



HARMONISATION AND ALIGNMENT IN WATER SECTOR PROGRAMMES AND INITIATIVES

GOOD PRACTICE PAPER

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Good Practice Paper

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Acronyms

AfD	Agence Française de Développement
AfDB	African Development Bank
AMCOW	African Ministers' Council on Water
DAC	Development Assistance Committee
Danida	Danish International Development Assistance
DCI	Development Co-operation Ireland
DfID	Department for International Development
DTF	Devolution Trust Fund
GPP	Good Practice Paper
GTZ	Gesellschaft fuer Technische Zusammenarbeit
H/A	Harmonisation and Alignment
HIP	Harmonisation in Practice
IWRM	Integrated Water Resources Management
JICA	Japanese International Cooperation Agency
KfW	Kreditanstalt fuer Wiederaufbau
MDG	Millennium Development Goals
MfDR	Managing for Development Results
MoU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NGO	Non-governmental Organisation
ODI	Overseas Development Institute, UK
OECD	Organisation for Economic Co-operation and Development
O&M	Operation and Maintenance
PRSP	Poverty Reduction Strategy Paper
DE	Danish Embassy
RWSS	Rural Water Supply and Sanitation
RWSSI	Rural Water and Sanitation Initiative
SEA	Strategic Environmental Assessment
SIDA	Swedish International Development Co-operation
SWAp	Sector-Wide Approach
WSP	Water and Sanitation Program
WSS	Water Supply and Sanitation
WSSPS	Water and Sanitation Sector Programme Support

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1 Introduction

This Good Practice Paper (GPP) aims at addressing the following three major issues: (a) to present an overview of lessons learned and experiences gained with achieving harmonisation and alignment (H/A) in practice; (b) to give insights into why and how achievements have been accomplished; and (c) to provide guidance and operational recommendations.

The GPP draws on experiences and lessons learned in Danida country programmes with water programmes and components and under a specific multilateral initiative. It is based on a literature review of Danida's programme and component documents as well as on broader international experience of H/A. Interviews have been conducted with Danida staff in Bangladesh, Benin, Burkina Faso, Ghana, Kenya, Uganda and Zambia and with the AfDB in Tunisia, a circulated email questionnaire and a broader discussion with other development agencies where relevant and feasible.

This documentation of good practice relies on the opinion of Danida staff. It is an overview and synthesis rather than a detailed account of particular experiences due mainly to the study's short timescale and the restriction of having to conduct telephone interviews.¹ The GPP examines the topic of harmonisation and alignment from the viewpoint of donor agencies and Danida in particular.

The GPP is structured as follows: Section 2 sets out background information regarding the new aid agenda and aid harmonisation and alignment; Section 3 documents experiences and synthesises lessons learnt; and Section 4 sets out recommendations based on Danida's experience and the wider literature.

This GPP has been prepared by the Technical Advisory Services (BFT) with assistance from Katharina Welle and Alan Nicol, Overseas Development Institute (ODI), and Frank van Steenberg, MetaMeta. The Danish Embassies and Water Sector Programmes in Bangladesh, Kenya, Benin, Uganda, Ghana, Zambia, Burkina Faso, Vietnam and AfDB have provided valuable inputs to the paper.

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¹ A second step could be to investigate further specific good practices identified in this paper, which would importantly include interviews with partner government staff and other donor agencies involved.

2 Background

2.1 The new aid agenda

In response to extensive criticism of project-based development cooperation as inefficient and ineffective, during the 1980s and 1990s a new aid agenda emerged which aimed to work more effectively towards poverty reduction. The underlying idea was that in order to reduce poverty, developing countries needed to become the drivers of their own development destiny. Under this new aid agenda, programme-based aid has subsequently emerged as the principal approach to providing development assistance in less-developed – and especially in the most highly aid-dependent – countries. Under this new framework, with the broad participation of various constituencies and the assistance of development partners, partner countries formulate nationally-owned development and/or poverty reduction strategies. The elements of such a programme are described in Box 1.

BOX 1: The PRSP/Sector Programme model

Ideally a poverty reduction strategy comprises a policy document and overall strategic framework, a medium-term expenditure framework (MTEF) and an annual budget and government-led donor co-ordination process. The steps to develop the basic elements of such a programme include the establishment of a government-led process of donor co-ordination, and the development and agreement of a clear policy, strategy and MTEF. At the same time the management systems for the programme are strengthened through the development of a common performance monitoring system and reporting calendar, an agreed process for harmonisation of reporting, budgeting, accounting and procurement systems and a systematic client and stakeholder consultation process. At sector level, the same model applies for developing a sector programme, which is supposed to be strategically and fiscally linked to the national poverty reduction strategy.

2.2 Aid harmonisation and alignment

Linked to the emergence of this new aid agenda, an international commitment to aid effectiveness gained support following the Financing for Development meeting held in Monterrey, Mexico in March 2002. The Monterrey Consensus *inter alia* called on developed countries to provide more and better aid, and on developing countries to strengthen their policies and institutions to help achieve the Millennium Development Goals (MDGs). This process of seeking greater aid effectiveness continued at the High-Level Forum on Harmonisation held in Rome in February 2003 at which donors committed themselves to align development assistance with country-partner strategies and to harmonise donor policies and procedures in order to achieve more effective outcomes for poverty reduction. This commitment was reaffirmed during the second High-Level Forum in Paris in March 2005 during which a set of indicators was developed to track progress (OECD-DAC, 2005a).

At an international level, the OECD-DAC Working Party on Aid Effectiveness and Donor Practices focuses on breaking down the broad objectives of H/A into more practical guidelines and on monitoring progress at the national level. The activities of the working party cover H/A in general, public financial management, procurement capacity building and Managing for Development Results (MfDR).²

² See also: <http://www.aidharmonization.org/ah-ga/secondary-pages/ga-wp>

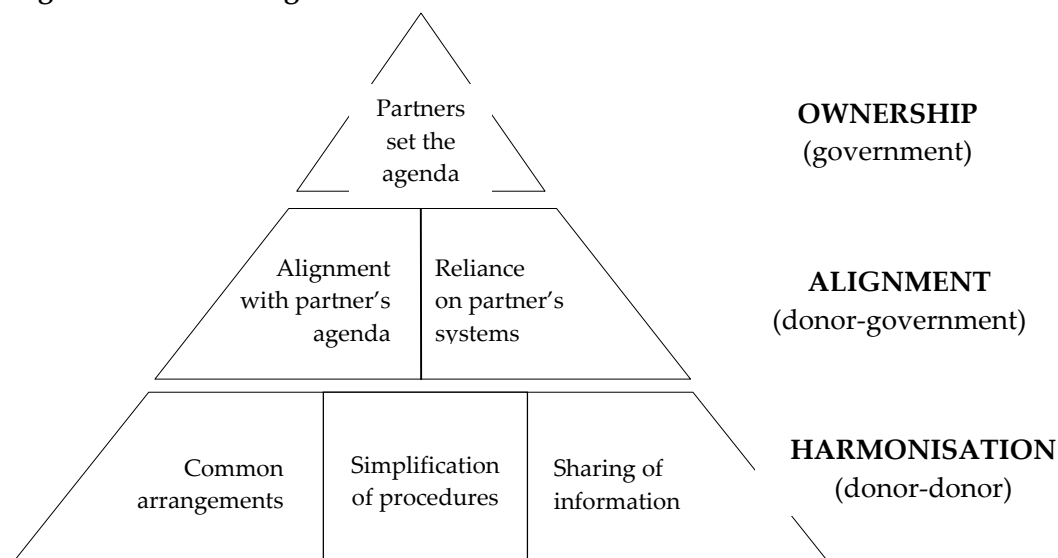
2.2.1 Where does Danida stand?

Responding to the changing international aid environment, the Danish Ministry of Foreign Affairs issued new Danish Aid Management Guidelines³ in 2005 (Danida, 2005). These set out to guide Danida and its partners to progress further on new aid modalities and programmes that emphasise H/A in all aspects of development cooperation. The broad shift in Danida's aid approach this entailed has been mainstreamed across all sectors, including the water sector⁴. Danida is now in the process of adapting its support programmes to follow these new guidelines.

2.3 Defining harmonisation and alignment

The overarching goal for achieving increased aid effectiveness is to increase national ownership of development processes and to reduce transaction costs of development cooperation for the recipient government. Harmonisation and alignment are conceptualised as important building blocks towards this end. The ideal-type relationship between the different components is pictured in Figure 1 below.

Figure 1: The building blocks for aid effectiveness



Under this definition, developed by the OECD/DAC Working Party on Aid Effectiveness (OECD-DAC 2005a), harmonisation is the first necessary building block. It refers to increased coordination between, and the streamlining of, aid agencies such that transaction costs are reduced for partner governments. This includes sharing of information, working towards the simplification of procedures, reducing the number of donor missions and creating common arrangements for designing, managing and implementing aid.

³ Danish Aid Management Guidelines: <http://amg.um.dk/en/>

⁴ The water sector here is defined as the broad set of institutions, policies, strategies, legislations, programmes and activities within water resources management, urban and rural water supply and sanitation as well as hygiene and health promotion related to water and sanitation.

Alignment is the second building block for aid effectiveness and refers to actions between donors and governments that aim to increase national ownership of development processes. Alignment stands for donors providing assistance that accords with and supports partner government national and sector development strategies and relies on partner government systems and procedures – e.g. national public financial management systems, monitoring and evaluation systems and procurement policies – to manage the aid implementation process.

Ownership, the third building block for aid effectiveness, refers to actions taken at the national/sector level by the government – legitimised by parliamentarians and citizens – that assists progress towards development and poverty reduction. This programme involves the elements described in Box 1 above. (ODI 2005) Experiences have shown that ownership is a necessary but not sufficient condition for aid effectiveness. In order for ownership to result in enhanced aid effectiveness the necessary institutional reforms and capacity building must be successfully completed.

Often, the term ‘harmonisation’ is also used as shorthand for all approaches seeking to achieve aid effectiveness. This paper follows the definitions set out above.

2.4 Tensions and challenges under the new aid agenda and H/A

Although the rhetoric of development cooperation has changed significantly, practical progress towards country ownership and reduced transaction costs for partner governments remains piecemeal and varies widely between different countries. (ActionAid 2005, Driscoll 2004)

In the water sector progress towards comprehensive sector programmes has been particularly slow compared with sectors such as health and education. Reasons for this may be related to factors such as institutional fragmentation across various ‘sub-sectors’ including water resources management, water supply and sanitation, the predominance of large stand-alone donor projects and the prevailing perception that water is not a “social” sector. (Mehta & Fugelsnes 2003; Slaymaker and Newborne 2004)⁵

The new aid agenda faces a number of tensions and challenges that are likely hindrances to progress in achieving poverty reduction outcomes to date. These include:

- A linear model of change which assumes that there are clear causal relationships between intended actions and outcomes;
- A tendency to create upward accountability between governments and donors rather than (downward) from government to citizens; and
- A tension between adhering to high quality standards versus ownership of the agenda by national stakeholders.

There are also a number of specific challenges related to harmonisation and alignment, including:

- The tendency of donors to “gang up”, especially in cases where country ownership is still weak (see also Box 2 on clusters of experience);
- The challenge of “what to align to?” in cases where policies, strategies and MTEFs are non-existent or weak; and

⁵ Whilst these reports specifically refer to Sub Saharan Africa, experience suggests that the findings also apply to aid dependent countries in other regions.

- The absence of incentive systems within donor organisations such as consistent reviews of internal rules and procedures and recruitment policies with a view to effectively support H/A.

Given the above challenges, it is not surprising that the capacity of donors and governments to work effectively together varies widely. This underlines the need for mechanisms that allow sharing of best practice.

2.5.1 What do we understand by Good Practices?

An increasing body of literature documents a wide range of lessons learned and emerging good practices across countries and sectors. For example, the OECD-DAC has produced a guidelines and reference series on harmonising donor practices for effective aid delivery⁶ and, most recently, a sourcebook of emerging good practices on Managing for Development Results (MfDR)⁷.

For the purposes of this paper, good practices are defined as contributions to the goals of increased ownership and reduced transaction costs. Those activities mainly contributing to increased ownership are found under alignment activities, those leading to a reduction of transaction costs under harmonisation.

Good practices in this paper are also understood in more general terms as all those practices that are likely to contribute to positive social change. Change is conceptualised here as an incremental evolution of multiple small steps, rather than single (large) intended steps in one direction. To help development assistance to achieve greater aid effectiveness, this means that good practice is to:

- Encourage alternative views of development by multiple actors in developing countries including civil society organisations, parliamentarians and the private sector;
- Emphasise capacity building at national and sub-national level; and to
- Support innovation by taking risks in developing new initiatives from the start.

⁶ See also: http://www.oecd.org/document/60/0,2340,en_2649_33721_15731196_1_1_1_1,00.html

⁷ See also: <http://www.mfdr.org/Sourcebook.html>

3. Danida-supported experiences and lessons learned in the water sector

This chapter documents and draws lessons from some of the experiences of Danida-supported activities in the water sectors of seven countries and from one Danida-supported multilateral water sector initiative.⁸ The section starts by pointing out particular cross-cutting issues on H/A before documenting particular experiences organised according to the 'building blocks for aid effectiveness' presented in Figure 1, namely:

- (a) Harmonisation—including information sharing, simplifying procedures and using common arrangements;
- (b) Alignment—with partner countries' development strategies, institutions and systems, which comprises examples of moving towards a programme-based approach, strengthening public financial management and procurement systems, as well as developing a common monitoring framework with the aim of managing development results.

The section then synthesises the experiences under a set of emerging lessons.

3.1 General issues

Many interesting and useful experiences are currently emerging under Danida-supported activities. In most cases they are not bold changes, but rather small, incremental steps in the direction of developing a common strategic vision, process or management procedure. This is important as it underlines the complexity facing the achievement of H/A in such contexts, and also the value to be gained from taking a more learning-based approach. Given the local context-specific complexity, good examples cannot necessarily be easily replicated from one country to another.

Nevertheless, the study highlighted different 'clusters of experience' in H/A depending on the composition of donors in a country and on whether the government plays an active or passive role. Some examples of this are typified in Box 2.

BOX 2: Clusters of experience of Harmonisation and Alignment

Strong or significant country leadership: In these cases, which include Uganda, country leadership has provided for substantial levels of alignment in key areas.

Weak country leadership and fragmented donors: This cluster of countries included Burkina Faso and Kenya. They are commonly characterised as hosting fragmented or even competing donors, and a government which struggles to provide clear policies or systems to align with.

There are usually some elements of the H/A agendas that are beginning to be addressed slowly. Attention is usually focused on policy debates with systems alignment issues falling behind.

Derived from: ODI 2004

⁸ Under programme-based approaches, it is difficult to distinguish the contribution of the individual stakeholders towards the development of a specific action. The examples described below do therefore not intend to establish causal linkages between Danida's activities and developments towards H/A but simply document Danida-staff experiences.

In addition, in most countries, there is an incremental progression from informal forms of harmonisation and alignment, which often rely on personal relationships to agreements on more formalised forms of H/A. Different countries are positioned at various points along this scale.

3.2 Harmonisation

As shown in Figure 1, harmonisation is conceptualised here as actions between donors, mainly aimed at reducing transaction costs for the partner government. This includes simple activities such as information sharing or donor coordination as well as actions that require more systemic changes within donor organisations such as simplifying reporting requirements.

3.2.1 Information sharing and simplifying procedures

Most frequently information sharing takes place during informal and formalised donor meetings, which are now commonplace.

One somewhat different example of information sharing is the Rural Water Supply and Sanitation Initiative (RWSSI) of the African Development Bank (AfDB). RWSSI, a major regional initiative which aims to reach the MDGs on water and sanitation in rural Africa through a programmatic approach to providing water supply and sanitation services in member countries. A crucial part of the initiative at the country-level is to collaborate with other donors as far as possible. This means that at the political level, AfDB has taken the decision to hold consultations with all sector donors and to invite them to join its initiative prior to starting operations in any given country. However, in practice there are some examples of difficulties at country level.

One way of simplifying procedures on information sharing is to select a lead donor to speak on behalf of all other donor organisations in that partner country. This is the case in Uganda and is currently in the process of being established in Zambia; in both cases the central government has pushed this arrangement.

3.2.2 Common arrangements

There are a number of examples of activities aimed at **increased coordination and common arrangements** between donors. Experiences range from informal coordination to more formalised common financial arrangements. Examples of lessons learned from Vietnam are illustrated in Box 3.

One important example for creating preconditions for common arrangements through specific programme design is identified in the Danish supported Water and Sanitation Sector Programme Support (WSSPS) II in Ghana. The programme is designed in a way that facilitates joint donor implementation, for example through membership of the steering committee of WSSPSII being open to other parties. Hence Danida-supported implementation modalities, such as Regional Approval Committees, can easily be turned into vehicles for coordinated or joint donor WSS activities (Danida/GoG 2003). Nevertheless, this only works as an example of harmonisation if other donors respond accordingly, which suggests the need to seek incentives for greater harmonisation

amongst donors themselves. Another example is the Water Supply and Sanitation Sector Programme in Bangladesh, which include the Sector Policy Support assisted by DfiD and Danida and the Hygiene, Sanitation and Water Supply Fund. Both these two components in the programme represent frameworks that allow for multi-donor support. One main challenge is here to get other donors involved in the programme and its components.

An example for informal coordination was described in Zambia, where JICA provides assistance on O&M through an advisor at the Ministry of Local Government and Housing. There is an informal agreement that all other donors will replicate Ministry guidelines established with JICA's support.

The Zambian urban water sector provides an example of a **common financing arrangement**. GTZ/KfW and Danida support a Devolution Trust Fund (DTF)—a basket fund arrangement that supports the extension of services by commercial utilities to underserved areas. The DTF prepares one set of quarterly reports for both agencies and the expectation is that the audit will be shared between the two donors. In Kenya, there is a similar arrangement between Danida and Sida in the rural water sector. The two agencies disburse their funds on a bi-annual basis to a Water Services Trust Fund for the implementation of rural water supply projects. A MoU restricts the support to particular geographical areas within Kenya and the selection of particular projects is based on a set of nationally defined selection criteria, procedures and guidelines.

Formal donor coordination is found in most countries in the form of regular donor sector meetings. Here, synergies are discussed including improved coordination of donor projects where these are the prevailing aid modality. In Kenya, for example, new financial management software is being introduced at the regional level. Donors are agreeing on the purchase of a common software platform and will divide its use between them on a geographical basis. Regular sector meetings allow for information exchange and overall coordination, but are also sometimes used as a means to increase pressure on the government by drawing attention to specific sector problems. For example, in Kenya donors have prepared a joint letters to the Permanent Secretary to demand further action on developing a Sector-Wide Approach and Sector Investment Plan. This has resulted in various activities initiated by the Permanent Secretary such as establishment of inter-ministerial committees on SWAp, sector investment planning and sector information systems. These inter-ministerial committees report on a bi-monthly basis on joint government/donor sector meetings.

BOX 3: Vietnam: Harmonisation and alignment efforts in the rural water supply and sanitation sub-sector

The Government of Vietnam and key donors in the water sector conducted a joint government-donor sector review in 2004/2005, which to a large extent succeeded in establishing a common framework of analysis as an important pre-requisite for genuine harmonisation and alignment in the sector.

Initiatives are being made to provide targeted budget support to the national programme for rural water supply and sanitation, including a proposed pilot phase allowing time and space for getting the harmonisation and alignment related activities right. An analysis has been made of the lessons learned during the preparatory process for targeted budget support to the national programme.

A Rural Water Supply and Sanitation Partnership has been established with support from Danida and other donors, which will provide a platform for dialogue and learning on efforts towards harmonisation and alignment in the sector. Substantial efforts are being made in developing a collaborative and collectively negotiated framework for implementation of the national programme.

Water SPS, Vietnam 2006

In a different country-context, donor meetings can also become an expression for increased trust and transparency between donor and government stakeholders. In Uganda, for example, the decision was recently taken that a government representative should always be present during donor coordination meetings.

3.3 Alignment with partner country policies and systems

This section describes experiences that are geared first and foremost towards strengthening the partner's sector ownership through policy and systems alignment. Policy alignment refers to supporting the development of programme-based policies, strategies and budgets, whereas systems alignment is related to the strengthening of public financial management, procurement and monitoring systems.

3.3.1 Policy Alignment

Policy alignment ranges from informal practices to formalised arrangements under a fully-developed common policy and budgetary framework working across donors and the government. In most cases, actual sectoral practice lies somewhere in between and differs across sub-sectors.

One step towards increased policy alignment can be an agreement between donors and government on a roadmap to guide the development of a SWAp for the whole sector or specific sub-sector. One such roadmap was agreed in Burkina Faso, the pillars of which so far are the establishment of a formal sector dialogue and coordination process including an annual sector review, the development of investment planning and monitoring elements and the creation of a budget programme. The roadmap is accompanied by various capacity building activities on the part of Danida and the Water and Sanitation Program (WSP), with the support of AfD, KfW/GTZ and the EC.

Different paces under a common framework: In other cases there is a common sector framework with an established sector dialogue as the lowest common denominator. Donors then decide—but are not obliged—whether or not to commit to more advanced alignment activities such as joint financing agreements.

In Benin, Danida and the World Bank took the lead in developing a sector budget support mechanism. In 2001, they assisted the Water Directorate in establishing its first three-year rolling national sector programme and, thereafter, Danida continued to provide technical assistance. Since 2003, the Water Directorate has prepared annual evaluation reports for the execution of the sector budget programme and discussed them during an annual joint donor sector review. During 2005, France expressed its intention to join the sector budget programme. The existence of a sector programme also contributed to the inclusion of the water sector as a priority sector under the PRSP, which led to a substantial increase in funding for the sector. Danida now supports the implementation of the programme.

An incremental approach: In cases where donors and the sector government are fragmented, good practice in working towards a programme-based approach can mean the adoption of an incremental “step-by-step” approach, as in Zambia, or more opportunistic attempts at making greater strides towards H/A as in Ghana and Bangladesh (described in Box 4 and 5).

BOX 4: Ghana: Promoting a harmonised approach to environmental assessments

One interesting example of supporting the development and harmonisation of environmental assessments is Danida's support to the adaptation of Strategic Environmental Assessment (SEA) tools to the water sector. The SEA was carried out as a cross-cutting study in order to strengthen the environmental component of Ghana's Poverty Reduction Strategy. This has now been completed and the water sector has been chosen as the first sector to integrate the SEA into its policy and planning process. Danida is providing technical support to pioneer this activity in the water sector with the intention of providing a model for implementation of an SEA-process at sector level.

Danida/GoG, February 2005

In Zambia, donors have different attitudes and behaviour towards H/A. Key donors include the Multilateral Development Banks, major bilateral agencies such as GTZ, KfW, Danida, JICA, and DCI in addition to international NGOs like CARE, OXFAM and Wateraid. The government has two lead institutions, the Ministry of Local Government and Housing and the Ministry of Energy and Water Development, which tend to compete rather than collaborate on sector activities. The approach taken in the sector has therefore been more cautious, with the aim of realising that there are institutional differences—and seeking to work around them—rather than embarking directly on an ambitious sector programme. Informal arrangements and overall coordination are emphasised with a view to avoiding the addition of bureaucratic layers and keeping transaction costs low. More challenging activities such as sector-wide pooled funding have been postponed until the 'low-hanging' fruits have been reached. For example, the donor group is currently considering the nomination of three donors for consultation with government on possible steps towards a programmatic approach in the rural water supply and sanitation sub-sector.

BOX 5: The Total Sanitation Campaign in Bangladesh

In Bangladesh, although there is a policy commitment among donors and the Ministry of Local Government, Rural Development and Co-operatives (MoLGRDC) to take steps towards a sector programme approach, this has turned out to be a lengthy process with few immediate opportunities for alignment. The "next best" approach has been to support a National Sanitation Campaign (NSC) as a specific sub-component of the water and sanitation sector.

The NSC was initiated by the Government of Bangladesh under the leadership of the MoLGRDC in 2003 and aimed to reach total sanitation coverage in Bangladesh by the year 2010. The campaign involved a wide range of development partners, NGOs, local government institutions and private sector organisations. The planning, coordination and monitoring of the initiative takes place through formally established task forces at national, regional and local level. The national task force of the campaign is hosted by MoLGRDC and includes all development partners and relevant line ministries. Collaboration between the different stakeholders includes elements of strategy development, advocacy, awareness creation, hygiene promotion, social marketing, and monitoring. The Government of Bangladesh has established a National Sanitation Secretariat under the Department of Public Health Engineering (DPHE), which is responsible for compiling and disseminating data received from local levels through the regular government system.

The approach is opportunistic: rather than creating a basket-fund, development partners support different parts of the campaign, and rather than relying on government monitoring systems only, the monitoring process is divided between government stakeholders, NGOs and donors, based on geographical presence in country.

Water SPS, GoB and Danida

3.3.2 Systems alignment

Public Financial Management: Improved public financial management capacity may contribute substantially to the government's ability to implement policy. Donors need to provide predictable commitments of aid over a multi-year period and to rely on the partner government's budget and accounting mechanisms, where feasible.

In practice, Danida's use of government budget and accounting mechanisms depends largely on how "ready" the sector is, judged by Danida. A new, global Public Financial Management Performance Measurement Framework with a set of indicators assists in this endeavour.⁹ Danida channels funds through a variety of avenues. In Bangladesh, this is through on-budget¹⁰ project financial management; in Benin Danida uses basket funding, which is managed following national budget procedures; and in Uganda, Danida provides earmarked budget-support.

Procurement systems: Similarly, to achieve greater alignment donors are expected to rely increasingly on partner country procurement systems, if and when they are judged to comply with internationally agreed standards and procedures.

For example, in Kenya the procurement of goods can be undertaken by the government with additional safeguards. In practice the Danish Embassy (DE)—at least in one case—had to carry out the full procurement procedure because of a lack of trained procurement specialists in the government. Procurement-related problems also initially occurred under common technical assistance arrangements with Sida because of the different reporting requirements of the two donors.

Managing for development results: Managing for development results is regarded as a key aspect of increased aid effectiveness. At sector level, results-oriented reporting and assessment frameworks are supposed to monitor progress against established sector development strategies.

In Uganda, where the SWAp has progressed well (in the sense that all donors are on board, sector policies and an investment plan are in place and the predominant aid modality is earmarked budget support), common effort is now directed towards developing a sector-based framework to monitor desired results and to improve decision making processes. A performance measurement framework, which is described in more detail in Box 6, seeks to create coherence between different government documents at national and sector level—e.g. the Ugandan poverty eradication strategy—and now forms part of the Joint Annual Review of the sector.

⁹ See also: <http://www.pefa.org>

¹⁰ On-budget means that project funds appear in the sector budget at the ministry but are not channelled through the government system.

BOX 6: The Performance Measurement Framework in Uganda

In Uganda, decentralisation of service delivery has progressed well in recent years with districts receiving substantial budget increases for water supply and sanitation. Donor support to the sector is mainly provided through earmarked budget support and pooled funding through a joint partnership fund. The establishment of a performance measurement framework seeks to standardise and improve monitoring of WSS across national and sector planning documents and to produce timely information and analysis for the annual sector performance review, conducted jointly by the government and development partners.

The performance measurement framework has been developed by a working group on sector performance set up by the government with representatives from a wide range of sector stakeholders. The group identified ten “golden indicators” (supported by a number of sub-sector indicators) for assessing the overall impact within the sector on intended beneficiaries. The process of selecting and defining indicators also assisted in harmonising the use of indicators more generally in national planning processes and can be used to measure the local government performance as part of Uganda’s Fiscal Decentralisation Strategy.

Pinfold, J. (2005): Uganda: Assessing Performance of the Water and Sanitation Sector. In: OECD-DAC (2005b) Monitoring for Development Results Principles in Action: Sourcebook on Emerging Good Practices.

3.4 Lessons emerging

Danida’s internal incentives towards H/A: In several countries Danida has taken the lead in donor harmonisation in the water sector. A number of factors facilitated this: the decentralisation of decision-making power to embassies creating ‘room to manoeuvre’; Danida’s new guidelines for aid modalities, the organisation’s credibility with partner governments based on its long-term engagement in some countries; and the presence of sector specialists in-country (often based within the sector agency). Such internal incentives can play an important role in day-to-day interactions. Positive internal incentives could be fostered further.¹¹

Partner government leadership is crucial for fostering H/A: There is a strong relationship between the degree of H/A and the overall leadership that is lent to this process on the national level. The most widely cited case is Uganda where the government took up the principles of programme-based aid as early as 1998/9 and decided to base all future development cooperation on this approach. A strong policy budgetary framework provides donors with a structure to align to. Conversely, where an overall sector/national planning framework is missing, it becomes difficult for donors to align.

The influence of the Rome/Paris agenda: It appears also that the new normative H/A framework is starting to have an impact at the national level. For example, in Zambia, which forms part of the “Harmonisation in Practice” Initiative, a platform was established between the government and like-minded donors, which puts all water sector activities under a wider harmonisation framework. This common framework is an incentive for the different sector stakeholders to take actions towards an agreed end. Yet in other countries where no such national forum exists the H/A framework still appears to be increasingly recognised as an important step in improving effectiveness.

No blue-prints between countries and sub-sectors: The experience in the different Danida-supported water sector programmes shows clearly that there are no blue-prints

¹¹ See also: ODI (2005): *Incentives for Harmonisation in Aid Agencies*. Study prepared by the Overseas Development Institute for the OECD-DAC Working Party on Aid Effectiveness.

that can easily be transferred from one country context to another. For example, the successful adoption of a sector-wide approach in Uganda is not easily replicated in Kenya. The clear leadership of the Ugandan Ministry of Finance, Development and Economic Planning described above places sector H/A in a very different context from, say, Kenya. Kenyan central government and sector institutions do not exert substantial pressure on H/A and the development of a sector-wide approach remains largely donor-driven and still at an early stage. Efforts on donor harmonization in Kenya are taking place at the same time as the whole water sector is being privatised. While the Ministry of Planning and National Development may be in favour of harmonisation there is still the need to building capacity and competence to drive and lead the H/A and change process. The new planning section in the Ministry of Water and Irrigation also need to develop a common understanding of the implications of the water sector reform, especially on sector planning systems. In Kenya, the sector responsibilities have shifted toward the Regional Water Services Boards, which are still to be capacitated to fully understand and play their new roles.

Similarly, substantial differences exist between the different sub-sectors of urban and rural water supply, sanitation and IWRM. In most countries, harmonisation processes are weakest in sanitation. This is linked to an additional institutional complexity, which is the often unresolved question of responsibility for this sub-sector and lack of a clear budget line.

Progress towards H/A is incremental: The divergence in country approaches towards SWAps shows clearly that progress towards H/A is likely to be incremental. Good practice suggests the need for an opportunistic and flexible approach that allows different donors and sub-sectors to join gradually and at their own pace any H/A process. On the one hand this might mean the ability to react quickly to increased alignment if and when national/sector-programme processes take off and, on the other, stepping back from alignment efforts if no benefits are likely to be gained and the government is unwilling and/or incapable of steering the process.

Harmonisation and alignment are not the same: Effectiveness, harmonisation and alignment are not the same thing, and there are many ways in which donors can harmonise and align outside the framework of a sector programme. For some donors (e.g. JICA) it is procedurally difficult to participate in SWAps, yet in Zambia JICA is still willing to work under a common framework and to support capacity building in the water sector. In some countries, SWAps and budget support are less feasible because of fungibility or fiduciary management risks or are not useful because of substantial internal revenues. In such countries harmonisation may proceed with a view to possible alignment rather than create obstacles towards future alignment by establishing rigid rules and procedures that are likely to be rejected by government.

Strengthening implementation capacity: An important criticism of SWAp processes is that they engage human and financial resources at the central level yet allow implementation capacity to remain weak, particularly at a local level. Tangible outcomes for poverty reduction depend on implementation capacity on the ground. The challenge of working around weak institutional capacity while supporting reform processes was mentioned by several Danida sector support programmes. It might be useful for Danida to emphasise more fully the link between H/A and decentralisation.

Supporting innovations and taking risks: When supporting H/A, being flexible and therefore able to adapt quickly to changes or alternative pathways is an important element of any donor programme supporting H/A. There are some positive examples of

how Danida uses resources to support innovation. In Zambia, the programme has flexible funds available to support specific studies and processes. The programme also has no fixed definition of “demand-management”, but can adapt its policy to the framework of the country.

Innovation can also be fostered by supporting alternative voices: Danida-assisted programmes do this by supporting non-state actors i.e. the private sector and local NGOs. For example, in Uganda, Danida was instrumental in setting up UWASNET, an influential NGO network, which has become a major NGO voice in the water sector in recent years. Another interesting example is the NGO Forum in Bangladesh, which has developed with Danish support into an important and innovative NGO in the water sector. With regard to sanitation, NGOs and the private sector are also better equipped to carry out sanitation campaigns, which rely largely on social marketing and information campaigns and have successfully increased sanitation coverage in Asia (see Box 4).

Challenges to H/A

Harmonisation and alignment incur substantial transaction costs: The fact that H/A involve large transaction costs, which are likely to remain high for a lengthy transitional period, should be acknowledged. There is a danger that a narrow focus on particularly time-consuming H/A efforts might increase frustration at the slow pace of sectoral achievements, including improving scaling up and sustainability goals.

Conservative Forces: (Sub) sector reform processes are often not supported by all stakeholders because of interests in upholding the status-quo. There is a danger that reform-secretariats, established with donor support, become sidelined by the wider sector, which continues to carry out ‘business as usual’. This suggests the need for common H/A approaches and institutional capacity building in implementing reform at lower levels.

Lack of capacity: weak institutional capacity at the national and decentralised level seriously hampers alignment with government systems (and the delivery of new approaches). An additional difficulty in this case is that root causes such as poor salaries of sector officials or retrenchment of sector staff often depend on progress at the level of central government reform outside the sector, including broader civil service reforms, and therefore can only partially be influenced by sector stakeholders.

Lack of government financial commitment: what do donors do when earmarked budget support is given to a sector yet the government decides to lower its (own) contributions? In Ghana, for example, the government’s contribution to the water sector is only 6% compared to 10-15% in other countries.

Table 1: Examples of Harmonisation and Alignment in the Water Sector

H/A Activity	Support to H/A	Examples of H/A
Road Map towards SWAp Water Sector Plans	Support the development and implementation of national sector plans, which can be initiated at any stage. Support to road maps can be an initial assistance towards SWAp.	Sector Investment Plans are implemented in Uganda. A Budget Programme for the water sector is implemented in Benin. In Burkina Faso an agreement has been made between donors and government on a roadmap to guide the development of a SWAp for the whole sector or sub-sector. Efforts are being made in Zambia to develop a new national rural water and sanitation programme based on SWAp.
Linking Water Sector Plans to national development plans and PRSP	Assist inter-ministerial working groups and sector working groups to ensure that water sector plans are linked with national development plans, national budgets and PRSP.	Water sector working groups have been established in Uganda and Zambia.
Sector Budget Support Mechanism	Support the development and introduction of sector budget support mechanisms for flow of funds and financial accounting and monitoring.	In Benin, Danida and the World Bank have taken the lead in developing a sector budget support mechanism (basket funding). In Uganda, the water sector is partly financed by earmarked budget support. Water sector budget support and basket funding are being piloted in Ghana. Uganda: Multi-donor financing Benin: Multi-donor financing Bangladesh: Partly joint Danida-DfiD financing Kenya: Joint Danida-Sida financing Vietnam: Planned joint Danida-AusAid and Multi-donor financing Zambia: Planned multi-donor financing.
Joint Government/Donor Water Sector Reviews	Support and participate in joint donor/government sector reviews, which can be instrumental in committing governments and donors in steps towards improved H/A. The process can be aligned with the PRSP process to make them more binding.	Joint government-donor sectors reviews are undertaken annually in Uganda and Benin. A similar initiative was undertaken in Vietnam in 2004-2005. In Uganda, the Water Sector Plan is aligned with PRSP process.

		Joint donor missions are undertaken in Uganda and Benin.
Government – Donor Sector Cooperation	A lead donor for the water sector or sub-sector has been selected in some countries, often on a rotational basis.	In Uganda, the role as lead donor is on rotational basis. In Zambia, efforts are being made to establish an arrangement with a lead donor at sub-sector level. In Vietnam, a RWSS Sector Partnership has been established to provide the national platform for working towards harmonisation and alignment in RWSS.
Water Sector Performance Reports	Support the development of an overall sector performance report, which also helps the H/A process and links with joint government/donor sector reviews.	A performance management framework with sector indicators has been established for the water sector in Uganda
Financial Management Systems	Support to development and implementation of effective and transparent public finance management and accounting systems.	In Kenya a new common financial management system is being introduced at regional level. New public financial management systems have been implemented for the water sector in Benin.

4 Recommendations: developing and sustaining good practice

Internationally, the Paris Declaration on Aid Effectiveness is now widely endorsed. In all countries studied for this report, steps are being taken towards greater H/A and the exploration of program-based approaches. Though principles of harmonisation and alignment are broadly accepted, experiences are varied and no blueprints have emerged (or should). Context is key.

In spite of differences between countries – and within countries between the sub-sectors of urban and rural water supply, sanitation and IWRM – there are a number of general recommendations that can be formulated on the basis of experiences and good practices described in chapter 3. The most important recommendations are:

1. Take a low entry approach to harmonisation
2. Avoid competing H/A processes
3. Strengthen country leadership in aid management
4. Strengthen country capacity to implement sector programs
5. Extend harmonisation to non-government organizations

4.1 Low entry approach to harmonisation

It is important to have a low entry strategy towards harmonisation, allowing different donors to join on their own terms and in line with their own procedures and past commitments. It is important to harmonize on content and approach first, and on modalities later. An incremental approach to harmonisation consists of:

- Moving from informal to formal: starting with a small group, exchanging information, increasing the number of donors engaged, involving partner government and working towards a road map that leads to formal sector joint review committees, co-ordinated programs, shared funding and, if feasible, SWAps;
- Work on the development of a common framework, i.e. agreement on approaches and priorities, shared and combined reporting, agreement on performance frameworks, use of common procedures, combined review missions;
- Start new aid modalities such as budget support in part of a program or in a sub-sector only, to increase capacity for incremental (and internal) learning and to reduce risks. Experiences have shown that it is important to develop and have in place an effective, transparent and accountable finance mechanism at an early stage of implementation;
- Apply a variety of types of harmonisation mechanisms – SWAps and budget support may not be feasible in some countries because of fungability issues, inadequate public finance management or lack a suitable framework; or not desirable in other countries that have sufficient internal revenues. There are other alternative harmonisation mechanisms that are useful in these contexts – such as silent partnerships, basket funding, program support and establishing and using joint policy frameworks.

In several of the countries studied initiatives towards greater donor harmonisation were taken by Danida. Several factors positioned Danida in this role including decentralization to country missions creating 'room for manoeuvre' locally and reducing transaction costs, credibility related to Danida's long-term engagement in the sector in-country, and the presence of water specialists. These factors helped facilitate Danida's larger interest in program-based aid modalities and it is important that Danida continues to make the resources available to address the often substantial transaction costs involved in achieving successful H/A outcomes.

4.2 Avoid competing H/A processes

There are several H/A mechanisms and they can co-exist at the same time. What needs to be avoided are competing processes. Examples of such competing processes are the formulation of National Water Policy, supported by Danida, and a Water Sector Plan by African Development Bank in Burkina Faso. In Kenya the development of National IWRM strategy was to an extent detached from the development of the Water Resources Management Authority and the River Basin Authorities. In such competing processes the risk is that the whole is less than the sum of the constituent parts, with implications for implementation coherence, institutional coordination and the achievement of objectives.

This, for instance, poses a challenge to the upcoming Dialogues under the EU Water Initiative: How can or should these Dialogues support ongoing H/A rather than possibly diffuse and confuse existing processes? Danida is well positioned to add its voice to helping ensure that the Dialogues prove crucial in supporting the broader H/A agenda.

4.3 Strengthen country leadership in aid management

Donor H/A is a 'second best' option and a poor substitute for national leadership in aid management. The capacity to manage and coordinate the financing from various internal and external sources to a sector finance mechanism can be strengthened by:

- Engaging more fully the equivalent of the Ministry of Finance or Ministry of Planning in water sector programmes. This has happened in Vietnam and Uganda. In some cases this will require the provision of additional sectoral expertise in these ministries.
- Develop sector plans, including models to project needs for new infrastructure, realistic multi-year sector investment plans and long-term financing strategies. Strategic environmental assessments may be used to improve the quality of sector plans, as in Ghana.
- Ensure long-term financial flows and a fair distribution of flows over the different sectors and priorities. While SWAps may improve aid efficiency (in Uganda for instance the cost of providing water services was reduced after SWAps were introduced), the high aid dependency in many of the countries studied makes government programs particularly vulnerable to external policy change.

4.4 Strengthen country capacity to implement sector programs

The introduction of new aid modalities should be used to strengthen budget systems and the implementation capacity of government, civil society and private sector. Much of the discussion on new aid modalities concerns country and sector policies in relation to the contents of Poverty Reduction Papers. Equally if not more important is alignment in the implementation of sector policies and programs. The countries examined provide examples of how best to support implementation capacity:

- Develop budget lines within the implementing organizations, which may require the posting of specialist support to develop such lines, as was achieved in Benin;
- Make adequate provision to overcome cash flow problems within the implementing organizations – ensuring that increased spending on water and sanitation does not lead to liquidity problems;
- Introduce (computerized) financial management systems in the different organizations implementing the sector program, including decentralized offices, of which the 'SUCCESS' program in Benin is an example;
- Streamline implementation procedures, for instance in the selection of recipients, in complaint handling, in community contracting, and in setting up post-implementation systems. The streamlining of these procedures may revolve around the preparation of Operational Manuals that should be binding on the parties involved in implementation. The Operational Manuals in Ghana for

instance cannot be set aside without the approval of the Ministry of Works and Housing or the funding agencies concerned;

- Improve monitoring, focusing on the basics first, in particular the existence and functionality of water points, information, which is often incomplete or unreliable. Ensure monitoring results are timely and made easily available in the shape of water and sanitation reports;
- Introduce a practical management information system that allows the tracking of investments and that gives on-time feedback on quality of implementation and impact. An example is the monitoring system introduced in Uganda with 'golden indicators' on impact of the programme, quantity and quality of services, equity and affordability, functionality and managerial requirements and value for money;
- Strengthen capacity of government, especially at decentralized levels. Decentralisation in principle increases the possibility to implement and be tailored to local needs, but this can be jeopardized by actual lack of capacity to plan or manage at a local level;
- Take special steps to develop capacity in private sector involvement in WSS programmes. In Benin, for instance, contractors were trained in work-planning and contract management and a facility was established for contractors to get a working advance on the award of contract.

4.5 Extend harmonisation to non-government organizations

In several countries non-government and intergovernmental organizations, such as UNICEF, CARE, WaterAid and SNV, play a major role in service delivery in the water sector. Donor harmonisation activities should seek to include these organizations, following examples such as the linking achieved under UWASNET in Uganda, mentioned earlier.

The engagement of these NGOs and agencies such as UNICEF is important not only because of the size of their portfolio, but also because part of the water sector development agenda anticipates substantial roles for both NGOs and the private sector. In sanitation, for instance, the Total Sanitation Approach in Bangladesh requires social marketing and commercial promotion for which NGOs and the private sector are better equipped than many government organizations.

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