



Overseas Development  
Institute

## **Fluid Dynamics?**

**Achieving greater progress on aid effectiveness in the water  
sector – lessons from three countries.**

Final Report to the Department for International Development\*

May 2008

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\* Disclaimer: The views presented in this paper are those of  
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## Acronyms

AE	Aid Effectiveness
BS	Budget Support
DFID	Department for International Development
DoC	Drivers of Change
DP	Development Partner
EFA	Education for All
EPDF	Education Program Development Fund
EUWI	European Union Water Initiative
FDRE	Federal Democratic Republic of Ethiopia
FTI	Fast Track Initiative (Education for All)
GAVI	Global Alliance for Vaccines and Immunisations
GCE	Global Campaign for Education
GFATM	Global Fund to Fight Aids, TB and Malaria
GHP	Global Health Partnership
GSF	Global Sanitation Fund
HHAI	Harmonisation for Health in Africa Initiative
HLF	High Level Forum
HNPSP	Health, Nutrition and Population Sector Programme
IHP	International Health Partnership
IFFIm	International Finance Facility for Immunisation
JPF	Joint Partnership Fund (Uganda)
JPF	Joint Partnership Framework (Bangladesh)
JWSSPS	Joint Water and Sanitation Sector Programme Support
LCG	Local Consultative Group on Water and Sanitation (Bangladesh)
MDGs	Millennium Development Goals
MfR	Managing for Results
MoH	Ministry of Health
MoWE	Ministry of Water and Environment (Uganda)
MoWR	Ministry of Water Resources (Ethiopia)
MoU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NWSC	National Water and Sewerage Corporation
ODA	Official Development Assistance
OECD DAC	Organisation for Economic Cooperation and Development – Development Assistance Committee
PBS	Protection of Basic Services
PD	Paris Declaration on Aid Effectiveness
PEPFAR	The United States President’s Emergency Plan for Aids Relief
PFM	Public Financial Management
PFMC	Public Finance Management Committee (Ethiopia)
PIU	Project Implementation Unit
PIM	Programme Implementation Manual
PRSP	Poverty Reduction Strategy Paper
RBM	Results-based Monitoring
SSA	Sub-Saharan Africa
SWAp	Sector-wide Approach
TA	Technical Assistance
UWASNET	Uganda Water and Sanitation Network
WB	World Bank
WSP	Water and Sanitation Program
WSS	Water Supply and Sanitation
WSSCC	Water Supply & Sanitation Collaborative Council

## **Foreword**

This study was carried out by ODI with Alan Nicol as team leader and Katharina Welle as the lead author of the study. The country case studies were conducted by Barbara Evans (Bangladesh), Josephine Tucker (Uganda) and Katharina Welle (Ethiopia). Susi Owusu provided background support.

The authors are grateful to Tim Williamson, Lidia Cabral and Kent Buse (ODI) and Guy Howard, Jane Crowder, Mark Harvey, Romily Greenhill, Penny Davies and Simon Kenny, (DFID) for their valuable comments, and to all those interviewed in the three case study countries who gave their time and insights.

## Executive Summary

The objective of this study is to review the extent to which the five Paris Principles (PPs) on Aid Effectiveness (AE) as set out in the Paris Declaration (PD) on AE: ownership, alignment, harmonisation, managing for results and mutual accountability, are being applied in the water and sanitation sector.

The approach included in-depth case study research in three countries (Bangladesh, Ethiopia and Uganda) and a broader document review. From this evidence the study aims to identify ways in which external support to the water sector can be delivered more in the spirit of the PD.

This study was carried out by ODI with Alan Nicol as team leader and Katharina Welle as the lead author of the study. The country case studies were conducted by Barbara Evans (Bangladesh), Josephine Tucker (Uganda) and Katharina Welle (Ethiopia). Susi Owusu provided background support.

The starting point of this review was a perception among water sector stakeholders that the sector lags behind other basic service sectors, including health and education, in implementing the five principles of the PD. Four steps guided the analysis: (1) the international aid architecture i.e. the type of actors and levels of funding by sector was reviewed to identify potential implications for implementing the PD at sector level, (2) based on traffic-lights, a systematic comparison was carried out between countries and between sectors on progress towards application of the five principles of the PD; (3) a governance lens was used to understand the reasons behind differences of progress between sectors and countries; barriers to and opportunities for engagement were identified and; (4) some observations aimed to start putting the adherence to the PD in the wider context of improving development outcomes.

Our findings show that the water sector is not consistently underperforming in the three country case studies. Rather, we suggest that the situation is one of ‘fluid dynamics’ – the sector is moulded by the surrounding political-economic context in which it is situated, i.e. predominantly by the national governance environments in the countries examined. The following conclusions and recommendations emerged:

### **1. The broader governance environment is a more important influence on progress against the Paris Principles than sector characteristics.**

It is evident from our case studies that differences in progress against the PPs are more pronounced between countries than between sectors. This indicates that aspects of the governance context beyond the sector, rather than sector characteristics alone, are a key influence on progress. A key factor supporting or hindering progress is the political commitment to poverty reduction and to the sectors in question, the presence of strong financial and fiscal structures such as an MTEF, and effective institutions - including the relationships between different governmental and non-governmental bodies and at different levels.

*Include a broader governance and political-economic analysis when seeking to understand sector opportunities and barriers to progress against the PD:* such an analysis could build on the existing Drivers of Change (DoC) analysis used by DFID in the past. This analytical framework could be developed further to look particularly at the sectoral politics of development change. Ethiopia, struggling with an emerging

programme approach in the water sector and strong inter-sectoral relations underpinning WSS service delivery, would lend itself well to such a study.

## **2. The perception that the water sector is lagging behind is not supported if the *spirit* rather than the mechanics of the PD is considered**

In all three countries, moves towards a SWAp have come later in the water sector than in health and education. Nevertheless, progress against the PPs was further in the water sector in Uganda than in health and education. In Ethiopia and Bangladesh the instruments associated with the PD are less well developed in water compared to the other two sectors. This gives the appearance of slower progress, yet our findings warn against such a mechanistic reading of progress and advocate for a fluid notion based on the spirit of the PD. The existence of instruments such as coordination mechanisms or sector reviews can mask shortcomings in the spirit of Paris such as a lack of trust and of commitment from the donor and recipient side.

*Continual review and learning rather than implementing a pre-defined set of steps are mechanisms to foster the spirit of the PD:* The implementation of the Paris agenda in SWAPs or other instruments should not be seen as a one-off step but rather as an ongoing dynamic process. SWAPs should be a platform for learning for both donors and recipients, with continuous review of successes and obstacles, to help ensure that the intent for aid effectiveness translates into delivery. This also implies there is no obvious sequencing of principles but that the pace and level of engagement depends on the opportunities at hand in a given situation provided by the prevailing political-economic context.

## **3. Some dynamics are specific to particular (sub-) sectors and require a more targeted approach**

The type and number of actors and type and levels of financing differs between sectors. While all three sectors receive support from the ‘traditional’ development partners, the levels of private aid and of multi-lateral funding mechanisms are increasing rapidly. The water sector is likely to be more affected by new donors such as China with a particular emphasis on infrastructure development while the health sector stands out for receiving high levels of aid from private foundations and multilateral funding initiatives tied to particular development outcomes.

Another difference between sectors is linked to the delivery systems. Water is a ‘hybrid’ sector, with characteristics of both social and infrastructure sectors. The urban sub-sector requires large infrastructure investments, whilst rural and small urban centres require small-scale investments. For rural WSS as well as for small towns the development and use of government systems as well as policy alignment is important as it is for the health and education sectors.

*Foster a mix of financing mechanisms in the water sector and a more sophisticated aid effectiveness debate:* In all three case study countries, systems alignment is considered problematic for the urban sub-sector because it is dominated by project modalities and off-budget funding. As urban water supply demands large, ‘lumpy’, multi-year investments, it is appropriate that they are funded through project-type mechanisms, which is the case in mature economies, as well. Donors should support the development of innovative mechanisms for project-type financing through government channels to replace parallel projects and may learn from the infrastructure sectors in doing so.

#### **4. Some aspects of system alignment such as PFM and procurement cut across sectors.**

Our case studies show that sectors are all determined by wider political-economic structures with implications for some aspects of systems alignment. This is particularly so for financial management and procurement systems, which lie outside the sector at national level but influence the effectiveness of aid delivery at a sector level in all three countries.

*To address such underlying issues and barriers, engagement at a higher level than the sector may be more effective than trying to find solutions within a sector.*

#### **5. Paucity of data for measuring progress against the PP for AE at sector level**

At sector level, data to measure progress towards the PPs for AE remains extremely weak. The indicators developed and used for the OECD survey on AE are not differentiated by sectors yet the availability of information with relevance to the PPs varies between sectors and countries. Furthermore, the indicators currently identified under the PD are at times not very informative unless further background information is obtained. For example, if comparing donor performance against the PD, a percentage of coordinated missions or coordinated analytical work does not give much information about how the quality of the relationship has improved and whether transaction costs have been reduced for the recipient partner government. There is also currently no evidence that the fulfilment of the PP leads to better development outcomes e.g. increased access to WSS.

*Develop a coherent set of sector level indicators to enable monitoring progress against the PP.* If sector actors are serious in their intention to measure progress against the PP at a sector level, they need to develop a set of indicators and data against those to enable them to measure and compare progress between sectors and/or countries. Ideally this would be underpinned by a more sophisticated measuring of progress at country level that links progress against the PP with changes in development outputs and outcomes in the short, medium and long-term.

# 1 Introduction

## 1.1 Purpose, Scope and Methodology

The objective of this study is to review the extent to which the five Paris Principles (PP) on Aid Effectiveness (AE) as set out in the Paris Declaration (PD) on Aid Effectiveness—ownership, alignment, harmonisation, managing for results (MfR) and mutual accountability—are being applied in the water and sanitation sector (WSS). The approach included in-depth case study research in three countries (Bangladesh, Ethiopia and Uganda) and a broader document review. From this evidence the study aims to identify ways in which external support to the water sector<sup>1</sup> can be delivered more in the spirit of the Paris Declaration.

The study covers both urban and rural investments in water and sanitation service provision but excludes water resources management and humanitarian responses. It compares the water sector with the health and education sectors in terms of progress towards application of the Paris Principles. From this analysis the study draws out the major sectoral and contextual reasons for differences in progress between sectors and across countries.

Within Sub-Saharan Africa (SSA), Uganda was chosen as a case study because it is a country with a relatively long experience in harmonisation and alignment; Ethiopia was selected because the water sector has recently introduced greater harmonisation and alignment and has received large aid inputs including from DFID; whilst Bangladesh is a country with a longstanding commitment to the Paris Principles and provides some comparison between policy environments in South Asia and Sub-Saharan Africa.

The three case studies are complemented by reviews of the global sector literature on progress to date against application of the PP towards greater AE.

During short field visits to each country evidence was collected in semi-structured interviews with key sector stakeholders. These interviews covered questions on the profile of each sector, progress against the PD and questions related to the sector performance in recent years.

A traffic-light system enabled comparison between countries and between sectors on progress towards application of the five principles of the PD (see also Annex 1 for a table showing the data behind the classification of each sector and country).

During field work, whilst the primary focus was on the water sector, data was collected for the health and education sectors as well. Where available the researchers collected quantitative data relating to the PPs, but because of its paucity in many cases this was complemented with qualitative information obtained through interviews.

## 1.2 Rationale

There is a perception among water sector stakeholders that the sector lags behind other sectors in applying the PPs. Work examining progress towards integration of the sector with the ‘nuts and bolts’ of government-owned comprehensive poverty reduction strategies such as the Poverty Reduction Strategy Papers (PRSP) and

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<sup>1</sup> Note: the authors use the term ‘water sector’ as shorthand for water *and* sanitation & hygiene. If reference is made to one or either sub-sector this is specifically indicated.

related instruments such as Medium Term Expenditure Frameworks (MTEF) has concluded that integration is limited. WSP (2003: 1) cites for example

*“despite the fact that water and sanitation are consistently among the top three or four priorities of the poor in participatory poverty assessments in most countries in this region [SSA], the sector has not effectively been incorporated into PRSPs [...]. Sectors such as health and education are likely to have received more attention.”*

This notwithstanding, sectoral integration into PRSPs does not equal progress against application of the PPs. Few studies have focused specifically on water sector performance against the PD or compared progress with other sectors. A good practice review by DANIDA (2006)<sup>2</sup> assessed the agency’s experience in harmonisation and alignment in the water sector, but did not carry out a systematic assessment of sector progress against the PD.

This study provides a more systematic examination of evidence from three countries against the PPs and across three sectors. Whilst it points to important lessons for future engagement in the sector, it is however necessarily narrow in its sample, and a broader and longer-term study would be an important follow-up in the near future, perhaps following the Accra Meeting.

### **1.3 Towards more effective aid**

The Millennium Development Goals (MDGs) in 2000 were a statement of international commitment to reduce poverty. At the same time the international aid community focused on the need for greater aid effectiveness in order to meet this commitment – an approach best captured under MDG 8: “Develop a global partnership for development”. Under the new aid agenda, the ultimate goal is that governments take the lead in formulating nationally-owned poverty reduction strategies and sector-level development programmes, with the participation of a wide range of stakeholders. Aid agencies then work under and to these strategies and provide ‘programme-based aid’ (PBA) – see Box 1 below.

The idea is that PBA should be channelled through government systems, and thus further strengthen nationally-led development processes. The AE agenda is intended to move countries and donors towards this goal, though the shift to PBA and alignment is not necessarily expected to happen immediately.

#### **Box 1: Programme-based Approaches**

Programme-based approaches are a way of engaging in development cooperation based on the principles of coordinated support for a locally-owned programme of development, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organisation. Programme-based approaches share the following features:

Leadership by the host country or organisation;

A single comprehensive programme and budget framework;

A formalised process for donor coordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement; and

Efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation.

Source: OECD-DAC, 2006

<sup>2</sup> The main lessons have been summarised in an ODI project briefing (Welle, Nicol and Steenbergen, 2008); additional lessons were highlighted in a WELL Briefing Note (2007).

This process culminated in the PD on Aid Effectiveness in 2005 (HLF, 2005) which embodied an international consensus on the management of development assistance. Signed by 114 countries and 25 international organisations<sup>3</sup>, the PD provides five operating principles for governments and donors to follow in order to improve aid effectiveness: namely ownership, alignment, harmonisation, managing for results and mutual accountability.

Implicit within the PD is a pyramid of principles (see Fig. 1 below), which represents a partnership between donors and the recipient country. From partner country ownership at the apex, in theory all other principles cascade down.

**Figure 1: Partnership for achieving the Paris Principles**



Source: OECD, 2007

Ownership is seen as the foundation for aid effectiveness. It is expressed in the recipient country setting the major policy directions and strategies for poverty reduction and pro-poor growth (i.e. PRSPs, Medium Term Expenditure Framework – MTEF - and sector development programmes that are reflected in the PRSP and MTEF). Donors respond by aligning their support with the priorities and systems set out in national policies and strategies. At the same time, donors build capacity and harmonise by establishing common arrangements (for example for funding or reporting) to reduce transaction costs for the recipient country. Managing for results (MfR) and mutual accountability cut across all those involved and all levels. MfR refers to governments adopting frameworks to monitor development results and using information for better decision making. Mutual accountability stands for aid relationships that are underpinned by a commitment to development results from both sides jointly agreed upon and measured through partnership commitments.

The goal is to take steps to move up the pyramid while continuing efforts to build ownership (OECD–WB, 2005). In cases where ownership is weak, donors may seek to foster greater national ownership through their interactions with partner governments. In parallel, donors take steps towards harmonisation which can be initiated under any circumstances. Harmonisation should in theory reduce transaction costs for partner governments, although in the short term transaction costs may be increased by changes in donor arrangements.

In the PD, donors and partner countries commit themselves to specific actions under each principle, some of which are translated into 12 indicators to measure progress at

<sup>3</sup> See also: [www.oecd.org/dac/effectiveness/parisdeclaration/members](http://www.oecd.org/dac/effectiveness/parisdeclaration/members)

country level.<sup>4</sup> These actions and the associated indicators are summarised in Table 1 below, which is derived from the PD.

**Table 1: Commitments and indicators organised by the five PPs**

<b>Ownership</b>	
Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions	
<b>Partner countries</b> exercise leadership through implementing (results-oriented) development strategies linked to MTEF and reflected in annual budgets ( <b>Indicator 1</b> )	<b>Donors</b> respect country leadership and help strengthen capacity to exercise it
<b>Alignment</b>	
Donors base their overall support on partner countries' national development strategies, institutions and procedures	
<b>Partner countries</b> strengthen capacity to manage, implement and account for results of policies and programmes (analysis, dialogue, implementation, monitoring) <b>Partner countries</b> strengthen Public Financial Management (PFM) capacity and national procurement systems ( <b>Indicator 2</b> )	<b>Donors</b> base their overall support - country strategies, dialogues, programmes, development cooperation programmes and reviews of progress (including conditions) - on the country's development strategies and link funding to indicators derived from a single strategy; ( <b>Indicator 3</b> measures aid that is reported on-budget) <b>Donors</b> implement technical cooperation through coordinated programmes consistent with national development strategies ( <b>Indicator 4</b> ) <b>Donors</b> use the country's own institutions and systems (PFM, auditing, accounting, procurement, monitoring) to the maximum extent and avoid arrangements that undermine country systems & procedures ( <b>Indicator 5</b> – measures PFM and procurement) <b>Donors</b> reduce the stock of Parallel Implementation Units (PIUs) ( <b>Indicator 6</b> ) <b>Donors</b> provide commitments of aid over multi-year framework, timely and in predictable fashion ( <b>Indicator 7</b> – measures aid not disbursed within the fiscal year for which it was scheduled) <b>Donors</b> untie aid ( <b>Indicator 8</b> )
<b>Harmonisation</b>	
Donors' actions are more harmonised, transparent and collectively effective	
<b>Partner countries</b> provide clear views on donor comparative advantage to achieve donor complementarity at country or sector level	<b>Donors</b> implement common arrangements and simplify procedures through the reduction of separate procedures and missions ( <b>Indicator 9</b> – measures aid flows provided as part of programme-based approaches) <b>Donors</b> conduct joint field missions and joint analytical work ( <b>Indicator 10</b> )
<b>Managing for Results</b>	
Managing resources and improving decision-making for results	
<b>Partner countries</b> strengthen linkages between national development strategies and (multi-) annual budget processes and establish results-oriented reporting against national and sector development strategies ( <b>Indicator 11</b> )	<b>Donors</b> harmonise their monitoring and reporting systems and work towards aligning them with partner country performance assessment frameworks
<b>Mutual Accountability</b>	
Donors and partners are accountable for development results	
<b>Partner countries</b> strengthen the parliamentary role in development of strategies and/or budgets and reinforce participatory approaches (involving a broad range of development partners)	<b>Donors</b> provide timely, transparent, and comprehensive information on aid flows ( <b>Indicator 12</b> measures countries with mutual assessment reviews in place)

Source: derived from HLF, 2005

The terms of reference for this study focus on progress against the five PPs. However, it is important to recall that the PD is a tool to contribute towards the

<sup>4</sup> Progress against the indicators is monitored through country surveys, a process facilitated by the OECD. In the 2006 survey 34 countries took part including Bangladesh, Ethiopia and Uganda. The following survey was ongoing in spring 2008; see also [www.oecd.org/dac/effectiveness/monitoring](http://www.oecd.org/dac/effectiveness/monitoring) for more and updated information.

wider goals of poverty reduction and pro-poor growth and is not an end in itself. While there is broad international consensus that more effective aid will lead to more effective aid *outcomes*, there is also a danger that aid effectiveness is reduced simply to mechanical progress against the 12 indicators in the above table, regardless of actual outcomes. This is particularly critical when considering the PPs against the MDGs and the pressure governments—and agencies—are under to provide results in terms of service delivery outcomes.

Hence the need to monitor outcomes very carefully in parallel with applying the PPs and then to establish systems that are sufficiently reflexive to adapt to both positive or negative outcomes—e.g. is the PP agenda is being pushed too hard by donors against government institutions that are still largely embedded in projectised aid. This could result in less positive than expected outcomes, indeed even in a reversal of WSS supply coverage, if staff time and resources are over-committed to re-engineering the sector at the expense of actually doing implementation. Regular, review feedback and reflection under the PD agenda and the avoidance of dogma is therefore critical and should be institutionalised as part of the process.

In analysing progress against the five PPs at sector level, other issues are important to highlight.

There are current debates on the suitability of the PPs to some sectors rather than others. Sectors have different institutional profiles, financing requirements (for example the proportions of recurrent and capital costs), and balances of public and private roles. Cabral (2008) argues that certain features of the agriculture sector, for example, make the application of the PPs highly challenging. Agriculture is private sector-led, and the role of the state in providing regulation and public goods (such as research) remains poorly defined in practical terms, which makes policy alignment more difficult. Like the water sector, agriculture can be characterised as both a productive sector and a human development sector and, as in water and health, the agriculture sector is typically governed by a wide range of ministries and government institutions. A study by WHO (2007) similarly highlights certain challenging aspects of the health sector: health provision typically includes a wide variety of actors working under a diverse set of sub-sector plans, and the importance of ensuring the quality of medicines and equipment generates more caution about alignment to government procurement systems than in many other sectors. These arguments do not question the spirit of the PD – which is important and applicable in all sectors – but highlight that sectors may require different approaches and steps to achieve the overall goal of aid effectiveness.

The following section provides an analytical framework that incorporates the above discussion and helps in charting our analysis of the country case studies.

## **1.4 Analytical Framework**

We take a basic governance approach to analysing the opportunities and barriers to progress in the three sectors.

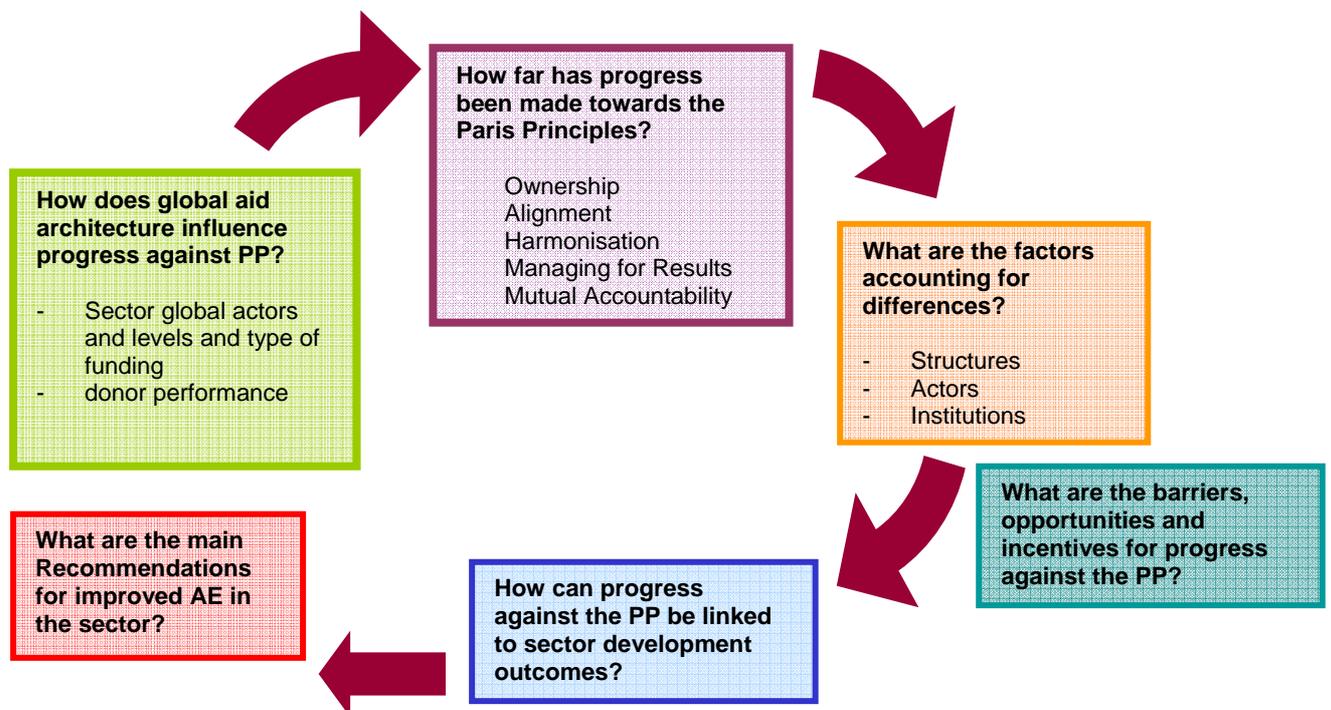
Governance analysis is recognised as central to the achievement of development outcomes (for example in DFID's 2006 White Paper). Many barriers and opportunities to performance against the PPs are governance-related. More specifically, different studies have emphasised the importance of understanding politics, power and incentive structures facing both aid recipients and donors in order to assess what barriers there are to progress and how to overcome them (see

for example Hyden, 2008, ODI 2006, De Renzio et al 2005, Ostrom et al 2002). These barriers (and opportunities) may lie at the sector level or in the broader governance context in which the sector is embedded. Wider political-economic relationships influence aid relationships at a sector level, and *impact* on sectoral application of the PPs because of the vested interests in status quo relationships, the impact on existing actor-network relations and, ultimately, who are likely to be the winners and losers and new arrangements. There is a risk of unanticipated outcomes that are detrimental to sector performance. Plummer and Slaymaker (2007), and many others, have made a strong case for better governance analysis in the water sector, in order to understand how political factors may hinder change and how change itself may have political consequences.

Our analysis draws on some elements of the Drivers of Change (DoC) approach, a framework for understanding and unpacking the importance of governance at national level, and for identifying bottlenecks and opportunities for reform. DoC analyses (i) structures (natural and human resources, economic and social structures), (ii) institutions (i.e. particularly change to the ‘rules of the game’ (North, 1991) and (iii) agents of change (individuals, organisations, or networks pursuing particular interests). The DoC approach, which is grounded in much of the contemporary political science and political economy literature, has been used by donors e.g. DFID, SIDA and the WB to support more effective provision of aid e.g. through better informed engagement with policy and institutional reform processes (DFID 2004, 2005, OECD DAC, 2005).

Our analysis uses a three-step approach as summarised in Figure 2. The flow of the analysis is mirrored in the structure of the report.

**Figure 2: Analytical flow: Is the water sector achieving greater AE?**



In Section 2, we first set out the global aid architecture and identify potential implications for the sectors' performance against the PD. This includes the type of actors involved, their levels and type of funding and the performance of donors against the PD at a global level.

In section 3 we then compare progress against the PPs by sector and country, using 'traffic lights' to show levels of progress against each principle by sector and country (described for each of Uganda, Ethiopia and Bangladesh).

In section 4 we assess reasons for differential progress between sectors and countries within the wider context of governance as set out in the analytical framework above. In so doing, we identify barriers, opportunities and incentives for progress against the PP.

Section 5 shortly examines development outcomes and whether any relationship can be established from existing evidence between PP implementation and development outcomes.

Section 6 sets out the conclusions and recommendations for water sector stakeholders and for the High Level Forum (HLF) on AE in Accra in 2008.

## 2 Sector aid architecture and the Paris Agenda

This section sets out the aid architecture of the education, health and water sectors and implications for sector performance against the PPs. First we examine the main actors and differences in type and area of funding at a global level then we turn to donor performance by sector. Finally, using OECD/DAC data we study overall application of the PPs in order to identify possible patterns by sector.

### 2.1 Global actors and type of funding

Globally development assistance is changing with implications for education, health and water. Changes include large new bilateral agencies from the South e.g. China and India an increase in private non-for-profit organisations<sup>5</sup> and the emergence of new funding mechanisms including vertical funds (Kharas, 2007). The emergence of new bilateral agencies led by China's contribution of USD 2 billion to Official Development Aid (ODA) in 2005 is particularly important for the water sector because of China's strong history of infrastructure investment. Growing vertical funding mechanisms are most evident in the health sector (see also Box 2 on Global Funds). These funds represented 7% of total multilateral aid or USD 1.8 billion in 2005 (ibid). Taken together, the major global funds projected total pledges of between USD 3.7 billion to over USD 5 billion for 2006, 2007 and 2008 (see Table 2 below). Proportionate funding from these mechanisms is likely to have risen substantially since.

**Table 2: Projected funding of major global funds by sector**

Sector	Fund / Year	2006	2007	2008
Health	GFATM	1,929,812,934	2,745,077,809	3,212,132,470
	GAVI	750,000,000	750,000,000	610,000,000
	PEPFAR	2,380,809,000	no data	no data
<b>Sub total</b>		<b>5,060,621,934</b>	<b>3,495,077,809</b>	<b>3,822,132,470</b>
Education	FTI - Catalytic Fund <sup>1</sup>	185714285.7	185714285.7	185714285.7
	FTI - EPDF <sup>2</sup>	18,000,000	18,000,000	18,000,000
<b>Sub total</b>		<b>203,714,286</b>	<b>203,714,286</b>	<b>203,714,286</b>
Water	GFS			-5,000,000
<b>Total</b>		<b>5,264,336,220</b>	<b>3,698,792,095</b>	<b>4,030,846,756</b>

**Sources:** GFATM Pledges, last updated April 08; [www.gavialliance.org/performance](http://www.gavialliance.org/performance), GAVI financial report 2005; <http://www.pepfar.gov/about/77643.htm>; [www.education-fast-track.org](http://www.education-fast-track.org)

<sup>1</sup>EFI catalytic fund commitments are yearly estimates broken down from a total of 1,3 billion between 2003 - 2009

<sup>2</sup>EFI EPDF commitments are yearly estimates broken down from a total of 91 million between 2005 - 2009

The contribution of private aid is relevant for all three sectors. Overall, total private aid reached with USD 58-68 billion, or nearly half of total combined official aid (USD 112.1 billion) disbursed by traditional DAC donors and new bilateral agencies in 2005 (ibid).

Information on the sector distribution of private aid is hard to come by. ODA aid flows in health, education and water are characterised by OECD DAC (2006) as part of social sector ODA. Taken together these three sectors account for 18.2% of all

<sup>5</sup> This includes foundations, private philanthropists, religious organisations and other NGOs and nonprofits.

ODA from DAC countries. Education accounts for some 21.9% of social sector ODA (9.6% of total ODA), water supply and sanitation 16.8% (6.9%) and health 13.0% (5.7%). Below, we give an overview of actors and types of funding by sector.

In 2004 the top 10 donors for all three sectors are shown in Table 3. This suggests that donor support to water supply and sanitation may be slightly more concentrated amongst a smaller number of more 'traditional' donors than education and health, in particular; in the latter a larger percentage of funding comes from smaller donors outside the top 10. These differences are likely to have increased since 2004.

**Table 3: Top 10 ODA donors by sector in 2004**

	<b>Water supply and Sanitation</b>	<b>Education</b>	<b>Health</b>
<b>Top 10 ODA donors in descending order by support sectors</b>	IDA (21.8%) United States Japan Germany EC Denmark Af Dev Fund France Netherlands Asian Dev Fund Others (8.2%)	IDA (16.8%) France Japan Germany United Kingdom United States EC Netherlands Asian Dev. Fund Canada Others (15.3%)	United States (30.6%) IDA GFATM Japan United Kingdom EC France Netherlands Canada Germany Others (17.6%)

Source: OECD, 2006

Interestingly, the top 10 donors are fairly consistent across the three sectors. The water sector shows a slightly higher contribution from development banks with the IDA responsible for 21.8% of total ODA and the African and Asian Development Funds both among the top 10 donors. The health sector stands out for receiving the largest proportion of funding from a single source, the US, and for having GFATM, a global fund, among the top 10 donors.

### 2.1.1 The Health Sector

The health sector is characterised by a large number of donors and several global vertical funding mechanisms. In addition, the sector attracts more support from private foundations such as the Gates Foundation than WSS and education.

#### Box 2: Global Health Partnerships

Global Health Partnerships (GHP) that emerged over the last decade have contributed significantly to the complexity of the sector's global aid architecture. Depending on definition, there are between 75 and 100 GHPs. A heterogeneous group, GHPs range from advocacy over coordination to financing; the majority aim to tackle communicable diseases i.e. HIV/Aids, tuberculosis and malaria. While there are many GHPs in total, only few of them are global funds with a major contribution to health financing.

Interestingly, vertical funds to address specific disease groups have characterised the health sector since the 1960s. Despite the commitments made in 1978 at the Alma Ata conference to prioritise Primary Health Care, vertical funds have persisted. The most significant global funds in health are the Global Fund to fight HIV/AIDS, tuberculosis and Malaria (GFATM), the US President's Emergency Plan for HIV/AIDS Relief (PEPFAR) and the Global Alliance for Vaccines and Immunisations (GAVI).

According to a recent review by the WHO, GHPs have had a positive impact on the sector in that they managed to mobilise important new resources for the sector. However, they are difficult for countries to manage and have increased the vertical nature of health financing. A study by McKinsey and Company in 20 countries (2005 in WHO, 2007) found in particular that

- GHPs pay insufficient attention to health systems
- Technical assistance in support of implementation ought to be increased
- Communication between GHPs and recipients is often poor and
- GHPs impose significant transaction costs for governments.

Source: Magnussen et al, 2004; WHO, 2007

At the global level, aid in the health sector is fairly weakly aligned with government programmes: only 20% of funding to the sector overall in the form of general budget support, and 50% of ODA is off budget (OECD, 2008). The potential distortions which can result from weak alignment are demonstrated by the fact that, globally, between 2000-2004 funding for HIV/AIDS more than doubled while funding for primary health care fell by almost half (WHO, 2007). The OECD has recently suggested that the high level of fragmentation, short funding cycles and the emergence of ‘young’ donors in the health sector (in particular international foundations) has encouraged greater attention amongst donors to addressing the PPs (OECD, 2008).

A partial response related to this increased awareness can be seen in the establishment of funding arrangements that seek to secure a more reliable flow of funds to the sector. These include the International Finance Facility for Immunisation (IFFIm) and UNITAID – both established to improve financing for drug purchases in 2006. Further efforts to coordinate action at an international level include the establishment of the International Health Partnership in 2007 and the Harmonisation for Health in Africa Initiative (HHAI).

### 2.1.2 The Education Sector

Only six donors account for 75% of aid flows to the basic education sub-sector (Mundy, 2007). Overall aid flows to education are on the rise and the majority of the DAC countries have increased the proportion of ODA to basic education (UNESCO, 2005). Internationally, basic education now accounts for almost one third of all ODA for education, up from 5% in the early 1990s (Mundy, 2007). Compared to health, the education sector has only one vertical fund; the Education for All (EFA) Fast Track Initiative (FTI) (see Box 3).

#### Box 3: Education for All

The EFA movement took off at the World Conference on EFA in 1990. Since then, governments, non-governmental organisations, civil society, bilateral and multilateral donor agencies and the media have taken up the cause of providing basic education for all. At the World Education Forum 2000 the *Dakar Framework for Action Education for All: Meeting Our Collective Commitments* was rolled out. This document commits governments to achieving quality basic education for all by 2015. UNESCO is the lead agency for the EFA initiative and has been mandated to coordinate international efforts.

The Fast Track Initiative was established in 2002 as a global education partnership with the aim to accelerate progress towards quality universal primary education. The FTI incorporates the commitments made towards Aid Effectiveness and is one of few global programmes in this regard. The WB manages two trust funds on behalf of the FTI: the education program development fund which provides small grants for countries to improve capacity for sector analysis and training and the Catalytic Fund, which provides short term grants to FTI-endorsed countries (28 in November 2006) to implement their plans. According to Buse (2007) a mixture of empirical and anecdotal evidence suggests that the FTI has positively contributed to AE in the sector; yet this has not happened evenly and across all sub-sectors.

Source: [http://www.unesco.org/education/efa/ed\\_for\\_all/](http://www.unesco.org/education/efa/ed_for_all/); Buse, 2007

According to Mundy (ibid) there is also a growing trans-national advocacy network on EFA. The most important of these is the Global Campaign for Education (GCE) which includes INGOs such as Oxfam, Care and ActionAid and has been instrumental as a policy watchdog and campaigner for financial commitments to EFA. The GCE or its members are represented on HLFs and EFA fora and have contributed to these by introducing “a new dynamism to international political alignments” (ibid).

### 2.1.3 The Water Sector

The water sector is characterised by a small pool of donors and only light coordination of UN agencies active in the sector through UN Water; UNICEF is widely acknowledged to be the lead UN technical agency. The sector also has fewer global funding mechanisms than health. The Global Sanitation Fund (GSF, see Box 4), launched in 2008, is the first such vertical fund in the sector.

#### Box 4: The Global Sanitation Fund

The GSF is both smaller and younger than the global funds for health and education discussed above. The GSF was launched in the spring of 2008 and is administered by the Water Supply and Sanitation Collaborative Council, a multi-stakeholder institution hosted by the WHO. The WSSCC has for the past few years supported the formation of multi-stakeholder groups (known as WASH coalitions) in 36 countries. The WASH coalitions perform a range of functions in different contexts, from simple information exchange (for example in Nepal), through advocacy on specific sanitation-related issues (Ethiopia) to sector coordination and alignment (in the latter case where governments are active participants, for example in Madagascar).

The design of the GSF has been informed by learning from the experiences of other global funds including GFATM and GAVI. In contrast to vertical funds that are administered centrally GSF will establish discrete national programmes in each of its countries of operation. In each case a specific scope of work for the fund will be developed by the WASH coalition (including government) based on local needs and priorities. The documentation of the GSF specifically notes that this should take into account *inter alia*: the national sanitation policy or strategy; existing funding sources and shortfalls and approximate annual funding that can be well-spent without undermining other programmes in the sector. In each country the services of an executing agency will be procured by WSSCC along with an independent country program monitor. The WASH coalition will retain an oversight and coordination role. The budget for each country will be in the order of US\$5-6 million over five years. GSF will finance projects and programs that use participatory approaches and which contribute directly to increased access to basic sanitation for poor people. The fund expects to begin disbursements in late 2008 to an initial group of seven priority countries. Further tranches of funding depend on donor contributions to the fund.

Source: WSSCC 2008a; 2008b

Global figures on aid effectiveness at a sector level are not available for the water sector. Although the sector is less complex than health, a number of global partnerships exist to improve coordination and provide policy advice to the sector. A core group of donors led largely by European bilateral agencies has provided support over many years to several policy-level programmes including the Water and Sanitation Program (WSP)<sup>6</sup>, the Water Supply & Sanitation Collaborative Council, and the Global Water Partnership (though working more at the level of water resources management).

In addition there have been a number of attempts to include water in established policy support and financing arrangements which aim to attract more public and private capital finance for infrastructure as a whole including for example the Public-Private Infrastructure Advisory Facility of the World Bank (PPIAF) and the Global Partnership for Output-based Aid.

## 2.2 Donor Performance in the Three Sectors

The 2006 baseline survey on monitoring progress against the PPs (OECD, 2007) reviewed not only country performance but also donor performance towards implementation of the PPs providing an aggregate assessment against each of the indicators across the entire donor portfolio. Table 4 tabulates the main donors for each sector against their overall performance against the relevant Paris indicators. The results of this assessment are presented below. We have highlighted the top three

<sup>6</sup> The Water and Sanitation Program is a multi-donor partnership of the World Bank with the aim to help the poor gain access to improved water supply and sanitation services. WSP works directly with client governments in 27 countries, through four regional offices and in The WB headquarters in Washington.

performers (in green) and bottom three performers (in amber) against each indicator and organised donors in a descending order from high to low performance.

**Table 4: Baseline Assessment of PPs by Donor**

Donor	Sector	Baseline performance against Paris Principles (by Indicator)*								
		3	4	5	6	7	8	9	10a	10b
United Kingdom	EH	84	61	76	41/23	90	100	59	44	69
Netherlands	WEH	70	36	78	23/24	65	91	68	46	77
Denmark	W	47	48	45	69/18	49	85	60	33	80
IDA	WEH	94	57	40	223/32	68	-	57	21	49
African Dev Fund	W	95	38	43	132/17	56	-	40	19	55
Asian dev. Fund	WE	88	37	45	39/6	91	-	23	5	49
Canada	EH	75	39	45	68/22	73	80	51	17	38
GFATM	H	26	-	44	4/27	20	-	82	17	33
Japan	WEH	68	74	26	2/30	66	89	33	2	52
EC	WEH	81	35	41	204/34	65	-	50	33	45
Germany	WEH	55	37	34	40/32	75	94	20	28	50
France	WH	52	20	60	63/26	45	90	28	10	41
United States	WEH	90	47	12	208/29	45	7	28	28	39

**\*Indicators**

- 3 % of govt budget estimates of aid expenditures actually disbursed
- 4 % technical assistance co-ordinated with country programmes
- 5 % of ODA using procurement systems (note indicator 5 also addresses PFM systems)
- 6 PIUs that are parallel to country structures (number of countries also shown)
- 7 % of planned aid disbursements actually disbursed by donors
- 8 % of aid which is untied
- 9 % of aid which is programme-based
- 10a % of donor missions which are coordinated
- 10b % of country analysis which is coordinated with other donors

The baseline assessment of the PP by donor reveals some interesting issues about donors engaged in education, health and water. It shows that few donors work exclusively in water or in education and health. Furthermore, most donors perform better against some indicators than others. This suggests no simple categorisation of ‘Paris-friendly’ or ‘Paris-unfriendly’ donors. This notwithstanding, a few donors—e.g. DFID (with a focus mainly on education and health)—score consistently highly against the indicators, while others (e.g. USAID), have consistently low scores. In the case of the US, which has the highest share (30.6%) of total ODA, this may well have implications in countries where the US is a significant donor in these sectors.

### 2.3 Implications for Paris

This review of global aid architecture has a number of potential implications for sector performance against both the indicators and the spirit of the PD. Overall, the significant contribution by ‘new’ donors and private funding sources highlights the importance of involving the non-traditional development partners in any dialogue of improving effectiveness of aid. The health sector stands out for its complexity which is indicated by the high number of GHPs and high funding volume passing through vertical programmes. Overall a smaller number of development partners are engaged in the education and water sectors and there are much smaller volumes of vertical funding.

With regard to traditional sources of ODA, the three sectors receive funding mostly from the same 10 donors. Patterns of ODA funding at global level may not however be directly reflected at country level. In general, while donor performance against Paris indicators is inconsistent, the US may be generally poor and DFID relatively

good. The relative contributions of these two donors to funding at country level may account for some specific outcomes in some sectors in some countries.

### 3 Comparison of progress against Paris Principles

In this section, we draw on the findings from the three country case studies to compare sector and country progress against the PP. This progress is summarised in Table 5 below and then described in detail for each country in turn.

The PD forms the basis for comparison and progress was based on our assessment of the achievement of commitments to date under each principle. We have used the Paris Indicators, where data was obtainable and qualitative information from semi-structured interviews, to verify progress against the five PP (see also Table 1 above for the benchmarks used).<sup>7</sup> The level of progress applies first and foremost within the country context but reflects overall progress between countries, as well.

#### 3.1 Three-by-three comparison

Table 4 uses ‘traffic lights’ to illustrate patterns of progress across sectors and countries. Progress ranges from strong (dark green), moderate to strong (light green) moderate (yellow), weak to moderate (orange) and weak (red). A table summarising the quantitative and qualitative information used to justify the level of progress by principle and sector can be found in Annex 1.

**Table 5: Progress against PPs by sector and country**

	<i>Water</i>	<i>Health</i>	<i>Education</i>
<b>Bangladesh</b>	Ownership	Ownership	Ownership
	Alignment	Alignment	Alignment
	Harmonisation	Harmonisation	Harmonisation
	Managing for Results	Managing for Results	Managing for Results
	Mutual Accountability	Mutual Accountability	Mutual Accountability
<b>Ethiopia</b>	Ownership	Ownership	Ownership
	Alignment	Alignment	Alignment
	Harmonisation	Harmonisation	Harmonisation
	Managing for Results	Managing for Results	Managing for Results
	Mutual Accountability	Mutual Accountability	Mutual Accountability
<b>Uganda</b>	Ownership	Ownership	Ownership
	Alignment	Alignment	Alignment
	Harmonisation	Harmonisation	Harmonisation
	Managing for Results	Managing for Results	Managing for Results
	Mutual Accountability	Mutual Accountability	Mutual Accountability

**Code:**

	Strong
	Moderate to strong
	Moderate
	Weak to moderate
	Weak

<sup>7</sup> As the framework was designed for assessing progress at country rather than the sector level, quantitative data was often not readily available at sector level.

The pattern in the matrix above indicates that country context is more significant than sector factors in achieving progress against the PPs:

Bangladesh shows overall weak to moderate performance against the PP in each of the sectors studied. Ethiopia lies in the middle with a mixture of weak to moderate/strong progress in the water sector and moderate to strong progress in health and education. Overall, achievement is highest in Uganda, which is generally recognised as a role model among SSA countries in owning and driving forward poverty reduction strategies. The results are broadly in line with the country chapters of the OECD global monitoring survey 2006 where Bangladesh<sup>8</sup> and Ethiopia made moderate progress against all five PPs and Uganda showed high progress except for harmonisation where improvement was moderate.<sup>9</sup>

The higher significance of country factors compared to sectoral factors is accompanied by inconsistent sector progress in the three countries. While in Uganda the water sector is most advanced, this position is taken by health in Bangladesh and by education for Ethiopia. However, the performance of a 'sector' may also disguise variable progress in different 'sub-sectors'. Similarly, the country chapters of the OECD global monitoring survey do not show coherent good or bad performance by individual donors active in all sectors across the three countries.

Below, we give a more detailed overview of progress against the PPs by country.

## 3.2 Uganda

In Uganda there are a number of similarities between the water, health and education sectors. These can be attributed to sector reforms in the late 1990s and strong political ownership, including leadership by the Ministry of Finance, Planning and Economic Development early this decade. All three sectors have had a SWAp in place for several years, which involve:

- the development and subsequent updating of sector policies and strategies linked to the MTEF;
- an annual or bi-annual sector review process that includes a range of stakeholders;
- systematic monitoring of progress against sector performance measures and annual reporting;
- a working group or sector coordination committee comprising central and local governments, donors and NGO representation, which acts as an information-sharing forum and exercises strong decision-making power in the sector; and
- a development partners' group in which most donors in the sector take part.

Under SWAps, each sector initially saw a significant shift towards delivery of aid as budget support and away from projectised approaches. As a result coordination between government and donors improved dramatically. At the same time, HIPC debt relief also provided an opportunity for donors to move away from project financing. Moderate or strong progress against the PPs is therefore reported virtually across the board. However, differences are seen between the sectors with a picture emerging of the water sector SWAP working best out of the three sectors.

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<sup>8</sup> Martinez (2008) for the health sector, Riddell (2007) for the education sector and Evans (forthcoming) for the urban water sector paint a less positive picture of sector progress against the Paris Agenda.

<sup>9</sup> See [www.oecd.org/dac/effectiveness/monitoring](http://www.oecd.org/dac/effectiveness/monitoring) for more details and for results of individual country chapters.

All three SWAPs developed in the context of strong ownership of development plans and a high political priority attached to poverty reduction at national level. The Poverty Eradication Action Plan was developed through a highly participatory process, and in 2001 the Government of Uganda and key donors signed up to a set of Partnership Principles for effective aid (Uganda Development Partners, 2006).

The OECD 2006 baseline study gave Uganda a score of high progress for ownership, alignment and managing for results, but moderate progress in harmonisation and mutual accountability. The study notes in particular that the high level of ownership “should provide a sound foundation” for aid effectiveness (OECD, 2006).

*Ownership:* Although political ownership was strong in the late 1990s and early 2000s for all three sectors, this has since declined in health (Örtendahl, 2007) and to some extent to education. However, political interest in education remains strong as demonstrated by the current presidential drive for universal secondary education. Ownership is considered highest in the water sector. The Ministry of Water and Environment has sustained strong leadership in developing and updating the SWAp, and sector policies and investment plans. Moreover, ownership is shared with civil society to a greater extent than in other sectors through engagement in the SWAp by UWASNET (the national network of sector NGOs).

*Alignment:* In water, policy alignment is strong. Most donors in the sector take part in a donor working group—which is represented on the sector working group—and align their aid with the sector strategic plan. Systems alignment is strong for the rural sub-sector where 87% of aid flows are channelled as sector budget support (Christiansen et al, 2007). This sector budget support contributes to a government conditional grant that funds local government service delivery. The urban sub-sector remains highly projectised, with use of parallel financial systems under a pooled fund and a number of independent donor projects. However, with the exception of major funding to the National Water and Sewerage Corporation (a parastatal supplying large towns) most projects are on-budget. The new Joint Water and Sanitation Sector Programme Support (JWSSPS) brings support to the sector under a single programme and aims to step up alignment in the urban sub-sector over time, but so far it does not represent any change in delivery mechanisms (MoWE et al, 2007). This is because of reluctance on the part of both donors and government to channel the pooled fund through government’s relatively new financial systems before they are fully proven.

In health, despite considerable progress towards alignment in the late 1990s and early 2000s, vertical programmes have increasingly distorted sector planning and budgeting and aid is now dominated by projects. The Division of Labour Exercise undertaken in 2006 revealed that there are at least 119 different projects and programmes in the sector. Only 25% of sector funding (but over 80% of government sector spending) is channelled to the recurrent costs of the minimum healthcare package, the centrepiece of the health policy and strategic plan. Over 50% of the health sector budget comes from project funding, yet only 41% of donor projects are reflected in that budget (Christiansen et al, 2007; MoH, 2007).

In education the vast majority of sector funding is still channelled as budget support via government systems (a combination of general and sector budget support) – more so than in water and health – and alignment is considered strong. However, for a variety of reasons including concerns about the quality of implementation and poor donor coordination, project funding is now on the increase.

*Harmonisation:* In the water sector, harmonisation is strong. Donors coordinate actions in a joint group and organise support through a basket fund (the Joint

Partnership Fund) with its own harmonised accounting procedures. The JWSSPS encompasses all donor support in the sector under a single programme but does not represent further harmonisation of donor procedures (MoWE et al, 2007).

In health, donor coordination is active but key gaps remain in coordinating with UN agencies and some major NGOs operate outside the SWAp. The majority of aid is provided as projects with no harmonised procedures, though the government is now seeking to rationalise these into fewer but larger programmes. The education sector also has a donor coordination group but not all donors are said to work through it which results in weak coordination. Donors in these sectors do not use harmonised procedures or a basket fund, and work directly with local government to a greater extent than in the water sector.

*Managing for Results* is considered moderate to strong in the water sector with a clear monitoring system and review process based on 10 “golden indicators”, and reasonable follow-up on undertakings as a result of an annual sector review. The JWSSPS aims to strengthen monitoring with the adoption of new milestones. This leaves open the option of tying aid to performance, if donors choose to adopt this route, and to promoting greater alignment among donors who hesitate to align because of concerns about performance. In comparison, the government reporting and monitoring system is perceived to be slightly weaker in the education sector with less follow up of the results of sector reviews. On paper, annual sector performance reports appear of similar quality and scope in all three sectors.

*Mutual accountability* is considered moderate to strong in water, according to the Paris indicators shown above. Donors share information on planned activities with government in the sector working group and an annual joint sector review process includes all major stakeholders including civil society and the private sector. Predictability of aid, which can be seen as an outcome of mutual accountability, is high in the water sector at 97% (if off-budget funding to the parastatal NWSC is excluded), but weaker in health creating a challenge to planning (MoWE, 2007; MoH, 2007). None of the sectors, however, have a formal mechanism to hold donors to account for their commitments, and holes in sector budgets mean that none of them feel able to refuse aid in whatever form and for whatever purpose it is offered.

### **3.3 Ethiopia**

In Ethiopia, progress towards the PPs was moderate overall, according to the 2006 OECD survey. At sector level, progress was ahead in education followed by health and then water. The water sector shows slower progress overall because a coordinated effort to develop a sector-wide approach started only in 2005 in the sector, while similar efforts have been ongoing in health and education since 1997/8. The short timeframe of engagement in water means that the sector does not yet have all the ‘mechanics’ of a SWAp in place; nevertheless the sector has made much progress since 2005.

A feature that cuts across the three sectors in Ethiopia is the Protection of Basic Services project (PBS), a block grant that co-finances basic social services including education, health and water. The PBS was designed as an alternative to direct budget support as donors no longer felt politically able to contribute resources directly to the treasury after the government’s violent clampdown on the opposition and protestors

contesting the results of the 2005 general elections.<sup>10</sup> In practice the PBS predominantly covers salaries, which leads the education sector to take the lion's share of PBS with 38%, compared to 10% in health and only 4% for water (PFMC, 2007). As a result, the education sector is more aligned than other social sectors in Ethiopia.

*Ownership* is moderate to strong in the water sector. Whilst the government-led Universal Access Plan sets the ambitious target of 100% coverage by 2012, the plan is not yet linked to a strong sector development programme and performance monitoring system. Having established an inter-sectoral coordination office on water, sanitation and hygiene at the Ministry of Water Resources (MoWR) in late 2007, the government is now in theory in a good position to exercise leadership over the sector development process. In comparison, the health sector takes 'assertive' ownership of its sector development programme, and has a clear vision, strategy for implementation and emerging performance-based monitoring information system. With a Health Harmonisation Manual, the sector is strongly pushing donors to adhere to 'one plan, one budget and one report'. The education sector also sets out clear and ambitious goals and a vision in its sector development programme.

*Alignment* In the water sector, policy alignment is progressing under a multi-stakeholder forum, a process which aims to lead towards a SWAp. In December 2007, a common bi-annual sector review mechanism was agreed and the sector financing strategy (EUWI, 2007) of May 2007 sets out a road map towards a joint financing agreement. In 2007, 47% of donor funding was recorded as 'on budget' (Thomson, 2007), but the percentage has increased substantially since then with important donors (DFID, UNICEF and WB) switching to 'on budget' funding after a joint review mission in May 2007. As an important intermediate step towards systems alignment, donors have joined together separate Project Implementation Units (PIUs) into a single sector coordination unit and a sector-wide Programme Implementation Manual (PIM) is currently under preparation. Procurement and financial reporting is a serious hurdle for sector aid effectiveness. Donor systems are used for financial reporting and procurement. The high standard of these systems slows down disbursement and spending of funds leading to a significant underutilisation of the sector budget (Tayler and Winpenny, 2006 in: RiPPLE, 2007).

In the health sector, policy alignment is weak to moderate as vertical programmes distort the planning, budgeting implementation and monitoring process and drain important staff resources. Over 60% of donor funding is directed to three particular health outcomes, HIV/Aids followed by tuberculosis and malaria at the expense of overall basic health care (MoH, 2008).

Education has the strongest alignment, partly because the proportion of recurrent budgeting, which is channelled through PBS, is highest in this sector. Funding for most other areas of support is channelled through an on-budget pooled fund.

*Harmonisation* is moderate in the water sector. Donors engage through a donor assistance group as is the case in other sectors, and increasingly carry out joint review missions and common sector assessments. In 2007, the PIUs of the WB, UNICEF, and the AfDB were joined together while DFID let go of most project inputs by co-financing the World Bank's agreed procedures. In health, harmonisation is weak to

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<sup>10</sup> The PBS funding is provided to the treasury consolidated account but earmarked as a contribution to the Federal GoE's Block grant allocation to the regions - that way donors can deal with domestic political sensitivities by being seen to bypass the Federal Government.

moderate despite of the strong lead of the health sector ministry. A number of development partners signed up to the International Health Partnership in 2008, but there is still disengagement from the part of important vertical programmes. The education sector is generally well harmonised with monthly donor coordination meetings, regular sector government-donor interactions and well established donor-government task forces on particular issues.

*Managing for Results:* The water sector's monitoring and information system (MIS) is the weakest link in the sector, complicated by the fact that the MIS is spread across water health and education. Simple, common reporting formats are under discussion as a starting point for developing sector-wide monitoring, and reflecting one of the key sector undertakings in 2008. Health and education show a more positive picture: in the health sector, performance-based monitoring is in the process of being rolled out and the education sector is seen to have a solid MIS in place.

*Mutual accountability* mechanisms are emerging in water with the forth joint technical review planned for 2008. In health and education, these mechanisms have been running for several years but the continued disengagement from the part of some development partners hampers progress particularly in the health sector.<sup>11</sup>

### 3.4 Bangladesh

The OECD 2006 baseline survey on monitoring the Paris Declaration rated Bangladesh's performance against each of the five PP as moderate. The tone of the report is one of "cautious optimism" (Evans, forthcoming): Bangladesh is moving slowly but surely towards greater alignment and the publication of the full PRSP in 2005 was seen as a major step forward (GoPRB, 2005). On average 53% of aid for the government sector uses Bangladesh's own public financial management systems, largely in the form of budget support, and 48% of aid uses national procurement systems (OECD, 2007). Four donors (ADB, DFID, Japan and WB) who collectively account for around 80% of the ODA flows to the social sectors have prepared a Joint Assistance Strategy which is aligned with the PRSP. DFID is supporting the creation of a MTEF involving 20 ministries although this process is extremely slow (Riddell, 2007).

The health and education sectors appear to be somewhat ahead of water in terms of implementing some of the PPs, with a track record of SWAps in both sectors. The water sector remains extremely projectised and ongoing efforts to reform macro-planning and financial systems<sup>12</sup> do not include water. However, while some of the accepted *mechanisms* for improving aid effectiveness are in place, even within the water sector, the spirit of the PPs is weak and in the case of health may indeed be weakening. While water has clearly lagged historically in the adoption of SWAp mechanisms in Bangladesh, the difference is not as great as it first appears, and the recent small steps taken in the water sector may in fact prove more robust in the longer term than larger steps made by other sectors.

*Ownership:* In the water sector, ownership is weak. Government participation in the sectoral Local Consultative Group (LCG) has limited influence on national policy and

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<sup>11</sup> The indicator for mutual accountability refers to 'mutual assessments in place'. If interpreted more broadly—i.e. regarding predictability of funding—then judgement would be less positive for health and education in Ethiopia.

<sup>12</sup> Such as recent DFID-supported efforts to develop a Medium-term Budgetary Framework for priority sectors under the PRSP

efforts to develop a comprehensive sector development plan are seen as being led by a small donor group under the leadership of Danida<sup>13</sup>. However some progress has been made in two sub-sectors: rural sanitation, where a highly successful project has triggered the government to take leadership and organise the sector around a consolidated approach; and in the urban water sector where key partners have worked with government to establish a joint development plan within the context of a multi-year investment program for two major cities<sup>14</sup>.

The Bangladesh health sector programme is one of the oldest and largest SWAPs (White 2007), but although government leadership was once strong, a recent review suggests that donor influence has increased considerably since the 1980s and there is now little ownership of the current sector strategy by government (Martinez, 2008).

In education, the current Primary Education Development Program (PEDP2) is a sub-sectoral program which leaves out part of the sector and one of the ministries responsible for education. The lead donor has reportedly dominated or attempted to dominate much of the dialogue and PEDP2 is generally viewed as a collection of projects in parallel with the government's education program (Riddell, 2007).

*Alignment:* Policy alignment takes place through coordination mechanisms such as the LCG on water, though the role of these bodies in policy is weak. Systems alignment is still weaker – the majority of aid flows in the sector are projectised, and water has not been included in DFID's support to the preparation of an MTEF. Some small steps have been made towards multi-year funding commitments from several donors in the urban water sector.

In health, policy alignment is weak, and donors prioritise certain areas in stand-alone projects. With regard to aligning systems, donors continue to channel funding bilaterally and to be heavily involved in day-to-day aspects of the health sector. Procurement for the SWAp goes through the government system. PIUs however continue to proliferate due to the projectised nature of much of the sector.

In education, policy alignment extends only to the formal primary education sector, and even then several significant actors are not aligned, including those in the NGO sector who play a significant role. Systems alignment is relatively weak – even in primary education some 21% of expenditure is off-budget and falls outside of PEDP2. In 2006, 20% of total foreign assistance for the sector was in the form of budget support accounting for some 5% of total public expenditure. These percentages are predicted to fall in 2007 (Riddell, 2007).

*Harmonisation:* In the water sector there have been some small steps towards harmonisation which have had mixed success. The Sector Development Plan, now in the process of revision, is seen by some as a donor effort to harmonise their approaches. Small practical steps have been taken in rural sanitation and urban water supply to harmonise policy and link this to planned investments.

In the health sector a history of disagreement and mistrust between donors has hampered efforts to harmonise, and this is said to be exacerbated by lack of leadership if not 'competition' between different departments in the Ministry of Health

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<sup>13</sup> The lack of a strong unified leadership is perhaps best demonstrated by the PRSP document (GoPRB, 2005) which cites water and sanitation as one of eight priority sectors, but provides little or no sectoral or policy guidance within the technical sections of the report. Indeed the PRSP as a whole lacks vision and focus and few sectors are treated with sufficient detail.

<sup>14</sup> In urban water however these commitments have not as yet yielded the most urgent policy commitments, and there is no sign that the linked donor contributions will be delivered in anything other than a traditional project mode.

(Martinez, 2008, White, 2007). The Health, Nutrition and Population Sector Programme (HNPSP) does have joint supervision which has been moderately successful although missions may comprise up to 70 staff, and 19% of the HNPSP Budget—about half of the ODA funding to it—is channelled through a pooled fund.

In education, observers report that ‘coordination and harmonisation of the donors’ group is still incomplete’ (Riddell, 2007). In addition, donors continue to support NGO-delivery outside of PEDP2; a consortium of five donors has established parallel sub-sector pooled funding with joint supervision and its own monitoring system.

*Managing for Results:* There is a distinct lack of reliable, and mutually acceptable, monitoring systems which can deliver information against the agreed plans. This point has been noted particularly in health where the HNPSP has two separate and different monitoring frameworks supported by different donors, neither of which can deliver the required data. In the rural sanitation sector, where there is at least a commonly agreed policy, disagreements still arise over the interpretation of data. In education there has been little effort to measure quality and outcomes<sup>15</sup>.

*Mutual Accountability:* Here again the story is rather bleak in all three sectors. The HNPSP has a system of Annual Performance Reviews with high quality analysis, but this is reported to have had little impact on policy decisions (White, 2007). In education there is some joint assessment within PEDP2, but again achieving little impact on future policy or implementation. In water no joint reviews are planned.

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<sup>15</sup> According to DFID Bangladesh, a UNICEF-Bangladesh Bureau of Statistics led survey in 2006 found sanitation coverage to be 39.2%, whilst the GoB reported through its DPHE-led monitoring system that coverage was 85%. The reason for this discrepancy is the different definitions used by the national program when compared to the international monitoring system and is not by itself an indicator of lack of mutual accountability. What is of more concern is the lack of debate and dialogue on how to interpret and make best use of monitoring systems which measure two very different indicators of progress.

## 4 Reasons for differences in progress

In this section we analyse why progress against the PPs has varied between countries and sectors. The findings in section 3 have shown that variations in progress are more significant between the three case study countries than they are between sectors across countries. The findings also show that no single sector shows greater progress than others. This points to the importance of a country's political economy<sup>16</sup> and sector governance in making progress against the PPs.

At the same time, section 2 revealed some fundamental differences in the aid architecture of the three sectors which also determines progress against the PPs. The health sector, for example, stands out for its large volume of vertical funding which raises particular issues for policy alignment; the water sector, on the contrary, has larger volumes of project-type investment via multilateral development banks. For donors, the 2006 OECD baseline survey suggests that they have a mixed track record with little evidence except for maybe DFID and the US that there are 'Paris friendly' or 'Paris unfriendly' donors within any of the three sectors we are considering. These differences lose importance by the fact that most of the top 10 ODA donors are the same for the three sectors. At country level in Bangladesh, Ethiopia and Uganda, there is no coherent pattern of donor progress against the Paris indicators.

Our analysis uses a governance lens examining institutional aspects, the role of actors and structural aspects governing the sector.

The section is organised along the five PPs. Under each principle, we compare the levels of progress across sectors and countries. We then raise particular issues which impact on progress towards the PPs leading on to lessons and opportunities for future engagement.

### 4.1 Ownership

Ownership provides the organising principle around which aid can be aligned and harmonised. Levels of ownership (as shown in Table 4) do not vary systematically between sectors, and differences between sectors are weak compared with those between countries. This indicates that levels of ownership are closely related to the broader political and governance situation within and beyond the sector. The concept needs to be further unpacked in order to provide a better understanding of the underlying barriers to greater ownership. Much of this relates to different dimensions of ownership. A number of key issues emerge from the analysis:

*National versus sector level:* The scope of sector ownership is partly driven by the extent to which there is a drive towards a national poverty alleviation and pro-poor growth strategy at the national level. An example of strong ownership is Uganda in the late 1990s. Here a nationally-driven poverty eradication action plan process and signing of partnership principles underpinned relationships at a sector level. The Ministry of Finance, Planning and Economic Development also took the lead along with sector ministries in driving the development of strong sector plans and strategies around which a SWAp could come together. In health and education, SWAps were pushed as a means to focus sector activity around the goals of universal healthcare and universal primary education, which were political priorities at the highest level. A

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<sup>16</sup> In this report political economy analysis refers to the "interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals that create, sustain and transform these relationships over time" as defined in ODI (2003).

lot of the impetus for greater aid effectiveness at sector level therefore came from the leadership of the Ministry of Finance, and even the President.

*Degrees of ownership within a sector:* The degree of government ownership of a sector development strategy can also vary considerably within a sector. It is useful here to make a distinction between *political* and *technical* ownership. In the Ethiopian education sector, strong *political* ownership is expressed by the Minister chairing monthly meetings with donors. In the water sector by contrast there was *technical* leadership, but interaction has been less frequent and limited to a few higher officials. In Bangladesh, ownership of the sector development plan was mainly *technical* and limited to the division responsible for rural WSS although the policy also spans urban WSS.

Barriers to broader ownership (*technical* and *political*) can be wide-ranging. In the Ethiopian water sector, during interviews reference was made to disincentives. At a personal level, fear of reputational risks may outweigh the potential gains of engaging in a sector-wide development process, particularly when the engagement process is not yet well established; transaction costs are high and donor behaviour uncertain. Other barriers relate to internal sector governance issues. In the Bangladesh health sector, for example, lack of leadership from the side of the sector government was underpinned by poor management and accountability: although responsibilities for programme implementation were in principle assigned to line directors, performance was generally not controlled. Lack of accountability was exacerbated by high staff turnover (28 out of 35 line directors were transferred between two programme reviews) and a mismatch in competencies (Martinez, 2008).

#### **Box 5: Decentralising Ownership in South Africa**

In addressing the pre-1994 backlog in water supply and sanitation, the newly elected government of South Africa embarked on a reform process specifically focused on water supply and sanitation. Although the new South African Constitution mandated local governments to provide water and sanitation services to people within their jurisdiction, early on the Department of Water Affairs and Forestry (DWAF) had been directly responsible for expanding basic services. Following the promulgation of local government legislation in the late 1990s, DWAF began to develop a new policy in 2001, embracing the new decentralised framework. The resulting draft policy which DWAF had prepared internally was presented to sector stakeholders in 2002. However, it was not received well, with objections to both its substance and the process of its preparation. In response, the department then instituted a consultation process that included all major national and local partners to develop a new again policy from scratch. The resulting framework, the Strategic Framework for Water Services, was remarkably similar in content to the previous draft policy. Yet, this time received buy-in from all major players including the municipalities.

Several advantages arise from a collectively owned water policy: simply put, a policy prepared collaboratively is owned more widely and therefore, in theory, is easier to implement. Moreover, at the time the policy is promulgated there is likely to be greater understanding of the implications and coherence in interpretation. One key factor in the subsequent buy-in from local authorities was that the South African Local Government Association disseminated the policy to its members rather than the sector agency DWAF.

*Source: derived from Jones and Williamson, 2005*

*Ownership for implementation?* Ownership also extends to the implementation of the development strategy. If lower levels of government do not feel ownership, implementation of sector development plans—and with this ownership of development outcomes—can be limited. Barriers to ownership at lower government levels are *inter alia* related to institutional factors; for example, consultation with regional and local government might need strengthening in the planning process, as

illustrated by an example from South Africa illustrated in Box 5 above. Another important barrier to implementation is the lack of capacity at lower government levels to carry out planning, budgeting, implementation and monitoring according to plan.

*Ownership that is inclusive or exclusive of civil society and the private sector?* Although the PD makes reference to civil society and the private sector involvement in SWAPs, insufficient emphasis is placed on their involvement given their significant input into service delivery. In the study countries there are now nascent platforms for sector NGOs. In Uganda, UWASNET, the national network of sector NGOs, has signed an MoU with MoWE for NGO coordination, capacity building, and support to local governments to work with NGOs and CBOs (UWASNET, 2003). Of approximately 400 NGOs operating in the sector, 200 are UWASNET members and 80 of them share detailed information on their activities with the sector. In the Bangladesh education sector donors have gone as far as setting up a parallel mechanism including a pooled fund with one NGO, BRAC that works on non-formal education (Riddell, 2007). On a related note, there is concern among NGOs that the Paris Agenda in fact diverts funding to government sources and away from other implementers, possibly leading to ‘institutional mono-cropping’—where there is a single large, potentially monolithic, implementing approach dominated mainly by government. Barriers to greater engagement from local non-governmental institutions may be a lack of capacity to engage in policy debates or a history of active avoidance of government. This raises key questions about the nature of power, and its exercise, within sector-wide approaches, many of which remain unresolved (see Hyden, 2008).

*Undesired direction of ownership?* Finally, ownership of development processes can take a direction that donors politically disagree with and do not want to align to. Examples exist in all sectors. In the water sector, for example, the government might decide to increase the ratio of budgeting for the urban sector to secure votes while donors would like to see the bulk of the budget allocated to the poorest parts of the population who generally live in rural areas.

The following lessons emerge:

*Foster positive incentives:* Fostering positive incentives for government (and civil society actors) to increase ownership is an important yet often overlooked ingredient for advancing ownership. Some practical activities in this direction are: finding a neutral broker among sector donors—ideally a donor with no particular spending pressure attached—to drive forward a SWAp process. In Ethiopia, Italian Cooperation was able to do just that under the EUWI-initiated process to develop a SWAp.

*Put more effort into developing widely-owned development strategies:* More work may be needed to evaluate broadly how to support a domestically-developed policy. The process should be led by government including, for example, identifying the need for and contracting technical assistance. More flexible funding could be made available to consult with and involve professional and civil society groups and to identify and support champions within these groups who could build policies on existing good practice in-country. One such example is the Ethiopian rural sanitation sector where the Water and Sanitation Programme, through flexible technical assistance was able to support the development and implementation of a national sanitation strategy and protocol that built on existing good practice (WSP, 2007).

*A SWAp should seek to strengthen intra-governmental relationships:* In Uganda strengthening the relationship between central and local government has been a key feature of SWAps in all three sectors. Local government has a key role in planning, takes part in sector reviews and receives ongoing support from the centre to be able to properly accomplish their role. One reason that coordination is more streamlined in Uganda's water sector is that donors do not bypass central processes as much as in health and education where more donors work directly with local government.

## **4.2 Alignment**

Alignment refers to the nuts and bolts of the PD through sector-wide approaches and their associated planning, financing and monitoring tools.

Alignment requires the development of a comprehensive sector programme around which donors can organise their support through developing assistance strategies, channelling financial support including through GBS, using the recipient country's procurement and financial systems and working with the government's own monitoring framework in a timely and predictable fashion, ideally through untied aid.

Overall, the level of alignment in the water sector was strong in Uganda, moderate in Ethiopia and weak in Bangladesh. The health sector performed relatively poorly in all three countries. Furthermore, there are also differences at a sub-sector level between the three countries. Whereas in Uganda and Ethiopia progress towards a SWAp is greatest in rural water supply and sanitation and small urban towns in Ethiopia, in Bangladesh alignment is more advanced in the urban sub-sector and in rural sanitation. Below, a distinction is made between issues arising under policy and systems alignment.

### **4.2.1 Policy Alignment**

*Aid modalities matter for prioritising areas of need:* A particular problem in the health sector is the alignment of development partner funding with a consistent sector development programme, largely due to the distorting influence of major vertical funding streams. The health sector is an extreme example where the global aid architecture of the sector—i.e. vertical, multi-donor programmes directing funding to particular health outcomes—can create a major bottleneck towards policy alignment at a country level (see also section 2). In Ethiopia, for example, more than 60% of donor financing is vertically targeted at three particular health outcomes: HIV/AIDS, TB and Malaria while, combined, the three diseases account for 19% of deaths (WHO, 2006; FDRE, 2008). The imbalance between levels of funding and sector priorities and the separate administrative mechanisms attached to some resources have had a profoundly negative impact on sector capacity to plan and prioritise effectively.

These major vertical funding programmes are not seen to the same extent in education and water, but the typically project-based nature of donor financing for a sub-sector may have a similar though less extreme effect if the sector is not free to determine the appropriate allocation of funds between different sub-sectors. In Uganda, for example, project and basket funding to the urban sector is high which makes it difficult for the government to reallocate these funds to rural areas.

*Policy alignment is affected by ownership:* Policy alignment is more straightforward in cases where there is a clear policy or strategy as, for example, in the Bangladesh or Ethiopia rural sanitation sectors. If the policy direction is not clear, policy alignment becomes more difficult and systems alignment may suffer as a result. In Bangladesh the water sector has two policies relating to rural water: the 1998 Safe Drinking Water

and Sanitation policy and the 2004 Arsenic Mitigation policy, with contradictory positions that include the approach taken to service delivery and on community contributions to capital costs. The sector's inability to find common ground on the issue has slowed down disbursement of funds (e.g. the WB's) with adverse effects on implementation. Incoherence at the policy level is probably also why the sub-sector remains highly projectised. Furthermore, aligning with sector policies also becomes an issue when donors do not agree with the priorities set by a sector, or perceive that the government is not acting in a 'pro-poor' manner. This can have a knock-on effect on systems alignment if the donor tends towards project financing in order to avoid signing up to the government programme.

*Problems in alignment are linked to power imbalances:* Power imbalances between donors and government can hold back alignment, particularly in more aid-dependent countries like Ethiopia and Uganda. Not one of the sector ministries in our study countries felt that they could refuse new offers for funding however presented, because of the low funding of their sector budgets. They therefore put up little defence against the risk that poorly-aligned funding could distort their policy priorities. Globally there are relatively few examples of sectors refusing funds because they were not 'well-enough aligned'. The underlying problem here is the difference in leverage between donors and recipient governments and the basic asymmetric power between the two.

#### **4.2.2 Systems Alignment**

*Different types of delivery systems require different aid modalities:* Delivery systems differ both between and within the sectors studied, with consequences for appropriateness of funding mechanisms. The water sector has characteristics of both a social and an infrastructure sector, but is generally more capital-intensive in nature than health and education. At a regional level in Ethiopia, for example, capital costs accounted for 74% of expenditure on water but only 10% of expenditure on education (PFMC, 2007). Rural water infrastructure and small-scale piped systems in urban centres can typically be delivered in similar ways to classroom construction, using government systems and capacity. Piped systems for large urban water delivery, on the other hand, require a projectised financing approach: initial costs are high and investments are lumpy, often spanning more than a year. Procurement and project management is necessarily complex and implemented in any public sector by project-type mechanisms. In aid-dependant countries, such infrastructure is largely delivered via donor projects, and there is typically no government system for donors to align funding to. Demanding systems alignment for such complex investments may have limited returns.

*Systemic weaknesses exist across sectors and the scope for using government systems is often similar:* GBS is seen as the ideal systems alignment approach because it uses government systems in full. However, concerns about corruption or political violence can cause donors to hold back or even change their approach (e.g. from GBS to PBS in Ethiopia). These issues can be addressed only to a limited extent by a sector, however strong its own record.

The use of procurement and financial reporting, two of the key indicators for systems alignment, is also subject to the broader governance context surrounding the sector. As a result, the scope for using government PFM and procurement systems tends to

be similar across sectors.<sup>17</sup> In Ethiopia, for example, the Protection of Basic Services (PBS) Fund is a modality that cuts across basic services sectors. Administered by the World Bank and earmarked as a contribution to the Federal Government's block grant allocation to regional governments, the PBS is mainly used for recurrent expenditures, i.e. salaries at district level. The modality has been judged a success for its timely and efficient provision of resources (Thomsen, 2007). In Uganda, notionally-earmarked sector budget support channelled through the Poverty Action Fund is also used as a modality across the three sectors. This helps to ensure predictability in funding at sector level. The use of government systems has also proved less vulnerable to cuts than GBS. A key lesson from Uganda is that the use of government systems via budget support has facilitated the strengthening of those systems.

*Using donor systems can lead to limited absorption capacity:* The failure to align with national systems is usually justified by the poor functioning of these systems or by wider governance concerns. However, donor systems are often too demanding for the limited capacity available in recipient countries, hence causing significant hurdles in delivering services. In the Ethiopian water sector, the use of parallel procurement and PFM systems at local level in the past has overburdened local government staff and led to significant under-utilisation of available sector funding. Woreda (district) water desk officers have had to take on financial reporting under the government procurement system which is neither their responsibility nor a role for which they are trained. Of total funding to the sector in 2005/6, estimates of absorption were around 61% (Tayler and Winpenny, 2006 in: RiPPLE, 2007) with serious consequences for service provision. With the current switch to on-budget funding these problems are now likely to ease as PFM will be carried out by staff of the Bureau of Finance and Economic Development.<sup>18</sup>

*Issues surrounding the predictability of funding vary between sectors:* Differences are evident between sectors in predictability of funding. The health sector is particularly affected by highly volatile funding (OECD DAC, 2007). This is reflected at a country level in both Ethiopia and Uganda. Ethiopia, for example, has currently no health sector funding commitments beyond 2010, while in Uganda the percentage of budgeted aid disbursed in the health sector in 2006-7 varied among donors from 46% to over one thousand percent (MoH, 2007).

In both these countries predictability was not a major concern in the water sector. In Uganda 97% of promised funds were released, excluding off-budget funding to the National Water and Sewerage Corporation. In Ethiopia, the delay in implementation was linked to bottlenecks created by donor PFM rules rather than delays in budget release. Another issue in the Ethiopian water sector was the lack of alignment of funding and review mechanisms with the Ethiopian fiscal year.

An underlying tension with regard to the predictability of funding cuts across sectors: while donors seek to provide aid over longer periods of time they may wish to retain the right to withdraw it or move away from budget support to more ad hoc mechanisms in the face of governance problems or political change, or indeed poor

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<sup>17</sup> Depending on their rules and regulations, development partners are not all capable of aligning to the same extent to a given system.

<sup>18</sup> There are counter arguments, however. In the Ugandan water sector, government procurement mechanisms can be slow and bureaucratic at the centre and donors sometimes slip back to using their own systems if they need something accomplished quickly, e.g. hiring a consultant. While it is recognised that this is not ideal, it does not seem to have had negative consequences.

performance by sectors. The issue here is how to strike an appropriate balance between legitimate demands of predictability and conditionality.

The following lessons emerge:

*Policy alignment is important for supporting ownership and can be pursued independent of systems alignment:* Policy alignment can be a starting point for greater systems alignment, and, where necessary, as a way of encouraging governments to improve and streamline procurement systems, etc. It points to the need to understand the complexity of change to political economies occasioned by new modalities of aid provision, the need to manage sequencing of new processes carefully and to be responsive to difficulties that emerge during the implementation of new arrangements.

*The distinct financing needs of the rural and urban sub-sectors require more nuanced systems alignment:* The rural and small-scale urban water and sanitation sub-sectors are more adapted to funding through government systems. The Ugandan case shows that even if absent at the outset, such systems can be built whilst channelling funding through the budget, as opposed to using pooled funds. This ensures government, not donor systems, are strengthened. Large-scale urban water and sewerage infrastructure investments by contrast are characterised by multi-year project-type investments, even in mature economies. Project-type financing arrangements are needed to deal adequately with these types of investments. Importantly, project-type financing still needs to be aligned with policies and plans, even if they do not use government systems.

*Do no harm:* In areas where alignment with government systems is not possible, donors should put more emphasis on the ‘do no harm’ principle. In particular, they should avoid creating bottlenecks that severely slow down delivery of basic services. Failure to deliver can undermine government accountability (and legitimacy) to citizens, can negatively impact on country ownership and may create reputational risk for donors. More care should be taken in ex-ante assessments of local-level capacity to adhere to donor rules and use – if not exact government rules – at least government PFM personnel as far as possible.

*There is scope to apply common forms of systems alignment across sectors:* The use of different funding modalities and of procurement and PFM mechanisms is dependent on national systems and therefore similar across sectors. This means that there is scope to use funding modalities across sectors that are less disruptive for intra-governmental relations. The PBS in Ethiopia and PAF in Uganda are positive examples.

*How to counterbalance development partner dominance?* Much aid in SWAps remains ‘bad’ in the sense that it is volatile (i.e. health), not provided in the right time frame (i.e. in line with recipient country fiscal calendars) or comes with conditions attached reflecting development partner rules and procedures. Many of these issues cannot be solved at the sector, let alone country, level. A form of ‘mutual cartelisation’<sup>19</sup> among recipient countries could be encouraged to increase their leverage to actively demand development partners to stick to their commitments. Occasions for sector officials to exchange experiences on problems they are facing with donor behaviour could be a first step in this direction. Having ministers from

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<sup>19</sup> This suggestion was put forward by Paolo De Renzio during a public meeting at ODI, 4<sup>th</sup> April 2008: Practical Challenges in Meeting the Paris Declaration: Predictability, Technical Assistance and Division of Labour.

recipient countries sit on the board of a vertical fund or creating a panel or donor review committee that could have a sector-specific aspect to it would be another possibility.

In the health sector there are now some innovations that aim at improving health outcomes. The International Health Partnership, for example, brings together a number of recipient countries, bi- and multilateral donors and private foundations, to improve donor coordination up to an international level. As well as coordination it also seeks to increase the focus on health systems as a whole as supposed to particular health outcomes, and to support countries' own health plans.<sup>20</sup>

### 4.3 Harmonisation

Harmonisation aims to reduce transaction costs for recipient governments through improved coordination between donors. This can take the form of pooling resources, delegating responsibilities, unifying procedures such as reporting, division of labour, silent partnerships and other activities. The PD indicators measure the degree of harmonisation by the increase of joint missions and joint analysis among donors.

While in Bangladesh harmonisation was weak to moderate in all three sectors, it fared slightly worse in the health sector compared to education and water in both Ethiopia and Uganda. Below, particular issues are identified and lessons drawn on how to deal with them.

*Positive steps towards harmonisation have been taken in all contexts:* In all three sectors of the three case countries donors have organised themselves under coordination groups and have established arrangements to pool resources. However, the degree of coordination and of joint funding arrangements differs between sectors and countries. In Ethiopia, where the SWAp in the water sector is still in a nascent stage and some sector donors cannot easily use harmonisation and alignment mechanisms, there is nevertheless a good spirit of cooperation and the main donors have assumed complementary roles. In the Bangladesh health and education sectors, on the contrary, mistrust between donors and in some cases with sector institutions has acted as a barrier and greatly limited the positive effects of harmonisation. For example the quality of the dialogue in Bangladesh remains formal and diplomatic and fails to address urgent day-to-day issues such as delays in procurement etc (Martinez, 2008).

*Harmonisation is limited by the non-participation of some development partners:* Globally private aid now makes up approximately a third of total development aid according to Kharas (2007). In addition, new donors such as China and vertical funding mechanisms are on the rise. This means that a significant and rising proportion of actors and initiatives may be working outside the PD framework. This was also reflected at the country level where, in each sector, reference was made to donors that did not actively participate in harmonisation efforts thereby weakening potential effects overall. The health sector stood out in all three countries for being particularly complex due to a higher number of actors<sup>21</sup>. Coordination is also made particularly challenging due to the characteristics of 'new' actors prevalent in the sector such as private foundations and vertical funding mechanisms which are often

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<sup>20</sup> <http://www.dfid.gov.uk/news/files/ihp/default.asp>

<sup>21</sup> Numbers of donors per sector are difficult to obtain at country level because not all development partners actively engage in sector coordination and are therefore not always captured.

geared towards particular development outcomes—e.g. polio eradication or HIV/AIDS.

In the water sector, actors tend to be fewer and harmonisation therefore more manageable. Multilateral funds play a more important role than in health, though the rigidity of their systems can act as an important barrier. Centralised structures and high standards for reporting and accounting requirements are a typical problem that renders sector level coordination more difficult. For example, in Ethiopia the AfDB's infrastructure advisor at country level is not authorised to take any decisions but has to refer all reports to Tunis.

*Some instruments of harmonisation show limited effectiveness to date:* Two prominent instruments of harmonisation are the division of labour (DoL) and silent partnerships. With regard to DoL, the EU Code of Conduct on Complementarity and DoL has developed new ideas on how to use the comparative advantage of European bilaterals.<sup>22</sup> The guidelines suggest, for example, that EU donors concentrate their activities on two focal sectors limiting their commitment in other sectors to GBS or a delegated partnership / cooperation agreement. However, applying the code remains voluntary and has resulted in few changes so far.<sup>23</sup> Private foundations, international NGOs and Southern donors are currently not involved in the DoL exercise in spite of their significant contributions, raising questions with regard to the relevance of the exercise.

Silent partnerships were not prevalent in the country case studies. The Ethiopian water sector is an example of an arrangement with elements leading to silent partnerships: for example DFID entered the sector in 2006 but left its five-year £75 million injection of money to the sector largely to the WB by co-financing the latter's existing procedures (DFID Ethiopia, 2007). In this way DFID avoided creating an additional delivery mechanism in a sector that still remains highly projectised—but risked putting all its eggs in one basket at the same time, particularly if the existing mechanism has not shown very positive results in terms of development outcomes. There is, therefore, concern over the effectiveness of the existing arrangement. Due to the demanding rules of the previous WB programme, underutilisation of funding was high in 2007 resulting in low absorption capacity. To date (June 2008) none of the DFID funding has actually been spent on service delivery—some seven months after pledging. In the Ugandan rural water sector by contrast, harmonisation around government procedures using sector budget support resulted in high levels of absorption. This also means that policy and systems alignment was automatic. The above examples highlight that harmonisation does not replace ownership and alignment and should, where possible, be oriented to recipient government procedures. Harmonising around procedures that lead to low levels of absorption capacity and service delivery is not productive in terms of development outcomes for poor people.

The following lessons emerge:

*Harmonisation mechanisms need to draw on the non-traditional development partners:* Unless new development partners participate in harmonisation efforts, the question arises whether these efforts will have the intended effect of reducing

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<sup>22</sup> <http://europa.eu/scadplus/leg/en/lvb/r13003.htm>

<sup>23</sup> The limited application of the code of conduct may be related to its current design of only permitting donors to commit to two sectors. This may also lead to 'orphan sectors' that remain neglected.

transaction costs for recipient governments. This issue is important for all sectors but more urgent in health where the proportion of non-traditional donors and the number of actors is likely to be higher.

*Increasing the effectiveness of existing mechanisms:* Evidence from the three case studies shows that even traditional donors who theoretically adhere to the PD agenda, do not always implement their commitments. Reasons for this relate to adverse incentive structures, mistrust between donors and rigid structures. Actions need to be taken to overcome these problems.

With regard to mistrust, having an effective broker at the sector level who does not dominate the process but plays the role of a facilitator to foster a productive working relationship among donors could be a key step forward.

Changing internal incentives and relaxing rigid working procedures is in the hands of each individual donor. Stronger pressure should be exercised internationally to remove these internal barriers towards increased harmonisation.

#### **4.4 Managing for Results**

Managing for Results (MfR) entails recipient countries linking up sector strategies with budget allocation measured against results-oriented reporting. Donors are expected to harmonise M&E requirements and align them with the country's sector framework.

Results-based monitoring (RBM) is weak across the three sectors in Bangladesh. It was moderate to strong in the Ugandan water sector, a case known for its 10 golden indicators, and in the Ethiopian health sector where a new performance-based monitoring information system is being rolled out. The following issues arise:

*MfR is difficult when systematic monitoring and information systems are not yet in place and sector data remains contested.* In some areas data from international monitoring programmes such as the Joint Monitoring Programme (JMP)<sup>24</sup> for the water sector differs substantially from data obtained by country-based monitoring systems—discrepancies can be as high as 25%. For example, in Ethiopia, access to rural water supply stood at 35% in 2005 according to sector internal monitoring (MoWR, 2006) while JMP data for 2004 estimate that 11% of the rural population had access to water supply. Similarly, in Bangladesh, according to DFID, a UNICEF-Bangladesh Bureau of Statistics-led survey in 2006 found sanitation coverage to be 39.2%, whilst the GoB reported through its monitoring system that coverage was 85%. Discrepancies are partly related to different criteria used and highlight the need to agree a common definition of access as a starting point for sector monitoring. Furthermore, there is also a need to improve national data collection mechanisms to underpin planning and performance management. The recent aid effectiveness review by the World Bank focuses on MfR and calls on donors to support statistical agencies and to give monitoring greater prominence in SWAps (World Bank, 2007).

*Parallel donor reporting increases transaction costs for recipient governments:* When strong monitoring systems are not in place, donors tend to rely on parallel monitoring programmes. Parallel reporting increases transaction costs and diverts resources away from important governmental reporting lines between local government and central ministries, from line ministries to ministries of finance or to parliament, and from government to its citizens.

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<sup>24</sup> The JMP for water supply and sanitation is a common initiative by the WHO and UNICEF(see also: [www.wssinfo.org](http://www.wssinfo.org) )

*The development of RBM happens incrementally:* The development of an RBM framework in the Ugandan water sector, set out in Box 6 below, sector is an example of good practice in this regard.

The improvement in the Ugandan monitoring framework has resulted in donors increasingly relying on the government reporting system via the annual sector review process in the water sector.<sup>25</sup> Donors can incorporate their concerns in the ToR of the sector reviews. Despite its relative success, it is recognised that the sector monitoring framework still needs further strengthening. This is now being taken forward under the Joint Water and Sanitation Sector Programme Support, which sets out new milestones to strengthen monitoring and enables donors to give performance-based aid.

**Box 6: Developing RBM in the Ugandan Water Sector**

In Uganda, first efforts towards improving monitoring started with a sector report in 2003 that evaluated data sources available and defined a number of themes that would lead to results-based reporting. A working group on sector performance was set up and five performance themes were selected: impact, quantity and quality, access and usage, equity and affordability, functionality and managerial responsibilities and value for money. 10 golden indicators were selected to measure progress in the five areas. The strategy for reporting was to continue to use existing information but to gradually improve its quality and accuracy. But, the process has also faced problems. Finding the appropriate institutional “home” for data analysis and interpretation was problematic and improving data quality was slow.

Source: Pinfold, 2005

The following lessons emerge:

*Strengthening monitoring systems is an iterative process:* It is possible to establish a cycle of improvements in monitoring. The monitoring system put in place at the start of a SWAp process can later be built upon according to capacity in the sector and the concerns which arise out of early sector reviews. Rather than attempting a complex monitoring system at the outset, it may be more effective to start simple and later seek to increase the quality and type of indicators or performance standard demanded. In the Ethiopian water the first step is the use of common reporting formats for a technical sector review each May. The World Bank review found that it takes time to consolidate processes for strategy setting, budgeting and performance assessment into a coherent framework, and that the development of national results-oriented frameworks is strongest in countries with second-generation PRSPs (World Bank, 2007). A similar pattern is seen between the three sectors in Ethiopia: MfR is quite strong in the health and education where a sector development plan has been in place since the late 1990s, but weak in water where the strategy is more recent.

*Effective MfR depends on the sector’s internal incentives to learn and to take informed decisions.* The strength of monitoring systems is linked to internal incentives in the sector that can encourage or discourage informed decision making. In Bangladesh, for example, sector reviews are in place in all three sectors but the findings are rarely followed up. In the water sector in general, weak monitoring could partly be linked to the widespread use of parallel monitoring systems set up by donors or NGOs and the culture that once systems have been delivered, they are handed over to users. Contrary to the health and education sector, water sector officials are also

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<sup>25</sup> Getting towards a single sector results framework requires creative thinking. In the case of Uganda, the sector indicators continued to be out of line with the Poverty Reduction Support Credit’s indicators used by the WB. Adopting a new indicator called “successful annual sector review” proved a way for the WB to drop the previous indicators that were out of tune with the 10 golden indicators emerging in the sector.

less well placed to monitor because of fewer staff and a general lack of capacity to carry out field monitoring.

*The level of corruption may determine the willingness of the government to develop an RBM framework.* Perceived levels of corruption are a serious challenge in all three countries but worst in Bangladesh, which was 162<sup>nd</sup> out of 180 countries ranked according to the Transparency International Perception of Corruption Index in 2007. In Bangladesh where perceived levels of corruption are high, progress towards RBM has been particularly weak.

*Monitoring sanitation and hygiene poses a particular challenge:* Sanitation and hygiene improvements are, unlike water supply, linked to behaviour change at household level. This makes monitoring outputs problematic, including increased numbers of latrines and hand washing facilities and their use, let alone health outcomes. In Bangladesh and in Ethiopia, innovative monitoring systems for measuring sanitation and hygiene improvements are currently being trialled.

*There are financial incentives for MfR for both donors and sector ministries:* Donors have an interest in MfR because it enables them to demonstrate the impact of their aid to domestic constituencies, which will help to preserve budgets. At the same time, while performance monitoring has costs there are also financial incentives for sector ministries. In Uganda, ministries commented that if they could show results for their investments, it would enable them to lobby for funds from the Ministry of Finance. This is a significant motivation where sector budgets are under-resourced. However these twin incentives for donors and ministries may not be complementary if donor domestic constituencies demand parallel monitoring and reporting because of quality concerns or the need to use their own indicators.

## **4.5 Mutual Accountability**

Under mutual accountability recipient countries committed to strengthening the role of parliament in developing plans and budgets and to reinforce participatory processes, while donors promised to provide timely, comprehensive and transparent information on aid flows. The PD indicator measures mutual accountability through the implementation of ‘mutual assessments’. In the three country case studies, mutual accountability was considered to be more positive in those sectors that had comparatively stronger SWAps in place such as the Ugandan water sector or the Bangladesh health sector. The following issues arise:

Memoranda of Understanding signed as part of SWAps and related common review processes under SWAps can provide a platform for mutual accountability. If they are organised in an inclusive way, they can extend to local governments and civil society organisations. A good example is the sector review process in the Ugandan water sector where domestic constituencies demand a seat at the table during sector reviews.

However, SWAp review processes are not a panacea and cannot overcome the difference in leverage between donors and recipients at country level. The same issues arise as under policy and systems alignment in section 4.2: In many health SWAps, recipient government and donors have developed so called “partnership principles”, but if donors are not willing or able to adhere to them, it is difficult for a sector government to take punitive action.

Another barrier to mutual accountability is the fact that some donors do not have adequate representation at a country level making it is difficult for recipient

governments to engage with them. This goes for some of the global health funds such as GAVI and GFWTM. In other cases, e.g. the AfDB, donor staff are present in country but are bound by rules set by higher levels in their organisations, and recipient governments lack a platform to negotiate with the donor on an equal footing.

Two lessons emerge.

First, civil society organisations could play a stronger role in demanding mutual accountability. Although they take part in review processes, they have yet to play a strong advocacy role at sector level in any of the three case studies. For example, WSS NGOs could demand donors to be more transparent about their aid commitments and disbursements and then campaign for greater donor accountability in cases where they do not comply. However, such an advocacy role is relatively new for many NGOs and they may lack capacity and confidence in this area. In the Uganda water sector NGOs have a seat on all the sector working groups and sub-groups, but they admitted frequent poor preparation for meetings and limited influence overall.

Second, mutual accountability needs to be taken to a higher level to become meaningful. As referred to in section 4.2 on alignment, this could take various forms. Recipient government stakeholders could, for example, form donor review panels that judged the donor on performance in a particular sector. The recently-formed International Health Partnership is another example of how negotiations between donors and sector governments can achieve a higher level and thereby become more balanced.

## 5 Towards improved development outcomes?

The focus of this study is on the performance of the three basic service sectors against the PPs. However, in practice, good performance against the PD does not automatically mean that aid is used more effectively and ultimately contributes to improved development outcomes at a sector level. Although analysing the critical relationship between AE and development outcomes was beyond the scope of this study, the following observations are useful.

A mechanic adherence to the PD indicators will not necessarily improve the quality of aid or the delivery of aid outputs in the spirit of the Declaration. The reduction of transaction costs for recipient governments and a higher prioritisation of areas of need can serve as examples to illustrate the need to achieve a clearer idea how aid is being used more effectively:

*Transaction costs*<sup>26</sup>: It is striking that while in all three mature SWAp processes in Uganda stakeholders noticed a reduction in transaction costs, in spite of the longstanding SWAps in Bangladesh there was no clear sign of reduced transaction costs. So while there may be more coordination meetings and pooled funding arrangements in place, the *quality* of aid relations does not seem to have improved substantially in Bangladesh.

*Prioritising areas of need*: Do we know whether aligning aid to recipient countries national and sector development priorities and plans leads to better policy choices? For example, how do we know whether services are delivered as a result of development partners' engagement with the PD? And, even further, do we know whether they are they allocated equitably and reach the most vulnerable?

When looking at some key MDG indicators for the three sectors, an interesting picture emerges. Table 6 below shows key MDG indicators for the three basic service sectors in 1990 and 2004. The data is taken from global sources so as to allow for comparison.<sup>27</sup>

There are clear trends in improved health and education, e.g. infant and under-five mortality fell in all three countries and gross enrolment went up in all three countries. However, the water sector shows less clear trends. Access to rural water improved only by 2% in Bangladesh, worsened in Ethiopia, but increased by 16% in Uganda. Access to rural sanitation improved substantially in Bangladesh i.e. from 12% to 35%, increased from 2% to 7% in Ethiopia but showed no changes in Uganda.

What lies behind these trends? Have improvements (e.g. the sharp increase in sanitation coverage in Bangladesh) worked because or in spite of the international and national efforts towards greater AE? Or, is there maybe no link at all between national efforts towards harmonisation and alignment and improved sanitation coverage? Based on current knowledge it is difficult to attribute efforts towards the PD to improved development outcomes. But, ultimately, these are the links we need to make to better understand whether recipient governments and donors are making real

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<sup>26</sup> It has to be noted that objectively measuring transaction costs is difficult. Our findings are based on people's perceptions and references in the literature.

<sup>27</sup> For water and sanitation, the most recent data available is from 2004, and this year is therefore taken as a benchmark although it does not take into account the last three years where the AE agenda has gained more momentum.

progress towards the spirit of the PD and are using aid more effectively to achieve greater development outcomes.

**Table 6: Changes in key development indicators between 1990 and 2004**

	Bangladesh		Ethiopia		Uganda	
	1990	2004	1990	2004	1990	2004
<b>WSS</b>						
Access to urban water	83%	82%	81%	81%	80%	87%
Access to rural water	69%	71%	15%	11%	40%	56%
Access to urban sanitation	55%	51%	13%	44%	54%	54%
Access to rural sanitation	12%	35%	2%	7%	41%	41%
<b>Health</b>						
Maternal Mortality per 100,000	850	No data	1400	No data	880	No data
Infant Mortality per 1000	100	56	131	110	93	81
Under Five Mortality per 100	149	77	204	166	160	138
<b>Education</b>						
Gross Enrolment	No data	No data	No data	91.3%	128% <sup>2</sup>	118%
Net Enrolment	91.3%	97.6%	22.6% <sup>1</sup>	47.9%	No data	93% <sup>4</sup>

<sup>1</sup>data from 1991; <sup>2</sup>data from 1995; <sup>3</sup>data from 2000; <sup>4</sup>data from 2005

Source: [www.mdgs.un.org](http://www.mdgs.un.org); [www.who.int.whosis](http://www.who.int.whosis); [www.wssinfo.org](http://www.wssinfo.org)

## 6 Conclusions and Recommendations

The objective of this study was to review the extent to which the PD principles are applied in the water sector in response to the assumption that the water sector is generally lagging behind the other basic social sectors such as health and education.

The study has found that the water sector is *not consistently underperforming* in the three country case studies. Rather, we would argue that the situation is based on the inherent contexts of governance in each country within which the sector is embedded. The political-economic context and the behaviour of governance arrangement may well outweigh most inherent sector differences. Below, we draw overall conclusions and recommendations. However, it is important to remember that this study is based on three country examples only. The trends shown here offer a good starting point for discussion but do not necessarily reflect any possible country situation.

### **1. The broader governance environment is a more important influence on progress against the Paris Principles than sector characteristics.**

From our case studies differences in progress against the PPs are more pronounced *between countries* than *between sectors*. This indicates that aspects of the governance context—beyond the sector—rather than sector characteristics alone, are a key influence on progress. Whilst this may seem an obvious conclusion, it is often overlooked in the rush to judge progress by sector.

Key factors supporting or hindering progress include the political commitment to poverty reduction and to the sectors in question, include the presence of strong financial and fiscal structures such as an MTEF, and effective institutions—including the relationships between different governmental and non-governmental bodies at different levels.

In Uganda, where an MTEF has been in place for over 10 years, accompanied by strong ownership of the national development programme, a moderate or high level of progress has been possible in all three sectors. In Bangladesh, where budgeting processes are only weakly linked with the PRSP, ownership of the development programme is more limited and a high proportion of investment in human development sectors takes place outside government through major NGOs. This makes establishing effective SWAps a greater challenge. Progress in the sectors is undermined by weak ownership and a lack of faith in government systems. In a weak external environment, however, there are some steps which donors can take to bolster ownership at sector level as discussed in Section 4.

*Include a broader governance analysis when seeking to understand sector opportunities and barriers to progress against the PD:* such an analysis could build on existing analysis including the Drivers of Change approach. This analytical framework could be developed further to look particularly at the sectoral politics of changes to aid architecture and the frequent assumptions about institutional behaviour brought by donor representatives without a good grounding in social science disciplines. Importantly, such analysis would take into consideration the political dynamics driving sector decision, personnel changes, and policy outcomes and the relationships of sector actors and institutions to wider political contexts (for example, in the Ethiopian context, the relationships between federal and regional level under a system of ethnic regions). This analysis would seek to understand the power

relationships between different actors at different levels and identify genuine leadership at sector level, e.g. how to nurture such leadership and avoid the sucking of good personnel and nascent leaders into the donor agencies themselves. Developing a more sophisticated analysis of the sectoral politics of development change responds to widespread acknowledgement that understanding politics is crucial for engaging at a sector level (see for example Martinez, 2008; White, 2007; Riddell, 2007; Hyden, 2008; Booth, 2007; Plummer and Slaymaker, 2007).

## **2. The perception that the water sector is lagging behind is not supported if the *spirit* rather than the mechanics of the PD is considered**

In all three countries, moves towards a SWAp have come later in the water sector than in health and education. Nevertheless, there had been further progress against the PPs in the water sector in Uganda than in health and education. In Ethiopia and Bangladesh the instruments associated with the PD are less well developed in water compared to the other two sectors. Whilst this appears to suggest slower progress, our findings warn against such a mechanistic reading of progress and advocate for a more fluid notion based more on the spirit of the PD. The existence of instruments such as coordination mechanisms or sector reviews can mask shortcomings in the spirit of the PD. Bangladesh for example has a longstanding SWAp of sorts in both health and education but not in water, but these SWAPs have not led to substantially more effective aid delivery because of weak government ownership and poor commitment from donors. To give a specific example, joint donor missions are undertaken in the education sector (one of the Paris indicators for alignment) but their effectiveness is limited by lack of trust between donors. The small steps taken so far in the water sector towards harmonisation and alignment may hold as much promise as the apparently well-developed SWAPs in other sectors. Another example is the health sector where in spite of coordination mechanisms developed both at country level, progress continues to be undermined by the predominance of vertical funding and the volatility of funding.

*Mechanisms to foster the spirit of the PD are continual review and learning rather than implementing a pre-defined set of steps:* The implementation of the Paris agenda in SWAPs or other instruments should not be seen as a one-off step but rather as an ongoing dynamic process. Progress is likely to stall or even decline for a variety of reasons. These may relate to changes in the prevailing governance and political-economic environment, as in Ethiopia where donors have twice suspended budget support in response to concerns associated with conflict and human rights abuses, and the Ugandan education sector where donors are shifting some funds back into projects and NGOs because of governance concerns. Bottlenecks are also often encountered within sectors. The Ethiopian health sector is developing a strong performance monitoring framework but progress is hindered by donors who insist on reporting against their own priority outcomes. SWAPs should be a platform for learning for both donors and recipients, with continuous review of successes and obstacles to help ensure that aid effectiveness intent translates into service delivery outcome. This also implies there is no obvious sequencing of principles but that the pace and level of engagement depends on the opportunities at hand in a given situation.

### **3. Some dynamics are specific to particular (sub-) sectors and require a more targeted approach**

The type and number of actors and type and levels of financing differs between sectors. While all three sectors receive support from ‘traditional’ donors, levels of private aid and multi-lateral funding rapidly increase. The water sector is likely to be more affected by new donors such as China with a particular emphasis on infrastructure development while the health sector stands out for receiving high levels of aid from private foundations and multilateral funding initiatives tied to particular development outcomes. The implications for engagement differ and some lessons in this regard are drawn in section 4.3. However, most of the new actors have in common that they operate outside the framework of greater AE under the PD. As the contribution of these new actors at country level increases, the framework of AE risks losing its relevance. These are critical issues of international political economy in the aid environment that the sector could reflect upon at the upcoming Accra meeting.

Another difference between sectors is linked to the delivery systems. Water is a ‘hybrid’ sector, with characteristics of both social and infrastructure sectors. The urban sub-sector requires large infrastructure investments, whilst rural and small urban centres require small-scale investments. For rural WSS as well as for small towns the development and use of government systems as well as policy alignment is important as it is for the health and education sectors.

*Foster a mix of financing mechanisms in the water sector and a more sophisticated aid effectiveness debate:* In all three case study countries, systems alignment is considered problematic for the urban sub-sector because it is dominated by project modalities and off-budget funding. However, as urban water supply demands large, ‘lumpy’, multi-year investments, it is appropriate that they are funded through project-type mechanisms, which is the case in mature economies, as well. None of the case study countries currently has a government-owned mechanism in place for this type of investment, and it may thus be more appropriate to focus on policy alignment of aid in the urban sub-sector whether or not it is in project form. It is essential that project funding does not undermine the incentives for urban water utilities to collect revenues from water users. Donors should support the development of innovative mechanisms for project-type financing through government channels to replace parallel projects, as in Uganda, and may learn from the infrastructure sectors in doing so.

### **4. Some aspects of system alignment such as PFM and procurement cut across sectors. A cross-sectoral solution to these issues is potentially more fruitful than narrow sector engagement.**

Our case studies show that sectors are all determined by wider political-economic structures with implications for some aspects of systems alignment. This is particularly so for financial management and procurement systems, which lie outside the sector at national level but influence the effectiveness of aid delivery at a sector level in all three countries. To address such underlying issues and barriers, engagement at a higher level than the sector may be more effective than trying to find solutions within a sector. For example, the Protection of Basic Services Fund in Ethiopia or the Poverty Action Fund in Uganda cut across sectors and are less disruptive for intra-governmental relations in the recipient country than sector-specific solutions. Although the PBS fund in Ethiopia is predominantly used for

salaries, and does not touch on issues of procurement, expanding this funding mechanism to include a cross-sector Local Investment Grant is currently under discussion.

### **5. Paucity of data for measuring progress against the PP for AE at sector level**

Finally, this study has revealed that, at sector level, data to measure progress towards the PP for AE remains extremely weak. The indicators developed and used for the OECD survey on AE are not differentiated by sector and the availability of information with relevance to the PPs varies between sectors and countries. For example the Ethiopian health sector had calculated the extent to which development partner funding reflected the priorities set by the sector. This information was, however, not readily available for the other two sectors.

Furthermore, the indicators currently identified under the PD are at times not very informative unless further background information is obtained. For instance, if comparing donor performance against the PD, a percentage of coordinated missions or coordinated analytical work does not give much information about how the quality of the relationship has improved and whether transaction costs have been reduced for the recipient partner government. Last but not least, there is currently no evidence that the fulfilment of the PP leads to better development outcomes, e.g. increased access to WSS. This is a critical lacunae and should be addressed urgently at the upcoming high-level forum in Accra.

*Develop a coherent set of sector level indicators to enable monitoring progress against the PP.* If sector actors are serious in their intention to measure progress against the PP at a sector level, they need to develop a set of indicators and data against those to enable them to measure and compare progress between sectors and/or countries. Ideally this would be underpinned by a more sophisticated measuring of progress at country level that links progress against the PP with changes in development outputs and outcomes.

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### 7.4 Uganda specific

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Annex 1: Summary of Progress against the Paris Principles by Country and Sector

	Water (and Sanitation)	Health	Education
<b>Bangladesh</b>	<p><b>Ownership:</b> <b>Weak</b> The Sector Development Plan is a comprehensive sector document but is seen as largely a 'donor-driven' document with limited ownership. The Public Expenditure Review for water explicitly notes the lack of engagement of sector stakeholders including government. The exception may be rural sanitation where government has a strongly articulated policy.</p> <p><b>Alignment:</b> <b>Very weak</b></p> <p><b>Policy:</b> The LCG provides a forum for information exchange but does not generate joint commitments to policy or programming. Some joint government-donor dialogue takes place on policy (rural sanitation, urban water). Joint sector analysis is led by donors not government. The Sector Development Plan is largely for rural water and does not enjoy wide ownership.</p> <p><b>Systems:</b> Country systems are generally reported to be unreliable by donors. There is little evidence that any donor funds in the sector are on-budget although most are reported in the Annual Development Plan. Water and sanitation are not included in efforts to improve PFM, MTEF and budgeting apart from small TA from WSP and DFID to build capacity in parts of the ministry. The low level of confidence in national systems was demonstrated by DFID who invested in designing a Sector Budget Support program which would address some systematic corruption and governance issues in selected sectors, including rural water and urban water and sanitation, though this program was ultimately cancelled. PIUs do not appear to be reduced in number. No information on procurement systems.</p> <p><b>Harmonisation:</b> <b>Weak to moderate.</b> Aid is projectised not programmatic. Some harmonisation in urban water where donors signed a joint policy and funding framework with government (but this is in early days as of now). Also some agreement between donors on rural sanitation. Strong disagreement on rural water (cf. the PER states "Certain strategic choices embodied in the Sector Development Programme are at best controversial, at worst wrong"). Non-formal (NGO) providers play a very significant role but their expenditures are not tracked by the PER and other sector documents.</p> <p><b>Managing for Results:</b> <b>Very weak</b> . Mutually agreed monitoring systems are absent – reporting is mostly on a project basis to individual donors.</p> <p><b>Mutual Accountability:</b> <b>Very weak</b> Some small steps towards multi-year funding commitments in urban water but no evidence that mutual assessments are planned.</p>	<p><b>Ownership:</b> <b>Weak</b> There is 'no formalized health policy' rather a series of five-year development plans which are said to be largely donor driven. The SWAp is known as the Five-year Health, Nutrition and Population Sector Program (HNPSp). This is said to have been 'rushed' and the process was 'dominated by consultants'. Some donors currently active in the HNPSp confirm a lack of government ownership. Some government respondents report that the donors already know what they want when the dialogue starts.</p> <p><b>Alignment:</b> <b>Weak to moderate</b></p> <p><b>Policy:</b> Several observers noted that there are strong policy disagreements between donors and government – evidence that donors disagree with the real thrust of national policy and have shaped the HNPSp to suit their own agenda. Also some major donors have maintained projects outside of HNPSp (ie HIV/AIDs) because of disagreements over policy. A significant % of activities are not included under the HNPSp (including all health expenditures in the urban and for-profit sector, the latter accounts for 60% of rural health budget).</p> <p><b>Systems:</b> Half of donor finance to HNPSp (representing about 19% of the total HNPSp budget) goes through a pooled fund and uses government PFM systems. A comparable amount of donor funding goes to parallel projects using off budget financing arrangements and channeled through separate accounts. The remaining 66% of the budget comes from government. Budget preparation, forecasting and reporting have improved but remain rather weak in the view of the Annual Performance Review of the HNPSp. Procurements systems have been streamlined to 'fit' with IDA procurement.</p> <p><b>Harmonisation:</b> <b>Weak to moderate</b> Some efforts with limited results due to mistrust between donors and a history of mistrust between some donors and government. HNPSp joint supervision has had some success (although missions may comprise up to 70 staff). Continuation of parallel projects means that transaction costs remain high (many donor missions and PIUs).</p> <p><b>Managing for results:</b> <b>Weak</b> – structures in place for HNPSp allow for joint measurement of outcomes and good analysis but this is not used by government. The Health Information System cannot generate information on many indicators included in the HNPSp framework.</p> <p><b>Mutual Accountability:</b> <b>Moderate</b> in HNPSp but said by some to be deteriorating. There appears to be increasing disillusionment or lack of faith between government and donors.</p>	<p><b>Ownership:</b> <b>Weak to moderate</b> the sub-sector SWAp (PEDPII) is 'dominated' by a single lead donor who tends to 'speak for the government' (as related by other development partners). The SWAp is seen as a system which is 'parallel' to the national strategy rather than part of it. Donors also support a major NGO (BRAC) for non-formal education which falls outside the government system entirely.</p> <p><b>Alignment:</b> <b>Weak to moderate</b></p> <p><b>Policy:</b> Only for formal primary education around PEDP II. Non-formal providers and major donors in other sub sectors are not aligned with government policy.</p> <p><b>Systems:</b> Pooled fund for most PEDPII donors, but major donors also have parallel projects (ie IDA funds major programme to reach out of school children). PEDPII itself has two parallel mechanisms; the Programme Liaison Unit (PLU) to assist with monitoring and coordination and the Programme Coordination Unit (PCU) inside government but staffed by consultants that 'carries out implementation'. PEDPII uses 'multiple bank accounts'.</p> <p><b>Harmonization:</b> <b>Weak to moderate.</b> LCG and PLU are weak and fail to provide a clear direction around which donor and non-formal providers can harmonise. Joint supervision is carried out but mistrust between donors 'limits its effectiveness'. Five donors fund a separate program through BRAC (an NGO) with its own pooled fund and joint donor missions.</p> <p><b>Managing for results:</b> <b>Very weak</b> – little information available on quality or outcomes.</p> <p><b>Mutual Accountability:</b> <b>Very weak</b> - only within PEDPII if at all.</p>

	<b>Water (and Sanitation)</b>	<b>Health</b>	<b>Education</b>
<b>Ethiopia</b>	<p><b>Ownership:</b> <b>moderate to strong:</b> the Universal Access Plan for water and sanitation has more ambitious targets than the Ethiopian PRSP but refers to it; the sector plan is not linked to a performance monitoring system and the strategy for implementation is not thoroughly developed.</p> <p><b>Alignment:</b> <b>weak to moderate-</b></p> <p><b>Policy:</b> TC programmes implemented through separate Project Implementation Manuals but are currently reworked into a sector-wide manual.</p> <p><b>Systems:</b> in February 2007, approximately 47% of external funding was recorded on-budget in addition to the Protecting Basic Services Fund<sup>28</sup> but the proportion has increased since. An off-budget pooled fund for capacity building is in place. Financial reporting and procurement for capital investments follows on donor procedures; this led to significant under-utilisation of sector funding (only 26% for some regions) ; in essence, the sector is still projectised, The number of parallel PIUs was reduced over the last year with WB, AfDB, UNICEF and DFID (in silent partnership through WB) combined under one PIU; donor funding is provided in multi-year frameworks but not necessarily tied to the Ethiopian Fiscal Year; more problematic than timely disbursement is the lack of government to use funding because of lack of capacity to deal with procurement and financial reporting.</p> <p><b>Harmonisation:</b> <b>moderate</b> –donors engage through a sector working group around the multi-stakeholder forum supported through the EUWI; this process will lead to a common sector review schedule twice a year (one technical, one issue-based) starting from 2008, common sector priority actions and analytical work; in 2007, donors carried out a number of joint missions (e.g. DFID and UNICEF piggy-backed on the WB Mid-term Review)</p> <p><b>Managing for Results:</b> <b>weak</b> – the sector does not have performance-based reporting and the monitoring system is generally regarded as unreliable and not comprehensive. M&amp;E was made a priority at the latest sector review in December07, joint formats were agreed and a sector review of MIS is underway</p> <p><b>Mutual Accountability:</b> <b>moderate</b> – bi-annual joint sector reviews will take place starting from 2008.</p>	<p><b>Ownership:</b> <b>strong</b> - “assertive” ownership of the health sector development programme (HSDPIII) linked to the Ethiopian PRSP, clear vision, strategy for implementation and performance-based MIS emerging. Sector government exercises leadership.</p> <p><b>Alignment:</b> <b>weak to moderate:</b></p> <p><b>Policy:</b> Vertical programmes lead to budget distortions and inhibit effective sector-wide planning and budgeting (over 60% of donor funding is earmarked for HIV/AIDs, TB and Malaria).</p> <p><b>Systems:</b> no figures obtained as to how much donor funding is on-budget in addition to funding channelled through the protecting basic services fund. There is an on-budget pooled fund for international procurement of medical supplies and the rest of the funding is channelled through vertical programmes off budget; the sector uses donor PFM and procurement systems; aid predictability is a problem in the sector; e.g. PEPFAR has 12 month funding cycles; in total there are no donor commitments beyond 2010, which is seen as a problem by the sector</p> <p><b>Harmonisation:</b> <b>weak to moderate</b> –donors engage in a sector working group and participate in joint sector review mechanism, some donors signed recent commitments under the international IHP+ initiative BUT disengagement from some important vertical programmes.</p> <p><b>Managing for Results:</b> <b>moderate to strong:</b> Sector is in the process of establishing a performance-based reporting system (HMIS); ministry has shown that it can deliver and measure results for money spent but problem lies with donors who are committed to particular outcomes and insist on reporting against them</p> <p><b>Mutual Accountability:</b> <b>moderate:</b> there is a code of conduct and at IHP+ some donors and vertical programmes committed themselves to increased AE. Yet, others continue not to be on board; common sector review mechanism is in place.</p>	<p><b>Ownership:</b> <b>strong</b> – Clear goals and vision in education sector development programme, (ESDPIII) which is linked to the Ethiopian PRSP; operationalised and accompanied by strong financial commitments from the side of the government; clear leadership from the sector government</p> <p><b>Alignment:</b> <b>moderate to strong –</b></p> <p><b>Policy:</b> Sector funding is aligned with the policy but a few donors continue to work outside the SWAp.</p> <p><b>Systems:</b> the support to Protecting Basic Services are provided as budget support and Education receives the lion’s share of it (38%); in addition there is a pooled on-budget fund called GEQIP which deals with issues such as quality and school grants; GEQIP receives funding from the fast track initiative; in addition, there is an off-budget pooled fund for TA. The sector uses donor procurement systems. There was no information on the reduction of PIUs; predictability of funding was seen as an issue as donors suspended budget support in the past (1998/2005).</p> <p><b>Harmonisation:</b> <b>moderate</b> - Common understanding among ministry and donors that joint review process is the way forward; well established joint annual review mechanisms, BUT a few important donors do not actively participate; No information obtained on joint analytical work and decrease of PIUs.</p> <p><b>Managing for Results:</b> <b>moderate to strong:</b> Education MIS is robust and trusted. Not clear whether it is linked to performance.</p> <p><b>Mutual Accountability:</b> <b>moderate:</b> Joint sector review mechanism in place and working.</p>

<sup>28</sup> The Protecting Basic Services Fund replaces direct budget support. It is channelled via a block grant to the sub-federal governments and administrations of Ethiopia. Although all three sectors receive PBS, the education sector profits most from it because the fund is predominantly used for recurrent costs such as salaries.

	<b>Water (and Sanitation)</b>	<b>Health</b>	<b>Education</b>
<b>Uganda</b>	<p><b>Ownership:</b> <b>strong</b> – Government has driven the development of the SWAp and sector plans, there is a sector-wide investment plan (composed of subsector plans) linked to MTEF and approved by a sector working group (SWG) of government, donors and NGOs.</p> <p><b>Alignment:</b> <b>moderate to strong</b></p> <p><b>Policy:</b> <b>strong</b> Most donors work through the sector working group and most aid is aligned with the sector policy and strategic plan.</p> <p><b>Systems:</b> <b>strong in rural WSS, moderate in urban</b> – In the rural sector 87% of aid is as sector budget support channelled to local governments in the conditional grant from MoF, and there are very few projects. In the urban sector there are more projects with varying degrees of integration – but no fully stand-alone project units. The basket fund - Joint Partnership Fund (JPF) - uses its own financial systems but the new Joint Water and Sanitation Sector Programme Support (JWSSPS) aims to align it further and set out an “exit strategy” from the JPF. It also aims to reduce urban projects by establishing a government financing mechanism for small towns. Central procurement procedures are sometimes bypassed because they are very slow.</p> <p>Disbursement of budgeted donor funds is highly predictable, at 79% or 97% if off budget project funding to the NWSC (parastatal serving cities) is not counted.</p> <p><b>Harmonisation:</b> <b>moderate to strong.</b> There is a small number of donors in the sector, engaged in the sector working group and coordinated in a DP group. Most support at the central level is through the JPF – a basket fund with its own harmonised accounting procedures – and the JWSSPS aims to bring all aid into the sector under the same umbrella programme. Almost all analytical work in the sector is agreed and commissioned by the SWG. Some donors work in isolation e.g. on area-based programmes, or place conditions on funds.</p> <p><b>Managing for Results:</b> <b>moderate to strong</b> Clear monitoring system and a broad-based annual review process with 10 “Golden Indicators” which add focus. The reports are high quality and follow-up on resolutions is reasonably good. However there are concerns about monitoring. The JWSSPS sets out new benchmarks and milestones to strengthen monitoring and allow performance-based aid.</p> <p><b>Mutual Accountability:</b> <b>moderate to strong</b> Donors share information on planned activities at the SWG. Joint sector review includes central and local government, donors civil society and private sector.</p>	<p><b>Ownership:</b> <b>moderate to strong</b> Sector strategic plan is in place tied to the budgeting process, with an annual sector review. Government has taken a strong lead in some respects e.g. pushing vertical funds towards greater alignment, but donors remain powerful and government leadership has declined in recent years.</p> <p><b>Alignment:</b> <b>weak to moderate</b></p> <p><b>Policy:</b> Vertical funds and projects have a distorting effect, producing resource allocation which is not aligned to sector priorities but skewed towards HIV/AIDS.</p> <p><b>Systems:</b> Early on in the SWAP process, the sector successfully drove increased systems alignment as donors moved towards sector budget support, and the use of parallel systems fell. However with the introduction of vertical funds, this trend was reversed and by 2006/07 the majority of aid was provided as over 120 projects, the majority of which were off budget. Whilst significant projects and major vertical funds remain, the Government has recently had some success in pushing for alignment of vertical funds to government disbursement systems, and is insisting on integration of projects and rationalising a large number of projects into fewer larger projects. Aid has become more predictable since the SWAp and in 2006/7 donor funds were 210% above what was budgeted. However this figure masks a range of over- and under-releases from 46% to 1039%.</p> <p><b>Harmonisation:</b> <b>weak to moderate</b> Donor coordination mechanisms are quite active through a DPs group that meets monthly in advance of the Health Policy Advisory Committee (HPAC) to present a united front. However some weaknesses in communication remain and coordination with UN agencies is said to be a challenge. In addition the sheer number of projects being supported means that harmonisation is not being delivered. There are also significant NGOs operating outside the SWAp.</p> <p><b>Managing for results:</b> <b>moderate</b> Monitoring is said to have improved under the SWAp and a joint sector review produces a high quality report and undertakings every year. However both government decision making and donor funding is not well aligned to the achievement of sector results.</p> <p><b>Mutual Accountability:</b> <b>moderate</b> Donors are required to submit information on their plans to government, which shares this information with members of HPAC. The annual sector review includes central and local government, donors and civil society.</p>	<p><b>Ownership:</b> <b>strong</b> A sector strategic plan and MTEF are in place with a bi-annual joint sector review process. The Education Sector Consultative Committee (ESCC) includes govt, donors and NGOs. It approves plans and advises on policy/strategy. Political ownership of the agenda is strong and extends to the President, for example in the current drive for Universal Secondary Education. However the sector lacks a strong base of ownership among civil society.</p> <p><b>Alignment:</b> <b>strong</b></p> <p><b>Policy:</b> Whilst sector funding is well aligned with policy, not all donors work through sector coordination processes, so their support is not always sequenced and prioritised according to the sector plan. TA is not well aligned with government needs.</p> <p><b>Systems:</b> Since the introduction of a SWAp the number of projects has greatly decreased and the majority of aid to the sector now comes in the form of general and sector budget support – more than in the water or health sectors (70% of on-budget support is EBS). However the number of projects is now creeping up. Most projects disburse via government systems, but have parallel reporting procedures and separate missions.</p> <p><b>Harmonisation:</b> <b>moderate</b> There is a DPs group - Education Funding Agencies Group (EFAG) - but not all donors work through it. Coordination could be improved and the “politics of visibility” are still be in play among donors.</p> <p><b>Managing for results:</b> <b>moderate</b> The SWAp has strengthened capacity for planning, implementation and monitoring. A sector review process is in place but follow-up of concerns in the sector seems to be weak. There are concerns about the quality of education.</p> <p><b>Mutual Accountability:</b> <b>moderate.</b> Biannual sector review includes govt, donors and NGOs. Some information on donor activities is shared at the ESCC but not all DPs take part. There is a perception that donors cannot make up their minds whether or not to work fully with government.</p>

