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**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
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**IFAD'S PARTICIPATION IN THE HARMONIZATION INITIATIVE  
AND THE 2005 PARIS HIGH-LEVEL FORUM ON AID EFFECTIVENESS**

**I. INTRODUCTION**

1. As requested at the Eighty-Third Session of the Executive Board in December 2004, the purpose of this note is to inform the Board on IFAD's engagement and participation in the Second High-Level Forum on Aid Effectiveness, held in Paris, France, from 28 February to 2 March 2005.
2. Two high-level forums on harmonization and aid effectiveness (HLFs) have been held, one in Rome on 24-25 February 2003 and the second in Paris earlier this year. These HLFs were attended by ministers and senior government representatives, heads of multilateral and regional development banks, bilateral donor agencies, and heads or senior representatives of United Nations agencies. IFAD was represented at both forums and delivered a statement to each. The objective of these forums is to increase the effectiveness of aid delivery and improve its impact on poverty reduction.

**II. THE FIRST HIGH-LEVEL FORUM ON HARMONIZATION (ROME, 2003)**

3. The Rome High-Level Forum on Harmonization focused on aligning the requirements that donors make of partner countries' systems, particularly in relation to procurement and financial management. Multilateral development bank (MDB) working groups and task forces of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC) addressed these issues, made recommendations and published a booklet that sets out good practices: *Harmonizing Donor Practices for Effective Aid Delivery*.
4. Since the Rome forum, IFAD has undertaken a review of its procedures and practices in the procurement and financial management areas, identifying ways to amend, as appropriate, some of these policies with an eye to facilitating harmonization. A set of guidelines on project audits has been issued and there has been a significant improvement in the timely submission of audit reports. IFAD is working closely with its partner countries to strengthen the quality of these reports. At the Executive Board session in December 2004, a revised set of procurement guidelines was approved. These guidelines were finalized, in close consultation with the MDBs, bilateral agencies and other partners. Both sets of guidelines emphasize the use of national procedures wherever these have been considered adequate to meet the standards and requirements of IFAD and of its members.

### III. THE SECOND HIGH-LEVEL FORUM ON AID EFFECTIVENESS (PARIS, 2005)

5. The Second High-Level Forum on Aid Effectiveness (HLF-2) was a critical milestone in the international community's overall preparations for the September 2005 review of the Millennium Declaration and the Millennium Development Goals. The HLF-2 focused on ownership of the development planning and implementation processes by partner countries, alignment of donor activities with partner country development strategies (including poverty reduction strategies), use of partner country systems for project implementation, and continued harmonization among donors in partner countries.

6. In preparation for HLF-2 and beyond, IFAD established an interdepartmental Working Group on Harmonization to coordinate the Fund's participation in the forum and engagement in the harmonization initiative. The working group was tasked with facilitating the Fund's participation in preparatory meetings leading up to the HLF-2 and coordinating the articulation of the Fund's position on key issues. Throughout the preparations, IFAD contributed inputs into key HLF-2 policy documents and provided detailed comments on the Paris Declaration for the HLF-2 Secretariat. As a further contribution to the HLF-2 Implementation Forum, the Fund prepared issue notes briefly outlining common positions for IFAD to present at the forum.

7. The IFAD delegation was led by the President and took an active part in the forum's discussions, including the round tables that preceded the Ministerial Forum. The President participated in the Ministerial Forum's plenary session (on 2 March) and held informal discussions with a number of ministers and heads of delegations. In the plenary, the President indicated the importance of donor countries consistently supporting the harmonization and alignment agenda once the declaration was endorsed. A statement by the President of IFAD to the forum was also distributed to the participants.

8. At the conclusion of the HLF-2, participants adopted an important document, the *Paris Declaration on Aid Effectiveness*, which contains some 50 commitments to improve aid delivery while placing greater emphasis on country ownership, government leadership and results. The declaration was endorsed by over 100 countries as well as development institutions that have committed to a practical blueprint to increase the impact of aid in reducing poverty and inequality, increasing growth, building capacity and accelerating achievement of the Millennium Development Goals.

9. The declaration commits partner countries, donors and multilateral development agencies to undertake concrete and monitorable actions within a specific timeframe in the areas of ownership, alignment, harmonization, results and mutual accountability. These commitments are supported by a set of 12 indicators of progress and associated targets to operationalize the responsibilities and accountabilities framed in the Paris Declaration. The forum endorsed five targets, while more work was requested on the remaining ones, with the expectation that agreement could be reached before the Millennium review in September 2005.

10. IFAD has made significant progress in the declaration's most important areas of focus, as set out in the following paragraphs.

11. IFAD has designed, tested and introduced with effect as from 2005 a performance-based allocation system (PBAS) that allocates IFAD's available resources on the basis of countries' relative performance in establishing an appropriate institutional and policy framework for sustainable rural development. The system provides the basis for in-country discussions on IFAD's lending programme, within the framework of that country's medium-term national poverty reduction strategy. The PBAS generates a rolling three-year loan-commitment envelope for each borrowing Member State (current year plus two forward years). With introduction of the PBAS, IFAD has achieved two

of the Paris Declaration goals: (i) ensuring better alignment with partner country-owned national development strategies, and (ii) allocating aid through a transparent approach that ensures predictability with a multi-year commitment of funding examined on the basis of annual implementation reviews.

12. Subsequent to its adoption of a field presence policy, IFAD is also reviewing its arrangements with regard to locating staff in partner countries. This responds to another Paris Declaration goal of enhancing development partnership arrangements and the level of delegation of authority to field offices.

13. IFAD supports the use of partner country systems for project implementation and has for many years applied its project implementation procedures with the expectation that reliance on most partner country systems is feasible. For the majority of IFAD's loan-funded interventions, the required financial resources are included in the government's medium-term budget expenditure framework. In most cases, IFAD disburses its resources to the Member State's finance ministry for allocation or disbursement to project implementation agencies through the government budget and financial management system. In this way, IFAD is progressing towards achieving two other goals of the Paris Declaration: (i) relying on country systems in the area of financial accounting and reporting and of auditing by national audit agencies, and (ii) aligning aid on national priorities through its inclusion in the national budget. Subsequent disbursements are committed within the agreed budget expenditure amounts.

14. Where IFAD has found that the use of partner country systems is not adequate, it may specifically support or collaborate with MDBs and other donors to strengthen national capabilities. Where full use of partner country systems is appraised as adequate, e.g. the national audit office, IFAD fully utilizes those institutions.

15. IFAD supports efforts to use common or shared arrangements and procedures for donor activities in partner countries. Although IFAD usually uses a cooperating institution to assist in implementing its projects, joint missions are the norm where IFAD is assessing or implementing a project with a cofinancier. IFAD continues to discuss and cooperate with other donors in the review of policy issues as well as implementation and capacity development issues.

16. The recent introduction at IFAD of a results and impact management system (RIMS) to assist it in understanding the impact of its projects, programmes and technical assistance has to be considered as an asset for the Fund's engagement in the area of managing for results. A system based on IFAD projects' impact on poverty reduction might well be a valuable asset for the ongoing discussion currently led by MDBs and for adoption, at the country level, of transparent and monitorable performance assessment frameworks to measure progress against national development strategies and sector programmes.

17. In relation to IFAD's engagement in the harmonization effort, in recent years it has participated in agricultural/rural sector-wide approaches (SWAp) in eastern and southern Africa. It has done so in different ways in different countries: its experience includes supporting the process of developing the sector strategy upon which the SWAp is to be based, contributing to their conceptualization and planning, supporting the development of sub-sector policies within the SWAp framework, and contributing to their financing and supporting their implementation. On the basis of (i) a broader understanding of the relevance of these development instruments and (ii) IFAD's opportunity to promote policies and investments at the national level which respond to the real needs of poor rural people, IFAD prepared a policy paper on SWAps for consideration by the Executive Board in April 2005. The paper was expected to provide: (i) direction and guidance to IFAD staff working with countries where SWAps are under consideration, and (ii) a platform for IFAD to undertake more

informed investment operations, engage in more substantive policy dialogue, and build more effective partnerships with governments and other development partners.

18. IFAD continues to adapt its operational approach to reflect a more programmatic agenda. It is currently reviewing its operating model in order to strengthen the capacity of its country teams to engage more actively in implementation support, policy dialogue, partnership-building and knowledge management within the framework of country-led harmonization.

19. As part of global efforts to disseminate the Paris Declaration, the declaration has been distributed to all staff and the proceedings of the Paris High-Level Forum have been made available through the organization's intranet. IFAD will continue to provide inputs for the deliberations of the OECD-DAC Working Party on Aid Effectiveness and Donor Practices and other task forces and working groups as part of its contribution to the Millennium review in September 2005, to the completion of the Paris Declaration indicators and, more generally, to achievement of the Paris Declaration's goals.

