

# Implementing the Rome Agenda in Japan's ODA

Government of Japan

March 2005

## Table of Contents

Chapter 1: Background .....	3
Chapter 2: Japan's Role in Aid Effectiveness .....	4
Chapter 3: Domestic measures for aid effectiveness .....	5
Chapter 4: Aid effective efforts at the international level .....	7
Section A. Enhancing the Ownership and Leadership .....	7
Section B. Alignment with the national strategies and programs .....	8
Section B-1. Enhancing program-based approaches .....	8
Section B-2. Enhancing the complementarity of aid modalities .....	10
Section C. Public financial management and Predictability of Aid Flows .....	13
Section D. Rationalizing aid procedures .....	15
Section E. Joint arrangement .....	17
Section F. Managing for Development Results .....	18
Section G. Capacity development .....	19
Chapter 5: Lesson learnt on the implementation of the Rome agenda .....	21

## Chapter 1: Background

### [Key points]

Japan has been making efforts to improve aid effectiveness by:

1. Actively participating in the preparatory process of the Rome HLF.
2. Conveying “the Voice of the partner” (including the opinions of Asian partners) to the Rome HLF.
3. Submitting its own harmonization action plan at the Rome HLF.

1. Since 2000, the international donor community has been implementing the Rome agenda. Japan has actively participated in this process, for example, by joining the discussions of the OECD-DAC Task Force on Aid Harmonization (now called the DAC-Working Party on Aid Effectiveness and Donor Practices (WP-EFF)).

2. In January 2003, in preparation for the Rome High Level Forum (HLF), Japan jointly organized a regional preparatory workshop with the Vietnamese government, the World Bank and the Asian Development Bank (ADB) in Vietnam. The results of the workshop were presented at the Rome HLF as “[the Voice from Asia](#)”. Following the forum, Japan launched an action plan, thereby showing its strong commitment to implementing the Rome agenda.

### [Japan's Plan of Action on Harmonization \(Submitted to the Rome HLF\)](#)

Japan will continue to promote its work on harmonization in the following three categories for the purpose of improving the effectiveness of development assistance. In doing so, Japan will pay special attention to the three guiding principles, namely, the need to ensure partner country ownership, the importance of adopting a country-based approach and the need to ensure diversity of aid modalities.

#### [Actions related to work between donors and partner governments](#)

In order to support partner country ownership and encourage partner government leadership, donors must:

- Enhance the alignment of donor activities with the partner government systems, in particular, partner country-owned national or sectoral development plans. This is one of the essential requirements in realizing a country-based approach. In this regard, Japan will:
  - further align its country assistance programs with partner country-owned development plans including PRSPs; and
  - further align its aid projects/programs to partner country-owned sectoral strategies.
- Enhance capacity building of partner countries. In order to continue our efforts on harmonization, donors must provide adequate support to those countries with limited

capacities. In this regard, Japan will continue to enhance support for capacity building in partner countries through:

- supporting formulation of sectoral development strategies;
- intensifying training of project management; and
- capacity building in statistics.

#### **Actions related to work between donor agencies**

Our task is to explore the manner in which partner countries can minimize unnecessary transaction costs while ensuring the diversity of aid modalities to address diversified development needs. To this end, Japan believes that donor agencies must:

1. Adopt a cost-benefit approach. This approach calls for donor agencies to start from the areas where a marginal benefit is the greatest. Japan will increase its efforts in these areas by:
  - continuing harmonization pilot work in Vietnam for Japan Bank for International Cooperation (JBIC) loan aid projects with the Asian Development Bank (ADB) and the World Bank; and
  - extending harmonization pilot work to other partner countries;
2. Share information concerning country and sectoral analysis with other donors. For this purpose, Japan will:
3. Promote information sharing through participation in the Country Analytic Work Website launched by the World Bank.

#### **Actions related to work within individual donor systems**

We should not forget that the efforts of individual donors are indispensable elements in work on harmonization. Therefore, it is important for individual donors to improve and rationalize their aid procedures and systems. Japan is determined to review its aid procedures and systems for their further improvement and rationalization.

For this purpose, Japan will implement the following measures:

- reduce the administration costs of debtor countries in accordance with the decision by the Government of Japan in December 2002 on the changes in debt relief methods;
- rationalize the procedures in dispatching preparatory missions;
- implement case studies and research to identify transaction costs;
- use Information and Communications Technology (ICT) in training programs; and
- promote decentralization, including delegating authority to the local representative offices of JICA and JBIC.

## **Chapter 2: Japan's Role in Aid Effectiveness**

#### **[Key points]**

Japan has been playing a major role in promoting aid effectiveness by:

1. Serving as a bridge between partner countries and the donor community and by listening to the 'voices' of partner countries.
2. Creating momentum to further aid effectiveness.
3. Implementing its own harmonization action plan.

3. Since the Rome HLF, Japan's commitment to improving aid effectiveness has intensified and Japan has taken the above-mentioned three roles, to help promote aid

effectiveness.

#### [Japan's role as bridge connecting partner countries with the donor community](#)

4. By serving as a bridge between partner countries and the donor community, Japan has been making great efforts to implement the Rome agenda. For example, Japan serves as Vice-Chair of the WP-EFF, and continuously takes part in its sub-group meetings. In these processes, Japan thinks that it is effective to hold [consultation processes with partner countries to discuss ways to improve aid effectiveness](#) or to conduct diagnostic studies to better grasp the current situation in the partner country.

#### [Japan's role in creating momentum for further aid effectiveness](#)

5. In October 2003, Japan organized an Asian regional workshop jointly with the Vietnamese government and the DFID in Vietnam in order to facilitate implementation of the Rome agenda. At this workshop, we shared results from aid effectiveness debates at the international level and our experiences of implementing the Rome agenda. In addition, in order to deepen discussions on capacity development following the first international symposium held in Manila in January 2003, JICA organized, in February 2004, [the second international symposium on capacity development](#) jointly with the CIDA, the GTZ, the UNDP and the World Bank Institute in Tokyo. To facilitate program-based approaches, JICA also organized, in June 2004, in Tokyo, "[Program-based Approaches in Asia: Adapting to Diversity](#)" ("PBAs in Asia"), under the framework on the Learning Network on Program-based Approaches (LENPA). (See the details in the following chapters). In October 2004, Japan organized a preparatory regional workshop in Bangkok with the Asian Development Bank.

### [Chapter 3: Domestic measures for aid effectiveness](#)

#### **[Key points]**

1. Japan believes that it is important for donors to reform their own aid delivery systems in order to improve aid effectiveness from the policy-making phase to the implementing phase.
2. To this end, Japan has introduced several reforms, including (i) revising its ODA Charter, (ii) launching fifteen specific measures for ODA reform, (iii) enhancing the function of the field missions, and (iv) launching the Medium-term ODA Policy.

#### [Policy level](#)

6. A strong commitment from the top management and clear policy frameworks are

crucial. With this in mind, Japan had been implementing several domestic measures for improving aid effectiveness before the Rome HLF.

7. **Before Rome HLF: the Second Consultative Committee on ODA Reform**, which was an advisory group to the Foreign Minister, submitted a final recommendation to the Minister in 2001. Based on this report, the MOFA established the **"Consultative Board of Comprehensive ODA Strategy"** chaired by the Minister in June 2002 and launched "15 concrete actions for reforming Japan's ODA" in July 2002.

8. **After Rome HLF:** In 2003, Japan revised **the ODA Charter** describing (i) the basic position of Japan's ODA, (ii) priority issues, (iii) priority regions and (iv) more effective ways to plan, implement, and evaluate aid policy, stressing the importance of aid effectiveness. In 2005, Japan launched the **"Medium-term ODA Policy"**, which includes enhancing the function of the field missions.

#### Enhancing field functions

9. Delegating more responsibility to the field offices is one of the keys to success in improving aid effectiveness. For this reason, MOFA, JBIC and JICA are now taking measures to increase the effectiveness of their embassies/field offices. Japan has introduced a new system called "the country-based ODA Task Force". Comprised of embassies and JBIC and JICA field offices, the ODA Task Force is an effective framework for dealing with various issues, such as (i) assessing the social and economic situation in the partner country, (ii) conducting policy consultation with the partner countries to discuss country and sectoral aid strategies vis-à-vis the partner country, (iii) drafting Japan's country assistance program, and (iv) participating more actively in donor coordination, for example, joint arrangements (joint diagnostic works, joint reviews, and joint missions, etc).

#### **[Box: Efforts for enhancing field functions of JBIC and JICA]**

Japan is presently strengthening the operations of its overseas offices through a new concept called "field-oriented management". This is in line with the recommendations made during the Peer Review of Japan.

The Japan Bank for International Cooperation (JBIC) has implemented this approach by delegating more authority to its field offices, especially regarding the operation and management of on-going projects for which loan agreements (L/A) have already been signed. This has allowed the field offices to respond to various issues more flexibly and speedily.

In order to respond more accurately and quickly to various issues in developing countries and to implement its activities with greater promptness and effectiveness, the Japan International Cooperation Agency (JICA) has also been strengthening its capacity to support partner countries' project/program planning by shifting more staff and delegating more authority to its overseas offices.

The following are examples of some of the measures JICA is presently implementing:

1. By the end of FY 2006, JICA will have increased its overseas staff by about 200 people, thus raising the ratio of overseas staff to HQ staff to about 1:1.
2. JICA has established six "Regional Support Offices" to strengthen the operational capacity and thus the effectiveness of its overseas offices and activities in the field.
3. In order to ensure faster, more efficient decision-making, JICA has reorganized its HQ structure. It has also delegated more authority to its overseas offices through the introduction of a new type of program. In this program, the offices will now take primary responsibilities for helping partner countries to identify, plan and implement programs and for managing on-going projects/programs and conducting their evaluations.

## [Chapter 4: Aid effective efforts at the international level](#)

### [Section A. Enhancing the Ownership and Leadership](#)

10. Partner countries should take the lead in the whole process of aid effectiveness with their strong ownership and leadership. From this point of view, Japan is supporting partner country-led aid effectiveness process by joining various thematic working groups on the ground. In addition, recently, signing the framework of joint arrangement, such as declarations and the Memorandum of Understandings (MOUs), has come to be recognized as an effective means for further promoting ownership/leadership of partner countries. As long as such frameworks assures openness to all donors and stakeholders, (for example, by not being legally binding or restricting memberships), it can become a good foundation for partner-country led donor coordination. So far, Japan signed MOUs that were agreed upon by partner countries and donors.

## Section B. Alignment with the national strategies and programs

### Section B-1. Enhancing program-based approaches

#### [Key points]

Program-based approaches (PBAs) are a starting point of alignment with the national strategies. Therefore, Japan makes the commitment to supporting PBAs.

#### Basic ideas

11. Japan considers enhancing PBAs as a key measure for aid effectiveness. PBAs are defined as follows.

#### Definition of PBAs

A way of engaging in development cooperation based on the principle of coordinated support for a locally owned program of development, such as a national poverty reduction strategy, a sector program, a thematic program or a program of a specific organization.

PBAs share the following features:

- Leadership by the host country or organization.
- A single comprehensive program and budget framework.
- A formalized process for donor coordination and harmonization of donor procedures for reporting, budgeting, financial management and procurement.
- Efforts to increase the use of local systems for program design and implementation, financial management, monitoring and evaluation. (Lavergne 2003)

(Source: *“Good Practice Note on Providing Support to Sector Programmes”* drafted by the Task Team on Harmonization and Alignment)

PBAs also provide an important framework for “Managing for development results”.

12. Japan has the commitment to facilitating PBAs by:

- Supporting partner countries to develop national development strategies (including PRSPs) and sectoral strategies,
- Developing (sectoral) mid-term expenditure frameworks coherent with the above-mentioned strategies,
- Aligning projects/programs with the strategies above; and
- Participating in the LENPA (Learning Network on Program-based Approach).

Japan is enhancing PBAs in various countries<sup>1</sup>.

**[Box: PBAs in Asia]**

In June 2004, JICA organized a workshop in Tokyo under the framework of the Learning Network on Program-based Approaches (LENPA). The theme of the workshop was "Program-based Approaches in Asia: Adapting to Diversity".

So far, much of the accepted PBA methodology has been developed in Africa. The Asian development context is quite different, however. For example, for many poor countries in Sub-Saharan Africa, the preparation of a PRSP is a precondition for obtaining debt relief under the Enhanced HIPC (Heavily Indebted Poor Country) Initiative. In contrast, there are no Asian countries currently seeking debt relief under the HIPC Initiative. Again in contrast to much of sub-Saharan Africa, aid dependency in Asia is generally low, and there are long established planning processes for producing National Development Strategies (NDS). In addition, the region contains several of the most populous countries in the world, where implementing a SWAp is a huge, and possibly unmanageable endeavor. It is generally acknowledged that PBAs are unlikely to be adopted in countries with high aid absorption capacity. Since the capacity to use aid resources effectively varies from country to country and institution to institution, the design and application of a PBA must be tailored to each particular set of circumstances. How this may best be done is an on-going question.

The primary objective of the Forum on PBAs in Asia is to provide development practitioners working in Asia with an opportunity to discuss these and other issues, and to share their knowledge and experience with PBAs.

Partners and donors discussed the following topics at the workshop:

- What are "Program-based approaches" in the Asian context?
- Under which conditions do Program-based approaches work more effectively?
- What roles are partner country governments and donors expected to play in planning, implementing and monitoring program-based approaches in Asia?
- How can program-based approaches best achieve economic growth?
- What should be the funding mechanisms for program-based approaches in Asia? Also, what conditions need to be met in order for program-based approaches to work well in Asia?
- What role should the private sector play in implanting program-based approaches in Asia?

**Supporting partner countries to develop national (sectoral) development strategies**

13. In PBAs, Japan supports partner countries to develop sectoral development strategies with partner countries, and implements the projects/programs in a coherent and coordinated manner with these strategies, bearing in mind coordination with other donors.

---

<sup>1</sup> Example of PBAs in Japan's ODA: Cambodia (health and education), Vietnam (transport and power), Sri Lanka (power and agricultural plantation), Bangladesh (basic education), Tanzania (agriculture), Kenya (agriculture, health and education), Niger (education), Uganda (education, including vocational education) and Peru (social development, including poverty reduction).

#### Aligning projects/programs with the national development strategies

14. Japan is delivering aid in a coherent and coordinated way by: (i) developing country assistance strategies coherent with national development strategies and (ii) using criteria for selecting projects/programs that are coherent with those strategies.

#### Section B-2. Enhancing the complementarity of aid modalities

##### **[Key messages]**

It is important to flexibly combine various aid modalities and work on complementarity effects of this combination, and to enlarge a variety of aid modalities applicable to diversified development needs.

#### Basic ideas

15. It is effective to implement PBAs through **combining various aid modalities** (project aid, budget support, common fund, etc) in order to meet the different conditions of each partner country, bearing in mind (1) the conditions under which each aid modality works well (key elements), and (2) the advantages and disadvantages of each aid modality.

16. From this point of view, in addition to sector-aligned project aids, Japan is now introducing new aid modalities gradually, thereby enriching a menu of aid modalities so that it can deliver aid to meet the needs of partner countries more flexibly.

#### Common funds

17. Recently, Japan has joined in common funds in some countries. For example, in Tanzania, Japan provides financial contributions to (i) activities for establishing a poverty monitoring system and (ii) the budget necessary for managing the secretariat of the Agriculture Sector Development Program (ASDP) in the form of common funds. In Nicaragua, it plans to provide financial resources, which are mobilized from the HIPC Initiative, to “Fondo Social Suplementario”.

#### Budget support

18. In the recent years, Japan has provided budget support. Examples are as follows:

- Vietnam: JBIC co-finances with the World Bank’s PRSC-3 (Poverty reduction support credit)
- Tanzania: in March 2004, Japan provided budget support to the Tanzanian

government.

- Uganda: in 2001 and 2002, Japan provided 50% of grant aid for debt service reduction to the Uganda government in the form of budget support.
- Bolivia: Japan provided budget support which was mobilized from the counterpart fund, to the process of the public dialogue and the national conference for amending the Bolivian Constitution.

19. When Japan provides budget support to a partner country, it makes sure that the commitment be made in a timely manner, considering the budget cycle of the partner countries. In the case of budget support for Tanzania, when signing the Exchange of Note (E/N) in March 2004, Japan made the commitment before the Tanzania government's approval of the next year's budget, whose budget cycle is from July 2004 to June 2005. In Uganda, we made known the planned amount of grant aid for debt service reduction informally before Uganda's budget was approved although the budget cycle between the two countries was different.

#### **[Box: UK-Japan Joint Concept Paper on Budget support]**

In 2004, The Vietnamese government (GOVN) requested the UK and Japan to produce a paper describing the conceptual framework on budget support so that the GOVN could explore the possibility of introducing budget support as one of the options in Vietnam. Then, the two countries produced a paper in close consultation with other donors and showed (i) the concept of budget support, (ii) the condition under which budget support works well (key elements), and (iii) advantages and disadvantages of project aid and budget support. As for (ii), the following are key elements:

##### **1. Preconditions for realizing General and Sector Budget Support (SBS)**

- Clear articulation by Government of a policy framework, and leadership of the negotiation process;
- Analysis of fiduciary risk, and a credible Government programme to address any weaknesses in public financial management and accountability systems;
- Strong donor collaboration;
- A focus on the outcomes that the policy implementation seeks to achieve;
- Agreement that the benefits of the instrument outweigh any potential risks.

##### **2. Elements of successful implementation of GBS/SBS**

A process of review, analysis and dialogue to discuss critical policy issues leading to the development of:

- A policy matrix owned by Government and supported by donors, which includes agreed prior actions/triggers
- Joint Government/donor discussion and review mechanisms (i.e. Partnership Groups)
- Shared reporting and accounting procedures among donors and Government
- Acceptable mechanisms for channelling resources into the Government budget
- Development of process indicators to ensure that stakeholders can monitor progress towards objectives, such as;
  - Monitoring of improvements in financial management practices and

- accountability, approval of revised policies etc.  
- Monitoring of outcomes of the implementation of Government policies.

### 3. Context of the use of budget support instruments

BoP/GBS instruments will usually be linked to a Government's poverty reduction strategy. They will operate in a framework of many instruments, including projects, which will ideally support the actions in the matrix that are agreed with Government.

SBS instruments will also usually be complemented by projects and sit within a wider framework of sector coherence, where the projects and budget support instruments complement each other in helping Government to achieve its development goals.

### 4. Fiduciary Risk

With budget support, once donor funds are transferred into the budget of a recipient government, they can no longer be tracked or accounted for separately. Donors (and governments) need to be satisfied that overall government systems and practices ensure that resources are used effectively. Fiduciary risk is the risk that (1) funds will not be used for the purposes intended, (2) funds will not be properly accounted for, and (3) funds will not be utilized efficiently and effectively. While the concept of fiduciary risk is fundamental to all development work, it is not always explicitly acknowledged.

Assessing fiduciary risk will usually require a review of:

- Government expenditure plans, budgets and outturns, often through a public expenditure review;
- The effectiveness of public financial management and accountability systems and practices, including procurement, e.g. through a Country Procurement Assessment Review (CPAR) or Country Financial Accountability Assessment (CFAA);
- The adequacy of government measures to reduce fiduciary risks.

In most budget support operations, donors recognise that there will be an element of fiduciary risk. In order to justify this risk, donors have to be assured that recipient government is both committed to, and capable of, achieving reductions in the level of risk over time. This should be based on a shared analysis of the current level of risk to establish a baseline. This can then be used for the assessment of trends in the future.

Development of systems to help reduce these risks for *both* Government and donor finance is often carried out to support these goals. In many cases these improvements in the fiduciary environment are supported through existing governance and public administration reform programmes, so that no additional programmes are required.

20. For Japan, budget support has just been introduced and is still in a pilot stage. Thus, to examine the effectiveness of budget support, we are participating in an evaluability study on budget support undertaken under the framework of the OECD-DAC Network on Development Evaluation (EVALUNET) and USAID's "Roundtable on General Budget Support and Other Aid Approaches".

#### **[Box: Research on Aid Modalities and Good Donorship]**

The Development Forum of the Graduate Program of International Policy Studies (GRIPS) is now implementing a research on aid Modalities and Good Donorship. The objectives of this study are as follows:

- Addressing the question of how donors should choose and combine aid modalities to meet the specific context of a country (for example, the diversity of the recipient country and its development needs).
- Conducting case studies
- Identifying tips to be remembered for donors in their efforts of implementing aid effectiveness (good donorship)

### **Section C. Public financial management and Predictability of Aid Flows**

#### **Public financial management**

21. In order for partner countries to make use of their financial resources effectively and efficiently and to achieve their development goals, it is very important to establish effective public financial management (PFM) in partner countries. To this end, Japan is providing partner countries with various types of assistance (such as in Vietnam through the PRSC-3, or in Ghana and Malawi). In Tanzania, the mid-term expenditure framework has already been introduced. It functions well as a core component of the budget process, together with the Public Expenditure Review (PER). During this process, Japan has played the leading role in the PER in the agriculture sector. In 2005, JICA is starting technical cooperation aiming at strengthening PFM in Tanzania.

#### **Improving predictability of aid flows**

##### **[Key messages]**

1. Japan considers improving predictability of aid flows as an essential element for partner countries to be able to manage socio-economic development from the mid- and long-term perspectives.
2. Aid predictability can be classified into three levels: (i) macro level (sharing information on total flows of aid from Japan to a partner country), (ii) meso level (sharing information on operational plan level), and (iii) micro level (sharing information on project/program-level disbursement). It is important for donors to strive at all levels, depending on their capacity and feasibility.

#### **Basic ideas**

22. Improving predictability of aid flows is very important for partner countries to manage public financial resources effectively and efficiently. To this end, Japan is making efforts to improving aid predictability at the following levels: **macro level** (information sharing on multi-year aid flows from Japan to partner countries on the total or sectoral level), **meso level** (information sharing on multi-year operational aid plan for a specific partner country), and **micro level** (information sharing on individual projects).

#### At the macro level

- Bangladesh: Japan made commitments on the total amount of the equivalent amount of grant aid for debt service reduction.
- Tanzania: Japan informed the Tanzanian government of a budget plan of technical cooperation projects.
- Uganda: Japan has informed the Ugandan Ministry of Finance, Planning and Economic Development (MFPED) of the amount of actual disbursement in the past three years and the projections of budget plan over the next three years by aid modalities (budget support, the programs and the projects.) This is done when the MFPED conducts a survey on aid flows from donors in the process of developing the MTEF and budget planning in every February and November.

#### At the meso level

- Vietnam, China, Indonesia, Tunisia, and Morocco: Japan works on long lists of possible Yen-loan projects/ programs every year, and disseminates the lists through the website. The lists contain information on the projects, which have a possibility to be selected for its implementation among the projects requested by partner countries. Accordingly, JBIC improves predictability of aid flows in these countries.

#### At the micro level

- JBIC loan: Japan makes its commitment on the total and year-based amount of the projects when concluding the loan agreement (L/A). In addition, it is the partner countries which usually manage JBIC loan projects. Therefore, it is very easy for partner countries to grasp the amount of the projects disbursement precisely and in a timely manner.
- JICA: JICA is now developing guidelines for improving aid predictability (on the projected and actual costs of its technical cooperation programs).
- Country-specific examples:
  - Cambodia: Japan provides information on the project disbursement to “Development Cooperation Report” which was developed mainly by the Cambodian Council for Development Cooperation and the UNDP. This information is widely shared among the government and donors through the website.
  - Vietnam: JICA is planning to introduce a mechanism to announce the amount of disbursement of the technical cooperation projects systematically.
  - Senegal: Japan informs the Senegal Ministry of Finance and Economy of the amount of the projects disbursement every year.
  - Tanzania: Japan informs the Tanzanian Ministry of Finance and Economy of the amount of the projects disbursement every year (possibly, every quarter).

## Section D. Rationalizing aid procedures

### **[Key messages]**

It is important to harmonize and simplify aid procedures for reducing transaction costs, considering the cost-benefits of such efforts.

### Basic ideas

23. Japan regards rationalizing aid procedures as one of the effective tools for reducing transaction costs imposed on partner countries, by:

- Using the country system,
- Simplifying aid procedures, and
- Harmonizing aid procedures among donors.

24. To produce tangible output, Japan considers it very important to adhere to the following practical approaches (see the box).

### **[Box: Cost-benefits approach]**

We need to consider the following criteria, when considering which measures to adopt and begin with to simplify which aid procedures:

- Transaction costs are apparently being incurred.
- Tangible output of the effort would be seen in the short-run.
- Both partner country and donors can benefit from aid effectiveness efforts.

These three criteria were set in the 5-banks Initiative in Vietnam, in which the JBIC, French AfD, German KfW, ADB, and the World Bank, co-organized joint effort to reduce transaction costs for procurement procedures in its initial stage.

### Using the country system

25. In loan aid, JBIC aligns its aid procedures with the national system of the partner, as far as the legal and regulatory framework relating aid delivery (such as procurement, financial management, auditing and social safeguard) meets the requirement of JBIC.

### Simplifying aid procedures

26. In technical cooperation, Japan is currently negotiating technical cooperation agreements with many partner countries in order to streamline aid procedures. With those agreements, partner countries and Japan can simplify the procedures related to (i) submission of requests for projects/programs proposals to Japan, (ii) notification of the following year's cooperation plan, (iii) procedures and measures to assure better working environments favorable to Japanese aid professionals.

27. At the country level, in Vietnam, Japan (JICA) conducted a study on “Donor Practices in Vietnam: Listening to the voice of the partner” to diagnose the present situation in Vietnam’s grant aid in 2003. Based on the results, the Embassy of Japan and JICA are now implementing the “[Sit-Down & Talk Initiative](#)”, and JBIC holds regular meetings with the Vietnamese government to discuss harmonization, simplification and to solve issues.

**[Box: Sit-down & Talk Initiative in Vietnam]**

**1. [Strengthening Dialogues](#)**

Both sides recognized that dialogues between the Vietnamese and Japanese sides should be strengthened on various levels, not only between MPI and Japan but also with sectoral ministries, local provincial government and project implementing agencies. Concrete actions for each level are stipulated in the joint action plan.

**2. [Information Sharing on procedures](#)**

Both sides shared the view of facilitating common understanding on respective procedures in the stage of project proposal, project preparation and implementation. As one of the solutions, joint procedural guidelines which cover both the Vietnamese and Japanese sides, procedures will be drawn up.

**3. [Improving Transparency](#)**

One of the issues raised by the Vietnamese side is the improvement of transparency of information provided by the Japanese side. In response to this proposal, the Japanese side decided to provide the following information in more timely and systematic ways, such as the total cost of a new project, and the progress of proposal screening.

**4. [Participation and Capacity Building](#)**

Another issue raised by the Vietnamese side is furthering participation of the Vietnamese side in the project designing stage. Both sides agreed to choose a pilot project for participatory project formulations during the latter part of the year 2004.

**[Harmonizing aid procedures among donors](#)**

28. Japan is also striving to harmonize effort at the donor-donor level. For example, in order to harmonize the procedures and practices in areas such as procurement and financial management, Japan is playing the central role in the 5-bank Initiative in Vietnam with other donors as has already been stated. Initially, three banks (JBIC, ADB, and the World Bank) conducted a study to compare aid procedures and to explore the various possibilities of future aid harmonization and simplification among them in 2001. In March 2003, two other banks (French AfD and German KfW) joined the initiative. As a result, this Initiative evolved into the present 5-bank Initiative. Moreover, this harmonization effort in loan aid has been expanded to other countries such as the Philippines, and Indonesia.

#### [Box: 5-bank Initiative in Vietnam]

##### 1. Chronology

- 1999 and 2001: Joint performance portfolio review (JPPR): The Vietnamese government (GOVN) and the three banks (JBIC, ADB and the World Bank) began discussions for improving disbursement of loan projects.
- April 2000: Investment Project Management Conference. The GOVN and 3-banks agreed the action plan for improving disbursement of projects and exploring the possibilities of harmonizing aid procedures among 3 banks.
- June 2001: Report on Project Cycle Issues for ODA Operation in Vietnam. 3- Banks conducted a comparative analysis on aid procedures based on the above action plan.
- May 2002: The GOVN and 3-banks launched a joint statement at the mid-term consultative group (CG) meeting and agreed the three areas of harmonization (financial management, social safeguard and portfolio management).
- December 2002: The GOVN and 3-banks launched a joint statement at the CG meeting, and identified the priority issues of harmonization.
- March 2003: The other two banks (French AfD and German KfW) expressed their intention to join the initiative. Accordingly, the initiative was developed into 5-banks Initiative.
- May 2003: JPPR
- February 2004: The Vietnamese government launched action plan for the year 2004.

##### 2. Priority areas of harmonization

- Procurement
- Financial management
- Social safeguard (Environment Impact Assessment and Land Clearance)
- Joint Performance Portfolio Review

## Section E. Joint arrangement

### Basic ideas

29. Japan considers joint arrangement is an effective means to reduce transaction costs and maximize aid effectiveness, and then participates in, for instance, (i) joint diagnostic review, (ii) joint programming/joint assistance strategy, (iii) joint mission with other donors, (iv) common reporting, monitoring, accounting and auditing procedures, and (v) common framework( common conditionality, multi-year funding mechanism, etc ). Specific examples are shown in the Box below

##### 1. Joint diagnostic review

- Vietnam: participatory poverty assessment, and public expenditure review, country procurement assessment review (CPAR)
- Ethiopia: study on the construction of low-cost elementary school facilities
- Nicaragua: Population Census

## 2. Joint programming/joint assistance strategy

Tanzania: joining a technical working group to develop poverty monitoring for the PRSP and the Joint Assistance Strategy (JAS).

## 3. Joint mission with other donors

- Cambodia: health
- Sri Lanka: agriculture plantation
- Vietnam: discussion is now on-going in the "Sit-down and Talk Initiative"
- China: environment
- Tanzania: Joining "the quiet time" set by the Tanzania government. Infectious disease control
- Ethiopia: education and health
- Nicaragua: reproductive health

## 4. Common reporting, Monitoring, Accounting and auditing procedures

- Vietnam: now exploring the possibility of introducing a common reporting and monitoring
- Tanzania: (i) capacity development project for the National Statistics Department, and (ii) exploring the possibility of introducing common reporting, joint monitoring, etc. through joining budget support, poverty monitoring and common fund for the Secretariat of the Agriculture Sector Development Program (ASDP).
- Nicaragua: capacity development project on data collection and processing in a population census for the Geographical Survey Institute.
- Pakistan, Mauritius, Bangladesh and the Philippines: JBIC worked on a joint report on auditing in co-financing projects.

## 5. Common framework ( Common conditionality, multi-year funding mechanism )

- Sri Lanka: power sector
- Vietnam: World Bank's PRSC-3 (poverty reduction support credit)
- Tanzania: framework document in the Poverty Reduction Budget Support (PRBS), and jointly developed PAF matrices.
- Uganda: participating in drafting works of "Partnership Principles between the Government of Uganda and its Development Partners".
- Nicaragua: joining a working group on budget support led by the Netherlands and Sweden. this group is now working on "Joint Financing Arrangement" to be adopted in the Nicaraguan Fiscal Year 2005.

## 6. Delegated cooperation

- South-South cooperation
- Providing financial contributions to various global funds, such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria, and multi-bi cooperation through UNICEF and UNFPA.

## Section F. Managing for Development Results

30. After the Rome HLF and Marrakech roundtable (February 2004), "Managing for Development Results" was recognized as an emerging issue, and Japan has been incorporating this approach in its assistance to partner countries. For example, the

Government of Tanzania is now drafting a second generation of PRSP with support from donors. In this process, Japan has now finished providing assistance to Tanzania for strengthening the monitoring system. At the multilateral level, Japan is a member of PARIS 21 and has made a financial contribution through the Japan-UNDP Fund to support the activities of PARIS 21 including a regional workshop in 2003. We also assist the statistic capacity building of partner countries by contributing to "Research and data activities related to the Millennium Project" through Japan's PHRD (Policy and Human Resources Development) Fund at the World Bank and "Program for the Improvement of Surveys and the Measurement of Living Conditions in Guatemala" through IDB's (Inter-American Development Bank) trust fund. In addition, Japan organized a seminar/workshop on ODA evaluation in Thailand in January 2005 (see the below).

#### The Seminar/Workshop on ODA Evaluation

In January 2005, Japan organized the Seminar/Workshop on ODA Evaluation in Thailand, inviting representative Asian countries and bilateral/multilateral donors. After general lectures on ODA evaluation, participants carried out case study simulations of evaluation based on the actual circumstances of their own countries on the following themes: education, infrastructure, rural development and poverty reduction, environment and outcome evaluation. As a result, they confirmed the followings:

- 1) Importance of political commitment and mainstreaming M&E in all development activities regardless of financial sources, including exposures of policy makers and project/program planners to evaluation methodologies and system,
- 2) Importance of ensuring an effective feedback mechanism to reflect the results of evaluation in policy, program and project planning and implementation.
- 3) Importance of establishing a management mechanism for evaluation involving all phases of the project cycle and strengthening neutral and professional evaluation competence, including the enhancement of credibility.
- 4) Importance of promoting joint evaluation between donors and partner countries, and harmonizing and standardizing evaluation and reporting procedures.

#### Section G. Capacity development

##### **[Key messages]**

1. Japan considers the final goals of capacity development are that the partner country can set out visions for its own development, prioritize them, and take the initiative to implement development projects and their evaluations, and 'sustain the output, and improve them in response to changing situations'. To these ends, it is important for partner countries to develop the capacity necessary to demonstrate their ownership.
2. In addition, Japan considers that the lack of national capacity is a bottleneck factor in further implementing the Rome agenda.

### Basic ideas

31. The DAC, mainly WP-EFF, is currently discussing measures to improve aid effectiveness. However, implementation of these efforts could be impeded by partner countries' capacity constraints.

32. Take the example of "sector approaches". The Strategic Partnership with Africa (SPA) says that sector approaches consist of the following four components: (i) sectoral development strategy shared by both a partner country and donors, (ii) partner country-led donor coordination mechanism, (iii) sectoral mid-term expenditure framework (MTEF) coherent with sectoral development strategies, and (iv) implementation of donors' projects/programs in a coherent and coordinated manner. However, in reality, because of the capacity constraints, some partner countries are not always able to assess the real situation in a specific sector by themselves. Likewise, it is not always an easy task for them to prioritize various development goals, maintain coherence among development strategies and goals, to draw on concrete policy measures, to establish an effective monitoring system, and to develop a mid-term expenditure framework (MTEF) necessary to implement sectoral strategies. In the first place, there are some cases where donors cannot introduce sector approaches because of the capacity constraints of a partner country.

### Japan's assistance for capacity development

33. Japan is putting high priority on capacity development in its own Harmonization Action Plan presented at the Rome High Level Forum in February 2003. Based on this Action Plan, we have been providing assistance to partner countries at various levels: (i) supporting strengthening the ability of developing national development strategies, including the PRSP, (ii) supporting strengthening the ability of developing sectoral strategies and implementing them, (iii) supporting strengthening the ability of implementing the projects/programs effectively and efficiently, and (iv) organizing international symposiums on capacity development.

#### **[Box: Capacity development and the LENCOD]**

In February 2004, JICA organized the second international symposium on capacity development jointly with the CIDA, the GTZ, the UNDP and the World Bank in Tokyo. Through a series of discussions, they affirmed their commitment to the following points:

1. To work on a more concrete action plan for capacity development in order to deepen

discussions which have been too general.

2. To facilitate SOUTH-SOUTH cooperation as an effective tool for capacity development with strong partner leadership. (For example, an international seminar on “capacity development oriented to South-South cooperation” was held in Colombia in September 2004).
3. To affirm the significance of capacity development as follows:
  - Mainstreaming capacity development in each donor agency
  - Putting into action the capacity development programs in pilot countries. For example, donors could jointly conduct “capacity assessment”, utilizing the result-based framework proposed by the World Bank Institute (WBI). In addition, in June 2004, “Program-based Approaches in Asia: Adapting to Diversity” was organized in Tokyo.
  - Mainstreaming the capacity development agenda at the DAC/GOVNET and other networks.

In addition to the above, based on the discussions at the DAC Network on Governance meeting held in March 2004, a group of donors set up the Learning Network on Capacity Development (LENCD) and has developed a paper describing the concept and the significance of capacity development and its future direction.

## [Chapter 5: Lesson learnt on the implementation of the Rome agenda](#)

### [5-1. Ownership is the basis for partner country-led aid effectiveness.](#)

34. Japan considers that respect for national ownership is a key element for aid effectiveness. In addition, country-based approaches, and respect for the diversity of aid modalities are also important. First, by stipulating the importance of a “country-led approach” and “respect for ownership” in the Rome Declaration, it has been reaffirmed that donors should respect the “voice” of each partner country at the international and local levels as much as possible. Second, by emphasizing the importance of “diversity of aid modalities”, this principle has provided various options to partner governments in implementing their national development plan and sector strategies, thereby enabling them to seek a combination of various aid modalities that best suit the country-specific conditions. As a result, the idea of ‘complementary effects of aid modalities’ has come to be shared among both donors and partner countries.

### [5-2. Importance of adopting a comprehensive approach](#)

35. In general, there are various bottlenecks such as weak policy and institutional framework, lack of social safeguards (environment impact assessment and land clearance), and corruption (see the Box below for more details). Therefore, in order to effectively improve aid effectiveness, we need to take comprehensive approaches by assuring supplementary measures to address such issues and thereby achieve aid effectiveness, in addition to the measures we are discussing in the WP-EFF and Paris HLF.

#### Partner countries side

- Low quality of national development plan
- Weak alignment of ODA funded projects with national development plans, sectoral strategies, and public expenditure frameworks.
- Institutional constraints on partner countries' side, for example, public revenue reform approval process of new projects/programs, design and cost estimation of new projects/programs, management of projects/programs, operation & maintenance of investment projects, safe guard measures (environment and land clearance, etc)
- Capacity constraints in terms of technology
- Administrative capacity constraints
- Others

#### Donor side

- Insufficiency of alignment of ODA-funded projects with the national development plans and sectoral strategies
- Insufficiency of donor coordination (in other words, weakness of donor coordination mechanism)
- Delay of reform relating to aid delivery (including aid procedures)
- Insufficiency of capacity of aid management on donors' side
- Others

### 5-3. Importance of further capacity development

36. In the long run, partner countries will need to have capacities which allow them 'to set out visions for their own development, prioritize them, and take the initiative to implement development projects and their evaluations' as well as 'to sustain the outputs, and improve them in response to changing situations'. This requires donors to initiate more concrete discussions and deepen them beyond rhetoric. We therefore need to have concrete discussions on what kinds of capacity constraints partner countries have and what kinds of donor supports are required to address them, and to share the experiences of partner countries and donors in this area.

37. In addition, it is important that donors support capacity development which encourages self-efforts of partner countries and which strengthens their ownership. To this end, donors need to consider and share experiences on what are the effective capacity-development-approaches for ensuring strong involvement of partner countries and in strengthening their ownership, both at the pre-implementation stage of projects/programs (e.g. project finding and formulation) and at the implementation stage (e.g. process of capacity development, project management, and monitoring and evaluation). For this purpose, Japan is now implementing a study, which is titled "Voice of the partner:

making capacity development more effective”.

**[Box: Voice of the partner: making capacity development more effective]**

**1. Objectives of the Study**

(1) To explore how capacity development support can be more effective by listening to the voices of partner countries by focusing on:

- (i) Specific needs of capacity development with a view to enhancing harmonization and alignment
- (ii) Types and approaches of donor assistance for capacity development that are more effective and sustainable

(2) To provide useful inputs to various international and regional fora (e.g., DAC-Working Party on Aid Effectiveness and Donor Practices, DAC Governance Network (GOVNET), possibly the Second High-level Forum on Harmonization and Alignment in Paris) for further deepening discussion on capacity development.

2. Study Areas: Bangladesh, Tanzania

3. Study Period: From December 2004 to March 2005

4. Outputs: Final Report (Main report in English. Summary in Japanese )

**5-4. Importance in adopting practical approaches, bearing in mind cost benefits of aid effectiveness efforts**

38. When implementing measures for improving aid effectiveness, we need to consider their cost-benefits and to take practical and steady steps to achieve the results. More concretely, we should pay attention to the following points.

**(a) To be selective with the targets when implementing measures for improving aid effectiveness:**

39. We should first narrow down the target of the efforts for improved aid effectiveness to focus resources by setting three criteria. These criteria should be; (i) transaction costs are apparently incurred, (ii) concrete output will be produced in a short period of time, and (iii) the effort will result in benefits to both partner countries and donors. (See the box on the “5-banks Initiative in Vietnam”).

**(b) To be selective with areas of improving effectiveness**

40. There are variations of efforts to improve aid effectiveness, namely (i) between partner countries and donors, (ii) among donors, and (iii) within an individual donor system. Considering the initial conditions in a partner country (e.g. ratio of grants and loans, and proportion of a specific donor assistance in total aid, and specific situation of donors), it is important and effective to select and mix these types of efforts according to their own specific situations.