

FINAL REPORT

PACIFIC ISLANDS FORUM SECRETARIAT

**AID EFFECTIVENESS TO THE PACIFIC REGION: A
FOCUS ON SKILLS TRANSFER, CAPACITY BUILDING
AND TECHNICAL ASSISTANCE**

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List of Acronyms

ABV	Australian Business Volunteers
ACP	Africa, Caribbean and Pacific States
ADB	Asian Development Bank
AMC	Australian Managing Contractor (AusAID)
ASAS	Australian Staffing Assistance Scheme
AusAID	Australian Agency for International Development
AVI	Australian Volunteers International
AYAD	Australian Youth Ambassadors for Development
CROP	Council of Regional Organisations in the Pacific
CRP	Comprehensive Reform Program (Vanuatu)
DAC	Development Assistance Committee (OECD)
ECP	Enhanced Cooperation Program (PNG)
EMWPU	Enabling Mechanisms Work Programme Unit
EU	European Union
FIC	Forum Island Country
FEMM	Forum Economic Ministers Meeting
IFI	International Financial Institution
IMF	International Monetary Fund
ISP	Institutional Strengthening Program
JICA	Japan International Cooperation Agency
JOCV	Japan Overseas Cooperation Volunteers
KESP	Kiribati Education Sector Program
MDGs	Millennium Development Goals
MSC	Management Services Consultant (NZAID)
NGO	Non-Government Organisation
NZAID	New Zealand Agency for International Development
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OJT	On the Job Training
PACTAF	Pacific Technical Assistance Facility
PIFS	Pacific Islands Forum Secretariat
PFTAC	Pacific Financial Technical Assistance Centre
PMR	Policy and Management Reform
PNG	Papua New Guinea
PRISM	Pacific Regional Information System
PSIF	Public Sector Improvement Facility (Samoa)
RAMSI	Regional Assistance Mission to Solomon Islands
SIP	Sector Investment Program
SPC	Secretariat of the Pacific Community
SWAp	Sector Wide Approach
TA	Technical Assistance
TOT	Training of Trainers
UNDG	United Nations Development Group
UNDP	United Nations Development Program

USP
VSO

University of the South Pacific
Volunteer Service Overseas

Executive Summary

1. At the Pacific Island Countries/Development Partners Meeting in 2004, it was proposed that the Pacific Islands Forum Secretariat (PIFS) prepare a study on the effectiveness of aid to the region. This followed a general discussion of aid volumes at the meeting, with concerns expressed by both donor and recipient countries that aid volumes alone do not adequately represent the impact of donor-funded assistance in the region. It was also pointed out that aid management has certain costs for recipients, and these affected delivery and effectiveness of aid.

2. The PIFS then commissioned a consultant to prepare this report on aid effectiveness in the region, including a focus on capacity building, technical assistance and skills transfer. The report includes a survey of donor and recipient government policies and practices in the Pacific, coupled with a series of case studies (Annex 1) that draw out some of the more important factors in effective aid delivery. This results in a set of lessons learned (Annex 8). The report also contains a number of guiding principles and recommendations, with the most important summarised in dot point form below.

Aid Effectiveness

3. The issue of aid effectiveness has emerged over the last few years as donors and recipients seek to make aid more accountable and to improve delivery approaches. Discussions within the OECD/DAC led to the *Paris Declaration on Aid Effectiveness* in March 2005, which followed previous efforts at improving donor harmonisation. The Pacific held a regional workshop on donor harmonisation in 2003. It appears that a consensus on these issues is emerging, and that effective aid programs will have the following characteristics:

- Donor policies and programs that recognise and are aligned with development priorities of the FICs, have multi-year or otherwise more predictable levels of funding, include activities to strengthen FICs' capacity to plan, manage and monitor/evaluate aid programs, increase the use of FIC budgets, systems and institutions to deliver aid, and increase the use of goods and services from the country or the Pacific region.
- FICs should exercise proper ownership and control of the development agenda, including key decisions affecting direction, type and implementation of aid programs, FICs should also have appropriate national and sectoral development plans, be able to identify development priorities and have accountable and efficient management and monitoring systems for aid expenditure.
- As a partnership, donors and FICs should move towards greater harmonisation, including joint programming, implementation and monitoring approaches, particularly for small island states. Multi-donor planning meetings, chaired by the FIC government, are recommended where coordination, programming and implementation issues can be resolved.

4. Donors and recipients will need to work towards these goals on a bilateral basis, as this is how most aid is delivered. PIFS, under the Pacific Plan and the CROP mandate, has a role in coordinating this process at a regional level. PIFS can also provide additional support to small island states.

Capacity Building

5. Capacity building has always been a part of aid programs. It is a concept that includes a range of strategies investing in human capital development. Capacity building is not just a synonym for training, as it includes improvements to organisational systems and procedures, often coupled with organisational reform. Capacity building is most effective when it is targeted at the right areas. The identification of skills gaps, competencies and training needs is essential in planning aid activities. FICs need to have human resource and other capacity building policies and plans in place to ensure that donor-funded and domestic resources for capacity building are allocated appropriately.

6. There are a range of effective and tested capacity building ‘tools’ and techniques used by donors and recipients. These include technical advisers, on the job training, training courses, work attachments, scholarships, mentoring approaches and so on. Some are more appropriate in certain circumstances to meet development needs, while some are more cost-effective. A good capacity building program will use a mixture of these tools and approaches.

7. The most critical factor in effectiveness, however, is the level of commitment by the recipient agency or organisation to the activity, including making staff available and ensuring that systems and procedures introduced can be sustained. In the Pacific, movement of staff and the small size of agencies can make implementation difficult.

- FICs should endeavour to develop appropriate capacity building policies and/or human resource frameworks at the national, sectoral and agency level as appropriate.
- Aid programs and projects should use a range of capacity building options suitable for the agency concerned without relying solely on external technical assistance.
- Counterpart agencies and institutions should provide an appropriate level of resources (both financial and human) to assist in the implementation of aid activities.
- Multiple counterparts may be an appropriate option to encourage sustainability and address problems of availability and turnover.

Use of Technical Assistance

8. Technical advisers represent a significant proportion of aid expenditure. In some projects, the cost of external technical advisers can be up to 90 per cent of the total budget. In the first instance, FICs and donors will need to determine whether there are other, lower cost and more appropriate alternatives to the use of technical advisers in their

aid programs. Policies that encourage donors to reduce the reliance on technical advisers and offer more appropriate alternatives are required. When technical advice is warranted, it should be delivered in a manner that conforms to FIC priorities, systems and procedures as well as respecting local codes of behaviour.

9. It was found that the most effective use of advisers involved the selection of the right personnel with a mixture of good interpersonal skills, technical expertise, problem solving ability, organisational development skills, cultural sensitivity, flexibility and patience and experience in government. Advisers also needed to work with and support existing systems and processes, and not introduce inappropriate methods of working, and that an overall capacity building framework is required. Advisers need to be accountable to the recipient organisation, and senior management should take responsibility for their performance.

- FICs should develop policies on the use of technical assistance in aid programs. This could include a limit on costs of external technical advisers, encouraging use of local expertise, preference for short-term versus long-term assignments and responsibility for oversight.
- All technical advisers should have capacity building as their first priority.
- Recipient agencies will identify and make available individual or multiple counterparts for technical advisers.
- Technical advisers will be responsible to an appropriate member of the FIC government. Contracts will reflect this as much as possible.
- Technical advisers should receive briefings on appropriate behaviour and work practices before taking up positions.

Other Key Recommendations

10. Effective implementation of aid programs requires good management from both the donor and the FIC, including operationalising some of the policies outlined above. The strengthening of FIC agencies and systems should be an objective in aid delivery. This could include:

- using existing FIC government budget, management and organisational structures for implementation, selecting a form of aid that provides the most cost-effective means of delivery and reducing the reliance on third party contractors.

11. Ensuring that aid programs continue to meet the expectations of FICs and donors requires good monitoring and evaluation, and the ability to incorporate results into planning frameworks.

- Donors and FICs should work towards mutually agreed performance frameworks at the national, sectoral and activity level for their aid programs. FICs should lead the monitoring and evaluation of aid programs and projects, and donors should give priority to strengthening this capacity.

1. Introduction

1.1 At the Pacific Island Countries/Development Partners Meeting on 11 June 2004, it was proposed that the Pacific Islands Forum Secretariat (PIFS) prepare a study on the effectiveness of aid to the region for the next annual meeting. This proposal followed discussion of aid volumes at the meeting, with concerns expressed by both donor and recipient countries that aid volumes alone do not adequately represent the impact of donor-funded assistance in the region. Discussion also centred on certain ‘costs’ associated with aid delivery, and the burden of managing aid programs for recipient countries.

1.2 The effectiveness of aid to the Pacific region has frequently come under discussion, and some criticism over the last three decades. For many, the high volumes of aid have not translated into significant improvements in economic growth and other development indicators. Concerns have also been expressed that the Pacific is experiencing problems of increasing populations, environmental degradation and poor governance, and that governments in the region are not responding adequately. More recently, security issues have become prominent, with associated threats to law and order from both civil unrest and transnational crime and terrorism.

1.3 Despite these concerns, aid volumes have remained reasonably stable over the decades since Forum Island Countries (FICs) first gained their independence. Donors are currently engaged with countries of the region on a bilateral, multilateral and regional basis. Aid represents an important component of many FIC economies, and considerable resources are devoted to planning and implementing a large range of aid programs. A more detailed treatment of both the history and the current situation and levels of aid in the region is provided in Annex 2 – ‘Aid in the Pacific 2005’. This annex also provides information on donor policies for increasing aid effectiveness in the Pacific and a short description of their main programs. Recent regional efforts at donor harmonisation are also included.

1.4 The guiding principles of the Pacific Plan, particularly in relation to increasing levels of sustainable returns, indicate that effectiveness of aid will be a feature of future regional cooperation. Maintaining and improving the aid relationship between donors and FICs is one of the most important bilateral and regional issues. The Pacific Plan is expected to form a future regional partnership framework for development cooperation. Indeed, one of the key strategies for implementation in the draft Pacific Plan is the alignment of donor programs and reporting requirements with FICs’ national priorities and processes, in order to improve aid effectiveness.

1.5 This paper examines both the effectiveness and *quality* of aid in the Pacific. The quality approach will address concerns about aid levels in the Pacific, which have often focused on quantity (or volume) at the expense of impacts and benefits. The paper is limited to analysing government-to-government forms of aid, and those of the International Financial Institutions (IFIs) – that is, Official Development Assistance (ODA). Private donations or assistance provided directly through Non-Government

Organisations (NGOs) are important to many communities in the Pacific, but they are beyond the scope of this document.

1.6 The quality and effectiveness of aid is subject to a range of factors, most of which are a shared responsibility between the donor and the recipient government. These are discussed in the following section. The developing country environment will determine the effectiveness of an aid project as much as the source, volume and direction of aid. Donor policies and delivery through contractors and other intermediaries are similarly influential. Harmonisation is becoming increasingly important as an issue that cuts across both program planning and delivery.

1.7 An examination of capacity building and the use of technical assistance in delivering aid programs follows. Technical assistance makes up a large proportion of donor-funded aid programs, and represents a substantial cost. Capacity building, ideally, should be the aim of most ODA activities, providing skills transfer from the donor to the recipient and ensuring long term sustainability. The effective use of technical assistance is a critical factor in measuring and accounting for the impact of aid programs.

1.8 The final section examines ways of improving the delivery of ODA to make maximum use of available resources. This includes a number of general principles based on the lessons learned. There are a number of recommendations for donors, FIC governments and other stakeholders to improve aid effectiveness in the region. These include specific recommendations for aid programs involving the small island states in the Pacific, as these countries have specific problems of limited capacity, location and a lack of economies of scale. Improving the effectiveness of regional programs is also covered.

1.9 In the Pacific, there are a great number of similarities between the approaches of the major donors (see Annex 2). Further, there appears to be an emerging consensus on how to make aid more effective, both at the global level through the OECD/DAC, and in the region. In particular, the *Paris Declaration on Aid Effectiveness*, a copy of which is included at Annex 4, contains detailed recommendations for both donors and recipient governments to improve the effects of their aid programs. Among these recommendations are efforts to increase ownership of the development agenda by recipients, develop true partnership principles, aim to reduce transaction costs and improve donor harmonisation. All of these have tremendous relevance to the Pacific.

1.10 Throughout the report, key issues and lessons learned in regard to aid effectiveness are highlighted in each section. These provide the background to the recommendations in the final section, and a consolidated list appears at Annex 8. The challenge for both donors and FICs is how to ensure that these and other principles for improved aid effectiveness are translated into management and implementation of their programs, to ensure funds and other resources are delivered appropriately, and for the purposes intended.

1.11 This study was prepared by a consultant engaged by the Pacific Islands Forum Secretariat (PIFS), and the terms of reference are included at Annex 7. As such, the views and opinions expressed in this paper are those of the consultant only; and do not necessarily represent the views of the PIFS, aid officials or the official positions of member governments of the Pacific Islands Forum. The consultant visited a number of countries in the region as part of preparing this paper, and was in contact with officials from others. A list of persons met and people/organisations consulted is included at Annex 6. Relevant project materials, research documents, policy papers, government documents and other sources consulted in the preparation of this paper are listed at Annex 5.

2. Aid Quality and Effectiveness

2.1 Common Approaches

2.1.1 The *Paris Declaration on Aid Effectiveness* of March 2005, along with summaries of previous DAC members' statements,¹ indicates that a consensus on improving aid effectiveness is emerging. Donors are being encouraged to adopt common approaches to their relationship with recipient governments and other development partnerships. These common approaches generally include:

- A set of principles for effective aid – including good governance, civil society engagement and participation, donor coordination and harmonisation, effective partnerships and ownership by the recipients;
- Aid allocation – targeting to low income countries, to recipients with good policies and a good track record, using alternative approaches where appropriate;
- Programming approaches and aid delivery mechanisms – such as a shift from project to program assistance, use of sector-wide approaches, budget support and support for poverty reduction;
- Untying aid – for greatest effectiveness donors need to untie aid funds and introduce contestability and competition in aid procurement;
- Policy coherence – the need to bring other policies in line with development goals.

2.1.2 The *Paris Declaration* provides donors and recipients with a framework for improving the effectiveness of aid programs. This includes the setting of specific targets with twelve associated indicators (see Annex 4). The general principles, commitments and targets contained in the *Paris Declaration* can be applied successfully to the Pacific. There is scope under the Pacific Plan (using the coordination role of the PIFS) in assisting other regional countries to adopt and integrate aid effectiveness principles into their national plans and negotiations with donors. The Enabling Mechanisms and Work Programme Unit (EMWPU) can take the lead role in applying this approach to regional programs and those implemented through the CROP agencies. The EMWPU also have a role through engaging with donors and in helping FICs report against the targets/indicators, particularly for the small island states

Forum Island Countries should work toward the adoption of a set of guiding principles for more effective aid in the region. These should be consistent with international standards for development cooperation. The Pacific Islands Forum Secretariat is the appropriate body to coordinate this.

¹ Hunt, Janet and Morton, Bill 'Aid Effectiveness: Threats to the New Consensus?' Development Bulletin No.65 August 2004 pp 11-15

While recognising that political, strategic and other factors are important considerations in developing aid policies, it should be recognised that aid is most effective when it is allocated and directed at poverty reduction and the development priorities of the region and individual FICs.

2.1.3 In a recent study of aid programs and recipients' priorities, it was found that a significant workload falls onto developing countries due to the lack of consistent approaches to managing development funds². The most frequently reported problems are:

- Lack of consistency between donor activities and national priorities and systems, the setting up of parallel management and difficulties in compliance with donor frameworks;
- Donor practices such as procurement policies and 'tied aid', and the non-utilisation of local technical assistance, and
- Inconsistency among donors, including the demands placed on local resources for reporting and management.

2.1.4 Aid programs are essentially bilateral. Recipient countries frequently have to deal with each donor separately. To a certain extent it is accepted by these aid recipients that donors will require delivery systems and reporting arrangements, in order to meet domestic demands for accountability and performance measurement. Many recipients therefore accept the drawbacks of complex aid management – the logic being that any additional work will always be outweighed by the benefits of receiving the aid in question.

Delivery of aid programs should use existing recipient government frameworks, budgets, systems and procedures wherever possible. Donors and FICs should work towards consistent and compatible management and reporting.

2.1.5 Harmonisation is associated with addressing both effectiveness and efficiency. At the policy level, donors are slowly adopting these recommendations. However, a study has noted that while aid agencies may have good policies on harmonisation, at the program management level there are fewer incentives to cooperate³. The impetus for greater donor harmonisation has come primarily from the donors rather than the recipients. While it will reduce workloads for recipient governments, it is often driven by the need for donors to reduce resources devoted to managing country programs. Even so, the most important and salient issue remains that of ensuring aid programs are aligned with national priorities. More information on, and examples of, recent harmonisation efforts in the Pacific are included in Annex 2.

² OECD/DAC Task Force on Donor Practices *'Needs Assessment Report: Survey on Partners' Priorities and Perspectives on Harmonising Donor Practices'*, October 2002 unpublished

³ De Renzio, Paulo *'Incentives for Harmonisation and Alignment in Aid Agencies'*, Overseas Development Institute, London November 2004

Any coordination/harmonisation framework developed by donors must fully involve recipient governments and meet their concerns about appropriateness, reporting and accountability.

2.1.6 All FICs have national planning agencies or a national planning function that is responsible for aid coordination. Naturally, these vary in size and capacity, and in access to resources. More worryingly, perhaps, is that donors sometimes bypass or ignore these agencies. Regional and multilateral programs are particularly prone to this, as they often deal directly with line agencies. This makes it extremely difficult to ensure that aid projects receive the proper scrutiny/approval, are consistent with national priorities and are appropriate to the country and communities concerned. Donor programs must conform to the priorities and sectoral strategies, however in reality this is also clouded by donor interests, conflicts over policies in certain areas, rivalry between donors and lack of coordination within and across sectors.

2.1.7 Some FICs have annual donor ‘roundtables’ or coordination meetings. Fiji, for example, conducts a joint donor meeting in April/May of each year where all donors are represented. Other similar meetings occur in Vanuatu, Solomon Islands, Tonga and Kiribati. These tend to be coordination meetings rather than a detailed operational or programming session, as there are still separate bilateral discussions with most donors. Samoa has multi-donor meetings based around sectors to correspond with its planning mechanisms and strategy development at that level.

One of the challenges for FICs is to make donor coordination meetings more effective, and use them to operationalise donor commitment to the national planning frameworks. This can be supported both bilaterally by donors and through regional engagement.

2.1.8 The FEMM has directed PIFS to take the lead in coordinating CROP members to provide assistance in, and capacity building for, the implementation of planning frameworks for sustainable development at the national level. This includes facilitating opportunities for sharing experiences and learning on a regional basis. The proposed role for PIFS noted above is a logical extension of this current work. The EMPWU is currently assisting several countries in the region to achieve this goal. Ultimately, it will be up to FIC governments to hold donors accountable to the rhetoric on development partnerships and donor harmonisation. Strengthened national planning systems and capacities will go some way towards this objective.

2.2 Measuring Development Impacts

2.2.1 A considerable amount of research has been undertaken on aid effectiveness, usually emphasising the destination and impact of aid flows. As the World Bank notes ‘A wealth of cross-country studies have failed to produce conclusive assessments; some finding aid to have a large positive impact, others finding a neutral or even a negative

impact and others offering refinements such as “aid works in a particular environment”⁴. In the Pacific absolute poverty is not growing and general health and education indicators are improving. The questions asked by commentators such as Helen Hughes⁵ relate more to the rate of this improvement and especially the link between aid flows and economic and social development. The attribution of results is therefore one of the most critical aspects of any measure of aid effectiveness.

2.2.2 However, measuring aid effectiveness using only a country’s economic performance is problematic. Often the timeframe used is too short to see effects of aid projects on economic growth, or the results are subject to external factors. Even so, studies by the World Bank and others demonstrate that factors such as the quality of state institutions and the policy environment are very important to promote and sustain economic development⁶. In PNG, even for the large Australian aid program, it was found that ‘at the aggregate level, it is not really possible to separate out the effects of government and donor-funded programs’⁷.

2.2.3 However this and other studies have found that aid can play a catalytic role in selected areas, for example to provide technical assistance or expertise, to support reform programs or to otherwise assist the government’s own capacity to plan and manage⁸. At the sectoral level, this became more apparent, especially where there was direct policy engagement. In the smaller economies of the Pacific island countries, it may be possible to develop this attribution further, and determine how aid has contributed directly to improving the policy environment, contributing to economic growth, employment and poverty reduction.

2.2.4 Because of the attribution question as well as their own interests in measuring performance, individual donors have found it easier and more productive to examine aid effectiveness through the results of their own aid interventions, that is, at the project or program level (see below).

2.2.5 Macro-level assessments of aid against economic performance are carried out infrequently. In the Pacific, reports on performance of regional economies are produced by the ADB, often in conjunction with other donors such as AusAID. AusAID also carried out the study on PNG referred to above. Recipient governments in the region also do not undertake regular evaluations of their ODA, although (like donors) there are elements of self-assessment in the development of national development plans and sectoral strategies.

⁴ World Bank ‘*Future of Development Assistance*’ internet resource at <http://rru.worldbank.org/PapersLinks/Development-Assistance/#id6187>

⁵ Hughes, Helen ‘*Aid Has Failed the Pacific*’, Issue Analysis No.33 May 2003 Centre for Independent Studies

⁶ Burnside, Craig and Dollar, David ‘*Aid, Policies and Growth*’, Policy Research Working Paper 1777, World Bank Washington 2002

⁷ AusAID ‘*The Contribution of Australian Aid to Papua New Guinea’s Development 1975-2000: Provisional Conclusions from a Rapid Assessment*’, Evaluation and Review Series No.34 June 2003 p x

⁸ AusAID ‘*The Impact of Australian Aid to Thailand*’, Office of Review and Evaluation - forthcoming

To ensure effective planning and implementation of aid programs, it is clear that a more detailed assessment of aid effectiveness and impact on national economies is required, and on a regular basis.

2.2.6 FICs are reliant to varying degrees on aid receipts. For many countries in the Pacific, aid is a significant part of the government budget and of the overall economy. Aid is very important in revenue terms, varying from only a few per cent of gross national income, to nearly half in some states (see Table and analysis in Annex 2). The ability to make long-term plans, to implement government programs and to add a degree of certainty to the economy depends on reliable aid flows. To date, few donors are able to make multi-year commitments of funds, and sudden reductions in aid programs have been cause for concern amongst aid recipients. The *Paris Declaration* (see Annex 4) includes a statement calling for action on developing predictable and multi-year commitments of aid funds to recipient countries.

Given the importance of aid to Pacific island economies, consideration should be given by donors to multi-year commitments of aid funds as part of their planning cycle.

2.3 Measuring Program and Project Effectiveness

2.3.1 For the purposes of this paper, it is proposed to use a set of quality/effectiveness indicators modelled on those used within the DAC and those used by donors for program and activity level monitoring and evaluation. These are referred to here as relevance, efficiency, effectiveness, impact and sustainability. The form of aid used for delivery will also have a substantial effect on results, and this is discussed below and in more detail in Annex 3: Forms of Aid. The developing country environment is one of the most important factors in determining the success or otherwise of aid programs. The capacity of counterpart institutions, resources and the appropriate policy environment will have a significant effect on results.

Relevance

2.3.2 Aid is relevant when the objectives of a development activity or intervention are consistent with the needs and requirements of the recipient, agreed priorities and donors' and recipients' policies. Aid donors have well-developed country and regional strategies used for planning the delivery of programs. Ideally, recipient countries will have national development plans and budget systems that identify priorities for domestic and aid funding. The *Paris Declaration* gives high priority to strengthening national development strategies and frameworks, and to increasing the alignment of aid with recipients' priorities, systems and procedures. The Table below summarises information on countries in the region that have current national development plans, along with more detailed sectoral and/or agency plans. It is not sufficient to have alignment, however. Effectiveness will depend considerably on the counterpart ownership of the processes of planning and implementing aid activities, and the results.

Priority should be given to strengthening counterpart planning policies and systems. This should be targeted at increasing the capacity of FICs to analyse, plan and implement development policies and programs, and to negotiate effectively with donors.

2.3.3 Countries with experience and high capacity in the planning function (such as Samoa and Fiji) are able to engage donors more effectively through annual forums and aid negotiations. Many of the other countries of the region have difficulty in ensuring donor activities are directed at their priority areas. If there is any institutional weakness in the planning function, the result will be misallocation of aid funds, poor delivery, duplication and competition between donors. Recipients that prefer activities with a lower 'cost' in terms of their own resources exacerbate the misallocation. For example, grant aid will be preferred to loans, and donors with more efficient dispersal systems will be able to dominate certain sectors and the choice of aid projects. However, the most severe negative effect will be the lack of ownership of aid funds and aid delivery. Recipient governments may be sidelined from aid decisions and aid management.

Aid must be delivered in accordance with a well-developed national planning framework, using sectoral or other plans where relevant. Donor assistance must conform to, and address, recipient government development priorities.

Efficiency

2.3.4 This is a measure of how economically resources and inputs are converted to results. This includes the notion of cost-effectiveness. For example 'tied aid' funds will be less efficient if the purchase of goods and services are directed towards a high-cost donor country. Similarly, tied aid may limit the types of assistance provided by donors, as it tends to be supply-driven.

2.3.5 The choice of aid delivery mechanisms should take into account value for money. Assistance directed through a recipient's own systems and processes will be more efficient than the establishment of a separate 'parallel' project or program. Discrete aid projects (and many program forms of aid) have separate management processes and accountability mechanisms. This can reduce local ownership of project outcomes, as well as add to the complexity of aid management. The advantages and disadvantages of different forms of aid are covered in detail in Annex 3.

2.3.6 In a recent report, AusAID found that the choice of the form of aid was important in determining effectiveness⁹. Recipient governments have a role in selecting the form of aid, however in practice this principle is rarely applied.

Within the range of development policies, governments (specifically national planning agencies) should encourage the use of the most appropriate form of aid, and hold donors accountable.

⁹ AusAID 'Summary of Reviews and Evaluations January 2003 - June 2004', Office of Review and Evaluation - forthcoming

2.3.7 As discussed, project (and sometimes program) aid can also result in the establishment of parallel or competing management systems. In Kiribati, the KESP program is an example where this occurred (see Case Study A in Annex 1). AusAID and NZAID, however, have since reviewed their approach and are now working towards a more effective arrangement that will address these concerns, provide a lead role for the Ministry, reduce the impact on counterparts and substantially improve implementation.

The choice of a suitable delivery mechanism is an important factor in aid effectiveness. FICs and donors need to identify measures to ensure that aid is implemented cost-effectively, with a minimum of duplication and with maximum use of local systems and procedures.

2.3.8 Contractor costs are also a factor in reducing the amount of aid that can be used for specific activities. Many donor agencies prefer using contractors given that it provides greater accountability of expenditure. The use of technical advisers constitutes a high proportion of total aid costs, and there are considerable criticisms from recipients of the over-reliance on advisers. Recipient countries see adviser payments as benefits to the donor country rather than to them. This is sometimes referred to as ‘boomerang aid’ in the context of the Australian program (see ‘*Costs of Technical Assistance*’ in Section 3.4 below).

2.3.9 In the Pacific, regional programs or projects can increase cost-effectiveness. Regional approaches allow similar activities to be implemented through an organisation or contractor across a number of different countries. This has benefits for FICs, especially when smaller island states can participate in aid activities that would not normally be part of the bilateral program. For a good example of this, see Case Study C: PFTAC in Annex 1. For the donors, it also means that some development problems can be tackled more quickly without calling on the use of bilateral funds, or if they are low on some recipients’ list of priorities (e.g. HIV/AIDS programs).

Where possible, and where appropriate, regional approaches should be considered to deliver aid programs, particularly for small island states.

Effectiveness

2.3.10 This is the extent to which a development program or activity’s objectives have been achieved, or are expected to be achieved. Effectiveness is dependent on the standard of design, implementation and monitoring of aid activities. Donors and recipients need to be aware of how progress is being made towards agreed objectives, the standard of outputs and the extent of benefits to the target populations or institutions.

Table: National Planning Systems in the Pacific

Country	National Development Plan	Sectoral Plans	Development Budget	Donor Negotiations	Capacity Building
Cook Islands	Yes – new National Sustainable Development Plan due April 2006	Business Plans for each Ministry	Donor funds not included in capital and operational budgets	Main donors (Australia and NZ) through Aid Coordinating Committee. Other donors work direct to relevant line Ministries.	Training and scholarships coordinated by National Human Resources Development Department
Fiji	Yes – Strategic Development Plan linked to budget	Yes	Integrated with recurrent budget	Annual meeting with all donors, also joint Australia/NZ discussions	No national HRD plan or capacity building policies
Kiribati	Yes	Ministry operational plans being developed	Separate to recurrent budget	Bilateral, although joint Australia/NZ approach is being investigated. Donor roundtable commenced.	No national plans or policies
Marshall Islands					
Micronesia, Federated States					
Nauru					
Niue	Yes, plus an Integrated Strategic Plan	Departmental level		Donor Aid Coordinating Committee, harmonisation process with AusAID/NZAID has commenced	Preliminary work on national training and capacity building
Palau					
Papua New Guinea	Yes	Yes			
Samoa	Yes. Strategy for the Development of Samoa	Four out of 14 sectoral plans are complete	Integrated into program budgeting system	Sector negotiations held annually with a range of donors. Joint Australia-NZ high-level consultations.	Currently under preparation and will be available to donors
Solomon Islands	National Economic Development Plan	Responsibility of line agencies	Separate to recurrent budget	On a bilateral basis (plus RAMSI), donors sometimes	No national plans or policies

				deal directly with line agencies and not through coordination mechanisms. Donor roundtable held.	
Tonga	National Strategic Development Plan	Ministries have strategic plans	Not separate	Conducted on a bilateral basis. Initial donor roundtable planned.	Draft being prepared
Tuvalu					
Vanuatu					

2.3.11 Donors themselves admit that they put insufficient effort into the monitoring and evaluation of aid activities. Indeed, one of the aims of the World Bank's Comprehensive Development Framework introduced in 1998 was to shift the emphasis from inputs (i.e. loan transactions) to the actual impact of aid. Other donors have similar experiences and these have been part of the background to the OECD/DAC discussions on aid effectiveness. As with the measurement of broader impacts above, design, appraisal, monitoring and evaluation skills should be strengthened, particularly in recipient countries. The information gained through activity evaluation should feed back into development of plans and strategies at the sectoral and national levels.

Donors and FICs should give priority to improving design, appraisal, monitoring and evaluation capacity in national planning agencies. This should lead to better implementation and management of aid activities.

2.3.12 From the perspective of FICs, however, the focus on impacts needs to be broader than a just measurement of immediate outputs. Payments to aid contractors, based on these outputs, sometimes seem to be the prime consideration of a donor agency. The use of discrete 'milestones' for payment (a feature of some contracting approaches) is a cause for concern where contractors focus on achieving these artificial targets at the expense of real achievements on behalf of the project and the recipient government.

Effectiveness measures need to include recipient country objectives and these should be built into designs, delivery frameworks and third party contracts wherever possible.

Impacts

2.3.13 These are the positive and negative effects produced by an aid program or activity, direct and indirect, intended or unintended. In many cases, impacts of aid activities are long-term in nature, often being achieved beyond the timeframe of the project. The long-term impacts very important to recipient governments, however they may not be immediately apparent to a contractor or even to a donor. As noted, the impact of ODA on a country's economy and social indicators is rarely measured, partly due to attribution but also because donors are not always assessing results of their interventions at the national level, or collectively.

2.3.14 As Tony Hughes points out, the unintended impacts of aid can have serious and significant effects on countries of the region¹⁰. Some of these impacts will work against the whole notion of 'development', while it is important that aid is not seen in isolation from other economic, social and environmental factors. Gender and cultural issues are perhaps just two areas where unintended consequences result due to a lack of understanding between donors and recipients. Issues of land ownership and traditional power relations are others. Perhaps one of the most fundamental areas of difference is that of aid projects introducing economic models that conflict with the essential redistributive nature of societies in the region.

¹⁰ Hughes, Tony '*Remote Impacts of Australian Aid to the Pacific*', January 2004 unpublished

Aid needs to be understood in the greater context of other changes in the Pacific – something that donors (and national planning agencies) do not readily incorporate or acknowledge in their work.

2.3.15 With both effectiveness and impacts, it is important for the results, impacts and other aid experiences to be readily available for recipients and counterparts. Planning agencies in particular should have access to a range of evaluation reports and summaries conducted by donors (ideally in partnership with counterparts). Lessons learned are a valuable resource. Information on aid effectiveness, strategies and implementation approaches is valuable in relation to making decisions on future aid allocations, direction and management.

Evaluation findings, lessons learned and best practice in aid delivery should be made widely available to FICs in an understandable and appropriate form. Monitoring and evaluation should be a joint activity between donors and FICs.

Sustainability

2.3.16 This is defined as the continuation of benefits from a development activity or program after funding has been completed. Sustainability needs to be understood in terms of the lasting impact of changes made, improvements in institutional and individual capacity and the effect on the domestic environment. The key factors affecting sustainability of aid activities include recipient government policies and resources, delivery and contracting mechanisms, effective skills transfer through the life of the activity and the inclusion of a handover/phase out strategy.

2.3.17 Project aid, in particular, suffers from poor sustainability of outcomes – for example after project completion there may be insufficient recurrent funds within the recipient agency to continue activities or maintain equipment. In the Pacific, infrastructure originally built through aid funds has suffered from lack of ongoing maintenance. Aid interventions should not impose excessive burdens on governments. This includes ensuring that aid activities have appropriate management structures and administrative systems, technology can be maintained and there are no unaffordable recurrent costs into the future.

Aid activities should be implemented in a manner that minimises any recurrent costs for FICs, and with handover strategies designed and delivered accordingly

2.3.18 A recent report by AusAID suggests that donors need to do more in considering the underlying capacity of recipient agencies to achieve outcomes and deliver services. The most effective capacity building activities encourage counterparts to deliver the project outputs themselves under the guidance of advisers, as this process both builds their capacity and increases ownership. Broad-based sustainability is also largely

dependent on the quality and commitment of the government agency's leadership and internal capacity to implement changes¹¹.

Aid is more sustainable where there is long-term commitment to the goals of the activity from donors and FICs, and counterpart agency resources are substantial and made readily available.

2.3.19 Environmental sustainability is critical in the Pacific. In relation to the environment, sustainability can be defined as 'development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs'. The Pacific region will become increasingly vulnerable to the effects of climate change and natural disasters, and a number of countries are already experiencing severe problems with population pressure coupled with limited resources.

Relevant activities should have proper environmental assessments made, ideally through an environmental impact framework. Environmental outcomes should be considered at the planning level and through all stages of the activity cycle.

¹¹ AusAID 'Summary of Reviews and Evaluations January 2003 - June 2004', Office of Review and Evaluation - forthcoming

3. Capacity Building and Technical Assistance

3.1 What is Capacity Building?

3.1.1 Capacity building has always been a part of aid programs. It is a concept that includes a range of strategies investing in human capital development, including skills transfer, training, scholarships, institutional strengthening and so on. The term ‘capacity building’ itself, however, became commonplace in the 1990s, emerging as part of the global governance agenda, where institutional development was seen as critical for successful development¹². Capacity building is not just a synonym for training, as it includes improvements to organisational systems and procedures, often coupled with organisational reform. It therefore encompasses notions of both individual and collective development.

3.1.2 AusAID’s definition of capacity building is: ‘the process of developing competencies and capabilities in individuals, groups, organisations, sectors or countries which will lead to sustained and self-generating performance improvement’¹³. This is seen as a process rather than an objective, similar to UNDP’s definition of capacity development as ‘the process by which individuals, groups, organisations, institutions and societies increase their abilities to perform core functions, solve problems, define and achieve objectives; and understand and deal with their development needs in a broad context and in a sustainable manner’.¹⁴ UNDP’s capacity building agenda is outlined in the Capacity 2015 initiative, where these processes are linked to the Millennium Development Goals.

3.1.3 The principles of good capacity building are very similar to those of effective aid. These include:

- local ownership of the capacity building process, with good leadership;
- employing local knowledge and capacities, and building on existing systems;
- long-term objectives recognising that capacity building is a transformative process;
- the pace of change needs to be under the control of the recipient country/counterpart agency;
- an integrated and coordinated approach, with attention paid to organisational change and planning/sequencing of activities;
- the right advisers (TA) can make a difference in the success or otherwise of activities, and advisers need to be co-located with their counterparts;
- an understanding of the role of incentives, including individual and collective;
- delivery through flexible and responsive programs, and
- improved donor coordination.

¹² AusAID ‘*Capacity Building Background Paper*’, Corporate Policy Branch July 2003 p 2

¹³ *ibid* p 1

¹⁴ UNDP, 1997. ‘Capacity Development’, Technical Advisory Paper II in Capacity Development Resource Book.

3.1.4 Approaches must take into account different cultural and societal contexts, as introducing external practices into these environments will not always be successful. Donors should not be tempted to bypass what they perceive as weak government capacity, as this will undercut the long-term strategy of developing capable organisations. Other problems faced by capacity building activities relate to the turnover of counterpart staff, and the mobility of people being ‘trained’. It is important that FICs and donors take into account and plan for these circumstances, and allow for issues such as counterpart staff turnover and availability.

FICs need to develop strong policy frameworks for capacity building and the effective delivery of aid activities. This may include national human resource/capacity building strategies.

3.1.5 There is less agreement on how to evaluate capacity building, and how to measure impacts and performance improvement. Capacity building can be delivered in a variety of ways, so there is also no consensus on the most effective or appropriate forms of delivery. Good capacity building will often be a mixture of different strategies and approaches. Some of these are described below.

3.2 Effectiveness of Capacity Building

3.2.1 The ADB has found that capacity building in their Pacific program has often been done on an ad-hoc basis. This can be traced back to inadequacies in the design coupled with a lack of structure during implementation. The existence of ‘overwhelming’ needs and lack of clarity in project terms of reference have also led to poor results. In one TA example, it was recognized that training on leadership and communication skills, and understanding reform dynamism were the priority; however, there was no methodical approach to delivering the training to the intended beneficiaries. In this case, more time and resources could have been devoted to the mentoring and training roles, to better equip the counterparts¹⁵.

3.2.2 Both the ADB and AusAID regard the continuing presence and availability of counterparts as essential to effective capacity building. The ADB considers lack of counterpart resources as a ‘chronic’ problem in the Pacific with regard to developing institutional capacity. Staff turnover, absences and the lack of policies to retain qualified and experienced staff are mentioned. AusAID see the counterpart availability issue as the key question for FICs to address to ensure sustainability¹⁶. This is a real problem for many Pacific island states as, due to the limited size of the public sector, there are very few well-trained counterparts. These people, too, are often involved in several different donor activities at any one time, along with their normal duties. Other studies of aid effectiveness point out that the single most important factor in success of projects is the commitment of counterpart resources, particularly personnel and recurrent budgets, to

¹⁵ Asian Development Bank ‘*Lessons from ADB’s experience in the Pacific*’, unpublished p 3

¹⁶ AusAID ‘*Capacity Building in Public Finance: an evaluation of activities in the South Pacific*’, Evaluation and Review Series No.36 September 2004 p 14

project objectives and project activities¹⁷. To a certain extent, the renewed focus on capacity building of organisations, work units and changing systems and procedures rather than individuals will help address some of these concerns.

In general, aid projects with capacity building as a key element should include organisational analysis, needs assessments/skills audits and a human resource development plan that incorporates the most appropriate and cost-effective delivery methods.

3.2.3 There still remains the problem of adequate financial or recurrent budget resources. This is as much a problem for human capital activities as it is for construction of infrastructure. Advisers working with multiple counterparts can be an effective method that minimises the impact of staff turnover and short-term absences. From a recipient government perspective, increasing multi-skilling of staff and encouraging inter-agency cooperation are also effective strategies to broaden the scope of capacity building and its impacts. Good human resource development policies, workplace support and suitable provision for taking part in training and other forms of capacity building are also helpful.

Counterpart resources and enabling environments are crucial for effective delivery of aid programs. FICs and donors need to ensure that personnel and financial commitments are adequate, available and appropriate.

3.2.4 The combination, timing, and sequence of donor assistance for capacity building has to be demand-driven. The absorptive capacity of counterpart organisations needs to be taken into account, and the scheduling of activities depends on staff availability. Capacity building choices should not be determined by donor preferences, or driven by the availability of funds or TA. For example, the ADB believes there should be a medium-term strategy for building institutional capacity involving continuous assistance to the recipient organisation. This can be coupled with interim milestones (targets to be attained through individual TAs) acknowledging institutional conditions and implementation and absorptive capacity¹⁸. Building the capacity of an organisation will depend on the capacities of individuals to develop new skills, acquire knowledge, then implement and sustain change.

Capacity building activities need to be implemented in accordance with a medium to long-term goal. Assistance should be at an appropriate level and not over-burden the recipient organisation. Multi-year commitments from donors should be considered.

3.2.5 Studies of capacity building highlight the role of senior management within the recipient organisation. A number of donors talk about finding reform ‘champions’ to provide leadership for reform activities, and to provide a focal point for ‘ownership’ of any aid-funded activities. Internal politics, the lack of coordination, and even rivalry, between government agencies are often cited as a reason for the poor performance of

¹⁷ AusAID ‘*The Impact of Australian Aid to Thailand*’ forthcoming

¹⁸ Asian Development Bank ‘*Lessons from ADB’s experience in the Pacific*’, unpublished p 3

some aid projects. Whether or not these views are valid, what is certain is that effectiveness is improved through a whole of government commitment to the project objectives by the recipient government.

FIC leadership of reforms and associated capacity building is crucial. Local ownership of the change agenda, processes and outcomes is essential.

3.2.6 Organisational reform will require considerable changes to structure, work practices and policy and procedures. In some cases, legislative change is also required. It is essential that capacity building takes place in an environment that is conducive to change, that the goals and objectives are agreed and owned by the recipient government, and that individual activities receive high level support. The success of organisational capacity building depends on an agency having a clear vision of its own future¹⁹.

Aid projects that assist an agency to both define (if needed) and achieve this vision are more likely to succeed. These visions need to be linked closely to a national program or planning framework.

3.2.7 Capacity building by aid donors usually targets the public sector. The role of the private sector in development, and how capacity building of privately owned or non-government services can help achieve goals such as poverty reduction is not properly addressed in most donor strategies, or in national development plans. The use of incentives to promote change is also not well understood or utilised in many capacity building activities. Incentives can set up parallel or extra-governmental procedures that undermine other efforts at improving agency performance.

Incentives should be used cautiously and, wherever possible, be aligned with local practices and cultural sensitivities.

3.2.8 Some possible incentives include recognition of performance improvement, organisational change that results in improved career paths, better working conditions (office equipment, refurbishing) and more transparent and accountable procedures for recruitment and selection.

3.3 Capacity Building In Practice

3.3.1 As noted in the previous section, the choice of delivery mechanism can often determine the success or otherwise of an aid activity. With capacity building, there exists a range of 'tools' from which donors and recipients can choose. In many cases, aid programs are implemented using a combination of these approaches.

¹⁹ AusAID 'Capacity Building in Public Finance: an evaluation of activities in the South Pacific', Evaluation and Review Series No.36 September 2004 p 11

Capacity building will utilise a mixture of different approaches and processes. Good capacity building will be tailored for different circumstances, but will always be demand-driven.

Technical Assistance (TA)

3.3.2 This covers the use of advisers who are engaged for a specific purpose either as individuals or as part of a larger project or intervention. Advisers can be assigned to work with a counterpart (or preferably a group of counterparts) from the recipient organisation or can operate ‘in line’. In the period following independence, donor support for in line positions was once commonplace in the Pacific, and continued in forms such as the Australian ASAS until the 1990s. TA provided through projects and programs gradually replaced in line positions. Recently, through the RAMSI and ECP interventions, Australia has once again supplied in line staff – in these cases they are mostly staff from equivalent public sector agencies in a State or the Commonwealth government.

3.3.3 In line staff have a different role to that of advisers. Usually there is less emphasis on capacity building of counterparts, although this can still take place. Depending on how the positions are implemented, there is scope for organisational capacity building, however it seems that the current objectives of most RAMSI and ECP in line personnel do not give this a high priority. Sometimes, however, that in line personnel are sometimes better integrated into the organisation than ‘project’ advisers. The establishment of separate management arrangements (and sometimes physically separate offices) for a donor-funded project or program can reduce the effectiveness of any intervention. In both cases, however, evidence suggests that counterpart ownership of the TA and substantial involvement in design, implementation and management is crucial for success.

3.3.4 For both in line and project TA, the reporting arrangements and supervisory responsibilities are important. In line positions are, by definition, part of the recipient organisation’s hierarchy. Advisers will report directly to the head of an agency or their delegate. Project TA is more complex: in many cases a separate management structure with representatives from the agency, the donor and sometimes the contracting firm overseeing the work of advisers. This can make giving and receiving direction more difficult for the organisation and the adviser, and there is often less ‘control’ of the day-to-day work of project personnel. However, merely changing an organisation chart will not solve the inherent conflict that arises when an adviser may report on paper to the head of the agency but is still sub-contracted through a consulting firm that is itself contracted to a donor. Donor-funded in line positions may also suffer from this conflict. To address this issue, donors such as Australia are trialling tripartite contracting arrangements, however the results of these are not yet widely available. Activities funded under the PSIF in Samoa (see Case Study B in Annex 1) will, however, be contracted through Samoan government agencies. Advisers on these projects will have a reporting and contractual relationship with the head of the agency they are working in.

Technical advisers should, wherever possible, be contracted directly to the organisation where they are working. The reporting arrangements should involve an appropriate senior manager with responsibility for the aid activity.

3.3.5 A recent evaluation of five projects in the Pacific by AusAID found that the most successful advisers had well developed interpersonal skills, a good level of technical expertise, problem solving ability, organisational development skills, cultural sensitivity, flexibility and patience and experience in government²⁰. A report produced for RAMSI²¹ noted that advisers need to work with and support existing systems and processes, and not introduce inappropriate methods of working, that an overall capacity building framework is required, and that advisers need to respect local cultures and values (see Case Study D – RAMSI in Annex 2).

3.3.6 The ADB has examined the use of consultants in the Pacific²², and found that ‘staff development’ received less than desirable attention in advisers’ terms of reference, and there were weaknesses in the approaches taken to capacity building generally, which reduced project effectiveness. In the past, technical knowledge has been favoured at the expense of skills transfer. The ADB has recommended that training needs of counterparts be identified earlier, greater emphasis be placed on capacity building in assignments and projects and programs be flexible enough to adapt to changing circumstances.

Selection and recruitment of technical advisers should be undertaken with full involvement of the recipient government. Advisers need to have capacity building skills as well as technical knowledge.

Training Courses/Short Courses

3.3.7 Generally, these are used to deliver specific technical knowledge or skills. They can be delivered cost-effectively either in-country or on a regional basis. Participants are not absent from their work environment for a long period. The more formal nature of short courses means they are more easily recognised as ‘training’ when compared with on the job alternatives, and they are highly popular with counterparts.

For greatest effectiveness, training courses need to be relevant to the counterparts’ workplace, the needs of participants and should be followed up with reinforcement training in the office, using TA or other methods, to ensure that the training continues to meet the needs of the organisation.

²⁰ AusAID ‘*Capacity Building in Public Finance: an evaluation of activities in the South Pacific*’, Evaluation and Review Series No.36 September 2004

²¹ Solomon Islands Government/Solomon Islands Intervention Task Force ‘*A Review Report on the First Year Performance of the Regional Assistance Mission to Solomon Islands (RAMSI) 24 July 2003 to 23 July 2004*’, unpublished

²² Asian Development Bank ‘*Lessons from ADB’s experience in the Pacific*’, unpublished

3.3.8 Ideally, training will take place within the context of an overall capacity building plan for the agency, which itself is consistent with national human resource development goals and objectives (see above).

Training of Trainers (TOT)

3.3.9 Sometimes referred to as ‘cascade’ training, this process undertakes to build a group of counterparts who are able to conduct future training, either on the job or through formal short courses. Counterparts are identified with the correct mix of skills and teaching ability, and trained in the design and delivery of a range of training courses that they are expected to deliver. Ideally, the principles of training are imparted so that this group will form a ‘critical mass’ of training expertise within the recipient organisation. In the Pacific, the economies of scale and the small size of many government agencies will preclude the development of a dedicated training function. As an alternative, government training centres have been established where general trainers work with donor-funded technical specialists or government personnel to deliver training. These trainers conduct training needs analyses, and can design and deliver a range of courses.

Training of trainers should be considered to improve the sustainability of capacity building outcomes. Using existing training personnel and facilities will reduce the recurrent resource and cost burden for the recipient country.

On the Job Training (OJT)

3.3.10 Most advisers are involved in work-based learning for their counterparts. On the job training (as it is frequently called) is considered one of the most effective adult learning methodologies. The AusAID evaluation noted that it was the most effective form of capacity building in the five projects under review. Unfortunately it does not receive the recognition afforded to other types of training and skills transfer. Recipient organisations, individuals and to some extent donors place a higher value on formal training courses and recognised qualifications. Monitoring and evaluation of aid programs often does not take into account on the job training, and many projects do not have an adequate means of measuring its effectiveness and results.

3.3.11 In Samoa, one donor-funded project did provide recognition of on the job training, which raised the status of this form of learning. The adviser and counterpart developed Counterpart Learning Agreements, with progress and outcomes that could be monitored by the head of the agency²³. It is also possible for the results of on the job training to be included in agreed work plans for advisers and counterparts, and to set measurable goals and objectives.

²³ AusAID ‘*Capacity Building in Public Finance: an evaluation of activities in the South Pacific*’, Evaluation and Review Series No.36 September 2004

On the job training should be structured as much as possible, with appropriate management, monitoring and evaluation processes in place. All training needs to be consistent with organisational and national capacity building goals and strategies.

3.3.12 In practice, on the job training appears to work best when it is delivered in this manner, and there is full ownership of the objectives by the recipient organisation. Also important to effectiveness are a good understanding of existing skills levels in the organisation, adequate follow up to any training and ensuring that advisers spend an appropriate amount of time with their counterparts – neither too much nor too little.

Mentoring

3.3.13 Mentoring is a component of many technical advisers' work plans. To be effective, the adviser needs to establish a good working relationship with their counterparts, and this needs to continue throughout the project and afterwards if possible. Mentoring is perhaps more useful and applicable as a 'stand alone' tool at the senior management level, where counterparts have access to a senior adviser, or group of advisers, often in a less formal arrangement. This is supported by email and telephone contacts that does not require the adviser to be present in-country for long periods. In the Pacific, consideration can also be given to developing a regional 'peer network', based around existing regional meetings, programs or organisations. These peer networks could provide a forum for discussion of matters of mutual importance and to compare development experiences.

Mentoring approaches should be a part of all technical assistance, as they enhance sustainability. They are a suitable means of capacity building for senior managers, and consideration should be given to developing bilateral and regional peer networks as part of some aid activities.

Work Placements

3.3.14 Secondment of staff to other agencies either domestically or abroad can be a useful capacity building exercise. In the Pacific, this will usually mean a work placement in either Australia or New Zealand, with associated higher costs. Participants have an opportunity to acquire new skills and see how similar work is done in other organisations. Effective work placements are characterised by good participant selection, a well-defined program and the presence of advisory support.

3.3.15 The placement of personnel from smaller island countries in equivalent organisations in countries such as Samoa and Fiji has not been fully explored by donors or Pacific island governments. This may be a more appropriate and cost effective type of placement in fields such as finance and planning, education and health that are common to all countries. Exchanges of personnel under these circumstances are consistent with the goals of increasing regional cooperation and integration.

Study Tours

3.3.16 Exposure to the practices of other organisations is also the objective of study tours. Again, the selection of participants is vital to ensure that appropriate personnel are included, and that they are in a position to apply their knowledge on return. Likewise, consideration should be given to visits to other countries in the region.

FICs, donors and regional organisations should examine the use of exchange programs, work placements and study tours within the region for staff development purposes.

Twinning Arrangements

3.3.17 Links between government organisations in the Pacific region are already well established. Regional meetings of senior officials are held regularly in the legal sector, for finance officials, heads of police and customs agencies, electoral officers and others. Twinning arrangements emerge from the development of bilateral links between equivalent bodies in developed and developing countries (as a result of government initiatives or aid projects), or could build on the existing network of Pacific regional members. One of the disadvantages of twinning is the promotion of one type of institutional structure, which may be inappropriate as a model in the recipient country. However the use of twinning in conjunction with other capacity building could overcome this problem.

3.3.18 Twinning is anticipated as an outcome from the whole of government approach being encouraged by some donors, however to date this has tended to be one-way in nature with the donor country supplying advisers, rather than a truly reciprocal arrangement. As well as immediate regional and policy issues, twinning programs could cover more technical matters, support exchanges of staff and other forms of capacity building and so on.

As part of a sustainable approach to capacity building, donors should consider supporting twinning arrangements either bilaterally or through regional forums and organisations.

Scholarships

3.3.19 Donors have provided scholarships to the region for many decades, since the days of the Colombo Plan in the 1950s. This form of training is still a significant component of many bilateral programs, and represents a large annual 'cost' in relation to the overall level of aid. Scholarships include tuition fees and living allowances, almost all of which is expended in a third country. Donors and FICs have encouraged the use of in-region scholarships to institutions such as USP that provide better value for money, and enable more awards to be made each year. Areas of study are usually linked to the development priorities of the government, but awarding of scholarships is not usually linked to any national human resource or capacity building plan. There are bonding arrangements in place that encourage recipients to return home after graduation, however these are not always successful.

3.3.20 It is well recognised that tertiary qualifications make individuals more mobile and this can add to the drain of qualified people from the Pacific region. Scholarships have also been accused of taking project counterparts away from the workplace during key implementation periods. The length of scholarships also means that returns are often longer-term in nature.

The use of scholarships in capacity building programs should be considered, however there are usually lower cost alternatives available.

Other Assistance

3.3.21 While capacity building concentrates on the development of human capital, aid activities can provide equipment (such as computer and software systems) related to the work of advisers or the topic of training courses. The provision of some equipment by itself is often ineffective without training in its use and maintenance. Donor-funded capacity building can include some services that organisations would not normally undertake, such as research and policy studies. As is the case with all forms of assistance discussed in this section, involvement of counterparts in the planning and management of these initiatives is recommended.

3.3.22 The development of manuals is often an element of organisational capacity building. The reality is, however, that many operational manuals developed by aid projects are never used following completion of the project. Again, relevance and ownership are important concepts in implementing changes to work procedures.

Manuals should not be seen as an 'end product' but as a result of processes being worked through during the capacity building activity or project. Counterparts should be writing manuals – they should not just be prepared by advisers or adapted from elsewhere.

3.3.23 Many Pacific island countries make use of donor-funded volunteer programs. Volunteers are sometimes attached to government agencies, but can also work in community, with NGOs or the private sector. They take on a TA role, however the success or otherwise of these programs has never been fully examined. Countries receive volunteers in addition to their bilateral programs, and counterpart agencies are not always involved in programming, selection and allocation. Monitoring of performance is often minimal.

Volunteers, like technical advisers, should be programmed and assigned according to national development priorities and human resource needs.

3.3.24 Volunteers come from countries such as Australia (AVI, ABV and AYAD), New Zealand, the United Kingdom, Japan (JOCV) and the United States (Peace Corps). The United Nations also manages a program of volunteers. Australia also has a middle-level staffing program (PACTAF) that provides advisers outside regular project parameters.

3.4 The Costs of Technical Assistance

3.4.1 It is very difficult to determine the real costs of Technical Assistance in relation to overall aid flows. This is a very sensitive issue for the internal politics of donor and recipient, and is not just about the effectiveness of aid. There are also commercial sensitivities regarding the costs of programs and consultancy fees paid to contractors.

3.4.2 Both donors and recipients want to maximise the effect of aid, and for FIC governments this means also maximising the amount available for use in aid programs. Donors through the OECD/DAC have stated that ‘untying’ of aid is a means to increasing efficiency and effectiveness, although implementation of this principle has been slow. Even fewer donors have active policies that promote the use of local goods and services in their aid programs. Certainly, many project purchases are made locally, but only the EU has adopted a formal set of principles (included in the Cotonou Agreement) that encourages the use of developing country personnel and companies, and the establishment of a register of consultancy firms and expertise. UNDP will field TA only when there is no local capacity – they cite three steps for decision-making: national resident, national outside of country, then expatriate.

3.4.3 Recipient country concerns about the costs and use of external TA are expressed regularly. Governments are generally consulted at the design stage of the activity cycle, but few national planning agencies have either the resources or expertise to fully appraise designs, or to suggest major amendments or alternative approaches. As several national planning agencies noted, the use of technical assistance is determined by the donor, and there are no limits as to how many people or advisers can be employed in an aid project or program. No FIC has a written policy on the use of technical assistance. Many project costs are frequently not disclosed, even to recipients. Partly this is due to commercial arrangements with contractors mentioned above, however some other TA costs are absorbed elsewhere in the project’s costing schedule, and are not fully apparent.

3.4.4 Due to the ‘tied aid’ policies of donors, many consultants and experts from the Pacific region have found it difficult to be involved as technical advisers in donor-funded programs. Although this situation is changing, and some donors now actively seek participation from nationals of the region. However there are considerable costs involved in preparing project bids and tenders, and as yet there are no established networks of firms or individuals that have the capacity to regularly win projects. In the first instance, the creation and maintenance of a Pacific regional or country based database of expertise would assist donor agencies to recruit individuals on an ad hoc basis, and donors could consider reducing the barriers to participation inherent in their tendering and contracting processes.

Donors should adopt policies that encourage the use of Pacific firms and consultants in aid programs. FICs and donors should endeavour to contract and purchase in country or in region wherever possible, and to develop a register of regional suppliers.

3.4.5 An analysis of Pacific island countries' budgets, where there is a split between aid received directly ('cash') and that received 'in kind', offer clues as to the proportion of aid funds used for TA. It must be remembered that 'in kind' items represent an estimate only, as they are not processed by the government system. Also, many separate development budgets are not made up exclusively of donor funds, but include domestic expenditure. In Kiribati in 2004 the budget papers estimated that 'in kind' contributions made up just over 50 per cent of the overall development budget funded by donors. There is a similar estimate from Tonga, although not all 'in kind' contributions were disclosed by donors. In the Solomon Islands for 2005, 'in kind' contributions made up 38 per cent of total ODA receipts²⁴, while in Samoa, the estimate was up to 90 per cent. This means that a significant proportion of donor funds are spent offshore, used for external TA, other consulting services, purchase of goods and miscellaneous items such as scholarships.

3.4.6 A brief analysis of project designs and the budget papers indicates that the proportion (and therefore the total costs) of TA varies between types of projects. Infrastructure and construction projects tend to use less TA. This is not just because project funds are used primarily for purchase of materials and labour for construction - most FICs have effective works and contract supervision agencies within government or available in the private sector. In construction, external TA may only be used for a supervising contractor or architect, for example which is a small proportion of total project costs. Other locally expended infrastructure and construction funds go through the national budget and are subject to government contracting procedures. Grant funds are similarly managed. Even in a country the size of Kiribati there is substantial use of local firms and suppliers, as well as local labour. As noted previously, governments are interested in maximising use of funds locally, not just to support and utilise existing systems, but because there are substantial flow-on benefits for the local economy.

3.4.7 Capacity building projects, in comparison, tend to have a large proportion devoted to external TA – as much as 80 per cent of total project costs in some cases. By definition, these projects provide TA that is not available in the country concerned, however the reliance on external TA could be at the expense of other capacity building approaches (see above). These other approaches may be more cost-effective. Evaluations of capacity building projects point out that a mixture of approaches works best, and in some sectors supply of equipment and using alternative forms of training have improved project performance, and have been a means of gaining the support of counterparts²⁵. For scholarships the comparable figure for offshore costs is 100 per cent, although from an investment perspective it is assumed that the individual recipient will eventually return to the country of origin.

²⁴ Kiribati Government '2005 Budget' December 2004 and Solomon Islands Government 'Year 2005 Approved Development Estimates'

²⁵ AusAID 'Summary of Reviews and Evaluations January 2003 - June 2004', Office of Review and Evaluation - forthcoming

The appraisal of projects and program designs by FICs should include an analysis of value for money and consideration of alternatives to external technical assistance. FICs should develop policies on the use of technical assistance in aid programs, and these should be coupled with similar policies on local purchasing and contracting of services.

3.4.8 The high costs of TA have some unintended consequences. External advisers are paid much more than their local counterparts, and this can cause some resentment. Advisers often arrive in a poorly equipped office bringing their own computer, mobile phone and vehicle. While good working relationships are the norm rather than the exception, any resentment is probably highest when the quality of TA is poor, or when advisers are engaged on activities that are not high priority or particularly relevant to the counterpart agency. Other counterparts may resent the ‘dependency’ aspects of the aid transaction or the lack of cultural sensitivity of advisers (see Case Study D – RAMSI in Annex 2).

3.4.9 From an economic point of view, external TA carries a considerable opportunity cost for the recipient government. A study of the ECP in Papua New Guinea suggests that under a cost-benefit analysis, some TA might be poorly directed, and not in keeping with national priorities. The cost of 300 advisers under ECP in one year is compared to the equivalent of providing a full year’s education for 700,000 school children²⁶. While there are no direct costs to PNG (the ECP is grant-funded), it is clear that the TA will have to provide an equal development return to the Australian and PNG governments compared with investments in the health, transport and education sectors. Similarly, donor funds used for high cost of overseas scholarships might be better invested in basic education at home. It is clear that cost-effectiveness is not always a major consideration in designing aid projects, for whatever reason.

²⁶ Sugden, Craig ‘Putting the Enhanced Cooperation Package to the Test’, Pacific Economic Bulletin Vol 19 No.1 2004 p 69

4. Recommendations and Some General Principles for More Effective Aid

4.1 The general principles and recommendations listed below are linked to those in the *Paris Declaration*, and contain the results and lessons learned from aid programs in the Pacific highlighted in this paper (see also the consolidated list at Annex 8). They are meant as a guide for further discussion within the region about improving the effectiveness of aid and its management.

4.2 Recommendations are made with respect to the role of PIFS in improving aid management and performance under the Pacific Plan and through regional arrangements. Most of the other recommendations relate to FICs and donors for consideration under bilateral aid programs.

Regional

4.3 PIFS should coordinate the adoption of a set of guiding principles for more effective aid in the region. These should be consistent with international standards for development cooperation.

4.4 PIFS should take the lead in improving aid effectiveness across regional programs and those implemented via regional organisations.

4.5 PIFS should, in particular, assist small island states to improve their capacity implement effective aid programs, including assisting with donor negotiations, management, monitoring and evaluation.

Donor Development Policies

4.6 Donors' development strategies and country programs should recognise and be aligned with stated plans and priorities of the FICs.

4.7 Donors should aim to provide FICs with multi-year or otherwise more predictable levels of aid to assist in national planning and budgeting.

4.8 The strengthening of FICs' capacity to plan, manage and monitor/evaluate aid programs should be a priority for donors and FIC governments.

4.9 Wherever possible, FIC institutions, budgets, systems and procedures should be used to deliver aid interventions. Parallel or separate management of aid projects should be avoided. National planning agencies and government systems should not be by-passed.

4.10 Procurement of goods and services should be untied, and as many funds as possible expended in the country or in the Pacific region.

4.11 Donors should support the creation of regional and national databases of consultants, firms and other expertise for use in delivering aid programs.

FIC Development Policies

4.12 FICs should exercise proper ownership and control of aid negotiations, and in key decisions affecting direction, type and implementation of aid programs.

4.13 FICs should have appropriate national and sectoral development plans, be able to identify development priorities and conduct negotiations with donors. These plans should be developed in consultation with the community, including civil society and the private sector.

4.14 FICs should take the lead in the design, implementation and monitoring of aid programs and projects.

4.15 FICs should have reliable, accountable and efficient management and monitoring systems for aid expenditure.

4.16 Counterpart agencies and institutions will provide an appropriate level of resources (both financial and human) to assist in the implementation of aid programs.

Harmonisation and Coordination

4.17 Donors should continue to work towards joint programming, implementation and monitoring approaches, particularly for small island states in the region. Harmonisation efforts need to fully involve the FIC government in setting the priorities and parameters for aid coordination.

4.18 FICs and donors should move towards sectoral approaches and joint funding arrangements, including in countries and sectors with limited existing capacity.

4.19 Annual multi-donor planning meetings, chaired by the FIC government, are recommended where coordination, programming and implementation issues can be resolved.

4.20 The notion of using 'lead donors' in sectors (or at the national level for small island states) should be explored.

4.21 Common reporting arrangements should be introduced for all donors, using agreed performance frameworks and targets/indicators.

Activity Implementation

4.22 Donor-funded programs will, wherever possible, use existing FIC government budget, management and organisational structures during implementation.

4.23 The form of aid chosen will be agreed with the FIC government, and will provide the most cost-effective means of delivery.

4.24 Donors should attempt to reduce the reliance on, and cost of, third party contractors and external technical assistance in the design and delivery of aid programs.

4.25 Contractors and advisers should have payments (and performance milestones) linked to objectives and outputs agreed with the FIC government. There should be transparent measurement of results involving counterparts.

Capacity Building and Technical Assistance

4.26 FICs should endeavour to develop appropriate capacity building policies and/or human resource frameworks, and to maintain and update these through regular capacity building and skills gaps analyses.

4.27 FICs should develop policies on the use of technical assistance in aid programs. This could include a limit on the use of external TA, decision support frameworks for selecting local and external expertise, short-term versus long-term assignments and responsibility for oversight.

4.28 A range of capacity building options should be considered by donors and FICs, and used in the design and implementation of programs, without relying solely on external TA.

4.29 All technical advisers employed through aid programs should have capacity building as their first priority, and be recruited accordingly.

4.30 Counterpart agencies will identify and make available individual or multiple counterparts for technical advisers engaged in capacity building. Other resources will be available as required and agreed with the donor.

4.31 Technical advisers, as individuals or as part of teams, will be responsible to, and report formally to, an appropriate member of the FIC government. Contracts with advisers will reflect this as much as possible.

4.32 Technical advisers should receive briefings on appropriate behaviour and work practices before taking up positions. Advisers should be selected for cross-cultural sensitivity and awareness of different methods of operating.

4.33 Intra-region exchanges and short-term work placements should be considered in the Pacific, particularly for counterparts from small island states.

Monitoring and Evaluation

4.34 Donors and FICs should work towards mutually agreed performance frameworks for their aid programs. Ideally, these should be multi-donor in nature and be able to assess aid effectiveness at the national, sectoral and activity levels.

4.35 FICs should lead the monitoring and evaluation of aid programs and projects. Donors should give priority to strengthening this capacity amongst counterparts.

4.36 The results of evaluations conducted by donors and others should be widely available in the region, so that lessons learned and experiences of other countries can be factored into future aid planning.

Annex 1

Case Studies

Case Study A: Kiribati Education Sector Program

Background

The aim of the Kiribati Education Sector Program (KESP) is to 'contribute to the Government of Kiribati's education sector objectives and strategies of improving access, equity, quality, relevance and cost-effectiveness across the education sector, having regard to the needs of Tarawa and the other outer islands'. The method of delivery used is a Sector Wide Approach (SWAp). KESP is a program that includes a range of activities – construction of seven schools, book production, the development of related in-service training; and the establishment of an educational management information system. A mid term review of the program was carried out in December 2003.

Findings of the Mid Term Review

The review found that the program was successful in achieving the main objectives, however, the original aspiration for a SWAp for education in Kiribati was not realised, in part because of a narrow conceptualisation of a sector approach in the program design and also because of the shift to a conventional project model that occurred during implementation. While KESP was aimed at a more strategic and flexible program of assistance for education in Kiribati, in practice it became a series of loosely connected projects managed by different AMCs under the principal direction of the donor, AusAID.

The review also noted that a major barrier to achieving wider benefits was the inability of the donor to consider the status of Kiribati's National Development Strategy, the education strategy that forms part of this and the government's planning and budget process. There was a failure to make more use of government systems, combined with an inability to provide the sector/AMCs with a predictable flow of funds. It is clear that if assistance from Australia had been channelled through counterpart systems in support of educational priorities, the benefits for Kiribati and the region would be far greater than those achieved through the donor/AMC-led project mode of delivery. This mode of delivery increased transaction costs for all parties, led to a spending bias (e.g. effectively tying the bulk of the aid to Australian suppliers), ignored cross-sectoral problems, marginalised counterpart systems, led to uncertainty regarding donor resources, limited impact and sustainability and undermined domestic accountability for providing education services to its citizens.

Sector and program approaches can be very effective means of delivering assistance in areas such as education. The aim of these approaches (and to a certain extent, all donor funding) should be to shift the centre of gravity in aid away from donors and towards the government and its people. The review recommended that AusAID and the government work together to assess the merits of alternative educational aid delivery mechanisms, especially program aid. This assessment should emphasise mechanisms that will strengthen counterpart leadership of the sector, eliminate parallel processes, fully harmonise donor interventions in sectors such as education, remove overlaps, duplication of effort and uncoordinated activities, ensure a predictable flow of aid funds for the sector, and promote unity of direction and purpose.

Aid Effectiveness

The program did not have ownership of leadership by the counterparts. For the next phase, however, AusAID is providing assistance to develop and implement the Ministry operational plan. By not using counterpart systems, and with multiple contractors, there was an increase in the management workload for the Ministry. Other donors were not involved in the original sector approach, although this is likely to be addressed in the next phase where AusAID and NZAID are examining cooperation in both the education sector and the wider country program. As implemented in the first phase, the immediate project outputs may have been achieved in the short-term, but broader goals were not achieved and sustainability was not addressed.

Source: KESP Mid Term Review

Case Study B: Public Sector Improvement Facility (Samoa)

Background

The PSIF is designed to provide a flexible and responsive mechanism for supporting a program of public sector reform-oriented governance activities. The Facility builds on the experience of previous Institutional Strengthening Programs (ISPs) funded by Australia and New Zealand. It will be funded jointly by AusAID and NZAID, with a single management structure located within the Government of Samoa. The Facility commenced in March 2005.

Ownership

Critical to the success of PSIF is the development of an activity planning cycle that can manage a set of core activities and respond to requests for short-term assistance. Facility management must be cost-effective and fulfil the wish of the government, AusAID and NZAID that PSIF will be managed solely by the Government of Samoa. The decision-making bodies that control decisions on expenditure have Samoan leadership, and technical assistance for the facility itself will be phased out within 2 years. PSIF will not create unnecessary administrative burdens or costs and will be harmonised with standard government procedures and use existing systems, including sub-contracting and recruitment of technical advisers.

Management and Operations

The Facility Steering Committee, representing a range of Samoan government agencies and stakeholders, makes operational decisions about activities. Strategic and policy oversight is provided by a Facility Coordinating Committee with donor representation. NZAID and AusAID funds are 'pooled' into an account managed by the government.. Funds will be expended through the Samoan government system. Facility counterparts are located in the Facility Management Unit, based in the Ministry of the Prime Minister, and are full time public servants. A Review Group will be established within the Treasury to provide independent appraisal, monitoring and evaluation of activities. The FMU and Review Group will be supported by external TA (with the aim of capacity building) during the first phase only, after which they will manage the Facility alone. It is expected that NZAID, AusAID and other donors will continue to contribute operational funds for activities under the second and any subsequent phases.

Aid Effectiveness

The PSIF combines the experiences of several previous capacity building programs in Samoa. It also takes into account the principles of aid effectiveness and sustainability outlined by the OECD/DAC and the results of recent project evaluations. The design of the Facility ensures that activities will match the priorities of the recipient government, and will be implemented in a manner appropriate to the agency or agencies involved. There is even an element of contestability within the counterpart government for access to activity funding, which introduces the idea of incentives. There is Samoan ownership and participation in managing the Facility, and in design, implementation and contracting. The Facility will be transferred entirely after a short handover period. Donor coordination between Australia and New Zealand is a feature, and there is the prospect that once systems are in place, other donors may also want to contribute. As well as supporting governance activities, the Facility will be incorporated into regular government operations, thus further strengthening domestic systems.

Source: PSIF Facility Design Document and Annexes (AusAID and NZAID)

Case Study C: Pacific Financial Technical Assistance Centre (IMF)

Background

PFTAC was established in 1993 by UNDP and the IMF to implement a regional project. The Centre is now funded by a group of donors including IMF, UNDP, ADB, AusAID, NZAID and PIFS. The establishment of the Centre was in response to a perceived lack of skills and institutional capacity to formulate and implement fiscal and economic policies. While TA had been provided in the past, it had been difficult to provide long-term and sustained assistance across a range of Pacific island countries.

Operations

PFTAC has scope for providing bilateral assistance as well as support for regional policy initiatives and agreements. The Centre's permanent presence allows for continuity of advice and the development of working relationships with national counterparts. The IMF ensures that advice provided is timely, consistent and of a high quality – as a multilateral body, the IMF can engage with member states on sensitive issues more effectively than bilateral donors. PFTAC has a work plan that is flexible and can respond to changing priorities, and can provide advice in an appropriate form. This can involve a range of delivery methods. The regional approach results in economies of scale in both management and operations. The joint funding from five donors has advantages for donor coordination and harmonisation, and consistency in delivery for recipient governments.

Performance

The second half of 2004 saw the completion of an external review of the Centre by the Tripartite Review Committee (TPRC). The external review found that PFTAC 'has played a positive role in the region and is appreciated by the participating countries, regional bodies, donor agencies and other stakeholders.' While 'PFTAC is well integrated within the region and fills a niche that cannot be filled by other projects. PFTAC's activities are of high professional quality and are timely, appropriate and well executed.' However, the report did recommend a number of improvements in strategic planning, governance and reporting and additional funding is required to expand PFTAC's capability in some areas.

Aid Effectiveness

While the executing agency is the IMF, PFTAC's activities are determined by Pacific island country priorities. The Centre responds to requests from governments and is demand-driven. The Centre is a good example of donor coordination and in reducing duplication, as recipient governments have a single point of contact for technical assistance on matters of financial and economic management. The regional approach adds an element of cost-effectiveness for specialised technical advice. For example, the Centre can provide high quality advice for all members, including small island states, on an ongoing basis without the need to establish a new project or recruit additional TA. Pacific island countries, with their small public sectors, are not able to retain (or afford) the kind of specialist advice that is available through PFTAC. The issue of sustainability is more problematic – the very reasons that make PFTAC effective also mean that the region has a continuing need for technical assistance, which at present is supplied by donors. It is debatable whether Pacific island countries will be able to support a facility such as PFTAC without access to donor funds.

Source: PFTAC Project Document 2002-04 and Six-Month Report Jul-Dec 2004

Case Study D: Regional Assistance Mission to Solomon Islands (RAMSI)

Background

The mandate of RAMSI is to address the law and order problem and help rebuild the economy of Solomon Islands. RAMSI was invited by the Solomon Islands government to intervene in four areas: restoring civil order in Honiara and the rest of the country, stabilising government finances, promoting longer-term economic recovery and rebuilding the machinery of government. The Solomon Islands Intervention Task Force undertook a review of the first twelve months of RAMSI operations and presented their findings in November 2004.

Review Results

The review noted considerable successes in all areas of RAMSI's mandate. It said 'the aid donor community appreciated the achievements made by RAMSI in restoring law and order in the country ... they can now deliver and implement their programs more quickly and effectively.' On the issues of technical assistance and capacity building, the review made a number of specific recommendations. These included:

- Priority given to restoring and enhancing (and not replacing) effective local systems and models ... rather than merely importing systems
- Advisers and local counterparts should endeavour to develop further working relationships, and there should be a closer integration of advisers' work within the public service.
- Concrete measures should be implemented to expedite the transfer of knowledge and skills from advisers to their local counterparts and enable them to carry out their tasks beyond RAMSI. This should be part of an overall strategy for capacity building jointly developed and based on an assessment of absorptive capacity.
- Advisers should perform functions in a manner that includes consultation with, and consideration of inputs from, local counterparts, as well as sensitivity to established policies, procedures and protocol ... key functions and decision-making authority should be gradually returned to qualified Solomon Islanders.
- Local counterparts should take responsibility and initiative in guiding the work of advisers, especially in decision-making.
- A consultative mechanism, with appropriate representation from RAMSI, the government and other stakeholders should be established to oversee the civilian component and resolve issues, including the working relationship between advisers and counterparts.

Aid Effectiveness

RAMSI was established as a stabilisation program, and in the first phase, longer-term capacity building and sustainability were not addressed. Stabilisation has been very successful, and it is perhaps time to shift to a more developmental role. There are major concerns about lack of local ownership of aid activities. In addition, many projects were implemented without adequate consultation with counterparts. There is evidence that some agencies have been sidelined from the decision-making process. The use of in line positions does not always involve capacity building. With TA there have been few needs analyses completed, there is no framework for skills transfer or the development of a handover plan. Without such a system, high cost external TA is being recruited without consideration of other capacity building alternatives. The present level and cost of the RAMSI intervention is unsustainable, especially if systems introduced cannot be supported in future by the Solomon Islands.

Source: Solomon Islands Government/Solomon Islands Intervention Task Force 'A Review Report on the First Year Performance of the Regional Assistance Mission to Solomon Islands (RAMSI) 24 July 2003 to 23 July 2004', unpublished

Annex 2

Aid in the Pacific 2005

1. Aid Policies

1.1 In 1976, the South Pacific Forum commissioned a report into the effectiveness of aid in the region²⁷. Amongst the findings of that report were that: most of the countries in the region would continue to require aid for the foreseeable future, there was a tendency for aid to worsen important defects rather than remedying them, aid was ineffective in increasing recipients' self-reliance and there were problems associated with aid staffing, lack of coordination, the impact of aid on recipient governments and an absence of public information and informed debate on aid.

1.2 Over 25 years later, an Australian conservative think-tank, the Centre for Independent Studies, released a report in 2003 by the academic Helen Hughes on the perceived failure of aid to the Pacific²⁸. Professor Hughes makes the point that, per capita, the Pacific receives the highest rate of ODA in the world, and yet the economic and social indicators in the region do not reflect a substantial improvement. She concludes that this is the fault of aid itself, as ODA transfers tend to shield Pacific island governments from making the requisite policy decisions that will result in sustainable, broad-based economic growth.

1.3 The series of reports produced in 1993-96 *Pacific 2010* also made note of the apparent stagnation of growth and development in the region. More significantly, it was pointed out that population growth was exceeding economic growth in most countries, leading to the long term result of a declining quality of life and standards of living. As well, environmental degradation and increasing urbanisation, coupled with poor prospects for agriculture would exacerbate these problems into the 21st century²⁹.

1.4 Despite these concerns, donor interest in the Pacific has remained stable over the last three decades. Aid levels have remained consistent, although from time to time subject to changes in bilateral relationships as well as economic conditions within donor countries. More recently, governance and regional security have become a major foreign policy issue that has affected the level of aid flows. The direction of foreign aid is determined as much by the political and strategic considerations of donors as it is by economic needs and development performance in recipient countries³⁰.

1.5 The major donors in the Pacific continue to be Australia, Japan, the European Union, New Zealand and the Asian Development Bank. Smaller amounts are provided by multilateral agencies such as UNDP and the World Bank. The People's Republic of China and Taiwan also provide some aid contributions. The majority of aid funds are delivered bilaterally, with some provided by the IFIs (also mainly bilateral) and a smaller amount delivered regionally. While the volume of aid to the region has been more or less

²⁷ Pacific Islands Forum Secretariat *'More Effective Aid: A Report to the South Pacific Forum'*, SPEC (76) 11, 1976 unpublished

²⁸ Hughes, Helen *'Aid Has Failed the Pacific'*, Issue Analysis No.33 May 2003 Centre for Independent Studies

²⁹ see Cole, Rodney (ed) *'Pacific 2010: Challenging the Future'* National Centre for Development Studies ANU Canberra 1993

³⁰ Alesina, Alberto and Dollar, David *'Who Gives Foreign Aid to Whom and Why?'* Working Paper 6612 National Bureau of Economic Research, Cambridge June 1998

constant in recent years, the specific use of aid funds has been subject to numerous policy changes and development cooperation trends. These have occurred as part of a global debate on aid, as well as domestic and foreign policy responses within donor countries. The Pacific has tended to be marginal to the global development debate, however this has not prevented donors from applying lessons from other parts of the world.

1.6 The era of decolonisation led to the former colonial powers providing aid funds as part of a transition period, allowing the newly independent countries time and resources to adjust, while providing a continuing presence in terms of their own foreign policy, trade and strategic interests. The Pacific, particularly, was seen as an area of great importance during the Cold War period. The donor community has competing as well as shared interests. While the aim of most development assistance was to improve economic and social conditions, at the same time it provided scope for furthering political, trade and business opportunities. For recipient countries, aid is perceived differently - foreign aid flows provide a number of economic advantages, such as funds for development projects and capital expenditure, covering the costs of foreign technical advisers and grants/loans for budget support that would not normally be available from domestic revenue.

1.7 Aid programs to the Pacific in the 1970s and early 1980s were associated with addressing basic needs (such as health and education), rural development (i.e. agriculture) and facilitating economic growth among island states. Following independence, many Pacific island countries had 'skills gaps' and donors frequently provided technical advisers in specialised areas to assist governments in managing their economies and the delivery of services. Most Pacific island countries had (and continue to have) policies of 'localisation' for government positions, and aid is sometimes used for scholarships or other forms of training to gradually replace these expatriates with competent nationals.

1.8 By the late 1980s and the end of the Cold War, aid funds were being overshadowed in most parts of the world by flows of private capital and foreign direct investment (FDI). The World Bank and other donors promoted private sector development and export-led models of economic growth, based on the experience of East Asia. The failure of other countries to experience broad-based growth was put down to incorrect economic policy settings and institutional weaknesses. As a result, from the early to mid 1990s, donor funds began to be directed more towards supporting 'good governance'. A broad consensus emerged amongst donors that the operation of free markets coupled with improving the performance of key policy making and regulatory institutions would naturally lead to growth and a reduction in poverty.

1.9 This consensus included new strategies for the Pacific, where despite significant structural impediments, distance from markets and a lack of private sector capital, it was considered that the global governance agenda could be applied successfully. Most countries of the region now have substantial donor-funded programs aimed at improving state (and state-owned) institutions. Support for these governance programs involves a significant amount of external technical assistance, as it is less focused on capital works and more on developing capacities, both individual and collective. The Australian

program includes the incentive-based Policy and Management Reform (PMR) fund that provides resources outside the normal bilateral allocation for countries wishing to undertake additional governance activities. Other donors have identified good governance programs, or at least include improving elements of governance as a priority in their bilateral aid.

1.10 In the last few years, the Australian Government has implemented a more interventionist policy regarding aid in parts of the Pacific. RAMSI in the Solomon Islands (2003) and the Enhanced Cooperation Program (ECP) in PNG (from 2004) are manifestations of a more concerted approach to regional security and governance, rather than strictly addressing development problems. The more interventionist approaches have included the Australian Government delivering programs directly, and placing personnel in line positions within recipient countries - this type of aid delivery is sometimes referred to as a 'whole of government approach'. The rapid increase in Australian assistance to Nauru, Solomon Islands and PNG is an exceptional example of both the emphasis on good governance and how donor foreign policy interests affect the direction and level of ODA.

2. Levels of Aid

2.1 As noted, aid levels the Pacific have been maintained and have kept relatively stable over the last 30 years (see Table). The importance of aid in relation to the economy and to government revenues varies from country to country in the region. There are echoes of the colonial era in many donor-recipient relationships. The former US Trust Territories, under the compact arrangements with Washington, receive large amounts of direct aid. Other states such as Kiribati and Tuvalu have access to trust funds, while the Cook Islands, Niue and Tokelau maintain a special funding relationship with New Zealand. PNG also has a special aid relationship with Australia, and for over two decades following independence received substantial budget support funds.

2.2 In the former US Trust Territories and in Kiribati, aid represents a high proportion of total government receipts, which in some cases is equivalent to all other sources of income. For countries such as PNG, Tonga, Samoa and Vanuatu, the ratio is from one quarter to one half of total receipts. In pure revenue terms, aid is of minor importance to larger economies like the Fiji Islands. For the Fiji Islands, aid receipts represent less than 2 per cent of Gross National Income (GNI); this rises to around 8 per cent for PNG and 11-12 per cent for Samoa and Tonga. In Vanuatu and Solomon Islands, aid represents about 20-25 per cent of GNI, while the figures for Micronesia are considerably higher at 40-50 per cent³¹. In terms of ODA received per capita, the countries of the Pacific fall into similar groupings. The Micronesian countries have very high figures of up to and over US \$1,000, Samoa, Vanuatu and Tonga receive around US \$200, and Fiji and PNG less than US \$100 respectively per head per annum.

³¹ Figures from 2000, cited in Secretariat of the Pacific Community *'Pacific Islands Regional Millennium Development Goals Report 2004'*, in conjunction with the UN/CROP MDG Working Group November 2004

Table: ODA Receipts from all sources for Pacific Island Countries (\$US m per annum)

Country/Year	1997	2000	2003	ODA/Domestic Revenue Ratio	ODA/GNI Ratio %	ODA per capita (2002) US\$ per annum
Cook Islands	10.1	4.0	5.8	0.10	N/a	321.7
Fiji Islands	44.5	29.0	51.1	0.07	1.8	65.9
Kiribati	15.7	18.0	18.4	0.87	21.9	217.8
Marshall Islands (RMI)	62.9	57.0	56.5	0.97	48.5	967.5
Micronesia (FSM)	96.0	102.0	114.9	0.70	41.5	1,073.8
Nauru	2.6	4.0	16.1	N/a	N/a	1,599.6
Niue	5.3	3.0	8.9	0.75	N/a	4,977.6
Palau	38.4	39.0	25.5	0.50	27.7	1,333.0
Papua New Guinea	346.4	275.0	220.8	0.25	8.3	42.53
Samoa	27.4	27.0	33.0	0.28	11.7	186.74
Solomon Islands	41.8	68.0	60.2	0.75	23.9	147.2
Tonga	27.6	19.0	27.5	0.46	11.9	281.23
Tuvalu	10.1	4.0	6.2	0.19	14.4	648.5
Vanuatu	27.2	46.0	32.4	0.55	21.0	173.6

Sources: Pacific Islands Forum Secretariat, OECD/DAC Online Statistics, Secretariat of the Pacific Community (PRISM and MDG). Note some comparisons and ratios are based on nearest available year.

2.3 Aid recipients tend to have a limited direct influence on donors' aid policies, and the amount and direction of aid. Donors and recipients do, however, meet formally in bilateral and regional forums, as well as participating in global development conferences such as those sponsored by the OECD, the World Bank and the United Nations. Most recently, in September 2000 Pacific leaders met at the United Nations and affirmed support for the Millennium Development Goals (MDGs) that provide a framework for development cooperation and a set of targets to be achieved by 2015. All Pacific countries have endorsed the MDG targets. The eight MDGs cover the areas of poverty, education, health, gender, environmental sustainability and developing global partnerships. UNDP, other UN and CROP agencies have been assisting Pacific island countries to integrate the MDGs into national development plans. Implementation of the MDGs in the Pacific is monitored through UNDP and the Secretariat of the Pacific Community³².

2.4 There is increasing interest within the donor community for improving the effectiveness of aid programs. In March 2005 the DAC released the *Paris Declaration on Aid Effectiveness*, which followed previous statements on increasing donor harmonisation (Rome February 2003) and a roundtable for managing development programs (Marrakech February 2004). A copy of the *Paris Declaration* is at Annex 4.

2.5 The purpose of the *Paris Declaration* is to 'increase the impact aid has in reducing poverty and inequality, increasing growth, building capacity and accelerating achievement of the MDGs'³³. It covers a range of commitments for recipient countries and donors including increasing ownership, the strengthening of recipients' systems, aligning programs with development priorities, increasing accountability, eliminating duplication and reforming donor policies and procedures. The *Declaration* includes a set of targets against to be achieved by donors and recipients by 2010, to be measured nationally and monitored internationally. The *Paris Declaration* was signed by all major donors to the Pacific, and also by the governments of Fiji, Solomon Islands, Papua New Guinea, and Vanuatu. Within the parameters of the MDGs, the *Paris Declaration* and individual donor policies, however, there remains considerable scope for flexibility and choice for both the donor and the recipient.

3. Donor Approaches to Aid Effectiveness

3.1 The ADB believes that the three key elements of ensuring effective aid in the Pacific region are increasing participation, improving institutional capacity and greater ownership by Pacific Developing Member Countries. Establishing a participatory process requires the support of key individuals who are able to undertake an advocacy role and effectively communicate a clear and simple vision of the reforms needed. The ADB's focus on institutional strengthening is directly related to the low capacity in many Pacific countries. However, the ADB considers that there has not been a sufficient amount of selectivity and specificity in much of their assistance directed to enhancing

³² Secretariat of the Pacific Community 'Pacific Islands Regional Millennium Development Goals Report 2004'

³³ OECD/DAC 'Paris Declaration on Aid Effectiveness' March 2005

institutional capacity. Counterpart turnover has also been identified as a particular issue in the region. The combination, timing, and sequence of assistance (both lending and TA) has sometimes been determined by the immediate needs, or the availability of funds, and other priorities in country programs, rather than from strategic capacity building choices.

3.2 AusAID's Pacific Regional Aid Strategy identifies four key regional themes for Australian aid. These are encouraging stronger broad-based growth; more effective accountable and democratic government; improved law and justice and security; and enhanced service delivery. Within these themes, Australia sees a need to target aid to specific countries through a 'calibrated approach', whereby more assistance will be allocated to the countries of Melanesia, with a greater emphasis placed on capacity building and conflict prevention. Assistance for other parts of the region will continue the focus on governance, and there will be greater donor coordination with New Zealand, particularly for the smaller island states. For Australia, improving aid effectiveness means a stronger 'whole of government' engagement through developing long-term relationships between Australian agencies and their Pacific counterparts, which assists in the strengthening of aid partnerships and joint policy dialogue.

3.3 NZAID is in the process of developing a Strategy for the Pacific Islands Region. A consultation draft paper was released in July 2002. For New Zealand's development cooperation program, poverty reduction is the key outcome, while priority areas for assistance cover a broad spectrum from basic education, primary health, security and justice, sustainable economic growth and livelihoods, youth, community development, sustainable resource use to addressing the related problems of urbanisation and population growth. New Zealand proposes to improve the effectiveness of aid programs through sharpening the country focus, adopting a sector-based approach at the national level, increasing participation in the design, implementation and evaluation of programs, increasing harmonisation and collaboration with other donors (especially AusAID), introducing longer-term commitments within more flexible frameworks, increasing in-country resources to enhance stakeholder engagement, using Pacific islanders more in the program and coordinating more effectively with other elements of the New Zealand Government.

3.4 The European Union has developed a regional strategy along with individual country strategies for most Pacific island countries. The umbrella mechanism for delivery of development assistance from the EU is the Cotonou Agreement. The Cotonou Agreement covers political, trade, development and financial cooperation relationships between the developing countries of Africa, the Caribbean and the Pacific (the ACP countries) and the European Commission over a 20-year period. Participatory approaches are an essential component. Under Title III Article 79 'Technical Cooperation' the Agreement outlines a set of principles to guide implementation of aid programs. These include the aims of developing national and regional manpower resources and the sustained development of institutions. In particular, the strengthening of ACP consulting capabilities is mentioned. Technical cooperation is intended to be cost-effective and relevant to need, indeed will be demand-driven, and will favour the

transfer of expertise. Article 80 also notes that the EU will assist ACP states to reduce the loss, and facilitate the return, of their qualified personnel.

3.5 JICA has three key principles applying to the Japanese aid program: a field-oriented approach, human security and effectiveness, efficiency and speed. Japan's aid to the Pacific focuses building human resources and socio-economic infrastructure and promoting economic growth. Japan maintains a particular interest in natural resource management and environmental conservation, particularly through fisheries assistance. In the area of human resources development, JICA uses volunteers, carries out training programs and supports distance education and information technology. In health, JICA's priorities include addressing infectious diseases, such as polio, malaria, tuberculosis, and filariasis. With respect to the development of socio-economic infrastructure, financial assistance is provided for the construction of roads, harbours, airports, and power and water supply. Associated technical cooperation is extended for the maintenance and operation of such facilities.

3.6 UNDP has a Regional Cooperation Framework for East Asia and the Pacific for the period 2002-06. The three guiding themes for their programs are democratic governance for human development, environment and sustainable development and globalisation and economic governance. UNDP is in the process of establishing a Pacific Development Centre to be based in Suva that will provide policy advice and program support. The priorities for assistance are governance, achieving the MDGs and issues of conflict in the region. Also a high priority will be building capacity for regional integration in support of initiative such as the Pacific Plan.

3.7 The World Bank has few loan programs in the region, apart from support for reform in PNG. The World Bank tends to provide aid in the form of analytical and advisory assistance to most Pacific island countries. Priorities for the World Bank in the East Asia and Pacific region include boosting economic growth, improving livelihoods and reducing poverty.

4. Donor Harmonisation and Coordination

4.1 For many years, there have been calls from recipient countries and from within the donor community for improved and better coordinated aid management. This is known as 'donor harmonisation' and, as noted by the OECD/DAC in the lead up to the *Paris Declaration*, is directly linked to improving aid effectiveness. In a recent study of aid programs and recipients' priorities, it was found that a significant workload falls onto developing countries due to the lack of consistent approaches to managing development funds³⁴. The most frequently reported problems are:

- Lack of consistency between donor activities and national priorities and systems, the setting up of parallel management and difficulties in compliance with donor frameworks;

³⁴ OECD/DAC Task Force on Donor Practices '*Needs Assessment Report: Survey on Partners' Priorities and Perspectives on Harmonising Donor Practices*', October 2002 unpublished

- Donor practices such as procurement policies and ‘tied aid’, and the non-utilisation of local technical assistance, and
- Inconsistency among donors, including the demands placed on local resources for reporting and management.

4.2 Aid programs are essentially bilateral. Recipient countries frequently have to deal with each donor separately. To a certain extent it is accepted by these aid recipients that donors will require delivery systems and reporting arrangements, in order to meet domestic demands for accountability and performance measurement. Many recipients therefore accept the drawbacks of complex aid management – the logic being that any additional work will always be outweighed by the benefits of receiving the aid in question.

4.3 An example of the additional burdens imposed on recipient governments can be found in Kiribati. The Ministry of Education, Youth and Sports administers a recurrent budget of about A\$28 million across 39 outputs (or expenditure items). Despite the concept of a Sector-Wide Approach (SWAp) being introduced to the education sector (see Case Study A – KESP in Annex 1), the development budget for the Ministry includes 51 further items funded by various donors, of which 33 are administered through the government budget system, to the value of about A\$6 million³⁵. In other words, the presence of donor activities more than doubles the workload for the Ministry, before taking into account that each donor will also have separate reporting and monitoring systems.

4.4 Harmonisation is therefore associated with addressing both effectiveness and efficiency. The OECD/DAC Harmonisation Action Plan identifies areas where donors could do more to strengthen recipient government ownership, align processes with those of the recipient, strengthening coordination in the ‘aid sector’ and improving the capacity of governments in management and reporting against aid. Other recommendations discussed include using common procedures between donors, using counterpart systems as much as possible and improving communication. At the policy level, donors are slowly adopting these recommendations. However, a study has noted that while aid agencies may have good policies on harmonisation, at the program management level there are fewer incentives to cooperate³⁶.

4.5 In the Pacific, a workshop was held in 2003³⁷ that highlighted the key principles of donor harmonisation – i.e. commitment to working within national development frameworks, strong consultative mechanisms, good financial systems and the optimal use of local capacity. Australia and New Zealand have embarked on a program to improve donor coordination and harmonisation. This followed a research project in 2000 to ascertain how different donor approaches affected Pacific island countries. A subsequent report produced in 2001 recommended that AusAID and New Zealand adopt a set of

³⁵ Kiribati Government ‘2005 Budget’ December 2004

³⁶ De Renzio, Paulo ‘*Incentives for Harmonisation and Alignment in Aid Agencies*’, Overseas Development Institute, London November 2004

³⁷ PIFS Regional Donor Harmonisation Workshop October 2003 Nadi, Fiji Islands

proposals in areas such as aid policy, programming and operations³⁸. This has subsequently led to single co-funded programs being trialled for Niue and the Cook Islands, and a review mission to investigate this approach being used in Kiribati, which will include a Joint Country Strategy³⁹.

4.6 A Joint Samoa Program Strategy is also being developed in Samoa, where a set of harmonisation principles have been developed, including that the process is led by the Government of Samoa and that both donors will work within national development frameworks and systems. Other elements of the approach include mutual accountability, using clear and simple processes tailored to local circumstances, utilising existing analytic work and working together to address weaknesses in institutional capacity⁴⁰. Within other country programs, AusAID and NZAID are now identifying other areas of cooperation, including joint programming missions, aligning small grants schemes and scholarships, and the joint funding of some activities (for example see Case Study C – PSIF in Annex 1).

4.7 The Australian and New Zealand approach includes the concept of a ‘lead donor’ (although this term is not in widespread use), which has been tried elsewhere with some success, notably in assistance provided to the Palestinian Authority. For example NZAID is the lead donor in Niue and the Cook Islands, while it is expected AusAID will take this role in Kiribati. This decision appears to be based on the volume of aid provided in each case. Other means of determining a lead donor for a sector or country might be to select the donor that works most closely in the relevant higher-level policy and management areas. For example, the ADB fulfilled this role in the Comprehensive Reform Program (CRP) in Vanuatu. The job of the lead donor is to act as the link between the donor agencies and the counterpart on operational issues, and to convene the wider donor grouping, for example when more strategic matters are discussed or programming decisions made.

4.8 The impetus for greater donor harmonisation has come primarily from the donors rather than the recipients. While it will reduce workloads for government, it is driven by the need for donors to reduce their resources devoted to managing country programs. From the recipient government’s perspective, this will result in improved dialogue and better coordination. Even so, the most important and salient issue remains that of ensuring aid programs are aligned with national priorities. Therefore any coordination/harmonisation framework developed by donors must fully involve the recipient government and meet their concerns about appropriateness, reporting and accountability.

³⁸ Australian Government/New Zealand Government ‘*Harmonising Donor Policies and Practices in the Pacific*’, Report of the Joint Australia – New Zealand Research Project January 2001 unpublished

³⁹ Kiribati Government, Australian Government and New Zealand Government ‘*Joint Review of New Zealand and Australia’s Development Cooperation Programs for Kiribati Aide Memoire 7 February 2005*’ unpublished

⁴⁰ Samoa Government, NZAID and AusAID ‘*Joint Samoa Program Strategy – Harmonisation Principles*’ Version 1 2005 unpublished

4.9 Some FICs have annual donor ‘roundtables’ or coordination meetings. Fiji, for example, conducts a joint donor meeting in April/May of each year where all donors are represented. This is more of a coordination meeting than a detailed operational or programming session, as there are still separate bilateral discussions with most donors. All FICs have national planning agencies or a national planning function that is responsible for aid coordination. Naturally, these vary in size and capacity, and in access to resources. More worryingly, perhaps, is that donors sometimes bypass these agencies. This makes it extremely difficult to ensure that aid projects receive the proper scrutiny/approval, are consistent with national priorities and are appropriate to the country and communities concerned.

Annex 3

Forms of Aid

1. Aid is, in economic terms, a net addition to the resources available to the recipient country. The immediate effect of aid is to increase government consumption, and sometimes the size of government⁴¹. As seen above, in some FICs aid is a significant feature of the government budget and the national economy. Recipient governments and donors therefore have a substantial interest in how aid funds are spent, and this has led to a number of different means of delivery, or indeed a combination of these. Different delivery systems can be used to target aid funds to identified areas within a recipient country, and each provides different levels of impact, degrees of accountability and attribution of results.

2. Most projects and programs seek to ‘ earmark ’ aid for specific activities, with funds being expended outside the recipient’s budget processes, and are delivered by specialised contractors and/or consultants. However this distinction between aid funds and domestic revenue is frequently artificial, given that resources are exchangeable or substitutable⁴², and when aid expenditure in one sector can displace existing domestic expenditure. Further, as Tony Hughes laments⁴³, the packaging of aid (including as part of development budgets) often weakens recipients’ fiscal efforts by relieving domestic revenue of responsibility for financing public investment, thereby reducing the effective use of all fiscal resources.

3. **Budget support** funds are grant payments from donors directly into recipients’ consolidated revenue. This is now less common as a delivery mechanism, however is still used in combination with some of the approaches noted below. A recent study suggests, however, that conditional budget support is more effective than project aid where donor and recipient preferences are aligned, and where aid represents a small percentage of the overall budget⁴⁴. The distinction between a more structured budget support program and a true Sector Wide Approach (SWAp – see below) is often quite artificial.

4. **Loans** are provided by IFIs as well as by some bilateral donors. Funds (often on concessional terms) are paid into consolidated revenue for specific purposes. Both budget support and loans are financial transfers from donor to recipient, however loan funds can require a certain level of reporting and monitoring. This is the case with sector or program loans (i.e. those for specific purposes) or loans such as structural adjustment where agreed criteria need to be achieved before further tranches can be paid. Loans have considerable advantages in management and resources for the recipient and donor, as they minimise administrative burdens, are by definition aligned with domestic systems and procedures, and are reported through the normal budget cycle. Disadvantages include the lack of ‘ identity ’ of the funds (with associated accountability issues for donors) and quite often there are delays in the recipient government’s implementation of

⁴¹ Boone, Peter ‘ *Politics and the Effectiveness of Foreign Aid* ’, Working Paper 5308 National Bureau for Economic Research, Cambridge October 1995

⁴² The specific economic term is ‘ fungible ’.

⁴³ Hughes, Tony ‘ *Remote Impacts of Australian Aid to the Pacific* ’, January 2004 unpublished p 3

⁴⁴ Cordella, Tito and Dell’ Ariccia, Giovanni ‘ *Budget Support versus Project Aid* ’, Working Paper 388 International Monetary Fund Washington

loan-funded programs. In the Pacific, there is significant evidence of under-expended funds and low draw down rates reducing aid effectiveness and efficiency. The IFIs and others can (and usually do) provide TA in association with loans to overcome some of these obstacles. TA is also used in loan preparation and monitoring/evaluation.

5. **Project aid** is where donors provide funds to third parties (contractors or individuals) to deliver specified inputs as part of a discrete, time bound activity with set objectives and methods of implementation. Projects are usually confined to a single counterpart Ministry or government agency. Some of the concerns regarding project aid are discussed in the main report. These include the setting up of parallel management systems, the burden placed on recipient governments, inflexibility in delivery, the focus on achieving milestones at the expense of outcomes and the cost of third-party contractors. There are also difficulties in achieving benefits that need to involve other agencies or institutions that lie outside the main counterpart agency. Project employees will have a contractual and financial relationship with the donor. Despite the presence of joint management arrangements, contractors will ultimately be responsible to the donor rather than the recipient government. This can cause conflict over ownership, and any dispute is particularly acute where the project involves the use of TA for capacity building.

6. If well managed, however, project aid gives donors and recipients an identifiable intervention that can be designed, managed and evaluated readily. It provides good accountability for funds. The use of contractors is resource efficient in terms of administration, however there are costs in having additional layers of management within a third party. Attempts to alleviate this duplication through ‘alliance contracting’⁴⁵ where there is a greater role for the recipient government are being tested by donors such as AusAID. FICs and communities in the region most often cite project aid in the context of both ‘boomerang aid’ and the lack of local ownership.

7. To overcome some of the problems with project aid, donors have introduced program and sector-wide approaches. **Program aid** is a more flexible approach using a combination of delivery mechanisms in a particular sector or sub-sector, which may involve a mixture of technical advisers, project aid, equipment and budget support. The program will have broad objectives and is generally managed through a third party contractor. Programs may often work across a number of different Ministries or government agencies. Examples of this approach include ‘facility-style’ programs (see Case Study B – PSIF). Donors and partner governments have found it difficult, however, to reconcile the advantages of flexibility with achieving objectives. The program, rather than institutional, focus means that different Ministries have to work together, requiring strong counterpart governance systems, indeed a whole of government approach in some cases. By their nature, programs and facilities are responsive (‘demand-driven’) and sub-activities are often isolated and short term – making the measurement of overall effectiveness problematic. Programs may also suffer from contracting issues, separate management systems and are notably higher in their use of external TA – in fact this is sometimes the only significant expenditure in these activities.

⁴⁵ A tripartite arrangement between donor, recipient and the implementing contractor.

8. ***Sector Wide Approaches (SWAp) or Sector Investment Programs (SIP)*** are similar to program aid, only there is greater emphasis on aligning external support with domestic budget priorities, funds and activities. That is, a SWAp or SIP will be directly linked to the same sectoral objectives as that of domestic programs. External funds and domestic revenues are virtually indistinguishable. SWAps, in particular, are seen as addressing the concerns over excessive duplication, the introduction of parallel systems and in balancing the use of external TA. Expenditure can be budget support, grants, capital works, other purchases or used for external TA/capacity building as required, but these are considered against a range of competing budget priorities. The recipient government and donors jointly develop priorities and aid funds are ‘pooled’ with domestic revenue and directed through the domestic budget. SWAps are used mostly where donor expenditure is a substantial component of the sector, and rely on good donor coordination. Where this coordination is absent, or the approach is implemented poorly, problems have been experienced.

9. Donors tend to use SWAps where they believe local capacity is already high – that is, where there is a credible counterpart organisation with well-managed and accountable financial systems. Many ‘sector’ approaches are misnamed, as they focus primarily on one Ministry or government agency. Gaining cross-agency or whole of government support can be a problem, as it is with program approaches. However, because SWAps present less of a burden to governments, donors might consider using this form of aid where capacities are weak, rather than just where they are strong. In smaller island states, in particular, there are less people and fewer other resources available to manage government programs. Yet these governments (and individual agencies) are often faced with numbers of donors and aid programs that are comparable with much larger countries. In these situations, SWAps even at the agency level could prove very effective, provide donors are prepared to coordinate their efforts, and to adopt a more pragmatic approach to risk management.

10. ***Grants*** are provided by donors for specific activities, usually small scale and short-term. Most donors have some kind of small grants scheme for community development. Funds can be managed in a project structure, however in the Pacific these grant schemes are more likely to be managed by the counterpart government. Whilst there is a plethora of donor-funded grant schemes, the fact that expenditure is channelled through the recipient government makes administration relatively simple. Some countries, like Samoa and Tonga, are able to ‘pool’ their donor funds and introduce a single application and disbursement process for small grants schemes. Donors can further assist counterparts by aligning their assessment and reporting requirements for these programs.

11. ***Regional projects*** or programs are a feature of the Pacific. They can be delivered through existing regional organisations (e.g. SPC, SPREP, SOPAC) or can be separate ‘project’ entities established to deliver activities across a number of countries in the region. Regional projects can be funded bilaterally or by a group of donors. Regional projects are most effective when they provide FICs with services that would not otherwise be available bilaterally or multilaterally. For small island states in particular,

this allows access to things like capacity building and TA. Another advantage of regional projects is the provision of services that may not be required all the time. FICs can ‘call on’ assistance either at certain times of the year or to meet emergencies or to respond to a short-term crisis (see Case Study C – PFTAC in Annex 1). The cost-effectiveness of regional projects can be a huge advantage in this respect. Further, to save the costs of establishing a new project office, regional activities can be more efficiently channelled through existing regional organisations and management/delivery structures. This has the added benefit of strengthening these organisations and helping achieve other goals such as increasing regional integration.

12. In a recent report, AusAID found that the choice of the form of aid was important in determining effectiveness. It was noted that explicit criteria should be used in the selection of the most appropriate form of aid. These are current Australian aid policy; the country’s developmental needs, capacities and policies; past aid performance of the government; available resources and cost effectiveness of the approach, and the likely sustainability and development impact⁴⁶. Recipient countries have a role in selecting the form of aid, however in practice this principle is rarely applied. Within the range of development policies, FICs (specifically national planning agencies) should encourage the use of the most appropriate form of aid, and hold donors accountable.

⁴⁶ AusAID ‘*Summary of Reviews and Evaluations January 2003 - June 2004*’, Office of Review and Evaluation - forthcoming

Annex 4

Paris Declaration on Aid Effectiveness

PARIS DECLARATION ON AID EFFECTIVENESS

Ownership, Harmonisation, Alignment, Results and Mutual Accountability

I. Statement of Resolve

1. We, Ministers of developed and developing countries responsible for promoting development and Heads of multilateral and bilateral development institutions, meeting in Paris on 2 March 2005, resolve to take far-reaching and monitorable actions to reform the ways we deliver and manage aid as we look ahead to the UN five-year review of the Millennium Declaration and the Millennium Development Goals (MDGs) later this year. As in Monterrey, we recognise that while the volumes of aid and other development resources must increase to achieve these goals, aid effectiveness must increase significantly as well to support partner country efforts to strengthen governance and improve development performance. This will be all the more important if existing and new bilateral and multilateral initiatives lead to significant further increases in aid.

2. At this High-Level Forum on Aid Effectiveness, we followed up on the Declaration adopted at the High-Level Forum on Harmonisation in Rome (February 2003) and the core principles put forward at the Marrakech Roundtable on Managing for Development Results (February 2004) because we believe they will increase the impact aid has in reducing poverty and inequality, increasing growth, building capacity and accelerating achievement of the MDGs.

Scale up for more effective aid

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

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

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

- i. Weaknesses in partner countries' institutional capacities to develop and implement results-driven national development strategies.
- ii. Failure to provide more predictable and multi-year commitments on aid flows to committed partner countries.
- iii. Insufficient delegation of authority to donors' field staff, and inadequate attention to incentives for effective development partnerships between donors and partner countries.

- iv. Insufficient integration of global programs and initiatives into partner countries' broader development agendas, including in critical areas such as HIV/AIDS.
 - v. Corruption and lack of transparency, which erode public support, impede effective resource mobilisation and allocation and divert resources away from activities that are vital for poverty reduction and sustainable economic development. Where corruption exists, it inhibits donors from relying on partner country systems.
5. We acknowledge that enhancing the effectiveness of aid is feasible and necessary across all aid modalities. In determining the most effective modalities of aid delivery, we will be guided by development strategies and priorities established by partner countries. Individually and collectively, we will choose and design appropriate and complementary modalities so as to maximise their combined effectiveness.
6. In following up the Declaration, we will intensify our efforts to provide and use development assistance, including the increased flows as promised at Monterrey, in ways that rationalise the often excessive fragmentation of donor activities at the country and sector levels.

Adapt and apply to differing country situations

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

Specify indicators, timetable and targets

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

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

Monitor and evaluate implementation

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

11. At the international level, we call on the partnership of donors and partner countries hosted by the DAC to broaden partner country participation and, by the end of 2005, to propose arrangements for the medium term monitoring of the commitments in this Declaration. In the meantime, we ask the partnership to co-ordinate the international monitoring of the Indicators of Progress included in Section III; to refine targets as necessary; to provide appropriate guidance to establish baselines; and to enable consistent aggregation of information across a range of countries to be summed up in a periodic report. We will also use existing peer review mechanisms and regional reviews to support progress in this agenda. We will, in addition, explore independent cross-country monitoring and evaluation processes – which should be applied without imposing additional burdens on partners – to provide a more comprehensive understanding of how increased aid effectiveness contributes to meeting development objectives.

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

II. Partnership Commitments

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

OWNERSHIP

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

14. **Partner countries** commit to:

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

15. **Donors** commit to:

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

ALIGNMENT

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

Donors align with partners' strategies

16. **Donors** commit to:

- Base their overall support — country strategies, policy dialogues and development cooperation programs — on partners' national development strategies and periodic reviews of progress in implementing these strategies (**Indicator 3**).

- Draw conditions, whenever possible, from a partner’s national development strategy or its annual review of progress in implementing this strategy. Other conditions would be included only when a sound justification exists and would be undertaken transparently and in close consultation with other donors and stakeholders.
- Link funding to a single framework of conditions and/or a manageable set of indicators derived from the national development strategy. This does not mean that all donors have identical conditions, but that each donor’s conditions should be derived from a common streamlined framework aimed at achieving lasting results.

Donors use strengthened country systems

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

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

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

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

20. **Partner countries** commit to:

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

21. **Donors** commit to:

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

Partner countries strengthen development capacity with support from donors

22. The capacity to plan, manage, implement, and account for results of policies and programs, is critical for achieving development objectives — from analysis and dialogue through

implementation, monitoring and evaluation. Capacity development is the responsibility of partner countries with donors playing a support role. It needs not only to be based on sound technical analysis, but also to be responsive to the broader social, political and economic environment, including the need to strengthen human resources.

23. **Partner countries** commit to:

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

24. **Donors** commit to:

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

Strengthen public financial management capacity

25. **Partner countries** commit to:

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

26. **Donors** commit to:

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

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

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

Strengthen national procurement systems

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

- Use mutually agreed standards and processes³ to carry out diagnostics, develop sustainable reforms and monitor implementation.
- Commit sufficient resources to support and sustain medium and long-term procurement reforms and capacity development.
- Share feedback at the country level on recommended approaches so they can be improved over time.

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

30. **Donors** commit to:

- Progressively rely on partner country systems for procurement when the country has implemented mutually agreed standards and processes (**Indicator 5**).

- Adopt harmonised approaches when national systems do not meet mutually agreed levels of performance or donors do not use them.

Untie aid: getting better value for money

31. Untying aid generally increases aid effectiveness by reducing transaction costs for partner countries and improving country ownership and alignment. **DAC Donors** will continue to make progress on untying as encouraged by the 2001 DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries (**Indicator 8**). Such as the processes developed by the joint OECD-DAC – World Bank Round Table on Strengthening Procurement Capacities in Developing Countries.

HARMONISATION

Donors' actions are more harmonised, transparent and collectively effective

Donors implement common arrangements and simplify procedures

32. **Donors** commit to:

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

Complementarity: more effective division of labour

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

34. **Partner countries** commit to provide clear views on donors' comparative advantage and on how to achieve donor complementarity at country or sector level.

35. **Donors** commit to:

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

Incentives for collaborative behaviour

36. **Donors** and **partner countries** jointly commit to reform procedures and strengthen incentives—including for recruitment, appraisal and training—for management and staff to work towards harmonisation, alignment and results.

Delivering effective aid in fragile states

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

38. **Partner countries** commit to:

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

39. **Donors** commit to:

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

Promoting a harmonised approach to environmental assessments

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

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

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

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

MANAGING FOR RESULTS

Managing resources and improving decision-making for results

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

44. **Partner countries** commit to:

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

45. **Donors** commit to:

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

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

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

MUTUAL ACCOUNTABILITY

Donors and partners are accountable for development results

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

48. **Partner countries** commit to:

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

49. **Donors** commit to provide timely, transparent and comprehensive information on aid flows so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.

50. **Partner countries** and **donors** commit to jointly assess through existing and increasingly objective country level mechanisms mutual progress in implementing agreed commitments on aid effectiveness, including the Partnership Commitments. (**Indicator 12**).

III. Indicators of Progress

To be measured nationally and monitored internationally

OWNERSHIP TARGETS FOR 2010

1 Partners have operational development strategies — Number of countries with national development strategies (including PRSs) that have clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets.
At least 75%* of partner countries

ALIGNMENT TARGETS FOR 2010

2 Reliable country systems — Number of partner countries that have procurement and public financial management systems that either (a) adhere to broadly accepted good practices or (b) have a reform program in place to achieve these. Target for improvement to be set by September 2005

3 Aid flows are aligned on national priorities — Percent of aid flows to the government sector that is reported on partners' national budgets. **85%*** of aid flows reported on budgets

4 Strengthen capacity by coordinated support — Percent of donor capacity-development support provided through coordinated programs consistent with partners' national development strategies. Target for improvement to be set by September 2005

5 Use of country systems — Percent of donors and of aid flows that use partner country procurement and/or public financial management systems in partner countries, which either (a) adhere to broadly accepted good practices or (b) have a reform program in place to achieve these. Target for improvement to be set by September 2005

6 Strengthen capacity by avoiding parallel implementation structures — Number of parallel project implementation units (PIUs) per country. Target for improvement to be set by September 2005

7 Aid is more predictable — Percent of aid disbursements released according to agreed schedules in annual or multi-year frameworks.
At least 75%* of such aid released on schedule

8 Aid is untied — Percent of bilateral aid that is untied. Continued progress.

HARMONISATION TARGETS FOR 2010

9 Use of common arrangements or procedures — Percent of aid provided as program-based approaches. **At least 25%***

10 Encourage shared analysis — Percent of (a) field missions and/or (b) country analytic work, including diagnostic reviews that are joint. Target for improvement to be set by September 2005

MANAGING FOR RESULTS TARGET FOR 2010

11 Results-oriented frameworks — Number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programs. **75%*** of partner countries

MUTUAL ACCOUNTABILITY TARGET FOR 2010

12 Mutual accountability — Number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in this Declaration. Target for improvement to be set by September 2005

*** These figures will be confirmed or amended by September 2005.**

Annex 5

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Annex 6

List of Persons Met and Organisations/People Consulted

Regional

Ms Patricia Sachs-Cornish, Development Cooperation Adviser, Pacific Islands Forum Secretariat, Suva

Mr Garry Wiseman, Pacific Development Centre, United Nations Development Program, Suva

Ms Sophia Syho, Asian Development Bank Regional Office, Suva

Ms Myfanwy Van De Velde, Counsellor Trade, Economic Integration, Private Sector Development, European Union Office, Suva

Mr John Craig, Adviser, Pacific Finance and Technical Assistance Centre, Suva

Fiji Islands

Mr Peniame Naqasima (Director) and Mr Umesh Chand (Manager, Workforce Training and Development), Public Service Commission Centre for Training and Development

Mrs Elina Valovalo (Director) and Mr Temu Vakayatu, Ministry of Finance Aid Management Unit

Ms Susan Ivatts, First Secretary AusAID, Australian High Commission, Suva

Kiribati

Mr Peter Tong, Director National Planning Unit, Ministry of Finance and Economic Development

Ms Tesi Lambourne, Ministry of Foreign Affairs

Ms Leigh Campbell, Planning Adviser, Ministry of Education, Youth and Sport

Ms Julie Blinco, Team Leader, Kiribati Education Sector Program

Mr Greg MacPherson, First Secretary AusAID, Australian High Commission

Mr John Goodman (High Commissioner) and Ms Bereti Awira (Development Program Officer NZAID), New Zealand High Commission,

Ms Helen Jeans, Program Manager, European Union

Mr Shau Ann Lee, First Secretary, Embassy of the Republic of China (Taiwan)

Solomon Islands

Mr Robertson Galo, Deputy Accountant General, Ministry of Finance and Economic Development

Ms Jane Waetara, Secretary Department of National Planning and Aid Coordination

Mr Derek Sikua, Secretary Ministry of Education

Mr Edmund Andresen, Public Service Commissioner

Ms Sue Ingram, Senior Technical Adviser and Mr Greg Ellis, Technical Adviser, RAMSI Machinery of Government Program

Ms Catherine Walker, Special Coordinator and Ms Caitlin Wilson, Assistant Special Coordinator, RAMSI

Ms Elizabeth McMillan, Public Service HRM Adviser, RAMSI Machinery of Government Program

Niue

Christine Ioane, Senior External Affairs Officer, Premier's Department, Office for External Affairs

Tonga

Ms Balwyn Fa'otusia, Deputy Secretary for Finance, Aid Management Division, Ministry of Finance

Samoa

Ms Noumea Simi, Assistant Chief Executive Officer, Aid Coordination Unit, Ministry of Finance

Annex 7

Terms of Reference

TERMS OF REFERENCE

AID EFFECTIVENESS TO THE PACIFIC REGION – a focus on skills transfer/capacity building/technical assistance

Background

Pacific Island Countries and Development Partners meet annually in June each year. Issues discussed center on development cooperation and development assistance to the Pacific. Additionally, discussions on the implementation of the Forum Economic Ministers' Action Plan are held during this meeting.

Over the past decade much has been said and written about development assistance globally and in the Pacific. Increasing aid effectiveness has become more important given the heightened development challenges faced by Forum Island Countries. In order to increase aid effectiveness, the current impact must be assessed and benchmarked. Aid Effectiveness is critical to both FICs and development partners as both are accountable to the peoples of their countries. Recent scrutiny of development partner aid programmes have led to some rather damning conclusions such as “boomerang” aid, conditional aid and tied aid. These conclusions shed a negative light on ODA. Whilst a study on ODA levels is important, it does not enable one to properly analyse the effectiveness and impact of ODA.

Many of the FICs play host to technical assistants provided by donors with the intent to increase national capacity in a number of areas such as financial management, planning, health, education, natural resource management etc. This technical assistance is recorded as part of aid packages to FICs, and in, some instances, forms a large proportion of ODA to a recipient.

Objectives

This seeks a consultant to prepare a paper on “Aid Effectiveness to the Pacific Region – with a focus on capacity building through skills transfer from technical assistance” over the period to 30 April 2005 and present the paper on 10 June 2005.

Scope of Services

The consultant will:

1. Prepare a paper, no longer than 10-15 pages in length, entitled “Aid Effectiveness to the Pacific Region – The Impact of Technical Assistance on National Capacity” which will form the paper for the PIC/Development Partners Meeting 2005 and set the context for further discussion of this issue. This paper should:
 - outline what constitutes “effective aid/ODA” from the perspective of development partner and recipient country;
 - outline what is understood by the term capacity building, including any complementarities, or points of confusion, from both a donor and recipient country perspective;

- assess the volume of technical assistance in aid programmes to the Pacific, both regional and bilateral programmes, as a percentage of total ODA to the Pacific;
 - assess the methodology adopted by both development partners and recipient countries/organizations in the use of technical assistants to transfer skill;
 - assess the impact of on skills transfer of technical assistants and assess the ability of FICs to effectively harness skills transfer through TA under capacity building projects;
 - document lessons learned and best practices with respect to TA and capacity building; and
 - provide some suggestions for FICs and Development partners in ensuring that skills transfer is attained through technical assistance and capacity building programmes.
2. Submit the draft paper to the Secretariat by 15 April 2005.
 3. Submit the final paper by 30 April 2005, incorporating comments received from the Secretariat on the draft paper.
 4. Prepare a powerpoint presentation, lasting no more than 10 minutes, to present the key points of the paper to the PIC/Development Partners Meeting in Funafuti, Tuvalu on 10 June 2005. The presentation should be discussed with the Secretariat.
 5. Make the 10 minute presentation during the meeting and be available to answer questions from participants during these meetings.

Required Expertise and Inputs

The consultant should have:

- demonstrated familiarity with the development partners of Pacific island countries and first-hand experience in a number of these;
- specific understanding of the role that technical assistance plays in strengthening FIC capacity;
- practical understanding of the debate of aid effectiveness globally and in the Pacific during the 1990s and onwards;
- strong written and oral presentation skills; and
- an ability to meet the required deadlines.

Pacific Islands Forum Secretariat
Suva, Fiji
25 November 2004

Annex 8

List of Lessons Learned

List of Lessons Learned

Regional

FICs should work toward the adoption of a set of guiding principles for more effective aid in the region. These should be consistent with international standards for development cooperation. The PIFS is the appropriate body to coordinate this.

Policy

While recognising that political, strategic and other factors are important considerations in developing aid policies, it should be recognised that aid is most effective when it is allocated and directed at poverty reduction and the development priorities of the region and individual FICs.

Any coordination/harmonisation framework developed by donors must fully involve recipient governments and meet their concerns about appropriateness, reporting and accountability.

Given the importance of aid to Pacific island economies, consideration should be given by donors to multi-year commitments of aid funds as part of their planning cycle.

Priority should be given to strengthening counterpart planning policies and systems. This should be targeted at increasing the capacity of FICs to analyse, plan and implement development policies and programs, and to negotiate effectively with donors.

Aid must be delivered in accordance with a well-developed national planning framework, using sectoral or other plans where relevant. Donor assistance must conform to, and address, recipient government development priorities.

Within the range of development policies, governments (specifically national planning agencies) should encourage the use of the most appropriate form of aid, and hold donors accountable.

Aid needs to be understood in the greater context of other changes in the Pacific – something that aid agencies (and national planning agencies) do not readily incorporate or acknowledge in their work.

FICs need to develop strong policy frameworks for capacity building and the effective delivery of aid activities. This may include national human resource/capacity building strategies.

One of the challenges for FICs is to make donor coordination meetings more effective, and use them to operationalise donor commitment to the national planning frameworks. This can be supported both bilaterally by donors and through regional engagement.

FIC leadership of reforms and associated capacity building is crucial. Local ownership of the change agenda, processes and outcomes is essential.

Donors should adopt policies that encourage the use of Pacific firms and consultants in aid programs. FICs and donors should endeavour to contract and purchase in country or in region wherever possible, and to develop a register of regional suppliers.

FICs should develop policies on the use of technical assistance in aid programs, and these should be coupled with similar policies on local purchasing and contracting of services.

Delivery

Delivery of aid programs should use existing recipient government frameworks, budgets, systems and procedures wherever possible. Donors and FICs should work towards consistent and compatible management and reporting.

The choice of a suitable delivery mechanism is an important factor in aid effectiveness. FICs and donors need to identify measures to ensure that aid is implemented cost-effectively, with a minimum of duplication and with maximum use of local systems and procedures.

The appraisal of projects and program designs by FICs should include an analysis of value for money and consideration of alternatives to external technical assistance.

Where possible, and where appropriate, regional approaches should be considered to deliver aid programs, particularly for small island states.

In general, aid projects with capacity building as a key element should include organisational analysis, needs assessments/skills audits and a human resource development plan that incorporates the most appropriate and cost-effective delivery methods.

Counterpart resources and enabling environments are crucial for effective delivery of aid programs. FICs and donors need to ensure that personnel and financial commitments are adequate, available and appropriate.

Capacity building activities need to be implemented in accordance with a medium to long-term goal. Assistance should be at an appropriate level and not over-burden the recipient organisation. Multi-year commitments from donors should be considered.

Incentives should be used cautiously and, wherever possible, be aligned with local practices and cultural sensitivities.

Capacity building will utilise a mixture of different approaches and processes. Good capacity building will be tailored for different circumstances, but will always be demand-driven.

Technical advisers should, wherever possible, be contracted directly to the organisation where they are working. The reporting arrangements should involve an appropriate senior manager with responsibility for the aid activity.

Selection and recruitment of technical advisers should be undertaken with full involvement of the recipient government. Advisers need to have capacity building skills as well as technical knowledge.

For greatest effectiveness, training courses need to be relevant to the counterparts' workplace, the needs of participants and should be followed up with reinforcement training in the office, using TA or other methods, to ensure that the training continues to meet the needs of the organisation.

Training of trainers should be considered to improve the sustainability of capacity building outcomes. Using existing training personnel and facilities will reduce the recurrent resource and cost burden for the recipient country.

On the job training should be structured as much as possible, with appropriate management, monitoring and evaluation processes in place. All training needs to be consistent with organisational and national capacity building goals and strategies.

Mentoring approaches should be a part of all technical assistance, as they enhance sustainability. They are a suitable means of capacity building for senior managers, and consideration should be given to developing bilateral and regional peer networks as part of some aid activities.

FICs, donors and regional organisations should examine the use of exchange programs, work placements and study tours within the region for staff development purposes.

As part of a sustainable approach to capacity building, donors should consider supporting twinning arrangements either bilaterally or through regional forums and organisations.

The use of scholarships in capacity building programs should be considered, however there usually lower cost alternatives available.

Manuals should not be seen as an 'end product' but as a result of processes being worked through during the capacity building activity or project. Counterparts should be writing manuals – they should not just be prepared by advisers or adapted from elsewhere.

Volunteers, like technical advisers, should be programmed and assigned according to national development priorities and human resource needs.

Sustainability

Aid projects that assist an agency to both define (if needed) and achieve their objectives are more likely to succeed. Long-term goals need to be linked closely to a national program or planning framework.

Aid activities should be implemented in a manner that minimises any recurrent costs for FICs, and with handover strategies designed and delivered accordingly.

Relevant activities should have proper environmental assessments made, ideally through an environmental impact framework. Environmental outcomes should be considered at the planning level and through all stages of the activity cycle.

Aid is more sustainable where there is long-term commitment to the goals of the activity from donors and FICs, and counterpart agency resources are substantial and made readily available.

Monitoring and Evaluation

To ensure effective planning and implementation of aid programs, it is clear that a more detailed assessment of aid effectiveness and impact on national economies is required, and on a regular basis.

Donors and FICs should give priority to improving design, appraisal, monitoring and evaluation capacity in national planning agencies. This should lead to better implementation and management of aid activities.

Effectiveness measures need to include recipient country objectives and these should be built into designs, delivery frameworks and third party contracts wherever possible

Evaluation findings, lessons learned and best practice in aid delivery should be made widely available to FICs in an understandable and appropriate form. Monitoring and evaluation should be a joint activity between donors and FICs.