

## PART I

# Good Practice on Incentives for Aid Effectiveness

*This section identifies good practice guidance for donor agencies to improve aid effectiveness, intended for different types of donor agencies, both multilateral and bilateral, and structured around the basic principles of change management: leadership and management (including commitment, communication and organisational culture); staffing (including recruitment and posting, training and development, and reward and recognition); policies and procedures; and budgeting and reporting (including performance monitoring and evaluation, and linking the budget to results).*



## PART I

# Executive Summary

**I**mproved aid effectiveness is critical to meeting the Millennium Development Goals (MDGs) and ensuring continued support for development. The Paris Declaration on Aid Effectiveness (March 2005) is grounded in good practices identified over a number of years and reflects international consensus on reforming aid delivery and management.<sup>1</sup>

The Paris Declaration rests on several common sense tenets: that aid would be most effective if developing countries exercise greater leadership over development policies and plans (ownership), donors base support on country priorities and systems (alignment), donor agencies co-ordinate their activities and minimise transaction costs (harmonisation), and together, partner countries and donors manage for results (managing for results) and are accountable to each other in achieving real results from aid (mutual accountability).

The signatories of the Paris Declaration confirmed their understanding that these tenets play a critical role in achieving the MDG targets and other development outcomes. They also acknowledged that enhancing the effectiveness of aid is feasible and necessary across all aid modalities, and that, individually and collectively, they will choose and design appropriate and complementary modalities so as to maximise their combined effectiveness.

Individual and collective behaviour of donor agencies is influenced by a number of factors which shape the incentive system. It is recognised that one of the key mechanisms to improve aid effectiveness is the use by donor agencies of incentives, which can be established, for instance, to signal the value of aid effectiveness, to enable and encourage staff to build the Paris Declaration principles into their work and to streamline processes.

There are real challenges of providing adequate incentives to bring individual and collective behaviour in line with the Paris Declaration objectives. This guidance provides good practice guidelines for donor agencies to improve incentives for aid effectiveness, as a means to achieving development objectives. They are intended for different types of donor agencies, both multilateral and bilateral, and are structured around the basic principles of change management:

- leadership and management (including commitment, communication and organisational culture);
- staffing (including recruitment and posting, training and development, and reward and recognition);
- policies and procedures; and
- budgeting and reporting (including performance monitoring and evaluation, and linking the budget to results).

This guidance recommends a menu of suggestions, based on the experience of what has worked for different donors. Within this menu, the following factors are deemed to be most critical:

- Messages from donor agencies' senior management confirming their commitment to the principles agreed in the Paris Declaration on Aid Effectiveness need be sustained over time in order to ensure they are embedded into the organisation.
- Communicating clearly what people must do differently to improve aid effectiveness and better achieve development outcomes, and the implication of non-compliance for the organisation and the individual, is essential. The leadership should cascade the communication process through each layer of management and hold management accountable for delivering the required change in their teams.
- Achieving high-level commitment and clarity about competing priorities in the face of sensitive policy trade-offs are the most delicate and problematic issues. Leaders need to develop a clear set of priorities which are then cascaded through the organisation. It may be necessary to raise the awareness of the government, parliament, civil society organisations and the public about the implications of policy trade-offs on long-term achievement of development outcomes, so that they can hold the leadership accountable to their commitments.
- Performance management can ensure that the Paris Declaration principles are mainstreamed into the organisational culture. Experience in the private sector suggests that performance management adds value by motivating individuals and aligning their increased energy to the business goals, thereby supporting implementation of strategy. This involves "managing for development results", i.e. putting in place an integrated process linking strategy with results that includes: data gathering to support evidence-based policy making, setting objectives and targets that provide a clear audit trail back to the strategy, cascading them down to staff (e.g. by locking them into personal objectives and core competencies), and aligning processes (operational planning, budgeting, performance reporting, investment appraisal, staff appraisal, recognition and reward, recruitment and retention).
- Linked to this, giving clear signals of what outcomes staff will be held accountable for and evaluated against (e.g. poverty reduction outcomes as opposed to disbursement targets), what success and failure would look like, how much risk staff should reasonably take, and how overall performance evaluation ratings and staff career development will take these into account.
- Experience shows that the higher the degree of decentralisation of staff, resources and responsibilities to the field, the better the agency's performance in aid effectiveness. Decentralisation and delegation of authority to the country level, within the context of centrally-set policies on aid effectiveness and appropriate support from the centre, allow country offices to shape programmes according to local priorities and systems. Shifting authority to the field enables a donor agency to react flexibly and promptly to local needs and to develop and nurture relationships with a range of local stakeholders.
- Finally, it is important that back offices' functions be an integral part of any incentive system introduced, recognising the importance of the role played by those responsible for overseeing the implementation of legal, fiduciary and procurement frameworks, and for process management.



## PART I

# Introduction

## Key issues

Improved aid effectiveness is critical to meeting the Millennium Development Goals (MDGs) and ensuring continued support for development. By aid effectiveness we mean the quality of delivery, management and use of aid, as defined in the Paris Declaration on Aid Effectiveness. The Paris Declaration is grounded in good practices identified over a number of years and reflects international consensus on reforming aid delivery and management. In particular, the Paris Declaration rests on several common sense tenets: that aid would be most effective if developing countries exercise greater leadership over development policies and plans (ownership), donors base support on country priorities and systems (alignment), donors co-ordinate their activities and minimise transaction costs (harmonisation), and together partner countries and donors manage for results (managing for results) and are accountable to each other in achieving real results from aid (mutual accountability).

The signatories of the Paris Declaration confirmed their understanding that its tenets play a critical role in achieving the MDG targets and other development outcomes. They also acknowledged that enhancing the effectiveness of aid is feasible and necessary across all aid modalities, and that, individually and collectively, they will choose and design appropriate and complementary modalities so as to maximise their combined effectiveness.

There are a number of ways in which donor agencies can better meet their commitments to the Paris Declaration and thus improve the delivery, management and use of their aid. One of the key mechanisms identified by the OECD-DAC Working Party on Aid Effectiveness is the use of organisational incentives, which can be established, for instance, to signal the value of aid effectiveness, to enable and encourage staff to build the Paris Declaration principles into their work, and to streamline processes.

Incentives can be defined as the rewards and punishments that are perceived by individuals to be related to their actions and those of others. Individual and collective behaviour in donor agencies is influenced by a number of factors which shape the incentive system, such as:

- Knowledge and understanding of the external environment.
- Perceptions of political and/or managerial priorities.
- Personal motivation and adherence to agency mission.
- Criteria for performance assessment/career advancement of staff members.
- Peer pressure and recognition related to certain types of behaviour.<sup>2</sup>

## Purpose

This guide is for all different types of donor agencies; including both multilateral and bilateral donors, small or large, integrated within a Ministry of Foreign Affairs or standalone, part of a complex administrative set-up or single agency. They are designed to be flexible and allow for possible adaptation and expansion to non-traditional donors and



foundations. While the Paris Declaration clearly commits both donors and partner countries to strengthen their incentive system, the guide has been written for donor agencies only, not partner governments.

This guide is intended to provide good practice guidelines for donor agencies to improve incentives for aid effectiveness. It should be made clear that aid effectiveness is not an end in itself but rather a set of principles to help partner countries and donor agencies work together to achieve the MDGs and other development objectives. The purpose is therefore to help agencies think through whether and how their incentive system effectively builds the Paris Declaration principles into their work to help achieve these development objectives. This guide gives a point of reference and highlights the most significant elements of the complex incentive system within which donor agencies (and their staff) operate and which influence the effectiveness of their assistance. They may inspire donor agencies to build other selective development objectives into their incentive systems as well.

**“We don’t need a straightjacket. What we need is a step-by-step, gradual, evolutionary approach to the Paris Declaration principles.”**

In teasing out the issues, it has sometimes been necessary to look at incentives for aid effectiveness in isolation from other competing incentives. The guide does not recommend a single approach, but rather a menu of suggestions, grounded in the experience of what has worked for different donors. Their concrete application to a specific donor agency will depend on many factors, including the size of the agency, its budget, the extent of its decentralisation, its particular mandate, its governing structure, its bilateral or multilateral nature, etc. It will also depend on the recipient country and context. Specific examples or illustrations are given in boxes.

## Guiding principles

The starting point for this guide is set out in both the Rome Declaration on Harmonisation (February 2003) and the Paris Declaration on Aid Effectiveness (March 2005), most notably:

- **Rome Declaration:** “We commit to the following activities to enhance harmonisation: (...) Developing, at all levels within our organisations, incentives that foster management and staff recognition of the benefits of harmonisation in the interest of increased aid effectiveness.”
- **Paris Declaration:** “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.”

In elaborating the good practices presented here, we were also guided by the basic principles of change management. Research and our own experience show that change can either be predominately directive or predominantly inclusive. When change is predominantly directive, the benefits and requirements of the change are defined at the start from above, whereas in change that is more inclusive, those who will be impacted by the change help shape its purpose, direction and how it is implemented. Whilst researching this guide, we found that different agencies adopted different approaches to

implementing change, but successful changes shared these well-established success factors:

- **Leadership and management:** Building commitment at the highest level by identifying the benefits, ensuring that the leadership is aligned on key messages, communicating with or involving staff and other stakeholders from the start, and mainstreaming implementation through a programme of performance management.
- **Staffing:** Building support and capacity through changes in recruitment, training and reward strategies.
- **Policies and procedures:** Making sure the systems, processes and culture reinforce the change.
- **Budgeting and reporting:** Agreeing the measures of success and how to monitor them, linking budget decisions to performance against these measures, and ensuring that budget allocations take into account the resource implications of meeting aid effectiveness commitments.

## PART I

# Good Practices

## Leadership

Political leadership is the single most important driver of change and is a necessary condition to generate the commitment of the senior management of donor agencies to the Paris Declaration principles. Political incentives include: passing new legislation; promoting public and parliamentary awareness of Paris Declaration principles; and external scrutiny of the delivery of development results. Management leadership and example is recognised as the single most important driver of change in any institution: without clear and sustained signals from all levels of management, changes in policies, staffing rules or reporting systems will have limited impact.

Agencies have signed up to the Paris Declaration principles as a means to achieving sustainable development outcomes. Aid effectiveness should therefore be embedded into the culture of donor agencies, and senior management should actively champion them. This means visibly and consistently promoting aid effectiveness, developing a common understanding of what it means, changing systems where appropriate, and challenging lack of progress. The agenda needs to be owned throughout the whole organisation.

The experience of donor agencies in this area suggests the following good practices:

### Commitment

- The 2008 OECD-DAC progress report on the evaluation of Paris Declaration implementation identifies **commitment** as the most important incentive to date.<sup>3</sup> At the technical level, some donors have encouraged high-level commitment by appointing advocates and senior staff responsible for promoting aid effectiveness to the highest levels. Others have created a small aid effectiveness policy and co-ordination function within the organisation, positioned close to senior management so that it can influence key processes and send out strong messages. In the latter case, it is important that such a function does not preclude efforts to mainstream aid effectiveness throughout the organisation. However, commitment can remain a particularly tricky issue at the political/strategic level, particularly where competing incentives are at play.
- In order for commitment to translate into practice, management needs to be **clear about priorities**, particularly where policy commitments are incompatible or sensitive trade-offs need to be made. Agency incentives are structured around a complex mix of objectives, which can lead to compromise. Donor agencies often face competing incentives between achieving development outcomes (*e.g.* the MDGs and other sustainable development outcomes) and responding to pressures at home from government, parliament and civil society organisations (*e.g.* to show the national flag or use their own government and agency processes). Yet countries adopted the Paris Declaration precisely to cement their commitment to development outcomes, on the assumption that adherence to its tenets would help them achieve these objectives. Leaders need to develop a clear set of priorities which are then cascaded through the organisation. It may be necessary to raise the awareness of the government, parliament, civil society organisations and the public

about the implications of policy trade-offs on long-term achievement of development outcomes, so that they can hold the leadership accountable to their commitments.

- Achieving high-level commitment and clarity about competing priorities in the face of sensitive policy trade-offs are the most delicate and problematic issues. By making explicit the dimensions and good practice for aid effectiveness, this guidance aims to shed light on actual trade-offs when structuring incentives to maximise achievement of multiple goals. To help understand the implications of these trade-offs, three examples of disincentives raised by donor agency staff are included here:

**“Spending targets are our biggest constraint.”**

1. Most agencies face continued pressure to deliver, *i.e.* to get a project, programme or lending operation prepared, agreed with government and approved internally within the agreed timeframe, then to disburse money quickly and show early results. This appears to be particularly problematic for those donors which are seeing their budgets increasing. Disbursement targets almost inevitably provide negative incentives for aid effectiveness, as too often the necessary delays are not taken into account.
2. Management tends to be risk averse, whereas adherence to the Paris Declaration principles implies taking risks when balanced against benefits (for example, fiduciary risks when aligning with a partner government’s procedures and systems).
3. At home, for instance when defending the aid budget to parliamentary committees or reporting to audit authorities, donor agencies benefit more from the visibility associated with projects they manage themselves than with multi-donor ventures where attribution of development results is more problematic.

**“Country offices are told to harmonise but at the same time to maintain a leadership position and be present in all priority sectors.”**

It is possible to address such disincentives. For example, applying a Managing for Development Results (MfDR) system can help highlight the development results to be achieved. Incoming ministers introducing new priorities should translate these into outcome and impact targets rather than spending targets. Alternatively, if donors are not willing to spend less initially, they can try to change the way they spend in order to respect their commitment to development outcomes whilst meeting spending targets. For instance, they could decide to focus on overall spending targets rather than project or programme-specific targets: overall spending could then be met through delegated co-operation, including to multilaterals.

**Internal and external communication**

- Returning to good practices, high-level commitment to aid effectiveness and decisions on competing priorities need, first and foremost, to be communicated within and outside the organisation in order to promote **awareness**. In most agencies, the Paris Declaration principles are not seen as something new, but the degree of awareness varies from one to the other. In particular, not all five principles are understood to the same extent, with the principles of managing for results and mutual accountability often being less well understood and assimilated than the others. Good practice suggests the following possible actions:

1. A **top level statement (mission statement)** declaring the organisation’s support for the Paris Declaration principles as a means of achieving agreed development

outcomes is a good starting point for raising awareness both internally and externally. This top level statement should be regularly and consistently reinforced to avoid a disconnect with agency behaviour at the lower levels, including in the field.

2. Aid effectiveness strategies and language should be incorporated into **operational policy documents**, and Paris Declaration commitments reflected in policy papers, government declarations, or the equivalent. Such documents should set out how aid effectiveness will be delivered.
3. As with all change initiatives, **communicating clearly** what people must do differently and the implication of non-compliance for the organisation and the individual is essential. The leadership should cascade the communication process through each layer of management and hold management accountable for delivering the required change in their teams.
4. Messages from senior management need be **sustained** over time (several years) in order to ensure they are embedded into the organisation.
5. **Strategies to increase public awareness** of the importance of aid effectiveness in achieving development outcomes can play an important role. The level of public support to the agenda will affect the scope and flexibility the donor agency has in setting policy direction. Creating better public awareness of the successes of aid, the building of country capacity and the international commitments to make aid more effective, will improve public confidence and build a consensus for further support. This is also an opportunity to work more closely with civil society as they may provide a useful accountability function for a development agency. Of course, the messages may not always be reliably positive, and the perennial challenge of measuring the actual impact of aid, or the impact of providing aid in a way that meets Paris Declaration commitments, becomes particularly acute when managing public awareness.

**“We adhere to the Paris Declaration principles, wrestle with applying them and basically put them into practice in everything we do.”**

### **Organisational culture**

- Beyond creating awareness, experience suggests that promoting **ownership of and mainstreaming** the aid effectiveness agenda across an organisation leads to inclusive change, a common understanding and a more coherent and widespread effort to improve development outcomes. Building ownership takes time and dedicated effort, but is absolutely critical to sustaining incentives and the results they bring, by stimulating cultural change within the organisation. One observation that is regularly made by staff from donor agencies is that whilst the way in which they work is consistent with and supportive of the Paris Declaration tenets, they act without being conscious of those tenets as such. This demonstrates that even where there is a lack of awareness, there can be organisational ownership of the aid effectiveness agenda if high-level political commitment is translated into practice through an integrated process that links strategy with results. Examples include, from the most straightforward to the most challenging:
  1. Building on awareness of policy commitments by promoting a greater understanding of **what they signify in practice**, through regular focus on aid effectiveness experiences in newsletters or internal website pages, creating internal networks to share experiences and challenges, and organising seminar sessions or specific promotion weeks.

### Box I.1. **Building commitment and awareness**

#### **Political commitment**

In Sweden, the State Secretary and the Swedish International Development Agency (Sida) Director General issued a joint letter on 14 April 2005 to all embassies to confirm their commitment to the aid effectiveness agenda. The chair of the United Nations Development Group (UNDG) has sent letters (including letters signed by OECD-DAC, World Bank and UNDP) to all resident co-ordinators to follow up on the Paris Declaration and implement the UNDG Action Plan. Germany's Minister for Development Co-operation put the implementation of the Paris Declaration on top of the policy agenda for German development co-operation. In Cambodia, the government and development partners (Asian Development Bank, Denmark, European Union, France, Germany, Japan, Sweden, UK, United Nations and World Bank) signed a "Declaration on Harmonisation and Alignment" in which they declare their willingness to create "an effective development partnership based on mutual commitment, trust, respect and confidence".

#### **Building awareness**

Different donors have adopted different approaches to increase awareness of the aid effectiveness agenda within and outside the agency:

- The UK's Department for International Development (DFID) produces a monthly newsletter, which includes information about policy updates, recent publications, aid effectiveness aspects of existing and upcoming projects and upcoming events.
- France's Agence Française de Développement (AFD) produced and disseminated a leaflet on their "strategic approach based on accountability and partnership".
- The Canadian International Development Agency (CIDA) adopted a communications strategy on the Paris Declaration targeting management and employees, including activities such as regular messages on the CIDA's intranet site, exhibits in the lobby and informal seminars ("brown bag lunches") with the senior management.
- Aid effectiveness was included in the agenda of the worldwide United States Agency for International Development (USAID) mission directors' conference held in Washington DC in May 2005, and the USAID Administrator directed field managers to be proactive and participate in local implementation processes of the principles of the Paris Declaration.
- The Millennium Challenge Corporation (MCC) promotes awareness of the Paris Declaration principles through a combination of formal and informal communication channels. The principles are covered during orientation for new recruits, and MCC has put together communications on the Paris Declaration and donor co-ordination procedures that was sent around to all its personnel. Discussions around the Paris Declaration principles take place quarterly with MCC's 300+ staff, and during ongoing informal information exchanges.
- The Netherlands produced two reports on development results (2005, 2007). The process of collecting and processing data, and of producing the reports, raised the involvement and awareness of staff at headquarter and field level in relation to the importance and usefulness of reporting on results, and on drawing lessons.

2. Developing **action plans** on implementing the aid effectiveness agenda at corporate, country or international level (or all three), and regularly reporting on progress and achievement of development objectives. These can draw directly on the commitments and targets in the Paris Declaration.

3. **Performance management** can ensure the issues are mainstreamed into the organisational culture. Experience in the private sector suggests that performance management adds value by motivating individuals and aligning their increased energy to the business goals, thereby supporting implementation of strategy. This involves “managing for development results”, i.e. putting in place an integrated process linking strategy with results that includes: data gathering to support evidence-based policy making, setting objectives and targets that provide a clear audit trail back to the strategy, cascading them down to staff (*e.g.* by locking them into personal objectives and core competencies), aligning processes (operational planning, budgeting, performance reporting, investment appraisal, staff appraisal, recognition and reward, recruitment and retention processes) to the strategy, delivering performance information effectively, and providing for effective corrective action as required. Incentives associated with these specific components of the performance management framework are examined in more detail in the next three sections on staffing, policies and procedures, and budgeting and reporting.

### **Coherence and country context**

Where a donor is represented in a partner country by more than one government department or executing agency, it is critical that management ensures **coherence**. Awareness and understanding of the aid effectiveness agenda is often much weaker in departments or agencies that do not come from the development world (*e.g.* defence). The 2003 OECD-DAC guidelines on harmonising donor practices recommended that agencies be as flexible as possible within external constraints in adopting common procedures in a specific country, and that the roles and responsibilities of each agency be clear and shared with the partner government and other key stakeholders.<sup>4</sup> Some donors have been successful in integrating the operations of each agency into a single coherent strategy or business plan.

**“Agencies that do not come from the development world don’t speak the same language.”**

However, in fragile contexts, where aid is only one part of a donor’s engagement and other agencies who do not come from an aid effectiveness perspective often have a critical role, there might be trade-offs between coherence among government agencies and coherence among development agencies. Whilst it is important that the non-development agencies understand the principles of aid effectiveness and how it helps to improve impact, it is even more essential that appropriate strategies are developed at country level that ensure aid is used effectively alongside other interventions.

**“Good implementation of the Paris Declaration principles needs good counterparts.”**

Experience in general suggests that management needs to **adapt to the country context**, and recognise that a one-size-fits-all approach to implementing the Paris Declaration principles is impossible. For instance, whilst in some countries (*e.g.* Uganda, Tanzania, Ghana) partner governments have appointed staff to deal exclusively with aid effectiveness issues, in others (*e.g.* fragile states) capacity is often too low for them to exercise effective leadership over their country’s development. The principle of ownership in particular is deemed to be especially difficult in such a context.



### Box I.2. **Turning commitment into action**

#### **MCC – Internalising the aid effectiveness agenda**

The MCC was founded very soon after the Rome Declaration and was putting its policies and practices into place at about the same time as the Paris Declaration was signed. As a result, it incorporated the aid effectiveness agenda and Paris Declaration principles into its modus operandi since the beginning, placing particular corporate value on the principles of country ownership and alignment, harmonisation and managing for results.

#### **Sida – Increased Aid Effectiveness Action Plan 2006-2008**

In 2006, Sida published its “Increased Aid Effectiveness Action Plan” whose purpose was to ensure that the agency implemented Sweden’s commitments in relation to the Paris Declaration. The plan reiterated Sida’s commitment to aid effectiveness, stated its intention of undertaking the necessary changes and formulated concrete actions for Sida to take. It recognised that Sida had to change its ways of working, primarily through sharpening the poverty focus in line with the MDGs, making strategic choices with regard to financial and technical contributions and country portfolios, and adjusting aid delivery modalities in accordance with the aid effectiveness agenda. It also recognised the need for more internal changes, such as communicating better within the organisation, adjusting to a division of labour in each country according to principles of complementarity, introducing changes for staff at field offices and at all departments, and changing the roles of other Swedish actors in development co-operation. The plan identified five key actions for Sida to undertake between 2006 and 2008: i) putting in place a monitoring system to measure progress against the Paris Declaration; ii) adapting existing methods and procedures, and developing new ones; iii) developing competence through training and by reviewing principles for staffing, recruitment and incentives; iv) communicating the aid effectiveness agenda internally and externally; and v) incorporating the agenda into quality assurance.

#### **DFID – An integrated business planning architecture**

Aid effectiveness and results are two of the corporate priorities that DFID divisions are expected to contribute to through their “divisional performance frameworks”. These corporate priorities are reflected in three indicators: i) improved global performance against the Paris Declaration commitments; ii) Paris Declaration commitments implemented and targets met corporately and in country offices; and iii) strengthening effectiveness through learning and better use of evidence. These indicators are translated into divisional level actions and targets for incorporation into the divisional performance frameworks. Divisions are expected to continue to regularly monitor their own performance. In addition to the annual management board meetings with directors, director generals will hold meetings with directors every six months to monitor progress against the performance frameworks. The quarterly management report will remain the main mechanism to report corporate performance and will be restructured to reflect the new performance framework.

#### **International Fund for Agricultural Development (IFAD) – Performance management**

In September 2006, IFAD put in place a new Corporate Planning and Performance Management System (CPPMS) to better focus, align, measure and manage the quality of IFAD’s work. The system consists of a hierarchy of corporate management results (CMRs) aimed at key determinants of development effectiveness, at the corporate, departmental and divisional level, which are tracked on a quarterly basis. These CMRs include indicators that focus on the Results-Based Country Strategic Opportunities Paper (RB-COSOPs) and how IFAD is increasing its strategic international engagement. The subsequent alignment of human and financial resources with results is supported by the results-based programme of work and budget.

## Staffing

Recruitment, evaluation and reward systems tend to focus on technical skills and achievements, and delivery within budget and timeframes, with the risk that skills required for applying the Paris Declaration principles successfully (such as relationship building and process management) are overlooked.

Aid effectiveness is the responsibility of all staff in development organisations. Recruitment and assessment policies should promote staff engagement, awareness and commitment to the Paris Declaration principles. For instance, delivering results on the ground that are aligned with partner country priorities (the clients of donor agencies) should be considered just as important as delivering programmes in a timely, efficient, and effective manner. Management needs to recognise and reward staff for achieving aid effectiveness, whilst taking into account differences in country contexts and constraints. Success and recognition for adherence to the Paris Declaration principles, and achievement of development outcomes, can come from positive feedback from donors and partner countries, in line with the principle of mutual accountability, and recognition and reward from managers.

Examples of actions taken by donor agencies include:

### **Recruitment, placement and rotation**

Introducing **recruitment policies** that allow for the selection of individuals with the skills and experience to engage in aid effectiveness efforts, *e.g.* referring to these skills and knowledge in job descriptions for positions which require application of the Paris Declaration principles, or informing selection committees of the importance of this criterion. Some donor agencies claim to have achieved good results in promoting aid effectiveness by recruiting a different mix of skills: fewer technicians and more people with generalist backgrounds and a keen sense of institutions, facilitation, negotiation, consensus building and co-ordination. However, staffing policies that privilege such generic skills can run into difficulty if this is to the exclusion of technical and country-specific knowledge or language skills which allow for stronger client relationships and deep-seated knowledge of the context.

**“Knowledge is not recognised anymore, and there are no incentives in place to develop one’s expertise.”**

Pro-actively **managing staff rotations** to build an aid effectiveness culture in the institution. This includes:

1. Consistently making the experience and skills related to aid effectiveness (such as relationship building) a key **criterion for postings in the field**, particularly for the positions of head of office, country director, field manager or similar. A study of the World Bank in 2006 showed that country directors (or strong country managers) who were thoroughly engaged in the country context played a crucial role in promoting opportunities for harmonisation and alignment. They were the single most influential source of incentives in a country office, and were also influential on other donors.<sup>5</sup> Some donors have posted senior staff in country offices with job descriptions focused explicitly on the promotion of aid effectiveness.
2. Locating the technical specialists responsible for developing programmes and projects at the **country or regional level**.

3. Strategically assigning staff with proven aid effectiveness experience to help **transfer knowledge**. For instance, some donors found that moving staff with relevant field experience back to headquarters to a position where they can influence policy issues, or ensuring a reasonable amount of cross-regional exchange, was valuable in ensuring mutual learning and sharing of experiences on aid effectiveness.
4. **Redeploy staff** to whom past positions did not offer possibilities to practice aid effectiveness, to new positions that make that experience possible, and require that they train accordingly. This approach should also apply to staff in back offices.

Managing the **turnover of staff** in country and regional offices, in terms of the frequency, sequencing and time allocated for handover, in order to maximise institutional knowledge and continuity in partnerships. Frequent staff turnover is an important factor militating against the careful, slow preparation of owned, aligned and harmonised operations which take full account of the country context and issues of sustainability and development impact.

Recruiting **local staff** with the qualifications and experience required to interact and maintain continuous dialogue with senior government and donor counterparts in a given sector.

Facilitating more and a smoother set-up for **secondments and staff exchanges** between donor agencies, and with partner governments.

### **Training and development**

Using corporate communication, training, seminars and publications to demonstrate the **value for staff of having aid effectiveness experience** as an important aspect of becoming a well-rounded development manager, offering opportunities for learning and new challenges to confront, and adding a new dimension to development work.

Using **training and peer learning**, including mentoring, to ensure staff are made aware of the importance of aid effectiveness and kept up to date with the mechanisms for promoting it on the ground. For instance, agencies could include aid effectiveness as part of their ongoing professional development programme for staff, as well as part of the training programme before deployment to a field office. Experienced, successful staff can be used as aid effectiveness champions and potential mentors for less experienced staff, providing one-on-one and “just-in-time” advice.

### **Reward and recognition**

**Rewarding and recognising** achievements in aid effectiveness and development outcomes, for instance through money incentives (*e.g.* special bonuses or annual pay raises) or formal public recognition (*e.g.* annual awards). Different staff respond to different incentives, so management should make use of more than one tool.

Building aid effectiveness criteria into **staff appraisal and promotion**. This includes:

1. Giving **clear signals** of what outcomes staff will be held accountable for and evaluated against (*e.g.* poverty reduction outcomes as opposed to disbursement targets), what success and failure would look like, how much risk staff should reasonably take, and how overall performance evaluation ratings and staff career development will take these into account. This is particularly important where there are competing policy commitments and when sensitive trade-offs need to be made, *e.g.* in fragile states.

### Box I.3. Human resource management

#### **MCC and Swiss Development Co-operation (SDC) – Job descriptions for senior in-country staff**

MCC has given attention to the Paris Declaration principles in its staffing operations. In particular, one of the main areas of focus for MCC resident country directors, which is stipulated in their job descriptions, is to make sure they work with other donors. The SDC agency increasingly takes into account a commitment to, and personal skills for harmonised ways of working in its selection of country directors/heads of missions. Similarly, staff profile for country directors makes specific reference to harmonisation skills.

#### **DFID – Competency and performance frameworks**

The UK government's DFID core competencies used for recruitment, assessments and promotion implicitly support harmonised working. They include: working with others; communicating and influencing; organisation of financial arrangements; managing knowledge and information; delivering and improving; and personal learning. Questions about harmonisation are often included in interviews but the emphasis is on interpersonal skills key to doing harmonisation, rather than on the theory. Top managers must ensure that staff development plans align with divisional and corporate goals, which integrate aid effectiveness principles.

For example, regional directors' delivery plans include sections on aid effectiveness and include targets for aid effectiveness in their performance frameworks. The delivery plans all identify the need to progress aid effectiveness and to meet the Paris Declaration targets, and the performance frameworks include quantified indicators on at least three indicators. The regional directors are expected to cascade down their performance frameworks to the staff in field offices.

#### **CIDA – Results-based management training and toolkit**

Results-based management (RBM) was first introduced at CIDA in the mid-1970s. It was then formalised through various frameworks and management commitments in the early 1990s, culminating in a formal policy in 1996, updated in 2008. RBM was formally introduced across the Canadian government in 2000, culminating in legislation (the Federal Accountability Act) and related mandatory reporting requirements since 2005. RBM in CIDA enjoys the active involvement of the top leadership.

CIDA's RBM strategy is based on a corporate framework which helps to align its resources with a focus on results. Senior managers encourage and support staff to focus on results by asking questions about how results are being achieved in order to promote an RBM mindset among staff. It has put in place individual performance frameworks that have helped the internalisation of RBM. Capacity building and training for RBM were undertaken. Training courses range from basic introductory topics (e.g. what a result chain is) through to advanced courses on topics such as risk management.

#### **World Bank – Rewarding aid effectiveness in staff appraisals**

To promote more systematic attention to harmonisation and alignment issues, in July 2005, work on harmonisation was added as a parameter to be considered in senior technical and managerial promotions. Following on from this, guidance was due to be prepared to help managers evaluate staff's contribution to harmonisation and alignment at the country and sector levels. Recently posted internal vacancy listings for country director and country manager positions contain explicit reference to the Paris Declaration, implementing harmonisation and alignment, and donor co-ordination as duties and accountabilities for these positions.\*

The World Bank has also introduced awards – the President's Awards for Excellence and International Evaluation Group's Good Practice Award – for staff who excelled in implementing the Paris Declaration principles on managing for development results.

\* IDA (2007). IDA's Role in Enhancing Country-Level Effectiveness: Strengthening Harmonisation and Alignment. World Bank, Washington D.C.

2. Ensuring that individual performance assessment systems **appropriately reward time and effort spent on aid effectiveness**, not just technical quality and respect of disbursement targets, by including targets related to implementation of the Paris Declaration principles in the evaluation criteria and in individual performance contracts. Attendance on a training course on aid effectiveness could be considered as one element of future promotion.
3. Ensuring that performance assessment systems take into account the **difficulty of attributing specific results** to an individual member of staff or team, where efforts have been made to work jointly with the partner government or other donors. In some agencies, it is still the case that staff promotion prospects are enhanced when a particular large project can be presented as the work of an individual or small team.
4. Encouraging staff to participate in **peer review exercises** and to solicit feedback from their colleagues within and outside the organisation, including partner governments and donors. This will strengthen implementation of mutual accountability, which requires donors to respond to external evaluations and feedback.
5. Promoting **informal incentives**, related to job satisfaction, peer recognition and specific informal rewards. For instance, invitations to present at retreats and events, specific mentions in speeches, inclusion in best practice guidelines or case studies, the satisfaction that comes from being at the cutting edge of current practice, and mutual recognition of common efforts with colleagues from partner governments or donors, have also been shown to play an important part.

## Policy and procedures

Internal policies and procedures have a strong impact on aid effectiveness. They can get in the way of harmonised and results-oriented work, for instance when their requirements make it very difficult to rely on country systems, or to make room for joint financing. Regulation and rule-based quality control and oversight mechanisms can trigger risk-avoiding behaviour, where the aid effectiveness agenda needs operational staff who can take well-balanced and well-calculated decisions about risk on the ground.

Aid effectiveness should be mainstreamed as a regular dimension of aid work so that it becomes the default way of working. Internal policies and procedures should promote informed strategic decisions (on the choice of a particular mix of aid modalities, or the extent of harmonisation and alignment to achieve in a particular operation). Sharing experience of successful processes can help to streamline future initiatives. While this can appear to take us away from incentives per se, it is important both in supporting the changes discussed in the previous sections.

The experience of donor agencies in dealing with these challenges suggests the following good practices:

- The existence of **clear policy guidelines and support**, providing staff with direction and guidance on why, when and how to engage in aid effectiveness efforts, has proved an important precondition for translating political commitments into behavioural changes. Agencies have found value in devoting resources to providing such good quality policy advice to be disseminated to staff in country, drawing on the experiences reported back from country level and from other donors. In addition, agencies need to adapt existing policy documents and procedures to incorporate the Paris Declaration principles, for instance, building into guidelines for the formulation of country strategy programmes

requirements to consult and co-ordinate with other donors, and to agree to joint activities where possible. Donor agencies should give close attention to delivery constraints in an environment of ownership, harmonisation and alignment, which in many cases is likely to lead to a narrowing of the numbers of sectors of involvement. Donor agencies should also encourage staff to share country strategies or scope out joint assistance strategies with other donors so as to reduce transaction costs for the partner government and increase the prospects for joint working.

- Beyond policy guidelines, several donor agencies have adapted their **procedures and operating guidelines** to incorporate the Paris Declaration principles, redefining the mechanisms through which aid can be delivered and the degree of flexibility that exists in adopting common arrangements with other agencies or partner governments. For instance, there have been efforts to develop internal and cross-donor common guidelines on financial management that place clear emphasis on use of country systems as the default option. Similarly, some donors had to review the legal framework under which they operate, in order to allow for channelling funds through another donor or through pooled funds without unnecessary burdens or authorisations. The multilaterals in particular have been looking at ways of reducing the transaction costs of reaching agreement on legal documentation in joint operations involving multiple donors, by agreeing common (harmonised) requirements for memoranda of understanding in joint financing operations, thus facilitating the setting up of multi-donor trust funds and the use of harmonised safeguards and fiduciary systems in joint operations.
- For many donor agencies, the key has been in the **flexibility** of operating procedures. The process of implementing the Paris Declaration principles is rendered much easier when accounting, procurement and reporting rules are easily adaptable, and regulations recognise the need for greater flexibility on the ground. For instance, procedures should be sufficiently flexible to enable a country office not to go with an intervention or process if it doesn't pass the aid effectiveness test, *e.g.* if partner institutions and staff are not interested or it does not contribute to the poverty reduction strategy. Equally, the aid effectiveness agenda should not become a straightjacket. In some fragile countries, the technical staff of donor agencies felt that the high incentives for senior management to demonstrate efforts towards implementing the Paris Declaration had severely curtailed their ability to respond to shifting realities on the ground by locking all funding into multi-donor funds.
- Experience shows that the higher the degree of **decentralisation** of staff, resources and responsibilities to the field, the better the agency's performance in aid effectiveness. Decentralisation and delegation of authority to the country level, within the context of centrally-set policies on aid effectiveness and appropriate support from the centre, allow country offices to shape programmes according to local priorities and systems, and by enhancing the potential for developing partnerships in country. Shifting authority to the field enables an agency to react flexibly and promptly to local needs and to develop and nurture relationships with a range of local stakeholders. Donor agencies should consider putting in place incentives to encourage experienced staff to be deployed in field offices, for example by: making the promotion to senior management positions conditional on difficult postings providing excellent support to ensure the well-being of the staff; and having a proactive scheme to assist returning staff to find a rewarding job when back at headquarters. This takes us back to some of the staffing issues addressed in the previous section, and the need to put in place incentives for well-performing staff to be posted in the field.

### Box I.4. Adapting guidelines and procedures

#### **USAID – Automated Directives System**

USAID is embedding the main principles of the Paris Declaration into its Automated Directives System, which is a regularly updated collection point for all operational guidance, where key procedures are laid out covering the entire cycle of regular field operations. The purpose is for headquarters to clarify what implementing aid effectiveness should look like in practice, so that field offices do not have to bear the burden of making all the different policy commitments fit together. In addition, new recruits coming into USAID will be inducted using this system, which should further encourage adherence to the Paris Declaration principles at country level.

#### **Nordic Plus countries – Joint financial agreements, joint procurement and delegated co-operation**

The Nordic Plus countries have jointly developed tools to support multi-donor co-operation, including: the “Guide on Joint Financing Arrangements” (February 2004, with Canada); the Joint Procurement Policy (November 2004), supplemented with a Guide (November 2005, with Canada and Germany); and the “Practical Guide to Delegated Co-operation” (October 2006). Nordic Plus countries’ field missions and embassies are encouraged to actively consider joint financing and joint procurement arrangements, and to actively consider delegated co-operation with Nordic Plus partners and other donors who want to join.

#### **World Bank – Results-based country assistance strategies and revised investment guidelines**

Key aspects of implementing the World Bank’s commitments on alignment are basing the International Development Association (IDA) assistance programmes on countries’ poverty reduction strategies and using IDA programmes to help countries strengthen the policies, plans and institutions needed for development. IDA results-based country assistance strategies emphasise defining realistic results chains, aligning with the country’s long-term vision and priorities and co-ordinating with other donor partners on major elements of strategy. In addition, to encourage country capacity development by decreasing reliance on parallel project implementation units (PIUs), the revised investment lending guidelines will require that integration of PIUs into government structures becomes the default option for IDA projects; any proposal to establish a new parallel PIU will be considered an exception and will need to be clearly justified. This approach should lead task team leaders to pay more attention to capacity building measures in financial management, procurement, and monitoring and evaluation.\*

#### **IFAD – Results-Based Country Strategic Opportunities Paper**

At country level, IFAD’s main planning and monitoring instrument is the Results-Based Country Strategic Opportunities Paper (RB-COSOP), revised in 2006. It is the core instrument for managing the alignment of IFAD’s work programme of loans and grants with both IFAD’s strategic objectives and those of the partner country. It also promotes stronger harmonisation between individual loan or grant-financed projects (including ones at regional and global level), and the operational activities of other donors and countries’ national development strategies. To support management for results at country-level, RB-COSOPs are to be reviewed annually, at mid-term and at completion. As part of these reviews surveys will be carried out each year to gauge clients’ and partners’ perceptions of IFAD’s performance. This should support the Paris Declaration principle of mutual accountability and further develop the ownership of the process at country level.

\* IDA (2007), *op. cit.*

### Box I.5. Redefining the relationship between headquarters and country offices

#### The Netherlands – Decentralisation

In 1996, the Netherlands introduced a decentralised model where implementation of development co-operation was fully delegated to their embassies and missions, with regular rotation of their experts between headquarters and the field. The onus for implementing development programmes rests with the embassies and missions, which have extensive authority for local policy, implementation, and financial management relating to development assistance, including policy dialogue with partner governments and other donors.

#### Other Nordic Plus<sup>1</sup> donor agencies – Decentralisation

Other Nordic Plus donors have decentralised significant parts of development assistance to country level representations, which now have extensive responsibilities for the planning and management of assistance. In several cases, significant approval, review and quality assurance responsibilities have also been decentralised.

#### Initiatives from the field

Important progress towards increased aid effectiveness is taking place at local level where the partner country and development partners have made mutual commitments and established monitoring systems.

The government in **Cambodia** has taken action on the aid effectiveness mantle on several fronts. The Consultative Group mechanism, adopted in 1996, is an important venue for high-level government-development partner discussions on aid effectiveness and socio-economic development. Reflecting further local ownership, in 2006, the government decided to transform the Consultative Group meeting into the Cambodia Development Co-operation Forum (CDCF), chaired by the government, from 2007. The forum provides government, development partners and civil society with an opportunity for dialogue on public policy processes and the associated government financing, and focus on key strategic policy issues or on broad areas where faster and critical progress is necessary or where additional actions are needed. The first forum was held in *Phnom Penh* in June 2007. The CDCF was chaired by the government, with the *World Bank* as the lead donor.

Recent governance assessments conducted in **Malawi** (e.g. by the MCC and the EC) departed from past assessment exercises in that they are indicator-oriented and in line with the objectives of the Paris Declaration. A major step towards donor harmonisation was the adoption of the Common Approach to Budgetary Support (CABS) that established a Committee on Governance to co-ordinate donor activities in the area of governance. Monthly meetings are held in order to measure progress towards these commitments and a joint performance assessment framework, with an agreed set of indicators, has been developed.

In 2000, budget support donors in **Mozambique** formalised their co-ordination efforts in a Joint Programme, superseded in 2004 by a Memorandum of Understanding (MoU) between the government and its programme donors, outlining commitments on both sides to improve the quality and effectiveness of programme aid. The government has signed up to a performance assessment framework (PAF) which provides the basis for an annual joint review process whereby donors assess the government's progress and make aid commitments for the following year in a co-ordinated way. Since 2003, donors in Mozambique have themselves been assessed under the Programme Aid Partners Performance Assessment Framework, which is effective in generating pressure on donors to improve their performance in key areas such as alignment, predictability, reduction of conditionality, and reducing transaction costs.<sup>2</sup> This constitutes a good example of mutual accountability.



### Box I.5. Redefining the relationship between headquarters and country offices (cont.)

#### World Bank – Material incentives to encourage staff to go to the field

The World Bank's Overseas Assignment Benefits were revised in 2004 principally to better attract and deploy expatriate staff for overseas assignments, particularly to fragile and conflict affected states. The senior management recently recognised the need to further improve the material incentives to encourage staff to go to the field. In that light, the benefits are undergoing another revision to:

- better recognise and differentiate assignments to fragile and conflict affected states by introducing a more generous “fragile and conflict affected states premium”;
- provide better support for the needs of families by introducing a new “family assistance allowance”;
- provide more stability in benefit levels by shifting resources from variable benefits, such as the hardship premium, to fixed benefits, such as the “assignment allowance” and the “family assistance allowance”; and
- simplify the design of benefits and improve the administration of staff benefits.

#### Denmark – Performance reviews

The Danish government undertakes performance reviews of embassies focussing on management and staffing, financial management, and implementation of the Paris Declaration. A performance review involves preparing a Harmonisation and Alignment Action Plan with the embassy. It is an internal peer review system that has proved effective in linking headquarters and field staff, as well as in sharing good practices and understanding the aid effectiveness agenda.

1. Denmark, Finland, Ireland, The Netherlands, Norway, Sweden and UK.
2. Overseas Development Institute (April 2006), “Promoting Mutual Accountability in Aid Relationships”, Overseas Development Institute, London.

- Alongside decentralisation, aid effectiveness depends on **recognising the important support function headquarters need to play** if learning is to spread across the organisation: production of coherent guidelines, ongoing technical support and backstopping, monitoring and evaluation, dissemination of best practice, etc. This, crucially, includes back offices' functions, i.e. those responsible for overseeing implementation of legal, fiduciary and procurement frameworks, and for process management. Back offices must form an integral part of any incentive system introduced. Indeed, experience has shown that back offices can substantially offset, through raising transactions costs, what front offices set as policy. This is particularly true in the case of the Paris Declaration, which requires a flexibility that rule-makers and enforcers within donor agencies can see as threatening.

## Budgeting and reporting

The impact on aid effectiveness of incentives associated to management leadership, staffing, and internal policies and procedures is underpinned by incentives in two additional areas: monitoring, evaluation and reporting; and how the budget is distributed and how flexible it is. Clear objectives on aid effectiveness, supported by relevant performance indicators and a system of monitoring, evaluation and reporting are key to providing management, staff and back offices with the information they need to ensure

high-level policies, individual country strategies, and operational rules and procedures continue to support implementation of the Paris Declaration principles.

Equally, budget allocations need to take into account the resource implications of meeting aid effectiveness commitments if budget allocations are to be an incentive rather than a disincentive.

The experience of donor agencies suggests the following good practices:

### **Performance monitoring and evaluation**

**Objectives** related to aid effectiveness can be set for individual units (country teams, regions, sector teams), and progress can be regularly discussed with senior management alongside budget and deliverables. Tracking and monitoring implementation of the Paris Declaration can be facilitated by developing a consolidated implementation and monitoring framework that considers an agency's commitments under each pillar.

To encourage evidence-based policy making and an increased focus on the results of development assistance, most donor agencies have introduced relevant **performance indicators** to monitor progress. These indicators should incorporate the Paris Declaration principles and recognise the challenge of measuring typical aid effectiveness work, such as building partnerships, and the length of time this can take, particularly in fragile states. In order to be meaningful, indicators need to be tailored to the particular country and sector context, and adopted by staff and front-line management. Increasingly, they are developed and monitored in consultation with government partners and other donors, or can even be shared. They include, for instance, progress towards development objectives, availability and quality of relevant data, turnaround times for disbursements, etc. If they are given the same prominence as financial indicators, this should help reduce the disincentive provided by spending targets.

Regular use of **monitoring and review mechanisms** to promote and assess progress on aid effectiveness is another important factor. The information collected should feed back into the country strategy and operations development process to ensure lesson learning on latest thinking on what works. Internal review processes can play an important role in this respect when questions on aid effectiveness are systematically included. Moreover, the principle of mutual accountability requires donors to be willing to disclose the information collected and the evaluation evidence, as well as to support an organisational culture in which staff see the value in receiving feedback from partners (e.g. 360 degree appraisals, client surveys).

By ensuring that donor spending and activities are used for the intended purpose, **internal and external audits** can provide an incentive for aid effectiveness and achievement of development outcomes. In this context, audits can also be an important tool to ensure fiduciary compliance of entities administering donors' funds.

### **Linking the budget to results**

Donor agencies can improve their incentives by integrating budget, performance planning and reporting. Some donor agencies have taken the use of performance indicators and monitoring one step further by **clearly aligning their budget with the results** the institution aims to achieve. For each budget allocation, units are asked to state their overarching mission, the strategic objectives they are pursuing to reach this mission, the business lines through which they expect to meet their objectives, the resource

## Box I.6. **Measuring implementation of the Paris Declaration principles**

### **The Netherlands – Reporting and evaluation**

Implementation of the Paris Declaration principles was facilitated by a results-based set of planning, monitoring and evaluation instruments consisting of: i) multi-annual (four-year period) strategic planning with rolling budgets, supported by and linked to analyses of partner country policies and implementation at sectoral and macro level; ii) annual monitoring (at macro, sectoral and programme level); iii) a two-year results reporting; iv) increasing use of impact evaluations; and v) sector-wide approaches and budget support where feasible as basic principles for country and sectoral programmes. Although this is not required by Dutch law, The Netherlands scores itself on the Center for Global Development's Commitment to Development Index as an indicator of its development policy.

### **Asian Development Bank (ADB) – Staff survey to assess progress in implementing MfDR**

In 2007, the ADB conducted an independent evaluation of MfDR in the ADB. The evaluation's methodology included survey responses from 958 ADB staff (41% response rate), 11 focus groups with about 150 participants, one-on-one interviews with some 50 staff members including vice-presidents and directors general.

### **US Department of State and USAID – Linking resources to performance information**

An ongoing reform is generating important process changes to achieve the integration of USAID and Department of State foreign assistance programme planning and implementation. For example, beginning with the financial year 2010 budget cycle, the joint Department of State and USAID initial resource request from each field mission must link directly to performance information, which will in turn inform the budget and performance cycle.

### **International Finance Corporation (IFC) – Corporate scorecard**

In 2005, IFC introduced a new monitoring system, the Development Outcome Tracking System (DOTS). IFC advises that this system is aligned with the ex-post evaluation system and focuses on four areas of performance: financial performance, broader economic performance, social and economic performance, and private sector development impacts. IFC believes that DOTS provides useful information to support its focus on specific development result targets. IFC has also introduced a corporate scorecard with board-endorsed development impact targets. In 2005, a Development Effectiveness Unit was established to measure and report on IFC's development results. This unit has also conducted over 40 training events over the past year reaching over 1 200 staff on development results measurement and DOTS. Through its 2007 annual report IFC has started to provide development results for its entire portfolio, including results by region and industry (based on aggregated ratings of individual projects). These development results have been validated by an external assurance provider.

### **Inter American Development Bank (IADB) – Corporate scorecard**

IADB is working towards ensuring that its corporate scorecard is cascaded down to every organisational unit and that there are long-term performance awards for successful investments. There is growing support from senior staff for MfDR, and at management meetings discussion is held on issues of development effectiveness.

### **IFAD – Report on Development Effectiveness**

The IFAD "Report on Development Effectiveness" presented to its executive board in December 2007 devotes a full chapter to "Progress in Implementing the Partnership Commitments of the Paris Declaration on Aid Effectiveness" and draws on the 2006 survey organised by the OECD-DAC.

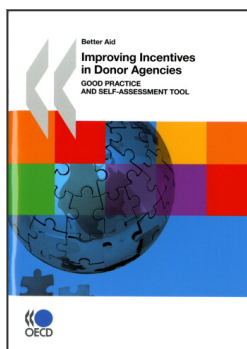
allocation decisions that support their business lines, the trade-offs and choices they have to make to stay in their budget envelope, the risks they perceive with their strategy, and the key performance indicators that will measure effectiveness and efficiency.

Donors need to better understand the **resource implications** of meeting their Paris Declaration commitments. The transaction costs – particularly in terms of staff time, of developing partnerships with governments, of co-ordinating with other donors, of negotiating budget support operations or MoUs – are high, entailing multiple drafts and considerable exchange back-and-forth between country offices and headquarters. Many of these transaction costs are ongoing and need to be absorbed as permanent costs of delivering aid more effectively, and therefore reflected in administrative budget allocations.

Some donors, such as the World Bank, have revisited existing systems for approvals, disbursements and monitoring to examine whether more emphasis could be placed on aid effectiveness (which requires longer preparation times) and less on rapid project design and preparation. The additional effort required from individuals to engage in aid effectiveness, both in terms of time and commitment, needs to be recognised and valued by management, particularly in fragile states. At the same time, adherence to the Paris Declaration principles can have positive implications for an agency's budget, for instance if donors share costs by relying more on joint analytical work or joint supervision arrangements, or become more selective in their portfolio.

### Notes

1. By aid effectiveness we mean the quality of delivery, management and use of aid, as defined in the Paris Declaration on Aid Effectiveness.
2. Overseas Development Institute (2006), "World Bank Incentives for Harmonisation and Alignment", Overseas Development Institute, London.
3. OECD-DAC (2008), "A Progress Report on Implementing the Paris Declaration", *Better Aid*, OECD, Paris.
4. OECD-DAC (2003), "Harmonising Donor Practices for Effective Aid Delivery", OECD, Paris.
5. ODI (2006), *op. cit.*



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