alignment. **DAC Donors** will continue to make progress on untying as encouraged by the 2001 DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries (**Indicator 8**).

## HARMONISATION

Donors' actions are more harmonised, transparent and collectively effective

### Donors implement common arrangements and simplify procedures

32. **Donors** commit to:

- Implement the donor action plans that they have developed as part of the follow-up to the Rome High-Level Forum.
- Implement, where feasible, common arrangements at country level for planning, funding (e.g. joint financial arrangements), disbursement, monitoring, evaluating and reporting to government on donor activities and aid flows. Increased use of programme-based aid modalities can contribute to this effort (**Indicator 9**).
- Work together to reduce the number of separate, duplicative, missions to the field and diagnostic reviews (**Indicator 10**); and promote joint training to share lessons learnt and build a community of practice.

### Complementarity: more effective division of labour

33. Excessive fragmentation of aid at global, country or sector level impairs aid effectiveness. A pragmatic approach to the division of labour and burden sharing increases complementarity and can reduce transaction costs.

34. **Partner countries** commit to:

- Provide clear views on donors' comparative advantage and on how to achieve donor complementarity at country or sector level.

35. **Donors** commit to:

- Make full use of their respective comparative advantage at sector or country level by delegating, where appropriate, authority to lead donors for the execution of programmes, activities and tasks.
- Work together to harmonise separate procedures.

## Incentives for collaborative behaviour

36. **Donors** and **partner countries** jointly commit to:

- Reform procedures and strengthen incentives – including for recruitment, appraisal and training – for management and staff to work towards harmonisation, alignment and results.

## Delivering effective aid in fragile states<sup>5</sup>

37. The long-term vision for international engagement in fragile states is to build legitimate, effective and resilient state and other country institutions. While the guiding principles of effective aid apply equally to fragile states, they need to be adapted to environments of weak ownership and capacity and to immediate needs for basic service delivery.

38. **Partner countries** commit to:

- Make progress towards building institutions and establishing governance structures that deliver effective governance, public safety, security, and equitable access to basic social services for their citizens.
- Engage in dialogue with donors on developing simple planning tools, such as the transitional results matrix, where national development strategies are not yet in place.
- Encourage broad participation of a range of national actors in setting development priorities.

39. **Donors** commit to:

- a) Harmonise their activities. Harmonisation is all the more crucial in the absence of strong government leadership. It should focus on upstream analysis, joint assessments, joint strategies, co-ordination of political engagement; and practical initiatives such as the establishment of joint donor offices.
- b) Align to the maximum extent possible behind central government-led strategies or, if that is not possible, donors should make maximum use of country, regional, sector or non-government systems.
- c) Avoid activities that undermine national institution building, such as bypassing national budget processes or setting high salaries for local staff.
- d) Use an appropriate mix of aid instruments, including support for recurrent financing, particularly for countries in promising but high-risk transitions.

## Promoting a harmonised approach to environmental assessments

40. Donors have achieved considerable progress in harmonisation around environmental impact assessment (EIA) including relevant health and social issues at the project level. This progress needs to be deepened, including on addressing implications of global environmental issues such as climate change, desertification and loss of biodiversity.

41. **Donors** and **partner countries** jointly commit to:

- Strengthen the application of EIAs and deepen common procedures for projects, including consultations with stakeholders; and develop and apply common approaches for “strategic environmental assessment” at the sector and national levels.
- Continue to develop the specialised technical and policy capacity necessary for environmental analysis and for enforcement of legislation.

42. Similar harmonisation efforts are also needed on other cross-cutting issues, such as gender equality and other thematic issues including those financed by dedicated funds.

## MANAGING FOR RESULTS

### Managing resources and improving decision-making for results

43. Managing for results means managing and implementing aid in a way that focuses on the desired results and uses information to improve decision-making.

44. **Partner countries** commit to:

- Strengthen the linkages between national development strategies and annual and multi-annual budget processes.
- Endeavour to establish results-oriented reporting and assessment frameworks that monitor progress against key dimensions of the national and sector development strategies; and that these frameworks should track a manageable number of indicators for which data are cost-effectively available (**Indicator 11**).

45. **Donors** commit to:

- Link country programming and resources to results and align them with effective partner country performance assessment frameworks, refraining from requesting the introduction of performance indicators that are not consistent with partners' national development strategies.
- Work with partner countries to rely, as far as possible, on partner countries' results-oriented reporting and monitoring frameworks.
- Harmonise their monitoring and reporting requirements, and, until they can rely more extensively on partner countries' statistical, monitoring and evaluation systems, with partner countries to the maximum extent possible on joint formats for periodic reporting.

46. **Partner countries** and **donors** jointly commit to:

- Work together in a participatory approach to strengthen country capacities and demand for results based management.

## MUTUAL ACCOUNTABILITY

### Donors and partners are accountable for development results

47. A major priority for partner countries and donors is to enhance mutual accountability and transparency in the use of development resources. This also helps strengthen public support for national policies and development assistance.

48. **Partner countries** commit to:

- Strengthen as appropriate the parliamentary role in national development strategies and/or budgets.
- Reinforce participatory approaches by systematically involving a broad range of development partners when formulating and assessing progress in implementing national development strategies.

49. **Donors** commit to:

- Provide timely, transparent and comprehensive information on aid flows so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.

50. **Partner countries** and **donors** commit to:

- Jointly assess through existing and increasingly objective country level mechanisms mutual progress in implementing agreed commitments on aid effectiveness, including the Partnership Commitments (**Indicator 12**).

### III. INDICATORS OF PROGRESS

To be measured nationally and monitored internationally

OWNERSHIP	TARGET FOR 2010
1 <i>Partners have operational development strategies</i> – Number of countries with national development strategies (including PRSSs) that have clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets.	<b>At least 75% of partner countries</b> have operational development strategies.
ALIGNMENT	TARGETS FOR 2010
2 <i>Reliable country systems</i> – Number of partner countries that have procurement and public financial management systems that either <i>a)</i> adhere to broadly accepted good practices or <i>b)</i> have a reform programme in place to achieve these.	<b>a) Public financial management</b> – Half of partner countries move up at least one measure ( <i>i.e.</i> , 0.5 points) on the PFM/ CPIA (Country Policy and Institutional Assessment) scale of performance. <b>b) Procurement</b> – One-third of partner countries move up at least one measure ( <i>i.e.</i> , from D to C, C to B or B to A) on the four-point scale used to assess performance for this indicator.
3 <i>Aid flows are aligned on national priorities</i> – Percent of aid flows to the government sector that is reported on partners' national budgets.	<b>Halve the gap</b> – Halve the proportion of aid flows to government sector not reported on government's budget(s) (with at least 85% reported on budget).
4 <i>Strengthen capacity by co-ordinated support</i> – Percent of donor capacity-development support provided through co-ordinated programmes consistent with partners' national development strategies.	<b>50% of technical co-operation flows</b> are implemented through co-ordinated programmes consistent with national development strategies.
5a <i>Use of country public financial management systems</i> – Percent of donors and of aid flows that use public financial management systems in partner countries, which either <i>a)</i> adhere to broadly accepted good practices or <i>b)</i> have a reform programme in place to achieve these.	PERCENT OF DONORS
	<b>Score*</b> <b>Target</b>
	5+ <b>All donors</b> use partner countries' PFM systems.
	3.5 to 4.5 <b>90% of donors</b> use partner countries' PFM systems.
	PERCENT OF AID FLOWS
	<b>Score*</b> <b>Target</b>
5b <i>Use of country procurement systems</i> – Percent of donors and of aid flows that use partner country procurement systems which either <i>a)</i> adhere to broadly accepted good practices or <i>b)</i> have a reform programme in place to achieve these.	PERCENT OF DONORS
	<b>Score*</b> <b>Target</b>
	A <b>All donors</b> use partner countries' procurement systems.
	B <b>90% of donors</b> use partner countries' procurement systems.
	PERCENT OF AID FLOWS
	<b>Score*</b> <b>Target</b>
6 <i>Strengthen capacity by avoiding parallel implementation structures</i> – Number of parallel project implementation units (PIUs) per country.	A <b>A two-thirds reduction</b> in the % of aid to the public sector not using partner countries' procurement systems.
	B <b>A one-third reduction</b> in the % of aid to the public sector not using partner countries' procurement systems.
7 <i>Aid is more predictable</i> – Percent of aid disbursements released according to agreed schedules in annual or multi-year frameworks.	<b>Halve the gap</b> – Halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.
8 <i>Aid is untied</i> – Percent of bilateral aid that is untied.	<b>Continued progress over time.</b>

HARMONISATION		TARGETS FOR 2010
9	<i>Use of common arrangements or procedures</i> – Percent of aid provided as programme-based approaches.	<b>66% of aid flows</b> are provided in the context of programme-based approaches.
10	<i>Encourage shared analysis</i> – Percent of a) field missions and/or b) country analytic work, including diagnostic reviews that are joint.	a) <b>40% of donor missions</b> to the field are joint. b) <b>66% of country analytic work is joint.</b>
MANAGING FOR RESULTS		TARGET FOR 2010
11	<i>Results-oriented frameworks</i> – Number of countries with transparent and monitorable performance assessment frameworks to assess progress against a) the national development strategies and b) sector programmes.	<b>Reduce the gap by one-third</b> – Reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third.
MUTUAL ACCOUNTABILITY		TARGET FOR 2010
12	<i>Mutual accountability</i> – Number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in this Declaration.	<b>All partner countries</b> have mutual assessment reviews in place.

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

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

## Notes

1. In accordance with paragraph 9 of the Declaration, the partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) comprising OECD/DAC members, partner countries and multilateral institutions, met twice, on 30-31 May 2005 and on 7-8 July 2005 to adopt, and review where appropriate, the targets for the twelve Indicators of Progress. At these meetings an agreement was reached on the targets presented under Section III of the present Declaration. This agreement is subject to reservations by one donor on a) the methodology for assessing the quality of locally-managed procurement systems (relating to targets 2b and 5b) and b) the acceptable quality of public financial management reform programmes (relating to target 5a.ii). Further discussions are underway to address these issues. The targets, including the reservation, have been notified to the Chairs of the High-level Plenary Meeting of the 59th General Assembly of the United Nations in a letter of 9 September 2005 by Mr. Richard Manning, Chair of the OECD Development Assistance Committee (DAC).
2. The term 'national development strategies' includes poverty reduction and similar overarching strategies as well as sector and thematic strategies.
3. This includes for example the Annual Progress Review of the Poverty Reduction Strategies (APR).
4. Such as the processes developed by the joint OECD-DAC – World Bank Round Table on Strengthening Procurement Capacities in Developing Countries.
5. The following section draws on the draft Principles for Good International Engagement in Fragile States, which emerged from the Senior Level Forum on Development Effectiveness in Fragile States (London, January 2005).

## APPENDIX A

*Methodological Notes on the Indicators of Progress*

The Indicators of Progress provides a framework in which to make operational the responsibilities and accountabilities that are framed in the Paris Declaration on Aid Effectiveness. This framework draws selectively from the Partnership Commitments presented in Section II of this Declaration.

**Purpose** – The Indicators of Progress provide a framework in which to make operational the responsibilities and accountabilities that are framed in the Paris Declaration on Aid Effectiveness. They measure principally **collective behaviour at the country level**.

**Country level vs. global level** – The indicators are to be **measured at the country level** in close collaboration between partner countries and donors. Values of country level indicators can then be statistically aggregated at the **regional or global level**. This global aggregation would be done both for the country panel mentioned below, for purposes of statistical comparability, and more broadly for all partner countries for which relevant data are available.

**Donor/Partner country performance** – The indicators of progress also provide a **benchmark against which individual donor agencies or partner countries can measure their performance** at the country, regional, or global level. In measuring individual donor performance, the indicators should be applied with flexibility in the recognition that donors have different institutional mandates.

**Targets** – The targets are set at the global level. Progress against these targets is to be measured by aggregating data measured at the country level. In addition to global targets, partner countries and donors in a given country might agree on country-level targets.

**Baseline** – A baseline will be established for 2005 in a panel of self-selected countries. The partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) is asked to establish this panel.

**Definitions and criteria** – The partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) is asked to provide specific guidance on definitions, scope of application, criteria and methodologies to assure that results can be aggregated across countries and across time.

**Note on Indicator 9** – Programme-based approaches are defined in Volume 2 of *Harmonising Donor Practices for Effective Aid Delivery* (OECD, 2005) in Box 3.1 as a way of engaging in development cooperation based on the principles of co-ordinated support for a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organisation. Programme-based approaches share the following features: a) leadership by the host country or organisation; b) a



single comprehensive programme and budget framework; c) a formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement; d) Efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation. For the purpose of indicator 9 performance will be measured separately across the aid modalities that contribute to programme-based approaches.

## APPENDIX B

*List of Participating Countries and Organisations***Participating Countries**

Albania	Australia	Austria
Bangladesh	Belgium	Benin
Bolivia	Botswana	[Brazil]*
Burkina Faso	Burundi	Cambodia
Cameroon	Canada	China
Congo D.R.	Czech Republic	Denmark
Dominican Republic	Egypt	Ethiopia
European Commission	Fiji	Finland
France	Gambia	Germany
Ghana	Greece	Guatemala
Guinea	Honduras	Iceland
Indonesia	Ireland	Italy
Jamaica	Japan	Jordan
Kenya	Korea	Kuwait
Kyrgyz Republic	Lao PDR	Luxembourg
Madagascar	Malawi	Malaysia
Mali	Mauritania	Mexico
Mongolia	Morocco	Mozambique
Nepal	Netherlands	New Zealand
Nicaragua	Niger	Norway
Pakistan	Papua New Guinea	Philippines
Poland	Portugal	Romania
Russian Federation	Rwanda	Saudi Arabia
Senegal	Serbia and Montenegro	Slovak Republic
Solomon Islands	South Africa	Spain
Sri Lanka	Sweden	Switzerland
Tajikistan	Tanzania	Thailand
Timor-Leste	Tunisia	Turkey
Uganda	United Kingdom	United States of America
Vanuatu	Viet Nam	Yemen
Zambia		

\* To be confirmed.

More countries than listed here have endorsed the Paris Declaration. For a full and up to date list please consult [www.oecd.org/dac/effectiveness/parisdeclaration/members](http://www.oecd.org/dac/effectiveness/parisdeclaration/members).

### Participating Organisations

African Development Bank	Arab Bank for Economic Development in Africa
Asian Development Bank	Commonwealth Secretariat
Consultative Group to Assist the Poorest (CGAP)	Council of Europe Development Bank (CEB)
Economic Commission for Africa (ECA)	Education for All Fast Track Initiative (EFA-FTI)
European Bank for Reconstruction and Development (EBRD)	European Investment Bank (EIB)
Global Fund to Fight Aids, Tuberculosis and Malaria	G24
Inter-American Development Bank	International Fund for Agricultural Development (IFAD)
International Monetary Fund (IMF)	International Organisation of the Francophonie
Islamic Development Bank	Millennium Campaign
New Partnership for Africa's Development (NEPAD)	Nordic Development Fund
Organisation for Economic Co-operation and Development (OECD)	Organisation of Eastern Caribbean States (OECS)
OPEC Fund for International Development	Pacific Islands Forum Secretariat
United Nations Development Group (UNDG)	World Bank

### Civil Society Organisations

Africa Humanitarian Action	AFRODAD
Bill and Melinda Gates Foundations	Canadian Council for International Cooperation (CCIC)
Comité Catholique contre la Faim et pour le Développement (CCFD)	Coopération Internationale pour le Développement et la Solidarité (CIDSE)
Comisión Económica (Nicaragua)	ENDA Tiers Monde
EURODAD	International Union for Conservation of Nature and Natural Resources (IUCN)
Japan NGO Center for International Cooperation (JANIC)	Reality of Aid Network
Tanzania Social and Economic Trust (TASOET)	UK Aid Network

## ANNEX V



SEPTEMBER 2-4, 2008 ACCRA GHANA

## Accra Agenda for Action

Ministers of developing and donor countries responsible for promoting development and Heads of multilateral and bilateral development institutions endorsed the following statement in Accra, Ghana, on 4 September 2008 to accelerate and deepen implementation of the Paris Declaration on Aid Effectiveness (2 March 2005).

### This is a moment of opportunity

1.1.1.1. We are committed to eradicating poverty and promoting peace and prosperity by building stronger, more effective partnerships that enable developing countries to realise their development goals.

1.1.1.2. There has been progress. Fifteen years ago, two out of five people lived in extreme poverty; today, that figure has been reduced to one in four. However, 1.4 billion people – most of them women and girls – still live in extreme poverty,<sup>1</sup> and access to safe drinking water and health care remains a major issue in many parts of the world. In addition, new global challenges – rising food and fuel prices and climate change – threaten the advances against poverty many countries have made.

1.1.1.3. We need to achieve much more if all countries are to meet the Millennium Development Goals (MDGs). Aid is only one part of the development picture. Democracy, economic growth, social progress, and care for the environment are the prime engines of development in all countries. Addressing inequalities of income and opportunity within countries and between states is essential to global progress. Gender equality, respect for human rights, and environmental sustainability are cornerstones for achieving enduring impact on the lives and potential of poor women, men, and children. It is vital that all our policies address these issues in a more systematic and coherent way.

1.1.1.4. In 2008, three international conferences will help us accelerate the pace of change: the Accra High Level Forum on Aid Effectiveness, the United Nations High Level Event on the MDGs in New York, and the Financing for Development follow-up meeting in Doha. Today at Accra, we are leading the way, united in a common objective: to unlock the full potential of aid in achieving lasting development results.

## We are making progress, but not enough

1.1.1.5. Learning from our past successes and failures in development co-operation and building on the 2003 Rome Declaration on Harmonisation, in March 2005 we adopted an ambitious set of reforms: the Paris Declaration on Aid Effectiveness. In the Paris Declaration, we agreed to develop a genuine partnership, with developing countries clearly in charge of their own development processes. We also agreed to hold each other accountable for achieving concrete development results. Three and one-half years later, we are reconvening in Accra to review progress and address the challenges that now face us.

1.1.1.6. Evidence shows we are making progress, but not enough. A recent evaluation shows that the Paris Declaration has created powerful momentum to change the way developing countries and donors work together on the ground. According to the 2008 Monitoring Survey, a large number of developing countries have improved their management of public funds. Donors, in turn, are increasingly improving their co-ordination at country level. Yet the pace of progress is too slow. Without further reform and faster action we will not meet our 2010 commitments and targets for improving the quality of aid.

## We will take action to accelerate progress

1.1.1.7. Evidence shows that we will need to address three major challenges to accelerate progress on aid effectiveness:

1.1.1.8. *Country ownership is key.* Developing country governments will take stronger leadership of their own development policies, and will engage with their parliaments and citizens in shaping those policies. Donors will support them by respecting countries' priorities, investing in their human resources and institutions, making greater use of their systems to deliver aid, and increasing the predictability of aid flows.

1.1.1.9. *Building more effective and inclusive partnerships.* In recent years, more development actors – middle-income countries, global funds, the private sector, civil society organisations – have been increasing their contributions and bringing valuable experience to the table. This also creates management and co-ordination challenges. Together, all development actors will work in more inclusive partnerships so that all our efforts have greater impact on reducing poverty.

1.1.1.10. *Achieving development results – and openly accounting for them – must be at the heart of all we do.* More than ever, citizens and taxpayers of all countries expect to see the tangible results of development efforts. We will demonstrate that our actions translate into positive impacts on people's lives. We will be accountable to each other and to our respective parliaments and governing bodies for these outcomes.

1.1.1.11. Without addressing these obstacles to faster progress, we will fall short of our commitments and miss opportunities to improve the livelihoods of the most vulnerable people in the world. Therefore, we are reaffirming the commitments we made in the Paris Declaration and, in this Accra Agenda for Action, are agreeing on concrete and monitorable actions to accelerate progress to meet those commitments by 2010. We commit to continuing efforts in monitoring and evaluation that will assess whether we have achieved the commitments we agreed in the Paris Declaration and the Accra Agenda for Action, and to what extent aid effectiveness is improving and generating greater development impact.

## **STRENGTHENING COUNTRY OWNERSHIP OVER DEVELOPMENT**

1.1.2. Developing countries determine and implement their development policies to achieve their own economic, social and environmental goals. We agreed in the Paris Declaration that this would be our first priority. Today, we are taking additional steps to turn this resolution into a reality.

### **We will broaden country-level policy dialogue on development**

1.1.2.1. We will engage in open and inclusive dialogue on development policies. We acknowledge the critical role and responsibility of parliaments in ensuring country ownership of development processes. To further this objective we will take the following actions:

- a) Developing country governments will work more closely with parliaments and local authorities in preparing, implementing and monitoring national development policies and plans. They will also engage with civil society organisations (CSOs).
- b) Donors will support efforts to increase the capacity of all development actors – parliaments, central and local governments, CSOs, research institutes, media and the private sector – to take an active role in dialogue on development policy and on the role of aid in contributing to countries’ development objectives.
- c) Developing countries and donors will ensure that their respective development policies and programmes are designed and implemented in ways consistent with their agreed international commitments on gender equality, human rights, disability and environmental sustainability.

### **Developing countries will strengthen their capacity to lead and manage development**

1.1.2.2. Without robust capacity – strong institutions, systems, and local expertise – developing countries cannot fully own and manage their development processes. We agreed in the Paris Declaration that capacity development is the responsibility of developing countries, with donors playing a supportive role, and that technical co-operation is one means among others to develop capacity. Together, developing countries and donors will take the following actions to strengthen capacity development:

- a) Developing countries will systematically identify areas where there is a need to strengthen the capacity to perform and deliver services at all levels – national, sub-national, sectoral, and thematic – and design strategies to address them. Donors will strengthen their own capacity and skills to be more responsive to developing countries’ needs.
- b) Donors’ support for capacity development will be demand-driven and designed to support country ownership. To this end, developing countries and donors will i) jointly select and manage technical co-operation, and ii) promote the provision of technical co-operation by local and regional resources, including through South-South co-operation.
- c) Developing countries and donors will work together at all levels to promote operational changes that make capacity development support more effective.

## **We will strengthen and use developing country systems to the maximum extent possible**

1.1.2.3. Successful development depends to a large extent on a government's capacity to implement its policies and manage public resources through its own institutions and systems. In the Paris Declaration, developing countries committed to strengthen their systems<sup>2</sup> and donors committed to use those systems to the maximum extent possible. Evidence shows, however, that developing countries and donors are not on track to meet these commitments. Progress in improving the quality of country systems varies considerably among countries; and even when there are good-quality country systems, donors often do not use them. Yet it is recognised that using country systems promotes their development. To strengthen and increase the use of country systems, we will take the following actions:

- a) Donors agree to use country systems as the first option for aid programmes in support of activities managed by the public sector.
- b) Should donors choose to use another option and rely on aid delivery mechanisms outside country systems (including parallel project implementation units), they will transparently state the rationale for this and will review their positions at regular intervals. Where use of country systems is not feasible, donors will establish additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures.
- c) Developing countries and donors will jointly assess the quality of country systems in a country-led process using mutually agreed diagnostic tools. Where country systems require further strengthening, developing countries will lead in defining reform programmes and priorities. Donors will support these reforms and provide capacity development assistance.
- d) Donors will immediately start working on and sharing transparent plans for undertaking their Paris commitments on using country systems in all forms of development assistance; provide staff guidance on how these systems can be used; and ensure that internal incentives encourage their use. They will finalise these plans as a matter of urgency.
- e) Donors recollect and reaffirm their Paris Declaration commitment to provide 66% of aid as programme-based approaches. In addition, donors will aim to channel 50% or more of government-to-government assistance through country fiduciary systems, including by increasing the percentage of assistance provided through programme based approaches.

## **BUILDING MORE EFFECTIVE AND INCLUSIVE PARTNERSHIPS FOR DEVELOPMENT**

1.1.3. Aid is about building partnerships for development. Such partnerships are most effective when they fully harness the energy, skills and experience of all development actors – bilateral and multilateral donors, global funds, CSOs, and the private sector. To support developing countries' efforts to build for the future, we resolve to create partnerships that will include all these actors.

## We will reduce costly fragmentation of aid

1.1.3.1. The effectiveness of aid is reduced when there are too many duplicating initiatives, especially at country and sector levels. We will reduce the fragmentation of aid by improving the complementarity of donors' efforts and the division of labour among donors, including through improved allocation of resources within sectors, within countries, and across countries. To this end:

- a) Developing countries will lead in determining the optimal roles of donors in supporting their development efforts at national, regional and sectoral levels. Donors will respect developing countries' priorities, ensuring that new arrangements on the division of labour will not result in individual developing countries receiving less aid.
- b) Donors and developing countries will work together with the Working Party on Aid Effectiveness to complete good practice principles on country-led division of labour. To that end, they will elaborate plans to ensure the maximum co-ordination of development co-operation. We will evaluate progress in implementation starting in 2009.
- c) We will start dialogue on international division of labour across countries by June 2009.
- d) We will work to address the issue of countries that receive insufficient aid.

## We will increase aid's value for money

1.1.3.2. Since the Paris Declaration was agreed in 2005, OECD-DAC donors have made progress in untying their aid. A number of donors have already fully untied their aid, and we encourage others to do so. We will pursue, and accelerate, these efforts by taking the following actions:

- a) OECD-DAC donors will extend coverage of the 2001 DAC Recommendation on Untying Aid to non-LDC HIPCs<sup>3</sup> and will improve their reporting on the 2001 DAC Recommendation.
- b) Donors will elaborate individual plans to further untie their aid to the maximum extent.
- c) Donors will promote the use of local and regional procurement by ensuring that their procurement procedures are transparent and allow local and regional firms to compete. We will build on examples of good practice to help improve local firms' capacity to compete successfully for aid-funded procurement.
- d) We will respect our international agreements on corporate social responsibility.

## We welcome and will work with all development actors

1.1.3.3. The contributions of all development actors are more effective when developing countries are in a position to manage and co-ordinate them. We welcome the role of new contributors and will improve the way all development actors work together by taking the following actions:

- a) We encourage all development actors, including those engaged in South-South co-operation, to use the Paris Declaration principles as a point of reference in providing development co-operation.
- b) We acknowledge the contributions made by all development actors, and in particular the role of middle-income countries as both providers and recipients of aid. We recognise the importance and particularities of South-South cooperation and acknowledge that we can learn from the experience of developing countries. We encourage further development of triangular co-operation.



- c) Global funds and programmes make an important contribution to development. The programmes they fund are most effective in conjunction with complementary efforts to improve the policy environment and to strengthen the institutions in the sectors in which they operate. We call upon all global funds to support country ownership, to align and harmonise their assistance proactively, and to make good use of mutual accountability frameworks, while continuing their emphasis on achieving results. As new global challenges emerge, donors will ensure that existing channels for aid delivery are used and, if necessary, strengthened before creating separate new channels that risk further fragmentation and complicate co-ordination at country level.
- d) We encourage developing countries to mobilise, manage and evaluate their international cooperation initiatives for the benefit of other developing countries.
- e) South-South co-operation on development aims to observe the principle of non-interference in internal affairs, equality among developing partners and respect for their independence, national sovereignty, cultural diversity and identity and local content. It plays an important role in international development co-operation and is a valuable complement to North-South co-operation.

### **We will deepen our engagement with civil society organisations**

1.1.3.4. We will deepen our engagement with CSOs as independent development actors in their own right whose efforts complement those of governments and the private sector. We share an interest in ensuring that CSO contributions to development reach their full potential. To this end:

- a) We invite CSOs to reflect on how they can apply the Paris principles of aid effectiveness from a CSO perspective.
- b) We welcome the CSOs' proposal to engage with them in a CSO-led multistakeholder process to promote CSO development effectiveness. As part of that process, we will seek to i) improve co-ordination of CSO efforts with government programmes, ii) enhance CSO accountability for results, and iii) improve information on CSO activities.
- c) We will work with CSOs to provide an enabling environment that maximises their contributions to development.

### **We will adapt aid policies for countries in fragile situations**

1.1.3.5. In the Paris Declaration, we agreed that aid effectiveness principles apply equally to development co-operation in situations of fragility, including countries emerging from conflict, but that these principles need to be adapted to environments of weak ownership or capacity. Since then, Principles for Good International Engagement in Fragile States and Situations have been agreed. To further improve aid effectiveness in these environments, we will take the following actions:

- a) Donors will conduct joint assessments of governance and capacity and examine the causes of conflict, fragility and insecurity, engaging developing country authorities and other relevant stakeholders to the maximum extent possible.
- b) At country level, donors and developing countries will work and agree on a set of realistic peace- and state-building objectives that address the root causes of conflict and fragility and help ensure the protection and participation of women. This process will be

informed by international dialogue between partners and donors on these objectives as prerequisites for development.

- c) Donors will provide demand-driven, tailored and co-ordinated capacity-development support for core state functions and for early and sustained recovery. They will work with developing countries to design interim measures that are appropriately sequenced and that lead to sustainable local institutions.
- d) Donors will work on flexible, rapid and long-term funding modalities, on a pooled basis where appropriate, to i) bridge humanitarian, recovery and longer-term development phases, and ii) support stabilisation, inclusive peace building, and the building of capable, accountable and responsive states. In collaboration with developing countries, donors will foster partnerships with the UN System, international financial institutions and other donors.
- e) At country level and on a voluntary basis, donors and developing countries will monitor implementation of the Principles for Good International Engagement in Fragile States and Situations, and will share results as part of progress reports on implementing the Paris Declaration.

## **DELIVERING AND ACCOUNTING FOR DEVELOPMENT RESULTS**

1.1.4. We will be judged by the impacts that our collective efforts have on the lives of poor people. We recognise that greater transparency and accountability for the use of development resources – domestic as well as external – are powerful drivers of progress.

### **We will focus on delivering results**

1.1.4.1. We will improve our management for results by taking the following actions:

- a) Developing countries will strengthen the quality of policy design, implementation and assessment by improving information systems, including, as appropriate, disaggregating data by sex, region and socioeconomic status.
- b) Developing countries and donors will work to develop cost-effective results management instruments to assess the impact of development policies and adjust them as necessary. We will better co-ordinate and link the various sources of information, including national statistical systems, budgeting, planning, monitoring and country-led evaluations of policy performance.
- c) Donors will align their monitoring with country information systems. They will support, and invest in strengthening, developing countries' national statistical capacity and information systems, including those for managing aid.
- d) We will strengthen incentives to improve aid effectiveness. We will systematically review and address legal or administrative impediments to implementing international commitments on aid effectiveness. Donors will pay more attention to delegating sufficient authority to country offices and to changing organisational and staff incentives to promote behaviour in line with aid effectiveness principles.

### **We will be more accountable and transparent to our publics for results**

1.1.4.2. Transparency and accountability are essential elements for development results. They lie at the heart of the Paris Declaration, in which we agreed that countries and donors

would become more accountable to each other and to their citizens. We will pursue these efforts by taking the following actions:

- a) We will make aid more transparent. Developing countries will facilitate parliamentary oversight by implementing greater transparency in public financial management, including public disclosure of revenues, budgets, expenditures, procurement and audits. Donors will publicly disclose regular, detailed and timely information on volume, allocation and, when available, results of development expenditure to enable more accurate budget, accounting and audit by developing countries.
- b) We will step up our efforts to ensure that – as agreed in the Paris Declaration – mutual assessment reviews are in place by 2010 in all countries that have endorsed the Declaration. These reviews will be based on country results reporting and information systems complemented with available donor data and credible independent evidence. They will draw on emerging good practice with stronger parliamentary scrutiny and citizen engagement. With them we will hold each other accountable for mutually agreed results in keeping with country development and aid policies.
- c) To complement mutual assessment reviews at country level and drive better performance, developing countries and donors will jointly review and strengthen existing international accountability mechanisms, including peer review with participation of developing countries. We will review proposals for strengthening the mechanisms by end 2009.
- d) Effective and efficient use of development financing requires both donors and partner countries to do their utmost to fight corruption. Donors and developing countries will respect the principles to which they have agreed, including those under the UN Convention against Corruption. Developing countries will address corruption by improving systems of investigation, legal redress, accountability and transparency in the use of public funds. Donors will take steps in their own countries to combat corruption by individuals or corporations and to track, freeze, and recover illegally acquired assets.

### **We will continue to change the nature of conditionality to support ownership**

1.1.4.3. To strengthen country ownership and improve the predictability of aid flows, donors agreed in the Paris Declaration that, whenever possible, they would draw their conditions from developing countries' own development policies. We reaffirm our commitment to this principle and will continue to change the nature of conditionality by taking the following actions:

- a) Donors will work with developing countries to agree on a limited set of mutually agreed conditions based on national development strategies. We will jointly assess donor and developing country performance in meeting commitments.
- b) Beginning now, donors and developing countries will regularly make public all conditions linked to disbursements.
- c) Developing countries and donors will work together at the international level to review, document and disseminate good practices on conditionality with a view to reinforcing country ownership and other Paris Declaration Principles by increasing emphasis on harmonised, results-based conditionality. They will be receptive to contributions from civil society.

## We will increase the medium-term predictability of aid

1.1.4.4. In the Paris Declaration, we agreed that greater predictability in the provision of aid flows is needed to enable developing countries to effectively plan and manage their development programmes over the short and medium term. As a matter of priority, we will take the following actions to improve the predictability of aid:

- a) Developing countries will strengthen budget planning processes for managing domestic and external resources and will improve the linkages between expenditures and results over the medium term.
- b) Beginning now, donors will provide full and timely information on annual commitments and actual disbursements so that developing countries are in a position to accurately record all aid flows in their budget estimates and their accounting systems.
- c) Beginning now, donors will provide developing countries with regular and timely information on their rolling three- to five-year forward expenditure and/or implementation plans, with at least indicative resource allocations that developing countries can integrate in their medium-term planning and macroeconomic frameworks. Donors will address any constraints to providing such information.
- d) Developing countries and donors will work together at the international level on ways of further improving the medium-term predictability of aid, including by developing tools to measure it.

## LOOKING FORWARD

1.1.5. The reforms we agree on today in Accra will require continued high level political support, peer pressure, and co-ordinated action at global, regional, and country levels. To achieve these reforms, we renew our commitment to the principles and targets established in the Paris Declaration, and will continue to assess progress in implementing them.

1.1.6. The commitments we agree today will need to be adapted to different country circumstances – including in middle-income countries, small states and countries in situations of fragility. To this end, we encourage developing countries to design – with active support from donors – country-based action plans that set out time-bound and monitorable proposals to implement the Paris Declaration and the Accra Agenda for Action.

1.1.7. We agree that, by 2010, each of us should meet the commitments we made on aid effectiveness in Paris and today in Accra, and to reach beyond these commitments where we can. We agree to reflect and draw upon the many valuable ideas and initiatives that have been presented at this High Level Forum. We agree that challenges such as climate change and rising food and fuel prices underline the importance of applying aid effectiveness principles. In response to the food crisis, we will develop and implement the global partnership on agriculture and food swiftly, efficiently and flexibly.

1.1.8. We ask the Working Party on Aid Effectiveness to continue monitoring progress on implementing the Paris Declaration and the Accra Agenda for Action and to report back to the Fourth High Level Forum on Aid Effectiveness in 2011. We recognise that additional work will be required to improve the methodology and indicators of progress of aid effectiveness. In 2011, we will undertake the third round of monitoring that will tell us whether we have achieved the targets for 2010 agreed in Paris in 2005.<sup>4</sup> To carry forward

this work, we will need to develop institutionalised processes for the joint and equal partnership of developing countries and the engagement of stakeholders.

1.1.9. We recognise that aid effectiveness is an integral part of the broader financing for development agenda. To achieve development outcomes and the MDGs we need to meet our commitments on both aid quality and aid volumes. We ask the Secretary General of the United Nations to transmit the conclusions of the Third High Level Forum on Aid Effectiveness to the High Level Event on the MDGs in New York later this month and the Financing for Development Review meeting in Doha in November 2008. We welcome the contribution that the ECOSOC Development Co-operation Forum is making to the international dialogue and to mutual accountability on aid issues. We call upon the UN development system to further support the capacities of developing countries for effective management of development assistance.

1.1.10. Today, more than ever, we resolve to work together to help countries across the world build the successful future all of us want to see – a future based on a shared commitment to overcome poverty, a future in which no countries will depend on aid.

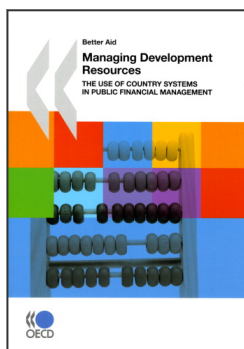
## Notes

1. These figures are based on a recent World Bank study that found the poverty line to be USD1.25 a day in 2005 prices.
2. These include, but are not limited to, systems for public financial management, procurement, audit, monitoring and evaluation, and social and environmental assessment.
3. The 2001 DAC recommendation on Untying ODA to the Least Developed Countries (LDCs) covers 31 so-called Heavily Indebted Poor Countries (HIPC). The OECD Development Assistance Committee (DAC) at its 2008 High Level Meeting agreed to extend the 2001 Recommendation to cover the remaining eight countries that are part of the HIPC initiative: Bolivia, Cameroon, Côte d'Ivoire, Ghana, Guyana, Honduras, Nicaragua and Republic of Congo.
4. We will have that information available for the Fourth High Level Forum on Aid Effectiveness in 2011, along with comprehensive second phase evaluations of the implementation of the Paris Declaration and the Accra Agenda for Action as of 2010. Attention will also be paid to improving and developing communications on aid effectiveness for long-term development success and broad-based public support.

## Table of Contents

<b>Foreword</b> .....	3
<b>Executive Summary</b> .....	7
<b>Chapter 1. Background, Definitions and Scope of the Report</b> .....	11
Introduction .....	12
Definition of Public Financial Management (PFM) .....	13
Definition of “Use of Country PFM Systems” .....	13
Scope and Structure of the Report. ....	14
Notes .....	15
<b>Chapter 2. Aid Effectiveness and the Use of Country PFM Systems:     Rationale and Findings</b> .....	17
Introduction .....	18
Rationale for Using Country PFM Systems .....	18
Aid Modalities and the Use of Country PFM Systems.....	19
Findings on the Use of Country PFM Systems .....	20
Conclusion .....	21
Notes .....	21
<b>Chapter 3. Strengthening Country PFM Systems</b> .....	23
Introduction .....	24
Trajectory of PFM Reforms in Partner Countries .....	24
Key Drivers of Successful PFM Reforms .....	26
Role of the Political Economy in PFM Reforms.....	32
Communications Strategy for PFM Reforms .....	33
Key Recommendations .....	34
Notes .....	35
<b>Chapter 4. Practices in the Use of Country PFM Systems</b> .....	37
Introduction .....	38
Use of Country PFM Systems: Basic Considerations.....	38
Risks to Donors in Using Country PFM Systems .....	39
Appetite for Risk.....	40
Risk Assessment.....	42
Risk Management.....	44
Donors’ Guidance on and Incentives for the Use of Country PFM Systems .....	45
Conclusions.....	48
Notes .....	48

Chapter 5. <b>Measuring the Performance of Country PFM Systems</b> .....	51
Introduction .....	52
The PEFA Framework .....	52
Global Adoption .....	53
Role of PFM Assessments in the Use of Country PFM Systems .....	55
Impact of PEFA-based PFM Assessments .....	56
Challenges for Enhanced Use of the PEFA Tool .....	58
Measures to Enhance the Use of PEFA Assessments .....	59
Notes .....	60
References .....	60
Presentations (Joint Venture on PFM Meetings 2005-2007) .....	62
Annex I. Components of PFM Systems and Indicators of their Use .....	63
Annex II. Overview of the PEFA PFM/High-Level Performance Indicator Set .....	65
Annex III. PEFA linkage with the CPIA Questions .....	66
Annex IV. The Paris Declaration on Aid Effectiveness .....	67
Appendix A. Methodological Notes on the Indicators of Progress .....	78
Appendix B. List of Participating Countries and Organisations .....	80
Annex V. Accra Agenda for Action .....	82
<b>Boxes</b>	
1.1. The Paris Declaration and the Use of Country PFM Systems .....	12
3.1. Afghanistan: Government-Led PFM Reforms .....	26
3.2. Lessons from Ghana .....	27
3.3. Donor Co-ordination in Mozambique .....	28
3.4. A High-Impact Approach: Cambodia's Experience .....	29
3.5. Role of Technocratic Leadership in PFM Reforms: Turkey .....	32
3.6. Communication Strategy on PFM Reforms: An Example from Zambia .....	34
4.1. Findings and Recommendations from the DFID Stock Take on Donor Approaches to Managing Risks when Using Country Systems .....	42
4.2. Moving Toward the Use of Country PFM Systems as a Default Position .....	46
5.1. A Joint Assessment Process Led by the Government .....	54
5.2. PEFA assessment in a High-Income Country: The Case of Norway .....	55
<b>Figures</b>	
3.1. Percentage of Benchmarks met by HIPC Indicators (2001-06) .....	25
4.1. The Use of Country PFM Systems and the Quality of PFM Systems .....	38
5.1. Impact of PEFA Performance Assessments .....	57



**From:**

## **Managing Development Resources**

The Use of Country Systems in Public Financial Management

**Access the complete publication at:**

<https://doi.org/10.1787/9789264056169-en>

### **Please cite this chapter as:**

OECD (2009), "Annexes", in *Managing Development Resources: The Use of Country Systems in Public Financial Management*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264056169-8-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to [rights@oecd.org](mailto:rights@oecd.org). Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at [info@copyright.com](mailto:info@copyright.com) or the Centre français d'exploitation du droit de copie (CFC) at [contact@cfcopies.com](mailto:contact@cfcopies.com).