

**2006 ASIAN REGIONAL FORUM ON AID EFFECTIVENESS:
IMPLEMENTATION, MONITORING AND EVALUATION**

**Are donor harmonisation initiatives a good investment
in improved aid effectiveness?**

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The opinions expressed in this case study are the authors' alone,
and do not necessarily represent the official views of the organisers
of the Asian Regional Forum on Aid Effectiveness

Executive summary

This thematic study considers how initiatives among groups of donors to improve their harmonisation have contributed to the implementation of the Paris Declaration. It looks at two types of initiative: two joint country planning processes (Bangladesh and Cambodia) and an innovative multi-donor facility to support Indonesia's decentralisation programme.

In the two joint planning initiatives, groups of four donors decided to combine parts of their country planning processes by conducting joint analytical work and agreeing on common high-level objectives. They then produced individual country assistance strategies, in accordance with an agreed strategic framework. The initiatives helped improve strategic coordination among the participating donors and, although programming was mostly done separately, made a contribution to improving the division of labour among the partners. There were some savings on government transaction costs. The initiatives also helped to build closer working relationship among the participating donors.

The Decentralisation Support Facility (DSF) is an innovative initiative established by donors providing support to Indonesia's decentralisation programme. Its role is to promote better coordination and harmonisation of existing support, and to facilitate collaboration between donors, government and civil society. It supports the design and implementation of decentralisation programmes through a mixture of research and analysis, technical assistance and pilot activities.

The case studies reveal that harmonisation initiatives are a product of particular country circumstances, and tend to be pragmatic and opportunity-driven. Country managers need the flexibility to identify and respond to opportunities as they emerge. Greater delegation of authority to country managers facilitates harmonisation.

Developing harmonisation initiatives among a small group of donors is often an efficient approach, but necessarily excludes other donors. This may entail relationship costs that need to be mitigated through transparency and heightened communication outside the group. The Indonesian DSF is an attractive model because it is able to engage with all donors without creating an exclusive group. Where donors do consider it appropriate to proceed with harmonisation in groups, it is useful to select partners with a range of different skills and comparative advantages, particularly concerning their relations with government, to ensure that the sum is greater than the parts.

As country leadership strengthens, the locus for aid coordination shifts to government-led processes, and harmonisation initiatives need to adapt accordingly. However, there is a continuing need for initiatives that improve strategic coordination among donors, enabling them to make a coordinated input into government-led processes.

The case studies show that the Paris Declaration has major implications for how donors should assess 'transaction costs'. Working in effective partnership with other donors and government counterparts is time consuming, and the costs are not necessarily transitional in nature. These efforts should not be seen purely as 'transaction costs' to be minimised,

but as part of the core business of delivering aid according to the Paris principles. The higher costs of harmonised working must be assessed against the benefits it offers to the partner country and its contribution to improving development results.

In the future, as aid is scaled up, the demands of harmonised working are likely to force donors to increase the selectivity of their country programmes. Donors may need to limit their operations across or within sectors, and to delegate to other donors in areas where they hold the comparative advantage in-country. This is beginning to happen, but not systematically. Joint planning initiatives like those in Cambodia and Bangladesh may become increasingly important as a means of establishing a better division of labour among donors.

~ Table of contents ~

1. INTRODUCTION	1
2. FRAMING THE ISSUE	1
3. COMPARING COUNTRY CONTEXTS	3
4. HARMONISATION IN ACTION	6
4.1 Joint country planning.....	6
4.2 The Decentralisation Support Facility	9
5. MANAGING HARMONISATION PROCESSES	11
6. COSTS, BENEFITS AND IMPACT	14
7. LESSONS LEARNED	16
7.1 The scope and design of harmonisation initiatives.....	16
7.2 Managing harmonisation.....	18
SELECT BIBLIOGRAPHY	20

Acronyms

ADB	Asian Development Bank
AFD	Agence Française de Développement
AusAID	Australian Agency for International Development
CDC	Council for the Development of Cambodia
CG	Consultative Group
CIDA	Canadian International Development Agency
CRDB	Cambodian Rehabilitation and Development Board
DAC	Development Assistance Committee
DFID	Department for International Development
DSF	Decentralisation Support Facility
EU	European Union
GDCC	Government-Donor Coordination Committee (Cambodia)
GDP	gross domestic product
GoB	Government of Bangladesh
GoI	Government of Indonesia
IMF	International Monetary Fund
JBIC	Japanese Bank for International Cooperation
LCG	Local Consultancy Group
MDGs	Millennium Development Goals
MoF	Ministry of Finance
NGO	non-government organisation
NSDP	National Strategic Development Plan 2006-2010 (Cambodia)
NSPR	National Strategy for Accelerated Poverty Reduction (Bangladesh)
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
PBA	programme-based approach
PFM	public financial management
PIU	project implementation unit
PRS	Poverty Reduction Strategy
RGC	Royal Government of Cambodia
SME	small and medium-sized enterprise
TA	technical assistance
TWG	Technical Working Group
UN	United Nations
UNDP	United Nations Development Program
USAID	United States Agency for International Development

1. Introduction

1. This case study considers how initiatives among groups of donors to improve their harmonisation have contributed to the implementation of the Paris Declaration. It looks at two types of harmonisation initiatives: joint country planning exercises (Bangladesh and Cambodia) and an innovative multi-donor facility to support Indonesia's decentralisation programme. The case study considers how these harmonisation initiatives are supporting better coordination of external assistance at the strategic level, and whether they support the alignment of external support with country priorities and strategies. It assesses the impact of these mechanisms for reducing transaction costs, improving the development partnership and promoting joint or coordinated programming among donor partners.

2. The case study presents current experiences and issues relating to implementation of the Paris Declaration. Many of the initiatives described here in fact predate the Paris Declaration, but can be regarded as examples of the Paris Declaration principles in action. The case study is intended to provoke debate on the merits of different approaches to implementation, and to generate practical lessons. However, not all of the experiences and lessons described here will be of general application. Effort has been made to describe the country conditions in sufficient detail to enable the reader to relate the lessons to a particular country context.

3. The Indonesia DSF case study was prepared separately by donor officials involved in the project, and incorporated by the authors into this thematic study. The Bangladesh and Cambodia case studies were prepared by the authors, based on available literature and interviews with a range of government and donor officials and civil society representatives. Separate drafts of each country case were reviewed by stakeholders, and then used as inputs for this thematic study. While government representatives and a selection of donors have commented on the drafts, the opinions expressed in this case study are the authors' alone. The case studies are necessarily somewhat impressionistic in nature, and do not support definitive judgments on progress in implementing the Paris Declaration across Asia, or in any particular country.

2. Framing the issue

4. Under the Rome Declaration on Harmonization of February 2003, donors recognised that the proliferation of systems for programming and delivering development assistance was generating unproductive transaction costs and taxing the capacity of partner countries. They committed to reforming their policies, procedures and practices to facilitate harmonisation, reduce duplicatory donor missions, simplify and harmonise reporting requirements and streamline conditionalities.

5. In the Rome declaration, the term 'harmonisation' is used very broadly to refer to the aid effectiveness agenda as a whole.¹ The main problem identified is the effect of multiple donor systems and procedures on generating unnecessary transaction costs for partner countries.

¹ The nine specific commitments in the Rome Declaration are described collectively as "activities to enhance harmonization": Rome Declaration, para. 5.

“We in the donor community have been concerned with the 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.”²

While the Rome Declaration calls for a “stronger leadership role” in aid coordination by partner countries, the detailed commitments are all on the donor side. In Rome, therefore, ‘harmonisation’ refers to initiatives by donors to improve their collective performance.

6. By the time of the Paris Declaration two years later, the agenda had broadened considerably. The undertakings were now in the form of ‘Partnership Commitments’, reflecting that changes of behaviour were required from both donors and partner countries. Establishing effective country leadership of the development agenda became the primary objective, with donors committing to aligning their support with country priorities and strategies and to delivering it as far as possible through country systems.

7. In this broader agenda, ‘harmonisation’ has acquired a somewhat narrower meaning, referring to those commitments that are still primarily on the donor side. The three main commitments in the Paris Declaration are:

- 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 (para. 32).
- Work together to reduce the number of separate, duplicative missions to the field and diagnostic reviews (para. 32).
- 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 (para. 35).

While reducing transaction costs by eliminating waste and duplication is still seen as an important objective, reducing the fragmentation of aid is also identified as necessary for increasing aid effectiveness.³ The principle of harmonisation has also come to mean increasing the selectivity and specialisation of donor programmes, based on comparative advantage, and increased use of delegated cooperation.

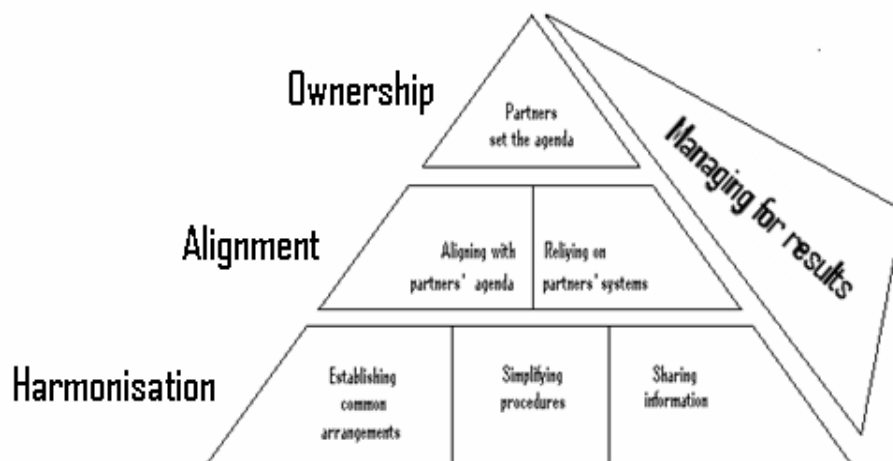
8. Implicitly, the Paris Declaration places the principle of harmonisation at a lower rank than alignment. This is reflected in the DAC’s aid effectiveness pyramid (see below).⁴ When read from top to bottom, the pyramid suggests a conceptual hierarchy: partner countries establish their development agenda, donors align their support with that agenda, and then in delivering their support donors harmonise with each other (by establishing common arrangements, simplifying procedures and sharing information). When read from bottom up, the pyramid suggests stages in the maturing of the development partnership. Even in fragile states, where country leadership is lacking, donors can begin by improving their harmonisation with each other, with the objective

² Rome Declaration, para. 2.

³ Paris Declaration, para. 33.

⁴ OECD DAC Working Party on Aid Effectiveness, “Harmonisation, alignment, results: report on progress, challenges and opportunities”, prepared for the Second High-Level Forum, Paris, February-March 2005, p. 14.

of moving up the pyramid by increasing their use of country systems, aligning with country preferences and thereby working towards effective country leadership.⁵



The OECD DAC Aid Effectiveness Pyramid

9. How does this conceptual scheme fit with the development of the aid effectiveness agenda at country level? Are harmonisation initiatives a useful tool for building country leadership? Are they effective at saving transaction costs, increasing aid effectiveness, or both? Should harmonisation be pursued among small groups of 'like-minded' donors, or among the donor community as a whole? Does the need for individual harmonisation initiatives decline as country leadership increases? These case studies shed some light on these questions.

3. Comparing country contexts

10. Country context, in particular the history of relations within the donor community and the level of country leadership of the aid effectiveness agenda, has proved to be important in the design and implementation of harmonisation initiatives.

11. Cambodia and Bangladesh are both countries where coordination among donors has at times been rather poor. Both countries have made significant efforts to engage with the aid effectiveness agenda and to assert leadership of the development partnership, but have been hampered by capacity constraints. Effective ownership of the development agenda is therefore still in the process of being established. In both cases, weak country leadership and poor relations among the donor community have been mutually reinforcing.

12. Cambodia emerged from a generation of conflict with devastated physical, human and institutional capital, and its development challenges are still dominated by this legacy. It is heavily aid dependent. In 2005, it received some US\$525 million in official

⁵ *Ibid.*

development assistance (ODA),⁶ accounting for around half of all public expenditure. A large majority of development activities are ODA financed.

13. It is a challenging environment in which to deliver aid effectively. ODA management capacity across the administration is weak, and basic government systems, particularly in public financial management (PFM), have had to be constructed from the ground up. The administration is fragmented, reflecting the complex political environment. This has contributed to a history of poor aid practices. Donors have relied heavily on foreign technical advisers to deliver their assistance. The quality of technical assistance (TA) has come in for particular criticism. Foreign advisers have been used to perform basic government functions, without clear capacity-building strategies. This has hampered the development of Cambodian systems and institutions.⁷

14. Against this background, relations among the donors, and between the donors and Government, have at times been very poor. The Government has often struggled to resolve conflicting policy advice from different donors. In the early 2000s, the World Bank and the ADB produced separate poverty assessments and were associated with different national development strategies. Since then, however, there has been a concerted effort by Government and donors to improve the quality of the development partnership. A single focal point has been nominated for aid coordination. Standing structures have been established to manage the policy dialogue, including a Government-Donor Coordination Committee (GDCC) and a series of sectoral and thematic Technical Working Groups (TWGs). Government and donors produced joint declarations following the Rome and Paris Declarations to define aid effectiveness objectives for Cambodia. The Government recently issued its National Strategic Development Plan 2006-2010 (NSDP), which unifies the country's various development plans and strategies, creating a single framework to which external assistance can be aligned. The joint country planning initiative described here forms part of this sequence of efforts designed to overcome the history of poor aid practices and promote a more effective development partnership.

15. Bangladesh is not an aid-dependent country. ODA flows account for only 1.5% of GDP,⁸ and are much less significant than foreign direct investments or remittances from the diaspora. Bangladesh has a unique history of uninterrupted economic growth since its birth, currently running at around 6%, but remains a low-income country, with weak social indicators and extensive poverty.

16. Development planning in Bangladesh is in principle governed by the National Strategy for Accelerated Poverty Reduction (NSPR).⁹ The NSPR is overseen by a National Executive Committee and jointly managed by the Planning Division, which is responsible for the Development Budget (non-revenue expenditure, including most ODA), and the Ministry of Finance (MoF), which manages the Revenue Budget. However, ownership of the NSPR is not uniform across the administration. The NSPR is only just being taken on board by many of the line ministries, some of which (in the

⁶ Cambodian Rehabilitation and Development Board, "Development Cooperation Report: 2004 and 2005", Phnom Penh, February 2006.

⁷ World Bank, "Cambodia: Halving Poverty by 2015? Poverty Assessment 2006", Phnom Penh, February 2006, p. 168.

⁸ Figure provided by the Ministry of Finance, Bangladesh.

⁹ Government of Bangladesh, "Unlocking the Potential – A National Strategy for Accelerated Poverty Reduction", 2005.

words of one senior civil servant) still see it as an “academic exercise”. Though it is welcomed by donors, it has not yet been fully successful as an instrument for coordinating external assistance. Concerned that the systems are not in place to enable effective implementation of the NSPR, donors have focused much of their effort on building state capacity, through processes which are not always country-led. Conditionality has been used by donors to strengthen core functions of the state and manage fiduciary risk. There has at times been some resistance from Government officials towards this conditionality.

17. The Government has expressed concern about the burden of managing a large number of donors operating in Bangladesh. Officials report that there are as many as 250 donor missions each year. The main mechanism for in-country donor coordination is the Local Consultancy Group (LCG), composed of 32 bilateral and multilateral donors and the Economic Relations of the Ministry of Finance. It is a donor-initiated association, led by an Executive Committee of 6 donor representatives selected on a rotating basis, and meets every 4-6 weeks. To facilitate dialogue and coordination in particular sectors and thematic groups, 21 LCG Sub-Groups have been created. There is considerable variation in the intensity and effectiveness of these groups. Some meet at regular intervals, and others convene meetings only when required. Some focus on technical or working-level collaboration, while others are active only at the policy or strategic level. Some are jointly chaired by Government officials, while others are donor-led and consult with Government only as required. Some observers have noted a disconnect between the LCG Plenary and the Sub-Groups, due both to a lack of guidance from the Plenary and poor reporting by the Sub-Groups.

18. In recent years, donors have become increasingly concerned about political governance and human rights issues in Bangladesh. Donors have taken different views on how to engage with Government of Bangladesh (GoB) on these issues. There has been a danger in the past that these differences have undermined both the cohesion of the donor community and its relations with Government. The larger donors (including the four donors in the joint country planning process described here) followed a path of ‘constructive engagement’ with the Government around these sensitive issues, while some of the smaller bilaterals were inclined to be more vocal. Though the joint country planning initiatives was not a response to these divisions, it has affected both the way the initiative was perceived by others donors and its impact on improving aid effectiveness in Bangladesh.

19. Indonesia presents a complex and rapidly changing political and institutional environment. It is a Middle Income Country with major regional discrepancies and persistent pockets of poverty. Since 1998, it has been in transition from an autocratic, centralized state to a democratic, decentralized one. It has successfully regained macroeconomic and political stability, with economic growth rising steadily to 5.6% in 2005. Public debt has declined from 100% of Gross Domestic Product (GDP) at the height of the 1997/98 economic crisis to 47%. The proportion of Indonesians living below the national poverty line has fallen from 27% in 1999 to under 15%, but there are still 86 million people living on less than \$2 a day and vulnerable to falling back into poverty. Governance problems continue to cloud Indonesia’s achievements, deterring investors and undermining service provision.

20. Whilst Indonesia receives support from a wide range of donors, three quarters of its ODA is provided by three institutions – the Japan Bank for International Cooperation

(JBIC), the Asian Development Bank (ADB) and the World Bank. There is no strong tradition of donor coordination. There appears to be relatively little discussion linking the aid effectiveness debate to Indonesia's Poverty Reduction Strategy (PRS), although the Ministry of Planning made a commitment at the 2005 Consultative Group meeting, and at the Paris High-Level Forum itself, to improving aid effectiveness. As a rapidly developing and confident nation, Indonesia has generally preferred to keep the donors at arm's length. While donors do align their programmes with country strategies, the relationships are managed bilaterally. However, the huge international response to the 2005 tsunami has had a catalytic effect, pushing the donors to increase their level of strategic and operational coordination and propelling the government into a more active leadership role.

4. Harmonisation in action

4.1 Joint country planning

21. In both Cambodia and Bangladesh, groups of four donors have come together for a joint country planning initiative. They conducted joint analytical work and risk analysis, and produced a common set of high-level objectives, creating a common framework to guide their country strategies. Though each partner developed its own country strategy, the joint planning initiative generated improved coordination at the strategic level and greater complementarity in programming.

22. The two initiatives were quite similar in scope and process – and indeed, the Bangladesh process drew on precedents established in Cambodia. Both arose more or less fortuitously, when a group of donors realised that they would be producing new country strategies at about the same time, involving duplication in analysis and consultation. By combining elements of that planning process, they recognised a means of reducing transaction costs for Government, while at the same time demonstrating a public commitment to greater harmonisation.

23. In Cambodia, where the four partners were ADB, DFID, the United Nations (which joined slightly later) and the World Bank, the partners also saw it as an opportunity for overcoming the relationship problems that had existed in the past among the three multilateral agencies. (One participant described it as “an olive branch” among the organisations.) The initiative came during a hiatus in Cambodian politics. The process of forming a new government after the July 2003 elections stretched out for more than a year, during which time no major policy dialogue was taking place. This gave partners additional time to pursue the joint planning initiative.

24. In Bangladesh, where the four partners (ADB, DFID, Japan and World Bank) between them provided 80% of ODA, it was recognised that the process could reduce transaction costs for government, as compared to parallel planning processes, as well as provide an opportunity to give joint messages to Government on the development challenges facing the country. It would also reduce overlap between the country programmes and improve complementarity. Corporately, it also helped the participating agencies to demonstrate their commitment towards the harmonisation agenda.

25. In both cases, the core of the initiative was a joint analytical exercise, leading to a common understanding of the development challenges, the national policy context, and a common risk assessment. In Cambodia, the partners agreed that their separate country

strategies would contain identical text in these three areas. The partners assembled the various analytical inputs that had been prepared in the preceding period, including a joint Fiduciary Review, private sector analyses and a Drivers of Change study. Through an intense process lasting several months, inter-agency working groups collated the inputs and developed a common analysis of particular sectors and themes. Various retreats and meetings were held, in order for the partners to learn about each other's programmes and approaches, identify their comparative advantages, develop common understandings of specific issues and agree key outcomes and priority areas for the country strategies.

26. The process in Bangladesh was similar. Through joint analytical work, the partners developed a common country diagnosis and set of strategic objectives formulated as an outcomes matrix (although it included both development outcomes and policy actions). The analytical work was done by agency staff, working through joint sectoral teams (for instance, Private Sector Development, the Power Sector, Transport, Health, Governance and so on). These were led by whichever partner was seen as having the comparative advantage technically in that area within its country team. Each group summarised the challenges facing the sector, and proposed a list of development outcomes for inclusion in the matrix. These inputs were crystallised at a joint retreat of the four country teams. On the basis of these discussions, a single country diagnostic report was prepared. Each of the partners used this report as its analytical base when drafting its individual country strategy. No additional diagnostic work was commissioned.

27. In Cambodia, drafting of the common analysis was described by all participants as a tortuous process, which stretched out over many months. ADB led on the drafting, because it was most advanced in the process. However, the analysis was extensively revised following consultation and debate among the partners. This intensive phase of the work was often frustrating for the participants, but in retrospect is considered to have been essential in building solid working relationships between the agencies and cementing institutional commitment to the process.

28. In Bangladesh, by contrast, the partners note that the analytical process proved easier than expected. No significant differences of opinion emerged between the partners. The partners valued the opportunity to pool expertise and to build a common knowledge base. The work put into the sectoral analysis also helped to build relationships at a technical level across the agencies.

29. In Cambodia, the partners found it useful to articulate a set of principles to guide their working relationship. These included commitments to:

- a) building a partnership based on trust and openness;
- b) joint working, based on shared knowledge;
- c) pursuing coordination and harmonisation in areas of common support;
- d) building on the comparative advantage of different donors;
- e) developing common messages for government;
- f) aligning to RGC priorities;
- g) building RGC capacity to lead;
- h) listening to RGC's policy agenda, and basing dialogue on that agenda;
- i) realistic expectations and a long-term perspective;
- j) exercising selectivity in programming decisions, focusing on areas where RGC commitment and ownership is established;

- k) developing a common understanding of incentives and institutions in each sector of engagement.

Many of these commitments have subsequently been articulated in general form between the Government and donors. In Bangladesh, the partners took these principles as a model and formulated a very similar set.

30. In Cambodia, part of the analytical process was a series of stakeholder consultations with other donors, civil society and the private sector, conducted jointly by the partners over a 3-day period in October 2003. Follow-up sessions to obtain feedback on the analysis were conducted in October/November 2004. In Bangladesh, the partners likewise conducted joint consultations with Government officials, the private sector, NGOs and academics over a month-long period. Some of the partners also conducted further consultations on their own country strategy.

31. Joint programming was not explicitly part of either initiative initially, as each partner formulated its country strategy separately. Immediate changes to the country programmes were necessarily limited, due to the weight of existing commitments. However, the exercise did facilitate closer coordination among the partners on programming choices. For example, in Bangladesh the ADB now invites the other three partners to participate in its programming missions, as well as in the Roundtable Meetings with Government which are used to update results indicators, assess portfolio performance and update the country programme. In addition, through the planning process, consensus emerged among the partners as to their comparative advantage in different sectors, and they identified areas offering scope for joint work or improved division of labour. It is intended that this will lead to further convergence in programming in the future.

32. In Cambodia, there have been some improvements in complementarity between the World Bank and the ADB. For example, ADB agreed to move out of the health sector altogether, while the World Bank agreed to play a supporting role to ADB in education. ADB took informal leadership in agriculture, irrigation and natural resource management, while the World Bank concentrated on forestry and land reform. ADB focused more on the financial sector, while the World Bank led on private sector development. To an extent, this division of labour was already apparent before the joint planning initiative, but has become clearer as a result of improved relations between the two institutions. With some of the partners now under corporate pressure to rationalise their country programmes, there is likely to be greater selectivity in the future.

33. In Bangladesh, the country programmes did not change much in substance, reflecting both the level of existing commitments and institutional rigidities that made it difficult for the partners to adapt their programmes in response to country-level initiatives. However, a framework for improved division of labour was put in place. In the outcomes matrix, the partners nominated a lead agency for each outcome and sub-area. The criteria for selecting the lead agency included:

- established strategic leadership with GoB and other donor partners;
- proven capacity to lead the policy dialogue;
- track record at implementation level, and significant pipeline support;
- capacity to monitor progress against indicators.

The lead agency will provide strategic leadership in the sector, particularly within the policy dialogue. The four partners have taken care to ensure that this mechanism does not rival or undermine the LCG process. They have not allocated a lead agency in areas where a non-participating donor already has the lead, or where (as in health and education) there is already a functioning coordination mechanism. Other donors have been invited to associate themselves with this division of labour.

34. In Cambodia, an attempt was made to develop a common set of monitoring indicators for the country programmes, but this was abandoned as impractical in light of the differences in composition of the four programmes. In Bangladesh, the outcomes matrix offers the potential for joint monitoring, and the World Bank and the ADB both make reference to joint monitoring in their country strategies, but there has been no discussion as yet as to how this might work.

35. The future of the two joint planning initiatives is for the time being uncertain. In both cases, the partners saw the joint planning exercise as the first step in a continuing process of convergence. The partners recognise that a platform has been established on which further harmonisation activities could be based. For the time being, however, there are no definite plans as to how to take the two initiatives forward.

36. In Cambodia, the relationship among the four partners is lightly institutionalised through monthly meetings of the heads of office, which are used to share ideas and coordinate responses on strategic issues. There are also six-monthly review meetings of the country teams, to review progress in the implementation of their programmes and refresh their common understanding of the development context. The partners have deliberately chosen to keep the group informal. While they consult with each other to coordinate their positions on particular issues, they do not take joint positions as a group. They are involved in a range of joint work, from preparing coordinated comments on the draft NSDP to participation in joint programmes such as PFM reforms. However, this joint work is not specifically a result of the country planning initiative, and also involves other donors.

37. In Bangladesh, the partners would like to extend their cooperation into joint programme implementation in a number of areas. At a recent meeting, they agreed on eight sectors in which to pilot improved harmonisation, and established some preliminary targets by which to measure progress. However, some participants note that, without a more solid institutional framework to maintain the relationship, it will be difficult to expand the initiative. Indeed, there is a danger that the benefits of the initiative will quickly dissipate, especially following turnover of staff.

4.2 The Decentralisation Support Facility

38. The Decentralisation Support Facility (DSF) is an innovative initiative established by donors providing support to Indonesia's decentralisation programme. Rather than introducing new programmes, the role of the DSF is to promote improved coordination and harmonisation of existing support. Its mandate is to analyse, simplify and facilitate innovative interactions between donors, the government and civil society organisations. Its main modes of engagement are:

- providing evidence to improve the analysis of decentralisation impact;

- facilitating harmonisation and alignment around existing and new programmes;
- supporting the design of major new harmonized, multi-donor interventions.

The DSF is only one year in operation, and still in an experimental phase.

39. Decentralisation in Indonesia has been launched through a ‘big bang’ approach, after decades of centralised autocracy. From 2001, the Government of Indonesia (GoI) moved the majority of domestic responsibilities and resources to sub-national governments at provincial and district level. This rapid transition has created considerable turbulence in government policy, and between different parts of government responsible for implementing the decentralisation programme. The decentralisation process faces a number of major constraints and challenges, including:

- an underdeveloped policy and legal framework to facilitate effective, decentralised service delivery;
- an inadequate fiscal environment, both in terms of intergovernmental transfers and local authorities’ own revenues;
- a weak political culture for participation, transparency and accountability at the local level;
- a rapidly changing institutional environment, where systems for effective checks and balances between the executive, legislative and judiciary are still under development;
- weak governance capacity at local level;
- inadequate research and data to inform policy making.

40. A number of GoI agencies have been assigned responsibility for elements of the decentralisation programme, including the Ministries of Home Affairs, Planning and Finance. However, coordination between these agencies remains weak, hampered by the lack of a coherent policy framework for decentralisation. This in turn makes it difficult for donors to align behind a clear government lead on decentralisation.

41. Following the launch of the decentralisation programme, a number of large support programmes were developed by donors, notably Japan, ADB and the World Bank. Various issues of overlap and duplication soon emerged. Coordination between donors and government was initially undertaken through a joint government-donor working group on decentralisation, under the auspices of the CG. This group focused on high-level policy discussion. The GoI also established a Permanent Secretariat for Donor Coordination around Decentralisation. However, it also became clear that a more operational approach to coordination on the donor side was required.

42. In the wake of the 2003 Rome High-Level Forum, a group of donors developed the DSF as a tool for promoting improved harmonisation and alignment in the decentralisation area. It began in February 2005 with a US\$8 million grant from DFID, channelled through a World Bank-administered Trust Fund, and went through an extended piloting and design phase to determine the best way to support donor coordination and government policy in the area. A second phase of the programme has just commenced, with US\$45 million in funding over a three-year period and an operational team of six staff. The DSF will draw on inputs from a wide group of donors, currently including ADB, AusAID, CIDA, DFID, GTZ, Netherlands, UNDP, USAID and the World Bank.

43. The DSF supports donors and the GoI in the design and implementation of decentralisation programmes through a mixture of research and analysis, technical assistance and pilot activities. For example, there are a range of donor support programmes underway to build planning, budgeting and financial management capacity in local government. The DSF reviews the different approaches that are being used, with a view to helping GoI and donors identify, institutionalise and scale up effective practices. Where there is scope for joint working, it helps donors to establish coordination structure or design joint programmes. It also provides support in particular programme areas, for example by promoting the use of common planning and budgeting tools such as public expenditure reviews and public hearings, disseminating best practice on service delivery or public service reform, piloting strategies for improving intergovernmental cooperation and promoting new approaches to performance measurement.

44. For example, the DSF has demonstrated how ADB and the World Bank can work together to provide ‘single window’ policy advice. In 2006, GoI launched a large-scale social protection programme to offset the impact of increased fuel prices on the poor. This included direct cash transfers, additional funding for schools and support to local health services. GoI approached both banks individually for assistance in monitoring and evaluating these schemes, and designing a new generation of social protection programmes. The DSF facilitate a combined work plan by the two banks to meet the Government’s request. As a result, a single set of impact evaluation studies were conducted with inputs from both agencies, and GoI received a common set of recommendations on how its programmes could be improved.

45. Following these early pilots, the DSF is now preparing to engage more extensively with a wide range of stakeholders through a mix of technical assistance and support programmes. It will collect and consolidate existing knowledge within stakeholder organisations, while generating new knowledge through research and analysis, with a view to facilitating continuous improvement in the quality of donor engagement. It will pay particular attention to improving the quality of the policy dialogue between donor and GoI, by filling knowledge gaps, anticipating opportunities and constructively challenging the policy consensus. It anticipates that a major output will be the design of large, multi-donor programmes in support of Indonesia’s decentralisation policies.

5. Managing harmonisation processes

46. A number of points emerge from the case studies about how harmonisation activities are initiated and managed.

47. In each of these examples, the initiative was proposed at country level. For the two joint planning initiatives, it was primarily a fortuitous event – the overlap in timing of the donors’ country planning cycles – which provided the opportunity for a decisive move towards improved harmonisation. The initiative fitted the corporate agendas of the four partners, and at various points intervention from headquarters proved important for keeping the processes on track. However, though the commitment to aid effectiveness may be global in nature, it is usually up to country managers to identify concrete opportunities to move the agenda forward.

48. Relationships among the partners were key to the design and management of the initiatives. The country planning processes were in themselves relationship-management devices. In the case of Cambodia, the process was used to overcome a history of poor relations among the major bilaterals. In Bangladesh, it was seen as an opportunity to strengthen relations and strategic convergence between the four largest donors. The partners found that the intensive period of joint work, though taxing on those involved, proved to be an effective means of achieving greater mutual understanding of their respective corporate priorities and constraints, and cementing relationships between the country teams.

49. Nonetheless, various tensions emerged during the process, which had to be managed. In Cambodia, the painstaking process of revising the joint analysis was a source of frustration. Turnover of staff was also a complicating factor, as new staff had not been through the relationship-building process. At a number of points, intervention from headquarters staff was necessary to keep the process on track, to remind staff of the high costs of failure to the wider aid effectiveness agenda in Cambodia. In both Cambodia and Bangladesh, the partners considered it helpful to articulate a set of principles, or 'rules of the game', to facilitate communication between the agencies and minimise misunderstandings.

50. At various points, differences of view emerged between country-level and headquarters staff. Headquarters staff who were not involved as intensively in the process tended to have lower commitment to the process, and were less willing to compromise on their corporate position. In Bangladesh, one of the partners noted that even small changes in priorities agreed among the partners were difficult to sell to headquarters, and that headquarters at times tried to change compromises that had been agreed in-country. The process highlighted the different degrees of centralisation of decision making among the agencies. Because harmonisation is a highly negotiated process, it is greatly facilitated by delegation of decision-making authority to country offices.

51. In both Cambodia and Bangladesh, Government was informed of and generally supportive of the joint planning process, but not closely involved in it. In Cambodia, much of the work was done during the period following the July 2003 elections when no government was in place. In Bangladesh, the partners considered that Government was not providing consistent leadership of the development agenda across all sectors. This lack of leadership was seen as a limiting factor on the degree of harmonisation that could be achieved. For example, in Bangladesh each of the partners had somewhat different approaches towards SME development. The partners were unable to settle on a common approach without some guidance from Government as to which approach it preferred. However, despite approaches to three different ministries, no guidance was forthcoming. Clear country leadership therefore facilitates donor harmonisation.

52. In each case, the choice of partners to the joint planning initiatives was partly fortuitous, depending on which agencies were about to commence preparation of a new country strategy, and partly strategic, in that it was intended to improve coordination among the largest donors with the greatest overlap in their programmes. The partners emphasise that the initiatives were not meant to be in any way exclusive of other donors, and that they took care to ensure that the process was open and transparent. Nonetheless, there were costs in terms of relations with other donors. These were most apparent in the case of Bangladesh. From the outset, there were concerns among non-

participating donors that the four large donors had created an exclusive ‘club’, and were attempting to monopolise the policy dialogue with Government. At the time, differences of view had emerged within the donor community as to how to respond to governance problems in Bangladesh. Against this background, some of the smaller bilateral donors felt they had been excluded from the group because of their more outspoken approach to governance issues. The four partners became known informally as ‘the Gang of Four’.

53. This demonstrates one of the dilemmas associated with harmonisation efforts among small groups of donors. Harmonisation efforts become more difficult to manage as the number of partners increases. Proceeding with a small group is often the most practical choice. However, there are risks associated with excluding other donors. These need to be managed through high levels of transparency and effective communication.

54. In both countries, the Government has taken steps in recent years to strengthen its leadership of the aid effectiveness agenda. In Cambodia, in particular, there is now quite an elaborate structure for managing the policy dialogue, based around the GDCC and the many sectoral and thematic TWGs. The Government has announced its intention to improve harmonisation and alignment at the sectoral level through the development of programme-based approaches. Each of the TWGs has been tasked with preparing a list of on-going ODA-funded projects linked to a set of sectoral objectives, as a starting point for the preparation of sectoral strategies and action plans.

55. As Government leadership of the development agenda improves and the donors improve their alignment with country priorities and strategies, the question arises as to whether joint country planning among small groups of donors is still appropriate. Some non-participating donors expressed the view that the joint planning initiative was now an “outdated” mode of harmonisation, and that the priority should now be to pursue greater coordination within Government-led mechanisms. However, in both cases the partners believe that improving their own strategic coordination will facilitate the emergence of effective government leadership and the alignment of external support with country programmes. They stress that government-led coordination mechanisms are more effective when donors coordinate their positions in advance, rather than hammering out their differences in open forum. They also point out that the quality of leadership offered by government varies significantly from sector to sector, and that there are still areas where donors need to take the initiative and lead by example. Nonetheless, the partners are conscious of the need to avoid undermining government-led structures, and are willing to adapt their mode of coordination as those structures evolve.

56. The DSF in Indonesia represents a very different approach to managing donor harmonisation. Rather than achieving up-front agreement on the design of major, new multi-donor programmes, which would have been difficult in the light of existing commitments, the donors chose to establish a facility dedicated to promoting incremental harmonisation between existing programmes and approaches. Over the medium term, the DSF intends to support the design of new multi-donor initiatives. In the short term, its efforts are focused on improving the effectiveness of existing programmes through developing a common knowledge pool, promoting common approaches and management tools, and facilitating more effective policy dialogue.

57. One of the advantages of this approach is that it provides a means for engaging with donors that are restricted in their use of joint programming. Irrespective of funding modality, it can promote harmonisation among donors by ensuring that their activities and approaches are complementary. It is therefore a flexible tool for promoting strategic coordination. The kind of services that DSF offers – detailed analytical work, research into best practices, providing evidence in support of policy dialogue – should in principle be undertaken within all support programmes, but the reality is that time pressures on implementing agencies mean that these activities are often neglected. By creating a specific vehicle and funding stream for coordination work, the DSF donors have ensured that harmonisation will always receive sufficient priority.

58. The open question at this stage is how responsive individual donors and donor programmes will be to this kind of approach. That can only be assessed once the programme is more established.

59. The DSF was an initiative of donors, rather than GoI, although GoI was involved in the design through regular consultation. Initially, some care had to be taken to encourage GoI to see the DSF as a complementary rather than a parallel structure. The GoI is represented on the governing body, the Management Committee, and will be involved in all decision making on programming and budgets. However, a recent review of Phase 1 of the DSF identified that involving GoI stakeholders more fully in both the management and operation of the DSF should be a priority for the coming period.

6. Costs, benefits and impact

60. Perceptions of the costs of the harmonisation initiatives vary significantly among the participants. For the joint planning initiatives, staff spent a considerable amount of time doing an old task (preparing a country strategy) in a new way. None of them were able to quantify the additional time involved. In Cambodia, some of the participants rated the costs as very high – as much as twice the time and effort that would have been required for separate planning processes. In Bangladesh, one partner reflected that the process had been very labour intensive, and had diverted resources away from programme management. Another reflected that the process had become more efficient as it went along, as prioritisation and division of labour was improved. A third partner considered that the transaction costs had been less than expected.

61. As some of the participants reflected, it is not altogether accurate to describe the effort put into these initiatives simply in terms of transaction costs. Time spent by donors learning about their partner institutions, developing a common knowledge base and identifying opportunities for joint or complementary working can be seen as part of the core business of delivering aid well. The investments made by the partners are offset to a significant degree by the benefits they obtained from each other, particularly in analytical work. As donors improve their division of labour through greater selectivity and the use of lead agencies, they will need to engage intensively in fewer areas, which will make the costs more manageable.

62. However, there are concerns among the participating donors as to whether they are staffed adequately to cover the demands of harmonised working. Although staff acknowledge that there are increasing demands on them to “do aid in a harmonised way”, they are also being asked to “do more with less”. If partnership working is to be sustained, it will have to be factored into the resource needs of country offices.

63. The donors reflect that the principal cost savings from the joint planning initiatives were on the government side. There were some modest cost savings during the planning process itself, in the form of reduced time spent on consultations. More significant are the continuing benefits to government from improved coordination among the donors. Both governments appreciate being able to conduct a coordinated policy dialogue with donors (although the Cambodian Government has also stressed that it welcomes a diversity of opinions and does not wish to reduce the policy dialogue to a lowest common denominator). The Cambodian Government has called for more use of joint strategies among donors. The National Operational Guidelines for Development Cooperation Grant Assistance (March 2006) state that joint country plans offer the potential to:

- “enhance joint programming by development partners in close consultations with national stakeholders;
- reduce administrative burdens on the Government;
- allocate responsibilities and program components in accordance with each development partner’s comparative strength;
- eliminate duplication and overlap of development partner support; and
- optimize the provision of resources to a sector or national program.”

64. The Paris Declaration stresses the importance of reducing the number of duplicative donor missions and diagnostic reviews. So far, there is no apparent reduction in separate donor missions arising from these case studies (which was not, in this case, the main objective). Donor officials commented that joint missions and diagnostic reviews can be advanced only through joint programming.

65. The Cambodian Government has particularly stressed the advantages of increased specialisation among the donor community. According to Government documents, greater selectivity is the key to improving the quality of dialogue within the TWGs. It has called for:

“participation of donor personnel who have substantive/high level technical expertise in the sector/thematic areas of the TWGs. The Royal Government recognizes that the costs of maintaining this level of expertise on the ground by all development partners could be prohibitive. It therefore strongly recommends that development partners select among themselves an area or areas that is/are of primary importance to each partner who should be made responsible for placing on the ground the highest level of expertise in the sector/thematic area.”¹⁰

Joint planning initiatives are potentially a very useful mechanism for improving selectivity, division of labour and delegation among the donors, although progress so far in these two cases has been modest.

66. In Cambodia, perhaps the single greatest impact of the joint planning initiative was its contribution to repairing relations among the three major multilaterals. In the past, external assistance to Cambodia has been marred by poor coordination, and even institutional rivalry, among donors. Over the period of the joint planning initiative, this has changed dramatically. The habit of open communication has now become well

¹⁰ CDC/CRDB, “Enhancing development cooperation effectiveness to the implement the National Strategic Development Plan”, prepared for 8th CG Meeting, Phnom Penh, March 2006, p. 41-2.

established, in what amounts to a major change in behaviour. Much of the credit for these changes should go to the Cambodian Government, which has invested substantial efforts in improving the quality of the development partnership. However, the joint planning initiative forms an important part of the story. It was a major step towards establishing better working relations among donors, at a time when Government leadership was lacking, and it had an important demonstration effect for Government and the wider donor community.

67. In both Cambodia and Bangladesh, the initiatives made a significant contribution towards improving coordination among the programmes of an important group of donors. There was some progress towards greater selectivity and improved division of labour, although the content of country programmes changes quite slowly. There are also encouraging signs that donors are increasingly working through a lead agency in dealing with government. This is both more cost effective for government than dealing with donors in parallel, and results in a higher quality of dialogue, with a consistent and coordinated set of messages. However, the donors recognise that there is still considerable scope to improve the division of labour, and that joint work will need to be extended further into programme delivery if these benefits are to be realised.

68. All three initiatives demonstrate the considerable benefits to donor harmonisation of developing a common analytical base. In both Cambodia and Vietnam, the ADB and the World Bank are for the first time using the same data and models for measuring poverty in Bangladesh. The creation of a common analytical framework is rated as an extremely important step in building coherence between the different organisations. In Indonesia, analytical work on challenges, policy issues and best practices is a key instrument for improving strategic alignment among existing donor programmes.

7. Lessons learned

7.1 *The scope and design of harmonisation initiatives*

69. **The harmonisation initiatives described here are a product of a particular country context.** Their scope and form emerged out of negotiations among donor representatives in-country, in response to the particular challenges and opportunities they faced at the time. This is in the nature of the harmonisation process – it is pragmatic and opportunity-driven. The goal is not to replicate international best practice on harmonisation, but to identify the right tools and approaches for the particular challenges of the moment.

70. **Pursuing initiatives among a small group of donors is often the most efficient way of moving forward with harmonisation, but it necessarily excludes other donors.** This may entail relationship costs that need to be mitigated through transparency and heightened communication outside the group. The Indonesian DSF is an attractive model of harmonisation, precisely because it is able to engage with all donors without creating an exclusive group. Where donors do consider it appropriate to proceed with harmonisation in groups, it is useful to select partners with a range of different skills and comparative advantages, particularly concerning their relations with government, to ensure that the sum is greater than the parts.

71. **Joint diagnostic and analytical work has proved to be an important tool for improving strategic coordination among donors.** Developing a common knowledge

base and promoting a common understanding of the country context and its development challenges is a precondition for effective joint working. The process of conducting joint analytical work is also useful for building mutual understanding and solid working relations among donor staff. In the case of the DSF, creating a joint donor facility to carry out analytical work and promote knowledge of best practices is an innovative approach to improving coordination.

72. High-level joint planning exercises of the type described here can achieve only modest changes in country programmes. The partners stress the importance of following up with greater harmonisation around programming and programme delivery arrangements. This needs to be done at the sectoral rather than the country level.

73. The case for harmonisation initiatives among groups of donors may be strongest where weak country leadership of the aid effectiveness agenda is relatively weak. In the case studies, the donors saw a need to lead by example by pushing forward on harmonisation. This had an important demonstration effect for government and other donor partners, showing that major donors were committed to the aid effectiveness agenda.

74. Harmonisation initiatives may therefore need to evolve as country leadership improves. These case studies (particularly Cambodia) give some support to the idea of a progression during the maturing of the development partnership from harmonisation initiatives among groups of donors to government-led processes for coordination and alignment. For this reason, harmonisation should not be seen as an end in itself, but as a tool for building country leadership over aid coordination.

75. However, even where country-led processes for coordination and alignment are in place, donors need to coordinate at the strategic level. While it is not always appropriate for donors to speak with a single voice in the policy dialogue, government-led bodies for dialogue and aid coordination tend to function more effectively when donors coordinate their input. For this reason, there may be a need for separate, donor coordination mechanisms, which operate in parallel to the government-led processes. Informal, monthly meetings among donors can go a long way to increasing strategic coherence, without entailed any significant costs.

76. The stronger the country leadership, the greater the potential for harmonisation among donors. Where there are differences of view or approach among donors, donors look to government to communicate its preferences. If it fails to do so, it makes harmonisation much more difficult.

77. Harmonisation is a means for promoting other Paris Declaration objectives, rather than an end in itself, and should be subject to strict cost-benefit analysis. Country managers are under corporate pressures to demonstrate that they are operating in a harmonised way. However, there is a risk that harmonisation initiatives undertaken merely for this purpose could consume a lot of resources without delivering much benefit to government. Proposed harmonisation initiatives should be assessed according to what benefits they are expected to deliver to government (e.g., lower transaction costs, improved policy dialogue or greater programme impact).

7.2 *Managing harmonisation*

78. **Opportunities for harmonisation emerge at country level, and need to be identified and exploited by country managers.** Harmonisation is a highly negotiated process, which requires donors to compromise on established procedures and habits of working. Managers need the authority to negotiate on behalf of their agencies. **A consistent message recurring across these case studies is that greater delegation of authority to country offices facilitates harmonisation and alignment.** Conversely, the need to refer decisions back to headquarters for approval by central staff that have not been through the same process of negotiation and compromise makes harmonisation more difficult to achieve.

79. **Achieving harmonisation is as much a diplomatic challenge as a technical one.** This has implications for the skills needed by staff in country, in particular heads of office.

80. **The efforts required for harmonisation and alignment must be taken into account when staffing country offices, and reflected in staff assessments.** Donors need to recognise and plan for the time required to build good working relations with other donors and government. Staff who work effectively with partners should be recognised for their efforts.

81. **It takes strong commitment to sustain progress on harmonisation, in the face of tendencies to lapse back into old patterns of behaviour.** In all three initiatives, participants reflect that, during the early phase of a harmonisation initiative, there is a continuous temptation for donor agencies to revert back to old ways of working. There needs to be strong corporate and personal commitment to sustain progress in the face of this tendency.

82. **Good working relations among heads of mission and county teams are essential for effective harmonisation.** Despite corporate commitments to harmonisation, donor relations are still heavily influenced by the quality of interpersonal relations. In the cases described here, intensive periods of joint work among the country teams, including working through inevitable difficulties and frustrations, proved to be key to improving relations. However, the relationships need to be institutionalised, or the benefits may quickly dissipate in the face of staff turnover.

83. **It is useful to have an agreed set of “rules of the game” to manage relations among the donors.** In Cambodia and Bangladesh, these commitments helped to sustain commitment and avoid misunderstandings. The rules, however, need to be continuously reinforced, as there have been lapses from time to time.

84. **The Paris Declaration has major implications for how donors should assess ‘transaction costs’.** The case studies show that developing strategic coordination and good working relations with other donors, as well as with government, is extremely time consuming. It is not a once-off activity, but must be constantly sustained. It is not helpful to see these efforts as ‘transaction costs’ to be minimised in the name of efficiency, but as part of the core business of delivering aid according to the Paris principles. Donors should of course seek to maximise their efficiency. However, the higher costs of harmonisation and alignment efforts must be assessed against the benefits

they offer to government (including reduced transaction costs), and against the contribution they make to improving development results.

85. There is a real risk that scaling up aid flows, without corresponding increases in personnel resources in country, will make the costs of partnership working prohibitive. Donor staff reflect that, while they are encouraged by their organisations to work in a harmonised way, they are also under pressure to “do more with less”.

86. Staff reflect that the only way to manage these pressures is to increase the selectivity of their country programmes. In the future, it may become more difficult for individual donors to maintain a broad portfolio of engagement in each country. They may decide to increase their specialisation across or within sectors, or to delegate to another donor in areas where that donor has a comparative advantage in country. This would give them greater scope to participate actively in coordinating structures and policy dialogue in their chosen areas of specialisation.

87. Joint country planning initiatives may therefore become increasingly important as a means of determining the division of labour among donors. At present, there are some cautious signs of improved division of labour among donors, but this is not occurring systematically. The Bangladesh initiative of nominating individual donors to lead in particular sectors or sub-sectors is an interesting model, although implementation has not progressed very far. Other countries might benefit from a similar process of analysing donor engagement across sectors and thematic areas, identifying comparative advantage and using the resulting matrix to improve the division of labour. To be effective, it would need to be accompanied by a clear commitment from donor organisations to increasing the selectivity of their country programmes and to greater use of delegated cooperation.

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