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Cost of Non-Europe Report

The Cost of Non-Europe in Development Policy: Increasing coordination between EU donors

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The Cost of Non-Europe in Development Policy

Increasing coordination between EU donors

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On 22 March 2012, the European Parliament's Committee on Development requested a Cost of Non-Europe (CoNE) Report in the field of development cooperation, to prepare a legislative initiative report on increasing coordination between the EU and the Member States on development aid programmes.

This Cost of Non-Europe Report has been drafted by the **European Added Value Unit** of the Directorate for Impact Assessment and European Added Value, within the Directorate General for Internal Policies (DG IPOL) of the General Secretariat of the European Parliament.

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Abstract

Lack of effective coordination of development aid among EU donors - specifically between the Member States and the European Commission- has significant economic and political costs. Economically, some EUR 800 million could be saved annually on transaction costs if donors concentrated their aid efforts on fewer countries and activities. An extra EUR 8.4 billion of annual savings could potentially be achieved from better cross-country allocation patterns. Politically, better coordination would result in increased impact and greater visibility for the EU development policy on the world stage.

The EU has already put in place some mechanisms for improved coordination in this field, but these have not been sufficiently well implemented, and the possibility of new mechanisms should be explored to further enhance intra-EU coordination. A first step could be the adoption of a new binding coordination instrument, building on current best practices and mechanisms, notably in relation to division of labour and joint programming.

Note on methodology

The concept of the "Cost of non-Europe" can be traced back to 1988, and the study carried out for the European Commission by the Italian economist Paolo Cecchini on the cost of non-Europe in the single market.

The methodology of the Cost of non-Europe report in the area of development is based on the "Cecchini rationale" and starts with a description of the current situation in terms of the delivery of EU development assistance. It proceeds with an analysis of the potential benefits of more concerted action at EU level, compared to the lack of action or action by member states alone.

In doing so, the report looks first of all at the economic gains that can be achieved for the EU and Member States through enhanced economies of scale and scope (and seeks to provide a reliable figure on potential savings). The sheer scale of the EU development cooperation framework and its complexity means it is impossible to fully and precisely quantify the costs and benefits involved. The inevitable limitations linked to the degree of precision that can be expected from this EU-wide quantification do not affect the overall conclusions on the magnitude of potential savings.

The report also examines the political benefits of better coordination, such as the potential to reinforce the EU's global leadership.

This analysis is complemented by the examination of costs of – or obstacles to- increased coordination and provides insights on a number of options for the purpose of policy assessment and decision-making.

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Executive Summary

The European Union's development policy is at a crossroads. Despite some remarkable achievements, illustrated by the progress in poverty eradication in developing countries where the EU is an active donor, the current austerity measures in many Member States, due to the economic and financial crisis, have put public and political pressure on budget allocations throughout the Union. This contributed to a decrease of two per cent in the EU's overall development assistance in 2012, breaking a long trend of annual increases.

The pressure on public expenditure means that ensuring an optimal allocation of the budgetary resources assigned for development cooperation is a more urgent priority than ever. Growing political concern over the need to demonstrate results has led to a greater focus not only on the allocation of resources, but also on how they are managed.

As the world's largest collective donor and an organisation with a unique type of integration, the EU and its Member States have the potential to be the most effective and credible aid provider. The existing EU structure offers opportunities to draw on the comparative advantages of Member States' and the Commission's best practices and vast expertise in the field, achieving a greater long-term impact for the EU's development aid.

This potential is not fully exploited because of losses from less than optimal coordination. The EU has put in place mechanisms for better cooperation (notably in the fields of division of labour, joint programming), but these have not been implemented. This in turn has led to limited results: fragmentation and duplication of aid is still widespread; competition among EU development agencies and NGOs is still recorded; the impact of the EU's development action is not acknowledged or cannot be identified among the populations in beneficiary developing countries; EU procedures are considered cumbersome and bureaucratic by recipient countries. Those deficiencies represent an undesirable waste of resources that needs to be swiftly addressed through common action at EU level. These wasted opportunities represent the "Cost of Non-Europe".

It is estimated that as much as EUR 800 million (around 1.4 per cent of EU development aid) could be saved annually from cutting transaction costs if donors concentrated their aid efforts on fewer countries and activities. An extra EUR 8.4 billion (around 15 per cent of EU development aid) could be saved if aid-recipient country allocation was completely coordinated to avoid inefficient aid allocations and had poverty reduction as its only target.

These savings could then be used to extend aid activities to the benefit of developing countries. At times when the goal of 0.7 per cent of GNI by 2015 remains elusive for the EU, more efficient coordination at EU level could give this a new impetus.

Moreover, a unified, "one voice", EU approach would result in more leverage for EU development action across the globe and promote better outcomes, in terms of poverty alleviation, so optimising EU development objectives. This in turn could help the EU to live up to its ambitions as a leading player in the development field, thanks to the increased impact of the EU development policy and greater visibility.

Better coordination does not come cost-free. It entails administrative, but more importantly, political costs. However, the benefits of better coordination far outweigh the related costs and coordinated action by the EU as a whole has an added value which, in terms of policy and financial leverage, is bigger than the sum of individual actions of 28 Member States and the Commission.

The European Parliament recommends that, in line with Article 210 TFEU, the Member States and the European Commission should actively explore all possible mechanisms to further enhance intra-EU coordination in the area of development cooperation.

A first step could be consideration of a new binding coordination instrument comprising the following elements:

- **making full use of current best practices for coordination;**
- **fully exploiting the coordination possibilities of budget support and blending mechanisms;**
- **promoting better sectoral division of labour and joint programming through the establishment of a new instrument for coordination.**

In the longer term, European aid actors should focus on improving policy coordination for allocation patterns starting a reflection on a more integrated development policy.

1. Introduction

The challenges of EU development policy

Development policy is at the heart of the EU's external action. It projects the Union's aspirations for shared prosperity in the world and places the EU as a world leader, not only as donor but as credible partner on key challenges facing the developing world, such as poverty eradication, climate change, access to water and renewable energies and addressing gender issues.

As the world's largest donor, the EU and its Member States together provide more than half of all official development assistance (ODA) to developing countries.The EU's important geographical network, through the 141 Union Delegations around the world, plays a central role in coordination the EU's development assistance and partnerships with third countries.

Box 1: Facts and Figures on EU development policy

Total ODA EU+MS:	EUR 55.1 billion in 2012
Rank in the world:	1st
EU ODA as % of GNI:	0.43
Rank in the world:	1st
ODA distributed to:	more than 160 countries, territories and organisations
Presence of delegations:	141

Source: http://europa.eu/rapid/press-release_IP-13-299_en.htm

However, the EU is experiencing difficulties in being seen as an influential global player, and its position on the global stage remains well below its full potential, all the more so in the current changing international landscape.

Firstly, the EU has to face a steadily changing global context for development aid. While global aid flows have significantly increased over the past decade, contributing to steady progress in poverty reduction, at the same time, the number and diversity of aid actors has increased. More players and a proliferation of activities have rendered aid less predictable, less transparent and more volatile.

Furthermore, the emergence of new economic powers (BRICS) and the new forms of global governance (G20), as well as the global nature of development challenges, such as climate change, illegal migration, food security and communicable diseases, have reshaped the global patterns of traditional development policies. The changing patterns have also had considerable impact on the nature of poverty. The steady graduation of several countries, especially the populous ones (China, Brazil, Indonesia, India, etc) to middle-income country status means that poverty is not only to be found in poor countries. However, compelling poverty problems such as inequality still exist in the graduated countries while donors do not have the means (because of the scale of poverty) or the justification (because of the graduation to middle income countries) to address them.

The EU can certainly take pride in its development assistance performance, registering some remarkable achievements, as illustrated by the progress in poverty eradication in developing countries where it targeted its development assistance. However, the current economic climate and the severe austerity measures in many Member States, due to the economic and financial crisis, are putting public and political pressure on budget allocations throughout the EU. This has contributed to a decrease of 2 per cent in EU collective ODA levels in 2012 compared to 2011. The EU collective ODA[1] decreased to EUR 55.1 billion from EUR 56.2 billion in 2011, or from 0.45 per cent to 0.43 per cent of EU gross national income (GNI). Only four Member States increased[2] and seven maintained their ODA levels[3], while 16 Member States reduced their effort. This breaks a long trend of annual increases and, as recognised by the Council of the EU, creates a serious doubt on whether the EU will eventually achieve its undertaking to collectively commit 0.7 per cent GNI to development assistance by 2015.

Box 2: EU commitments on development aid targets

> "Conscious of on-going economic constraints, the Council remains seriously concerned about ODA levels and reaffirms its commitment and political leadership to achieve EU development aid targets. In this light (...) a key priority for Member States is to respect the EU's formal undertaking to collectively commit 0.7 per cent of GNI to official development assistance by 2015, thus making a decisive step towards achieving the Millennium Development Goals. The EU and its Member States reaffirm all their individual and collective ODA commitments, taking into account the exceptional budgetary circumstances (...)."

Source: Council Conclusions on the Annual Report 2013 to the European Council on EU Development Aid Targets, 28 May 2013 (excerpts).

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[1] EU collective ODA is the sum of ODA from the EU Member States and the part of ODA provided by the EU institutions that is not imputed to Member States. Most of the EU institutions' ODA spending is, for the purposes of ODA/GNI reporting, imputed to EU Member States, i.e. Member States data include part of the institutions' spending. The ODA provided through European Investment Bank (EIB) own resources (€ 4.5bn in 2012) is not imputed to Member States and is additional to the Member States' ODA.

[2] Austria, Latvia, Luxembourg, Poland.

[3] Czech Republic, Estonia, Finland, Lithuania, Slovak republic, Slovenia, United Kingdom.

In such a heterogeneous landscape, the EU needs to reposition itself in order not to lose its leading edge. The question then becomes how to ensure that the development policy of the EU and its Member States has the greatest possible impact on development outcomes, i.e. how to maximise the EU's contribution to the achievement of the Millennium Development Goals by 2015 and to the post-2015 agenda.

Why donor coordination?

One of the purposes of the Lisbon Treaty was to equip the European Union for this changing world, by strengthening the coherence and effectiveness of EU's external action.

The EU commitment towards policy coherence[4] deals with the link between different policy fields and development. Aid effectiveness is about the allocation of resources and the way they are managed. The growing political concern over demonstrating development results in the current context of economic austerity has led to increased focus on how to render EU development spending more effective, by acting on the modalities of implementation of aid, without necessarily spending more.

The quest for making aid more effective is neither new, nor EU specific. Over the past decade, the international community has developed an international framework for making aid more effective, which is known as the Aid Effectiveness Agenda.

Box 3: The Aid Effectiveness Agenda

The **Monterrey Consensus** (2002) acknowledges that aid needs to be used in the most effective way possible.

The **Paris Declaration on Aid Effectiveness** (2005) provided a practical, action-oriented roadmap to improve the quality of aid and its impact on development, with focus on five principles: ownership, alignment, harmonisation, results and mutual accountability.

Accra Agenda for Action (2008) set out a list of commitments for its signatories, building on those already agreed in the Paris Declaration and laid down arrangements for monitoring progress on the implementation of the agreed principles.

Busan Global Partnership for Effective Development Co-operation (2011): assessed progress in improving the quality of aid agreed upon a document to further the effectiveness of aid and development efforts in pursuit of the Millennium Development Goals (MDGs).

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[4] European Commission Communication on Policy Coherence for Development - Accelerating progress towards attaining the Millennium Development Goals, 12 April 2005.

Donor coordination is an essential element of the Aid Effectiveness Agenda, included under the principle of "harmonisation". The Paris Declaration states that donors should work together to reduce the number of separate, duplicative, missions to the field and diagnostic reviews (Indicator 10); and promote joint training to share lessons learnt and build a community of practice. Moreover, donors committed to make full use of their respective comparative advantage at sector or country level by delegating, where appropriate, authority to lead donors for the execution of programmes, activities and tasks.

Coordination focuses on reorganising spending tasks and maximising synergies among donors' development interventions - the way donors work together to implement development aid. It is aiming at efficiency and effectiveness gains. Efficiency gains are related to the extent to which time, effort or cost is well used for the intended task or purpose, namely on the question of "how aid should be provided in order to achieve the best possible result out of every euro spent." Effectiveness is about the degree to which objectives are achieved and the extent to which targeted challenges are addressed, namely "how to ensure maximum impact of EU development policy".

Not a purpose in itself, donor coordination is therefore a means to an end -the advancement of development objectives.

The existing EU structure offers opportunities to draw on the comparative advantages of Member States and their best practices and vast expertise, achieving greater and long-term impact of the EU's development aid. Given the current difficult political and economic international context, improvement of donor coordination is an imperative and the EU is in leading position to play a key role in its promotion.

2. The EU approach to donor coordination

Development policy is a "shared competence" between the European Union and the 28 Member States. Out of the EUR 55.2 billion of collective EU ODA, around 20 per cent is managed by the European Commission, which contributes to the collective, Union-wide policy from its own budget (around EUR 9.1 billion[5]) and the management of the intergovernmental European Development Fund (EDF) (EUR 22.6 billion under the 10th EDF for years 2008-2013). Each individual Member State also pursues its own national development policy (the collective size of which amounted to around EUR 41.5 billion for 2012). In addition, part of the EU collective ODA is provided through European Investment Bank (EIB) own resources (EUR 4.5 billion in 2012). The European Union is therefore a unique actor in the development field, being both a bilateral and multilateral donor. It delivers aid directly to developing countries through the prism of 28 countries and the European Commission, but also acts as a multilateral organisation that coordinates national policies on development.

Development assistance is therefore not a homogeneous concept among the EU and its Member States, but the sum of the donor governments' and the Commission's foreign aid programmes, each following its own individual aid policies, procedures and agendas. Each donor's pledge is delivered through a multitude of channels, such as bilateral donor government agencies, multilateral institutions and funds, contractors, NGOs and so on.

EU development aid is consequently characterised by the multiplicity of national, institutional and financial donors at different levels, the fragmentation and often duplication in numerous projects and programmes, as well as by a web of diverse rules and conditionalities applied by Member States, the European Commission and the European Investment Bank (EIB). Moreover, aid flows lack long term predictability and are often volatile, as donor countries allocate their aid budgets on an annual basis, which leads to recipient countries often facing discrepancies between funds received and agreed commitments.

Commitment to better coordination is not a new concept in the EU. The notion of aid coordination was acknowledged in the 1992 Maastricht Treaty (Articles 177-181 TEC), which emphasised the "three Cs" in development policy: coordination, coherence and complementarity. Since then, and in accordance with its

[5] Around EUR 5.5 billion of this are managed by the EC through EuropeAid, the rest is managed by other Directorates General of the Commission.

international commitments, the EU has established its own principles in the area of aid effectiveness and donor coordination.

These were further reinforced by the Lisbon Treaty. Article 208 TFEU introduced the "Policy Coherence for Development" principle and Article 210 TFEU states that:

"*In order to promote the complementarity and efficiency of their action, the Union and the Member States shall coordinate their policies on development cooperation and shall consult each other on their aid programmes (…). Member States shall contribute if necessary to the implementation of Union aid programmes*".

In addition, the same article affirms that:

"*The Commission may take any useful initiative to promote the coordination referred to in paragraph 1*".

EU initiatives to enhance donor coordination are mainly of a voluntary, non-binding nature, such as the Code of Conduct on Division of Labour[6] in Development Policy of 2007, or the most recent Agenda for Change[7]. They can be grouped in three categories: actions to improve the division of labour on the ground, actions aimed at promoting joint programming and the coordinated use of the "budget support" instruments.

Box 4: Main categories of EU action for better coordination

- **Division of Labour** seeks to reduce the burden that the increasing number of actors, channels and activities in the international aid architecture create for both recipient countries (fragmentation) and donors (proliferation) by rationalising aid flows and creating economies of scale. It looks for joint agenda setting, joint decision-making, work sharing and working in a complementary way according to each donor's comparative advantage. Delegated cooperation or silent partnerships are examples of arrangements whereby a donor provides only financial support to sectoral activities, but delegates the authority to a lead donor to act as the main liaison with the partner government for dialogue and advocacy. Two main dimensions can be distinguished: in-country and cross-country. In-country division of labour aims to ensure a balanced funding between sectors within a country, while cross-country division of labour intends to ensure that the EU is equally present in all developing countries – that is, avoiding aid "darlings" and "orphans". At present, in-country division of labour and complementarity is being promoted through a Fast Track Initiative, launched in 2008, which covers a selected group of partner countries.

[6] EU Code of Conduct on Division of Labour in Development Policy, 2007.
[7] Commission Communication on Increasing the Impact of EU Development Policy: an Agenda for Change, 2012.

- **Joint programming** aims to reduce in-country fragmentation by replacing Member States and EU Commission bilateral country programmes with a single EU country strategy aligned with the partner country's own national development plan and agreed by the EU Institutions and Member States. In practice, adopting joint programming entails the synchronisation of donors' programming cycles with those partners and the establishment of a single joint programming document indicating the sectoral division of labour and financial allocations per sector and donor. The 2012 Agenda for Change Council Conclusions confirmed that the EU was starting to make concrete progress in joint multiannual programming with a number of partner countries and the Commission is pushing for wider use of joint programming under the 2014 – 2020 EU Multiannual Financial Framework.
- **Budget support** is an aid modality which consists in providing direct transfers to the treasuries of the recipient countries and allowing the latter to implement its own budget according to its own procedures and policy priorities. To ensure the effectiveness of the aid provided, the transfer of resources is complemented with policy dialogue, performance assessment and capacity-building. Funding for budget support to a given country can come from the EU and from Member States, therefore enhancing coordination.

The recent reforms to EU external action following the Lisbon Treaty aim to provide the EU with the institutional capability to coordinate EU aid more closely. The European External Action Service (EEAS) is to facilitate more a harmonised approach to policy and aid programming. The EU's delegations have taken on the role previously carried out by the national embassies of the rotating EU Council Presidency of coordinating Member States' development work on the ground and speaking for the EU as a whole. Efforts to decrease fragmentation through joint programming among EU donors have been piloted in Haiti and South Sudan and are planned to be extended to a number of other countries[8]. There have also been efforts to improve results through better evaluation and monitoring and through more effective management of aid policy, actions and programmes.

However, in reality, notwithstanding the legal provisions and the improved institutional framework, effective donor coordination is still a distant goal. Practice has shown that the principles of common action still rely very much on

[8] Possible Joint Programming Countries under the 2014 - 2020 EU Budget include: Bangladesh, Bolivia, Burma, Burundi, Cambodia, Chad, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Guatemala, Kenya, Laos, Liberia, Mali, Namibia, Paraguay, Rwanda, Senegal, Togo, Comoros, Afghanistan, Benin, Burkina Faso, El Salvador, Malawi, Mauritania, Morocco, Mozambique, Niger, Pakistan, Tanzania, Tunisia, Uganda, Vietnam, Yemen, Zimbabwe, Georgia, Nepal, Philippines, Sierra Leone, Honduras, Nicaragua, Algeria, Moldova, Palestine and Timor Leste. *Source European External Action Service 2013.*

ad hoc or sporadic initiatives from individual Member States, the European Commission, the EU's bilateral aid agencies and/or financial institutions.

The European Parliament has repeatedly called on the Commission and the Member States to review their aid systems and procedures for delivering aid with a view to enhance effectiveness by improving programme coordination and ensuring that related policies and measures are complementary and consistent. The EP has clearly pointed to the need for more efforts towards a better division of work among Member States and between Member States and the Commission, in order to tackle, among other issues, the problem of orphan countries and sectors[9], and stressed the lack of implementation of the main commitments in this respect.

For example, in its resolution of 25 October 2011 on the 4th High-Level Forum on Aid Effectiveness[10], the Parliament:

"*welcomes the adoption of the EU Code of Conduct on the Division of Labour in Development Policy and stresses that its principles have not been fully implemented to date owing to a lack of political will, which is preventing optimum use of European aid.*"

Most recently, in its resolution of 23 October 2012 on an Agenda for Change: the Future of EU development policy[11], the EP endorsed the Commission's analysis of the current deficiencies in development policy (fragmentation of aid and duplication) due to the lack of satisfactory division of labour among donors and:

"*welcomes the focus on closer coordination among Member States, through the development of joint programming, single EU contracts for budget support and common EU frameworks*".

Indeed, problems of aid proliferation and fragmentation between the various levels of aid-giving, and indeed among the Member States, remain serious. The mid-term review of the European Development Fund (EDF) in 2011 describes overall progress on Division of Labour as "disappointing". The *EU Accountability Report 2012 on Financing for Development* notes that in-country Division of Labour progress in sector concentration "has been very limited". The *2011 Survey on Monitoring the Paris Declaration* indicates that, as a whole, the EU has met only one of the 12 indicators of donor performance, which is not related to harmonisation.

[9] European Parliament resolution of 22 May 2008 on the follow-up to the Paris Declaration of 2005 on Aid Effectiveness (2008/2048(INI))
[10] 2011/2145(INI))
[11] 2012/2002(INI))

3. EU coordination in practice: examples from the field

In order to assess the practical implications of the general problem of lack of donor coordination on the ground, it is useful to look at a number of case studies in recipient countries. We look here at the performance and quality of EU coordination in three States: Morocco, Myanmar and Rwanda. The choice of these countries is relevant: all three are politically and economically significant for the EU, albeit with different development landscapes. In Morocco, the EU and Member States presence in development assistance is well established but characterised by a high degree of fragmentation. In Myanmar, the EU and its Member States are part of the recent huge influx of donors in the country, whose development needs are excelling. Conversely, Rwanda is considered as one of the most advanced examples for aid effectiveness and provides a good illustration of a rather successful coordination.

Morocco

Morocco's aid map is highly fragmented. From 2007 to 2011, operations from as many as 38 donors were recorded, but 90 per cent of total aid inflows came from only seven. Against this background, the EU presence in Morocco reflects the general pattern of EU development aid: while the EU as a whole is the leading donor in Morocco, the development assistance it provides is characterised by high degree of fragmentation and complexity. Eighteen EU donors are present, applying varying implementation modalities, but the aid flows from the main four EU donors (including the European Commission) represent more than 61 per cent of total development aid in Morocco.

Table 1: Donors' ranking in Morocco (average annual commitments 2007-2011;

		%	
1	France	35%	Significant relations
2	EU Institutions	13%	
3	United States	11%	
4	Japan	11%	
5	Arab Fund (AFESD)	9%	
6	Spain	8%	
7	Germany	5%	
8	Belgium	2%	Non-Sig. relation
9	Italy	0.4%	
10	United Kingdom	0.2%	
	Total sample	**94%**	
	Total aid		

Source: OECD.Stat

The well-established EU development presence in Morocco and the features of the EU's aid map in the country translate both into greater opportunities, but also greater challenges in terms of aid coordination.

Indeed, Morocco has been the scene of numerous coordination activities as a result of the aid effectiveness agenda. However, the coordination efforts remain timid and frequently promote mere exchange of information (development counsellor meetings or thematic surveys). In the majority of cases they have failed to result into more concrete coordination in respect of:

- **joint activities** (such as common diagnosis by EU donors of Morocco's development and development cooperation needs, shared planning of cooperation programmes and projects, shared implementation of development cooperation activities, a common system of monitoring and evaluation) and/or

- **specialisation** (referring to division of labour, namely delegated cooperation, on the basis of comparative advantages).

Box 5: Main coordination initiatives in Morocco

OECD surveys and workshops on the implementation of the Paris Declaration
These surveys on the *Paris Declaration* monitor progress in the implementation of aid effectiveness principles, including donor harmonisation. The workshops helped to organise, in 2008, a specific thematic group on aid quality aiming at improving donors' alignment and harmonisation by means of enhanced government capacities in aid information management. Donors now feed into the system their development activities which are accessible to the public online, resulting in greater transparency and accountability.

EU Cooperation counsellors meetings
These meetings are the highest-level EU coordination activity in Morocco. Chaired by the EU Delegation, they are held twice a year and ensure exchange information on development cooperation issues and promote more specific coordination initiatives in thematic sectors. A field mission is organised yearly to review on the spot the different projects implemented by the EU Delegation and the Member States. However, while these meetings gather representatives from all Member States, whether they have aid programmes running in Morocco or not while implementing agencies are excluded. Furthermore, resistance from some national capitals (Spain, France) meant that the EU missed the opportunity to set a joint roadmap for the next programming cycle, starting in 2014. Despite these limitations, this mechanism is meant to play a key role in achieving certain coordination challenges in the future, such as a joint EU programming framework.

Thematic groups

Eight thematic groups (health, energy, water, environment, social development, education, and quality of aid) promoted by the EU Delegation have facilitated specific information exchange among EU donors, UN agencies and other bilateral donors. These meetings have significantly contributed to better donor coordination in Morocco and were conducive to joint implementation of budget support in sectors like health and education. The thematic groups have also facilitated a degree of delegated cooperation amongst EU and non-EU donors—namely the EU, Germany, Belgium and Switzerland.

The Neighbourhood Investment Facility

The Neighbourhood Investment Facility (NIF) is a so-called "blending mechanism". It is a fund combining (i) grants from the EU, (ii) Member States' contributions to a trust fund managed by the European Investment Bank (EIB), and (iii) loans from multilateral and bilateral European development finance institutions. This allows European institutions to leverage significant resources to address major projects and encourages donor coordination by channelling Member States' resources for joint projects. Once a project is approved, implementation and monitoring and evaluation rely on the leading agency. The NIF has also contributed to joint budgetary support in the education sector.

In general, the coordination initiatives have led, more than anything, to joint activities of donors rather than specialisation. In most cases those joint activities are not EU-specific, and are limited to few specific sectors—for instance, education and health—and conditioned by the instruments in use: budgetary support and blended financing of infrastructure projects. In these cases, coordination has resulted in common diagnosis, implementation, and even monitoring and evaluation. Nonetheless, when it comes to coordination of cooperation activities by the entire community of EU donors, results have been very poor. Indeed, there is only one coordination activity specific to EU donors and distinct from coordination processes that includes the entire donor community: the half-yearly coordination meeting of EU donors that has yielded no tangible results yet.

Table 2: Specific results from coordination initiatives in Morocco

	Joint activities				Specialization		
	Common diagnosis	Common planning	Common implementation	Common M+E	Sector concentration	Delegated cooperation	Perceived added value
OECD surveys and workshops			x				
EU Cooperation counsellors meetings							
Thematic groups	x		x	x		x	
Neighbourhood Investment Facility	x		x	x			

In term of specialisation, the results have been even poorer. There is only one experience of delegated cooperation among EU donors in Morocco: support from Germany and Belgium to the country's National Human Development Initiative, via the EU Delegation. As regards sector concentration, the situation is somewhat more complex: aid fragmentation in Morocco is still very high and even increasing, according to official OECD indicators. The latter however seems to ignore the tendency of major donors to concentrate in a smaller number of sub-sectors within each sector, while small interventions from donors of all sizes are still disseminated in different sectors. When asked if they thought they had a sector comparative advantage with regard to other donors, 80 percent of both EU and non-EU donors pointed to the same sector: governance. When describing the details of their governance projects, differences between donors arose in sub-sectors. Traditional aid quality indicators might therefore not be suitable for catching the nuances of the aid map in a country like Morocco.

Finally, a revealing finding of the Morocco case study emerges when it examines whether the EU is perceived as a single development player in Morocco. A key conclusion is that not even EU delegates identify themselves as part of a single EU group of donors. This perception is all the weaker among other stakeholders. And when it comes to identifying a leader in the EU group, not a single European respondent mentioned the EU Delegation (ironically, not even the EU Delegation itself).

What is astonishing is that even if EU donors acknowledge the adverse side effects of poor coordination on aid effectiveness, the impact of EU development aid and the EU's external projection as a global player, little is done to address them.

Box 6: Delegates' perceptions of opportunity costs of a weak coordination among EU donors in Morocco

Would a better coordination of aid activities lead to a wider impact of international assistance on development?	Yes (100%)
Do you identify the bilateral/multilateral cooperation that you represent is part of a EU group?	Yes (86%)
Do you think other stakeholders see you that way?	Yes: 57% No: 43%
Is there an EU donor leader?	Yes: France 1st (89%) and Spain 2nd (83%)

Myanmar

Myanmar's political transformation, geo-strategic location, richness in minerals and raw materials, and acute development needs have generated a massive influx of donors into the country. The number of high-level visits from around the world to Myanmar is unprecedented, as it is the in-rush of donor agencies that have already opened offices in the former capital, Yangon, and the new capital, Nay Pyi Taw.

This exceptional situation exposes the country to formidable opportunities, but countless challenges as well: Is the country going to receive too much aid too soon? Will aid be more a blessing than a curse?

Overall, coordination structures for aid in Myanmar are in the process of being established.

Box 7: Coordination initiatives in Myanmar

The **Partnership Group on Aid Effectiveness (PGAE)** has been operating since 2009 as the main donor coordination mechanism. It includes 45 donor agencies. PGAE has also established a number of working groups. In the future, this forum will be organised in a more formal way. The chair will be selected on a rotational basis; for the first term of a formalized approach DFID and the United Nations are serving as co-chairs.

The **First Myanmar Development Cooperation Forum** organised by the Government of Myanmar in January 2013, in Naypyitaw was an important consultation event, which will be held in the future on an annual basis. It concluded with the "Nay Pyi Taw Accord for Effective Development Cooperation", providing specific commitments on the side of the government and donors on how to "align assistance with national priorities" and "participate in and be guided by country-led coordination processes". Based on the results of the accord, the government is in the process of drafting an "action plan"; a first draft version was shared with main development partners in mid-May 2013.

A "working committee" established by the First Forum will be serving as an overall dialogue mechanism between the annual Forum meetings. A group of eight main donors will represent the donor community: Asian Development Bank, AusAid, EU, Japan International Cooperation Agency, UK, UN, US, and the World Bank.

15 sectoral working groups are in the process of being established. Each sector working group will be chaired by the government of Myanmar and co-chaired by a bilateral and a multilateral donor.

In addition to the overall coordinating mechanism, the EU donors **meet regularly at the level of Heads of Cooperation.**

During the first phase of political transition, development assistance to the country was characterised by non-harmonised and uncoordinated approaches. Donors, regardless the size of their presence and aid contributions, initially showed little interest in pushing for extensive coordination. Based on a number of interviews, competition among donors (including in some cases competition between agencies from the same country) was generally seen to be at a high level, leading to many cases of duplication of effort.

Several EU Member States -especially the UK Department for International Development (DFID) and Germany- are already active in Myanmar. There are also planned activities by France, Denmark, Finland and Sweden. The European Commission is also present, although the EU Delegation in charge of the country is based in Bangkok, with only a branch office in Yangon, opened in April 2012[12].

Coordination of European donors is so far modest at best and limited mainly to information sharing. The UK (DFID) is by far the most important bilateral EU donor in Myanmar and a very active player in development assistance fora that are organised for Myanmar. However, so far, DFID cannot be perceived as a driving force for European aid coordination in the country.

The Commission's presence in Myanmar does not translate into any concrete coordinating role. Even if it was the Commission's intention to develop a uniform European aid framework, the necessary decisions have not been taken in time. The EU explored the potential for EU joint programming in Myanmar by a Joint Programming Mission in April/May 2012. The mission report confirms a situation of generally poor communication and coordination between donors. The document recommends that joint programming should be taken forward in Myanmar, initially concentrated on EU donors. However, several donors, including the UK agency's country office have explicit reservations about the feasibility of a joint programming approach for Myanmar, namely raising concerns about "an over-ambitious synchronisation".

Finally, the Government of Myanmar has little experience in receiving development assistance, so the country has yet to gain ownership of the influx of aid. Despite some efforts to remedy that, especially with the drafting of the national action plan on development cooperation in May 2013, the government is likely to continue to have limited influence in the near future on the volumes and areas of greatest need for development assistance. Until the country improves its

[12] This will change soon as the EU Office in Yangon will be transformed in a fully-fledged Delegation in September 2013.

ownership of the process, it will be difficult to have high expectations as to the potential results from increased coordination among international donors.

Rwanda

Rwanda is a low-income and highly aid-dependent country, with more than 50 per cent of its national budget still dependent on external aid. The country continues to grapple with the consequences of the genocide in 1994. Rwanda and the surrounding region are still considered conflict zones, as the wounds from the genocide have not yet healed. Furthermore, discussions on Rwanda are often controversial due to the country's poor human rights and governance records.

Box 8: Coordination initiatives in Rwanda

The "Aid Policy" strategy was introduced in 2006. It is the main reference point for country-led donor coordination with a clear emphasis on alignment with government priorities and the use of country systems (ownership). It identifies general and sectoral budget support as the main priorities in terms of aid instruments/modalities.

Budget support was provided until mid-2012 by a number of key development partners which, were undertaking **joint approaches** to a large extend (**joint dialogue process, joint monitoring mechanisms** etc.). It is not clear at the moment what the future role of budget support will be in the next couple of years, due to governance issues in the country.

In addition to budget support fora, **an overall dialogue mechanism** is in place which comprises almost all bilateral and multilateral donor agencies.

Against a backdrop of increased aid fragmentation from 2005-09 alongside with an increase in programmable aid for the country, a process of **"donor mapping"** was conducted in 2008 and provided evidence for 30 development partners. The analysis showed that some sectors were over-funded (like health) whereas others were under-funded (like transport and ICT). In addition, the Government of Rwanda highlighted the large transaction costs arising from a fragmented landscape of donor interventions.

A **"Division of Labour" proposal** was presented by the government in 2010. Based on a self-assessment on their respective comparative advantages, all development partners were asked to limit the number of intervention sectors to three, in line with the EU Code of Conduct on Division of Labour. After several deliberations, the proposal was initially endorsed by 15 major donors, including four non-EU bilateral partners and three multilateral donors, and later also by all the 16 UN agencies active in the country.

Rwanda is also preparing for **joint programming activities,** with the aim to better synchronise donors' and national programming/planning cycles and to further improve coherence and allocation of assistance to support national priorities. The process is led by the EU Delegation for the group of bilateral partners. Some non-EU donors (including Japan and USAID) have indicated their intention to take part in these efforts.

Despite the difficult legacy and the fragile region, the country was nonetheless able to register a number of important development achievements, notably a reduction in poverty rates. Rwanda is now considered as one of the most advanced examples for aid effectiveness. As reported by the OECD, since 2005, Rwanda has made strong progress towards the achievement of the Paris Declaration targets, and in particular the following benchmarks: alignment with national priorities, use of country public financial management systems, and predictable aid and harmonisation (i.e. reduction of parallel implementation structures, an increase in joint missions undertaken by donors and in the proportion of joint analytical work, etc.).

The main difference with many other developing countries is the leading role of the government with regard to donor coordination. The Government has full ownership of the process and gives guidance to donors to implement the aid effectiveness agenda according to its aid policy strategy. It also encourages development partners to focus on general budget support (GBS) and sector budget support (SBS). Despite the fact that not all donors provide budget support to the country (on average, development partners provided 22 per cent of their aid as GBS and 10 per cent as SBS), the instrument served as a main focal point for donor coordination and dialogue.

As for the ten EU Member States[13] present on the ground, in addition to the European Commission, aid coordination in Rwanda has worked quite successfully over the past years. The concerted EU actions have led to a common approach namely with respect to implementation, delays and suspension of budget support and the application of conditionalities, which has maximised the efficiency of the EU's assistance in the country. The common EU approach has nevertheless been criticised by the Rwandan government, as it resulted in significant budget constraints for Rwanda since mid-2012, due to governance issues.

The sectoral Division of Labour approach of the government was taken up by European donors and actively supported both by EU headquarters and field offices.

The starting conditions in Rwanda are positive for joint programming and the EU joint programming effort, led by the European Commission, can provide a main input in this context.

[13] Austria, Belgium, Denmark, France, Germany, Italy, Luxembourg, the Netherlands, Sweden and United Kingdom.

Box 9: First benefits of Division of Labour in Rwanda

While the Division of Labour agreement is too recent for one to expect much impact on actual disbursements of donor countries' contributions, and a transition period agreed by all parties was in place until 2012, several benefits of the process have already been reported by both the government of Rwanda and donors: donor congestion in some previously over-crowded sectors, such as health, is said to be decreasing. Some donors report both an improvement in the impact of their work and a decrease in the time spent on administration, due to focusing on fewer but larger initiatives. On the side of the partner country, line ministries are experiencing reduced transaction costs because they are dealing with fewer donors and a reduced number of small bilateral initiatives.

Source: "Progress since Paris", Report of the Task Team on Division of Labour, annex 6, *Rwanda: An Example of Country Leadership in Division of Labour*. 2011

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The findings of these three case studies of the performance of EU coordination illustrate the limited progress that the EU and Member States have in general made so far in implementing coordination principles and point out to greater room and opportunities for improvement that should bring about "win-win" scenarios for both the EU and recipient countries.

The shortcomings of the lack of acceptable levels of intra-EU coordination are manifold, including fragmentation and limited division of labour, duplication of aid, poor visibility. Efforts to enhance coordination, such as by joint programming, have often met stiff resistance from the largest donors in the respective countries: in the case of Morocco, the consensus at the field level regarding the need for a common programming framework was not endorsed at the headquarters level, namely by Spain and France; in Myanmar, the recommendations on joint programming from EU Headquarters faces explicit reservations by the UK's agency's country office. The role of the EU Delegations as leading development players and in situ coordinators has been marginal and has had only limited visibility.

Even if there are some success stories, as in the case of Rwanda, which is a tangible example for real benefits from better coordination, these are rather the exceptions, rather than the rule, and mostly due to occasional partner country leadership. Indeed, and especially as regards division of labour, an important lesson is that concrete progress is often critically conditional on the recipient country's engagement and ownership of the process, as well as its institutional architecture for the reception of aid and acceptable levels of governance.

Moreover, as the Moroccan and Rwandan examples show, coordinated activities of EU donors are often conditioned by the instruments in use such as budget support or blending mechanisms. Despite some progress, budget support remains however limited in terms of volume.

On a more positive note, there is now regular information sharing among EU donors, which in most cases exposes the weaknesses caused by the lack of procedural coordination of EU development cooperation in the field. This may be conducive to change in political culture, especially on the need to transform activity-based development cooperation into results-based development policies.

Such a scenario would be an incremental, but notable, step forward, precisely because the lack of, or, as the Moroccan example demonstrates, the non-effective coordination has a cost: the cost of non-Europe.

4. The Cost of Non-Europe and the benefits of better coordination

For the EU, the unexploited potential for better coordination on ODA has a two-fold cost. Firstly, it translates into real and quantifiable economic costs. Secondly, it has damaging political repercussions that hinder the external projection of the EU as a global development player.

The economic cost of poor donor coordination

As argued earlier, lack of coordination among donors results in aid proliferation and fragmentation. This entails important direct and indirect costs.

Box 10: Main costs of lack of coordination

Transaction costs: These are the overhead costs associated with programming, identification, preparation, negotiation, agreement, implementation, monitoring and evaluation of aid activities - programmes and projects - including the policies, procedures and diverse donor rules and regulations for managing aid projects and programmes, translations and adjustment to divergent fiscal periods that can be incurred by donors and partner countries.

Uncertainty related to future aid flows: Proliferation and fragmentation of aid leads to increased unpredictability and volatility of aid. These are respectively the discrepancies between received funds and agreed commitments and the extent to which aid disbursements vary from one year to another. The fluctuations in aid supply restrain government choices and weaken aid effectiveness.

Inefficient aid allocation: The uncoordinated aid distribution pattern generates inequities. The resulting geographical gaps and overlaps, commonly called "aid darlings" and "aid orphans", can entail considerable global costs, to the extent that the donor community as a whole fails to invest systematically where aid is expected to have the most impact.

In the first place, it significantly increases the **transaction costs** for both donors and partner countries, and as a consequence, it also negatively affects the absorptive capacities[14] of the latter.

For individual EU donors, the direct administrative costs related to the delivery of development assistance are considerable (staff in headquarters and in the partner country, missions, etc). By the same token the presence of many EU donors in the same developing country can also lead to increased administrative

[14] Absorptive capacity relates to the macro and micro constraints that recipient countries face in using aid resources effectively. Several studies show that large additional flows of external resources can strain government capacity for macroeconomic management, planning and budgeting and service delivery to a point where additional aid may not be effective in achieving its intended results.

costs due to unnecessary duplication (for example, in the various forms of analytical work). It is therefore clear that substantial reduction in the individually borne transaction costs could be achieved as a result of improved coordinated activities, namely through pooling of resources and better division of labour.

On the recipient side, aid flows and the mechanisms which donors adopt to implement and monitor them, are cost-intensive in terms of the partner country's absorption capacity and resources. Indeed, it is not unusual for projects to absorb domestic input of greater value than net output, especially when aid is highly fragmented and individual aid flows are limited. The problem is aggravated by Member States' different languages and fiscal calendars. The end result is a continuous waste of scarce financial resources and reduction in aid effectiveness.

Therefore, any substantial change in the way the EU's aid is provided, implemented, evaluated, and administered can have far reaching consequences in terms of transaction costs (see Box 11). Major savings can be achieved if donors concentrate their aid efforts on fewer countries and sectors, and on more general - and therefore cheaper - forms of aid transfer, such as budget support.

Donor proliferation and aid fragmentation often lead to increased **unpredictability and volatility of aid**. A direct consequence of the uncertainty related to future aid flows is that it makes governments more cautious and risk-averse in the allocation of resources. Predictability matters particularly for budget support, because low predictability reduces the ability of policy-makers to manage their budgets properly. Unexpected aid shortfalls force governments to reduce spending in mid-year or find other sources of financing. Unexpected additional disbursements may not be used effectively, since they could not be subjected to regular budget planning.

In the case of the EU, aid flows remain stable in general terms. Yet, if the EU donors were to decide in common on their respective country allocation of aid, it should be possible to reduce volatility of aid flows. However, there could still be instances where the EU group together, for some reason, decides to reduce aid, or suspend a specific aid modality to a country, as is in the case of Rwanda, which then could imply a substantially larger shock than piecemeal reductions by individual countries.

Not surprisingly, the lack of coordination in aid supply leads to **inefficient aid allocation**, generating "aid orphans" and "aid darlings" at international level and across sectors. Missed investment opportunities in terms of "under-funded countries" often result in the loss of potential effectiveness gains. The same effect occurs concerning the "over-funding" of countries or regions. In this case, insufficient absorption capacity may lead to a decreasing efficiency of aid contributions.

The overall distribution of EU aid across recipient countries is not particularly focused on the poorest –most in need- countries, since the criteria of country selection for ODA are random and often politically motivated rather than based on real development needs. There is thus much to be gained if "aid orphans" were to get more aid, with the help of a well-coordinated country allocation of aid. Increasing EU aid coordination could bring about an optimum allocation of aid resources across the spectrum of least developed countries and satisfy the primary goal of poverty eradication.

Quantifying the economic costs

Quantifying the economic costs of weak and under-performing EU coordination of aid flows is not an easy task. Nonetheless, academic research suggests that the costs are not theoretical, but have real economic implications.

The most comprehensive and methodologically sound estimation to date of potential savings and economic gains from a better implementation by the EU of the Paris Declaration on aid effectiveness has been published by the European Commission in 2011. The report is entitled "*The Aid Effectiveness Agenda: the benefits of going ahead*" and was recently updated at the European Parliament's request[15].

The potential savings from better coordination are far-reaching. The study concludes that as much as **EUR 800 million** could be saved annually, drastically cutting transaction costs. Key elements that contribute to the reduction of such costs are the optimisation of division of labour (by concentrating aid on fewer countries and well-designed activities) and the shifting of aid patterns from projects to budget support.

Table 3: Summary of annual effects of an EU implementation of the Paris agenda (in EUR billion, at 2012 prices)

Type of effect	Estimate (€ billion)
Savings on transaction costs	0.8
Gains from the untying of aid	0.9
Gains from reducing aid volatility	1.8
Indirect effect	(2.0)
Total efficiency gains excluding indirect effects ***Total efficiency gains including indirect effects***	**3.5** **(5.5)**
Hypothetical gains from a full coordination of country allocation	**8.4**

Source: Professor Arne Bigsten, "Quantifying the economic benefits of increased EU donor coordination" (Annex III)

[15] Professor Arne Bigsten, "Quantifying the economic benefits of increased EU donor coordination", see Annex III

In addition, the study estimates that, provided the principles of the Paris Declaration are applied, namely by increasing aid predictability and further untying aid, the total economic gains could be in the range of **EUR 5.5 billion** (around 10 per cent of the EU's total ODA).

Finally, the biggest gains are expected if donors coordinated better to avoid inefficient aid allocations, in terms of creating "aid darlings" and "aid orphans". Indeed, an extra **EUR 8.4 billion** (around 15 per cent of ODA) could be spared if country allocation was completely coordinated and had poverty reduction as its only target.

Those estimates take into account broader aspects of the Paris Declaration (such as the untying of aid), and more indirect effects (such as the reduced transaction costs on economic growth). They therefore depend on the chosen modality of coordination as well as the type of support to the partner countries.

But even if all the derived benefits cannot be automatically seen as the result of improved coordination, the estimations provide a strong indication of the magnitude of savings in transaction costs. They also underpin the upper limit of the overall potential gains that could be obtained by better coordination within the EU.

The actual savings in real terms would consequently depend on the concrete policy choices the EU and its Member States will apply with regard to internal coordination.

The political benefits of a more harmonised approach

The savings that can be obtained through better coordination are indeed impressive. The benefits of increased coordination are, however, much broader.

First, these cost savings de facto mean improvement in the efficiency of EU aid. This implies doing the same with less or doing more with the same amount. With a backdrop of tightening fiscal policies and budgetary consolidation, ensuring that there is maximum impact of and added value from Europe's spending on development cooperation is a pressing objective, and improving aid coordination an intelligent response to it. At times where the goal of 0.7 per cent of GNI by 2015 remains elusive for the EU, more effective coordination at EU level could be the game changer.

Moreover, in this context of severe budgetary constraints, the EU Budget for external policies, including development assistance, has become under scrutiny among the EU citizens who argue that the EU needs to put its own house in order first.

EU citizens traditionally support EU action for eradicating poverty in the world. In spite of the current economic climate, more than six out of ten Europeans think that aid to developing countries should be increased. But in many countries the traditional support for ODA is declining while support of finding ways in improving effectiveness of aid is steadily increasing.

Box 11: EU citizens' perceptions of development policy

According to the most recent Eurobarometer survey, 85 per cent of Europeans think it is important to help people in developing countries. This figure has changed very little since 2009, when the figure was 88 per cent. In spite of the current economic climate, 61 per cent of Europeans think that aid to developing countries should be increased. This support is however steadily declining: 64 per cent in 2010, 62 per cent in 2011. In seven countries, there has been a clear negative shift in opinion, with the number of those wishing to increase aid declining, and the share of those who wish to cap or reduce aid increasing: Italy, The Netherlands, Czech Republic, Spain, Finland, Slovakia, and Luxembourg.

In a previous Special Eurobarometer, Europeans expressed their views on how the EU could best improve its development aid effectiveness. Adopting common policies at EU level got the strongest backing (35 per cent), followed by more transparency (31 per cent), avoiding duplication through better coordination (25 per cent), budget support that is based on certain conditions (24 per cent) and strengthening bilateral cooperation between EU Member States (19 per cent).

Source: Special Eurobarometers: *Solidarity that spans the globe: Europeans and development aid*, October 2012 and *Making a difference in the world: Europeans and the future of development aid*, November 2011

While EU citizens would not, by definition, be the recipients of new potential measures in the area of development assistance and therefore these would not have a direct effect on them, it is likely that at a time of economic austerity, a "better value for money" result would be positively perceived, especially given the fairly strong attention of EU citizens for development cooperation. It is therefore self-evident that efforts to make the best our of every euro spent will consolidate the EU's legitimacy vis-à-vis its citizens for its action on development.

Another, crucial aspect of the added political value of increased EU aid coordination is that of greater impact of EU aid, meaning the extent to which EU development objectives are effectively achieved. The EU conducts political dialogues both at the bilateral and at the multilateral levels. The EU Institutions are also actively participating in development policy discussions with other donors in multilateral fora. More unified, "one voice approaches" in terms of conditionalities, disbursement triggers, good governance requirements as well as coordination in the course of implementation translate into more leverage and better results in terms of poverty alleviation.

This in turn is likely to allow the EU to better live up to its ambitions as a leading player on development, thanks to the increased impact of the EU development policy and greater visibility. The term visibility has sometimes a negative connotation: justify an action for the fear of being criticised for inaction. With the emergence of new donors, visibility is becoming more pertinent; it is not about showing you are present where needed but more about doing the right thing. The EU needs the visibility of its development action to show leadership and to help ensuring that the world's Millennium Development Goals (MDGs) are met.

5. Costs and obstacles to more coordination

There is broad consensus on the cost-benefit analysis of weak against enhanced aid coordination. All aid actors with no exception, whether donors or partner countries concur that "more" and "improved" coordination is desirable. However, there is a contradiction: donors do not always follow a consistent policy in line with clear coordination principles and recipients do not routinely push for more coordination either.

In this light, the obvious question that arises is why then do donors and recipient countries not follow a committed coordination policy?

The answer to this dilemma is not straightforward but it seems to be driven by the fact that donor coordination could entail side or hidden costs.

First, while the advantages of reduced fragmentation are obvious, they may not be easily quantifiable or immediately observable. In addition, the process of coordination is in itself time consuming and labour intensive, therefore it also has a **transaction cost,** which can be considered a disadvantage. The diversity and complexity of Member States' and EU Delegations' procedures in terms of aid management make harmonisation more difficult. Also on the recipient side, a local institutional design of fragmented counterparts, where there is neither a national development plan, nor one single counterpart with a say about development and/or the development cooperation strategy (like it is for example the case in Morocco) is a cost-enhancing factor.

Table 4: Cost of donor coordination in Morocco
(based on annual salary devoted to donor coordination)

Costs reported by EU donors	Average
▪ No. of employees participating in coordination processes	5
▪ Share of total working hours (%)	19.82%
▪ Average gross salary devoted to donors coordination (€, annual)	25,395 €

Second, the "**political economy" of donors** concerning coordination is complex. Even if reducing poverty remains the EU's main goal of development policy, many Member States' development aid is also traditionally perceived as a tool to promote their own strategic interests in the recipient countries or the international scene.

One of the main reasons as to why it is difficult to build up a unified EU policy on development aid is that European donors' spending depends a great deal on historical, security, commercial, neighbouring or even historical connections.

Box 12: Importance of national strategic interests in aid delivery

The importance of national strategic interests becomes clear when looking into the geographical pattern of Member States' spending on development aid. Former European colonies tend to be privileged by some Member States, such as France, UK, Belgium, Spain, Portugal, Italy and Netherlands (e.g. Spain privileges its relations with Latin America and France with Western Africa), as maintaining historical and cultural links is a priority for them. Southern and Eastern Member States focus their aid on neighbouring countries, mainly for migration or security concerns (e.g. Italy privileges the Mediterranean area, Greece the Balkan region and EU12 countries focus on Eastern Europe and Central Asia). Nordic countries and Luxemburg do not have the burden of colonialism and consider themselves as exemplary among donors, seeking to keep the visibility of their development policies.

Source: Elena Muñoz Gálvez, *European Development Aid: How to be more effective without spending more*

Maintaining a visible bilateral development policy is considered by many Member States as a tool to promote national interests and, as such, they seek to promote the value of their respective bilateral relationships with recipient countries at the expense of the EU's added value as a global development player.

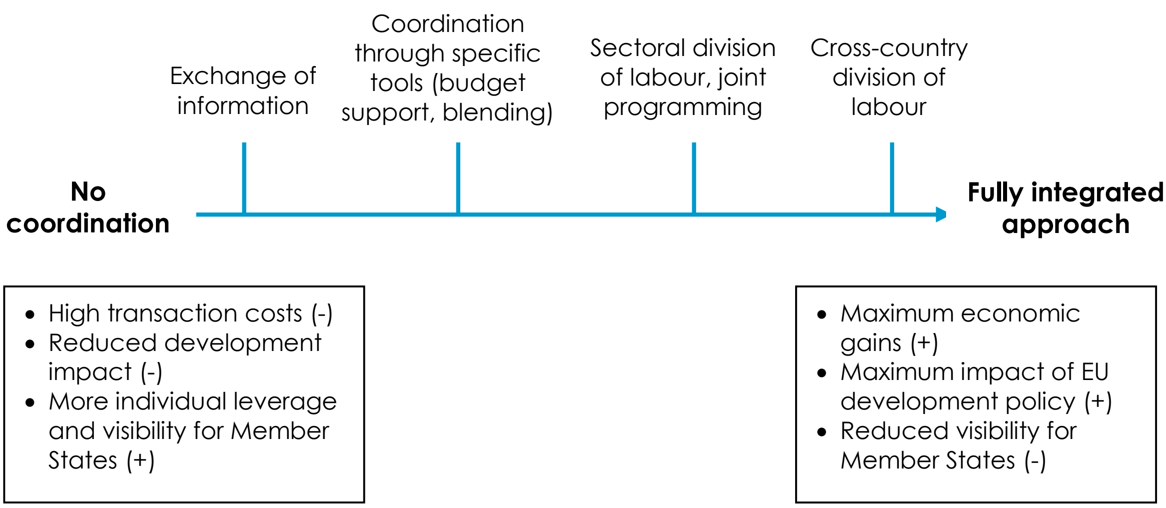
Moreover, donors have often strong perceptions over their "evident comparative advantage", which may often lead to overlapping actions, as we have seen in the case of Morocco. As, according to the Code of Conduct, the comparative advantage of a given donor should be "self-assessed, endorsed by the partner government, and recognised by other donors", this can also become an important obstacle to better division of labour. Finally, the Member States own internal institutional procedures, which include scrutiny by national parliaments, the auditor general, etc., could further lessen the room for coordination.

Third, the "**political economy**" **of partner countries** is not straightforward either and indeed relevant when it comes to coordination of aid. If coordination is perceived as means to increase the leverage of donors, this runs against the interests of recipients. Additionally, a concerted in absolute terms EU and Member States' action may result in a sort of double-edged outcome for recipient countries. Whereas under the current uncoordinated format some countries may suspend cooperation with a given partner due to budgetary constraints, political reasons, etc., others may decide to maintain development cooperation. Thus in a highly coordinated scenario, countries could be faced with all-or-none system and a more risky, less predictable situation. Something that could also be seen to weaken their negotiating position vis-à-vis a "unified" EU. Recipients could possibly find more appealing a fragmented community of donors and a local institutional design of fragmented counterparts. This perception is very strong in Morocco, as many respondents mentioned the "divide and rule" approach by the local government.

6. Conclusions and recommendations

The thrust of EU development policy is conceived around three essential elements: how to resolutely contribute to poverty eradication around the world (the end goal) with optimum utilisation of the available resources (the means) in order to achieve the highest degree of impact (the process). In that respect, coordination among EU donors is a key factor in maximising the aid efficiency and effectiveness of EU development policy. There is indeed value added in real and political terms through enhanced and improved coordination among EU donors, although incidental costs cannot be ignored.

The cost-benefit analysis of increased coordination in this report demonstrates that hundreds of millions Euros can be saved annually with better EU coordination, funds which could be reinvested into development policies. As much as **EUR 800 million can be saved annually** by reducing fragmentation in recipient countries. A further **EUR 8.4 billion of annual savings** could be achieved through ensuring a more effective allocation of aid, so as to avoid aid "darlings" and "orphans". The gains would be maximised with a fully integrated approach. This target seems elusive, not least because the legal framework for development is a "shared competence", but also because political cost of enhanced coordination are not negligible, as Member States aspire to see their actions in recipient countries fully acknowledged. The practical achievement of an optimum level of EU coordination depends less on technical considerations than on Member States' political will. A balance needs to be struck whereby necessary contributions by Member States to further enhance coordination can be made compatible with their national priorities.



The EU and Member States should actively explore all possible mechanisms to further enhance intra-EU coordination in the area of development cooperation. Taking into account the political sensitivities of Member States, the EU should firstly create a mechanism that would facilitate better intra-EU coordination, with a view to developing a more integrated approach in the medium term. This instrument should have as its primary objective the reduction of in-country fragmentation and proliferation. It should be given sufficient leverage and flexibility in order to achieve its goals.

As the findings of this report demonstrate, the benefits of better coordination are evident and considerably outweigh the related costs. However, in order for the benefits to reach their full potential, a careful analysis of each recipient country's specific situation needs to be undertaken. Partner countries have different development needs, distinct institutional frameworks for managing incoming aid, volatile political situations and a variety of *in situ* donor landscapes. Thus in order for an intensified EU coordination to bear fruit, it will have to consist of a policy mix of actions comprising the following elements:

Reinforcing the existing best practices
The case studies show that urgent efforts are needed to focus on quick gains through the use and reinforcement of existing best practices, such coordinated mechanisms like joint consultations /negotiations vis-à-vis partner countries, as well as the optimum allocation of the in-country division of labour and the conception of comprehensive joint programming agendas.

Fully exploiting the coordination possibilities of aid delivery tools
Budget support and other tools for aid delivery, such as the innovative blending mecanisms provide good potential for effective coordination. They should therefore be systematically equipped with built in coordination mechanisms.

Promoting better sectoral division of labour and joint programming
The optimum allocation of the in-country division of labour and the conception of comprehensive joint programming agendas are powerful instrument for reducing in-country fragmentation.

At present, the diversity of Member States' interests is holding back the coordination needed among European donors. However, this diversity can also be converted into an advantage and the proposed in this report new instrument for intra-EU coordination would be essential in this respect. The latter could be achieved by mechanisms that reinforce peer pressure or by establishing a "binding character" for this. Also, more clarity is needed on how to establish a "comparative advantage". The current self-assessment foreseen in the Code of

Conduct on Division of Labour has not proved very efficient. With the exception of few cases like the example of Rwanda, the process of "selecting" as focal point the donor with the better comparative advantage per sector has not gone beyond the "mapping exercise". As the Moroccan case study demonstrates, more flexibility is also a prerequisite in order to allow each donor to make best use of its comparative advantage in sub- sectors. The synchronisation with partner countries' budget and institutional cycles through joint programming remains under-utilised and should be further strengthened.

In the longer term, coordination efforts should be focused on even more ambitious areas. Improved policy coordination could serve as a starting point, for jointly agreed allocation patterns, i.e. avoiding underfunded and/or overfunded countries, and to using cross-country division of labour to a larger degree.

Finally, European aid actors should reflect upon the strengths and weaknesses of the current system of "shared competence" and examine the scope moving toward a more "communautarised" EU policy on development. As the global debate on post Millennium Development Goals intensifies, the EU needs to insert new impetus into its development assistance architecture and seek new avenues for improving aid. Such an approach would need a complete new foundation. A prominent European example in this regard is the common trade policy with a high degree of integration. This scenario could also apply only for specific aspects of European aid, but it could also take the shape of intensified cooperation, bringing in concerted EU actions only for specific aspects of European aid. In a nutshell, the EU should aim at better integration primarily in areas where the potential envisaged by the Paris Declaration has a greater chance to be fully capitalised.

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Coordinated action by the EU brings real and quantifiable added value in terms of policy and financial leverage, which is bigger than the sum of individual action of 28 Member States and the Commission combined. It requires concerted approaches by the EU and Member States.

The Treaty calls for complementarity between the EU and its Member States in development cooperation (Article 208 TFEU), the EU and Member States are committed to donor coordination and the EU is mandated to take initiatives to promote such coordination (Article 210 TFEU). The European Commission should make full use of the powers given to it through the Treaty as a coordinator, convener and policy-maker in order to foster a comprehensive and integrated European approach in the development field.

Recommendation

Increased coordination between EU development donors can bring about huge economic (annual savings of EUR 800 million from transaction costs and as much as EUR 8.4 billion from better aid allocation patterns) and political (better impact the development policy) and is therefore a key element of the EU's urgent action to adapt to a changing development landscape.

The EU should fully exploit the legal provisions of the Lisbon Treaty on development and Article 210 TFEU, to reinforce coordination between EU donors.

Cost of Non-Europe
in Development Policy

ANNEX I

Research paper
by the Südwind Institut

Abstract

There is broad agreement among academics and practitioners that the benefits of increased EU coordination in the area of development cooperation would clearly outweigh the costs. The EU is indeed a coordination pioneer, having taken up a number of internal and external commitments. This notwithstanding, much potential remains untapped, in terms of both quantifiable and non-quantifiable benefits. The challenge is how to better realise these while taking into account both political economy factors for the actors involved, namely EU institutions and Member States, and the particular situations of partner countries and their key contributions to coordination efforts on the ground.

AUTHORS

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List of abbreviations

AAA	Accra Agenda for Action
ADB	Asian Development Bank
AfC	Agenda for Change
AFD	Agence Française de Développement
AusAid	Australian Agency for International Development
BS	Budget Support
CEB	Council of Europe Development Bank
CoC-DoL	Code of Conduct on Division of Labour
CPA	Country Programmable Aid
CRS	Credit Reporting System
DAC	Development Assistance Committee
DAG	Development Assistance Group
DEVCO	Directorate General for Development Cooperation
DFID	Department for International Development
DG	Directorate General
DoL	Division of Labour
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EDF	European Development Fund
EDPRS	Economic Development and Poverty Reduction Strategy
EEAS	European External Action Service
EIB	European Investment Bank
EU	European Union
EUBEC	EU Platform for Blending in External Cooperation
FTI-DoL	EU Fast Track Initiative on Division of Labour and Complementarity
GBS	General Budget Support
GDP	Gross Domestic Product
GoM	Government of Myanmar
GoR	Government of Rwanda
GRSS	Government of the Republic of South Sudan
HDI	Human Development Index
HLF	High Level Forum
HQ	Headquarter
ITF	Infrastructure Trust Fund
JICA	Japan International Cooperation Agency
JP	Joint Programming
KfW	Kreditanstalt für Wiederaufbau
MDBS	Multi-Donor Budget Support
MDG	Millennium Development Goals
MDTF	Multi-Donor Trust Fund
MRI	Mutual Reliance Initiative

MS	Member State
M&E	Monitoring and Evaluation
NGO	Non-Governmental Organisation
NIB	Nordic Investment Bank
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
PBA	Programme-Based Approach
PD	Paris Declaration
PFM	Public Financial Management
PG	Policy Group
PGAE	Partnership Group on Aid Effectiveness
SBS	Sector Budget Support
SME	Small and Medium-sized Enterprises
SWAps	Sector-Wide Approaches
TFEU	Treaty on the Functioning of the European Union
TG	Technical Group
UK	United Kingdom
UN/UNO	United Nations Organisation
USAID	United States Agency for International Development
WBIF	Western Balkan Investment Framework
WPAE	Working Party on Aid Effectiveness

Executive summary

Fragmentation and aid coordination

The debate on "aid coordination" is not new at all. Indeed, coordination can be regarded as one of the traditional topics in the academic and the practitioners' debates on aid. The need for coordination exists because aid is fragmented. Official development assistance (ODA) is fragmented mainly due to two reasons: first, aid comes from a number of different bilateral and multilateral sources. Second, aid typically provides resources (investments loans or grants, goods, advice, training etc.). These resources are split up in a number of interventions per donor, usually projects and programmes.

The increasing number of aid providers and the number of aid activities has led to "aid proliferation" or "fragmentation of aid". Fragmentation of aid has a number of consequences especially for aid recipients, as the direct and indirect transaction costs and aid effectiveness losses can be significant. Transaction costs are likely to increase because donors are engaged in a number of countries and sectors, and each donor intervention requires attention in terms of consultations, missions, reporting needs etc. Therefore, coordination is considered crucial to overcome (some) negative consequences of aid fragmentation.

Based on the international debate we use the following definition of aid coordination:

> Aid coordination comprises activities of two or more development partners - preferably under the lead of the partner country - that are intended to improve or to harmonise their policies, programs, procedures, and practices so as to maximize the development effectiveness and the efficient use of aid resources.

The emphasis on the crucial role of partner country leadership has become key in the context of the aid and development effectiveness debate over the last 10 years. Therefore, coordination without guidance coming from the partner country side can be regarded a clear second best option.

Coordination is expected to lead to: i) reduced financial costs for achieving a given target; ii) to improve the impact or outcome with the same investment; or iii) both. The costs of coordination or the benefits of more and improved coordination may be relevant for the aid recipient and donor side.

Levels and degrees of EU aid coordination

The present study uses two main perspectives on coordination. First, we distinguish between three broadly-understood levels of coordination.

- **Policy level of development aid coordination** is about principles and standards, strategic approaches and allocation patterns. This area is also important in terms of incentives or disincentives for other areas of coordination. For instance, the position of the EU on international aid effectiveness debates (e.g. the High Level Forum in Busan) or on cross- country division of labour (DoL) are policy level positions.

- **Programming level** is about approaches and strategies (such as a specific country strategy) during the aid programming phase. Relevant elements include, for example, the country strategy, focal areas (including sectoral DoL), alignment with partner country systems regarding the budget cycle, predictability etc. Monitoring and Evaluation (M&E) related aspects are also mainly related to this area.

- **Implementation level** focuses on how aid is coordinated during the aid provision phase. In this context it might be relevant to look at joint or separate implementation arrangements; e.g. programme-based approaches are mostly intended to be implemented jointly through partner country systems.

Furthermore, we distinguish four **degrees of coordination**:

1. Non-coordination.
2. Exchange of information.
3. Interaction aiming at harmonizing strategies and approaches (e.g. sectoral or cross-country DoL etc.).
4. Fully integrated approaches (like, for instance, the European Development Fund [EDF]).

In practical terms situations of "non-coordination" are extremely rare since in one way or another, donors invariably interact. At the other end of the spectrum we identify "fully integrated approaches". This option might cover a number of different setups. Thus, a fully integrated approach can be regarded as the opposite to "non-coordination" and constitutes "the highest level of coordination" - which does not automatically mean the best level. What form this could or should take, however, is difficult to prescribe from a theoretical perspective as there is no "ideal model."

EU aid coordination approaches

EU coordination at the **policy level** takes places externally as well as internally. Internationally, the EU has had a leading and active engagement in the four high-level forums on Aid Effectiveness (Rome, Paris, Accra and Busan) and the current Global Partnership for Effective Development Co-operation. The EU's international leading role, however, has arguably been weakened by its slow internal progress on reducing fragmentation and aid proliferation despite its commitments. The Union's milestone for coordination, the EU Code of Conduct on Complementarity (CoC) and Division of Labour (DoL) (2007) is the answer to two central problems in aid allocation: the exaggerated proliferation of donors (too many donors per country or sector) on the one hand, and the fragmentation of aid (small amounts of aid from too many donors) on the other. The code emphasises the importance of cross-sector, cross-country, vertical approaches as well as cross-modalities and the complementarity of instruments. The Member States and the Commission are supposed to use existing coordination mechanisms in the field to render the implementation of the Code of Conduct operational. However, the voluntary character of the code and its necessary reliance on the partner country government's leadership have played a critical role in limiting its application.

The Agenda for Change approved by the Council in 2012 sets out important new directions concerning the geographical and sectoral orientation of EU development assistance. The introduction of differentiation as regards country allocations has prompted a certain degree of cross-country coordination but only involving the EU institutions' cooperation, not the member states'. In general, lack of progress on cross-country coordination within the EU can be attributed to the MS' view that country allocations are a sovereign decision as well as a national foreign policy instrument. Additionally, a substantial number of partner country governments fear losing funding if allocation patterns change and are hence not supportive of cross-country DoL.

At the **programming level**, although it is allegedly too early to assess, sectoral division of labour does not seem to have had a significant impact on aid fragmentation in most partner countries. A widespread perception among stakeholders is that transaction costs have increased for partner countries without being outweighed by significant increases in effectiveness.

The EU intends to improve donor coordination at country level through the wider use of Joint Programming (JP). JP includes a single EU country strategy aligned with the partner country's own national development plan and other flexible joint planning elements. The JP exercise has been piloted in several countries and there may be as many as 50 JP exercises underway by 2020. So far, experiences highlight three key issues: the need for genuine member states buy-in, strong commitment and synchronisation of donor systems with partner country processes; the dependence on the evolution of political and economic circumstances; and the partner country government's capacity and degree of ownership.

At the **implementation level**, two main coordination mechanisms can be identified, namely multi-donor budget support (MDBS) and blending. The former is the most prominent form of programme-based approaches (PBAs), which can be implemented through different aid modalities, ranging from pooled (or basket) funding of specific activities or reform programmes to joint support of sector-wide approaches (SWAps) and sector (SBS) and general budget support (GBS).

In general, MDBS provides a very strong framework for donor coordination with a large potential for reducing duplications and general transaction costs. This aid modality has been found to be fairly effective as a financing instrument in pursuit of poverty reduction and other development objectives linked to the MDGs, but much less so as an instrument for inducing policy reforms and political change for good governance and democratisation – although no less than other modalities.

According to the EU and the OECD DAC, blending is a combination of concessional or commercial loans with grants (from the EU budget, EDF and other sources) in order to leverage development funding. These new instruments have improved EU donor coordination and increased the leverage effect of EU development finance. They link EU budget grants – sometimes topped up by member state grants – with loans by European bilateral financial institutions such as the European Investment Bank (EIB); European Bank for Reconstruction and Development (EBRD); Council of Europe Development Bank (CEB); Nordic Investment Bank (NIB); Agence Française de Développement (AFD) and Kreditanstalt für Wiederaufbau (KfW).

The use of pooled resources and the increased coordination between financiers potentially increases transparency compared to separate individual EU operations. In the areas it intervenes it has enhanced the effectiveness and efficiency of financiers' operations. Additionally, the beneficiaries can participate in the strategic decisions of the blending facilities, the coordination of EU donors and financial institutions, leading to a reduction in the fragmentation on sectoral policies. The EU-Platform for Blending in External Cooperation established in December 2012 is a major forum in this regard.

Case Studies

Two country cases studies were conducted specifically for this study.

Myanmar / Burma is undergoing dramatic changes and reforms. Since March 2011 a fundamental transition phase has started led by the newly elected President Thein Sein. Donor agencies have started to (re)engage with the country. Obviously, "aid coordination" is one of the key challenges in Myanmar.

Overall, coordination structures for aid in Myanmar are in the process of being established. So far, the first phase of transition in Myanmar was characterised by non-harmonised and non-coordinated approaches. In general terms, donors did not push extensively for coordination. Some donors with a strong presence in Myanmar and significant aid contributions are coordinating on a case by case basis.

The Government has started to establish new basic coordination structures, which is probably the most important step for avoiding costs of non-coordination and increasing the impact of available aid. The first aid conference in January 2013 was an important event in this respect because the main principles and standards were drafted. Nevertheless, due to limited aid experiences in the past, expectations regarding the capacity of the government and administration should not be overambitious.

Coordination amongst the group of European donors is so far modest at best. The logistical presence and infrastructure of EuropeAid does not correspond with any coordinating role in Myanmar. If the EU has intended to develop a European aid approach, the necessary decisions appear not to have been taken in time. Not at least for the introduction of a joint programming approach this situation is a major constraint.

Rwanda can be considered as one of the most advanced examples for aid effectiveness. The country introduced already in 2006 an "Aid Policy" which applied the Paris Declaration to the specific context of Rwanda. This policy identifies, for instance, general and sectoral budget support as priorities number one and two, respectively, in terms of aid instruments/modalities. The "Aid Policy" also served as a main reference point for country-led donor coordination as well as a clear emphasis on alignment with government priorities and the use of country systems.

Aid coordination in Rwanda has worked quite successfully over the last five to ten years. The main difference compared to many other countries is the leading and demanding role of the Government in this regard. The Government organises the most important aspects of aid coordination and pushes donors to "walk the aid effectiveness talk".

The main explanation for these rather successful aid coordination approaches in Rwanda is a stimulating and challenging aid effectiveness environment; this includes the Government:

- having a clear aid policy which is consistently implemented by the *whole* Government;
- measuring the progress or non-progress of donor performance;
- supporting and creating peer pressure (reports on donor progress for specific indicators, etc.); and
- using budget support forums as the privileged approach for coordination (piloting, etc.).

Against this background, several European donors were part of the budget support related debates. The sectoral DoL approach of the Government was taken up by European donors and actively supported.

Having already introduced sectoral DoL and other coordinated approaches, the starting conditions in Rwanda may be rather positive for joint programming. The government's announcements seem to indicate that there may be similar efforts on programming and planning aspects for the whole group of development partners. Similar to the specific sectoral DoL approach in Rwanda, there is a good rationale for expanding such an approach to all development partners.

Benefits and costs of increased EU coordination

Economic gains & transaction costs

The study distinguishes the following types of costs incurred in case of no, little or insufficient coordination, and benefits because of increased or improved coordination.

1. **System-wide costs and benefits:** To a large extent system-wide aspects are overlooked. If coordination on a macro level leads to an optimised used of aid allocation this would permit overall efficiency and effectiveness gains.
2. **Country and intervention-related costs and benefits:** In the context of country programmes (or similar approaches like support to regional institutions) and

specific interventions (projects, sectoral programmes, etc.) coordination may bring benefits in the form of decreased costs of non-coordination.

Costs and benefits are basically of two types: (i) **economic gains / transaction costs reductions** (donor and/or recipient); and (ii) **Increased or improved impact** of development aid (e.g. more important priorities are addressed in the partner country).

The most evident, straightforward potential gains of coordination in development cooperation are savings in transaction costs, as they are not linked to any specific policy choice other potential gains may require. Following Lawson (2009) transaction costs are defined as "the costs which allow an economic transaction to take place but which add nothing to the value of the transaction."

The costs/benefits analysis carried out herein points to unambiguous and potentially significant efficiency and effectiveness gains through improved EU donor coordination. The benefits of closer coordination between MS, and between MS and EU institutions are of a variety of natures.

Some of these costs and benefits can be quantified while others cannot because they correspond to non-quantifiable changes in the abilities of certain actors to purse specific objectives. Of those benefits that can be researched quantitatively, many are in fact non-measurable, or the necessary data for measuring them are not available. In practice, this means that quantitative attempts at numerically assessing potential costs savings describe, necessarily, only part of the picture.

Beyond the methodological difficulty implied by the limitations in data availability in general, or adequate disaggregation levels in particular, quantitative economic estimations leave out very significant potential benefits. The overview of costs and benefits presented herein shows a broad range of positive implications of greater coordination, including important efficiency and effectiveness gains in terms of attaining developmental objectives, governance, ownership, transaction costs reductions, institutional capacity, inter alia.

The quantitative assessment presents a strong case that savings from increased EU coordination in the area of development cooperation could be substantial and in the order of several billion Euros. It is, however, the consideration of these numerical gains *and* the broader range of benefits beyond the strictly quantitative gains that would appear to justify closer coordination.

Increased and improved impact

In the **policy area** aid coordination may create significant benefits. First of all it can be assumed that a single donor is not in a position to cover all identified needs in terms of countries and sectors which should be supported. Coordination therefore contributes to allocative efficiency, which is key for a cross-country and cross-sectoral approach to distributing aid resources. In addition, we can assume that existing types of conditionality depend to a high degree of coordination. If a critical group or mass of donors does not agree on implicit or explicit conditions we can assume much less impact in this regard or even conditions that contradict each other. Therefore, conditionality is highly contingent on coordination.

In the **programming area** aid coordination is expected to be a precondition of an effective aid public sector management in the partner country and crucial for its aid absorption capacity. If uncoordinated aid approaches are conducted in-country this will not only lead to high transaction costs but also to less effective public institutions. Any Minister of Finance, for instance, who has to deal with a multitude of donors every day will probably not be able to manage his/her core business. Similarly, partner countries cannot absorb any number of aid activities without losses in terms of effectiveness. Furthermore, in order to be aligned with partner country systems coordination is again an important requirement. Alignment needs harmonisation as a precondition and the use of partner country processes as a starting point. Without coordination, allocation patterns within a country may also be insufficient.

In the **implementation area,** coordination is again a requirement for alignment. Aid instruments in line with partner country systems (PBAs, etc.) need to be based on a consensus amongst a group of donors. Budget support operations also rely on coordinated and harmonised approaches on how to engage with the partner country government. If donors do not coordinate it may be difficult to avoid "bad practices" or perverse incentives like, for example, "poaching" of qualified public servants or avoiding moral hazard by sharing information. Finally, if requirements for monitoring and evaluation (M&E) are not coordinated and aligned with national systems, then M&E as a major instrument to guide policies is not effectively in place.

Costs of coordination

In principle, there are three main aspects to "costs of coordination". First, coordination may create transaction costs without clear value added. If coordination mainly leads to a large number of meetings organised by donors this may increase transaction costs without relevant benefits. For example, meetings of the whole group of donors may sometimes not be the most appropriate way for more harmonised aid approaches. Thus, coordination needs to be driven mainly by outcomes (e.g. increase of pooling arrangements / PBAs etc.) and not by input-related activities (meeting structures etc.).

Second, coordination may also lead to time-consuming processes and "delays". Even if coordination benefits are known there may be a trade-offs with other objectives (quick results, etc.). A post-conflict situation, for instance, may include huge demands for immediate actions because of pressing needs and the requirement for visible results for an elite in a fragile setting. Against this background, little coordination might be regarded as less important than "tangible results" or maintaining the developmental impulse in a rapidly evolving setup.

Finally, from the perspective of a recipient, coordination of donors might lead to the formation of a unified and strong position among the whole donor group. This pressure might be used to push a partner country government in a specific direction (reform decisions, etc.). In this case coordination might reduce the room for manoeuvre (or sovereignty) of partner countries. "Little donor coordination" could also be regarded from the partner country perspective as a form of "risk sharing."

The political economy of EU donors regarding coordination

There is extensive academic evidence for the financial and non-financial costs of weak aid coordination and the potential benefits of more and improved coordination. At the same time aid actors – in terms of development partners and partner countries - agree that "more" and "improved" coordination is desirable. The outcome documents of all of the High Level Forums on Aid Effectiveness confirm the strong commitment of donors and recipients to an "aid coordination agenda". Thus, there is a broad consensus on reduced transaction costs and more impact through more and better coordinated aid approaches.
However, donors do not consistently follow a policy in line with a clear coordination principle. At the same time, on the side of partner countries, recipients do not always push for more coordination. Overall, we can identify three important explanations of why donors and recipients do not to follow a more committed coordination policy:

First, even if academics and aid agencies agree on the value added of more and improved coordination it remains unclear what the right level of ambition is or should be. If a fully integrated approach ("single window") can be considered as the highest level of coordination, a number of trade-off aspects might apply (monopoly position of single aid agency, etc.). For example, even if in principle just one donor representation in a partner country would allow high transaction costs savings this option would probably not be considered by MS because of a number of other aspects (MS do not want to lose their visibility in partner countries, and aid is also an incentive for "non-aid objectives" of their foreign policy). This is why probably the best level of coordination depends on a specific set of assumptions and the overall context for donors and the partner country. So far neither research nor discussions among aid practitioners provide good indications on the "ideal case."

Second, the political economy of donor "coordination" is complex. Coordination benefits are only partly realised despite the fact that benefits of enhanced and increased coordination are recognised by (EU) donors. Therefore, any analysis on donor behaviour concerning aid coordination needs to reflect on sometimes competing and contradicting interests and aspects. The following elements are relevant in this regard:

- Donors behave to a large extent like private business actors; the "aid business" is not dominated by the altruism of aid providers. Other donors may appear as competitors when it comes to "best projects", "political access to the host government", and "public reputation" in the partner and the donor country. Under this logic, an early sharing of information and other types of coordination might be counterproductive.

- Donors may have strong interests in implementing their own aid portfolio because of their "aid industry" (and not to use, for example, budget support operations and other PBAs).
- Each donor has specific requirements. Those requirements may come from the national parliament, the auditor general, etc. All this will lead to specific regulations and expectations which can limit the room for coordination.
- Donors need individual "visibility"; coordination and especially harmonisation may lead to reduced donor-specific visibility.
- Donors combine a number of direct interests with aid. If aid, for example, should also support the private sector of the donor country (formal or informal ways of tying aid), aid agencies have limited interest in coordination. A sectoral division of labour approach would include the risk of being pushed out of a sector where the donor country might have an economic self-interest in the provision of goods and services.
- The perspectives of EU member states on coordination may be quite different. For example, MS with a strong aid portfolio in a partner country might tend to want to maintain national visibility whereas MS with a small aid portfolio might gain in case of a highly coordinated approach ("free rider").
- Each European aid actor has to consider a number of different internal actors and interests. Member states' interests are affected, for example, by different government players such as ministries (in charge of trade, foreign affairs, environment, migration, etc.), parliaments, development and other NGOs, private sector lobby groups, etc. The same applies to the different Directorate Generals (DG) of the European Commission, the Council, Parliament and their respective internal interests.

Third, the political economy of the partner country is complex as well when it comes to aid coordination. The following aspects are relevant in this regard:

- Coordination increases the leverage of donors. This might lead, for instance, to decreasing ownership, inconsistent strategies because of micro-management of donors (donors may only focus on a specific aspect) or strong pressure for political reforms. This is normally not in the interest of recipients.
- Coordination leads to decreased "flexibility" for some stakeholders in the recipient country. If every line ministry, for example, can approach each and every donor this might make sense for a line ministry. However, Ministries of Finance in partner countries are much more in favour of a coordinated and centralised approach.
- Coordination may lead to an "all-or-nothing" dichotomy. Partner countries may perceive an increased risk that all donors may respond in unison and might, for instance, pull out at once if problems emerge (for instance in the case of a disputed election outcomes, etc.).

In summary, the debate on the costs and benefits of more and improved aid coordination is an important area for qualitative and quantitative research. Research provides some good evidence on savings and improved impact of aid coordination. However, this debate only reflects the reality of aid coordination to some extent. Donors and recipients consider several other aspects at the same time; those aspects might have little or nothing to do with effective and efficient aid but rather with constituencies in donor countries; influence and relationship between different donor agencies; the implementing interests of donor institutions; and recipients' interests in not increasing the leverage of the donor group as a whole.

Conclusions

First, in the case of European development aid a fully integrated approach would be the best way to tackle aid fragmentation and achieve a number of benefits. Indeed, compared to the existing number of European aid actors a single window would provide the best value for money for each aid Euro. Thus, the fully integrated approach would clearly have strong advantages in terms of transaction costs and impact.

Probably the most important potentially negative aspects related to this model could be a monopolistic role of the EU and the consequences of this for partner countries and the international aid arena. However, a number of important aid providers would continue to exist, which means that the aid landscape would hardly be monopolistic.

Second, the clear advantage of a fully integrated model does not mean that under real conditions this would be the best and most feasible approach. For example, reality aspects also include questions related to the performance of different European donors; in how far aid is used for non-aid related objectives (and the potential impact on political support for aid in MS); controversial views on best “aid approaches” and allocation patterns; the potential impact on public support for aid if this is fully integrated; and in some cases prioritisation of coordination among like-minded MS groups and/or beyond the EU.

Aid coordination and development effectiveness remain high on the European agenda, and rightly so. This notwithstanding, the level of ambition shown by MS in this regard varies greatly. Overall, member states do not really appear to be ready to fully "buy in" and "walk the talk." To a certain extent, European endeavours as regards EU coordination in the area of development cooperation could be described as state of partial “pretended coordination,” that is to say ex-post information sharing.

Since EU aid coordination takes place to a large extent on a voluntary basis, MS tend to more easily accept what aligns with their interests, developmental and otherwise, or at least does not go against them. Presently, a difficult balance needs to be attained whereby necessary contributions by MS to further enhance coordination can be made more or less compatible with their individual priorities. The closer the latter are to the Paris Declaration and effectiveness agenda, the greater the potential for resolute coordination.
Some of this reluctance to pursue a stronger EU donor coordination relates to the role of European Institutions, on one side, and MS on the other. The perceived specific role of the European Commission and the EEAS in the EU’s development field varies among

MS. They see the role of EU institutions vis-à-vis MS ranging from a "primus inter pares," or first among peers, to a "parental" perspective – where all MS gather around the former. In both cases, the Union's mandate depends on the MS themselves, which makes MS co-responsible for its successes and failures, something often overlooked by the members.

Whatever the case, increased EU coordination does not always have to imply a lead role of the EC/EEAS, which appears to be the dominant perception. A possible way to help MS 'buy in' a more ambitious EU donor coordination, could be to put them in the driving seat and make them responsible for collective action when appropriate. In this regard, more coordination and integration does not necessarily and unambiguously have to imply EU institutions taking the leading and coordinating role on the ground.

At present, one can observe a sort of de-link or disconnect between the political level, on one side, and the programming and implementation level on the other. Frequently, agreement in the former does not induce the necessary engagement in the latter. Synchronisation at programming level, for instance, appears to be a good case in hand: while there is agreement of its importance at the policy level, it sometimes seems to be over-ambitious from the perspective of the technical level and in-country MS representatives.

Scenarios for EU aid coordination

We envisage five model scenarios for progressively increasing the degree of coordination. These scenarios might help EU aid actors to reflect on long term trends and long term scenarios for EU aid approaches.

i) "**Bilateralisation of EU aid policies":** A first scenario assumes a decreasing commitment among European aid actors to coordinate and especially to harmonise. This risk might occur if MS perceive more structural "coordination costs" and rather less "coordination benefits." Such scenario poses no legal requirement.

ii) Business as usual: This scenario is based on the assumption that the structural foundation of European aid and the contributions and roles of European institutions and MS will remain the same. In this case initiatives for more and better European coordination will continue. However, since the commitment of European aid actors is largely voluntary MS may tend to "cherry-pick" where and how to engage (pushing the coordination agenda in one country, avoiding joint approaches in another country, etc.). Based on these assumptions we do not expect a lot of European aid coordination-based progress for the aid effectiveness agenda in a number of partner countries. Coordination instruments might be rather "heavy" for actors, whereas the tangible results might be rather limited. Such scenario poses no legal requirement.

iii) "Different speeds approach": A third scenario starts from the experience that in some partner countries European coordination shows good results whereas in other partner countries there is less progress. One possible option would be a group of like-minded MS and the EC/EEAS in favour of a more intense coordinated approach. In Europe and beyond there are a number of examples of models based on differentiated speed. Such scenario poses no legal requirement.

iv) "Escalation of coordination": A fourth scenario follows what we call an "escalation model of coordination" which would roughly entail three levels:

- **Short term coordination efforts** focusing on quick wins through the use of existing best practices and the implementation of the joint programming agenda and programme-based approaches. Priority should be given to translating the high level of ambition at the policy level into more practical coordination practices on the ground. This should include as a first step, a much more decisive recurrence to carrying out consultations and negotiations jointly (EU institutions and MS). Additionally, another element that should become a core component of in-country coordination and JP is joint monitoring and evaluation. In the same vein, more use could be made of already existing legal templates for delegated co-operation and coordination as provided for by the EU Toolkit on DoL. In this case the legal framework has two templates (EU, 2009): first, Transfer Agreements whereby the EC manages the funds of other donors/MS; and second, Delegation Agreements to be used in case of indirect centralised management, whereby the EC delegates its funding to an implementing body. Also, sector wide approaches (SWAPs), basket financing mechanisms, trust funds, joint country strategies and multi donor frameworks (e.g. for budget support) are emerging and have a significant potential for enhancing coordination.

- **Mid-term coordination efforts** focusing on even more ambitious areas. This could include, for example, more joint implementation instruments and intensified policy coordination. Improved policy coordination could serve as a starting point, for example, for jointly agreed allocation patterns (avoiding underfunded and/or overfunded countries) and to use cross-country DoL and silent partnerships to a larger degree.

- **Long term coordination efforts** in order to have a tightly coordinated EU development cooperation landscape. The Union could aim at a better integration where the potentials envisaged by the Paris Declaration could be more fully capitalised, including some of the quantitative gains discussed earlier.

In this case, a possible minor change to the Lisbon Treaty would be required whereby the coordinating role of the Commission could be strengthened by removing development policy from Article 4.4 TFEU and incorporating it to Art. 4.3. This would imply that Member States cannot exercise competence in areas of development policy where the Union has done so.

A possible alternative which would not require this legal modification is that Art. 4. 4 remain unchanged but the coordinating role of the EC be strengthened through a new consensus paper by the Council. This document would replace the CoC-DoL and should reach a binding agreement on the following issues:

- The role and competence of the Commission and the EEAS as coordinator is extended, as well as the partial transfer of competences for the specific area from national to supranational level.

- MS decide on partner countries and areas with reference to the new CoC-DoL and in agreement with the EC/EEAS. A timeframe of three years is defined to transfer the area from the national to the EU level to make it coincide with the Post-MDG process (2015) and the new Global Partnership originating in Busan.

This alternative would bring about an easy transition from the current situation of "shared and parallel competences" to a new state of "shared and complementary competences." Any binding agreement in the area of development, however, may contravene the spirit and the letter of the Lisbon Treaty.

v) "Aid as an integrated policy": Finally, European aid actors could agree to overcome individual aid policies of MS. Such an approach would be in need of a completely new foundation. In principle, this scenario could also apply only for specific aspects of European aid. For instance, European aid actors could agree to have a binding joint allocation and programming approach, but to encourage an approach of European competition when it comes to the implementation of programmes.

This scenario would require an important change to the Lisbon Treaty whereby development would become an area of Article 4.3 TFEU and therefore an exclusive competence, which would leave MS unable to act independently. As with the Common European Fishery Policy and the Trade Policy, this scenario would imply a transfer of development policy from the national level to the EU level. Consequently, all related decisions would be taken by the Commission/EEAS directly.

1. Introduction

The debate on "aid coordination" is not new at all. Coordination can be rather regarded as one of the traditional topics in the academic and the practitioners' debates on aid (see, for instance, Dearden 2013, Woods 2011). The need to coordinate aid was already a central rationale for the creation of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development(OECD) in 1961 and the work of the DAC was focused regularly on the topic in the 1970s, 1980s and 1990s (Herman 2013: 10). More recently, the coordination discussion took place in the context of the debate on "aid effectiveness" (Rome High Level Forum [HLF] in 2003, the Paris Declaration (PD) in 2005 and the subsequent forums in Accra and Busan). The first major international event on "aid effectiveness" (Rome, 2003) was even called the "High-Level Forum on Harmonisation".

The need for coordination exists because aid is fragmented. Official development assistance (ODA)[1] is fragmented mainly due to two reasons: first, aid comes from a number of different bilateral and multilateral sources.[2] For example, the number of multilateral ODA providers reporting to the OECD reporting systems is around230 actors (OECD DAC 2013). In addition to those bilateral donors who are members to the DAC, several types of private (Non-Governmental Organisations [NGO], foundations etc.) and public non-DAC donors (Arab countries, "new donors" like China, India and Brazil) provide aid as well. Second, aid typically provides resources (investments, loans or grants, goods, advice, training etc.). These resources are split up in a number of interventions, (normally projects and programmes) per donor (Acharya, Fuzzo de Lima and Moore 2006).

The increasing number of aid providers and the number of aid activities has led to "aid proliferation" or "fragmentation of aid". Fragmentation of aid has a number of consequences especially for aid recipients, as the direct and indirect transaction costs can be significant. Transaction costs are likely to increase because donors are engaged in a number of countries and sectors, and each donor intervention requires attention in terms of consultations, missions, reporting needs and so on.

Against this background, the issue of coordination has gained a new impetus over the years. Therefore, better coordination is considered crucial for overcoming (some of the) negative consequences of aid fragmentation. The December 2011 Busan outcome document encouraged developing countries to increase coordination efforts to "manage this diversity" of donors, programmes and projects.[3]

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[1] The term ODA, (development) aid and assistance are used synonymously in the present study.
[2] Quite often fragmentation is also a challenge for a specific bilateral or multilateral donor. For example, the coordination of all UN Funds and Programmes is quite complex (Mahn 2013).
[3] "Developing countries will lead consultation and co-ordination efforts to manage this diversity at the country level, while providers of development assistance have a responsibility to reduce fragmentation and curb the proliferation of aid channels." (High Level Forum 2011, Para. 25).

In addition, the Busan outcome document provides several examples of aid coordination: “We will, by 2013, make greater use of country-led co-ordination arrangements, including division of labour, as well as programme-based approaches (PBA), Joint Programming (JP) and delegated co-operation”(Para. 25, a). These examples are in line with the efforts of the European Union (EU) to make progress in the area of coordination.[4]

1.1 The term 'coordination' and goals of aid coordination

Based on the international debate we use the following definition of aid coordination:[5]

> Aid coordination occurs when two or more development partners[6] - preferably under the lead of the partner country -undertake activities intended to improve or harmonise their policies, programmes, procedures, and practices so as to maximise the development effectiveness and the efficient use of aid resources.

The emphasis on the crucial role of partner countries' leadership has become more pronounced in the aid and development effectiveness debate over the last 10 years. Coordination without guidance coming from the partner country can be regarded as a clear second best option, necessary for example, in a situation where the commitment of the partner country government is missing.

If development partners are aiming at harmonising approaches there is a need for “ex ante coordination” before key decisions, such as the engagement in a specific sector, are taken. Since not all coordination efforts might fulfil this requirement we also include other coordination activities which might take place “ex post” (i.e. after a decision has been taken).

Coordination of EU[7] aid actors includes (a) coordination between the EU member states (MS) as well as (b) coordination between the EU member states and EU institutions. These two types of coordination are called in the present study “EU coordination”. Although our main focus is on “internal coordination” among EU donors there are, in addition, also links to non-European donors.[8]

In general terms, coordination aims at efficiency and effectiveness gains.[9] Efficiency gains are related to the extent to which time, effort or cost is well used for the intended task or purpose. Effectiveness gains focus on the degree to which objectives are achieved and the

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[4] See chapters 2 and 3.

[5] The definition uses some parts of Eriksson’s (2001: 3) definition; however for the purposes of this study we do not consider resource mobilisation as part of aid coordination.

[6] We use synonymously the terms “development partners” and “donors”. Another synonym is “partner country” and “recipient” (country).

[7] Throughout our text the term “European Union” means European institutions and mechanisms (Commission of the EU, the European Development Fund, the European Investment Bank etc.) and European Union Member States.

[8] For example, the question of why EU donors want to implement a specific aid coordination approach instead of following an overall coordination approach in a partner country might be relevant.

[9] Similar to our definition Dearden (2013) uses the terms „economic gains“ and benefits “from improvements in the governance of the recipient countries“. However, Dearden’s terms do not cover all potential benefits (see this chapter later on).

extent to which targeted challenges are addressed. In contrast to efficiency, effectiveness is determined without reference to costs.

Coordination is expected to lead to i) reduced financial costs for achieving a given target; ii) to improve the impact or outcome with the same investment; or iii) both. The costs of coordination, or the benefits of more and improved coordination might be relevant for both the aid recipient side or the aid and the donor side.

1.2 Areas and degrees of coordination

The approach of the present study uses two main perspectives on coordination. First, we distinguish between three broad levels of coordination.

- **Policy level of development aid coordination** is about principles and standards, strategic approaches and allocation patterns. This area is also important in terms of incentives or disincentives for other areas of coordination; for instance, on the policy level a bilateral donor might be interested in providing aid to a country without consultations with other donor countries. For instance, the position of the EU on international aid effectiveness debates (e.g. the HLF in Busan) or cross-country division of labour (DoL) are policy level positions.

- **Programming level** is about approaches and strategies (such as a specific country strategy) during the aid programming phase. Relevant elements include, for example, the country strategy, focal areas (including sectoral DoL[10]), alignment with partner country systems regarding the budget cycle, predictability etc. Monitoring and Evaluation (M&E) aspects are also mainly related to this area.

- **Implementation level** focuses on how aid is coordinated during the aid provision phase. In this context it might be relevant to look at joint or separate implementation arrangements; e.g. programme-based approaches are mostly intended to be implemented jointly through partner country systems.

Furthermore, we distinguish four **degrees of coordination**:

1. Non-coordination.
2. Exchange of information.
3. Interaction aiming at harmonising strategies and approaches (e.g. sectoral or cross-country DoL etc.).
4. Fully integrated approaches (like, for instance, the European Development Fund).

In practical terms situations of "non-coordination" are extremely rare. In one way or another, donors invariably interact (Ronald 2011). If EU donor countries decide upon their country allocation pattern domestically, for example, they will normally share this information (ex-post) with other EU donors.

[10] Depending on the type of Division of Labour (cross-country or cross-sectoral) it might fall under the policy or programming level.

At the other end of the spectrum we identify "fully integrated approaches". This option might cover a number of different variations. Thus, a fully integrated approach can be regarded as the opposite to "non-coordination" and constitutes "the highest level of coordination" - which does not automatically mean the best level. In theory, this could include an approach where the EU would have "exclusive competence" over development policy or where "member states cannot exercise competence in areas where the Union has done so".[11] There are, however, a number of additional options that are at least theoretically conceivable. For example, a binding joint country strategy agreed by all EU aid donors that replaces all other strategy documents could be such an option; this option would not automatically include (or lead to) a fully integrated approach at all levels, namely policy, programming and implementation. One could also conceive an "EU single window approach" whereby the policy and programming levels are run by EU institutions while implementation is decentralised to member state aid agencies and EuropeAid. The final chapter on "Conclusions and recommendations" discusses this scenario besides other options.

1.3 Focus and approach of the study

The present study is intended to provide an overview of the costs and benefits of coordination of EU aid donors. More specifically, the study looks at the main existing coordination approaches such as Division of Labour and Joint Programming, and discusses progress so far and limitations. The study looks at benefits and costs from a qualitative and a quantitative perspective. In addition, a political economy analysis is provided to get a better understanding of potential limitations and potential additional areas for improvement. Based on those analytical discussions the study will draw conclusions and provide recommendations.

The study is structured as follows. **Chapter 2** looks at existing EU commitments on coordination in development cooperation and reviews current mechanisms. The chapter places the EU's efforts in the context of the international aid effectiveness debate and more specifically aspects related to aid coordination. It provides an overview of existing coordination efforts for the three main areas of coordination (policy, programming and implementation). This includes a review of four instruments: Division of Labour, Joint Programming, Programme-Based Approaches and Blending.

Chapter 3 focuses on savings and other benefits from improved or increased coordination in EU development aid. This part of the study uses a qualitative and a quantitative analysis.

Chapter 4 provides a political economy analysis of increased and improved coordination and possible instruments to be developed.

Finally, **Chapter 5** draws overall conclusions and provides recommendations regarding potential further steps for increased and improved EU aid coordination.

[11] For more details on those discussions and fundamental options see chapter 5.

1.4 Methodological approach

The present study is based on several elements and inputs:

1. The research team reviewed academic and policy literature and other material (studies of donor agencies, etc.) on the topic of EU donor coordination. The study covers a number of different dimensions of coordination, not at least qualitative and quantitative costs, as well as benefits of (non-) coordination. The study puts a strong emphasis on political economy aspects related to the topic.

2. Research team members conducted personal and telephone interviews with officials of the European Union, particularly DG DEVCO/EuropeAid and the European External Action Service, several EU MS representatives and a number of experts.

3. Two country cases studies were conducted specifically for this study. The Rwanda case is used because the country is an important point of reference for the discussion on aid effectiveness and aid coordination. The findings are based on research previously done by the leader of the present study and additional interviews and analytical work on relevant documents. The Myanmar study is important as a unique case where "normal aid business" is just being established since 2011. The case study is not only based on interviews in Europe and the analysis of relevant documents but also on a "field trip" to Myanmar in order to conduct a number of interviews with EU donor representatives, non-EU donor representatives and representatives of the Government of Myanmar (GoM).

2. International and EU aid coordination

2.1 Policy Level

2.1.1 International forums for coordination and EU contributions

The efforts of European donors to improve the coordination of aid date back to the 1960s. In 1960 the Organisation for European Economic Co-operation (OEEC)[12] created the Development Assistance Group (DAG) as "a forum for consultations among aid donors on assistance to less-developed countries" (Führer 1996) and an institution that would later turn into what we know today as the DAC[13]. Nevertheless, it should be noted that, especially since the 1980s, different perceptions of European development policy among some member states are evident. There are countries with a more liberal vision of development, for example the United Kingdom (UK), and others with a more state-centred-view, such as the Nordic countries (Selvervik, H. and Nygaard, K., 2006).

Probably the most important EU efforts on coordination before the Paris Declaration was adopted were the Guidelines for Strengthening Operational Coordination between the Commission and the MS, which were formulated in 1998 and are based on five principles for development cooperation which are still relevant:

- Tailored to the specific situation in each country and sector
- In close cooperation with the recipient country aiming at strengthening the ownership
- Linked to other existing donor coordination mechanisms
- Coherent with other policy guidelines and
- Maximising the added value for the beneficiary countries.

The guidelines have functioned as a framework in the field of coordination with the partner country, which after taking stock of the situation should go to the development institutions to present its cooperation offers based on its own established priorities. According to the guidelines, a series of relevant areas had to be considered during the whole coordination process, such as priorities of the partner country, the policies of the EU, the existence of coordination mechanisms, the role of the partner country within its institutional capacity and the role of MS and the Commission in the coordination exercise.

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[12] The recipients of Marshall Plan aid signed the Convention establishing the OEEC in April 1948, which has been reconstituted as the Organisation for Economic Co-operation and Development on December 14, 1960 (Führer 1996).

[13] The original members of the DAG: Belgium, Canada, France, Germany, Italy, Portugal, the United Kingdom, the USA and the Commission of the European Economic Community.

In the more recent past, the EU has also been a recognised supporter of current international coordination efforts strongly promoted by the OECD's DAC, which in 2003 established the Working Party on Aid Effectiveness (WPAE) as an attempt to intensify the coordination of multilateral and bilateral donors, as well as coordination between donors and recipient countries. Internationally, the Union has had a leading and active engagement in the four high-level forums on Aid Effectiveness (Rome, Paris, Accra and Busan) and the current Global Partnership for Effective Development Co-operation.

These forums are relevant for the analysis of the benefits of EU coordination. The EU played a central role in driving the international aid effectiveness agenda, and the outcome documents serve as references for assessing the current state of EU coordination.

Rome High Level Forum on Harmonisation (2003)

The main motivation behind the Rome Forum was to accelerate the attainment of the Millennium Development Goals (MDG), formulated one year earlier by the United Nations Organisation (UN/UNO) as corollary of the Millennium Declaration, which had been approved in 2000 by the General Assembly of the United Nations. The majority of the 18 partners that volunteered in Rome were EU MS, which showed a special interest in "translating the commitments made in Rome into concrete actions that have the potential to improve aid effectiveness" (OECD 2005). The Declaration of Rome established four of the five principles which constituted the PD: ownership, alignment, harmonisation and managing for results. The inclusion of ownership gave the discussion around the costs and logic of coordination and harmonisation a new perspective, namely that of partner countries.[14]

In 2004 the EU Council issued a report based on the recommendations of the EU Ad Hoc Working Party on Harmonisation, established in April 2004, in which the Union's contributions to the improvement of coordination in five areas were defined: coordination of policies, joint assistance strategies, complementarity and a common framework for aid implementation procedures (See Box 1).[15]

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[14] It has to be emphasised that good practices like this already existed, such as the Donor Coordination for Budget Support (BS) in Mozambique in the mid-1990s, or programmes in Brazil, India, Jamaica and Morocco (OECD, 2005).

[15] The Ad Hoc Working Party on Harmonisation was established by the EU Council of Ministers as a follow-up to the Monterrey Consensus and the Barcelona Commitments, adopted in 2002 by the EU Heads of States, "to take concrete steps on coordination of policies and harmonisation of procedures before 2004, both at the European Commission and Member State levels, in line with internationally agreed best practices including by implementing recommendations from the OECDE-DAC Task Force on Donor Practices."

Box 1: Recommendations by the EU ad hoc working party on harmonisation to the EU Council

1. Establish a roadmap for coordination and harmonisation indicating steps to be taken by MS and the European Commission (EC) to enhance the implementation of the Rome Declaration
2. MS and the EC are encouraged to join donor initiatives in accordance with the principle of non-exclusivity
3. MS and the EC are encouraged to decentralise competencies, responsibilities and decision-making to the delegations in order to strengthen flexibility and responsiveness to the local context
4. Develop a strategy and a timeframe to apply sector and thematic guidelines agreed at the EU level to bilateral and Community assistance and use them as a common platform for dialogue with partner countries and the donor community
5. Develop an EU strategy for multi-annual programming and the harmonisation of key analytical and diagnostic input to EU programming cycles around each pilot country's national policy framework and budget cycle
6. Develop an operational strategy for complementarity in the EU
7. Develop a common framework for implementation procedures

Source: OECD DAC, Harmonising Donor Practices for Effective Aid Delivery, Paris 2006.

The Paris Declaration (2005)

The Paris Declaration on Aid Effectiveness was adopted at the follow up meeting of the HLF on Aid Effectiveness held in Paris in 2005. The Declaration is the consolidated framework for the more strategic issues discussed in Rome two years before. Expanding on the Rome Declaration, five principles on aid effectiveness were endorsed by more than 100 countries and aid institutions including the EU: country ownership, harmonisation, alignment, managing for results and mutual accountability. Another major step was the introduction of measurable progress indicators.

In the Paris Declaration donors committed themselves to provide 66% of aid in the form of PBAs by 2010, while the EC committed itself to channelling 50% of programmable aid through national systems in developing countries and increasing the percentage of aid provided in the form of budget support from 20% to 50%. Among other things the EC expects budget support to increase partner country ownership, to support macro-economic growth and stability, to foster institutional development, to provide additional resources for poverty related public expenditure and to promote domestic accountability (see EC 2005).

Accra Agenda for Action (2008)

During the HLF held in Accra, Ghana, in September 2008 the results of the implementation of the PD were examined, based on information from 2005 and 2007. The HLF in Accra focused on 1) strengthening country ownership, 2) reducing fragmentation and focusing on division of labour, 3) delivering results and 4) strengthening Parliament and civil society participation. Regarding coordination the results of the evaluations from both years until

2008 showed discouraging results, indicating that coordination had decreased instead of increasing since the PD came into force (Wood et al. 2008:21; Wood et al. 2011).

The EU drafted guidelines for Accra in order to convert operational commitments to cross-country complementarity (EU 2008). As a result, the Accra HLF decided to launch an international dialogue on DoL and cross-country approaches. Following the Accra Agenda for Action, in January 2009 the EC formulated a communication emphasising former commitments and adopting an operational action plan including strategies for the use of division of labour and other strategies to address the issues discussed by the HLF in Accra. A high degree of EU consensus could be observed in the final stages of the AAA (Keijzer and Corre 2009).

Busan Partnership for Effective Development Cooperation (2011)

Similar results were observed at the Busan HLF three years later. In the third evaluation of the PD it was indicated that no donor had reached the objectives stipulated by the PD regarding coordination. Neither the use of common arrangements and procedures, nor the realisation of joint missions and joint analysis had increased sufficiently to reach the objectives proposed by the PD. On the contrary, with the emergence of new donors the fragmentation of aid had increased rather than decreased. Therefore, the HLF closed with the traditional call for increased efforts to improve coordination and the decision to replace the WPAE with the Global Partnership. The Busan HLF can, nevertheless, be regarded more positively as the first major event to coordinate on a macro-level between traditional donors, new donors and aid recipients.

The EU adopted a much less ambitious position during the HLF4 in Busan, compared to Accra. There was disagreement among MS on the most important areas (Fejerskov and Keijzer, 2013). The EU agreed on a common position far too late[16] and was only able to emphasise technical aspects of the agenda to the detriment of political aspects. In its Common Position for the Fourth HLF in Busan the EU recognised that despite high investments by the EU in division of labour, aid fragmentation still presents challenges and evidence shows slow progress in improving aid coordination.[17]The contribution of the EU to coordination modalities like PBA has been weak, while aid fragmentation and donor proliferation are big challenges. The EC is, therefore, of the opinion that the implementation of the aid effectiveness principles should be strengthened.

The Road Ahead: Global Partnership for Effective Development (since mid-2012)

The impact of the fourth HLF for Effective Development in Busan may be measured in the long term. For the first time it had the active participation of non-traditional donors

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[16] The EU-Position was adopted on 14 November, only two weeks prior to the HLF4 in Busan. See: http://consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/126060.pdf

[17] In a Communication ahead of Busan the Commission invited donors to commit to i) proceed with concentration and division of labour, ii) move to joint assistance strategies, iii) avoid further proliferation of vertical funds and iv) promote a global high-level debate on cross-country division of labour (EC 2011c).

and other important development actors – partner countries, donors, civil society, donor/recipient countries as well as representatives of the private sector. The unilateral debate on aid shifted to the more fundamental question of development. With the involvement of the UN Development Cooperation Forum the HLF experienced a phasing out. The participants decided to establish a new, Global Partnership for Effective Development Co-operation with a broader representation in order to assure more legitimacy and diversity of views. Indicators and channels for global monitoring and accountability have been supported in preparation for the phasing out of the WP-EFF (High Level Forum 2011).

The Global Partnership has already started to work with partners like the UN Development Co-operation Forum, the Development Working Group of the G20 and the UN-led process of creating a post-2015 global development agenda. The Global Partnership builds on a succession of international efforts, including those begun in the Monterrey Consensus of 2002, the Rome Declaration on Harmonisation (2003), the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action in 2008. As agreed in Busan it will act as a forum for advice, shared accountability and shared learning and experiences to support the implementation of principles that form the foundation of effective development co-operation: ownership by developing countries; a focus on results; inclusive development partnerships; transparency; and mutual accountability.

As an active member of the DAC, the EU played a role in the success of the HLF4 and securing the engagement of countries like China, Brazil, India, Indonesia, Mexico, Russia and South Africa in the creation of the Global Partnership[18]. Although the set of indicators and associated targets proposed by the Global Partnership to monitor the implementation of the development agenda does not include specific areas like coordination, division of labour, aid fragmentation or proliferation of aid channels, the EU has now the challenge to improve instruments of coordination, complementarity and division of labour.

One can conclude that the poor results in addressing fragmentation and implementing the Code of Conduct on Division of Labour (CoC-DoL) affected the leadership of the EU in promoting an agenda for aid effectiveness which is supported by a broad range of stakeholders. The EU did not achieve a uniform appearance in Busan because the Member States took different positions. This shows that the question of coordination should not solely address the technical aspects of implementation on the ground. It needs to combine political and strategic aspects as well, which are related to coherence, coordination and complementarity. In particular, when considering international negotiations on climate policy, the EU has to realise the importance of development policy coordination.

[18] A senior official of the EC was co-chair of the WP-EFF until de beginning of 2011. His successor Bert Koenders played a key role in the success of Busan.

2.1.2 EU Code of Conduct on Complementarity and Division of Labour (2007)

In 2007 the Council of the European Union adopted a CoC-DoL, which has been considered to be a milestone for coordination, although it is "voluntary and flexible" (EU 2007).[19] This instrument combines the experiences of the evaluation of the guidelines developed in 1998 with the strategies defined in the Consensus and the legal framework established later in the Lisbon Treaty. It is the framework on which the MS and the Commission base their engagement in all developing countries.

The CoC-DoL is the answer to two central problems in aid allocation: 1) the high proliferation of donors (too many donors per country or sector) and 2.) the fragmentation of aid (small amounts of aid from too many donors). The CoC-DoL also seeks to respond to the demands which emerged throughout the implementation process of the Paris Declaration, and the problems which arose in the process of differentiating and phasing out that was oriented towards concentrating aid in a smaller number of countries. Moreover, it responds to the necessity of EU donors to create more harmonisation.

Division of Labour can operate basically at two levels: cross-country DoL at the policy level, and sectoral DoL at the programming level. Throughout the study these two types of DoL are analysed with regard to their respective levels. In the present chapter, the EU policy foundations for DoL are dealt with in this section while its assessment as an instrument is presented at the programming level in section 2.2.

In 2008 the EU Fast Track Initiative on Division of Labour and Complementarity (FTI-DoL) was created with the objective of supporting a group of partner countries to achieve in-country DoL. The FTI-DoL also monitors progress in the operationalisation of the CoC-DoL. A series of monitoring surveys since 2008 illustrate the degree to which it has been possible to accelerate the DoL at the level of EU development cooperation.

At present it is difficult to say if good practices in using the CoC-DoL by the MS and the EC are prevailing in a pragmatic way (see Chapter 5). The CoC-DoL is not compulsory and therefore not strong enough to ensure coordination on the spot if necessary. The Member States and the Commission are supposed to use existing coordination mechanisms in the field to render operational implementation of the Code of Conduct, "with the primary leadership and ownership lying with the partner country government." Nevertheless, experience shows that partner countries are often unable to assume this role.

The Commission's added value is its global presence as a donor in partner countries. No member state has a presence in as many developing countries. Nevertheless, the Council, the MS and the EC need to conduct an "EU-dialog about the future engagement and on strategic planning concerning their geographic concentration and country priorities, while recognizing that MS' decisions on this issue are sovereign national decisions."

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[19] Three institutions, the German Development Institute (DIE), the Centre of African and Development Studies (CEsA) at the Technical University of Lisbon and the Centre of International Relations (CIR) at the University of Ljubljana elaborated a first study which served as basis for the CoC-DoL.

Box 2: EU toolkit for the implementation of complementarity and division of labour in development policy

<u>Cross-sector complementarity</u>: refers to a situation at country level where some sectors receive much more donor attention than others, leading to congestions and/or under-funding.

<u>Cross-country complementarity</u>: refers to a situation at the global level where some countries receive in relative terms much more donor support ('aid darlings') than others ('aid orphans').

<u>Vertical complementarity:</u> relates to global aid initiatives concentrating on one particular sector worldwide, adding more complexity to the existing aid architecture.

<u>Cross-modalities and instruments complementarity</u>: whether at the sector, country or global level, looks at strengthening synergies between, say, budget support and projects, or grants and loans.

Source: EU (2009): EU Toolkit for the Implementation of Complementarity and Division of Labour in Development Policy, p. 3.

The aim of coordination at the highest level has been to identify countries and sectors with overlaps and deficits and develop strategies for better aid allocation. This may make differentiation more relevant. Further important strategic aspects to coordination are the specific response to the problem of state fragility, the problems of humanitarian aid (the need for a humanitarian consensus), Disaster Risk Reduction and security issues. The council has identified those issues in the Consensus and called upon the MS and the Commission to engage more in information sharing and complementarity.

Regarding DoL, the EU focuses on comparative advantage. This orientation is questioned by some experts (Hartmann 2011) who consider that it is not viable in the highly political environment of international cooperation and foreign policy. Despite this, the high transaction costs caused by proliferation should prompt MS to act. The FTI-DoL seeks to foster member states' implementation of the code.
The Communication "Delivering more, better and faster", the Communication on "Financing for Development and Aid Effectiveness" and the Communication on a "Joint Programming Framework" better known as the "package on aid effectiveness", are the first reactions of the EU to the principles of better coordination set out in the Paris Declaration.

In these documents the EC tries to clearly define the efficiency agenda and draw a road map which includes the issue of coordination. The Communications suggest focusing on implementation in a limited number of countries. One of the three selection criteria is the "local coordination capacity" of partner countries.

2.1.3 Agenda for Change (2012)

The Agenda for Change (AfC), published in October 2011 and approved by the May 2012 Council Conclusions, builds on the European Consensus on Development and on EU commitments for aid effectiveness. The document is understood as a reaction to the changing global landscape, especially considering the increasing differences between developing countries. These differences result from the rapid growth of some emerging economies which have become donors themselves. At the same time the document highlights the fact that severe poverty and hunger still persists in some regions and countries, which, in addition, are facing increasing fragility challenges. The Agenda sets out important new directions concerning the geographical and sectoral orientation of EU development assistance.

The AfC recognizes that "fragmentation and proliferation of aid are still widespread and even increasing" and calls upon the EU to take stronger leadership and to put forward specific proposals. The Agenda for Change puts coordination and harmonisation efforts at the heart of the EU´s contribution to increasing aid effectiveness. The AfC provides, together with the ECD, a common vision to guide action on European development co-operation, both on the MS and the Community level. Based on the Conclusions of the Council on the EU Common Position for the 4th HLF, the Council emphasises the important role of EU Delegations in enhancing coordination and information sharing with MS, as well as coordination with other donors (EU 2012a).

The sectoral concentration proposed in the Agenda was endorsed by the Council in May 2012. Preferably, the concentration on three sectors per partner country shall be implemented, taking into account the EU CoC-DoL. The Council has also confirmed the commitment to concentrate on assistance for countries requiring additional development measures, for example fragile states. Other regions like Latin America, which still struggle with poverty and inequality, shall continue a political dialogue regarding measures of poverty reduction. Differentiation has become the new strategy to face new challenges and is therefore the basis for EU coordination.

The emphasis on improving governance and social protection in developing countries, while also supporting agriculture and expanding energy access to drive growth are the policy orientation for cross-sector DoL. According to the Agenda, a high impact of development policy is directly linked to the effectiveness of aid. The Agenda represents a conceptual shift at the policy level from 'aid effectiveness' to 'aid and development effectiveness'.

With the 2012 conclusions on the Agenda for Change, the Council started a new round of efforts for coordination, stressing that MS should continue their work on cross country division of labour in line with the CoC-DoL. The principles contained in those Conclusions will guide the implementation of Development assistance under the 2014 - 2020 MFF.

For the improvement of coordination on the ground, the Agenda considers EU Budget Support as an instrument which should be linked to the governance situation in partner countries in coordination with the MS. Joint Programming is seen as a concrete instrument to reduce aid fragmentation and increase the complementarity of EU engagement. If there is a lack of local ownership, the AfC calls upon the EU to develop a joint strategy with the respective Member States and the Partner Country to improve coordination. The AfC is clear in its pledge that the process should result in a "single joint programming document which should indicate the sectoral division of labour and financial allocations per sector and donor."

Operational Framework on Aid Effectiveness

The Agenda for Change calls for improving coordination in line with the Operational Framework on Aid Effectiveness, which incorporates new areas like cross-country division of labour. However, the Agenda reveals ambiguous tendencies, because the explicit role of EU Delegations as coordinators for the Operational Framework on Aid Effectiveness further emphasises that decisions on engagement and geographic concentration are sovereign national decisions of MS.

Lead donor arrangements, joint programming and arrangements for delegated cooperation are defined as the key elements for EU coordination. Under these circumstances it does not seem likely that other MS would commit fully to supporting the FTI-DoL. At country level the EU delegations organise joint meetings at several levels, from the Heads of Mission meetings which the EU head of Delegation chairs to heads of cooperation meetings and project-level meetings. EU Heads of Delegation sometimes lead fact-finding missions which other EU ambassadors join. These meetings and missions are crucial in order to fill remaining information gaps, identify bottlenecks and facilitate decision-making and agreement on the next steps for DoL with the partner governments, local EU representatives and other donors.

It is worthwhile noting the fact that the framework specifies a deadline for the implementation of the commitments. According to the Framework the EU has to be fully operational by 2014 in implementing joint programming. The Framework also defines a set of guidelines to monitor progress systematically at Headquarters (HQ) and Country level. Taking in consideration that donors usually have to organise a withdrawal phase that takes 3-5 years if they decided to exit a country, a realistic time frame to better assess the efforts on implementing coordination could be 2014 (EU 2012a).

Ultimately, the Agenda for Change is a point of conceptual reference and it is appropriate to assume the compromises of the global forum on aid effectiveness. Nevertheless, the Agenda does not include elements which could allow for the binding application of instruments to strengthen EU leadership in a new agenda of development effectiveness.

Impact Assessment

"There is strong evidence of duplication of effort with other donors both inside and beyond the EU. Taking Bangladesh as an example, all 10 EU donors present in Bangladesh are active in the education sector. In Ethiopia, 11 of the 15 EU donors present crowd the health sector. Individual donors' allocation decisions are based on a great diversity of criteria, often determined at headquarters' level and resulting in earmarking of funds at country level. This means that exits and entries from countries and sectors are hard to coordinate at country level and in partnership with the recipient governments. In many of these cases, information about changes as a result of this information is scarce." (EU 2011)

Reasons that have prevented progress in DoL:

- Many MS consider their decisions on partner country selection as sovereign acts which do not require EU coordination.
- Selection of partner countries and country allocations is seen by many MS as national foreign policy prerogatives.
- A substantial number of partner country governments fear losing funding and are hence not supportive of cross-country DoL.

2.2 Programming Level

2.2.1 Division of Labour

There is a strong link between Division of Labour and donor coordination. According to the CoC-DoL there should be three levels of implementation: i) cross-country; ii) cross-sector; and iii) in-country. Although cross-country DoL belongs to the policy level, we present an assessment of DoL in general.

In a preparatory study (Mürle 2007) the principles for the DoL are defined as follows:

1. to reduce the number of donors involved in the same kind of activities;
2. each donor should build on its particular strengths rather than developing new competences while the EU as a whole should be able to provide all forms of thematic, sectoral and instrumental development operations;
3. DoL has to take the political process of development cooperation into consideration, involving value-judgments, interests and negotiations;
4. there should be a pragmatic balance between pluralism and a reduced number of EU donors in the same partner country and sectors;
5. in country, cross-country and cross-sector division of labour are linked to each other; and
6. the EU should define concrete activities in all three dimensions of DoL.

Essentially, recommendations made in the study refer to limiting the number of sectors per donor; limiting the number of donors in a sector, using lead donor arrangements for sector policy dialogue and donor co-ordination, and using delegated co-operation outside focal sectors as a tool for quickly moving towards division of labour. Most of these recommendations were included in the CoC-DoL.

The starting point for DoL is the cross-country division of labour. Cross-country DoL seeks to tackle the problem of proliferation of European donors by reducing the number of donors per country. By concentrating the number of donors in a few countries, it is expected to obtain a better reallocation while increasing aid effectiveness. With a cross-country division of labour a lot of the costs related to the preparation of strategies, programmes and projects could be reduced (Carlsson, Schubert and Robinson 2011).

The costs of proliferation of donors and aid fragmentation have increased because of the non-application of DoL. Indeed, MS mentioned, on average, up to between 15 and 20 countries as priority partners for development cooperation each, with half a dozen of them mentioning over 30 (Carlsson, Schubert and Robinson 2011).

How effective is FTI-DoL as an aid coordination instrument?

The countries in which the FTI-DoL operates and which have been integrated into the monitoring process are very different regarding the number of donor institutions present and their aid dependency.[20]

During the first monitoring of the FTI-DoL, 70 %, or 21 of these countries were present, formulating questions on several issues including donor mapping, comparative advantage assessment, lead donor arrangements and reprogramming. The second monitoring addressed 28 FTI-DoL and 11 Non FTI-DoL countries and gained a 96 % response rate to the questionnaire (Buercky and Knill 2009). This time the outcome was more encouraging. Almost all EU donors were involved in the DoL process and the majority of bilateral donors also participated in it. Multilateral donors appeared to be less interested in stronger commitment.

Donor mappings: Only 5 out of 21 countries did not complete a donor mapping in 2008, which suggests that the instrument is widely recognised among donors but not exceedingly useful in reducing fragmentation. Nevertheless, some countries seem to have problems with the complexity and diversity of sectors. One indication for this is that the indicator improves significantly in the monitoring of 2009 when only 3 out of 27 countries had not completed the donor mapping.

Assessment of comparative advantages: This is the instrument which was least implemented in the monitoring sample. In the two monitoring exercises of 2008 only 8 countries succeeded in realising an assessment of their comparative advantage. One factor that apparently had a negative influence was the low involvement of partner country governments, which turned this instrument into a "mere donor exercise". In the remaining countries it seems that there was no systematic assessment of advantages and disadvantages for the selection of lead donors, something that should be addressed.

Delegated cooperation: This instrument shows results that are similarly less than encouraging, as only 9 countries involved in the FTI-DoL seem to have utilised it. Agreements initiated by the EC on delegated cooperation and silent partnership were realised only in some countries.

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[20] Albania, Bangladesh, Bolivia, Benin, Burkina Faso, Burundi, Cambodia, Cameroon, CAR, Ethiopia, FYROM, Ghana, Haiti, Kenya, Kyrgyz Republic, Laos, Madagascar, Malawi, Mali, Moldova, Mongolia, Mozambique, Nicaragua, Pakistan, Rwanda, Senegal, Sierra Leone, Tanzania, Uganda, Ukraine, Vietnam and Zambia.

Reprogramming underway: This seems to have been significant progress on DoL in 2009, as a result of the portfolio decisions at the HQs. Nonetheless, it should be noted that the decision to implement the reprogramming often depends more on a change in the political context of the partner country than on the aims of the DoL. In the analysed cases it can be observed that the exit of a donor from an overcrowded sector did not always lead to an increased portfolio in orphan sectors.

Regarding aid effectiveness, the three monitoring reports of the FTI-DoL come to the conclusion that transaction costs seem to have increased for both partner countries and donors. For the latter especially this is mainly due to a growing number of donor meetings. Nevertheless, this should be weighed against the positive fact that the quality of sectoral policy seems to have improved as a result of increased coordination.

Obstacles and enabling factors

Obstacles

One of the biggest obstacles to the realisation of the FTI-DoL seems to be the limited participation of partner countries. Its best practices are limited to four countries: Tanzania, Rwanda and with positive commitment in Ghana and Zambia. For many partner governments direct contact with a large number of donors seems to be preferable to working with the representatives of groups of donors. On the other hand, recipients generally have limited management capacity and in many cases they also prefer to deal with individual donors rather than to encourage them to coordinate.

There is often a link between limited ownership by partner countries and limited capacity on the donor side concerning the substantial duties and responsibilities related to the role of lead donor. Communication between donor offices at country level and HQs is often still insufficient to allow for the HQ to generate adequate responses to the needs and proposals made by implementation units on the ground. There is also a limited interest for donors to reduce the number of sectors they are engaged in.

The CoC-DoL does not provide specific guidelines on how to actively integrate other donors. The involvement of other donors, especially multilaterals, is still weak. Several donors have legal and administrative provisions which make delegated cooperation difficult. Some multilateral donors argue that their statutes prevent them from entering the FTI-DoL process. It also seems that multilateral donors with big aid portfolios consider the DoL to be more an internal process of the EU. Thus far, no positive results could be observed in the efforts to integrate non-DAC bilateral donors, vertical funds and private foundations into the DoL. Furthermore, partner countries' ownership remains a challenge.

Enabling factors

The EU Code of Conduct on Division of Labour seems to be an important enabling factor, considering that it offers clear guidelines for EU donors. The role of HQ is crucial as they can motivate multilateral donors, promote the exchange of information, accelerate the adjustment of procedures and delegate more responsibilities to the country offices.

The impact of the CoC-DoL

Even though all monitoring reviews indicate that "it is too early to even assess immediate, let alone long term results of DoL processes"[21], we can say that in more than five years since the formulation of the Code of Conduct, donors have done little to limit the fragmentation of aid. In addition, weaknesses in fostering ownership by partner countries also contribute negatively. Most stakeholders involved in the DoL process agreed that it has not made a significant contribution to the improvement of aid and development effectiveness.

The modest results obtained to date hardly seem to justify the transaction costs which have been incurred. Although it may appear that HQs have provided some thrust for DoL, not enough has been done, especially in terms of creating more binding rules and influencing bilateral and multilateral donors to change their attitudes toward engaging in DoL.

According to the FTI-DoL monitoring reports, the quality of sector dialogue seems decrease as a result of delegating authority to a lead donor while reducing the staff of donor agencies. Fashionable sectors like climate change seem to attract a larger number of donors (Wenzel, Buercky and Knill 2010). Thus, we cannot talk about big successes in the cross-sector division of labour. Although most actors agree that a better allocation of aid is desirable, the majority of those involved feel that transaction costs have increased for partner countries without being outweighed by significant increases in effectiveness.
Some authors consider the comparative costs assessment instrument to be rather an obstacle to, and not an enabling factor for, increased DoL. The existing legal frameworks "obscure the real problems of too much aid proliferation and too few aid harmonisation" (Hartman 2011). Therefore, technical solutions to the problem can contribute little if they are exclusively oriented towards the problem of DoL. The EU should analyse the results and promote a more extensive political dialogue on the HQ level in order to make a real contribution to the improvement of aid and development effectiveness.

2.2.2 Joint Programming – The Case of South Sudan

Rationale and Objectives

The EU intends to improve donor coordination at country level through the wider use of Joint Programming. Under this system the goal is to incorporate member state and Commission bilateral country programming in a single EU country strategy aligned with the partner country's own national development plan and agreed by the EU institutions and member states.

[21] See: Third Monitoring Report and Progress Review of the EU Fast Track Initiative on Division of Labour, online: http://www.oecd.org/dac/effectiveness/47823165.pdf

The rationale behind joint programming is to use the programming phase to improve the effectiveness and efficiency of European aid by reducing fragmentation among EU donor aid programmes and aid financed projects. At the same time, the EU promises to increase partner country ownership by basing its JP documents on the national development strategy. Although joint programming is a European exercise, other donors such as the United States, Japan, Australia, the World Bank or UNDP, are welcome to join and several have expressed interest in taking part on a case-by-case basis. From the partner country perspective, the idea is to reduce the burden of having to deal with several European actors and agencies so that resources and capacity can rather be concentrated on fighting poverty and promoting development (Ellmers, Jult and Sládková 2012).

The JP exercise has been piloted in two of the world's most fragile countries, Haiti and South Sudan, in 2010 and 2011. Momentum and interest have picked up as the EEAS, DG DEVCO and the EU delegations settle into their roles, and there will be wider use of joint programming under the 2014 – 2020 EU Multiannual Financial Framework. The preparation of joint country strategies is at various stages for a further 20 countries for which the EEAS and DEVCO plan to have joint programming operational by the end of 2014. There may be as many as 50 JP exercises underway by 2020 (see table 1).

Joint programming is the latest in the long running series of efforts described above to improve the coordination of EU and member state development cooperation at the policy level as well as at country level. Joint programming is in line with community and member state aid effectiveness commitments under the Rome/Paris/Accra/Busan process (Ellmers, Jult and Sládková 2012). Joint programming is also in line with the broader EU external relations processes of making the EU's external policies more coherent, deepening foreign policy integration in the institutional sense, and lifting the EU's presence as an international actor on the global stage (Furness 2013).

EU commitments to the "joint programming" instrument emerged from the 2007 EU Code of Conduct on Complementarity and the Division of Labour, which committed EU donors to engage in no more than three sectors per country and stated that there should be no more than five donors engaged in any sector (EU 2007). The process received more momentum following the 2009 Lisbon Treaty, which called for greater complementarity and better coordination and provided a mandate for delegations to coordinate EU development cooperation at the country level. The 2011 Council Conclusions on the EU Common Position for the Fourth High Level Forum on Aid Effectiveness in Busan focused on strengthening Joint Multi-annual Programming and the Busan outcome document included a reference to joint programming among other country-led coordination arrangements (EU 2011).

The October 2011 Agenda for Change revisited the issue of poor coordination between EU development programmes and those of the member states. Several suggestions for progressing towards a common EU development policy were proposed, including a "single joint programming document" for partner countries together with "single EU contracts" for budget support and a "common framework for measuring and communicating results" (EC 2011b; Koch, Furness and Gavas 2011). The 2012 Agenda for Change Council Conclusions announced that the EU was starting to make concrete progress in joint multiannual programming with a number of partner countries (EU 2012a).

Table 1: Possible Joint Programming Countries under the 2014 - 2020 EU Budget

2012 – 2014	Bangladesh, Bolivia, Burma, Burundi, Cambodia, Chad, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Guatemala, Haiti, Kenya, Laos, Liberia, Mali, Namibia, Paraguay, Rwanda, Senegal, South Sudan, Togo
2015	Comoros
2016	Afghanistan, Benin, Burkina Faso, El Salvador, Malawi, Mauritania, Morocco, Mozambique, Niger, Pakistan, Tanzania, Tunisia, Uganda, Vietnam, Yemen, Zimbabwe
2017	Georgia, Nepal, Philippines, Sierra Leone
2018	Honduras, Nicaragua
To be confirmed	Algeria, Moldova, Palestine, Timor Leste

Source: European External Action Service 2013.

The Process

There is no single format for joint programming. The overall objective is a single EU country strategy which synchronises and aligns programmes and projects with partner country processes and sets out the division of labour, but there are several ways of getting there. This allows EU joint programmes to reflect partner country realities, including the partner government's own progress with producing a national development plan, the capacity of the government to coordinate donors, the number of donors present in a country, the existence or otherwise of a dominant donor (especially if this is an EU member state), and the capacity of the EU delegation to lead the process. Joint programming typically starts with an analysis of EU donors' objectives and planning cycles, taking note of the sectors they are in and the programmes and projects that are running and those still at the planning stage. At the same time an analysis of the partner country's needs is conducted and consultations with the partner government are held (Galeazzi, Helly and Krätke2013). Where appropriate, other non-EU donors are consulted and invited to participate. In each sector lead donors coordinate inputs and an indicative financial allocation per sector and donor is worked out. The JP document is then drafted.

When the draft JP document has been agreed by EU Heads of Mission at the country level, the EU Delegation and MS Embassies launch the approval process in their respective headquarters. Each EU donor is responsible for approving its own bilateral programming component of the JP document. The EU Head of Delegation and member state ambassadors follow the document's progress through their own system and keep each other informed about how things are going in their respective headquarters (O'Riordan 2013).

The term 'joint programming' invokes images of programmes and projects that are designed, financed and implemented jointly. In reality, JP could easily stand for 'joint planning' as it has mostly been about producing a strategy paper that describes in detail how cross country and sectoral division of labour at the country level should be implemented. Member states and the EEAS / Commission retain the right to make their own financing decisions and to organise the implementation of programmes and projects.

In theory, coordination at the implementation level should be made easier by the preceding joint planning process. For the EU institutions, JP has the potential to facilitate a more structured approach to implementation. In most cases the EU has lots of funds to programme but no implementing agency, and so it relies on coordination with the EU member state agencies, multilateral agencies such as the UN, or sub-contracted international NGOs.

Similarly, the process of information exchange and identification of shared objectives should also open opportunities for joint financing, or at least for better coordinated financing. Joint programming should also incorporate programme-based approaches at the country level, such as budget support and pooled funds, in the joint country strategy.

First Experiences: Impact of Joint Programming on EU coordination at Country Level in South Sudan

Along with Haiti, South Sudan has been the principal test case for EU joint programming. The South Sudan exercise has been an interesting experience for the EU and member state officials, both at the country level and at headquarters. It cannot be considered an unqualified success, largely due to country-specific factors that are unlikely to be replicated elsewhere. Despite this, some general lessons for other countries and for the next phase in South Sudan can be drawn.

First, member state buy-in is crucial. The joint programming exercise proved much more important and valuable for the Commission, the EEAS and the EU delegation in Juba than for member states and their embassies. The EEAS and the Commission viewed the process as a chance to have an open exchange on objectives and financing, and officials involved in the South Sudan process have said that communication and cooperation between the two organisations on the document was open and productive. The EU delegation in Juba saw the joint programming exercise as an opportunity to demonstrate to the donor community and the government of the Republic of South Sudan (GRSS) the added value of the EU approach. Officials argued that the only way for the delegation to become the leading EU actor in South Sudan is to generate new, well-grounded ideas and be the best at implementing them. This would require considerable increases in capacity, as the EU delegation is a small player in comparison to the American and British embassies, and especially the massive United Nations presence.[22]

[22] There is, however, a cloud on the horizon from an EU point of view. The GOSS has not signed the Cotonou Agreement because it is wary of the ICC clause. If it does not sign before the

Despite formal commitment to JP in South Sudan, the enthusiasm of some member states has been lukewarm, resulting in lukewarm commitment and only contingent support for the EU delegation's coordinating role. The UK in particular has a long history in South Sudan and the British Ambassador is a member of the donor "troika" together with the United States (which has by far the largest presence of any bilateral donor) and Norway (which supported the Sudan People's Liberation Army through the Sudanese civil war). Officials at the UK embassy in Juba are generally open to the EU delegation taking the lead on joint programming, but despite the Lisbon Treaty they will not simply accept coordination by the delegation as of right. An official from another member state described the joint programming process as "a bit overstated" and said that it was more about exchanging information on who was doing what and looking for opportunities to make improvements, than about committing to a single EU strategy with common goals.

Second, circumstances can change quickly. The South Sudan process showed how much changing circumstances in a fragile state can upset even the best laid plans. Work on the EU's South Sudan joint programming document began in 2010 and a draft was ready around the time the country became independent in 2011 (EU 2012c). The JP document is aligned with the Government of South Sudan's national development plan from August 2011, which was itself based on the assumption that oil revenues would boost public revenue and ambitious development projects would be possible (Government of the Republic of South Sudan 2011:121–122). The draft was finalised in January 2012, unfortunately coinciding with the GRSS' decision to suspend oil exports through the pipelines that run to Port Sudan in the North. Despite this game changer the document continued its journey through Brussels and around EU member state capitals, partly in hope that the oil crisis would be short-lived, but reportedly also because of the risk that suspending joint programming for a pilot country might have had for the whole process. When the document was agreed it was already out of date and the GRSS cancelled the meeting in Juba at which it was to have been presented.

Disappointment was however, quickly set aside as EU and member state officials in Juba had to get on with things, including making diplomatic overtures to the South Sudanese to come to an agreement with the North on oil exports, while making contingency plans for assisting the GRSS through the fast approaching "fiscal cliff" that it would face when its cash reserves ran out. Meanwhile at headquarters level the JP process had the added value of creating a framework enabling discussions on how to support South Sudan through the crisis, even though this was not an aspect of the joint strategy itself. Recent announcements that an oil transit agreement between Khartoum and Juba has been reached may revive the JP exercise, although it is clear that the oil games between North and South will continue and the GRSS will not be able to rely on steady revenues.

Third, partner country capacity is a key variable. A factor which has been (re)confirmed by the South Sudan joint programming experience is the importance of partner country systems and government capacity to donor coordination. The orientation of the JP

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beginning of 2014 when the 11th EDF commences it is unlikely that the EU joint programming process will be able to continue in its current form.

document on the national development plan and the commitment of EU donors to focus on sectors highlighted the centrality of the GRSS to coordination not only among EU donors but also among the wider donor community. The government's commitment to donor coordination is, however, patchy – on one hand, the GRSS is happy to have donors present and will say "yes" to everyone, on the other, since 2010 Juba has been flooded with donors and agencies, challenging the limited capacities of the state agencies responsible for donor coordination. Furthermore, most senior officials are former soldiers who are not used to dealing with donors, do not have the technical expertise to oversee complex programmes and projects, and do not want to negotiate on sensitive issues where the EU has strong interests like human rights and rule of law.

The GRSS has made some progress in establishing country systems. It has published its national development plan and the ministry of finance has set up domestic aid architecture in the form of ten sector working groups. These are in various states of operability: the health and education groups reportedly function better than the security, public administration and rule of law groups. Not surprisingly, donor coordination - and with it progress in implementing the EU's Single Country Strategy - is better in the health and education sectors than in more politically sensitive sectors.

Next steps for EU Joint Programming: potential and challenges

i) EU Member State Commitment

Reconciling member state preferences for bilateral policy with the greater role for the Commission and the EEAS that joint programming entails is a delicate business. Officials point out that if DEVCO or an EU delegation requested changes in a German, British or French programme, the answer would depend on whether there would be a negative impact on the member state's interests in a given country or on the visibility of its bilateral programmes. The UK House of Commons Development Committee has questioned whether the Commission is the appropriate actor to coordinate the joint programming given that, in their view, Department for International Development(DFID) has a better coordination record (House of Commons International Development Committee 2012: 4). Moreover, even when member states commit to joint programming at the policy level, their embassies and country offices still have discretion over investing time and capacity in coordinating implementation at the country level. Experienced officials are often acutely aware of the limits of donor coordination and are understandably inclined to stick to what they know rather than invest in new exercises. If JP is to succeed, it will need to demonstrate that it offers more than just an added level of bureaucracy. Country level acceptance of the leadership of the EU delegation is a factor in securing on-going commitment once the joint country strategy has been signed off.

ii) Partner country ownership versus EU interests

Although joint programming is an EU initiative and can in theory be either donor-driven or country-led, it must respect the ownership principle if it is to be effective (Ellmers, Jult and Sládková 2012). The intention to do this is clearly expressed by the deliberate orientation of the joint country strategy on the partner country's own national development plan, and the sectoral JP approach has the potential to improve partner country capacity if commitments to use country systems are carried through.

There is, however, potential for EU donors to bypass partner country interests as they reduce sectors in line with EU code of conduct commitments. Even though the process is supposed to be conducted primarily at the country level, decisions to concentrate on one sector and pull out of another need headquarters approval in most cases.

Synchronisation

Joint programme is supposed to lead to greater synchronisation and alignment of programmes and projects with partner country processes. It should, however, be recognised that this will not always be possible. At the technical level, budget cycles, reporting times and the organisation of systems differ among member states and between donors and the partner country's own processes. The problem of synchronisation arguably becomes greater when more donors are present, although it may be even more of a challenge where one or two established donors have a major presence and large programmes. No country is a "blank canvas" – even in Myanmar and South Sudan, where donors and aid agencies have flooded in as the countries have opened up, some European donors have been present for many years. Achieving better synchronisation involves transaction costs – it can be time consuming (the joint programming exercise has resulted in more meetings at the country level) and can cause knock-on effects as changes in one programme cycle affect another. Readiness and optimism can quickly fade when the implications of making changes necessary to implement joint programming become apparent.

2.3 Implementation level

2.3.1 Multi-Donor Budget Support

Background and rationale

Besides formulating principles for more effective aid, the Paris Declaration on Aid Effectiveness (High Level Forum 2005) and its follow-up, the Accra Agenda for Action (High Level Forum 2008), propose so-called PBAs to provide more coordinated and better development aid to poor countries. The OECD DAC defines PBAs as a way of engaging in development cooperation based on the principles of coordinated support for a locally owned programme of development, such as a national development strategy or sector and thematic programmes. More specifically, according to this definition, programme-based approaches are characterized by: (i) leadership by the host country or organisation; (ii) a single comprehensive programme and budget framework; (iii) a formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement; (iv) efforts to increase the use of local systems for programme design and implementation, financial management, M&E(OECD DAC 2006: 37; Klingebiel, Leiderer and Schmidt 2007). Taken together, these features of PBAs are expected to enhance country ownership and lead to reduced transaction and coordination costs on both sides of the aid relation, making development assistance both more efficient and effective.[23]

It is commonly understood that PBAs can be implemented through different aid modalities, ranging from pooled (or basket) funding of specific activities or reform programmes to joint support of sector-wide approaches (SWAps) and sector (SBS) and general budget support (GBS) (Leiderer 2012: 2). Most prominent - and still by far the most controversial - among these various forms of PBAs is the provision of direct budget support, which involves the support of national development and poverty reduction strategies in developing countries by means of direct financial support to recipient governments' national treasuries (OECD DAC 2008: 148).

The Box below gives an overview of the defining characteristics and expected benefits of BS as an aid instrument.

Box 3: Characteristics and expected benefits of budget support

Characteristics	Expected Benefits
- channelling of donor funds to a partner country using its own allocation, procurement, and accounting systems; - support for a recipient country's own development programmes, typically focusing on growth, poverty reduction, fiscal adjustment, and the strengthening of institutions, particularly the budgetary processes; - policy content, performance assessment, and an accountability framework that focus on policy measures and benchmarks related to overall budget and policy priorities, as set out in the country's own poverty reduction strategy and medium-term expenditure framework; - provision at regular intervals, ideally in alignment with the country's annual budget cycle; - agreement on general budget priorities and expenditures, so that in principle there is no need to earmark funds for specific items	- reducing transaction costs for the government by avoiding parallel project and reporting arrangements; - increasing the predictability of funding; - addressing cross-cutting government-wide policy, expenditure, and institutional priorities that cannot be tackled with stand-alone and sector projects; - promoting government accountability, both internal (to parliament and taxpayers) and external (to donors); - improving the efficiency and transparency of budget spending, reducing the fragmentation of public expenditure management, and integrating recurrent and capital expenditures; - buttressing the recipient country's own budget process and public financial management (PFM); - encouraging a greater orientation to medium-term results by focusing on national development objectives rather than on donor-driven priorities, operational issues, or activities with limited scope and effect

Source: Koeberle, Walliser and Stavreski (2006)

[23] The main rationale for budget support and other forms of PBAs lies with the disappointing results of traditional project-based aid, which is commonly thought to involve high transaction costs; be predominantly supply-driven (i.e. following donor rather than recipient priorities and thus generating little ownership for development processes on the recipient side); undermine recipients' own administrative and political capacities by establishing parallel systems for managing aid resources; produce only locally confined effects with little impact on structural and systemic problems in developing countries; and undermine overall allocative and operational efficiency by providing resources in a highly intransparent and unpredictable manner (Leiderer 2012: 2).

Use of budget support in European development cooperation

Budget support is predominantly a "European aid modality". Besides the multilateral development banks, it is above all the European Commission and member states who provide budget support to developing countries in support of national and sectoral development strategies.

Budget support in its modern form is provided in different forms and with different objectives. It is given as general or sector budget support, in fixed or variable tranches (or combinations thereof), and usually with the objective to provide both financing for development outcomes as well as financial incentives for recipient governments to implement policy and governance reforms.[24] Despite these different formats, by the mid-2000s a standard model of **multi-donor budget support (MDBS)** had emerged in countries where budget support is provided jointly by several donors, which is the case in most Least Developed Countries that do receive this form of aid. In these cases, donors usually form dedicated budget support donor groups to coordinate the policy dialogue with the recipient government, their assessments of the recipient government's effectiveness, and the conditions that need to be in place for a disbursement of the funds. These MDBS groups are generally chaired (on a rotating basis) by one or more donors. Often, the donor group is also represented by lead donors who coordinate the sector-specific policy-dialogue with government and other stakeholders in dedicated sector working groups (Leiderer 2010: 3). MDBS thus provides a very strong framework for donor coordination with a large potential for a reduction of duplications and general transaction costs of aid.

How effective is MDBS as an aid instrument?

Despite significant methodological challenges in evaluating the impact of budget support, the evidence base on the effectiveness of BS as an aid instrument has grown substantially over the past few years. A first large joint international effort to evaluate the effectiveness of budget support was undertaken in 2004/05, which conducted 7 country case studies and was coordinated by the evaluation network of the OECD DAC (IDD et al. 2005:1). This evaluation found overall positive effects of budget support on aid management (including harmonisation), the quality of the policy dialogue between donors and recipient governments and on PFM systems in recipient countries (IDD and Associates 2006).

However, this first evaluation effort was not able to assess the budget support's impact in areas such as economic growth, poverty reduction, education, and health, mainly for want of a satisfactory methodological approach to make causal attributions along the long and complex causal chains at play in this aid modality.[25] As a reaction to this and to increasing

[24] For a discussion of the intervention logic of budget support, see Koeberle and Stavreski (2006) and Leiderer and Faust (2012). For a comprehensive overview of the use of budget support by different donors, see Koeberle, Walliser and Stavreski (2006).

[25] For a discussion of the non-linear intervention logic of budget support, see Leiderer and Faust (2012).

pressure on donor governments to demonstrate the impact of their aid, upon initiative by the Evaluation Unit of the EU (Directorate-General for Development, External Relations and EuropeAid) the DAC evaluation network developed a more comprehensive evaluation framework for budget support (Caputo, Lawson and van der Linde 2008), designed to trace the complex causality chains of budget support in their entirety in order to assess the impact of budgets support on target groups in partner countries.

This new evaluation framework was piloted in three country case evaluations in Mali, Tunisia and Zambia between 2010 and 2011. The synthesis of these three evaluations comes to the conclusion that budget support in the evaluated cases has contributed to increased discretionary expenditure and allocative efficiency, provided effective support to the implementation of PFM and other reforms, while being unable to "buy" reform whenever government commitment was lacking. At the impact level, the studies find that budget support's contribution to stabilisation and economic growth has been limited when compared to other factors and their support to economic reform has been weak. However, its contribution to increased public investment and reform implementation in social sectors has helped the countries achieve significant outcomes in education and health and overall its support to growth and social policies has contributed to reducing income and non-income poverty (Caputo, de Kemp and Lawson 2011a: 2).

In sum, the aid modality was found to be fairly effective as a financing instrument in pursuit of promoting poverty reduction and other development objectives linked to the MDGs,[26] but much less so as an instrument to induce policy reforms and political change for good governance and democratisation. The observed lack of harmonisation, in turn, is the result of a fundamental dissent among donors on the goal hierarchy of budget support: some donors (including the European Commission) traditionally prioritised the financing function of budget support, for others the more political goals are at least of equal importance.[27] Unfortunately, when one instrument is to achieve several objectives without a clear goal hierarchy, efficiency losses are usually inevitable (Faust, Koch and Leiderer 2011; de Kemp, Faust and Leiderer 2011; Faust, Leiderer and Schmitt 2012; Caputo, de Kemp and Lawson 2011b). However, there is no evidence that other aid approaches or instruments do provide more potential to contribute to governance situation in partner countries. In addition, experiences in partner countries (see Rwandan case study) indicate several positive features including significant funding of poverty strategies, alignment and use and strengthening of partner country systems (including public financial management systems) and high level of donor coordination.

Does MDBS improve donor coordination and reduce transaction costs?

Budget support as an aid instrument has by design great potential to improve donor coordination and reduce the overall transaction costs of aid. However, the quoted

[26] Most importantly, the different evaluations found no evidence that the fiduciary risks (e.g. due to fungibility) often associated with the aid modality, play a relevant role in practice (see, for instance de Kemp, Faust and Leiderer (2011) for the case of Zambia).
[27] For a short overview of the political debate around budget support in donor countries, see Leiderer (2010).

evaluations and other case studies (e.g. Dijkstra, de Kemp and Bergkamp 2012)) suggest that the provision of budget support has not reduced the overall transaction costs of development aid. On the contrary, it is often claimed that the shift to PBAs and budget support has increased transaction costs, at least for the donor side.

There are mainly two reasons for this claim: First evidence shows that even where donors provide a significant share of their aid in the form of budget support, this usually does not replace traditional, arguably less efficient, forms of aid. Evidence from the country evaluations of Zambia and Mali, for instance, clearly show that budget support complements rather than substitutes other (often off-budget) forms of aid (Leiderer and Faust 2012; de Kemp, Faust and Leiderer 2011; Caputo, de Kemp and Lawson 2011a). As a result, no "automatic" reduction of overall transaction costs of aid can be expected from the provision of MDBS alone. However, it is likely that the transactions costs per "unit of budget support" are lower than in the case of other aid modalities.

The second reason why budget support is sometimes considered to increase transaction cost is the fact that the provision of MDBS requires substantial up-front investments in analytical and dialogue capacities on both sides of the aid relationship. Although these costs should primarily be considered an investment in better policy formulation and ultimately better results, they are often difficult to distinguish from transaction costs, a reality which can partly explain the claims (Leiderer 2010: 3f.).

However, even if one were to consider these investments as a form of transaction costs, there are good arguments why MDBS has the potential to be a more efficient way of providing aid. One is economies of scale: The necessary investments in analytical and dialogue capacity are largely independent of the amount of budget support provided and thus subject to fixed cost degression that other forms of aid do not necessarily exhibit. A second argument is that the output produced by investment in analysis and policy and political dialogue is effectively a public (or rather club) good for all MDBS donors, also creating the potential for significant economies of scale and scope for donors and partners.

Unfortunately, these latter cost savings do not materialize automatically but require donors to make good use of the coordination framework MDBS provides them with. Experience to date suggest that in practice, different conditionalities, a multiplicity of monitoring missions and diversity of disbursement procedures and the incentive for different donors to use budget support to leverage their individual off-budget programmes have negative effects on both the transaction costs of budget support itself and on the outcomes of policy and political dialogue, leaving significant scope for further harmonisation (Caputo, de Kemp and Lawson 2011b: 6; IDD and Associates 2006: 4; Leiderer 2013).

The European Commission's new budget support policy

Following increasing criticism by member states of the European Commission's budget support strategy (Faust et al. 2012, 1), in 2010 the Commission initiated a process to redefine and further differentiate its budget support policy. Following the publication of a "green paper" in October 2010 and an extensive consultation process, in late 2011 the Commission developed a communication on "the future approach to budget support to third countries" (EC 2011a) and correspondent EU Council Conclusions were adopted in May 2012 (EU2012b). In September 2012, the Commission issued new guidelines for the provision of budget support (EC 2012).[28]As a consequence EC's budget support might be reduced and, therefore, coordinated implementation is likely to decrease.

The new policy describes European budget support as a "**vector of change**" aimed at addressing five key development challenges and objectives (EC 2012: 1f.):

1. Promoting human rights and democratic values,
2. Improving financial management, macroeconomic stability, inclusive growth and the fight against corruption and fraud,
3. Promoting sector reforms and improving sector service delivery,
4. State building in fragile states and addressing the specific development challenges of small island development states and overseas countries and territories and
5. Improving domestic revenue mobilisation and reducing dependency on aid.

To support these objectives, the new policy distinguishes three different categories of budget support programmes (EC 2012: 2):

- **Good Governance and Development Contracts** to replace general budget support and be provided when there is trust and confidence that aid will be spent pursuing the fundamental values of human rights, democracy, and rule of law.
- **Sector Reform Contracts** to provide SBS in order to address sector reforms and improve service delivery.
- **State Building Contracts** to provide budget support in fragile situations.

At the core of the new policy lies the stronger tying of budget support to political conditions in partner countries. Whether this re-definition of the instrument with more clearly defined and differentiated objectives for the three types of budget support contracts will help to align member states and the commission behind one common approach to budget support, helping to reduce coordination and transaction costs, remains to be seen however. The important role that (sometimes completely unrelated) domestic considerations play in determining member states' approach to budget support will not easily overcome. Given the dominant role of European donors in the provision of budget support, however, consensus building regarding coordination on a common budget support policy framework should be a priority of the on-going coordination efforts between EU member states and the European Commission (Faust, Koch and Leiderer 2011).

[28] For an overview of the European Commission's new budget support policy and related documents see http://ec.europa.eu/europeaid/how/delivering-aid/budget-support/

2.3.2 Blending: a New Instrument for Coordination

Context and theory

Blending facilities are considered by development practitioners as one of the few examples globally of an effective translation into action of the aid effectiveness commitments the EU has agreed on in the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008) and the European Code of Conduct on Division of Labour in Development Policy (2007). These new instruments have improved EU donor coordination and increased the leverage effect of EU development finance. They link EU budget grants – sometimes topped up by member state grants – with loans by European Bilateral Financial Institutions such as European Investment Bank(EIB), European Bank for Reconstruction and Development (EBRD), Council of Europe Development Bank (CEB),Nordic Investment Bank (NIB), Agence Française de Développement(AFD) and Kreditanstalt für Wiederaufbau (KfW). (Nuñez et al. 2012).The use of pooled resources and increased coordination between financiers potentially increases transparency compared to separate individual EU operations. Interventions have enhanced the effectiveness and efficiency of financiers operations.

Box 4: Concessional Loan

Loan provided to poorest countries with lower interest rates and longer repayment periods than typical or standard market or multilateral loans, i.e. less than market interest rates and extended grace period. Also known as soft loan. To be defined as ODA-Funds loans are:

- those provided by official agencies;
- those for developmental purposes;
- those with a concessional element of 25% or more compared to a 10% reference interest rate (35% for tied aid).

According to the EU and the OECD DAC, blending is a combination of concessional or commercial loans with grants (from the EU budget, European Development Fund [EDF] and other sources) in order to leverage development funding. There are a number of different grant instruments that can potentially be used in the framework of EU Blending mechanisms. A list of possibilities was provided by the ECOFIN council in 2009 in a report on the additionality of grants and loans in the blending framework (EC 2009) including the following: a) Technical Assistance and studies; b) Direct Investment Grants; c) Conditionality / performance related grants; d) Interest rate Subsidies; e) Loan Guarantees; f) Structured Finance – first loss piece; g) Risk Capital; h) Insurance premiums. The use of all these grant instruments makes increasing coordination necessary.

Since the EU established special facilities to promote blending, this particular development finance instrument has gained more significance. There is an emerging EU consensus to move from a grant-focused approach towards blended grant and loan based instruments, focused on using development funds to leverage (private) investment.

As stated in the Agenda for Change (EC 2011b: 8)

- The EU will further develop blending mechanisms to boost financial resources for development, building on successful experiences such as the European investment facilities or the EU Infrastructure Trust Fund for Africa.
- In selected sectors and countries, a higher percentage of EU development resources should be deployed through existing or new financial instruments, such as blending grants and loans and other risk-sharing mechanisms, in order to leverage further resources and increase impact.
- This process should be supported by an EU Platform for Cooperation and Development incorporating the EU Commission, Member States and European financial institutions.

In order to reach this objective, the EU is interested in improving the cooperation and coordination between the EU, financial institutions and other stakeholders in this field. Due to EU regulations, the Commission provides development assistance in the form of non-repayable grants only. For the poorest countries such donations are of enormous importance. In addition, the EIB provides grants for development financing in the course of framework agreements with African, Caribbean and Pacific countries.

Blending plays a crucial role as a new instrument for the realignment of EU development policies as EU institutions try to exploit its potential for leveraging finance in the context of scarce budget resources. Cooperation and coordination between the EU, financial institutions and other stakeholders in this field clearly appears to be necessary.

Use of blending in European development cooperation

According to the EU, since 2007 € 760 million in the form of grants from the EU budget and the European Development Fund have leveraged some € 26 billion of additional financing for approximately 115 EU projects in sectors like transport (37%), energy (33%), water (16%), small and medium-sized enterprises (SME) support (8%) Information and Communication Technologies (4%) and social projects (3%).

The overall trend in the EU is towards a **wider use of blending instruments.** Various facilities already exist and a number of new facilities were launched in 2012. These facilities cover Africa, Latin America, the Caribbean, the EU Neighbourhood and the Asian continent. Instead of pursuing a regional focus, the objective seems to be to establish a global presence and develop the capability to act through blending facilities at this level.

Another key topic regarding blending is ODA eligibility. The possibility to include third parties makes it debateable whether blended packages should count as ODA, since the DAC demands that an official agency provide concessional loans for developmental purposes. The inclusion of non-official agencies underpins the argument that blended packages should not qualify as ODA. Yet, government officials seem to be confident that blended packages will ultimately count as ODA. In terms of the grant element, which the DAC demands, it should be noted that it is supposed to amount to at least 25 % of the total loan, but this percentage relates to interest rates of the 1970s. Given that these rates have decreased over the last decades, a grant element of 5 % may already suffice (Gavas et al. 2011: 12).

How effective is blending as an aid instrument?

The EU Commission sees blending as a very successful development finance instrument, especially suited to large-scale projects. However, doubts have been raised by several stakeholders about its effectiveness (Nuñez et al. 2012).[29]

The European Parliament has also raised some concerns towards blending in the past. In a 2011 report the Parliament acknowledges that blending may be suited to involving the private sector in development. Nevertheless, it puts emphasis on the fact that it needs to be clear who receives support from scarce development budgets in order to ensure a pro-poor-focus of investments (European Parliament 2011: 11-12). Moreover, the Parliament outlined some principles which need to be adhered to in order to avoid adverse consequences of blending (box 5).

Box 5: Principles of the European Parliament that should guide blending

- Focus on financing for domestic companies and leveraging of domestic capital;
- Adherence to environmental and social standards;
- Support of governments for effective regulation of markets and fair taxation;
- Alignment with beneficiary countries' development plans;
- No support for any operations which would allow, or contribute directly or indirectly to any form of tax evasion;
- Promotion of transparency, good governance and the fight against corruption in the beneficiary countries;
- The new focus on loans shall not be to the detriment of the level of grants.

(Source: European Parliament 2011: 12)

Blending facilities increase cooperation and coordination between different EU and non-EU stakeholders (EC, MS, DFIs and partner countries) thus increasing overall EU aid effectiveness as well as the visibility of EU development and external policy. The beneficiaries can participate in the strategic decisions of the blending facilities, and the coordination of EU donors and financial institutions, leading to a reduction in the fragmentation of sectoral policies. Sharing expertise, skills, practices and lessons learnt also encourages innovative ideas for further enhancing cooperation and coordination

[29] According to the Steering Committee of "wise persons", the following problems have to be overcome in order to improve the new instrument: the blending mechanisms are regionally differentiated, and not all regions and sectors are currently covered; the governance structure and the decision-making provisions diverge; the possible involvement of beneficiaries in submission of grant requests; the role that the European Commission, the EIB, other IFIs and European Blending Financial Institutions (EBFIs) play differs between the various mechanisms. See also: http://www.eib.org/attachments/documents/eib_external_mandate_2007-2013_mid-term_review.pdf

mechanisms at the operational level. An excellent example of sharing expertise and practices between EU actors is the "AFD-EIB-KfW Mutual Reliance Initiative (MRI), which supports division of labour between financing institutions at the implementation level by reciprocally delegating project management tasks to one of the three institutions acting as Lead Financier in joint co-financing on the basis of mutually agreed minimum standards." (Nuñez et al. 2012).

The EU-Platform for Blending in External Cooperation

In order to optimize the effectiveness of blending facilities, the European Parliament and Council requested the European Commission to create a group of experts of Member States, the European External Action Service and the European Investment Bank, to assess the costs and benefits of establishing an "EU-Platform for Blending in External Cooperation".[30] The EU-platform was established in December 2012. The main task for 2013 is the "review of the existing blending mechanisms and the development of a common results-based framework to measure impact."[31]

The platform is a major forum in which technical groups, including the European Commission, the EIB, other European bilateral and multilateral finance institutions and those finance institutions which participate in the EU blending mechanisms, can work together to define rules and mandates that enable stakeholders to make contributions and meet obligations regarding their participation in a blending facility. Currently, the EU Commission plays the leading role in defining respective strategies.

<u>Key aspects of the EU- Blending Platform</u>

The overall objective of the platform is "to improve the quality and efficiency of EU development and external cooperation blending mechanisms, taking due account of the policy frameworks that govern EU relations with different groups of partner countries, notably EU development, neighbourhood and enlargement policies. This includes promoting cooperation and coordination and streamlining agreements between the EU, EIB and other relevant financial institutions and other stakeholders."[32]

The main task of the platform is to provide guidance and recommendations to those looking for financing and those ready to make it available. The platform pursues a reduction in transaction costs by supporting the geographic and sectoral allocation of the funds. This way, there exists a strong link between the platform and the Fast Track Initiative on division of labour.

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[30] The wise persons' report suggested the creation of an "EU platform for cooperation and development"

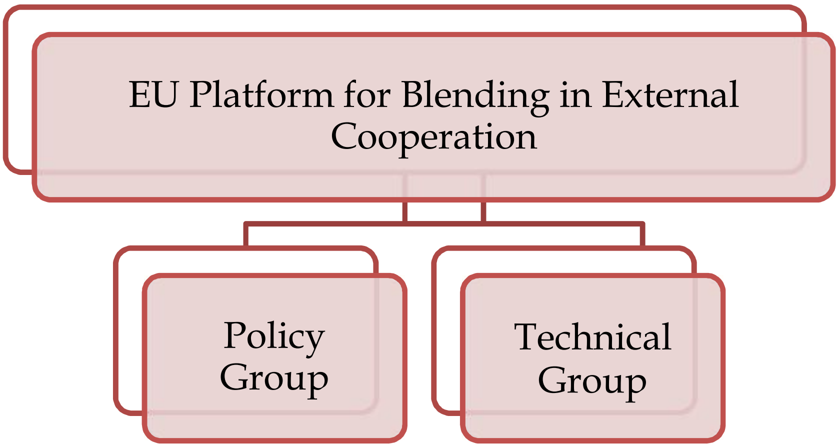
[31] See:http://ec.europa.eu/europeaid/news/2012-12-12-platform-blending-funds_en.htm

[32] See:http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetailDoc&id=6980&no=1

How the platform works

The platform is composed of two groups (see Figure 1): a Policy Group (PG) and a Technical Group (TG). The PG is formed by the Commission, EEAS and Member States with the EP as observer, and the TG is made up of the Commission, the EIB, bilateral and multilateral European financial institutions as members, with other financial institutions that participate in the exiting EU blending mechanisms as observers. The TG works on issues established by the PG and presents reports on results to the PG according to a work plan.

Figure 1: The "EU platform for external cooperation and development"



The Commission has a strong position in this new structure as it is formally part of both the Policy and the Technical Group. In order to ensure the coordination of sessions and the activities of the different stakeholders under the platform, the Commission should staff a secretariat.

2.4 Case Studies: Myanmar and Rwanda

2.4.1 Myanmar[33]

Myanmar / Burma is undergoing dramatic changes and reforms. Since March 2011 a fundamental transition phase has started led by the newly elected President TheinSein. The political opening of the country has induced radical changes in all areas including development aid. In April 2013 the European Union lifted the sanctions status for Myanmar (except arms and weapons).[34] Again, this is a strong indication that a fundamental change has already taken place. The general elections planned for 2015 will provide a benchmark for the political transformation process. This benchmark might be

[33] The author of this part of the report stayed in Myanmar from 12 to 17 May 2013. He wants to thank all interview partners and especially the EU office in Yangon and the delegation in Bangkok for their strong support in the context of the country stay.
[34] See, for further details: Friends of Europe, EU-Myanmar: Charting a course for the future, policy briefing, April 2013.

also used by aid agencies as a starting point for the next phase, for instance when it comes to the synchronisation of programming cycles or the use of aid modalities that would make greater use of Myanmar's country systems.

Donor agencies have started to (re)engage with the country.[35] A number of high ranking donor representatives have visited Myanmar since 2011. Some of those visits were jointly organised (e.g. the heads of AusAid [Australian Agency for International Development] and DFID) and others were partly jointly implemented because of similar time schedules of the visitors (EU Commissioner Piebalgs and the German BMZ Minister). Several donor agencies opened offices in the former capital Yangon and a few donors have branch offices in the new capital Nay Pyi Taw. A number of donors are in the process of designing aid approaches and some aid projects are already operational.

The GoM and other institutions and actors in the country are faced with a massive influx of donors. Many institutions are starting from scratch with very limited capacity concerning collaboration with aid providers. There is only a small group of experienced people available to deal with a high communication demand vis-à-vis donor representatives and visitors. The geographical distance between the old and the new capital is regarded as a positive aspect because the Government can concentrate on core business given the absence (with a few exceptions) of donor representation in the capital. This contributes to a slow-down of direct day-to-day interaction between the GoM on the one hand and donor representatives, visitors, and missions, etc. on the other hand.

Against the background of an increasing interest by the donor community in the country, fundamental questions concerning the role of aid to Myanmar in the next couple of years have been raised (Reiffel and Fox 2013: 1-3): Is the country going to receive too much aid too soon? Will aid be more a blessing than a curse? Is aid going to "do harm"?

Although these questions are crucial, it is clear at the same time that there is a huge need for development progress in the country. The human development situation of the country is far from satisfactory. Myanmar's Human Development Index (HDI) value for 2012 is 0.498 (low human development category) and the country ranks number 149 out of 187 countries and territories.[36]In comparison to most important regional peers, the country is lagging behind, not at least because of its high economic potential. Especially in rural areas, there is a high demand for basic services and infrastructure (energy, transport, telecommunication, etc.)[37] and a number of border regions have been significantly neglected over several decades. In addition, the country still faces a number of violent internal conflicts along the lines of ethnic and religious group identities.

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[35] For an overview on the situation until early 2013 see Reiffel and Fox (2013).

[36] See: http://hdrstats.undp.org/images/explanations/MMR.pdf; accessed May 24, 2013.

[37] For example, the number of fixed and mobile phone per 100 inhabitants is 2.5 (ttp://hdrstats.undp.org/en/countries/profiles/MMR.html; accessed May 24, 2013); however, against the very dynamic economic and social transformation character of the country this number is obviously progressing dramatically.

Obviously, “aid coordination” is one of the key challenges in Myanmar. The most important group of non-European donors includes Australia, Japan, United States Agency for International Development (USAID), the World Bank, the Asian Development Bank (ADB) and a number of UN Funds and Programmes. From the group of European donors just a few have already operational programmes: the EC, DFID and Germany. France, Denmark, Finland and Sweden are also planning activities.

Donors have a strong interest in setting up their own structures and projects and well-coordinated joint approaches are only used to some extent (e.g. the three operational multi-donor trust funds[38] which were in place at the beginning of 2013). Based on a number of interviews in Myanmar, Reiffel and Fox come to the following assessment (which is generally confirmed by the present study): “*Competition among donors was generally seen to be at a high level, leading to some duplication of effort. Terms used to describe this behaviour were ‘unfortunate commonality’ and ‘crowding in.’ Overconcentration was a concern not only with respect to certain sectors but also in geographic regions. We even heard a reference to competition between agencies from the same donor country*.”(Reiffel and Fox 2013: 28).

Since 2009 the Partnership Group on Aid Effectiveness (PGAE), which includes 45 donor agencies, has operated as the main donor coordination mechanism. The PGAE has also established a number of working groups and will, in the future, be organised in a more formal way. The chair will be selected on a rotational basis and for the first term of a formalised approach DFID and the United Nations are serving as co-chairs.

An important step by the GoM was to organise the First Myanmar Development Cooperation Forum on January 19-20, 2013, in Nay Pyi Taw, which concluded with the “Nay Pyi Taw Accord for Effective Development Cooperation.” The GoM wants to organise similar consultation events in the future on an annual basis.

The outcome document refers explicitly to the Busan High Level Forum on Aid Effectiveness and it provides specific commitments on the side of the GoM and donors as to how to make aid more effective in the unique local context of Myanmar. The accord provides for specific guidelines to “align assistance with national priorities” and “participate in and be guided by country-led coordination processes.“ Based on the results of the accord, the GoM is in the process of drafting an “action plan,” the first draft version of which was shared with the main development partners in mid-May 2013.

The first Forum is also the start for a new coordination structure between the GoM and development partners. There will be a “working committee” serving as an overall dialogue mechanism between the annual Forum meetings. A group of eight major donors will represent the donor community: ADB, AusAid, EU, Japan International Cooperation

[38] 1. “3MDG (Three Millennium Development Goals) Fund” (focus on three diseases: HIV/AIDS, tuberculosis, and malaria), 2. “Multi-Donor Education Phase II Fund,” (focusing on primary school education), 3. “Livelihoods and Food Security Trust Fund (LIFT)”.

Agency (JICA), UK, UN, US, and the World Bank. In addition to this overall coordination mechanism 15 sector working groups are in the process of being established. Each sector working group will be chaired by the GoM and co-chaired by a bilateral and a multilateral donor.

The European Commission and several EU member states are active in Myanmar; the United Kingdom is one of the most important bilateral donors. The EU delegation in charge of the country is based in Bangkok (Thailand) and only a branch office was inaugurated in April 2012 in Yangon. The Yangon office is to become a full delegation in September 2013. At present, EU staff in charge of development cooperation commute between the Bangkok delegation and the Yangon and Nay Pyi Taw offices. The status of the EU representation (not a fully fleshed delegation yet) and the insufficient staffing structure for development cooperation does not facilitate either donor coordination – especially donor coordination on behalf of the EU -or communication and alignment with the GoM.

In addition to the overall coordinating mechanism the EU donors meet regularly on the level of Heads of Cooperation. Indeed, the EU has explored the potential for EU joint programming in Myanmar with a Joint Programming Mission in April/May 2012. The mission report confirms a situation of generally poor communication and coordination between donors. The document recommends that joint programming should be taken forward in Myanmar initially concentrated on EU donors.

Conclusions

Overall, coordination structures for aid in Myanmar are in the process of being established. So far, the first phase of transition in Myanmar was characterised by non-harmonised and non-coordinated approaches. In general terms, donors did not push extensively for coordination. Some donors with a strong presence in Myanmar and significant aid contributions are coordinating on a case by case basis; e.g. the World Bank, the ADB and JICA in the energy sector.

The Government has started to establish basic coordination structures, which is probably the most important step to avoid the costs of non-coordination and to increase the impact of available aid. The first aid conference in January 2013 was an important event in this respect because the main principles and standards were drafted. Nevertheless, due to limited aid experiences in the past, expectations regarding the capacity of the government and administration should not be too high.

Coordination amongst the group of European donors is so far modest at best. The logistical presence and infrastructure of EuropeAid does not correspond with any coordinating role in Myanmar. If the EU intends to develop a European aid approach, the necessary decisions appear not to have been taken in time. Not at least for the introduction of a joint programming approach this situation is a major constraint.

DFID/UK is by far the most important bilateral EU donor in Myanmar and is also very active as a leader for country aid forums. However, so far DFID is not perceived as a driving force for European aid coordination in the country. Furthermore, the country office has explicit reservations about joint programming which seem to contrast with the council decisions of European foreign ministers of April 2013.

In addition, other MS also raise concerns (synchronisation overambitious, etc.) about the feasibility of a joint programming approach for Myanmar. Against this background, the most important EU initiative for aid coordination has received little support from European bilateral donors. Thus, the "EU Response to the Nay Pyi Taw Accord" (January 2013) can be regarded as an overoptimistic announcement: "... *from 2015 on, all European Union donors will aim to join together in a single strategy. Such a strategy will provide a joint analysis and response and put forward a combined offer of support, setting out which sectors each of us will work in to deliver our agreed contributions, along with the corresponding financial commitments.*"

A more positive example is the aid effectiveness advisor who is supported by the EC. Since the mandate of the advisor goes beyond an EU internal service there is a direct benefit for the Government of Myanmar, EU donors and non-EU-donors as well. This contribution might help to overcome some of the collective action challenges of donors in the country.

Applying the three areas of coordination of the present study we can conclude the following points.

In the **policy area** Myanmar has received a lot of attention from EU aid actors since 2011. Not at least because of fundamental changes the EU tried to coordinate closely. Looking at the overall assessment of the situation in the country and the conclusions on the EU sanctions regime, it is apparent that there has been a harmonised approach to fundamental questions. There are also indications from the policy area to encourage a closer EU coordinated approach especially for programming.

In the **programming area** the joint programming approach is intended to be the main vehicle and preparations started in 2012 to ready the conceptual work. However, EU aid actors on the ground are only partly committed to the agenda. Coordination meetings and activities are taking place, but MS are not really "buying in" the idea to prepare for joint programming. The most important bilateral MS in the country is hesitant about the approach and other MS are sceptical about potential benefits and its feasibility. The EC does not act as a strong "coordinator" on the ground due to capacity constraints and the link between the policy area and the programming area is rather weak. The two years between mid-2011 and mid-2013 can be looked at as a missed opportunity for EU donors in Myanmar to apply basic lessons learned from the aid effectiveness debate.

In the **implementation area** there is mainly the Multi-Donor Trust Fund (MDTF) which provides benefits by means of a harmonised implementation structure. Although it is not specifically an EU coordination instrument, it is supported by several EU aid actors. With a mid-term perspective, PBAs and even budget support might gain importance. PBAs can play an important role for the new sector working groups. In fact, BS could be an instrument which might be considered after the national elections.

Recommendations for EU aid actors: The link between the policy and the programming area is rather weak in the case of Myanmar. Even if the joint programming approach is taking place on a voluntary basis there should be a clear commitment to push the agenda if the policy area supports harmonisation. One "soft approach" to strengthen the link between both areas would be a lean reporting format for all active EU donors to report on activities in favour of JP (What are specific contributions of MS X in order to prepare for JP?) and a report on the main challenges (e.g. legal constraints for synchronisation).

In addition, EU aid donors can increase future benefits of aid coordination if PBAs are actively prepared and supported. EU working group co-chairs, for example, can deal with PFM topics on a sectoral basis and can jointly work with government on sectoral PBA arrangements. The same applies to sectoral and general budget support arrangements for the future. Even if it is too early for those arrangements at the moment, they could help EU aid actors to deal with specific fiduciary and political risks.

2.4.2 Rwanda

From different perspectives, Rwanda is a unique country case. The country is still confronted with the consequences of the genocide in 1994 which are present until today. In addition and also related to the previous point, the region is experiencing a number a of conflict situations which are directly relevant for Rwanda, which is also seen as a conflict party. Furthermore, discussions on Rwanda are quite often controversial because of governance related issues. Finally, and contrastingly, Rwanda is quite looked at as an example of a "developmental state" (Booth and Golooba-Mutebi 2012; Abbott, Malunda and Festo 2013) which has a committed leadership on the one hand with significant participation limitations in the policy sphere on the other hand.

Despite the difficult legacy and the fragility of the region, the country has made a number of important development achievements. In particular, Rwanda has successfully reduced its poverty rate. Poverty came down from 56.9% (2006) to 44.9% (2011) and a decline in extreme poverty from 35.8 to 24.1% took place. A number of other indicators like declining inequality also point to progress in other areas (MINECOFIN 2013). Nevertheless, Rwanda remains a poor country. The HDI value for 2012 is 0.434 (low human development category) and the country ranks at 167 out of 187 countries.[39]

Rwanda can be considered as one of the most advanced examples for aid effectiveness (see Hayman 2009, Klingebiel 2011, Klingebiel 2008). In 2006 the country introduced an "Aid Policy" which applied the Paris Declaration to the specific context of Rwanda. The "aid policy" identifies, for instance, general and sectoral budget support as priorities number one and two, respectively, in terms of aid instruments/modalities. The "aid

[39] See http://hdrstats.undp.org/images/explanations/RWA.pdf, visited 21/06/2013.

policy" also served as the main reference point for country-led donor coordination as well as placing clear emphasis on alignment with government priorities and the use of country systems.

Despite the fact that not all donors provide budget support to the country, the instrument served as the focal point for donor coordination and dialogue with the Government of Rwanda (GoR) (Klingebiel 2011). Budget support was provided until mid-2012[40] by a number of key development partners, who were ready to use joint approaches to a large extent (joint dialogue process, joint monitoring mechanisms, etc.). However, it is not clear at the moment what the future role of budget support will be over the next couple of years. In 2012 a report by a UN expert group on the Great Lakes region stated that public institutions and the government of Rwanda still have an active military role (supporting proxy rebel groups etc.) in the conflict in Eastern Democratic Republic of Congo. This report was the main foundation for budget support donors to reflect on the use of the instrument and donors partly delayed or even suspended budget support disbursements based on this evidence.

In addition to budget support forums, an overall dialogue mechanism is in place which comprises almost all bilateral and multilateral donor agencies.

In 2008, a "donor mapping" was conducted and provided evidence on the activities of 30 development partners. The analysis showed that some sectors were relatively overfunded (like health) whereas other sectors were underfunded (like transport and ICT). In addition, the GoR highlighted large transaction costs against the background of a fragmented landscape of donor interventions. Furthermore, development partners were asked to give a self-assessment on their respective comparative advantages. Based on those inputs GoR presented to the group of development partners in early 2010 a "Division of Labour" proposal. The proposal took the EU code of conduct as a reference point and proposed specific sectors to each donor and all development partners were asked to limit the number of sectors to three. After discussions and adjustments the proposal was endorsed by 15 major donors, including four non-EU bilateral partners and three multilateral donors, and later on also by all 16 UN agencies active in the country.

In May 2013 a new Development Strategy, the Economic Development and Poverty Reduction Strategy (EDPRS II) for the period 2013-2018, was approved by the Rwandan cabinet. It is expected that the format of the sector working groups and the sectoral DoL will be adjusted. However, expected changes are of rather minor character.

Rwanda is also taking part in activities to prepare for joint programming. Some non-EU donors (including Japan and USAID) have indicated willingness to take part in these efforts. A draft proposal for a joint programming approach was expected to be available by mid-2013.

[40] In 2012 several budget support donors suspended delayed their contributions against the background of discussions around "underlying principles". This discussion became particularly important at a time when an UN expert group reported on peace and stability in the region; the report came to the conclusion that the GoR does not always play a constructive role in this regard.

In addition to those efforts the Rwandan Government is pushing to implement other commitments made in Busan and during the previous HLF. For example, Government and development partners have agreed to undertake an "inclusive joint planning exercise". This effort aims at a better synchronisation of programming / planning cycles of development partners with the national development programming / planning cycle and to further improve coherence and allocation of development cooperation to support national priorities as articulated in EDPRS II (MINECOFIN 2013: 4). The process is led by the EU delegation for the group of bilateral partners. It is quite likely that there are a number of overlaps or complementarities between this process and the EU joint programming approach.

Concerning implementation, the Rwandan Government encourages development partners to focus on general and sector budget support. Even though the Government was successful in increasing levels of budget support the majority of aid to Rwanda is non-budget support aid (67% for the FY 2011/2012) (MINECOFIN 2013: 9). Several European aid actors (together with the World Bank and the African Development Bank) are among those donors with the highest shares of budget support (FY 2011/12)[41]: EC: GBS 46% / SBS 23%; Germany 27% / 23%; Netherland 0% / 33%; United Kingdom 50% / 11%.

Conclusions

Aid coordination in Rwanda worked quite successfully over the last five to ten years. The main difference compared to many other countries is the leading and demanding role of the Government in this regard. The Government organises the most important parts of aid coordination and pushes donors to "walk the aid effectiveness talk".

The main explanation for the rather successful aid coordination approaches in Rwanda is a stimulating and challenging aid effectiveness environment; this includes the following factors:

- The Government has a clear aid policy in place, which is consistently implemented by the *whole* Government.
- The Government measures the progress or non-progress of donor performance.
- The Government supports and creates peer pressure (reports on donor progress for specific indicators, etc.)
- The Government uses the budget support forums as the privileged approach for coordination (piloting, etc.).

Against this background, several European donors were part of the budget support related debates (to different degrees EC, Belgium, DFID, France, and Germany). The sectoral DoL approach of the Government was taken up by European donors and actively supported.

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41 On average, development patterns provided 22% of their aid as GBS and 10% as SBS (MINECOFIN 2013).

Having already introduced sectoral DoL and other coordinated approaches, the starting conditions in Rwanda may be rather positive for joint programming. Governments announcements seem to indicate that there may be similar efforts on programming and planning aspects for the whole group of development partners. Similar to the specific sectoral DoL approach in Rwanda, there is a good rationale in expanding such an approach for all development partners.

Overall, coordination of EU aid actors in the **policy area** worked during the last couple of years mainly in the context of budget support related topics. Especially the delay and suspension of budget support was coordinated and to some extent the reactions of donors were harmonised in 2012. This has resulted in significant budget constraints for Rwanda since mid-2012. The link between policy debates and budget support is criticised by the Rwandan Government.

In the **area of programming** Rwanda is to a large extent an example for others. This is true especially because of the sectoral DoL approach. The overall intention of the Government to harmonise further programming and planning elements may result in further benefits and the EU joint programming effort can probably provide a major input in this context. Because of the clear pressure by the Government, it is difficult for development partners to withdraw from coordination and harmonisation activities.

In the **area of implementation** EU donors participate in budget support operations. In general terms, this is an important contribution for more aid effectiveness and is in line with the Rwandan aid policy. At the same time it became clear in 2012 that budget support from the EDF and the EU MS is prone to political debates (governance issues, conflict related discussions, etc.). In the context of the implementation of the Poverty Reduction Strategy, the Government wants to increase channels for supporting priority sectors through PBAs. This might be an area which will receive more attention from European aid donors in the future.

Recommendations for EU aid actors: Rwanda is a positive example for aid coordination under the leadership of the partner country. Because of this important element, European donors (like other donors) act much more in a harmonised way than in other partner countries. Although this model cannot be used as a blueprint for somewhere else, it can provide a tangible example for the "real benefits" of donor coordination. European actors including the European Parliament can use this reference country to raise important questions in other countries (for example: Why can't EU donors agree in other countries on a sectoral DoL "beyond a mapping exercise"?).

Budget support is at present one major contribution to coordinated implementation. It would be useful to reflect on the lessons learnt in 2012 /13 on all aspects of budget support in Rwanda (policy dialogue, different types of delays and suspension, etc.). In addition, it would be useful to invest more capacity in the development of other forms of PBAs, especially pool arrangements in the context of SWAps.

2.4.3 Comparative overview Myanmar-Rwanda

Table 2: Aid coordination in Myanmar and Rwanda

	Myanmar	Rwanda
Partner Government's view on coordination and capacity to take the lead	• Government wants to apply the aid effectiveness agenda. Clear intention to take the lead. • Principles on coordination, alignment etc. in place since the beginning of 2013. • Implementation plan is in the drafting process. • Because of the background of the country there is little experience with donors. • Huge demand for public investments and aid.	• Overall, Rwanda is frontrunner for the implementation of the aid effectiveness debate. • A clear aid policy and other additional strategies in place and used. Capacity to coordinate and to lead is demonstrated.
Donor setting & incentives for (non-) coordination	• Donors state their readiness to coordinate. • Country is attractive for aid providers and for other international actors (trade, access to natural resources, business opportunities, potential role in the region, etc.). • Actual coordination level insufficient due to several reasons: (i) Country transformation leads to totally new aid landscape. (ii) Strong interests of formerly non-engaged donors to build up aid portfolio → aid proliferation. (iii) Role of dominant donors → little incentive for most important EU MS contribution in Myanmar (DFID) to reduce the profile in favour of a unified EU engagement. (iv) Potential trade-off between 'speed to get concrete results' and 'coordination'. • Regional 'new donors' (China, Thailand etc.) important; they are not part so far of aid coordination efforts.	• Amongst the donor group EU MS and EC have a significant role. • Main incentives for coordination: Government is pushing donors to follow the aid effectiveness agenda. 'Good performing' donors are more influential. • Several topics cannot be pushed from a single donor but require joint approaches. EU donors have several joint interests (similar views on governance issues, etc.). • Several new donors (China, South Africa etc.) are engaged. Government is trying to push those donors to take part in regular coordination mechanisms.

Policy coordination	• Strongly coordinated embargo approach until April 2013. • Overarching need for policy coordination is shrinking.	• Some coordination on overall discussions around peace and stability in the region (and the role of Rwanda) and governance related issues. • Budget support as a catalyst and facilitator for policy coordination.
Joint or harmonised programming	• Joint programming should be operational in 2015. The EEAS / EC are working on preparation. • For different reasons, MS have reservations about the value added of JP and the level of ambition (e.g. challenges related to 'synchronisation'); no clear commitment.	• Number of initiatives by Government for harmonisation like a joint performance assessment mechanism, a regular assessment measurement of donor performance and joint analytical work (joint governance assessment). • Based on the EU Code of Conduct idea, the Government leads a sectoral DoL exercise for all donors. • Joint programming process started already in 2012; draft document is scheduled until mid-2013. Government is setting up a similar process for all bilateral and multilateral donors.
Joint implementation	• MDTFs in place which are used to different levels by donors. • Newly established sector working groups need to discuss and eventually prepare for joint implementation structures (pool arrangements etc.). • Budget support operations might be considered after the elections in 2015; no concrete plans yet. Sector working group on public financial management could play a catalytic role for those discussions.	• Government has a clear preference for budget support operations or at least pooling arrangements. Budget support and pools (e.g. for public financial management) became important for a number of donors, sometimes most important aid modalities (situation changed since mid-2012 due to controversial debates on Rwanda's role in DRC).
Costs of coordination	• Potential trade-off between quick aid results and close coordination because of a window of opportunities.	• Main difference between budget support and non-budget support donors. Coordination for non-budget support donors more difficult.
Overall level of EU coordination	• Coordination beyond exchange of information and few concrete joint activities is below the potential benefits. • Non-European actors do not perceive the EU as a coordinated entity in aid.	• Close coordination especially in the budget support group. EU donors coordinate closely in this context. • EC frequently has a broadly accepted coordination role.

Main aspects for further improvement of EU coordination	• EU not represented by a delegation. EU aid is mainly managed from the Bangkok delegation. This is a main constraint for European aid coordination. • Strong role of non-EU donors →How important are EU-centric coordination efforts?	• Different levels of decision-making authority of MS. For intense country coordination a decentralised approach would be supportive for coordination.
Specific features of the country relevant for coordination	• Aid effectiveness advisor funded by the EC is perceived by the donor group (incl. non EU donors) as an important contribution also for aid coordination. View is shared by Government.	

3. Assessment of benefits and costs of increased EU coordination in development cooperation

For the purposes of our study we distinguish the following types of costs incurred in case of no, little or insufficient coordination, and benefits because of increased or improved coordination:

1. **System-wide costs and benefits:** To a large extent, system-wide aspects are overlooked. If coordination on a macro level leads to optimised aid allocation this would permit overall efficiency and effectiveness gains.
2. **Country and intervention-related costs and benefits:** In the context of country programmes (or similar approaches like support to regional institutions) and specific interventions (projects, sectoral programmes, etc.) coordination may bring benefits in the form of decreased costs of non-coordination.

Costs and benefits are basically of two types: (i) Economic gains / **transaction costs** reductions (donor and/or recipient), (ii) Increased or improved **impact** of development aid (e.g. more important priorities are addressed in the partner country).

In the following, we briefly discuss the main aspects of potential transaction costs savings in development cooperation as traditionally dealt within the specialised literature. The chapter then looks into the potential trade-offs of increased coordination in general, followed by a discussion on the underlying assumptions of the EU coordination-integration debate. The chapter ends with a comprehensive assessment of the benefits and costs of greater EU donor coordination.

3.1 A conceptual note on transaction costs

The most evident, straightforward potential gains of coordination in development cooperation are savings in transaction costs, as they are not linked to any specific policy choice that other potential gains may require. As a concept, transaction costs economics are part of the New Institutional Economics perspective. For the purposes of this study, we use a simplified version of the notion of transaction costs.[42] In order to distinguish them from production costs, transaction costs are defined by Lawson (2009) as "the costs which allow an economic transaction to take place but which add nothing to the value of the transaction."

Based on Carlsson, Schubert and Robinson (2009), this notion of transaction costs can be adapted for development cooperation as "the costs arising from the preparation, negotiation, implementation and enforcement of agreements for the delivery of ODA". Brown et al. (2000) state that these costs are mainly short term or administrative costs i.e. the "overhead costs associated with programming, identification, preparation, negotiation, agreement, implementation, monitoring and evaluation of aid activities (programmes and projects) including the policies, procedures and diverse donor rules

[42] For a deeper analysis of the theoretical origins of Transaction Costs Economics, see Lawson, 2009.

and regulations for managing aid projects and programmes, translations and adjustments to divergent fiscal periods."

There are also long term or indirect costs associated with the delivery modes of ODA. These are mainly associated with the "impact of aid delivery mechanisms, in particular donor practices that impair the quality of government systems or hinder development of public sector capacity" (Carlsson, Schubert and Robinson 2009).Long term costs are crucial for development but are not the object of the present study. Based on Lawson (2009) and Carlsson, Schubert and Robinson (2009), short term transaction costs and long term costs could be conceptualised as in Table 3.

Table 3: Principal Categories of Transaction Costs as Applied to Aid Processes

Category	Definition	Examples
Search and Information Costs	• The costs necessary for recipient governments and potential EU donors to identify appropriate development sectors and instruments. • The costs (for MS and EC) of identifying appropriate projects or programmes to fund and (for governments) of "selling" project concepts to appropriate funders.	• Assessment of the regional, national and sectoral context by different CSP • MS and EC missions, conversations and discussions with ministries in partner countries
Bargaining & Decision Costs	• The costs of negotiating financing agreements for projects and other operations. • The costs of defining and agreeing on policy or outcome conditions for Development Policy Lending or Budget Support.	• MS – recipient consultations and negotiation processes • Benchmarking, different exigencies according to the strategies and interests of different MS
Policing & Enforcement Costs	• The costs for recipient governments of fulfilling requirements for project execution and monitoring using other systems than the country's systems. • The costs for recipient governments of monitoring EC and MS donor commitments to predictable disbursements and other aspects of mutual accountability • The costs for EU donor agencies of supervising adherence to project and programme conditions and of undertaking corrective actions where necessary.	• Benchmarking and different contract conditions according to the procurement systems of different MS • Administrative costs through receiving several Evaluations and Monitoring Missions from different MS • Duplication in using similar standards as indicators through several missions by several MS

Long Term Costs	• Distortion of government ownership and policy/priority consistency • Disbursement diversion, allocative inefficiency (poor matching of funds to needs) and poor matching of capital investments with recurrent expenditure requirements	• For example in the poor implementation of long term poverty reduction strategies, changes of priorities by new governments in partner countries, etc. The discussion and analysis of the impact of ineffective aid systems on the development process is far beyond the scope of this study.

Based on Lawson 2009; Carlsson, Schubert and Robinson 2009 and adapted to the assessment of EU Coordination

Measuring Aid costs

The next step shows where the difficulties in revealing and measuring these costs are and what could be the best way to monitor them in the future. When speaking about benefits or cost saving through coordination at the donor-to-donor level we deal primarily with administrative costs and multiple structures/burdens. Vice versa, on the donor-to-partner country level there are many different cost types and dimensions. For instance, principal-agent problems occur through imperfect contracts. The measurement of costs is also problematic because of possible double-counting and additivity of costs. Thus, the challenge is to reveal the costs inside the aid flow process without overlapping.

Moreover, Amis, Green and Hubbard mention that "there [are] too many uncertainties in distinguishing which costs [are] additional to normal costs of running government, which [are] essential and which unnecessary, and which costs [are] direct (the administrative costs of the transaction) and which indirect (e.g. undermining government ownership and policy consistency). The study conclude[s] that the debate should move on from what transaction costs are to bear transaction costs that occur in the system, why they occur and what can be done to reduce them" (Amis, Green and Hubbard 2005: 373f.).

Savings on aid transaction costs in the literature

Carlsson, Schubert and Robinson (2009) illustrate that through the application of principles, which are defined in the PD and AAA, it is possible to increase aid effectiveness. First, they use, as mentioned above, cost categories defined by various authors, for instance Knack and Rahman (2004), to analyse possible savings and where they occur. Methodological issues are for instance the distinction between ODA programme costs and the total overhead costs. More methodological difficulties can be found through the integration of ODA into the ministry of foreign affairs. To define overhead and administration costs in detail they concentrate on detecting costs of institutions or organisations, e.g. the amount of country offices, number of national and international staff plus administrative budgets in HQ.

Carlsson, Schubert and Robinson (2009) also present results which illustrate where the costs accrue in aid flow processes. This is a central challenge within the cost measuring process as a reduction in costs is easier when it is exactly revealed where the costs arise. Moreover, a later monitoring is easier and, thus, cheaper to realise. Additionally, they show costs of non-action in "drivers for progress" like DoL, untying of aid, increased predictability and reduction of volatility of aid flows or the use of country PFM systems. They also show for example the possible impact of joint financing instruments like delegated co-operation on reducing transaction costs.

In terms of case studies, it has been shown that donor proliferation is exorbitant in some countries like Vietnam, where one project is carried out for every 9000 inhabitants.[43]The table provides an example of the proliferation of EU donors in third countries:

Table 4: Proliferation and Concentration of EU Donors

EU 15 bilateral donors	Concentration of donors based on Country Programmable Aid				Proliferation index (Acharya et al 2004)	
	Total number of partners	**No of partners above average share**	**Concentration measure**	**Rank (1=least concentrated)**	**Proliferation index**	**Rank (1=least concentrated/ most disbursed)**
	A	b	c	d	e	f
EC	144	82	57%	14	na	na
France	123	50	41%	3	183	5
Germany	110	59	54%	12	299	1
United Kingdom	93	36	39%	2	160	8
Netherlands	93	42	45%	7	220	2
Sweden	91	44	48%	9	191	4
Belgium	83	39	47%	8	200	3
Spain	81	42	52%	11	148	11
Italy	76	32	42%	5	160	7
Denmark	71	27	38%	1	149	10
Finland	62	27	44%	6	166	6
Ireland	56	23	41%	4	120	13
Austria	53	27	51%	10	137	12
Luxembourg	40	25	63%	15	160	9
Greece	34	23	68%	16	69	15
Portugal	20	11	55%	13	73	14

Source Carlson, Schubert and Robinson 2009: 15

The large number of donors who provide insignificant aid may reduce the efficiency of aid delivery. Hence, proliferation and fragmentation becomes a major obstacle for ODA. If we use the categories defined by Lawson, the exorbitant increase in transaction costs due to fragmentation and proliferation is obvious.

[43] Box 4 Page 15, Carlsson et al. (2009).

In terms of who bears the costs, although data on donors' administrative costs are scarce but increasingly available, they are extremely difficult to collect and generalise for the case of partner countries. Despite the widely held belief that the costs of poor coordination are high for recipients, our ability to quantify them remains elusive.[44] Poor coordination translates into too many missions, a large number of projects to be managed, many strategies to be negotiated, etc. And all of that takes place at different levels of the government, in specific forums, etc. This means that any estimation is highly contingent on the recipient country where it takes place, both in terms of the aid setup and of officials' salaries and levels of involvement.

3.2 A conceptual note on increased and improved impact

In general terms, research on aid coordination concurs that there will be improved and increased outcomes and impact if aid coordination works (for example, Dearden 2013, Eriksson 2001, Knack and Rahman 2008; Bigsten 2006). Benefits can have many forms in this regard.

In the **policy area** aid coordination may create significant benefits. First of all we can assume that a single donor is not in a position to cover all identified needs in terms of countries and sectors which should be supported. Coordination therefore contributes to allocative efficiency, which is key for a cross-country and cross-sectoral approach to distribute aid resources.[45] In addition, we can assume that existing types of conditionality depend to a high degree of coordination. If a critical group or mass of donors does not agree on implicit or explicit conditions we can assume much less impact in this regard (for example, to push for a PFM reform) or even conditions contradicting each other. Therefore, conditionality depends on coordination.

In the **programming area** aid coordination is expected to be a precondition of an effective aid public sector management in the partner country and crucial for its absorptive capacity. If uncoordinated aid approaches are conducted in-country this will not just lead to high transactions costs but also to less effective public institutions. Any Minister of Finance, for instance, dealing with a large number of donors every day, will probably not be able to manage his core business. The introduction of "silent periods" in a number of partner countries (like in Rwanda during the time when the national budget is prepared for the following Financial Year) hints at this challenge. Similarly, partner countries cannot absorb any number of aid activities without losses in terms of effectiveness. Furthermore, in order to be aligned with partner country systems coordination is again an important requirement. Alignment needs harmonisation as a precondition and the use of partner country processes as a starting point. For example, we can assume that Poverty Reduction Strategies (and similar documents) would not exist without any joint demand by aid donors. Without coordination, allocation patterns within a country might also be insufficient. For example, aid is just allocated to a few sectors and provided to

[44] See Bigsten (2013).

[45] In reality it is difficult to find an optimum approach. However, we assume that without any kind of coordination any allocation pattern would be far away from a rational approach for aid donors.

some regions in the country – sometimes even following the political motivations of decision makers in the partner country.

In the **implementation area,** coordination is again a requirement for alignment. Aid instruments in line with partner country systems (PBAs, etc.) need to be based on a consensus amongst a group of donors. Budget support operations also rely on coordinated and harmonised approaches on how to engage with the partner country government. If donors do not coordinate it may be difficult to avoid "bad practices" or perverse incentives like, for example, the "poaching" of qualified public servants. Finally, if requirements for M&E are not coordinated and aligned with national systems (statistical office, etc.), then M&E as a major instrument to guide policies is not effectively in place.

3.3 Donor coordination trade-offs

Research on transaction cost reduction potential shows that increased coordination could provide efficiency gains but might also have negative side effects on, for example, how aid is delivered. This means that there may sometimes be a trade-off between efficiency and effectiveness gains.

It is widely assumed that coordination is contributing to improved and increased aid effectiveness. Therefore, donors are committed to aid coordination and harmonisation of aid approaches. At the same time aid recipients are demanding for more coordination and harmonisation. However, we can also assume "negative aspects" or trade-offs in the context of aid coordination in conceptual and practical terms.

In principle, there are three main aspects in this regard. Firstly, coordination might create transaction costs without clear value added. If coordination is related mainly to the number of meetings organised by donors this might increase transaction costs without relevant benefits. For example, meetings of the whole group of donors might be sometimes not the most appropriate way for more harmonised aid approaches. For instance, in Rwanda the subgroup of budget support donors served quite often as a forum for efficient and effective coordination discussions despite the fact that there is an overall aid forum for all donors. In summary, the view on coordination needs to be driven mainly by outcomes (e.g. increase of pooling arrangements / PBAs etc.) and not by input-related activities (meeting structures etc.).

Secondly, coordination may also lead to time-consuming processes and "delays". Even if coordination benefits are known there might be a trade-off with other objectives (quick results, etc.). A post-conflict situation, for instance, might raise huge demands for immediate actions because of pressing needs and visible results for an elite in a fragile setting. Against this background, coordination might be regarded as less important than "tangible results." Similarly, the political opening-up process in Myanmar was seen by several donors as a special period in history where development cooperation should use a window of opportunity; this momentum might have been reduced if coordination were emphasised too much.

Finally, from the recipient's perspective, closer donor coordination might lead to the formation of a unified and strong position among the whole donor group. This pressure might be used to push a partner country government in a specific direction (reform decisions etc.). In this case coordination might reduce the room for manoeuvre (or sovereignty) of partner countries. For example, it is probably not in the interest of a partner country to be exposed to just one approach of the donor group in the context of controversial political events in a partner country (elections, violent internal conflict situation, regional conflict settings etc.). "Little donor coordination" might be part of an approach of "risk sharing".

3.4 Underlying assumptions of the EU coordination-integration debate

Assessing the potential costs and gains of increased coordination within the EU's development cooperation arena is a difficult task. Not least, this is due to the lack of a clear role model or concrete optimised structure that could show what the most efficient and effective coordination degree and form should look like.

The first obvious limitation is data availability. As will be shown in the following, there remain huge gaps in reliable information on donor administrative costs vis-à-vis recipients, cooperation instruments and aid modalities. On the recipient side, any attempt to generalise quantitative estimates of costs and benefits may be closer to educated guess work than to reliable estimation. In the first case, the main difficulty lies in the fact that these costs are difficult to disaggregate across recipients, instruments and modalities and donors do not currently provide the desired breakdown sheet. Indeed, they are very unlikely to actually know the details themselves, beyond educated guesses.

In the second case, a qualitative generalisation of costs and benefits is even more difficult, particularly for recipient countries. This may well be the main factor why the specialised literature does not offer much in terms of estimations that could be scaled up beyond the occasional reference to the high number of donor missions recipients are faced with.

At the core of both cases lies the inability to measure some of the costs and benefits that prevent such an exercise. And this includes areas that could be potentially "measurable" but would require too much detail or cost overlap for the aggregation to be possible. Firstly, improvements in terms of effectiveness and impact on attaining certain goals like poverty reduction are not only difficult to assess but often impossible as we face an attribution problem – despite current pressures to explain how and by how much each ODA Euro contributes to its stated purpose. Secondly, the estimation of potential savings at the recipient level and costs of coordination at both partner and donor country levels are highly dependent on what form this coordination takes. In this regard, the level at which coordination takes place, the frequency, intensity, the number and position of staff involved, and the labour costs incurred by the organisations involved –let alone opportunity costs- vary widely from case to case and over time.

In practice, this means that a quantitative cost/benefits estimation can only be a complementary assessment tool that is unable to produce a reliable, complete picture because of its inability to incorporate important factors that are not easily measurable. This is the case when potential savings in administrative transaction costs are considered because the costs of coordination *per se* are difficult to account for. Even though estimations of potential savings are important and may provide an idea of the benefits of increased coordination, they cannot be taken in isolation as other factors that play a substantial role cannot be accounted for within the quantitative models.

Beyond these methodological difficulties, it is worthwhile noting that this is an area where assumptions, be they explicit or hidden, play a key role. Any result is highly dependent on the underlying assumptions.

For the case at stake, the estimation of potential efficiency and effectiveness gains of increased coordination and of its linkage to closer integration of the EU's development cooperation structure depends heavily on the way this is envisaged.

As it happens, the coordination challenge is a multidimensional problem. It is not possible to establish a scale from "less" to "more" coordinated forms so as to rank all possible structures unambiguously in a single list. Indeed, as discussed in the introductory chapter, there are several other "dimensions" that need to be taken into account which render a strict ranking an impossible task. Similarly, the gains of coordination range widely depending on whether gains are:

- in efficiency or effectiveness;
- on the donor or the recipient side;
- at policy, programming or implementation level;
- at headquarters, country offices or partner country level;
- based on ex-ante or ex-post coordination;
- the result of different degrees of coordination from simple information sharing to fully integrated approaches; and
- of a different nature, namely system-wide, recipient-related or indirect.

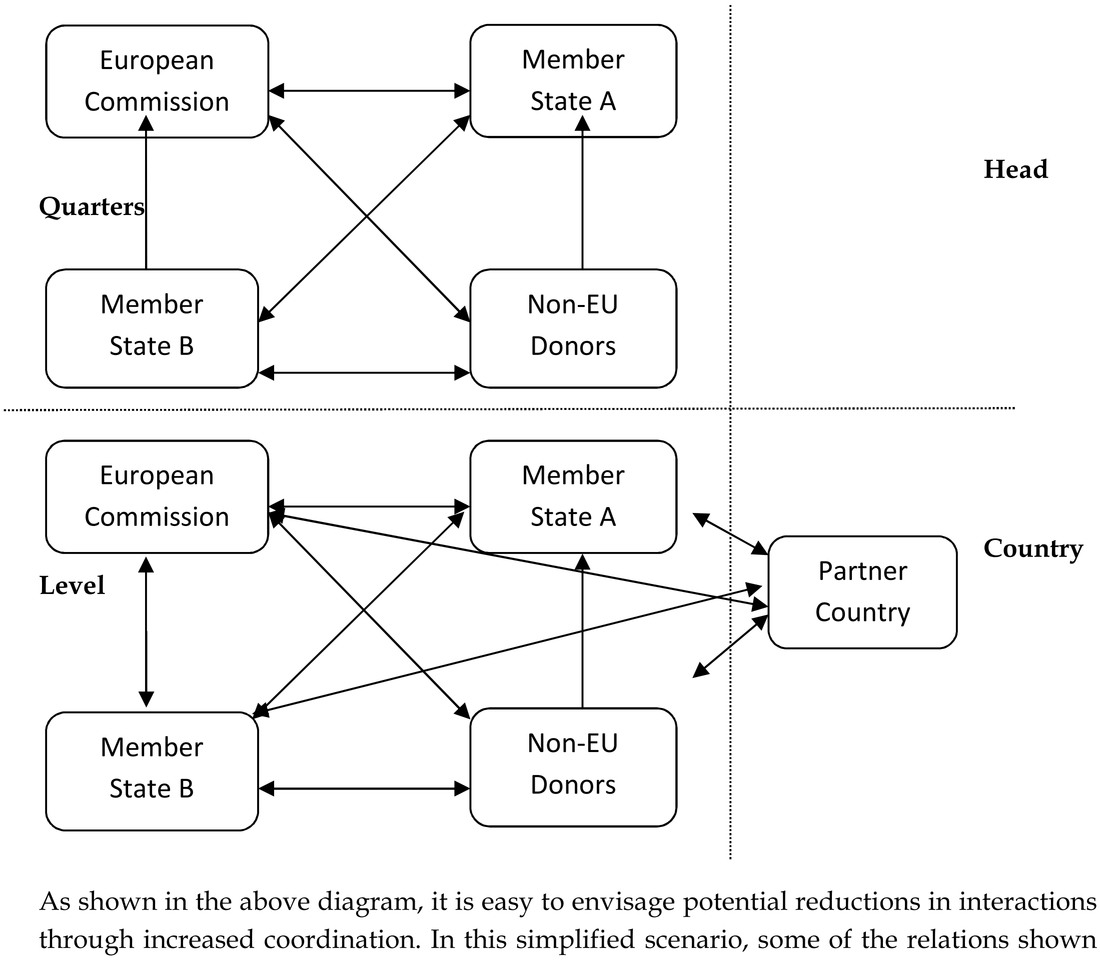
All of the above leaves us with a complex picture because the theoretical models are unable to provide a clear "ideal model" whereby greater integration would, through increased coordination, optimise all costs and benefits. In the absence of such an ideal model, what we can do is to try to envisage a fully integrated EU scenario with one player (EU Single Window Scenario) where coordination would become, simultaneously, partly unnecessary by definition (distribution/delegation of tasks) and unnecessary in the form of the highest degree of coordination (full cooperation). Despite the apparent contradiction, this allows us to assess, by comparing the current state of affairs in EU development cooperation coordination to this EU single window model, an upper boundary to potential costs and benefits of greater integration –and therefore coordination- in this area.

This notwithstanding, it needs to be stressed that there is currently no theoretical prescription of an ideally coordinated EU development cooperation scene. The choice is, of course, political. There is general agreement that increased coordination would entail more positive than negative effects, which we try to assess herein, but a more coordinated scenario can be envisaged in a myriad of potential different forms. And the form and level of this ideal cooperation remains much more an issue of political will, ambition, direction and feasibility than scientific or economic rationale.

In any case, there is much that can be said in terms of the potential costs/benefits of increased coordination primarily along three dimensions, namely at policy, programming or implementation level – as we shall see in the following section.

In terms of EU coordination, one can look at this at two levels: at EU HQs and at partner country level. Increased coordination would naturally and progressively simplify the format in which these interactions take place on each level and to some extent between HQ and country level. The diagrams below show, in an oversimplified model, institutional interactions susceptible to changes in nature and intensity with varying degrees of coordination.

Figure 2: Coordination Alignment



As shown in the above diagram, it is easy to envisage potential reductions in interactions through increased coordination. In this simplified scenario, some of the relations shown as arrows would become unnecessary in a more coordinated setup where the partner country would ideally deal with only one relation vis-à-vis the whole EU – or even beyond the EU if donors manage to come together at country level.

3.5 Assessment of the benefits and costs of EU donor coordination in terms of aid effectiveness

The main potential benefits of increased EU coordination are to be found in better outcomes, longer-term development impacts, increased alignment with partner countries, and reduced transaction costs. Much of this could be obtained from the positive impacts a coordinated donor community can have in a given recipient, not only through the concrete projects or programmes supported but also through its contribution to developing the government's institutional capacity and ownership of the interaction. As it happens, the latter is key for sustainability in pursuing developmental objectives.

As a caveat, it is worth noting that despite broad agreement on the potential benefits of increased coordination, some of the advantages and disadvantages are less clear and not always tangible, which is one reason why many EU actors' commitment in this regard remains somewhat weak. This is dealt in **Chapter 4**. For an overview of the concrete benefits and costs for EU donors and recipient countries beyond purely aid effectiveness interests, see **tables 9 – 18** in **Annex 3**corresponding to the three mentioned areas.

In the following, we assess the benefits of increased coordination in terms of aid efficiency and effectiveness within the three broad areas posed in **Chapter 1**, namely: policy, programming and implementation. Quantitative estimations of potential gains for increased EU donor coordination in the area of development cooperation are added at the end of sections wherever suitable. The estimations presented are our own re-assessment of Bigsten et al.'s (2011) figures, which, to our knowledge, are the most comprehensive quantitative assessment to date. These, however, need to be carefully interpreted as estimates of the order of magnitude of potential savings rather than indications of probable values. This notwithstanding, it may be helpful to indicate the relative importance of a number of potentially positive coordination outcomes. For a more detailed discussion on quantitative estimations, see **Annex 2**.

3.5.1 Policy level

At this level, we identify two main areas of EU development cooperation policy coordination. On the one hand, policy coordination in international forums, and on the other hand, what can be generally described as allocation patterns. The latter is here considered to include policy coordination for joint decision-making processes on cross-country division of labour and whole-of-EU aid allocation patterns.

EU development cooperation coordination in international forums

The main benefits of having a single EU voice in international forums are twofold. First, an external benefit would most likely be an increased push to the aid/development effectiveness agenda at the international level. In this area and despite the fact that MS continue to pursue their own individual agendas to a certain extent, the EU has shown strong commitment at the policy level. This could translate into an invigorated international effort toward the adoption of the Paris Declaration principles.

Second, there would be an internal benefit for the Union as MS would encourage increased "peer pressure" to follow EU commitments and thus strengthen internal coordination. The effect of this could potentially be very beneficial in terms of reducing fragmentation given that the EU as a whole remains the largest donor worldwide and at the same time one of the main contributors to fragmentation.

Despite the fact that the potential benefits of policy coordination at the international level appear to be very significant, it is also true that there are some implied costs as well. Keijzer and Fejerskov (2013) look at four recent major international negotiations focusing on or relevant to the area of development. They find that detailed agreements require substantial investments in time and potentially involve negotiating weaknesses in manoeuvring capacity in international forums as other actors become aware of EU's positions and "redlines" beforehand. This may leave the EU in a weaker position because its stance and mandate on potential compromises are widely known.

Aid allocation

Aid allocation can arguably be understood as an important way of coordinating at the policy level. The only fully functioning coordination in this area concerns the EU's development cooperation instruments, where decisions on allocations are jointly exercised by MS, the EEAS and the Commission along with the European Parliament – with the notable exception of the European Development Fund which remains outside of the Union's general budget.

Contrastingly, this is an area in which the potential qualitative benefits from coordination can hardly be understated. Were MS to adopt a substantial division of labour across partner countries, fragmentation could be substantially reduced, with all the associated benefits from having a lower number of donors per recipient. In particular, this would reduce the high costs of duplication on the donor side, and transaction costs on the recipient side, because there would be less need to interact with donor agencies (fewer donor representatives, fewer missions, reduced reporting burden, fewer meetings, etc.). Additionally, efficiency gains would in turn allow partner countries to increase their capacity to absorb aid resources.

Looking just at the donor side, a reduction in the average number of recipients per EU donor is found by Bigsten et al. to have a substantial saving potential. Our re-estimation, based on a strict application of the EU's Code of Conduct (CoC) and using their model, indicates that savings could be around € 0.5 ± 0.4 billion in 2012 prices. This means that potential gains could range from € 0.1 billion to 0.9 billion with our best guess somewhere in the middle.[46]

Also, such an exercise would be very likely to address the "aid orphan/darling phenomenon" (or more precisely a situation of relatively underfunded and overfunded countries) in a way that significant efficiency and effectiveness gains could be obtained.

[46] See Annex 2, Section: I. Savings from donor concentration on fewer recipient countries.

These would mainly originate in exploiting both different returns to aid investments and donors' comparative advantages (sectoral, geographical, historical, etc.) vis-à-vis the different typologies of partner countries and to a certain extent aid modalities. The neglect of good aid investment opportunities in term of "underfunded countries", for example, might lead to a loss of potential effectiveness gains for the overall aid system (opportunity costs). The same effect might occur concerning the "overfunding" of countries or regions. In this case absorptive capacity constraints may lead to a decreasing efficiency of aid contributions and / or decreasing impact per aid unit. System-wide coordination gains are mainly related to the political level of development policy.

In terms of achieving a single global allocation pattern for MS plus EC ODA with an optimal efficiency, this is an exercise which appears to remain well beyond the EU's reach for the time being. Note that while cross-country division of labour's benefits would mainly accrue from decreased fragmentation, a single allocation pattern for the totality of MS plus European Institutions' funding could potentially entail large effectiveness benefits by optimising allocations. Coordination by EU donors of the allocation patterns across recipients would result in better investments of aid as regards development effectiveness. Moreover, a joint decision process for overall funding for each recipient would surely boost the EU's leverage at country level.

Following the reallocation of aid exclusively focused on poverty reduction as proposed by Collier and Dollar (2002), Bigsten et al. (2011) estimate very large potential gains of over € 8 billion (2012 prices). We consider that their estimation involves important assumptions with potentially substantial effects on the estimate. Additionally, the allocation approach they follow has been criticised on the basis of the robustness of the model through which it has been developed and the choice of performance-based rather than needs-based criteria. Therefore, we take this figure in brackets and we acknowledge the fact that very high potential gains could be obtained through country reallocation.[47]

The other side of the coin is that this would of course also entail costs for recipients in the form of weaker negotiating power and the potential of a reduction in individual ODA funding depending on the allocation model adopted by the EU.

Overall, however, there is little doubt that this would be outweighed by efficiency and effectiveness gains at the global level despite lack of agreement on the optimal model.

There is one additional challenge worth noting, namely that even if we assumed that all European aid donors were totally ready to agree on one allocation approach, it would still be difficult to agree on an optimal formula. In principle, development assistance can be used based on two rationales, namely the needs of countries (or their populations), or their performance (good developmental return from development aid) (Pietschmann 2013). Even for single donors it is normally not possible to find the overall agreed best

[47] See Annex 2, Section: VI. Gains from coordination of country allocation.

allocation approach. Against this background it seems to be a real challenge to identify the best way to use aid money in terms of a perfect allocation formula.

3.5.2 Programming level

At this level, three main vehicles of EU donor coordination can generally be identified, namely JP, Sectoral Division of Labour and Delegated Cooperation or Silent Partnership (SP). Aspects related to their qualitative costs and benefits are discussed in the following:

Joint Programming

There are many potential qualitative benefits that this mechanism may provide. First and foremost, it allows the targeting of many aspects of the Paris Agenda in terms of increasing effectiveness. In particular, this mechanism also aims at improving the levels of both alignment and ownership, which allows for improved aid effectiveness and sustainability. Second, JP has the potential to secure greater predictability and less volatility of funding for the recipient. Third, it may crucially contribute to institutional development at the recipient level. Fourth, there may be important reductions in transaction costs for the recipient government as it can concentrate negotiations in one donor forum, be it EU-only or otherwise. Fifth, the quality, availability, and sharing of information (such as aid mapping) is significantly enhanced. And sixth, it has the potential to increase EU donors' synchronisation with the recipient's budget cycle, thus reducing transaction costs but also providing the opportunity to have a more efficient and effective impact on policies and outcomes. This is because consultations, negotiations and responses would be more timely in relation to the recipient's political dynamics.

In terms of specific benefits for EU donors, JP can contribute to more leverage and the stronger impact of "one voice approaches": donors can pursue a unified approach in terms of conditionalities, disbursement triggers, good governance requirements, etc.

On the recipient side, partner countries would benefit from a reduction of "conceptual diversity" and therefore conceptual contradictions typical of a fragmented donor landscape which often materialises when of large numbers of donor-funded experts push specific sector policies.

Additionally, interviews with the EEAS confirmed that there is currently willingness to give further thrust to a process of devolution or decentralisation, whereby EU delegations would become more autonomous in terms of taking decisions directly related to JP and other in-country processes. If this process is comprehensively enhanced, decisions and commitments by EU delegations could potentially be better informed and followed, and this could help secure stronger commitment from partner countries to the negotiation and programming processes.

Arguably, something that could be considered a form of cost is the fact that JP success is contingent upon the level of engagement and institutional capability of the recipient's government in terms of leading the coordination exercise. Since this condition is generally only partially met, JP is in many cases likely to suffer from a less than optimal recipient response. Naturally, this may increase the transaction costs to a level in which JP may actually not be worth doing in any comprehensive manner. This would explain why although EU JP is currently envisaged for a growing number of countries over the next years, this is still a subset of the EU's total country programmes.

Quantitatively, Bigsten et al. (2011) estimate potential gains from maximising the reduction of aid volatility at some € 1.8 billion in 2012 prices – benefits which JP and other forms of aid delivery like Budget Support are likely to contribute to. Although it is generally accepted that greater coordination would imply less volatility and more predictability, the extent to which this could take place remains very unclear. In our view, this means that this estimate cannot be considered as automatic savings from greater EU coordination and should be interpreted accordingly.[48]

Sectoral Division of Labour

As with cross-country division of labour, we consider sectoral DoL as a form of coordination, including cases in which further coordination may become unnecessary because donors have exited a sector as a result of cross-country DoL. The main advantages of sectoral DoL can be found in a reduced number of donors per sector and a more significant activity per sector and donor. In theory, sectoral DoL should allow for important improvements, on the one hand in efficiency by reducing duplication, competition and general transaction costs, and on the other hand in effectiveness by exploiting MS' comparative advantages and increasing complementarity.

Sectoral DoL can also contribute to decreased fragmentation by simply reducing the number of donors involved in a given sector, which would provide the typical benefits as discussed above. Additionally, alignment can also be naturally enhanced further by carrying out the exercise on the basis of the government's particular sectoral approach and having the latter directly involved.

Division of labour at this level also helps to clarify the distribution of roles and therefore allows for better programming and implementation. Along the same lines, it allows for better tackling of the over-/under-funding of specific sectors or subsectors that is typical from poorly coordinated setups.

In the context of an EU-only coordination, not including other actors may have the disadvantage that EU-only sectoral DoL has a limited effect in terms of benefits.

Delegated cooperation – Silent Partnership

This method of coordination has more or less similar benefits to those of sectoral DoL but with the specific additional advantages of further transaction costs savings as funding increases for the same number of interventions and, in some cases, reduced need for on-

[48] See Annex 2, Section: IV. Gains from reducing aid volatility.

the-ground staff and management. It also provides donors with the opportunity to cooperate with countries where they do not have a country office or in sectors where their expertise is limited in general or in a particular country.

This form of arrangement is actually cheaper for silent partners as compared to other forms of channelling funds outside one's own implementation setup. In the case of silent partnership among EU MS, the lead partner does not charge any fees to the silent partner as multilateral organisations would. And most importantly, it allows for benefitting from economies of scale by increasing the amount of funds available relative to the number of aid delivery structures involved.

For lead donors this increases visibility and leverage in negotiations while helping to establish comparative advantage within the donor community.

In this case, there are multiple qualitative costs mainly on the silent partner side, namely loss of visibility, loss of control over funding and lower accountability towards the national constituency. For the lead donor, a potential effect may be the increase of disbursement pressures. In the case of recipients, they may find themselves in difficult situations when having to manage silent partners that seek influence.

3.5.3 Implementation level

Arguably, the main relevant vehicles for EU donor coordination at the implementation level are programme-based approaches, multi-donor budget support and blending. They may not be coordination mechanisms *per se* but EU donor coordination at this level takes place through them.

Programme-based approaches

PBAs can be implemented through different aid modalities (Klingebiel, Leiderer and Schmidt 2007). In practice, these modalities range from pooled (or basket) funding of specific activities or reform programmes to joint support of SWAps and sector and general budget support. The aim of these approaches is to reduce the pernicious effects of fragmentation in recipient countries by harmonising donors' procedures and increasing partner ownership through the use of country systems. Additionally, the pooling of funds allows for the funding of larger programmes without a proportional increase in costs.

These modalities of aid provision are credited with notably increasing efficiency and effectiveness. Their general benefits include a higher potential for ownership and alignment; a reduced number of interventions; diminished donor competition in certain areas; simplified and harmonised reporting, an M&E system; and a decreased risk of moral hazard, both in terms of the recipients' aid governance and the donors' use of tied aid.

The re-estimation of Bigsten et al.'s (2011) results, following our methodology based on the Code of Conduct, provides a quantitative orientation of the potential gains of shifting from projects to programme-based aid. Were the proportion of PBA to total aid to meet the Paris Declaration commitment of 66%, the EU could save some € 0.3 billion ± 0.1 billion. In other words, potential savings could be somewhere between € 0.2 billion and € 0.4 billion, with the best guess at € 0.3 billion.[49]

Concerning the latter, this setup also allows for untying aid because it makes it more difficult for donors to insist on implementation through their own aid agencies. While this is a benefit overall, it also is in turn an obvious potential cost for the individual donors themselves. At the same time, however, such arrangements may allow donors to provide support to areas where they have no or limited comparative advantage.

Quantitative estimations concerning the untying of aid can also be substantial, although it is simply not possible to assess the extent of reduction in aid untying that would take place in case of greater integration and/or coordination of EU donors. Bigsten et al. (2011) show the maximum potential gains to be around € 0.9 billion, with a 95% chance of them being somewhere between € 0.6 billion and € 1.1 billion in 2012 prices.[50]

Among the varieties of PBAs, apart from MDBS which is discussed separately below, pooling arrangements deserve a particular mention. This type of funding modality reduces transaction costs, although not to the extent that MDBS does. It enhances aid effectiveness mainly by supporting the policy objectives of the recipient and exploiting economies of scale. Depending on the donors' level of trust in the recipient government, these arrangements can be run by the government or by the donors or jointly. In the first case, a clear benefit is the use of country systems, which enhances the pursuit of national strategies, strengthens institutional capacity and fosters accountability.

Multi-Donor Budget Support

Arguably, MDBS is the most comprehensive form of PBA. It is, however, also the most demanding in terms of partner capacity and commitment to making good use of the resources provided. Apart from other considerations, where donors do not feel these requirements are met to a satisfactory degree, other commonly used PBA modalities such as pooled funding arrangements ensure a higher degree of control by donors but also involve higher transaction costs.

Beyond the widely recognised benefits of MDBS in terms of transaction cost reductions, its potential advantages in a number of key areas of the Paris Declaration make it so important. Generally, these range from increased ownership, alignment, strengthened policy dialogue, predictability and strengthening of country systems to decreased volatility and promoting government accountability, both internal (to parliament and taxpayers) and external (to donors). Transaction cost savings through the avoidance of

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[49] See Annex 2, Section: II. Savings from increased shifting from Projects to Programme-based Aid.
[50] See Annex 2, Section: III. Gains from the untying of aid.

parallel project and reporting arrangements are also important, particularly through high allocative and efficiency gains. Additionally, budget support is also credited with addressing cross-cutting government-wide policy, expenditure, and institutional priorities that cannot be tackled with stand-alone and sector projects; improving the efficiency and transparency of budget spending, reducing the fragmentation of public expenditure management, and integrating recurrent and capital expenditures (Koeberle and Stavreski2006:9).

Recent evaluations of budget support programmes have shown that budget support contributes to the implementation of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, increases partner countries' control over aid funds and supports the development of shared frame-works, tools for policy dialogue and shared results monitoring systems. These benefits are, however, subject to agreement on objectives, harmonisation of donors and to alignment with partner country priorities in the implementation of budget support operations (Caputo, de Kemp and Lawson 2011). Where these things are in place, budget support can potentially induce significant improvements in accountability and governance, which when combined with meaningful negotiations on development objectives, can result in significant mid- to long term effectiveness gains.

On the recipient side, although in principle this modality improves predictability, there is an increased risk of donors suddenly withdrawing support as budget support is more susceptible to reactions to political factors.

In terms of quantitative benefits, Bigsten et al. (2011) use an OLS estimation to calculate the indirect growth effects of increasing the share of budget support by 11% - or one standard deviation. Beyond the intrinsic arbitrarity of this increase, there are important concerns over the robustness of the model linking budget support to growth and the direction of causality, as noted by Prizzon and Greenhill (2012) and acknowledged by the authors of the estimation themselves. As a result, we concur with the study's authors that this figure is unreliable and we take the estimated € 2.0 billion as an indication of substantial potential gains in this area, rather than a concrete prediction.[51]

Blending

Blending is a financial instrument that leverages private funds with ODA. By coordinating its use at EU level, the EU-Platform for Blending in External Cooperation may help to obtain some of the envisaged benefits that increased coordination in development finance could bring about. These entail a reduction of transaction costs by encouraging coordinated geographic and sectoral allocations of funds. This way, there exists a strong link between the platform and the Fast Track Initiative on Division of Labour.

[51] See Annex 2, Section: V. Indirect Growth effects of increased Budget Support.

Additionally, stronger EU coordination between financiers has the potential to significantly improve accountability compared to individual blending operations. By defining rules and mandates, identifying best practices, and acting as a peer forum, coordination in this area can also contribute to optimise the effectiveness of blending facilities.

Overall, coordinating blending instruments can also help to exploit larger economies of scale and allow for the funding of larger projects.

3.5.4 Conclusions on costs and benefits

The costs/benefits analysis carried out herein points to unambiguous and potentially significant efficiency and effectiveness gains through improved EU donor coordination. The benefits of closer coordination between MS, and between MS and EU institutions are, as seen in **Chapter 2**, of a variety of natures.

Some of these costs and benefits can be quantified while others cannot because they correspond to non-quantifiable changes in the abilities of certain actors to purse specific objectives. Of those benefits that can be researched quantitatively, many are in fact non measurable or the necessary data for accurate measuring are not available. In practice, this means that quantitative attempts to assess potential cost savings numerically can only provide a partial picture.

The quantitative assessment presents a strong case that the savings from increased EU coordination in the area of development cooperation would be substantial in the order of several billion Euros. But beyond the methodological difficulty implied by the limitations in data availability in general, or at adequate disaggregation levels in particular, quantitative economic estimations miss very significant potential benefits. The overview of costs and benefits presented herein shows a broad range of positive implications of greater coordination, including important efficiency and effectiveness gains in terms of attaining developmental objectives, governance, ownership, transaction costs reductions, institutional capacity, etc. The consideration of all of these quantitative and qualitative benefits would appear to justify closer coordination.

4. The political economy of aid coordination

4.1 General remarks on the political economy of aid coordination

There is extensive academic evidence for the financial and non-financial costs of weak aid coordination and the potential benefits of more and improved coordination. At the same time aid actors – in terms of development partners and partner countries - agree that "more" and "improved" coordination is desirable. The outcome documents of all four High Level Forums on Aid Effectiveness confirm the strong commitment of donors and recipients to an "aid coordination agenda". Thus, there is a broad consensus on reduced transaction costs and more impact through better coordinated aid approaches.
However, donors do not consequently follow a policy in line with clear coordination principles (e.g. in the case of Myanmar). At the same time, on the side of partner countries, recipients do not always push for more coordination either. Against this background the question that arises is what are the main reasons why donors and recipients do not follow a more committed coordination policy?

Overall, we can identify three important explanations:

First, even if academic literature and aid agencies agree on the value added through more and improved coordination it remains unclear what the right level of ambition is or should be. If a fully integrated approach ("single window") can be considered as the highest level of coordination, a number of trade-off aspects might apply ("monopoly position of single aid agency" etc.). For example (this applies to some extent to the case of Myanmar), even if in principle just one donor representation in a partner country would allow high transaction costs savings, MS would probably not consider this option to be the best one because of a number of other aspects (MS do not want to lose their visibility in partner countries and aid as an incentive also for "non-aid objectives" such as foreign affairs). This is why the best level of coordination depends on a specific set of assumptions and the overall context of donors and the partner country. So far neither research nor discussions among aid practitioners provide good indications of the "ideal case".

Second, the political economy of donor "coordination" is complex. Indeed, **Annex 3** presents a comprehensive overview of advantages and disadvantages for each coordination instrument (budget support, cross-sector DoL etc.) and actor, both in terms of aid and development effectiveness but also individual interests beyond developmental objectives.

Coordination benefits are only partly realised despite the fact that the benefits of enhanced and increased coordination are recognised by (EU) donors. Therefore, any analysis of donor behaviour concerning aid coordination needs to reflect on sometimes competing and contradicting interests and aspects. The following elements are relevant in this regard:

- Donors behave to a large extent like private business actors; the "aid business" is not dominated by aid providers' altruism. Other donors appear, for example, as competitors when it comes to the "best projects", "political access to the host government", and "public reputation" in the partner and the donor country. According to this logic, early sharing of information and other types of coordination might be counterproductive. For example, it might be rational for a significant MS donor in a partner country not to provide smaller EU aid actors (or indeed the EU Delegation) with a platform to influence the significant MS' aid portfolio.

- Donors may have strong interests in implementing their own aid portfolio because of their domestic "aid industry." National state and non-state implementing agencies may also discourage the use of, for example, budget support and other PBAs. Implementing agencies have strong incentives to highlight "coordination limits" and to try to keep a significant share earmarked for implementation by themselves.
- Each donor has specific requirements. Those requirements may come from the national parliament, the auditor general, etc. All this will lead to specific regulations and expectations which can limit the room for coordination. For instance, the different levels of decentralisation of development partners in Myanmar and Rwanda provide different levels of opportunity for EU aid actors to engage in coordination efforts.
- Donors need "visibility" (EC 2012; Vollmer 2012); in a high-profile political transformation context (like in Myanmar) donors might consider "visibility" to be a high preference. Coordination and especially harmonisation may lead to reduced donor-specific visibility.
- Donors combine a number of direct interests with aid. If aid, for example, should also support the private sector of the donor country through formal or informal ways of tying aid, aid agencies have less interest in coordination. A sectoral division of labour approach would (like in the case of Rwanda) include the risk of being pushed out of a sector where the donor country has an economic self-interest in the provision of goods and services, even though there may be no tied aid.
- The perspectives of EU member states on coordination might be quite different. For example, MS with a strong aid portfolio in a given partner country might want to maintain strong national visibility, whereas MS with small aid portfolios might gain in case of a highly coordinated approach ("free rider").
- Each European aid actor has to consider a number of different internal actors and interests. Member states' interests are affected by, for example, different government players (ministries in charge of trade, foreign affairs, environment, migration etc.), parliaments, developmental and other NGOs, and private sector lobby groups. The same applies to the different Directorate Generals (DG) of the European Commission, the EEAS, the Council, the Parliament and their respective internal interests.

Third, the political economy of partner countries is also complex when it comes to aid coordination. The following aspects are relevant:

- Coordination increases the leverage of donors. This might lead, for instance, to decreasing ownership, inconsistent strategies because of micro-management of donors (donors may only focus on a specific aspect) or strong pressure for political reforms (e.g. political conditions in the case of budget support to Rwanda). This is normally not in the interest of recipients.
- Coordination leads to decreased "flexibility" for some recipient country stakeholders: For every line ministry, for example, to be able to approach each and every donor, might make sense for the line ministry. Ministries of Finance in partner countries are, however, much more in favour of a coordinated and centralised approach.[52]
- Coordination may lead to an "all-or-nothing" dichotomy. Partner countries may perceive an increased risk that all donors respond in unison and that they might, for instance, all pull out at once if an important issue pops up (disputed election outcomes, etc.).

In summary, the debate of costs and benefits of more and improved aid coordination is an important area for qualitative and quantitative research. Research provides some good evidence on savings and the improved impact of aid coordination. However, this debate reflects the reality of aid coordination only to an extent. Donors and recipients consider several other aspects at the same time; those aspects might have less to do with effective and efficient aid but rather with constituencies in donor countries, influence and relationships between different donor agencies, the implementing interests of donor institutions and with the interest of recipients not to increase the leverage of the donor group as a whole.

4.2 Political economy of aid coordination: area specific aspects

4.2.1 Policy level

Coordination at the policy level in the area of EU development aid (European institutions and MS) is challenging because of the number of different political rationales driving the actors involved. In general terms, the following aspects might explain the orientation of EU aid actors:

- The creation of the EEAS in December 2010 and the merger of the former Commission Directorate General for Development Cooperation with the EuropeAid aid agency into DG DEVCO at the beginning of 2011 have changed the set-up for coordination at the policy level. Although the two actors cooperate closely in programming the EU's development cooperation instruments, the precise division of responsibilities is not clear (Furness 2012, EEAS 2013). As in EU Member States there is a need to discuss "policy coherence" e.g. between different EU-level actors and between different departments and units within a

[52] If we assume quite often a situation of fragility or weak government capacity especially in high dependent countries a more "centralised approach" in favour of the overall capacity of a government might have several positive aspects.

given DG. In addition, the interests and perception between the EEAS and DEVCO may not always be identical, raising the prospect that the "securitisation" of EU aid may arise as a result of the stronger EEAS involvement (Furness and Gänzle 2012). DEVCO had, nevertheless, the leading role in formulating and proposing the Agenda for Change for EU development cooperation policy statement adopted by the European Council in May 2012, which defines the policy priorities for EU development cooperation for the medium term (EC 2011 b).

- Beyond overall policies, defining clear guidelines on the distribution of responsibilities between the EEAS and DEVCO has been a difficult process and is likely to remain a major challenge (EEAS 2013). Proposals to decentralise country-level decision-making to the delegations may help to overcome some of these difficulties.

Overall, European institutions have an underlying interest in the realisation of highly coordinated or even integrated EU aid approaches. European institutions are interested in host, coordinate or lead those processes. Any activity which is organised as an European approach would enhance the role of DEVCO and the EEAS. This interest explains why European institutions tend to be in favour of coordinated and integrated approaches, and why the 2005 European Consensus on Development assigns a role to the Commission as "federator" of EU member states in this area.

- To some extent a coordinated European voice is used in international aid forums like the HLF in Busan. Europe is even perceived to some extent by non-European actors as a main driving force for the aid and development effectiveness agenda. At the same time MS do not usually miss opportunities to increase their own visibility and to push their national aid interests. This might be based on the perception that European institutions are moving like "an inflexible huge tanker", whereas MS might be much more dynamic like the accompanying "speedboats".53 Another factor is the strong interest of MS not to lose their national visibility and power to influence international debates and decision making processes. Therefore, especially larger MS may tend to favour a "parallel process" where the EU voice is raised without replacing MS national influence. This "ambivalent situation" is in line with the legal and political foundation of EU aid at the policy level, which is based on the subsidiarity principle.

- Regarding allocation patterns European aid actors do, of course, coordinate closely (decide jointly) when it comes to European decision-making processes (e.g. the EDF). However, MS allocation decisions and criteria are not directly influenced by EU coordination processes, but are still under the explicit authority of MS themselves. This is why overall discussions on joint allocation patterns are only starting to take place in the context of joint programming, and cross-country DoL is only working to a very limited extent. In principal terms, it might be

[53] This picture is quite often used to illustrate the main European „division of labour".

expected that European institutions are in favour of more coordinated and integrated approaches not only because of their commitments to the aid effectiveness agenda but also because of their institutional interest in terms of promoting further "Europeanisation" in the area of development policy.

- There might be a tendency at the policy level to decide upon "more" and "improved" coordination at the programming and implementation level. In other words, coordination might not take place at the policy level, but the policy-level actors mandate or otherwise instruct operational level actors to do so. One way to look at those policy level agreements is to look for compromises especially at the country level when it comes to programming. For example, in April 2013 the European Council underlined "… the importance of coordination and coherence in the EU's response." Against this background the council encouraged "… relevant authorities in Member States and EU institutions to proceed without delay to joint programming of development aid for Myanmar/Burma while respecting the existing harmonisation efforts." This decision was mainly perceived by EU aid representatives in the country as positive, since even those less in favour of JP highlighted the reference to "respecting the existing harmonisation efforts".

4.2.2 Programming level

As indicated in Chapters 2 and 3, the most concrete EU aid coordination efforts are focused on programming.

- Programming coordination is mainly related to the country level. A number of discussions of the aid effectiveness agenda[54]focus on this area because it involves high potential benefits for aid coordination. In addition, qualitative and quantitative research provides evidence that progress in this area can significantly contribute to reduced transaction costs and increased developmental impact. Furthermore, from the perspective of partner countries this area is crucial and an important entry point to make aid more effective through partner country-led aid coordination.

- At the same time, the programming area leaves some flexibility for aid actors. Since programming coordination mainly takes place at country level (or in the case of less decentralised donors at HQ level, although the focus remains on the country level) there is a lot of "built-in flexibility" since each country case is unique. This also provides the flexibility for not following all elements of a coordinated programming approach. In addition, (depending on the concrete instrument or approach) less ambitious types of coordination like ex-post information sharing (after a decision was already taken by the donors) can be also used in this context.

[54] See High Level Forum (2011), par. 25.

The level of ambition of the **Joint Programming** efforts of European aid donors is highly case specific. Joint Programming seems to be associated with quite different expectations: All European aid actors (EuropeAid, EEAS and MS) have a strong interest to provide evidence that European donors are trying hard to improve coordination. Against this background there seems to be an implicit incentive for European actors to buy in to the idea on an abstract level and to find as many cases as possible where the EU can to push the approach. This overall positive attitude to Joint Programming is also expressed at the policy level.

At the same time, the implementation of key elements of the JP agenda is not always in the direct or perceived interest of MS representatives at the country level. MS with a significant portfolio might perceive a situation where they cede their profile in a country to a rather anonymous group of European donors. This is why, for example, in Myanmar, South Sudan and other countries strong bilateral European donors may have less direct interest in JP. In addition, if the HQ level does not strongly demand an active contribution of the MS to the JP effort there is unlikely to be much support coming from that MS' country-level actors. Furthermore, the implementation of technically challenging elements (aspects related especially to synchronisation) would require adjustments to EU aid approaches. Those adjustments are likely to create a significant amount of additional workload, to the extent that MS representatives are unsure about the flexibility of the own donor administration at HQ level (for example, country representatives might not be totally sure about the feasibility of improved predictability in their HQ because of bureaucratic, legal or other constraints). Finally, the types of donor decentralisation (decision making power on the ground) are quite different; this is not supportive in terms of direct communication structures between donor representatives in a partner country.

European institutions have a “built-in” interest in pushing a JP agenda since this approach underlines the European value added. An important constraining factor might be limits in the capacity of the EU delegation or the EU representation to provide the capacity to lead, to coordinate or to support those processes.

Partner countries may perceive a value added from JP. This is especially true for specific elements (like synchronisation or the potential avoidance of having to read strategy papers from several European donors). However, for partner countries it might be less attractive to think about an effort which focuses only on a specific donor sub-group and not the whole donor group[55]. In any case, there needs to be strong leadership by the partner country government and a corresponding capacity to push similar process for the whole donor group as a prerequisite for a successful JP.

In principal terms, **sectoral DoL** (which can also be part of JP) is perceived as a crucial instrument by European aid actors. MS and European institutions have positive views on the potential benefits of this ambitious harmonisation instrument. However, in reality the concept is hardly implemented. Most, “mapping exercises” were done with little direct

[55] In addition, other donors may have little or no ownership to participate in a “European exercise” to improve coordination.

need for EU donors to adjust their approaches. Rwanda can be regarded as a major exception because of the strong commitment of the government.

The main question concerns the bottlenecks in the realisation of the concept. Sectoral DoL seems to reveal several constraining factors. First, many sector priorities are not demand driven but required by donor HQ level. Against this background it is difficult to have negotiations in the partner country on focal areas if the management level in donor countries or DEVCO has different priorities based on non-partner country considerations. For instance, the strong social sector focus in a number of aid dependent countries and a comparatively "overfunded situation" especially in the health sector (like in Rwanda) did not come about because of the priorities of partner governments but because of donor interests. Second, donors might want to remain active in more than three sectors. Since "attractive sectors" in the eyes of donor representatives in the partner country or in the eyes of the management of the donor at home might be quite vaguely expressed, donor representatives are often pragmatic and follow a rather "flexible approach" with a number of sectors. Third, sectoral DoL is based on a "comparative advantage" assessment. This might include a decision or a perception that an engagement of a donor was or is not significant in a sector. Donors seem to prefer to avoid this kind of clear-cut decision.

Against this background EU donors might not fully support sectoral DoL in several partner countries. The engagement of the EC might also follow this rationale. If the EU delegation has a coordination role in this area conflicting interests might be also relevant. Partner countries do often also not fully buy in to a sectoral DoL approach. This might be partly based in some cases on little ownership of the guidance of donor coordination. It might be also plausible that partner countries fully understand the sensitivity of a sectoral DoL exercise and try to avoid statements on comparative advantages (and non-advantages) of individual donors.

Finally, **silent partnerships** have some similarities to sectoral DoL discussions. The majority of donors might perceive this approach in principal terms as supportive of the aid effectiveness agenda. In addition, donors might perceive themselves as strong in specific sectors. Against this background they may be ready to attract additional support from potential silent partners and thereby increase their own visibility and profile. Thus, to be an "active actor" in a silent partner relationship seems to provide a number of advantages. At the same time in a number of cases the opposite applies to the "passive role" in a silent partner relationship. This is why a purely additional advantage in terms of aid effectiveness might turn not to be sufficient to convince all donors. Only if additional incentives and arrangements come in this approach might be realised in some cases. Based on this rationale, partner countries may not really like to push for those arrangements. A "passive actor" might be welcomed in case of a new donor to the country; in case of a present donor it might be perceived that they are looking at an exit strategy with decreasing funds.

4.2.3 Implementation level

The political economy in the area of implementation is different again. Joint implementation capacities do not exist for EU aid donors. MS do follow to a large extent their own arrangements when it comes to implementation. There is little will to engage in discussion on coordinated implementation approaches. This might have to do with the explicit authority of MS to take decisions in this regard on their own behalf. If a MS wants to choose a specific modality (e.g. project support or budget support), or if the donor wants to rely on its own implementation structures, the national systems of the partner country or other means of implementation, this is retained as a key national decision. In addition, so far very few discussions have taken place on the possibility of creating a joint EU implementation agency.

In the case of **Program-Based Approaches** and especially in the case of **budget support** arrangements the situation is again somewhat specific. PBA including budget support operations are not specifically organised for European donors, but for those donors ready to contribute to joint financing arrangements (basket funds, contributions to the national budget etc.). In this sense, PBA and MDBS are not an EU specific coordination arrangement but to a large extent used by most European donors. European aid actors have had only limited discussions over the last 5 to 10 years on the value added of having a number of European donors contribute to a fund or to the national budget instead of "pre-pooling" the resources having a dialogue on behalf of the whole European donor group. MS may probably not have been in favour of having less visibility in the context of PBA and especially MDBS operations because of the following aspects:

- PBA and especially MDBS are perceived as a politically high risk approach for donors. There might be a reputational risk if the receiving government misuses aid money or is perceived as poorly governed. Donors normally prefer to manage directly and individually the borderline between "continued support" and "suspended (or sometimes "delayed") support".
- Similar to the political risks the (perceived[56]) fiduciary risks (misuse, corruption and other issues related to the PFM system of a partner country) are much higher. In this case again individual donors do not want to delegate decisions to other donors in this area.
- Finally, PBA and MDBS operations have a visibility effect which is different to traditional project aid (it may be much more appreciated by the partner country government). However, if donors want to have a visible role in dialogue forums there is a need to use their own staff who are engaged in related discussions.

Several partner countries identify strong advantages with PBA and MDBS; against this background they are trying to persuade donors to shift to those aid modalities which might be especially supportive to strengthening national systems by using them.

[56] In a strict sense fiduciary risks might be similar for project aid because of fungibility effects (aid money might indirectly be used for other than the intended purposes) even for project assistance.

Concerning blending mechanisms, these innovative financial instruments require the participation of numerous stakeholders playing different roles. As a provider of grants the Commission plays a crucial role in the approval process since the use of EU grants is the initial motivation to participate in such operations. Also, financial institutions with a development mandate depend on accreditation by the EU in order to benefit from the grants.[57] As a result, the public financial institutions involved have two major expectations: 1) to share the risks of credits that are granted to large projects and 2) to reduce transaction costs by means of pooling resources together with other institutions.

Financial institutions are therefore interested in selecting the projects, the grant size and the sectors based on own standards and procedures. Additionally, MS contribute to the grants and, therefore, have an interest to be considered in the decision making process. Moreover, recipient countries also have the right and legitimacy to be involved in the selection of sectors, priorities and projects to be financed.

The Commission is aware that there is also a conflict of interests between private sector companies – which have the objective of making profit – and development institutions more oriented to poverty eradication. Both interests can be aligned, but may in some instances be contradictory. For all the interests to be taken into account, decision making structures have been launched for every regional blending instrument. As regards regional requirements and the involved institutions, governance structures of the eight already existing blending facilities worldwide may differ greatly.

Blending also has a relevant political rationale related to increasing the visibility of EU Development Policy. At the same time, this increase of EU visibility can be perceived to be at the cost of MS visibility. The resulting conflict of interests needs to be handled carefully. Taking this into account, a certain competition may arise between the EIB as the EU's house bank and its growing role in Development Policy, and the financial institutions of the larger MS with long traditions and well developed partnership structures. The MRI piloted by the AFD, EIB and KfW is an example of donor coordination for blending (Núñez et al. 2012).

In order to manage this possible conflict of interests, the EU Platform for Blending in External Cooperation (EUBEC) needs a stronger mandate with clearly defined tasks. Although the EUBEC is crucial for the implementation of geographical differentiation based on the guidelines of the Agenda for Change, its current framework is very weak. Currently, the EUBEC assumes the role of a coordinator without legal status, not just for the blending instruments depending on Development Policy, but also for instruments of the Neighbourhood and Enlargement policies. Moreover, the task of the EUBEC must be to ensure that the grant element of blending resources serves to crowd-in foreign and

[57] The EBRD, WBIF, CEB, African Development Bank, Inter-American Development Bank, AusAID, New Zealand Agency for International Development are members for some of the facilities, due to their importance in the regions and existing collaboration with the EU and Member States. For the CIF the Caribbean development Bank (CDB) will also be accredited.

local financing, and not to crowd-out social programs in favour of big infrastructure investments with low social impact.

At the implementation level on the ground, the eight already existing blending mechanisms need to be evaluated in order to define clear structures and orientations. It is important to highlight the work of the EU-Africa ITF that offers a governance structure in which the governments of recipient countries have the opportunity to influence decisions. This offers potential for coordination and ownership.

5. Conclusions and recommendations

In general terms, our study provides evidence for the following conclusions:

5.1 A fully integrated approach would provide most advantages in theory

The concept of aid coordination is complex. Coordination is not an end in itself but a means of attaining an objective, in this case higher aid effectiveness and greater efficiency. Indeed, coordination can even be "expensive" (transactions costs, policy compromises, etc.).

This notwithstanding, we were able to confirm that increased and improved coordination is important for aid effectiveness and aid efficiency. Coordination has the potential to increase the impact of aid, thus contributing to the aid and development effectiveness agenda. At the same time more and improved coordination has the potential to reduce transaction costs on the side of recipients and donors; coordination is therefore also a contribution to more efficiency. Although some of the said benefits of coordination can be quantified, we identify a large potential in outcomes that cannot be measured, either because of methodological difficulties –so far – or their intrinsic qualitative nature. Such is the case for issues like strengthening alignment, ownership or institutional capacity, to name but a few.

The study focuses on EU donor coordination. This, however, needs to be put into context. Donor coordination without the leadership of the partner countries is only a second best option. Generally speaking, benefits in this area can be optimised when there is successful donor coordination, full alignment with a recipient's developmental objectives and, crucially, strong government leadership, as the Rwanda case study shows. Regarding the former, the study concludes that the attainment of a practical optimum level of EU coordination does not so much depend on technical issues but, on MS' political will. European institutions and MS already have a number of important instruments in place; the main challenge is the readiness to give those approaches a high priority in European capitals and based on this a high priority in coordination efforts in-country. "Coordination" is not a technical challenge but a challenge in terms of the political commitment of EU aid actors.

Furthermore, we conclude that it is not possible to identify a specific, theoretical optimum level of donor coordination, for the EU or otherwise. We discussed several degrees and areas of coordination. In our view we can think about two extreme poles of "coordination": "non-coordination" on the one hand and "single window" or full integration on the other hand. A situation of pure "non-coordination" hardly exists in reality and is not desirable at all. However, does this lead to the conclusion that a fully integrated European aid approach would be the best approach?

We want to reflect on this by discussing three different aspects:

First, we draw the conclusion that in the case of European development aid a fully integrated approach would be the best way to tackle aid fragmentation and achieve a number of benefits. Indeed, compared with the existing number of European aid actors a single window would provide the best value for money for each aid Euro. Thus, the fully integrated approach would clearly have strong advantages in terms of transaction costs and impact.

The most important potentially negative aspects related to this model could be a monopolistic role of the EU and the consequences of this for partner countries and the international aid arena. However, a number of important aid providers would continue to exist including the World Bank, Regional Development Bank, UN Funds and Programmes, important bilaterals like USAID, JICA and Australia; and the "new donors" which provide even more diversity. Against this background the situation would be different but far from monopolistic.

Second, the clear advantage of a fully integrated model does not mean that under real conditions this would be the best and most feasible approach. For example, reality aspects also include questions related to the performance of different European donors; how far aid is used for non-aid related objectives (and the potential impact on political support for aid in MS); controversial views on best “aid approaches” and allocation patterns; the potential impact on public support for aid if this is fully integrated; and in some cases prioritisation of coordination among like-minded MS groups and/or beyond the EU.

Third, the existing legal framework for development aid does not intend or allow for a fully integrated policy field (like in the case of trade, for instance). The Lisbon Treaty focuses on a clear combined model between “bilateral” and “integrated European” approaches since it is oriented towards complementarity of European institutions and MS with development policy as a shared competence. The legal framework does however allow for much more resolute coordination.

5.2 EU coordination approaches

Aid coordination and the development effectiveness remain high up in the European agenda, and rightly so. This notwithstanding, the level of ambition shown by MS in this regard varies greatly. Overall, member states do not really appear to be ready to fully buy in and “walk the talk.” To a certain extent, European endeavours as regards EU coordination in the area of development cooperation could be describe as state of partial “pretended coordination,” that is to say ex-post information sharing.

Since EU aid coordination takes place to a large extent on voluntary basis, MS tend to more easily accept what aligns with their interests, developmental and otherwise, or does not go against them. Presently, a difficult balance needs to be attained where MS contributions necessary to further enhance coordination can be made more or less compatible with their individual priorities. The closer the latter are to the Paris Declaration and effectiveness agenda, the greater the potential for resolute coordination.

Some of this reluctance to pursue a stronger EU donor coordination relates to the role of European Institutions, on one side, and MS on the other. The perceived specific role of the European Commission and the EEAS in the EU's development field varies among MS. They see the role of EU institutions vis-à-vis MS ranging from a "primus inter pares," or first among peers, to a "parental" perspective – where all MS gather around the former. In both cases, the Union's mandate depends on the MS themselves, which makes MS co-responsible for its successes and failures, something often overlooked by the members.

In any case, increased EU coordination does not always have to mean a lead role for the EC/EEAS, even though this appears to be the dominant assumption. A possible way to help MS "buy in" to more ambitious EU donor coordination is to put them in the driving seat with responsibility for collective action where appropriate. In this regard, more coordination and integration does not necessarily and unambiguously have to imply EU institutions taking the leading and coordinating role.

At present, one can observe a sort of de-link or disconnect between the political level, on one side, and the programming and implementation level on the other. Frequently, agreement in the former does not induce the necessary engagement in the latter. Synchronisation at programming level, for instance, appears to be a good case in point: While there is agreement of its importance at the policy level, it sometimes seems to be over-ambitious from the perspective of technical level and in-country MS representatives. Apart from this degree of disconnection, there also remain different levels of ambition when it comes to political, programming and implementation coordination. It appears to be the case that MS more easily engage in coordinating at programming level as long as they can retain coordination at policy level (setting their own priorities) and implementation (satisfying their own aid industry needs).

Overall, purposeful country level coordination is key to addressing many of the challenges the EU effectiveness agenda faces. At present, EU aid actors have very different levels of decision-making power over their in-country structures. In this regard, the need for decentralisation of donor decision from HQ to country offices and similar levels of discretionary delegation can hardly be overstated, an approach which seems to be in line with the EEAS' current position on coordination (EEAS 2013).

Throughout this study, EU coordination is assessed at the political, programming and implementation levels. The following conclusions can be made for EU approaches at each specific level:

5.2.1 Policy level

In terms of external coordination, the EU can and should push the international agenda. This, of course, needs to be well grounded on "leading by example", something which has not been sufficiently achieved so far. Despite this, the EU arguably remains the leading actor in the coordination field – partly also because of the unquestionable relevance of the EU in development cooperation both in terms of number of donors in relation to the donor community and the proportion of development funding originating in the Union.

Coordination debates in the future will probably become even more complex. Coordination needs beyond the aid effectiveness agenda are becoming increasingly relevant within the context of a changing development landscape. Emerging and new private donors are radically changing development cooperation by bringing in new financial resources and cooperation practices, which are helping reduce aid dependency in a number of partner countries. This process, however, has its own contradictions because while it increases the need for coordination, the involvement of new actors simultaneously adds difficulty to the task of coordination, and particularly so with some of the emerging donors who do not feel committed to OECD standards and principles.

As regards EU internal coordination, lack of agreement and political will has prevented a cross-country division of labour that could lead to an improved whole-of-EU global allocation pattern including MS bilateral contributions. The benefits of such an exercise are potentially very high (avoiding situations of under- and overfunding of countries etc.) but the individual incentives are perceived as low - the main reason why it has not taken place. Undoubtedly, an important additional step would be to agree on EU-wide allocation criteria as a building block for enhanced policy coordination.

5.2.2 Programming level

While there have been significant efforts at this level, success remains nonetheless modest or elusive. In many cases, the main challenge is the perceived lack of a tangible value added of greater programming coordination in relation to the necessary investments. Benefits tend to be quite vague and identified mostly at a theoretical level, resulting in lukewarm commitments by MS and, frequently, only contingent MS support for the EU's coordinating role. Even in situations where the donor community is in the process of establishing itself, as is the case in Myanmar, the degree of coordination ambition may remain very low and even show some signs of open donor competition.

In the case of EU delegation-led initiatives, for coordination at this level to be successful, an important pre-condition is that the delegation have sufficient capacity and the necessary staffing level, particularly when some MS have sizeable and/or historically significant presence in the country. For EU delegations to take leading role on the ground as coordinator, they will need to prove their ability to generate new, well grounded ideas and be the best at implementing them.

In general terms, in-country coordination works best when the government of the partner country is fully engaged, committed and leading the coordination process, as the Rwanda case study shows; in those cases partner countries also focus on the whole group of donors. This applies for both programming and implementation and is especially true for joint programming. Additionally, partner country systems and government capacity are key for the degree of success of coordination at this level.

As concerns joint programming, most decision power remains with MS, which can arguably be seen as a soft coordination approach. This would appear to be the reason why JP's potential seems to be assessed in over-optimistic terms. Indeed, JP still seems to be more about exchanging information on who is doing what and looking for opportunities to make improvements, than about committing to a single EU strategy with common goals and joint decision-making processes (e.g. on sectoral DoL). In this sense, EU MS commitment is essential. Reconciling MS preferences for bilateral policy with the greater role for the Commission, the EEAS and the EU delegation that joint programming entails is a delicate and difficult business.

There are at least two important challenges to EU programming coordination strictly beyond internal factors. First, that partner countries are free to include non-European donors in programming exercises, which may occasionally hinder EU donor coordination on the grounds of perceived additional costs – particularly so if EU donors are not the clear dominating factor in a country. Second, that to some extend partner countries may fear a reduction in aid contributions in case of EU coordinated approaches like JP. A common perception in this regards is that a "single EU donor" may provide less funding than several EU aid donors.

Regarding sectoral DoL, this is a potentially powerful instrument which remains underutilised. Although current monitoring coincides that it is too early to assess the general impact of sectoral DoL, so far it appears not to have made a significant contribution in terms of impact to outweigh the transaction costs incurred by coordination in this area. Again, any improvement in sectoral coordination also depends heavily on greater political dialogue at HQ level with an effect at country level.

This type of coordination faces an important limitation derived from the sometimes difficult reconciliation of partner country ownership versus EU interests. Indeed, there is the potential for EU donors to bypass partner country interests as they reduce sectors in line with EU code of conduct commitments. Even though the process is supposed to be conducted primarily at the country level, decisions to concentrate on one sector and pull out of another need headquarters approval in most cases, which in some cases may play, to a certain extent, against greater ownership.

In order to better exploit the potential benefits of EU coordination at programming level given the current individual incentives, it would appear necessary to target the relatively "low hanging fruit", by strengthening in-country coordination through increasing MS incentives. The latter could be achieved either by mechanisms that reinforce peer pressure or by establishing a "binding character" for this – with the potential fallout that this may alienate MS to a certain degree.

Along these lines, a potentially fruitful instrument could be the introduction of concrete additional coordinated (voluntary or binding) instruments like joint consultations /negotiations vis-à-vis partner countries. Also, the EC and the EEAS could seek to make joint monitoring and reporting a more central element of joint programming, especially as the basis for future interventions (O'Riordan et al, 2011). Finally, a key challenge that should be address by EU institutions is to improve synchronisation with partner countries' budget and institutional cycles.

5.2.3 Implementation level

Budget support and other forms of **programme-based approaches** have been found to be fairly effective as financing instruments for promoting poverty reduction and pursuing other development objectives linked to the MDGs. PBAs are at present the most important approach for coordination at the implementation level. However, there is still a high potential to harmonise further the different budget support approaches of EU aid donors.

More generally, given the dominant role of European donors in the provision of budget support and other forms of PBAs, consensus building on a common policy framework should be a priority of the ongoing coordination efforts between EU member states and the European Commission/EEAS. This could strengthen the use while enhancing the impact of these aid modalities.

Currently, PBAs and budget support in particular are subject to stronger tying to political conditions (underlying principles) in partner countries. In practice, this link has sometimes contributed to the increase of additional challenges like the predictability of aid and the foundation for decisions to delay and/or suspend budget support operations. As regards **blending**, despite the fact that this aid modality represents a central part of the Agenda for Change, and although EUBEC plays an important coordinating role in the Commission, the instrument has thus far not been associated with the need for coordination in the EU. We believe that with respect to the declining role of ODA flows a stronger focus on these financial instruments and the need for coordinating them is in order.

Moreover, blending facilities aim at specific infrastructure sectors and create an additional challenge for cross sector division of labour. They enable a greater presence for actors such as the EIB, and they seem to increase the visibility of European development cooperation. Therefore, we strongly recommend taking blending as a necessary instrument for coordination into account.

Although EUBEC is crucial for the implementation of geographical differentiation based on the Agenda for Change guidelines, its current framework is very weak. Currently the EUBEC assumes the role of a coordinator without legal status, not only for the blending instruments depending on development policy, but also for instruments of the neighbourhood and enlargement policies. Moreover the task of the EUBEC must be to ensure that the grant element of blending resources serves to crowd-in foreign and local financing, and not to crowd-out social programs in favour of big infrastructure investments with low social impact. In order to manage this possible conflict of interests, the platform needs a stronger mandate with clearly defined tasks.

At the implementation level on the ground, the eight already existing blending mechanisms need to be evaluated in order to have clear structures and orientations. It is important to highlight the work of the ITF that offers a governance structure in which the governments of recipient countries have the opportunity to influence decisions. This offers potential for coordination and ownership.

The EUBEC offers a valuable opportunity to improve both cross sector-division of labour and better joint allocation. In order to promote coordination on the ground, the EUBEC has to act according to the existing rules and principles defined in the CoC-DoL and other coordination instruments like joint programming and joint implementation. Guidance has to be provided to attract other financial resources from Regional Development Banks, International Financial Institutions, private sector banks and investors.

Finally, it would be useful to have a structured discussion on the possible need at the EU level to reflect on **joint implementation capacities**. At present, EU aid actors use mainly their own national implementation capacity and for European aid resources EC/EEAS capacities are used. In principal it would be useful to have a structured debate on advantages and disadvantages of a joint implementation mechanism or an agreement on the common use of existing implementation capacities.

5.3 Scenarios for EU coordination

Based on the above considerations, we envisage five model scenarios of progressively increasing the degree of coordination. These scenarios might support EU aid actors to reflect on long term trends and long term scenarios for EU aid approaches. We indicate potential needs for legal requirements in each scenario.

i) "Bilateralisation of EU aid policies": A first scenario assumes a decreasing commitment of European aid actors to coordinate and especially to harmonise. This risk might occur if MS perceive more structural "coordination costs" and rather less "coordination benefits".

Legal requirement: None.

ii) Business as usual: This scenario is based on the assumption that the structural foundation of European aid and the contributions and roles of European institutions and MS will rather remain the same. In this case initiatives for more and better European coordination will continue. However, since the commitment of European aid actors is largely based on a voluntary basis MS might tend to "cherry-pick" where and how to engage (pushing the coordination agenda in one country, avoiding joint approaches in another country, etc.). Based on these assumptions we do not expect a lot of progress based on European aid coordination for the aid effectiveness agenda in a number of partner countries. Coordination instruments might be rather "heavy" for actors, whereas the tangible results might be rather limited.

Legal requirement: None.

Lisbon Treaty Art 4.4 Treaty on the Functioning of the European Union (TFEU)[58]: *"In the areas of development cooperation and humanitarian aid, the Union shall have competence to carry out activities and conduct a common policy; however, the exercise of that competence shall not result in Member States being prevented from exercising theirs."*

In accordance with the current interpretation of "shared and parallel competences", MS take sovereign decisions on the selection of partner countries, and country allocations remain a national foreign policy instrument which does not require EU coordination. The Code of Conduct on Complementarity and Division of Labour and the Fast Track Initiative on Division of Labour remain instruments with a voluntary character applied to avoid greater fragmentation and to promote the sharing of information.

iii) "Different speeds approach": A third scenario starts from the observation that in some partner countries European coordination shows good results whereas in other partner countries there has been little progress. One possible option would be if a group of like-minded MS and the EC/EEAS were in favour of a more intensely coordinated approach. In Europe and beyond there are a number of examples of models based on differentiated speeds.

Legal requirement: None.

Development policy remains a "shared and parallel competence" as above and, accordingly, the legal framework does not change. No changes are needed in important documents which relate to coordination and complementarity. After an evaluation of the Monitoring Reports there would be the option to form a "coalition of the willing", who voluntarily implement the guidelines of the CoC-DoL and the FTI-DoL in a timeframe of 2 years maximum until 2015 – coinciding with the new Post-MDG framework.

iv) "Escalation of coordination": A forth scenario follows what we call an "escalation model of coordination" which would roughly entail three levels:

- **Short term coordination efforts** focusing on quick wins through the use of existing best practices and the implementation of the joint programming agenda and programme-based approaches. Priority should be given to translating the high level of ambition at the policy level into more practical coordination in practice on the ground. Additionally, more concrete joint or harmonised elements can be introduced. For example, the EC and member states could explore possibilities to have joint consultations and negotiations with partner countries. Another element that should become a core component of in-country coordination and joint programming is joint monitoring and evaluation. In the same vein, more use could be made of already existing legal templates for delegated co-operation and coordination as provided for in the Toolkit on DoL. In this case the legal framework has two templates (EU, 2009): first, Transfer Agreements whereby the EC manages the funds of other donors/MS; and

[58] See: http://europa.eu/lisbon_treaty/full_text/

second, Delegation Agreements to be used in case of indirect centralised management, whereby the EC delegates its funding to a Delegate body to implement actions. Also, sector wide approaches (SWAPs), basket financing mechanisms, trust funds, joint country strategies and multi donors frameworks (e.g. for budget support) are emerging and have significant potential for enhancing coordination.

- **Mid-term coordination efforts** focusing on even more ambitious areas. This could include, for example, more joint implementation instruments and intensified policy coordination. Improved policy coordination could serve as a starting point, for example, for jointly agreed allocation patterns (avoiding underfunded and/or overfunded countries) and for using cross-country DoL and silent partnership to a larger degree. More generally, the establishment of EU peer review frameworks could be made for the several forms of co-financing: parallel co-financing, joint co-financing and delegated cooperation. In the same vein, more use could be made of already existing legal templates for delegated co-operation and coordination as provided for the EU's Toolkit on DoL. At the same time legal provisions for homogenising EU-Donors aid procedures and procedures for joint implementation and reporting at sector and country level could make a strong contribution to improved coordination.

- **Long term coordination efforts** in order to have a tightly coordinated EU development cooperation landscape. The Union could aim at a better integration where the potentials envisaged by the Paris Declaration could be more fully capitalised, including by some of the quantitative gains discussed earlier.

Legal requirement: Possible minor change to the Lisbon Treaty required.

Lisbon Treaty Art. 4.1 TFEU: *"The Union shall share competence with the Member States where the Treaties confer on it a competence which does not relate to the areas referred to in Articles 3 and 6."*

The coordinating role of the Commission would be strengthened by removing development policy from Article 4.4 and incorporating it in Art. 4.3. This would imply that Member States cannot exercise competence in areas of development policy where the Union has done so.

The European Parliament could make use of the new mechanism of simplified revision procedures and propose amendments to the European Treaties to the Council as contemplated in Article 48 of the Lisbon Treaty.[59] Changes can be incorporated only after approval by unanimity at the Council and subsequent ratification by each member state subject to their respective constitutional requirements.

[59] See: http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-european-union-and-comments/title-6-final-provisions/135-article-48.html

A possible alternative which would not require this legal modification is that Art. 4. 4 remain unchanged but the coordinating role of the EC be strengthened by a new consensus paper by the Council. This document would replace the CoC-DoL and should reach a binding agreement on the following issues:

- The role and competence of the Commission and the EEAS as a coordinator is extended, as well as the partial transfer of competences for the respective area from national to supranational level.
- MS decide on partner countries and areas with reference to the new CoC-DoL and in agreement with the EC/EEAS. A timeframe of three years is defined to transfer the area from national to EU level to make it coincide with the Post-MDG process (2015) and the new Global Partnership.

This alternative would depict an easy transition of the current situation of "shared and parallel competences" to a new state of "shared and complementary competences."

v) "Aid as an integrated policy": Finally, European aid actors could agree to supranationalise the individual aid policies of MS. Such an approach would be in need of a completely new legal foundation. A prominent European example in this regard is the field of European trade policy where there is a high degree of integration. In principal, this scenario could also apply for specific aspects of European aid. For instance, European aid actors could agree to have a binding joint allocation and programming approach, but to encourage an approach of intra-European competition when it comes to the implementation of programmes.

Legal requirement: Important change to the Lisbon Treaty

Lisbon Treaty Art 3.1 TFEU: "The Union shall have exclusive competence in the following areas: (a) customs union; (b) the establishing of the competition rules necessary for the functioning of the internal market; (c) monetary policy for the Member States whose currency is the euro; (d) the conservation of marine biological resources under the common fisheries policy; (e) common commercial policy."

Development policy becomes an area of Article 4.3 TFEU and therefore an exclusive competence and MS are no more able to act independently. Similar to the Common European Fishery Policy and the Trade Policy, this scenario would imply a transfer of competence for development policy from the national level to the EU level. Consequently, all related decisions are taken by the Commission/EEAS directly, with stronger Parliamentary oversight.

5.4 On the potential for a legally binding approach to EU coordination

Memorandums of understanding and exchanges of letters at the local level between Heads of Agencies/Missions and the EU Delegations could be enough in many cases to provide the necessary framework for EU donor coordination on the ground. Quite often, however, this is insufficient, as the experiences in the country cases show.

So far, the potential benefits of more and improved coordination have only been partly realised. A crucial bottleneck in this regard is the voluntary basis of European aid coordination. This foundation does not lead to an optimised implementation of existing approaches including CoC-DoL, joint programming and more specifically cross-country and sectoral DoL. Against this background there might be several reasons in favour of making some of these voluntary commitments legally binding, but at the same time some important disadvantages as well.

The main advantages would be the following:

- Technically, the EU already has good instruments in place. A binding character would just be a logical next step to fully realise their intended benefits.
- Voluntary EU approaches require investments (they create transaction costs) for European actors and, to some extent non EU donors (if they want to join EU coordination approaches), as well as partner countries. The returns of those investments are quite often not clear and sometimes they do not materialise (e.g. in the case of sectoral DoL since a number of mapping exercises were done without concrete follow up). In contrast, a binding approach would imply concrete benefits.
- A functioning EU example could provide a good basis for partner countries to push the initiative and to invite non-EU aid actors to join.

The main disadvantages could be identified as:

- It is not clear whether a binding approach is fully covered by the existing framework for the EU development policy (Lisbon treaty).
- It is questionable whether MS support the binding character of coordination instruments, particularly by member states belonging to the Nordic Plus, whose coordination preferences seem to prioritise coordination beyond the EU.
- If a binding character were decided upon, there would be a need to define 'minimal standards' for coordination instruments (e.g. in the case of the flexible joint programming approach). This might turn out to be very difficult.
- An EU focused approach might not be the best solution in a given partner country. However, if EU actors need to follow this line this might be a heavy investment for a response which might not be the most appropriate to the given context.
- The binding character might present additional difficulties in those cases where partner governments do not lead the process (which seems to be the case in the majority of countries).
- Given that any legally binding instrument would necessarily only involve EU donors, this could in many occasions increase the costs of coordination without substantially decreasing total transaction costs. This would be particularly so wherever EU donors' presence is not clearly dominant vis-à-vis other non-EU actors.

Beyond the potential advantages and disadvantages of such an approach and its feasibility, it remains unclear whether an instrument with legally binding character would be in line with the spirit and the letter of the Lisbon Treaty in its present formulation. In this regard, a legally binding approach to coordination would appear to fall within the two most ambitious potential scenarios considered herein, namely 'Escalation of Coordination' and 'Aid as an Integrated Policy.' As such, its feasibility would be in line with that of these scenarios and therefore very low given the need for consensus among MS, which at present seems to be lacking.

ANNEXES

Annex 1: European Loan and Grant Blending Facilities

Facility	Region	Sectors	Type of support	Key IFIs	Resources
ITF EU-Africa Infrastructure Trust Fund (2007)	Sub-Saharan Africa	Energy (47%) Transport (38%) Water (8%) Information Technology (6%)	Interest Rate Subsidies, Technical Assistance, Direct Grants, Insurance Premiums	EIB African Develo pment Bank AFD KfW	EDF: € 5.6 billion 2008-2013; EU MS
NIF Neighbourhoo d Investment Facility (2008)	EU Neighbourhood (Armenia, Georgia, Moldova, Azerbaijan, Ukraine, Egypt, Jordan, Lebanon, Morocco, Tunisia...)	Transport (34%) Energy (26%) Water and, Sanitation (17%) Private Sector (17%) Social (4%) Multi-sector	Investment Grant (56%) Risk Capital (7,5%) Technical Assistance (36,5%)	EIB EBRD CEB NIB AFD KfW	EC: € 745 million 2007-2013; NIF Trust Fund: € 64.4 million from EU MS
Western Balkan Investment Framework (WBIF) (2009)	Albania, Bosnia & Herzegovina, Croatia, Kosovo UNSCR 1244/99, FYR Macedonia, Montenegro, Serbia	Energy Transport Environment Social	Technical Assistance, Interest Rate Subsidies, investment Co-Financing, Insurance Premiums	EIB EBRD CEB KfW WB-Group	EC: € 130 million 2008-2010; WBIF Trust Fund: € 30 million/ partner IFIs; other donor countries: € 25.8 million
LAIF Latin America Investment Facility (2010)	Central and Latin America	Energy Environment Transport Administrative Management SME Social Services	Investment Co-Financing, Loan Guarantees, Technical assistance, Risk Capital Operations	EIB NIB AFD KfW OeEB SIMES T SOFID	EC: € 125 million 2009-2013; LAIF Trust Fund: MS
IFCA Investment Facility for Central Asia (2010)	Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan	Energy, Environment and Climate Change	Direct Grand, Technical Assistance	EIB EBRD	EC: € 20 million 2010

Facility	Region	Sectors	Type of support	Key IFIs	Resources
AIF – Asian Investment Facility (2012)		In Development/ No Data Available		EIB	
IFP – Investment Facility for the Pacific (2012)		In Development/ No Data Available		EIB	

Source: based on information from EIB, EC, IFI and LGBF data.

Annex 2: Review of Bigsten et al.(2011)'s Economic Estimations

To our knowledge, Bigsten et al. (2011) is the most comprehensive and methodologically sound estimation to date of potential savings and economic gains from a better implementation by the EU of a subset of the PD on aid effectiveness. Evidently, this is not equivalent to cost savings from improved coordination of EU development cooperation, nor, for that matter, greater EU integration in this area.[60] That being said, the estimations presented in Bigsten et al. (2011) do provide an indication of the magnitude of savings in transaction costs that could be obtained by better coordination for the year 2009. This has been recently updated in Bigsten (2013) to account for inflation (8%), thus providing results in 2012 prices. Beyond that, the authors include estimations that highly depend on the chosen level and modality of coordination as well as type of support to the partner countries. The latter, in turn, is contingent on the plausibility of certain outcomes given the current political economy of the European development cooperation scene, that is, what is feasible or could be envisaged politically.

Overall, the quantitative analysis carried out in Bigsten et al. (2011) is strong from a methodological point of view given the great limitation in basic data essential for better adjusted estimations. As a caveat, it is perhaps important to underline the fact that some of the results are presented without their corresponding confidence intervals. This may – and in fact has often – led to the inappropriate use of the results in the policy field by suggesting they are a good approximation of the "real" amount of savings accruable to an ambitious implementation of the PD. Some of the figures are the best guess given a set of educated assumptions but remain highly uncertain with large standard errors.

A second caveat is that, following traditional economic practice, some of the calculations are based on common, but ultimately arbitrary assumptions where the estimated reduction of costs is contingent on a chosen reduction or increase of a given variable by one standard deviation. The resulting estimations are contingent on concrete policy choices that greater EU coordination may require or be conducive to (e.g. both reduction in the number of recipients and Gross Domestic Product [GDP] contribution of increasing budget support by one standard deviation) but whose outcome could be very diverse in terms of scenarios – which would in turn affect the assumptions contemplated in the estimation exercise. This notwithstanding, the authors correctly focus on potential gains of a greater implementation of a subset of the PD so that they look for an upper boundary to estimations. Prizzon and Greenhill (2012)'s review of the study, points out that, in fact many commitments of the PD, and even more from the AAA are left out, namely on alignment, coordination of capacity development, use of country systems and shared analysis. In it, the authors of the original study, Bigsten and Tengstam, note that estimations for this other targets have not been done given the difficulty in finding appropriate models to do so.

In the following, we review each of Bigsten et al. (2011)'s findings following their structure and discuss their usefulness in assessing the potential benefits and costs of better EU aid coordination.

[60] We understand EU as Member States + EU Commission.

Table 5: Bigsten et al. (2011)´s summary of effects of a better EU Implementation of the Paris Declaration (million €; 2009 prices)

Type of effect	Estimate (2009 € billion)
I. Savings from donor concentration on fewer recipient countries	0.4
II. Savings from increased shifting from Project to Programme Aid	0.3
Savings on transaction costs	**0.7**
III. Gains from the untying of aid	0.8
IV. Gains from reducing aid volatility	1.7
Total efficiency gains excluding indirect effects	**3.2**
V. Growth indirect effects of increased Budget Support	(1.8)
Total efficiency gains excluding coordination of country allocation	**(5.0)**
VI. Gains from coordination of country allocation	7.8

Comments and re-estimations:

I. Savings from Donor Concentration on Fewer Recipient Countries

The first estimation Bigsten et al. (2011) produce considers the potential savings that could originate from reducing the EU donors' portfolio of recipients. This is not a result of more coordination strictly speaking, but benefits could be obtained in the case that geographical allocation of aid were coordinated so as to increase donor concentration in fewer partner countries and regionals.

In order to estimate the administrative costs savings produced by decreasing the average number of recipients for EU donors, the authors consider several models and settle for one that relates the Country Programmable Aid (CPA) administrative costs of donors to the number of partners[61] they have. They apply an OLS estimation for the whole set of DAC donor countries plus the European Commission and find that for every one recipient country the log of administrative costs increases by 0.0054. This allows them to estimate potential savings of any reduction in the number recipients.

Subsequently, and following tradition in economics, they "test" the effect of a reduction in the average number of recipients, 100, by one standard deviation, in this case 37% or 37 countries. It is worthwhile noting two relevant issues here. Firstly, that they include every single donor-partner relation where CPA is different from zero, contrary to the OECD's practice of only considering relations above USD 250,000. It is doubtful whether relations below this threshold are of the same nature as those above in terms of administrative costs. Ideally, these low-expenditure relations should be excluded for the estimation but in practice that causes serious methodological problems because then administrative costs for those relations cannot be deducted from the total as Credit Reporting System (CRS) as donors do not provide geographical allocation -or attribution- of administrative costs. Secondly, the exercise carried out here by Bigsten et al. (2011) is purely a "test" and this choice of degree of concentration in fewer recipients is arbitrary.

[61] Here, 'partner' country is used as synonym of 'recipient.'

Alternatively, we use the two restrictions provided by the EU's Code of Conduct on Complementarity and the Division of Labour in Development Policy, namely: i) that not more than 5 EU donors be involved in the same sector and recipient (*restriction CoC1*); and 2) that each donor work in a maximum of three sectors per partner (*restriction CoC2*). As it happens, if we take OECD's list of 12 sectors per recipient, we find the latter to be more restrictive than the former. This allows us to re-estimate savings in administrative costs by a reduction the number of countries based on a related European document, thus eliminating the need to recur to an arbitrary reduction to test for the magnitude of change. Arguably, the Code of Conduct could potentially be more rigorously applied in a scenario of better coordination and greater integration of European development cooperation.

We call *interactions* every involvement of a given donor in a given sector of a given recipient. OECD's CRS data on CPA allows us to determine the total number of donor-sector interactions for each donor and for the EU15 plus the EC.[62]

Given that EU12 ODA is very small at 1.7% (2009)[63] of the EU total, we do not consider it for these calculations, given the unavoidable imprecision of the estimates which lies far above this percentage.

Box 6: Total number of interactions per donor

Donor	2008	2009	2010	2011
Austria	324	321	283	253
Belgium	302	282	269	256
Denmark	305	345	370	348
Finland	473	503	536	509
France	941	965	966	956
Germany	991	1037	1063	966
Greece	343	317	207	156
Ireland	142	182	139	137
Italy	632	573	547	709
Luxembourg	300	304	299	300
Netherlands	478	444	387	372
Portugal	162	172	183	171
Spain	714	803	806	692
Sweden	479	755	639	681
United Kingdom	638	628	630	655
EU Institutions	1202	1224	1364	1304
Total	**8426**	**8855**	**8688**	**8465**

Source: OECD CRS. Own calculations.

[62] The European Union was established on 1 November 1993 with 12 Member States. Their number has grown to the present 27 through a series of enlargements: EU-12 (1994): Belgium (BE), Greece (EL), Luxembourg (LU), Denmark (DK), Spain (ES), Netherlands (NL), Germany (DE), France (FR), Portugal (PT), Ireland (IE), Italy (IT), United Kingdom (UK); EU-15 (2004): EU-12 + Austria (AT), Finland (FI), Sweden (SE); EU-25 (2006): EU-15 + Poland (PL), Czech Republic (CZ), Cyprus (CY), Latvia (LV), Lithuania (LT), Slovenia (SI), Estonia (EE), Slovakia (SK), Hungary (HU), Malta (MT) EU-27 (from 1 January 2007): EU-25 + Bulgaria (BG), Romania (RO)

[63] OECD Creditor Reporting System. Own calculations.

Based on CRS data for 2009, we compute a total of **8,855** interactions for the EU15+EC. This is significantly more than what restrictions CoC1 and CoC2 would allow for. In the first case, CoC1 sets a maximum of 5 EU donors per sector in a given recipient, limiting the number of possible interactions to the product of 5, the number of sectors (12) and the average number of recipients per donor (100) = 5*12*100 = **6,000**. In the second case, CoC2 confines the number of interactions for the EU15 + EC to 3 sectors per recipient (100 in average) for all the donors (16), i.e. 3*100*16 = **4,800**.

From the above calculations, we can derive the necessary reductions in the number of interactions to abide to the two restrictions of the Code of Conduct, namely CoC1 and CoC2. We further assume that since we have considered 12 sectors per recipient as per CRS data, every decrease in 12 interactions is equivalent to a reduction of one recipient. Beyond whether this is the case in real life, this assumption provides the minimum necessary reduction in the number of average recipients and therefore a conservative estimate of cost savings. Following this, the percentage reduction in total interactions for CoC1 and CoC1 can be taken as the percentage reduction in the average number of countries necessary for the fulfilment of the Code of Conduct.

CoC1 implies a reduction of (8,855-6,000)/8855 or **32%** of interactions, a decrease in 32 recipients from the average 100. Restriction **CoC2** implies a reduction of ((8,855-4,800)/8855 or **46%** of interactions and 46 recipients. Applying Bigsten et al. (2011)'s OLS results, we obtain savings of €369 million and €507 million, respectively. **Since CoC2 is more restrictive and would involve a larger reduction in the average number of recipient countries and thus higher savings**, we take €507 million as the upper boundary. Applying the EU's inflation rate used by Bigsten (2013) to update the 2009 estimates to 2012 prices, **this amounts to €548 million**.

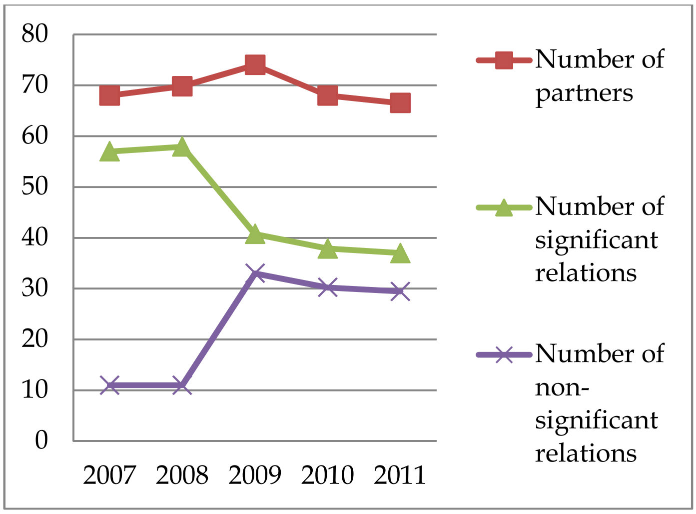
This re-estimation avoids the conventional but nonetheless arbitrary reduction of the number of recipients by one standard deviation, and provides a reduction based on current policy agreements. This notwithstanding, it still highlights the rest of the limitations of Bigsten et al. (2011); first and foremost the lack of precision in the coefficient relating the average number of recipients to the natural logarithm of administrative costs of CPA. As is often the case in econometric analysis with relatively few observations, estimates are subject to large confidence intervals. In this case, the regression produces a 95% confidence interval of 0.0012 to 0.0096 for the estimated coefficient. This means that there is a 95% probability that the true value falls anywhere between this boundaries, with the best guess estimated at 0.0054. If we take into account this imprecision of the estimate , we find that **the lower and upper limits of this interval translate into cost savings anywhere between €134 million and €890 million in 2012 prices**, as shown in the box below.

Box 7: Calculation of the 95% confidence interval for the costs savings' estimate (€ millions; 2009 prices)

Bigsten et al. (2011) OLS result: Ln admin = 0.0054 * no recipients
admin: administrative costs
no recipients: average number of recipients per donor
Potential savings: $admin_2$-$admin_1$
$admin_2 = (1/e^{0.0054*37})*admin_1$
46% reduction: 46 recipients less
$admin_2$ = $(1/e^{0.0054*46})*3215$ = US$ 707 = € 507 (2009 prices) = € 548 (2012 prices)
lower boundary **$admin_2$** = $(1/e^{0.0012*46})*3215$ = US$ 172 = € 124 (2009 prices) = 134 (2012 prices)
upper boundary **$admin_2$** = $(1/e^{0.0096*46})*3215$ = US$ 1148 = € 824 (2009 prices) = € 890 (2012 prices)

Since the calculations carried out by Bigsten et al. (2011) take into account all CPA relations independent of their total value, it may be worthwhile further considering the possibility to apply a threshold at aid relations of above, say, US$ 250,000 to follow OECD methodology. Arguably, CPA aid relations roughly below this amount tend to involve much less transaction costs because they generally are scholarships or other types of costs that do not require government agreements. Potentially, were these relations to be excluded, this could significantly alter the estimations as EU donors have indeed been concentrating their aid despite hardly reducing the average number of relations, as the diagram below based on OECD data shows. EU donors seem to have sharply concentrated the bulk of their aid since year 2008. Also, it can be observed in figure 3 further below that the number of total interactions is on the decline after it peaked in 2009. If this is indeed a trend it would signal a better implementation of the PD in this regard. Additionally, this would also potentially reduce the estimate of savings calculated herein.

Figure 3: Evolution of the average number of partners and relations for EU15 donors



Source: OECD CRS. Own elaboration.

As per the OECD definition, aid relations are taken to be significant if they fulfil either condition: i) that the donor's contribution is among the 90% largest in a given recipient; or ii) that the donor provides a higher share of aid to the partner country than the donor's overall share of global aid.

The above diagram shows that the number of total partners has remained somewhat stable, with a slight reduction from 2009. Donors have on average concentrated aid into half of the average number of partners while maintaining non-significant levels of aid with the rest instead of exiting.

Table 6: EU+MS number of partners

	2007	2008	2009	2010	2011
Number of partners	68,94	69,81	74,38	68,13	66,50
Number of significant relations	57,13	57,94	40,75	37,88	37,06
Number of non-significant relations	11,81	11,88	33,63	30,25	29,44

Source: OECD CRS. Own calculations.

As it stands, Bigsten et al. (2011) do not address this significant change in the structure of aid allocation and their estimate -as well as ours- does not take into account the increased concentration of allocations without complete exits. Yet, it remains to be seen what evolution aid relations below the US$250,000 OECD's threshold are experiencing and whether it is possible to reproduce Bigsten et al. (2011)'s estimation excluding them, something beyond the scope of this study. Indeed, their exclusion would have a large impact on the estimation of administrative costs savings by reducing the average number of recipients per donor. This can be seen from the fact that the average number of recipients of relations above US$ 250,000 is close to 70 in the OECD dataset while Bigsten et al. (2011) show 100 including all DAC countries in the estimation. When considering only EU15 + EC, one can see that the average number of recipients per donor is in fact above 100. With the above in mind, Tengstam (2013) incorporates this cut-off threshold to the econometric analysis and his preliminary results confirm that the estimation still is statistically significant and of the same magnitude.

II. Savings from Increased Shifting from Projects to Programme-Based Aid

Bigsten et al. (2011) use data from SIDA, the Swedish aid agency, and argue that "this is a medium sized bilateral donor, which probably can be taken to be rather typical in terms of administrative costs."[64]Bigsten et al. (2011) impose the Paris Declaration target of 66% of total ODA going through PBAs. Since the PBA proportion of CPA in 2009 was 43.7%, they estimate the potential costs savings by increasing this share to 66%. They find that CPA administration costs could be reduced by 20.9%. The authors carry out this analysis as a second step after reducing the number of countries through the step discussed in the

[64] Bigsten et al. (2011), p. 80.

above section. Since we use a different reduction in the number of recipients (46 instead of the 37 Bigsten et al. apply), we now **re-estimate savings by shifting from project aid to PBA, which amount to € 297 million (2012 prices)**, as shown below.

Box 8: Calculation of the 95 % Confidence interval for the costs savings' estimate (€ millions; 2009 prices)

Savings = total administrative costs (total administrative costs-savings from reduced # recipients) * proportion of CPA (73.3%) * proportion of savings from shifting to PBA (20.9%)
This is: (3215-707)*73.3%*20.9% = US$ 384 = € 276 (2009 prices) = € 297 (2012 prices)
lower boundary: (3215-172)*73.3%*20.9% = US$ 473 = € 340 (2009 prices) = € 362 (2012 prices)
upper boundary: (3215-1148)*73.3%*20.9% = US$ 366 = € 263 (2009 prices) = € 246 (2012 prices)

As can be seen in the above, the lower boundary would produce higher savings due to the fact that the latter are larger the higher the CPA administrative costs. Note that administrative costs used here depend on the reduction of costs obtained in the previous subsection by reducing the average number of recipients per donor. The higher (lower) the reduction of costs in the previous step, the lower (higher) potential reduction for savings in the current step. This is why the upper and lower boundaries from the precedent estimation appeared exchanged in this one.

There is, however, an important caveat to these estimations, namely that Bigsten et al. (2011) assume that **the administrative costs of CPA are double than those of bilateral ODA not included in CPA**. This allows the authors to calculate the proportion of total administrative costs that can be attributed to CPA. This assumption is instrumental in order to be able to produce an estimate at all but it is no more than an educated guess by the authors. We agree that this may actually be a pretty good guess. Yet in order to assess the sensitivity of the results to this choice, we estimate a lower and upper boundary that will overlap with the ones calculated in the previous subsection (savings by reducing the average number of recipients per donor).

In order to do so we use that instead of CPA administrative costs being twice that of non-CPA, this factor could actually be lower, say 1.5 times, or higher, say 2.5 times. We then apply these two factors to the estimate and those of the upper and lower boundaries shown in the above box, obtaining the following: (Box number 9).

Box 9: Sensitivity analysis for the factor relating CPA to non CPA administrative costs

***Admin costs of CPA = Factor x Administrative costs of non-CPA* (million €; 2012 prices)**		
Factor 2	Factor 1.5	Factor 2.5
297	274	315
362	332	**382**
246	**226**	260

Source: Own calculations based on Bigsten et al. (2011)

By taking the lowest and highest figures produced through modifying the factor, we **obtain a lower and upper boundary for our €297 million estimate - €226 million and €382 million, respectively. This means that total savings would be in the range of €0.2 to 0.4 billion.**

III. Gains from the Untying of Aid

In our view, this type of gains should not be automatically attributable to a higher degree of EU coordination because some of them depend on policies whose degree of implementation in the case of increased coordination remains to a certain extent unknown. This notwithstanding, in the hypothetical case of advancing toward what we call a "single EU window" or fully integrated EU scenario, then we agree that the tying of aid could arguably become increasingly difficult. It is simply not possible to assess the extent of reduction in untying that would take place in case of greater integration and/or coordination of EU donors. Bigsten et al. (2011) show the maximum potential gains of €784 million – or €846 million in 2012 prices.

We agree with Prizzon and Greenhill (2012) that the Bigsten et al. (2011) analysis of the potential effects of untying aid "seems appropriate and the assessment of the benefits realised is in line with other studies." However, the estimation is based on the averaged proportion of increased costs attributed to the tying of aid in the specialised literature, which Bigsten et al. (2011) consider to range between 15% and 30%. This means that their estimation of €846 million needs to be carefully handled in the sense that it is simply indicates the magnitude of the gains rather than a likely figure. The authors address this point by calculating the lower and upper boundary implied by the 15%-30% estimations of costs increases in the literature. Updating for inflation up to 2012, they find a lower (upper) boundary of €598 (1,064) million. Therefore, **we consider their results as potential gains of some €0.8 billion, possibly within the range of €0.6 to 1.1 billion.**

IV. Gains from Reducing Aid Volatility

Bigsten et al. (2011) assess the benefits of eliminating the volatility of aid flows, based on a 2008 study by Kharas (2008). They estimate "the amount of EU aid that countries would be prepared to sacrifice (the "deadweight" loss) in order to have a more stable (*i.e.* non volatile) flow of aid" (Prizzon and Greenhill 2012). They find that this figure is around 15 cents per dollar in 2009 on average and estimate that by adding the deadweight loss of countries that could be retained the total saving potential is € 1.8 billion in 2012 prices.

By and large, we agree with Prizzon and Greenhill's (2012) assessment of the methodology used here: "this model assesses the benefits of reducing volatility (the extent to which flows vary from year to year), not necessarily improving predictability (the extent which aid actually disbursed is in line with commitments). In fact, improving predictability is considered a higher priority by partner countries, and could therefore be expected to generate higher benefits. Moreover, the analysis does not consider (or even mention) the benefits of improving medium term predictability, a particular priority of developing countries and an AAA commitment."

In terms of whether greater coordination would necessary imply less volatility and more predictability, this would appear to be quite likely but the extent to which this could take place remains very unclear. **This means that the Bigsten et al. (2011) estimates for reduced volatility cannot directly be used as automatic savings from greater EU coordination. That being said, it is clear that high levels of coordination would make it easier, in principle, to improve ODA from a volatility and predictability perspective.**

However this may overlook other factors which play an important role. Not least the fact that a truly coordinated EU and Member State action may result in a sort of dichotomist outcome for recipient countries. Whereas with the current format some countries may suspend cooperation with a given partner due to budget constraints, political reasons, etc., while others decide to continue, in a highly coordinated scenario countries could be faced with an all-or-nothing system and a more risky, less predictable situation. This is something that would, moreover, significantly weaken their negotiating position vis-à-vis the EU.

V. Indirect Growth Effects of Increased Budget Support

In line with Prizzon and Greenhill (2012)'s critique of the methodology used in Bigsten et al. (2011), we are of the opinion that the estimate as it stands remains too imprecise to be taken into account, particularly for any discussion at the political level. Concerns involve the robustness of the model linking budget support to growth and the direction of causality.

Additionally, Bigsten et al. (2011)'s results are obtained by imposing an arbitrary 11% increase in the use of budget support, corresponding to one standard deviation. This implies that the final estimation of € 1,808 million (€ 1,953 million in 2012 prices) is only indicative of the magnitude of potential savings but does not necessarily correspond to a likely figure.

In view of all of the above, it is our opinion that further work would need to be done to improve the model before its estimates can be used in the policy field. **We concur with the study's authors and also include the estimate in brackets to signal that its value indicates substantial potential gains in this area**.

VI. Gains from Coordination of Country Allocation

Bigsten et al. (2011) consider here a reallocation of aid exclusively focused on poverty reduction as proposed by Collier and Dollar (2002). This approach yields by far the largest savings and is about one order of magnitude larger than the estimate for transaction costs.

The calculation entails, however, a set of important assumptions, namely that: i) there are decreasing returns of aid flows on growth which become negative when aid is above 10% of GDP; ii) that elasticity of poverty to growth is the same for all recipients; and iii) the efficiency losses of shifting aid from "darlings" to "orphans" is separated into two categories of aid darlings on the grounds of their governance index. All of them can have substantial effects on the estimate. We thus view this figure as an indication of the magnitude of potential gains, not a figure that should be branded politically.

Further, in terms of the savings potential of recipient reallocation that could originate from higher coordination, the degree to which the EU would be willing to implement this remains unclear as it strongly depends not only on the political will to do so, but on need to satisfy interests other than poverty reduction.

We add the €8.4 billion (in 2012 prices) figure estimated by Bigsten et al (2011) in brackets to the summary, acknowledging the fact that large potential gains could be achieved through country reallocations but noting that there may be non-spurious interests apart from development the EU may want to pursue. Among these, one could think of maintaining dialogue with recipients for the sake of global public goods provision; not penalising the good/bad performers; taking into account vulnerability and inequality in both allocating aid and tailoring development cooperation approaches, among others.

Indeed, Collier and Dollar (2002)'s poverty efficient aid allocation formula on which Bigsten et al. (2011)'s calculation is based, has also earned its critiques. First, the findings that underlie Collier and Dollar (2002)'s allocation model were subsequently criticized by studies that questioned their robustness, as can be seen in Hansen and Tarp (2001), Dalgaard and Hansen (2001), Lensink and White (2001), Easterly (2003), to name but a few. Second, the efficiency of allocations based on institutional performance is increasingly questioned by evidence suggesting that aid can be particularly effective in contexts of economic vulnerability (Guillaumont 2008) and in post-conflict environments (Collier and Hoeffler 2002: 8-9). Third, because they imply a considerable shift in allocation patterns away from the neediest recipients (Bourguignon and Platteau 2012: 3) performance-based approaches such as those proposed by Collier and Dollar (2002) have also been criticized on equity grounds (Cogneau and Naudet 2004; Guillaumont 2008: 26).

Concerning allocative efficiency, there is much debate as to what constitutes an optimum. Two issues deserve greater attention in answering the question of where aid is more effective for poverty reduction. First, effectiveness in poverty reduction has no clear, commonly agreed measuring standard. What is most effective - to lift out of poverty 10 people whose income is at 90% of the poverty line, or with the same money lift out of poverty 1 person who earns only 10% of the poverty line? Is it most effective to pursue decreases in the headcount index (percentage of poor) or the poverty gap (the average income of the poor relative to the poverty line)? Is it most effective to target a small country with large percentage of poor or a large country with a low percentage of poor but large numbers of them (like some Middle Income Countries)?

The argument that we should completely graduate Middle Income Countries or Upper Middle Income Countries with high level and/or depth of poverty can be an oversimplification if this is properly taken into account. Second, in countries where there clearly is economic potential to combat and eradicate poverty, the most effective policy may arguably be not graduation but a thoughtful differentiation that moves progressively away from providing resources for poverty reduction through economic growth and into targeting inequality through technical assistance so that growth itself and poverty reduction efforts are sustained. This is in line with mounting empirical evidence on the need to target inequality for growth to be sustained (Berg and Ostry 2011) and for its impact on poverty reduction to be larger (Ravallion 2001).

Beyond this, there is a wider issue related to costs/benefits at the recipient level. The Paris Declaration falls short from proposing phasing-out better-off partner countries from ODA precisely because for those recipient countries affected this step would not imply any improvement in either effectiveness or efficiency. They would simply lose out. In this regard, the issue of differentiation may appear not to be as straightforward as the estimations reached by Bigsten et al. (2011) seem to suggest.

Table 7: Summary of effects of better EU implementation of the Paris Agenda (€ billions; 2012 prices)[65]

Type of effects	Bigsten (2013)	Own re-estimation
I. Savings from reducing number of partner countries	0.5	0.5 ± 0.4
II. Savings from shifting aid modalities	0.3	0.3 ± 0.1
Savings on transaction costs	**0.8**	**0.8 ± 0.5**
III. Gains from the untying of aid	0.9	0.8 ± 0.3
IV. Gains from reducing aid volatility	1.8	(1.8)*
V. Growth indirect effects of increased Budget Support	(2.0)	(2.0)**
VI. Gains from coordination of country allocation	8.4	(8.4)***

* Despite likely positive correlation, the extent to which increased coordination would imply less volatility and more predictability is unclear.

** Concerns over the robustness of the model linking budget support to growth and the direction of causality. Additionally, the estimate stems from testing an arbitrary 11% increase in the use of budget support.

*** Important assumptions with potential substantial effect on the estimate. Additionally, it follows Collier and Dollar (2002) allocation approach, which has earned much critique.

In sum, it can be observed from the above table that our partial re-estimations do not differ substantially from those of Bigsten et al. (2011). There are, however, two main differences.

First, we re-estimate the reduction in the average number of recipients per EU donor following a full application of the Code of Conduct. By doing this, we obtain a reduction of recipients per donor in line with the conduct's precepts.

Second, we provide the confidence intervals for those estimates we consider reliable. This implies that the most likely values for the estimations are in that range. Policy discussions on these figures may need to take account of these important nuances.

[65] Bigsten et al. (2011) 2009 data updated by us using an inflation of 8% (in accordance with Bigsten (2013)). Their 2011 report presented an addition of total gains negligibly deviated from the one obtained mathematically, which we have corrected here.

Annex 3: Overview of advantages and disadvantages of increased coordination by EU mechanism/approach and actor

Chapter 3 presents qualitative and quantitative benefits and costs that could be obtained through improved EU donor coordination. **Chapter 4** describes the political economy of the different EU actors in the area of development cooperation. There are objective costs and benefits that escape the quantitative and qualitative assessment and are related to the interests and motivations of actors beyond strict developmental objectives. The combination of all these ultimately explains the political economy of EU donor coordination and why coordination remains limited.

This **annex** present a series of tables listing the different advantages and disadvantages of greater EU coordination not only in terms of aid and development effectiveness but also accounting for individual interests beyond this agenda.

These tables are the logical product of an exercise of simplification and as such need to be handled with caution. The tables purport to display the main EU coordination mechanisms and instruments following the structure used throughout the study. They first address the theoretically weakest forms of coordination, namely **"no-coordination"** and **"exchange of information,"** to then proceed with **mechanisms and approaches at the level of policy, programming and implementation**.

A further caveat is in order: In some cases there may appear to be a contradiction between the stated advantages and disadvantages. For instance, Joint Programming shows as an advantage savings in transaction costs for both EU donors and the recipient country. Yet on the column of disadvantages for the EU donors the entry reads: "Higher transaction costs of negotiation and coordination." This apparent contradiction is explained by the fact that there is a trade-off between the costs of coordination itself and the potential savings in transaction costs from increased coordination. In practice, there are instances in which the costs of coordination – perceived or otherwise – may outweigh the potential benefits of coordination at that level. There always is a certain trade-off, but generally the balance is overwhelmingly in favour of greater coordination.

Weakest Forms of EU Donor Coordination

Table 8: No Coordination

Actors	Advantages	Disadvantages
EU Donors	• No/low costs of coordination • No delays • Low level of transparency – less risk of criticism. • “Cherry picking” best projects • More visibility • Easier accountability to taxpayers/national audit office • Ability to pursue other interests through ODA • More individual influence over recipient’s policy	• Inefficiency / Duplication. • Limited access to information and knowledge (data, feasibility studies, on-going activities, contacts, etc.) • Competition for most capable staff leading to “civil servant poaching” • Lack of mechanisms in place to be protected from fraud • Reduced leverage In terms of (political) conditionality, policy dialogue etc. Due to less (financial) weight and incoherent signals/messages from uncoordinated donors.
Recipient	• Benefits from duplications and fragmentation (e.g. hardware, vehicles, “embedded” experts) • Increased control over donors as they do not “gang up”	• High transaction costs (meetings/missions with donors, project management, negotiations, etc.) • Loss of capable government officials • Moral hazard: Perverse incentives for elite to protect their vested interests and “appropriate” aid delivery, including by favouring project aid in detriment of broader programmes or budget support • Over-/under-funding of specific sectors (allocative inefficiency)
Both		• Reduced developmental impact. • Duplication. • Excessive training of local government staff • Little country ownership • High costs of monitoring, reporting and evaluation. • Opportunity costs: not addressing main priorities. • Overcrowding of some sectors while other remain underfunded (allocative inefficiency). • Reduced alignment • Reduced ownership

Table 9: Exchange of information

Actors	Advantages	Disadvantages
EU Donors	• Minimal coordination structure. • Reduced costs of acquiring information and knowledge.	• Operational and allocative inefficiency. • High transaction costs. • Difficult to information and knowledge (data, feasibility studies, on-going activities, contacts, etc.) • Competition for most capable staff leading to "civil servant poaching."
Recipient	• Some degree of aid mapping.	• High transaction costs of project management and interaction with donors.
Both	• Reduced fiduciary risks – better reporting of frauds. • Increased access to information may positively affect subsequent allocation and implementation decisions. • Possibility that the process may lead to ex-ante coordination in subsequent steps.	• Opportunity costs: not addressing main priorities. • Duplication.

Policy Level

Table 10: Fully integrated approach -EU Single Window

Actors	**Advantages**	**Disadvantages**
EU Donors	• Higher leverage. • Maximum savings from transaction costs originated by lack of coordination.Substantially increased role vis-à-vis non-EU donors.	• Loss of individual visibility. • Limited possibility to assign implementation to own agency(ies). • Potential damaging to some aid agencies whose interest is to maintain a global/regional/country presence.
Recipient	• Reduced fragmentation – less transaction costs of coordination. • Substantial transaction and opportunity costs savings from negotiating and managing aid. • More untied aid. • Significantly lower transaction costs	• Higher risk of being submitted to increased leverage by donors.
Both	• System-wide efficiency and effectiveness increases. • Improved alignment. • Potentially easier synchronisation. • Decreased competition for local most capable staff. • Decreased moral hazard. • Improved sectoral allocation. • Widespread use of comparative advantage. • Simplified coordination vis-à-vis non-EU donors.	

Table 11: Cross-country Division of Labour (DoL)

Actors	Advantages	Disadvantages
EU Donors	• Substantially lower transaction costs because of higher concentration in fewer geographic areas. • Reduction in country overfunding (aid darling) - high opportunity costs.	• Diminished geographical presence, with the subsequent loss of influence on and access to government officials and policies – with a potential effect on other specific interests beyond strict developmental goals. • Potentially damaging to some aid agencies whose interest is to maintain a global/regional presence.
Recipient	• Substantially lower transaction costs • Potential overfunding (aid darling) but with increased moral hazard and diminishing effectiveness returns.	• Potential country underfunding (aid orphan) • High leverage by donors as their number is significantly reduced • Reduced ability to cherry-pick donors, programmes, policies, etc. • Higher aid volatility as there are fewer donors per recipient.
Both	• Significantly reduced fragmentation – less transaction costs as coordination involves many less actors. • Likely to improve the aid orphan/darling phenomenon.	• Potential losers if a specific allocation approach is adopted broadly.

Programming Level

Table 12: Joint programming (JP)

Actors	Advantages	disadvantages
EU Donors	• Increased leverage potential.. • Large reduction in operational transaction costs.	• Higher transaction costs of negotiation and coordination.
Recipient	• Substantial reduction in transaction costs as main interaction with donors (EU or EU and beyond) take place in a forum instead of bilaterally. • Increased potential for synchronisation with recipient's budget cycle. • Decreased volatility. • Increased predictability.	• Potentially higher transaction costs of coordination of the upper political and administrative echelons – understood to be outweighed by more substantial savings in lower levels. • Reduced ability by line ministries to act independently from the finance ministry
Both	• Higher impact/effectiveness. • Large reduction in operational transaction costs. • Higher alignment. • Increased ownership. • Increased availability of aid mappings	• Higher risk of being submitted to increased leverage by donors. • Higher risk of *en masse* withdrawals.

Table 13: Sectoral Division of Labour (DoL)

Actors	Advantages	Disadvantages
EU Donors	• Increases complementarity. • Reduces transaction costs. • Exploits comparative advantages. • Better tackling of over-/under-funding of specific sectors.	• Loss of presence in sectors or subsectors where they may have an interest in terms of policy mandate and/or own aid industries.
Recipient	• Reduced fragmentation – less transaction costs as coordination involves less actors. • Reinforces alignment.	
Both	• Clearer distribution of roles	

Table 14: Delegated cooperation - Silent Partnerships (SP)

Actors	Advantages	Disadvantages
EU Donors	• **Silent Partner (SP)**: High transaction costs savings as it involves less on-the-spot staff and management. • **SP**: Theoretical possibility to cooperate with recipients where they have no country office – reducing transaction costs without having to "exit" countries. • **SP**: Cheaper arrangement than through multilaterals as there generally are no fees involved.	• **SP**: Loss of direct engagement on sectors or countries that may be valued in their constituency. • **SP**: Loss of visibility and direct control over funding • **SP**: Potentially reduced accountability to taxpayers/national audit office.
Recipient	• **Lead Donor (LD)**: increased visibility. • **LD**: established comparative advantage. • **LD**: increased leverage and influence on negotiations.	• **LD**: Potentially increased disbursement pressure. • **LD**: Initially high costs of increased volume – reduced over time as expertise is gained.
Both	• Reduced fragmentation – reduced transaction costs as coordination involves fewer actors.	• Silent partner may still seek influence via the lead donor, which can be more difficult to manage.

Implementation Level

Table 15: Programme-based approaches (PBAs) – including pool funding

Actors	Advantages	Disadvantages
EU Donors	• Higher impact/effectiveness	• Limited possibility to assign implementation to own agency(ies).
Recipient	• Higher efficiency because of increased untied aid. • Significantly reduced transaction costs. • Ability to fund larger programmes. • Reduced moral hazard	• More technical coordination engagement/requirements.
Both	• Reduced number of interventions • High potential for alignment. • More untied aid. • Higher developmental impact • Less transaction costs. • Harmonised/joint reporting, monitoring and evaluation.	• Increased costs of coordination - but not necessarily long negotiation processes.

Table 16: Multi-donor budget support (MDBS)

Actors	Advantages	Disadvantages
EU Donors	• Potential substantial decreases in transaction costs. • Increased leverage potential. • Legitimate interest in and leverage over budget transparency, public financial management and broader governance issues	• High investment in analytical and dialogue capacity • Less visibility vis-à-vis the donor's taxpayers and recipient's civil society. • Potentially reduced accountability to taxpayers/ national audit office.
Recipient	• Decreased volatility. • Increased predictability. • Increased flexibility in use of resources when budget support is not earmarked. • Increased visibility to domestic constituencies • Decreased moral hazard. • Important potential gains in transparency and governance. • Higher alignment. • Increased ownership.	• High level of external conditionality • Susceptible to be abruptly withdrawn due to political factors.
Both	• High allocative and operational efficiency gains. • Potentially higher mid to long term developmental effectiveness gains by improving governance. • Substantially reduced transactions costs of coordination at implementation level.	

Table 17: Blending

Actors	Advantages	Disadvantages
EU Donors	• Steering committees ensure that facility strategies are in line with overall EU policy orientations • ITF voting participant in the Executive Committee are EU donors only • Larger projects realisable • Higher economies of scale • EU wins visibility	• Individual donors lose some control over funds pooled and their individual visibility • The increasing role of non-European financiers has implications on the accountability
Recipient	• Leverage over large levels of development finance • Coordination of development banks reduces the number of more expensive independent loans • Increased transparency in financiers' operations • Governance structure ensures stronger say on development strategy of the beneficiary	• Can increase the level of indebtedness as it mobilises more loan funding • Risk of crowding out social areas which are not bankable • Risk of crowding out grants
Both	• Used in projects with potentially positive internal rate of return • The use of pooled resources potentially increases transparency • A better distribution of risks between EU taxpayers and the beneficiaries	• Blending facilities are complex, making transparency and governance difficult

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The Cost of Non-Europe in Development Policy

ANNEX II

Case study: Morocco

Research paper by
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Abstract
Lack of coordination among donors poses several problems: it results in higher administrative costs for both donors and partner countries and weakens aid effectiveness. This rationale is the basis for the OECD and EU political agendas on harmonisation and coordination, which have resulted in different coordination initiatives at both headquarters and field levels. However, despite the political agenda, recent studies show that for many donors and partner countries aid fragmentation has prevailed or even increased.

By means of a country case study in Morocco, this document explores the coordination initiatives and results —the costs and benefits of coordination— in a specific EU development partner country. Coordination initiatives may have proliferated but not necessarily triggered results in terms of joint work or donors' specialisation. The main obstacles to coordination are also identified: varied administrative procedures; diverse administrative architectures; resistance from leading donors to abandon or share flagship aid programs. In order to overcome these obstacles, a more political and realistic approach to donor coordination is proposed.

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Executive Summary

Lack of coordination among donors poses several problems: it results in higher administrative costs for both donors and partner countries and weakens aid effectiveness. Moreover, in the case of the EU Member States, it might hinder the external projection of the EU as a global development player.

This rationale is the basis for the OECD and EU political agendas on harmonisation and coordination, which have been refined over the last decade. As a result, coordination initiatives have proliferated at both headquarters and field levels. However, recent studies show that for many donors and partner countries aid fragmentation has prevailed or even increased.

By means of a country case study in Morocco, this document explores the coordination initiatives and results—the costs and benefits of coordination—in a specific EU development partner country. This study shows that coordination initiatives have proliferated but not necessarily engendered results, in terms of joint initiatives or donors' specialisation. The main obstacles to coordination are also identified. These are technical, such as varied administrative procedures in Member States; institutional, including diverse administrative architectures; and, of course, political, namely resistance by leading donors to abandon or share flagship aid programs.

In order to overcome these obstacles, we propose a policy mix that combines: (i) a more nuanced approach to the coordination agenda and indicators, as coordination needs might vary from one country to another; (ii) greater incentives for delegated cooperation, in order to overcome technical obstacles to coordination and, partially, institutional limitations; (iii) a focus on Member States' internal institutional limitations to aid coordination, not just interstate problems; (iv) an enhanced political role for the European Union Delegation in the field, including the necessary institutional adjustments; (v) the promotion of a single local counterpart for development activities in the Government of Morocco; and (vi) the implementation of more selective and progressive, rather than maximalist, coordination targets. Although these recommendations are meant to approach the Moroccan problematic of aid coordination, they apply to other partner countries with similar social, economic, and political features.

Introduction

The political agenda of aid coordination was set up decades ago in the Maastricht Treaty. But in the last few years we have witnessed a proliferation of summits, reports, and analyses thanks to the impulse of different institutions, particularly the OECD and the EU. This is an evidence-based agenda: several studies show that the lack of coordination between donors presents a considerable burden for both partner countries' administrations and donors' delegations in the field. At the same time, this limits the impact of aid on development. However, and despite the evidence and political agenda, coordination results remain weak within both the EU and the donor community as a whole. There are several explanations for this. First, the issue of coordination has been approached from a technical and institutional angle. There are, of course, technical issues, but donor coordination is mainly a political issue. Second, this is a maximalist agenda. Interim goals are set, but the final goal is to coordinate all development assistance—at least, all OECD and EU aid. This maximalist approach might prove unachievable from a political point of view. Third, coordination might have incurred the original sin of development agendas: the 'one-size-fits-all' approach. The wide variety of social, political, and economic circumstances of EU development partners calls for a more diverse approach to development and, therefore, to aid coordination.

In this study, we use the results of previous analyses that highlight the downsides of the lack of donor coordination. We try to take one step further, exploring whether the coordination initiatives that have taken place in Morocco—a strategic developing partner of the EU—have ended in effective coordination. To do this, we surveyed aid stakeholders in Morocco—EU donors, non-EU donors, and local counterparts—between March and May of 2013 about their coordination initiatives, costs and results, and main obstacles to greater levels of coordination.

The first section surveys previous studies on aid coordination and tracks the international political agenda on this issue. Section two describes the main features and challenges of development in Morocco and the map of development assistance in this African country. The third section includes the methodology and the fourth goes through the aid coordination initiatives and their results in terms of joint work (common diagnosis, programming, implementation, and monitoring and evaluation) and specialisation (concentration, delegated cooperation[1], and exploring added value). Section five assesses the costs of donor coordination, in terms of both the administrative effective costs and the perceived opportunity costs. The sixth section describes the technical, institutional, and political obstacles to development aid coordination in Morocco. The final section proposes a policy mix of several key recommendations.

[1] Delegated cooperation is a partnership or arrangement between donors. One or several donors ('silent donors') delegate authority to another ('leading donor') to act on their behalf in terms of administration of funds and/or sector policy dialogue with the partner government.

1. Why donor coordination? And how?

The rationale and the agenda for donor coordination

In line with the Lisbon Treaty (TFEU, article 210), donor coordination can be seen as a "new opportunity to make EU development aid more effective, efficient, and successful, in terms of actual impact on the ground. It should also make a real difference in terms of EU impact and visibility" (EU, 2012: 73). Behind this statement is the assumption that related mechanisms of aid coordination—mainly division of labour (DoL) on the basis of comparative advantages—have potential economic (and political) benefits (Bigsten and Tengstam, 2012) (Box 1).

Theoretically, lack of coordination results in aid proliferation and fragmentation. This problem of "too little aid from too many donors" (OECD, 2011a: 3) increases transaction costs—a major problem in the current context of fiscal austerity[2]. This includes administrative costs (augmenting the administrative burden for recipients and donors); opportunity costs (deteriorating the absorptive capacities and quality of bureaucracies crowded out by aid bombardment); and indirect costs (weakening the accountability and predictability of aid flows). The result is a waste of scarce financial resources and a reduction in aid effectiveness, i.e. less economic growth (Roodman 2006; Acharya *et al.* 2006; Knack and Rahman 2007; Frot and Santiso 2008; Arimoto and Kono 2009; Grimm *et al.* 2009; Anderson 2011; Kimura *et al.* 2012). In addition, uncoordinated activities could lead to inefficient aid supply, generating aid orphans and aid darlings at the international level and across sectors (Svensson 2006; Bigsten 2006; Rachman and Sawada 2010; Annen and Moers 2012; Frot and Santiso 2011).

These are some of the challenging problems that must be tackled through EU coordination and, complementarily, in the development policy agenda since the Maastricht Treaty (TEC, articles 177-181). But a gap has been growing between rhetoric and deeds (Dearden 2008: 188; Aldasoro *et al.* 2009; Easterly and Williamson 2011; Karamalakov 2011), following the long trail of initiatives[3] taken after the *Paris Declaration on Aid Effectiveness* (2005) that called for a "pragmatic approach to the division of labour and burden sharing" (§33), and since the *Accra Agenda for Action* (2008), advanced in order to "[improve] the complementarity of donors' efforts and the division of labour among donors, including through improved allocation of resources within sectors, within countries, and across countries" (§17).

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[2] For further analysis of transactions costs in foreign aid, see Vandeninden (2012) and Paul and Vandeninden (2012).

[3] Including the *European Consensus on Development* (2005), GAERC *Guidelines on Complementarity and Division of Labou*r (2006), *EU Code of Conduct on Complementarity and Division of Labour in Development Policy* (2007), *EU Fast Track Initiative (FTI) of Division of Labour (2008), EU Toolkit for the Implementation of Complementarity and Division of Labour in Development Policy* (2009), *EU Operational Framework on Aid Effectiveness* (2009, and consolidated text, 2011), and *Increasing the Impact of EU Development Policy. An Agenda for Change* (2012). See Roeske (2007), Keijzer and Corre (2009), Domínguez (2010), Muñoz (2011), Hartmann (2011), and EU (2012).

The political agenda is based on the need to reduce transaction costs, as the OECD's Development Assistance Committee (DAC) reports acknowledge (OECD, 2011a; Bürcky, 2011). The European Commission (EC) initiated two consecutive studies to evaluate the costs, direct and indirect (and potential savings), associated with the lack of coordination among donors (Carlsson *et al.*, 2009; Bigsten *et al.*, 2011)[4]. According to these, the potential savings from reducing the number of countries are small in the short term, though larger in the medium term as countries graduate. The administrative costs of aid may increase substantially with a cut of budgetary support—on average, administrative costs of programme aid are only a third that of project aid—and the biggest gains are to be found in allocating aid more efficiently between countries (Maxwell, 2012).

Political economy and institutional obstacles to improved donor coordination

However, it is important to assess the political feasibility of aid coordination.

Despite the political agenda, lack of coordination has not changed dramatically. Problems of aid proliferation and fragmentation at the EU level remain. The DAC reports on DoL (OECD, 2009 and 2011a) show that the concentration ratio (Box 1) and, therefore, the progress towards greater coordination of 11 DAC members was below the DAC average in 2004, 2005, and 2009, with worsening records (between 2004 and 2009) for nine of them[5]. In addition, the three monitoring reports of the Fast Track Initiative (FTI), which involves the EC and Member States as facilitators to support DoL in 32 partner countries, evince a low level of progress in all areas (EU, 2009, 2010 and 2011). Meanwhile, the mid-term review of the European Development Fund (EDF) in 2011 describes overall progress on DoL as "disappointing" (cfr. DAC, 2012: 77); the *EU Accountability Report 2012 on Financing for Development* notes that in-country DoL "progress in sector concentration has been very limited" (EU, 2012: 76); and the *2011 Survey on Monitoring the Paris Declaration* indicates that, as a whole, the EU has met only 1 of the 12 indicators of donor performance, which is not related to harmonisation (OECD, 2011b). The problem is particularly acute in lower-middle income countries (LMICs)—Morocco's category—where nearly half of all relations are financially non-significant. Moreover, Africa's aid fragmentation increased from 33 percent to 36 percent between 2004 and 2009 (OECD, 2012b). The reason for these frustrating results in DoL is "reluctance of donors to leave

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4 The calculations yield a magnitude of €3 to €6 billion a year in the first study, with additional savings of €1.4 to €2.5 billion in the hypothetical case of much better coordination (Carlsson *et al.*, 2009). Calculations in the second study amount to €5 billion (6 percent of EU ODA), with hypothetical gains of €7.8 billion (9 percent) from full coordination of country allocation, including the maximization of aggregate poverty reduction effects by changing the inter-country allocation of aid (Bigsten *et al.*, 2011). Meanwhile, Prizon and Greenhill (2012) projected the estimations of a 2010 OECD study to the EU, where results range from €8 to €16.5 billion.

5 Also, the average number of EU donors active per sector in 86 countries covered by Paris Declaration Monitoring grew by 8.9 percent between 2005 and 2009 (and by 11.7 percent in the case of FTI countries). Therefore, "donors did not implement the guiding principles they set for themselves in the *EU Code of Conduct on Complementarity and Division of Labour in Development Policy* in 2007" (Bürcky, 2011: 29).

attractive sectors" (EU 2011: 14); this is a political economy problem that requires not only high political compromise, but also better technical instruments.

As such, the political economy of aid matters (Keijzer and Corre, 2009; Schulz, 2009). Coordination is expensive, not cost-free in economic and political terms (Svensson, 2006; Wolfang and Kharas, 2010), and difficult due to the diversity of donors' motivations, whatever they may be (Bigsten, 2006; Barder, 2009; Hartmann, 2011; Karamalakov, 2011; Barry and Bodin, 2012). Besides recipient needs or merits, in development cooperation donors' features, values, and interests are also at play (Schulz, 2007; Broberg, 2011; Annen and Moers, 2012; Olivié and Domínguez, 2013). This political economy problem is obviously transferred to aid mechanics in the field. "All donors want to *co-ordinate,* but no one wants to be *co-ordinated*" (Whittingtong and Calhoun, 1988)[6].

To make matters worse, specifically for the EU, the problem of coordination after the Lisbon Treaty is doubly challenging from an institutional point of view: coordination of the EU Delegation—supported by an EC that "does not necessarily have the capacity or the expertise to lead the coordination" (IDC House of Commons, 2012: 32)—with Member States desirous to "plant their flags" (Easterly and Williamson, 2011: 1937) has to be combined with the coordination within delegations now integrated by European External Action Service (EEAS) and Commission staff. This includes two separate EC departments dealing with development aid and humanitarian aid, as well as additional staffs from the Member States (Muñoz, 2011; Seters and Klavert, 2011). These problems also arise in the particular case of development cooperation in Morocco, as we will see in the following sections.

So, is efficiency the right target?

Some effects of coordination seem problematic, especially the governance effect, which refers to the loss of national sovereignty and ownership in partner countries that follows more effective implementation of conditionalities and better monitoring of aid (Bigsten *et al.*, 2011). The same is true of the fear of this governance effect alone, as could be the current case for the Moroccan government (Sections 4 through 6).

Furthermore, partners are afraid of the potential negative consequences of DoL in terms of reduced volumes of official development assistance (ODA), loss of bargaining power or control over the domestic policy by cartelization of donors, and falling aid predictability (Cling, 2006; Deustscher and Fyson, 2008; Keijzer, 2008; Keijzer and Corre, 2009; Grimm *et al.*, 2009). In fact, the key conditions for a successful DoL approach are country ownership and consistent donor commitment. But, as has been pointed out in the Task Team on DoL of the Working Party on Aid Effectiveness (WP-EFF), "few

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[6] The traditional lack of capacity or political will of EC Delegations to fulfil a coordinating mandate; the scarcity of human resources of Member States' delegations dedicated to coordination and their resistance to be coordinated; or the noise produced by the performance of the EC as the 16th European donor, given that the EC participates in donor coordination groups as one donor among others (Alasino, 2008; Lethinen, 2003).

developing countries have been in a situation to choose their donors" (WTT DoL, 2011: 6). An additional issue is the non-compliance of EU donors in the aid delivery commitments of Monterrey. Instead of 0.7 percent of gross national income (GNI) in 2015, forward spending plans now project aid delivery will be 0.44 percent of GNI (EU, 2012).

Technical limitations of aid coordination

Specialization or DoL along comparative advantages—a notion that comes from the Ricardian theory of international trade—supposes a market for the aid industry that does not currently exist[7]. In a market economy, DoL is the result of individual uncoordinated decisions of agents, not the result of a negotiation[8]. In any case, the concept of comparative advantages used in the EU DoL agenda "escape[s] clear definition and measurement" (EU, 2011: 15-16), as criticism of literature on aid effectiveness has pointed out repeatedly (Mürle, 2007; Keijzer, 2008; Keijzer and Corre, 2009).

The concept of comparative advantages has been a mantra in the DAC peer reviews since 2001[9]. The EC adopted this uncritically from the *Paris Declaration* (§34 and §35) to the rhetoric of *European Consensus*, where it is related to the "added value" in the fight against poverty by Member States (§34) and in the services of harmonisation, promoting policy coherence, and providing complementarity by the EC (§46)—twin functions that the *EU Code of Conduct on Complementarity and Division of Labour in Development Policy* would later assume literally. The General Affairs and External Relations Council guidelines state that comparative advantage is based "on a wide range of issues as geographic or thematic expertise" (cfr. Mürle, 2007: 14). Mürle's seminal study, acknowledging that absolute advantage (the concentration of a donor on activities that other donors cannot provide) "would be preferable", decided to maintain the term of comparative advantage "not to be understood as a technical concept, but [to be] used as a normative reference point in discussions about the strength of donors and division of labour". In the future, "independent comparative evaluations of donor performance" should provide an objective basis for DoL (Mürle, 2007: 14-15), but the *Code of Conduct* speaks only of self-assessments "endorsed by the partner government, and recognized by other donors"[10].

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[7] There is no trade between agencies (which are, moreover, not direct producers of cooperation service), there is no consumer sovereignty of the service or intended beneficiaries (the purchasers are indeed the taxpayers, but the intended beneficiaries of aid have no political influence over the founders and decision makers), and there is no price mechanism (Munro, 2005; Barder 2009).

[8] One way to advance in a collaborative market of aid is to create more explicit contracts for development services based on results and to work through networks (Barder 2009).

[9] In 2001 peer reviews of the EC, Germany, Netherlands, the UK, and Portugal; in 2004 of Italy; in 2005 of Germany, Belgium and Sweden; in 2006 of the Netherlands, the UK, Portugal, and Greece; in 2007 of the EC, Denmark, and Spain; in 2009 of Italy and Sweden; in 2010 of the UK, Germany, Belgium, and Portugal; in 2011 of the Netherlands, Denmark, Greece, and Spain; and in 2012 of the EC, as well as in special reviews of the Czech Republic (2007), Poland (2009), and the Slovenian Republic and Slovakia (2011).

[10] For the case study of Morocco, we asked donors to self-assess their comparative advantage (Section 4).

If comparative advantage is a dynamic concept (Munro, 2005; Mürle, 2007) and coordinating the political parts of development cooperation—general political dialogue, overall development strategy, and sectorial policy dialogue—cannot be organised as a market because it is essentially political processes (Mürle, 2007), some kind of objective criteria is needed for negotiation. For the time being, three proposals are on the table. The first is a version of Hartmann's proposal of specialization or a variation of 'stick to the knitting' (Munro, 2005: 433). This would imply a sort of free choice for core business agencies accompanied by reducing insignificant aid relations and transferring liberated funds to the EC (Hartmann, 2011). The second is contained in an OECD report on DoL: progressively phasing out non-significant relations and reallocating to significant interventions, while setting relative targets where donors below the average concentration ratio of the DAC (or the EU) could commit to improve their existing levels without a fixed target, but with a suggested deadline of 2015 (OECD, 2011a). The third is Kharas' (2009) proposal to take account of "revealed" comparative advantage (RCA)[11], which tackles the issue of aid darlings and orphans, taking a geographical approach to comparative advantage. In addition, and to avoid biases against donors who are global players with no particular geographical specialization, an alternative measure asks what share of a donor's aid goes to countries where it has a comparative advantage greater than one (Kharas, 2009).

Toward a new understanding of donors' coordination: diversity

The acknowledgement of these limits is beginning to emerge in the agenda of aid effectiveness under the new label of "diversity" (see, for instance, the 2011 *Busan Partnership for Effective Development Co-operation*). In this regard, the revisionist coordination arguments—perils of cartelization detrimental to ownership, transaction costs for donors arising from the new conditionalities, or the risk of delivering new orphans[12] (Cling, 2006)—are gaining momentum. In this new scenario for development cooperation "strong aid coordination does not mean uniformity" (Fengler and Kharas, 2010: 23). As they are experiments, more projects or programs will lead to a greater number of successful innovations by competition; competition multiplies the possibilities of synergies between projects and programs either at the national or international level, necessitating adaptive efficiency (Munro, 2005; Klein and Harford, 2005; Barder, 2009).

10 "At a cross-country level, the RCA for each donor measures the concentration of that donor's giving across countries. If a donor gives a greater proportion of its aid to a given country than the share of global aid that that country receives, the RCA will be greater than one. Aggregate RCA indices for each donor are calculated by weighting the RCA by the share of aid. When donor giving is concentrated in one country, the RCA goes up. When it is diffused across many countries, the RCA goes down" (Kharas, 2009: 17).

12 Against the meagre results on in-country DoL, the cross-country DoL of the EU in 2010 and 2011 resulted in 71 cases of exits by Member States from 43 partner countries—50 already completed and 21 to be completed between 2012 and 2016. The difference between concentration by exit and coordination is a focal point in Grimm *et al.* (2009). The latest OECD report on DoL notes that "unilateral decisions [of concentration] do not necessarily lead to improved cross-country allocations if they are un-coordinated" (OECD, 2011a: 19).

New models of aid and aid delivery—which are differentiated, diverse, and dynamic—are confronting the old planning paradigm for coordination, which can be "a factor in alienating small donors or new-comers" (Barder, 2009; Fengler and Kharas, 2010: 20). As Hartmann says, "a balance of some competition combined with cooperation is probably a more realistic and therefore a more valuable approach for development policy" (2011: 13).

Moreover the uniformity with which the 'traditional' agenda for coordination is built has impregnated the traditional technical tools, indicators, and targets of coordination. For example, both concentration and fragmentation ratios are calculated on the basis of activities by sectors; this disregards the fact that DAC sectors are very ample and donor DoL by sub-sectors of one broad sector could, in fact, lead to a more efficient distribution of aid activities. This particular limitation applies to the case of Morocco, as we will see in Section 6.

Lastly, it could be said that the donor coordination agenda, as the rest of the 2000s aid agenda, is built over the social and economic reality of a very concrete type of partner country—in short, Sub-Saharan and Asian least developed countries (LDCs). Other developing countries, including a great deal of EU neighbours and partner countries, show different development challenges that require a more nuanced, diverse, and subtle development cooperation and donor coordination agenda, as we will try to show in the following pages. In a few words, the 'one size fits all' way of doing things in development cooperation seems unsuitable in this field. In this sense, the results of this country case study are also meant to provide inputs for the on-going debate about differentiation (Herbert, 2013).

Box 1: Key definitions

Aid proliferation: Proliferation and/or duplication of aid activities by several donors that leads to an increase in the number of sectors a donor works in (proliferation of sectors per donor, both in and cross-country) (OECD, 2012b).

Aid fragmentation: Proliferation and/or duplication of aid activities in a given partner country or in developing countries as a whole (proliferation of donors in one partner country, in all developing countries, in a given sector…). Fragmentation occurs when there are too many donors giving too little aid in too many countries, thus further complicating the architecture and delivery of aid. This can seriously impair the effectiveness of aid. Fragmentation puts a strain on governments' administrative capacities, increases donors' costs, duplicates their efforts, and leads to uneven aid distribution (OECD, 2012b).

Significant relation: A significant aid relationship means that: a single donor accounts for a higher share of aid to a partner country than the donor's overall share of global aid (e.g. Spain's share of aid to Morocco (7.5 percent) is higher than Spanish share of global aid), and/or the donor is among the largest donors who altogether account for at least 90 percent of the partner country's aid. For example, according to OECD data, the Arab Fund, EU institutions, United States, France, Japan, Spain, and Germany are the top donors; altogether, they channel 92 percent of development assistance to Morocco (OECD, 2009).

Fragmentation ratio: Defined from a partner country point of view, the aim is to maximise the number of significant donor relations and minimise the number of non-significant relations. On this basis, the fragmentation ratio measures the number of non-significant donors compared to the overall number of donors. This amounts to 67 percent in the case of Morocco according to OECD (2012b).

Concentration ratio: Defined from a donor's point of view, the overall aim is a concentrated portfolio with significant partner country aid relations. On this basis, the concentration ratio measures the number of donors' significant aid relations compared to all of its aid relations. The higher the concentration ratio, the less a donor's portfolio is fragmented (OECD, 2012b).

2. Morocco: development partner's profile

Located in the north-western frontier of the African continent, Morocco is a key geo-economic and geopolitical spot for both the EU and the United States, which, as we will see later, influences development cooperation policies. The United States considers the country a stable ally in the North African region. As for the EU, Morocco is included in the list of sixteen countries that conform the European Neighbourhood Policy (ENP), a policy established in 2004 in order to face the economic, social, and political dividing lines (in some cases, abysses) between the enlarged EU and its closest neighbours. As part of the ENP, Morocco is meant to hold a privileged relationship with the EU including political association, deeper economic integration, and increased people mobility[13].

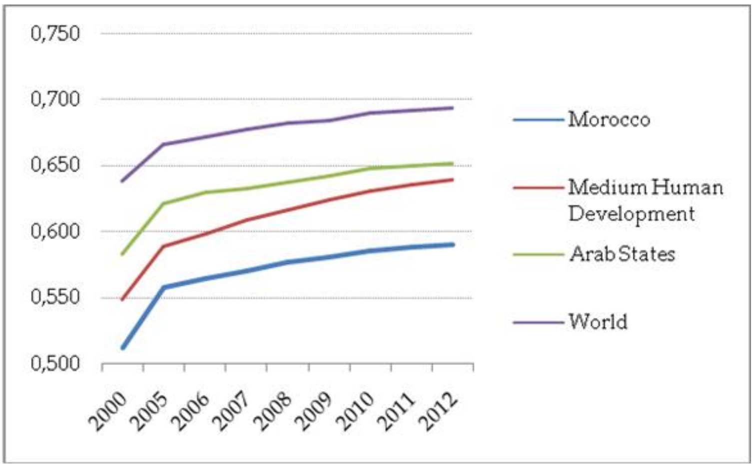
Morocco is a LMIC[14], according to the current DAC classification of aid recipients. In 2011, it recorded a per capita income of USD 2,970.

The Human Development Index (HDI), published yearly by the United Nations Development Programme (UNDP), offers a general view of countries' development levels and processes, as it combines per capita income with education and health conditions. Morocco ranks 130 out of the 186 countries included in the index. Morocco belongs to the medium human development category of nations. UN data show that development conditions in the country have improved slightly over the last decade. In 2000, Morocco recorded an HDI of 0.512; in 2012, this rose to 0.591 (Chart 1). For the period from 2005 to 2012, the index increased yearly at an average of 0.82 percent, a lower rate than that of the whole medium human development category (1.19 percent). It should be noted, however, that this group of countries includes several of the most

[13] For more information, see http://ec.europa.eu/world/enp/policy_en.htm
[14] MICs are those that record a per capita income of between 1,006 and 3,975 current US dollars in 2010:http://www.oecd.org/dac/stats/DAC%20List%20used%20for%202012%20and%202013%20flows.pdf

dynamic emerging economies such as China, Thailand, South Africa, and Vietnam. Moreover, for that same period, the average annual HDI growth rates for the whole world and for the Arab States were 0.59 and 0.68, respectively. As such, according to these data, in recent years Morocco has performed worse than the rest of the medium human development countries and better than the world's and Arab States' average.

Chart 1: Morocco's HDI



Source: UNDP

One of the main development challenges of Morocco is high inequality that affects its society at all levels, in areas including income, education, health, and access to safe water. At 0.415, its inequality-adjusted HDI value is well below that of the medium human development category and the world's average—0.485 and 0.532, respectively. Inequality seems to affect education in particular (Table 1).

Table 1: Inequality indicators

	Inequality-adjusted HDI value	Inequality-adjusted income index	Inequality-adjusted education index	Inequality-adjusted life expectancy index
Morocco	0.415	0.430	0.243	0.686
Medium human development	0.485	0.456	0.395	0.633
World	0.532	0.522	0.453	0.638

Source: UNDP

According to World Bank figures, net ODA received by Morocco in 2010 amounted to 1.12 percent of GDP—decreasing from a peak of 1.70 percent in 2006. As for per capita ODA, it steadily increased from $19.24 per capita in 2003 to $46.33 in 2008. In 2010, the figure decreased to $31.06. Therefore, Morocco is a low-aid country (LAC), according to Glennie and Prizzon's (2012) classification; if the trend continues, it could soon become a very low aid country (VLAC), referring to those that rely on ODA for less than 1 percent of local GDP.

Aid also appears to be highly fragmented (OECD, 2012b and table 2). Based on 2009 data, the OECD study shows that Morocco has relations with 27 donors. Non-significant relations (18) double significant ones (9), thereby explaining a very high fragmentation ratio of 67 percent—almost twice as high as the average for the whole African continent (Table 2 and OECD, 2012b). As for proliferation, Morocco has 11 donors per sector, well above the African average (9) and the average for the LMIC category (10.15).

Table 2: Morocco's aid fragmentation

Number of donors	27
Number of significant relations	9
Number of non-significant relations	18
Fragmentation ratio (%)	67
CPA (USD million)	1,119
Australia	-
Austria	-
Belgium	1.6
Canada	0.5
Denmark	0.1
Finland	0.0
France	23.5
Germany	8.5
Greece	-
Ireland	-
Italy	0.4
Japan	12.4
Korea	0.2
Luxembourg	0.1
Netherlands	0.2
New Zealand	-
Norway	-
Portugal	1.8
Spain	17.1
Sweden	-
Switzerland	0.0
United Kingdom	0.3
United States	5.1
Grand total	100.0
DAC countries (%)	71.9
Nr. of DAC countries	16
Multilateral agencies	28.1
Nr. of multilateral agencies	11

Source: OECD (2012b)

More recent data on aid commitments show a very similar picture. In terms of volume, most aid relations in Morocco are not significant. As shown in Table 3, for the period from 2007 to 2011, the DAC recorded operations from 38 donors. However, 31 of those relations were so insignificant that closer coordination among seven main donors would have framed more than 90 percent of aid commitments. On the basis of these data, the fragmentation ratio would be as high as 81.5 percent. This also applies to EU's aid fragmentation, as 3 out of 18 European donors present in Morocco –France, Spain and the EU itself– were responsible for more than half of total aid commitments to this country between 1997 and 2011 (see table 3).

These features of the aid map are extremely relevant to our analysis on EU donor coordination, as more fragmented aid landscapes pose greater challenges in terms of aid coordination.

Table 3: ODA commitments to Morocco
(average of annual commitments; period 2007-2011;
in current USD millions and in % of total commitments in current USD millions)

Nr.	Country	av. 2007-11	%	Nr.	country	av. 2007-11	%
1	**France**	**649**	**35.0%**	21	UNFPA	2	0.1%
2	**EU Institutions**	**244**	**13.2%**	**22**	**Denmark**	**2**	**0.1%**
3	United States	206	11.1%	**23**	**Netherlands**	**2**	**0.1%**
4	Japan	195	10.5%	24	UNICEF	1	0.1%
5	Arab Fund	168	9.1%	25	UNDP	1	0.1%
6	**Spain**	**139**	**7.5%**	26	AfDB	1	0.04%
7	Germany	96	5.2%	**27**	**Luxembourg**	**1**	**0.04%**
8	Belgium	34	1.8%	**28**	**Finland**	**1**	**0.03%**
9	Kuwait (KFAED)	32	1.7%	29	UNAIDS	0.4	0.02%
10	U.A.E.	28	1.5%	**30**	**Portugal**	**0.2**	**0.01%**
11	Global Fund	9	0.5%	31	WHO	0.2	0.01%
12	Canada	7	0.4%	**32**	**Greece**	**0.2**	**0.01%**
13	**Italy**	7	0.4%	**33**	**Austria**	**0.2**	**0.01%**
14	OFID	6	0.3%	**34**	**Ireland**	**0.07**	**0.004%**
15	Korea	5	0.3%	35	Australia	0.03	0.002%
16	**United Kingdom**	4	0.2%	36	Norway	0.02	0.001%
17	IFAD	4	0.2%	**37**	**Sweden**	**0.006**	**0.0003%**
18	GEF	4	0.2%	**38**	**Czech Rep.**	**0.001**	**0.0001%**
19	Switzerland	3	0.2%				
20	Isl.Dev Bank	2	0.1%		Total	1.853	100.0%

Source: OECD.Stat

3. Methodology

Assessing the costs and results of coordination efforts by EU donors in Morocco requires different research techniques. First, ODA flows and commitments published by the OECD[15] (OECD.Stat) were explored and analysed. This was the basis for the cooperation map (Section 2 and Annexes A and B) that let us identify the donor countries channelling assistance to Morocco. This was also the guide for contacting both EU and non-EU delegates in the field in order to conduct the survey on coordination costs and results.

An agenda of interviews was set and accomplished in Rabat in March and April of 2013. This series of structured interviews was guided by specific questionnaires. European Union donors and non-EU donors answered and/or filled different questionnaires, as the type of information required of each of them was slightly different.

In the case of EU donors, qualitative and quantitative data responding to over 60 questions were grouped into five blocks: (i) features of the donor (ODA evolution and sector distribution); (ii) costs of coordination (participation in coordination initiatives and assessment of human and financial resources devoted to coordination processes); (iii) results of coordination (common diagnosis, planning, implementation, monitoring and evaluation, as well as perception of donors' added value); (iv) costs of opportunity of improved coordination (both political costs in terms of the EU as a global player and perception of costs in terms of development impact); and (v) obstacles (both political and administrative) and opportunities for better EU coordination results.

Box 2: Coordination results for the country case study

Joint activities

Common diagnosis
Common planning
Common implementation
Common monitoring and evaluation

Specialization

Sector concentration
Delegated cooperation
Perceived added value (as a proxy of comparative advantage and a basis for division of labour)

As for non-EU donors, the research team conducted interviews with a similar questionnaire. Nonetheless, the delegates were not questioned in relation to their coordination costs. The main reason is that the focus of the study is on the costs and

[15] http://stats.oecd.org

results of aid coordination only for EU Member States. Moreover, given the small sample of non-EU donors, we consider the information collected in relation to the costs unsuitable for use as a control variable to measure the efficiency of EU donors in coordinating development cooperation. Therefore, questionnaires for non-EU donors included around 50 questions grouped into four categories: (i) features of the donor; (ii) results of coordination; (iii) costs of opportunity of improved coordination; and (iv) obstacles and opportunities for greater coordination results. Some questions were adapted to the different status of this group of donors—non-EU versus EU donors—such as whether the coordination results were specifically for EU donors only, self-perception as a EU donor, or the administrative bottlenecks for a more integrated EU development cooperation policy.

Structured interviews included a third type of stakeholder, which were the local, Moroccan, counterparts for international assistance. This questionnaire was also adapted to the features of the interviewees. Over 20 questions were aimed at collecting information on (i) the features of the institution (ministry or other government Department); (ii) the costs of coordination (for the local administration); (iii) opportunity costs; and (iv) obstacles and potentialities for better coordination results.

In almost all cases, interviewees had a very open attitude, something that let us complement the structured questionnaires with additional, relevant, and qualitative information collected in a semi-structured format, following the Dexter (2006) definition.

As previously mentioned, the sample of donors was designed on the basis of the map of international aid. Over 90 percent of total aid commitments to Morocco come from seven donors. That is, each of these seven donors holds financially significant aid relations with the Arab country (Table 3).

Table 4: Donors' ranking in Morocco (average annual commitments 2007-2011; current USD millions)

		MUSD	%	
1	France	649	35%	Significant relations
2	EU Institutions	244	13%	
3	United States	206	11%	
4	Japan	195	11%	
5	Arab Fund (AFESD)	168	9%	
6	Spain	139	8%	
7	Germany	96	5%	
8	Belgium	34	2%	Non-Sig. relation
9	Italy	7	0.4%	
10	United Kingdom	4	0,2%	
	Total sample	**1,742**	**94%**	
	Total aid	**1,853**		

Source: OECD.Stat

By enlarging this sample to three other European donors, we also took into account donor coordination, with relatively smaller EU donors—something that better captures aid fragmentation and its implications in terms of coordination results. By adding these small donors, the representation of EU donors in the sample increases to 7 out of 10 States, or 94 percent of total EU ODA to Morocco (Table 4).

Based on this list, key informers were identified by contacting the EU Delegation and accessing the database shared by most donors in the field that contains contact details of the donor representatives in different coordination initiatives. Most of them were embassy counsellors and only a few had operational responsibilities, but all of them had a common trait: they are officially appointed by their countries to participate in aid coordination initiatives. All European donors, as well as Japan and the United States, were accessible, agreed to be interviewed, and provided additional written information when needed. Only the Arab Fund had to be dropped from the list, as no informer was identified in the field or headquarters levels. Finally, although its aid volume in Morocco is not significant, the UNDP Country Director was included in the interviewees list as the coordinator of the UN system in Morocco and a key player in overall coordination initiatives.

Table 5: Key informers

Donor countries	Institution	# interviewees	Informer profile	ODA %
France	Embassy	2	Counsellor	35%
	AFD	1	Coordinator	
EU Institutions	EU Delegation	2	Coordinator-counsellor	13%
	BEI	1	Legal representative	
United States	USAid	2	Coordinator	11%
Japan	Embassy	2	Counsellor	11%
Spain	Embassy/AECID	2	Coordinator-counsellor	8%
Germany	Embassy	2	Counsellor	5%
Belgium	Embassy	2	Coordinator-counsellor	2%
Italy	Embassy	1	Counsellor	0,40%
United Kingdom	Embassy	1	Counsellor	0,20%
UN System	PNUD	1	Coordinator	0,33%[16]
Total final sample				**86%**
Recipient country	**Institution**	**# interviewees**	**Informer profile**	
Morocco	Min. of Finances	1	Financial and Administrative	
	Min of Agriculture	1	Technical coordinator	

Although the results of this study extend to other partner countries with similar development features, it should be noted that conclusions would be reinforced with the completion of other country case studies following this same research method.

[16] ODA from the UN System to Morocco does not measure the activity of its 20 agencies, funds and programs in the country as they channel aid accounted as bilateral ODA in OECD statistics, and also funding from the national Government.

4. Coordination initiatives and results

It is necessary to differentiate between coordination initiatives and coordination results. As mentioned previously, this study is based on the assumption that, as a result of the aid effectiveness agenda, coordination initiatives have proliferated but not necessarily led to increased coordination. Meanwhile, the initiatives impose further costs on both donor and partner countries.

We consider a coordination initiative to be any action on the part of a given donor, a group of donors, or the partner country that aims to obtain one or several coordination results. In the particular case of Morocco, coordination initiatives include regular cooperation counsellors meetings or thematic surveys, for example. We will consider these initiatives effective only if they result in (i) joint activities —referring to common diagnosis by EU donors of Morocco's development and development cooperation needs, shared planning of cooperation programmes and projects, shared implementation of development cooperation activities, and/or a common system of monitoring and evaluation—and/or (ii) specialization—referring to delegated cooperation, namely DoL on the basis of comparative advantages (Box 2).

The following are the main coordination initiatives that have taken place in Morocco so far.

- *OECD surveys and workshops on the implementation of the Paris Declaration*
  OECD surveys on the *Paris Declaration* monitor progress in the implementation of aid effectiveness principles, including donor harmonisation. In the framework of these surveys, donors were gathered in workshops in 2008 and 2011. According to several interviewees, they significantly raised awareness about aid effectiveness issues in Morocco. As a result of the 2008 workshop, a specific thematic group on aid quality was launched. This group includes the overall donor community in Morocco and is co-chaired by the EU Delegation and the UNDP. Its main achievement so far is the set up of a geographic information system run by the Ministry of Finance. The project was launched in 2008 with the aim of improving donors' alignment and harmonisation by means of enhanced government capacities in aid information management. The project was led by the UNDP and co-funded by Spain and the Moroccan Ministry of Finance. Most donors in Morocco have progressively updated the system, which is currently operational and accessible to the public online[17].

- *EU Cooperation counsellors meetings*
  Cooperation counsellors meetings are the highest-level EU coordination activity in Morocco. Twice a year, representatives from all Member States in Morocco exchange information on development cooperation issues and promote more specific coordination initiatives, such as the thematic groups. Once a year, a field mission is organised and counsellors share information on the spot about

[17] http://sig-cdm.finances.gov.ma/

different projects implemented by the EU Delegation and the Member States. From an operational point of view, these meetings have certain limitations as a coordinating body. On the one hand, they gather representatives from all Member States, whether they have aid programs running in Morocco or not. On the other hand, the represented position is the embassy counsellor, even though this position does not necessarily have direct responsibilities in bilateral implementing agencies—this is the case, for instance, in France and Spain. Despite these limitations, it is the highest-level coordination activity in the field and is meant to play a key role in achieving certain coordination challenges, such as a joint EU programming framework. Actually, this opportunity was missed for the next programming cycle, starting in 2014. According to several interviewees, all delegations in the field agreed to make Morocco one of the pilot plans of EU joint programming, but French and Spanish headquarters ultimately refused. An EC mission recently visited the country in order to set a road map to reach joint programming by 2018.

- *Thematic groups*

  Thematic groups on health, energy, water, environment, social development, education, and quality of aid were considered by the *2012 OECD Survey on Aid Effectiveness* as the main achievement of donor harmonisation in Morocco[18]. These groups were promoted by the EU Delegation as a means of exchanging information among EU donors and were progressively opened to UN agencies, development banks like the World Bank and African Development Bank (AfDB), and non-EU bilateral agencies like the Japan International Cooperation Agency and U.S. Agency for International Development (USAID). Most of the groups are co-chaired by the EU Delegation and important EU bilateral donors in Morocco like France, Spain, Germany, and Belgium. National authorities also attend these meetings and, in cases like the thematic group on water, increasingly lead the agenda. These meetings have significantly contributed to the main results in donor coordination in Morocco so far: joint implementation of budgetary support in sectors like health and education. Thematic groups may have also facilitated delegated cooperation amongst EU and non-EU donors—namely Germany, Belgium, Switzerland, and the EU—but these initiatives result mostly from bilateral contacts between field delegations.

- *The Neighbourhood Investment Facility*

  The Neighbourhood Investment Facility (NIF) is a fund combining (i) grants from the European Union (ii) Member States' contributions to a trust fund managed by the European Investment Bank (EIB), and (iii) loans from multilateral and bilateral European development finance institutions[19]. This

[18] An eighth group on economic development will shortly launch following Germany's initiative.

[19] Institutions recognised by the NIF Board as "eligible Development Finance Institutions are the European Investment Bank (EIB); the European Bank for Reconstruction and Development (EBRD); the Council of Europe Development Bank (CEB); the Nordic Investment Bank (NIB); the *Agence Française de Développement* (AFD) ; *Kreditanstalt für Wiederaufbau* (KfW); Oesterreichische

allows European institutions to leverage significant resources to address major projects and encourages donor coordination by channelling Member States' resources for joint projects. Once a project is approved, implementation and monitoring and evaluation rely on the leading agency. As a blending initiative, it brings together both loans from development finance institutions and bilateral non-reimbursable aid from the EC and donor countries. In Morocco, NIF has made possible the financing of large-scale development initiatives in the transport infrastructures sector, including the Rabat-Sale Tramway and the National Rural Roads Programme. Both projects were led by the French Development Agency (AFD), and co-funded by the EIB. The NIF has also contributed to joint budgetary support in the education sector.

Table 6: Coordination initiatives and results in Morocco

Initiatives	Results
▪ OECD surveys and workshops on the implementation of the *Paris Declaration*. ▪ EU Cooperation counsellors meetings ▪ Thematic groups ▪ The Neighbourhood Investment Facility	▪ A joint project supporting the Ministry of Finance in aid management ▪ Joint budgetary support in education ▪ Joint budgetary support in health ▪ Delegated cooperation in support to the National Initiative for Human Development ▪ Joint projects in the transport sector ▪ Joint budgetary support in education

According to the methodology of this study, the following is a description of both achieved and unachieved coordination results by EU donors in Morocco according to the typology of coordination results shown in Box 2.

- *Joint activities*

(i) Common diagnosis

Analytic works previous to strategy elaboration and implementation involve numerous field missions and information demands to recipient countries. The Morocco government cites donor country missions as the best example of how aid fragmentation negatively impacts its managerial and technical capacities. According to this research, analytic works are still as fragmented as aid flows. Joint diagnosis has only been produced as a previous step to joint budgetary support in two specific sectors: education and health. Conclusions drawn from the thematic group on aid effectiveness could also be considered a common diagnosis exercise by EU and non-EU donors,

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Entwicklungsbank AG (OeEB); *Società Italiana per le Imprese all'Estero* (SIMEST); *Sociedade para o Financiamento do Desenvolvimento* (SFD); and *Agencia Española de Cooperación Internacional para el Desarrollo* (AECID).

though this concerns a very specific issue. Finally, studies linked to infrastructure projects financed by the NIF were centralised by the leading development finance institution, AFD. In conclusion, only joint projects are based on joint studies, but efficiency gains still have to be explored for different projects based on common analytical works on a same sector or issue. Belgium, however, does not promote its own preparatory works and relies on the analyses of the UN and the EU Delegation.

(ii) Joint programming
As explained above, donor representatives at the headquarters level did not endorse the consensus at the field level regarding the need for a common programming framework for both EU institutions and Member States[20].

(iii) Joint implementation
As explained in the paragraph on common diagnosis, the NIF and the sector budget support have resulted in joint implementation. There also have been a couple of experiences of delegated cooperation, as explained below.

(iv) Joint monitoring and evaluation
Again, joint projects like transport infrastructure funded by the NIF or sector budgetary support are followed up and evaluated in a coordinated way. In the first case, the EC and the EIB rely on the leading agency, AFD, to hire evaluators. In the second, the EC launched a joint evaluation of the overall budgetary support to the eight sectors: health, education, water and sanitation, financial sector, transport, energy, private sector, governance, and multisector. This involves not only contributions from the EU and its Member States, but also from the World Bank and the AfDB.

It is remarkable that main achievements in EU joint activities are favoured by the use of a specific type of aid: budget support. This instrument obviously favours national authorities' ownership, and therefore contributes directly to the implementation of the Paris Declaration on Aid Effectiveness. According to OECD statistics, the EU has been a key supporter of Moroccan authorities ownership by this mean. Data for 2009 and 2010 show that Morocco is the main recipient of EU budget support, and has benefited from 386 million USD that represent more than 9% of total EU budget support to developing countries, and 91% of assistance from EU institutions –the EC and the European Investment Bank– in the country. Furthermore, in the health and education sector, this has leveraged coordinated resources from member States like France and Spain [21].

- *Specialization.* Besides common efforts described earlier in this section, the survey to donors included questions related to the other vector of donor coordination: specialization (Box 2). The results shown below refer to initiatives and results oriented to the DoL among donors.

[20] France and Spain have finally agreed to joint programming in 2013, but this new consensus will not produce results before 2016.

[21] stats.oecd.org

(v) Sector concentration

According to the OECD (2012), aid fragmentation in Morocco is increasing. The number of donors per sector was 10,2 in 2005 and 12,1 in 2009. However, the donors interviewed, who accounted for 86 percent of total ODA in Morocco between 2007 and 2011, have quit certain activities in order to increase concentration in three main lines; this is not reflected in OECD sector data—sometimes not even in sub-subsector figures. Therefore, OECD fragmentation indicators for Morocco may be hiding the fact that main donors concentrate an increased amount of resources in main programs, while small interventions from donors of all sizes are still disseminated in different sectors.

(vi) Delegated cooperation

There exists only one experience of delegated cooperation among EU donors in Morocco: support from Germany and Belgium of the country's National Human Development Initiative (NHDI) via the EU Delegation. Switzerland's support to Morocco in the field of water is also channelled via Germany, based on its comparative advantage in that sector.

(vii) Perceived added value

Most European donors thought to add value through their aid activities by transferring knowledge and reinforcing the Moroccan government's capacities. In fact, when asked specifically about their added value, all donors mentioned the same sector: governance. Only a few of them, like Germany and Belgium, referred to specific sectors in which they concentrate resources.

This might seem to contradict the identification of comparative advantages. However, it must be taken into account that, when describing the activities in which they thought they performed well, all donors mentioned different aid projects in the same wide field of governance. For instance, USAID sees support to political parties as an asset, while the French are more focused on building capacities for civil servants. Once again, traditional aid quality indicators might not be suitable for catching the nuances of the aid map in a country like Morocco.

The results of coordination are obviously conditioned by the features of coordination initiatives. In general terms, those that have led to deeper coordination of donors are limited to specific sectors—for instance, education and health—and may be conditioned by the instruments in use: budgetary support and blended finance of infrastructure projects. In these cases, coordination results in common diagnosis, implementation, and even monitoring and evaluation. Nonetheless, when it comes to coordination of cooperation activities by the entire community of EU donors, results appear to be very poor. As mentioned above, there is only one coordination activity specific to EU donors and distinct from coordination processes that includes the entire donor community. This is the half-yearly coordination meeting of EU donors that has yielded no direct tangible results.

These results are consistent with those found in the study on aid effectiveness in Morocco recently published by the OECD (2012a). When it comes to coordination for the specific case of Morocco, country programmable aid (CPA)[22] amounted to only 59 percent of total aid in 2010, with a target of 66 percent of total assistance in the framework of the aid effectiveness international agenda. Moreover, there has been a setback since 2007, when the share of CPA was 70 percent. As for coordinated donor missions, they improved from 12 percent in 2007 to 19 percent in 2010 but are still very far from the 40 percent target. The OECD (2012a) states that there is a great variability behind this indicator, with some donors not performing at all—such as Canada and the United States—and others being extremely committed to this common procedure. Donors' use of coordinated country analytic works behaves in a similar fashion. These should have been at a level of 66 percent by 2010. In the case of Morocco, this proportion has increased from 27 percent in 2007 to 44 percent in 2010.

In fact, most interviewees acknowledged the fact that there is great room for improvement when it comes to EU donors' coordination. However, most of them insisted that coordination initiatives—again, little more than regular meetings—have yielded at least two results. First, there is information sharing. Now, at least, the EU Delegation in Morocco is aware and informed of the cooperation activities conducted by other Member States. Moreover, this information sharing highlights the weaknesses and lack of procedural coordination of EU development cooperation policy in the field. This might provoke a certain change of political culture, in terms of the need to transform activity-based development cooperation into result-based development policies.

Table 7: Specific results from coordination activities in Morocco

		Joint activities				Specialization		
		Common diagnosis	Common planning	Common implementation	Common M+E	Sector concentration	Delegated cooperation	Perceived added value
Initiatives	OECD surveys and workshops			x				
	EU Cooperation counsellors meetings							
	Thematic groups	x		x	x		x	
	The Neighbourhood Investment Facility	x		x	x			

[22] CPA, also known as 'core' aid is defined by the OECD as the portion of aid donors programme for individual countries, over which partner countries could have a significant say.

5. What is the cost of coordination?

Assessing the quantitative, effective costs of EU aid coordination in Morocco requires two previous considerations. First, costs are mixed. This means when reporting the amount of human and financial costs delegations find it difficult to separate costs of coordination of different natures. For instance, Germany devotes the lion share of its coordination time to intra-coordination—between different German official institutions that channel development cooperation to Morocco. As for Spain, the costs reported do not separate EU donor coordination processes from the costs of coordinating their activities with the whole community of donors in the field. Second, some coordination costs are not included in our study. Take, for instance, direct costs of the report on EU development cooperation in Morocco published in 2010 or the geographic information system (see previous section). These costs are intentionally excluded as our aim is to give a picture of the structural and permanent costs of EU coordination mechanisms, rather than those of extraordinary initiatives.

Table 8: Cost of donor coordination

Costs reported by EU donors	Average
▪ No. of employees participating in coordination processes	5
▪ Share of total working hours (%)	19,82%
▪ Average gross salary devoted to donors coordination (€, annual)	25.395 €

Besides real, effective costs (Table 8), lack of coordination results may also entail opportunity costs in at least two aspects: development impact and, in political terms, the EU as a global player. According to previous studies on aid coordination (Section 1), better aid coordination may lead to more effective aid and, therefore, to greater impact on development; eventually, this should lead to poverty reduction. A quantitative assessment of this cost of opportunity is obviously beyond the scope of this study (see Section 1 for such approaches). Nevertheless, we included a question in all three types of questionnaires in order to collect the perceptions of stakeholders on this issue. The interviewees were asked if they felt there was a link between aid coordination and aid effectiveness—in other words, if they believed in the aid effectiveness agenda for the particular case of Morocco. There was a quasi-consensus: 100 percent of the respondents agreed that better aid coordination in Morocco would produce a greater impact by this external policy on development levels in the recipient country. Moreover, all felt the rest of the EU donor community shared this opinion; 8 out of 10 respondents thought non-EU donors shared this opinion, too. Moroccan representatives interviewed also agreed on this point. However, only 5 out of 10 donors think that Moroccan authorities truly believe that there is a nexus between aid coordination and development impact.

Is the EU (or is the EU perceived) as a single development player in Morocco? Probably not. When asking EU bilateral donors and the EU Delegation if they thought non EU stakeholders believed this, the answer was yes only 50 percent of the time. Moreover, although they generally think other EU donors see them that way (seven out of eight positive answers), not even all EU delegates self-identified as part of a single EU group of donors (again, seven out of eight answers), and only half of them identified as a single group of donors by non-European actors (four out of eight). More strikingly, when it comes to identifying a leader in the EU group, not one single European respondent mentioned the EU Delegation (not even the EU Delegation itself), while France was mentioned 9 out of 10 times as a leading donor, Spain 7 times, and Germany 4 times.

Box 3: Delegates' perceptions of opportunity costs of a weak coordination among EU donors in Morocco

Would a better coordination of aid activities lead to a wider impact of international assistance on development?	Yes (100%)
Do you identify the bilateral/multilateral cooperation that you represent is part of a EU group?	Yes (87,8%)
Do you think non-EU stakeholders see you that way?	Yes/No (50/50 %)
Is there a EU donor leader?	Yes: France 1st (80%) and Spain 2nd (66%)

6. Main obstacles to a more coordinated EU development cooperation policy

As mentioned above, the questionnaires include questions about the main administrative and political barriers to greater result in terms of aid coordination (Section 3). According to the respondents, there are four main bottlenecks.

i. The very different procedures of each EU donor—and the EU Delegation, for that matter—were mentioned in most of the interviews. EU Member States and Delegation have very diverse, and sometimes complex, administrative procedures when it comes to sub-contracting, transferring funds to partner countries, or signing agreements with other Member States. Differences in programming methods are a good example of this. While the EU Delegation's aid is programmed in four-year cycles, Germany negotiates bilateral agreements with Morocco every two years and runs complementary five-year programs at a regional scale.

ii. Additionally, the political interests and institutional architecture of the Moroccan government seem to play a role. Many respondents mentioned the 'divide and rule' approach by the local government. If this is so, the Moroccan elites might be more interested in both a fragmented community of donors, and a local institutional design of fragmented counterparts (similar results were found in previous studies; see Section 1). In fact, as already mentioned, there is neither a national development plan, nor one single counterpart with a say about development and/or the development cooperation strategy. The Ministry of Finance has been identified by donors as the strategic counterpart, but the truth is that its role is somehow limited to the financial control of ODA flows—still an important role given the high proportion of refundable assistance.

iii. Donors may also have a bilateral political agenda. As mentioned before (Section 2), Morocco is not only a developing-partner country, but also a strategic geopolitical and geo-economic spot for Western countries—something which affects the entire map of international relations and development cooperation. In this context, leading donors might be more interested in emphasizing their role as bilateral counterparts at the expense of the EU role as a global development player. Most respondents who pointed out this obstacle were referring to France and Spain.

iv. Lastly, there is intra-donor lack of coordination. The institutional designs of development cooperation policies of several EU donors are quite fragmented. German cooperation is divided into several agencies with different roles—grants *versus* credits, for instance. The person in charge at the German Embassy in Rabat is fairly informed about the activities in Morocco of the cooperation agencies and offices that do not depend on the Foreign Affairs Ministry, but she does not have the political power to plan, implement, or monitor and evaluate those funds. Something similar happens with the United States, where USAID and the Millennium Challenge Corporation (MCC) operate as separate agencies; France, where the cooperation aggregate at the embassy and the delegate of the AFD do not coordinate their activities; and even the EU Delegation, which works as an additional Member State, but independently from the EIB[23].

Box 4: Obstacles to coordination of EU development cooperation policies in Morocco

- Different procedures of EU Member States
- Morocco's political interests and institutional architecture
- Bilateral donors' political agenda
- EU donors' institutional design

[23] USAid: United States Agency for International Development (www.usaid.gov)
MCC: Millenium Challenge Corporation (http://www.app.ma/index.php?page=mcc---maroc)
AFD: *Agence Française de Développement* (www.afd.fr)
EIB: European Investment Bank (www.eib.org)

7. Conclusions and recommendations

Insights on aid effectiveness, comparative advantages, and division of labour

Morocco is a LMIC with a relatively high degree of development in certain aspects and areas, as a result of being a medium human development country with high inequality levels. As such, development needs, and development cooperation needs, are not necessarily those of lower income countries (LICs) or LDCs. However, most aid quality indicators—meant to be suitable for all donors and all recipients—are built to measure the quality of aid in very low development contexts. Take, for instance, proliferation ratios (number of donors per sector) or donors' concentration at the partner level (number of sectors in which a given donor participates) (Box 1). It makes sense to assess aid effectiveness with such indicators when the development needs of the partner countries require the allocation of massive local and foreign resources to very few health, education, or alimentary sectors for fighting problems such as child malnutrition, female education, or maternal mortality at a macro scale.

However, as already mentioned (Section 1), Morocco's development needs probably require—at least in some cases and on the part of donors—more targeted, focused, micro or meso-cooperation activities with a strong institutional component in order to break vicious circles of underdevelopment. This would yield diverse consequences for the EU agenda on aid effectiveness, comparative advantages and DoL.

- *Aid effectiveness*

An interesting result of the survey conducted for this study is that, when asked if donors had abandoned projects or programmes in the last 10 years, 77.8 percent of those surveyed responded that they had, the main motivation being a trend towards concentration. This figure seems to contradict figures on aid fragmentation in Morocco published by the latest OECD report (2012a). However, when digging into that response, it appeared that, in some cases, donors remained in the same sectors for years but concentrated in a smaller number of sub-sectors within each sector. That is, concentration can be compatible with low performance in OECD proliferation ratios. Also, regarding comparative advantage, certain specialization patterns may, in fact, disseminate very small amounts of aid in different sectors, while main contributions from main donors increase and ensure concentration of the most significant programs (see Section 4).

Therefore, an adapted concentration indicator is proposed in Box 5. It tries to overcome some of the limitations of current OECD indicators. Our proposal aims to be consistent with a more selective and progressive, rather than maximalist, coordination agenda, leaving some room for diversity and innovative competition among donors.

- *Comparative advantage*

When asked if they thought they had a sector comparative advantage with regard to other donors, 80 percent of both EU and non-EU donors pointed to the same sector:

governance. Moreover, when describing the details of their governance projects, differences between donors arose in sub-sectors. For instance, USAID focuses on institutional support to political parties, the British Embassy concentrates on parliamentary issues and policy communication, and the French cooperation supports all kinds of information exchange activities among civil servants. Moreover, according to OECD accounting standards, institutional and governance support can be implemented through a wide variety of sectors. Take, for instance, donors specializing in capacity building programmes for civil servants or support to civil society organizations. Such specialization patterns, based on the type of beneficiary rather than the sector, may show a high degree of proliferation, implying too little money for too many sectors by one single donor.

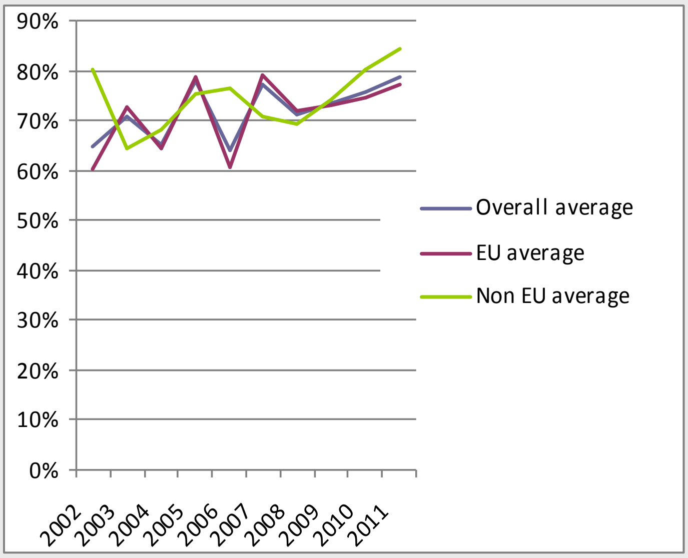
- *Division of labour*

As shown in Section 1, according to the international guidelines for donors' DoL such as the *Paris Declaration on Aid Effectiveness* or the *EU Agenda for Change*, donors should focus on a small number of sectors in each partner country. If this is applied in Morocco on the basis of the standard indicators for sector definition, regardless of the peculiarities of the development context (which are, by the way, shared by a great number of EU developing partner countries), the EU would probably miss the opportunity to target the real development bottlenecks in this North African country.

Box 5: Proposal of an adapted concentration indicator

Aid fragmentation in Morocco is increasing according to the OECD. The number of donors per sector was 10.2 in 2005 and 12.1 in 2009. However, according to interviews, main donors in Morocco have left certain activities and increased resources allocated to two or three focal sectors. The increase along the time of the share of three main sectors in every donor's portfolio could be a complementary indicator for concentration and fragmentation trends.

% of ODA concentrated on three focal sectors - A new concentration indicator?



Gross disbursement in three focal sectors (% of total current USD Millions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Belgium	71%	78%	73%	73%	64%	63%	52%	70%	73%	78%
EU Institutions	0%	100%	0%	58%	60%	76%	66%	54%	48%	60%
France	89%	89%	86%	85%	80%	75%	69%	80%	74%	80%
Germany	89%	85%	88%	91%	87%	88%	83%	84%	80%	87%
Italy	93%	98%	55%	94%	87%	97%	72%	55%	84%	91%
Japan	95%	72%	76%	82%	70%	68%	77%	87%	88%	90%
Spain	80%	58%	50%	51%	46%	55%	63%	80%	73%	61%
United Kingdom	0%	0%	100%	100%	0%	100%	98%	89%	89%	84%
United States	66%	57%	60%	68%	82%	74%	62%	61%	72%	79%
Overall average	65%	71%	65%	78%	64%	77%	71%	73%	76%	79%
EU average	60%	73%	64%	79%	61%	79%	72%	73%	75%	77%
Non EU average	80%	64%	68%	75%	76%	71%	69%	74%	80%	84%

Source: OECD.Stat

In other words, donors in Morocco feel they are doing a good work with institutional support projects and technical cooperation. These require very targeted—and cheap!—cooperation activities, but this leads to disastrous standard aid quality indicators such as fragmentation and proliferation. To the extent that aid quality indicators are also a guide to how and on what ground donor coordination should be implemented, this development context might need a different, more complex system for assessing aid quality.

The coordination of EU donors in Morocco is weak (but it does produce some results)…

- *There is a lack of strong, specific EU coordination*

As shown in Section 4, there is not a clear distinction between EU coordination results and other results. In fact, what seems to be the weakest coordination mechanism of all—the EU annual meetings—is the only EU-specific initiative. Most successful coordination activities involve both EU and non-EU donors; take, for instance, the budget support for health and education. It is difficult to extract a recommendation from this conclusion for fostering both development impact and a stronger role for the EU as a global player. If an efficient coordination mechanism is put in place for the sake of cooperation effectiveness, should it not include as much donors as possible (whether they are European or not)? In this particular sense, there seems to be a trade-off between cooperation effectiveness and the role of EU as a global, integrated player.

- *Different administrative procedures*

Different procedures among EU Member States are obstacles to donors' coordination (Section 6). Several delegates highlighted the difficulties in working toward a standard procedure for all Member States. Even if this were a political option, it might take a great deal of time.

- *Messy institutional architecture in some Member States*

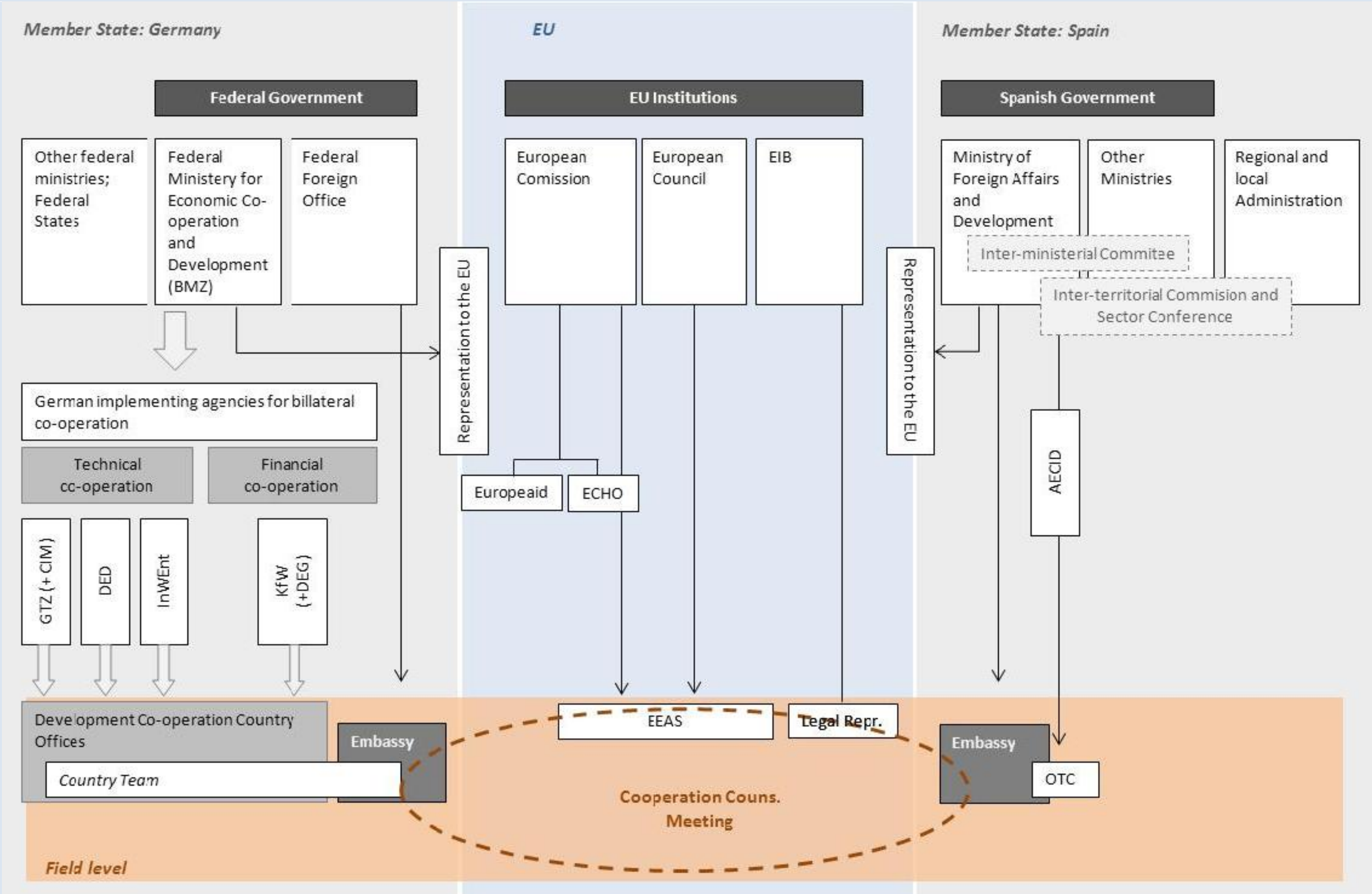
In 2011, there seemed to be enough political will in the field for EU delegates to propose to Brussels a joint programming initiative for all EU development cooperation in Morocco. However, later that year, it was stopped in Brussels. The two countries that blocked this process at their headquarters were France and Spain. This might be a reflection on the lack of political will to deepen the European integration process, at least in the cooperation field.

However, several interviewees commented on the leadership of the Spanish cooperation office in Morocco in this initiative. The same country that led the initiative blocked it in Brussels. This case demonstrates that, on top of the lack of horizontal coordination at the state level, there might also be a problem with vertical coordination policies of EU Member States (Box 6).

Therefore, a simpler and more efficient communication channel should be installed. This is particularly pertinent given the current process of implementation of the European External Action Service (EEAS).

The lack of intrastate coordination is a serious obstacle to intra-EU coordination (Section 6). Complex institutional structures of cooperation policies—where there are too many offices in charge of international aid and, above all, not one single political head—pose serious difficulties for advancement in both CPA and coordination at the partner-country level. EU headquarters should explore the political and technical ways to set an agenda for internal coordination of Member States linked to the intra-EU coordination agenda.

Box 6: Can cooperation counsellors' meetings in the field ensure EU donor coordination?



- *Delegated cooperation, an opportunity for donor coordination on a project basis*

Donors' procedures and organizational charts can be so complex and diverse that donor coordination becomes inefficient. Some European representatives pointed to delegated cooperation as a good and efficient solution, as it relies on one single donor institution and set of procedures. EU donors have not explored such efficiency gains in the field and although most of them seem very positive about the idea of being a leader in delegated cooperation, they do not plan on delegating to others. However, at the headquarter level, the introduction of the NIF has facilitated a sort of delegated cooperation between EU institutions and Member States' financial institutions. Contributions from the EU budget may have acted as an incentive for coordination in this case.

- *Is there enough political will, anyway?*

As explained above, the NIF mechanism is one example of how EU coordination is not only desirable, but also feasible. Besides "good mechanisms experiences", there are "good EU donor experiences". For instance, small donors with a limited capacity, like Belgium, rely entirely on on analytic works previously conducted by other countries This pattern should be progressively extended to the whole EU community. One EU delegate actually stated that all the institutional and administrative bottlenecks pointed out in the study were only 'excuses'; political will could solve all of these problems. Progress toward joint programming on the field level and obstacles at the headquarters level reinforce such statements.

However, if political economy aid matters, as explained in Section 1, definition of aid effectiveness targets should be based on not only development goals, but also political feasibility. Again, if donors follow a new, more selective and progressive agenda for donor coordination, they could focus on those sectors and activities where coordination is feasible.

- *The EU Delegation should become a political leader and real coordinator in the field*

In any case, the EU Delegation seems to lack political leadership (Section 5). As a donor, it behaves as an additional Member State. Its role has been more administrative than political, as shown by the survey conducted for this study. Again, the EU should take advantage of the ongoing EEAS process in order to upscale the political role of the EU Delegations in partner countries.

Besides, in order to improve the current coordinating mechanisms, the delegation must assume that these coordination processes also have costs and that these costs can be lowered when bilateral donors find incentives in joint activities, delegate implementation to each other, and pose coordination proposals that are not maximalist and politically unrealistic.

A realistic and selective way of improving coordination could be to focus on certain sectors and tasks. Knowing that proliferation of donor missions to the field is the most frequent example of the costs of aid fragmentation, the evaluation launched by the EU

Delegation in Morocco, covering all sector budgetary support from Member States, might be a good practice to generalize. Analytical works and monitoring and evaluation missions could be centralized by the EU Delegation if Member States find budgetary incentives to do so. This would reduce costs for the recipient country, facilitate knowledge and information exchange among EU donors, and be a step forward in reducing market barriers in cooperation services. According to interviewees, protectionism in aid markets is one of the obstacles for further donor coordination.

Limitations of the context: Morocco's institutional and political barriers

Morocco lacks a national development plan (Section 6). Development needs and development cooperation activities must be planned at the sector level, thereby hindering any possibility of synergy between sectors. Nor does the country have a 'political head' acting as a strategic counterpart for donors. As such, EU donors have serious difficulties coordinating and aligning with one single counterpart.

Box 7: Key recommendation: an approach toward greater coordination requires a policy mix

(i) A more nuanced approach to the coordination agenda and indicators

(ii) Greater incentives for delegated cooperation

(iii) A focus on Member States' internal institutional limitations to aid coordination—not just interstate problems

(iv) An enhancement of the political role of the EU Delegation in the field

(v) The promotion of a single local counterpart and strategic framework in the partner country

(vi) The implementation of more selective and progressive, rather than maximalist, coordination targets

Whether this is the result of a political strategy by the local government ("divide and rule"); a reflection of the current Moroccan landscape (according to one respondent, the political fragmentation of the ruling coalition has led to a de facto distribution of competences inside the administration); a consequence of all factions working separately; or a simple lack of interest in improving the institutional architecture for better development policy, a single counterpart and a national development plan should be implemented.

EU donors could promote the creation of a single Moroccan counterpart and a national development plan by establishing the right incentives. Tools like the aforementioned NIF are a good reference. Inter-sector aid packages by EU donors could be conditioned on the acceptance of pools of several EU donors and a unique counterpart in the local government.

Being a LMIC with a low aid dependency ratio, this should not be major obstacle. After all, Uruguay's cooperation agency was created with the support of Spanish cooperation (Rivero, 2013), despite the very low dependency ratio of the American country—average ODA amounted to only 0.14 percent of GDP between 2006 and 2010.

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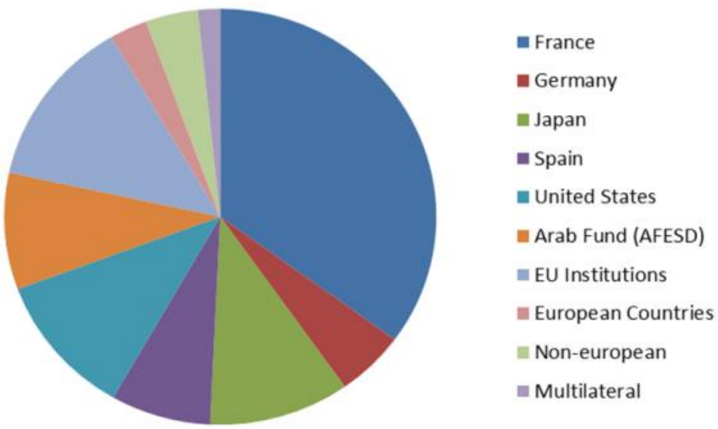
Annex A: Donor mapping in Morocco

Overview: a donor ranking

ODA to Morocco: Annual commitments and share, average 2007-11.

Million USD (current prices)

№	Country	average 07-11	%	№	Country	(average 07-11)	%
1	France	649	35.0%	21	UNFPA	2	0.1%
2	EU Institutions	244	13.2%	22	Denmark	2	0.1%
3	United States	206	11.1%	23	Netherlands	2	0.1%
4	Japan	195	10.5%	24	UNICEF	1	0.1%
5	Arab Fund (AFESD)	168	9.1%	25	UNDP	1	0.1%
6	Spain	139	7.5%	26	AfDB	1	0.04%
7	Germany	96	5.2%	27	Luxembourg	1	0.04%
8	Belgium	34	1.8%	28	Finland	1	0.03%
9	Kuwait (KFAED)	32	1.7%	29	UNAIDS	0.4	0.02%
10	United Arab Emirates	28	1.5%	30	Portugal	0.2	0.01%
11	Global Fund	9	0.5%	31	WHO	0.2	0.01%
12	Canada	7	0.4%	32	Greece	0.2	0.01%
13	Italy	7	0.4%	33	Austria	0.2	0.01%
14	OFID	6	0.3%	34	Ireland	0.07	0.004%
15	Korea	5	0.3%	35	Australia	0.03	0.002%
16	United Kingdom	4	0.2%	36	Norway	0.02	0.001%
17	IFAD	4	0.2%	37	Sweden	0.006	0.0003%
18	GEF	4	0.2%	38	Czech Rep	0.001	0.0001%
19	Switzerland	3	0.2%				
20	Isl.Dev Bank	2	0.1%		**Total**	**1.853**	**100.0%**



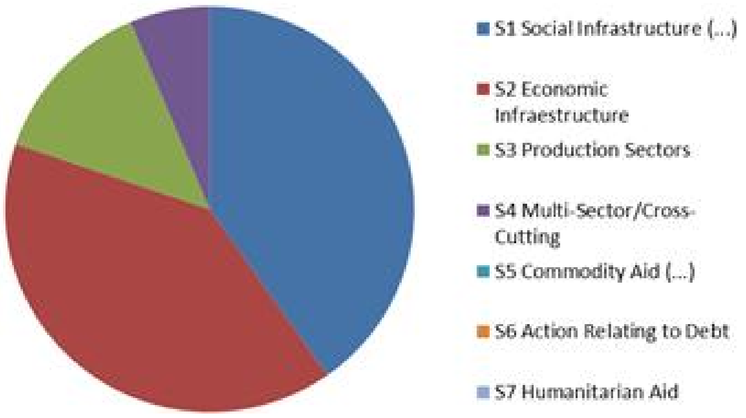
Source: DAC. OECD

Sector and channel breakdown per donor

France

- Position # 1
- Volume: 649 Million USD
- Share: 35%
- Coordinating office in the field: French Embassy
- Other relevant agencies: Agence Française de Développement (AFD)

ODA to Morocco: Sector distribution, average 2007-11

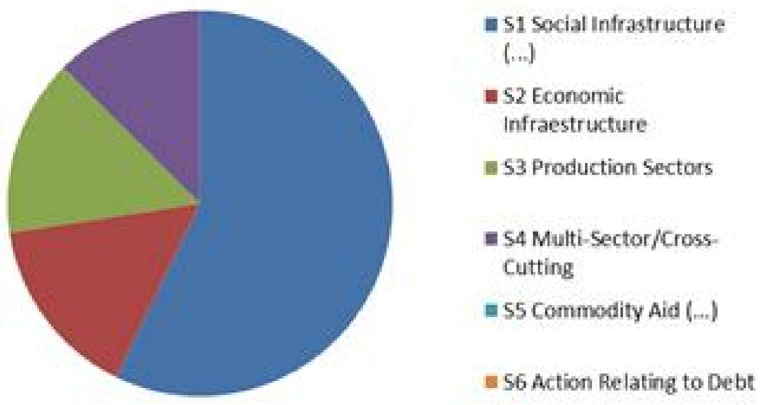


Source: DAC. OECD

EU Institutions

- Position # 2
- Volume: 244 Million USD
- Share: 13 %
- Coordinating office in the field: EU Delegation
- Other relevant agencies: BEI

ODA to Morocco: Sector distribution, average 2007-11

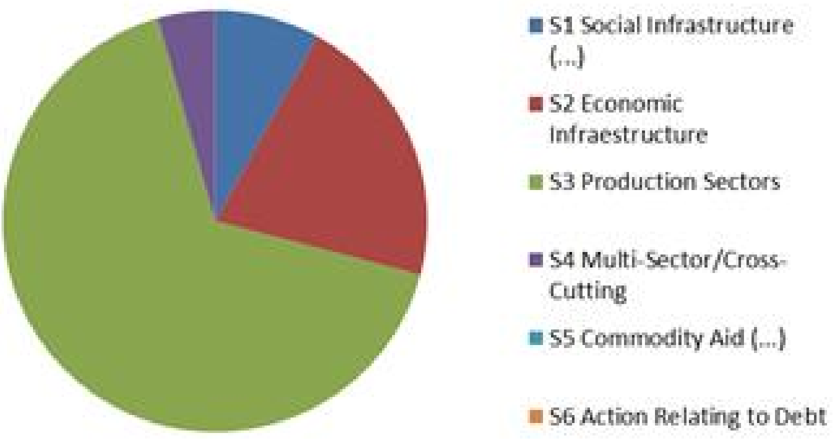


Source: DAC. OECD

United States

- Position # 3
- Volume: 206 Million USD
- Share: 11 %
- Coordinating office in the field: US Aid
- Other relevant agencies: MCC

ODA to Morocco: Sector distribution, average 2007-11

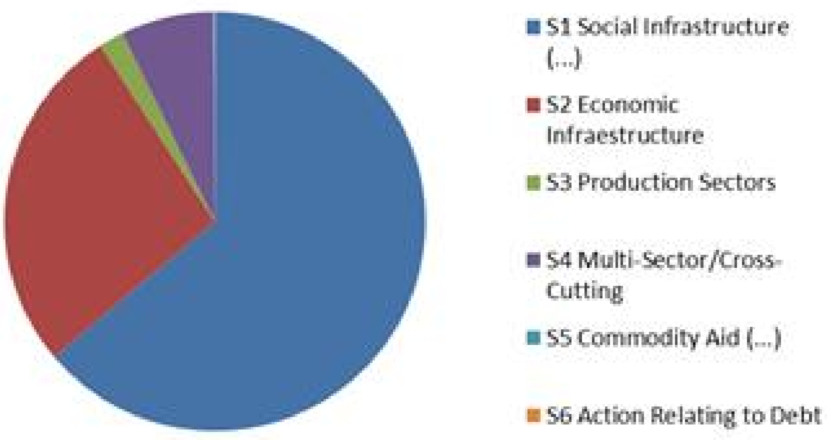


Source: DAC. OECD

Japan

- Position # 4
- Volume: 195 Million USD
- Share: 10.5 %
- Coordinating office in the field: Japanese Embassy
- Other relevant agencies: JICA

ODA to Morocco: Sector distribution, average 2007-11

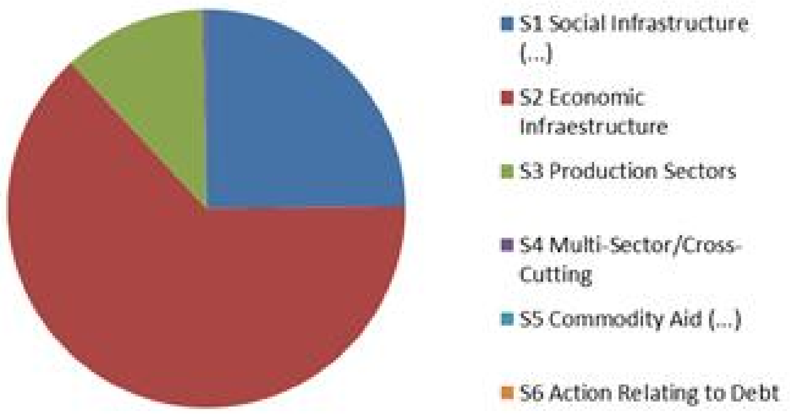


Source: DAC. OECD

Arab Fund

- Position # 5
- Volume: 168 Million USD
- Share: 9 %
- Coordinating office in the field: None

ODA to Morocco: Sector distribution, average 2007-11

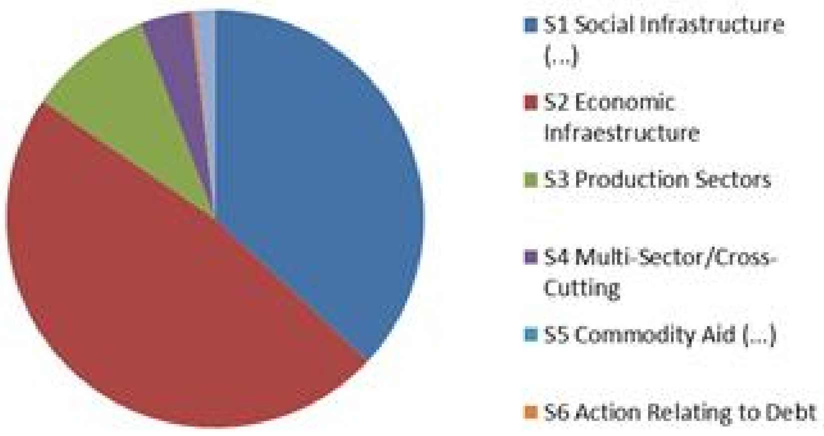


Source: DAC. OECD

Spain

- Position # 6
- Volume: 139 Million USD
- Share: 7.5 %
- Coordinating office in the field: AECID

ODA to Morocco: Sector distribution, average 2007-11

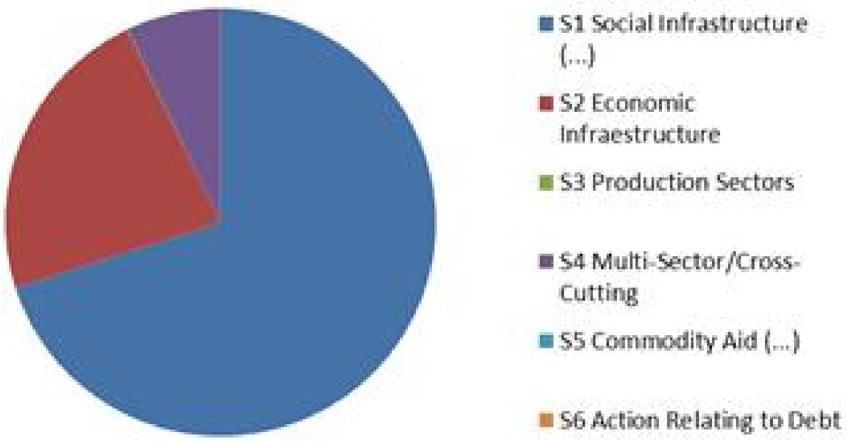


Source: DAC. OECD

Germany

- Position # 7
- Volume: 96 Million USD
- Share: 5 %
- Coordinating office in the field: German Embassy
- Other relevant agencies: KfW

ODA to Morocco: Sector distribution, average 2007-11



Source: DAC. OECD

Other EU Donors

Belgium

- Volume: 34 Million USD
- Share: 1.8 %
- Main agency: Belgian Embassy

Italy

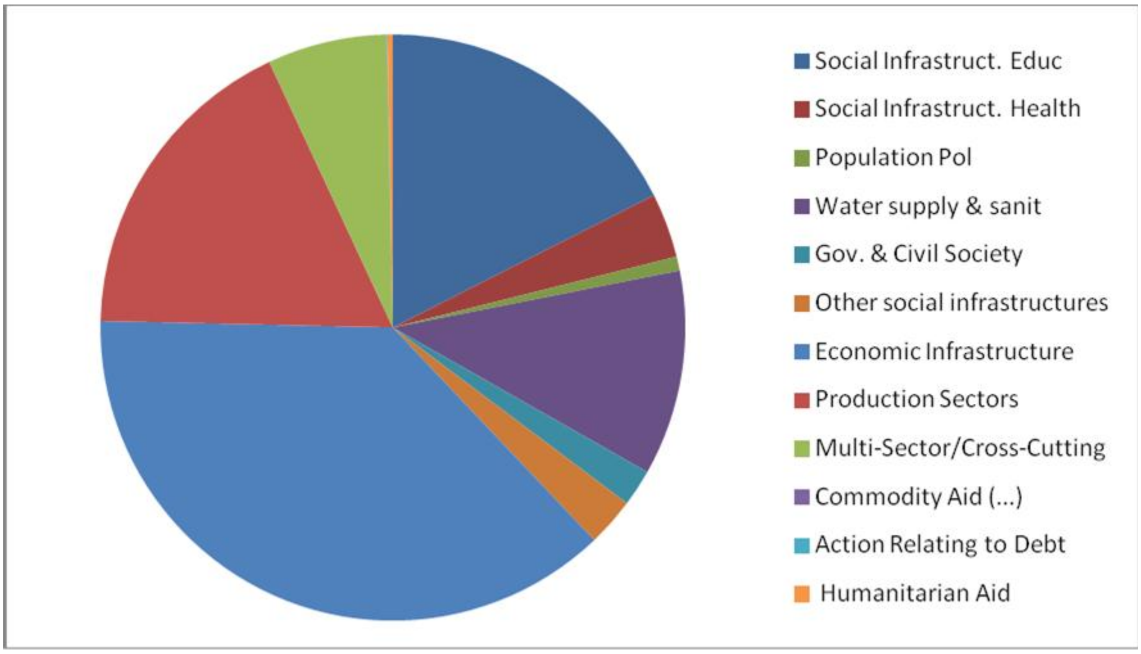
- Volume: 7 Million USD
- Share: 0.4 %
- Main agency: Italian Embassy

United Kingdom

- Volume: 4 Million USD
- Share: 0.2 %
- Main agency: Brittish Embassy

Annex B: Donor mapping in Morocco 2: a sector approach

ODA to Morocco: Sector distribution of annual commitments. 2007-11 average.[24]



Million USD (current prices)

Nº	Sector	average 07-11	%	Nº	Sector	average 07-11	%
1	Economic Infrastructure	650	35%	7	Health	62	3%
2	Productive Sector	307	17%	8	Other social infrastruct.	61	3%
3	Education	304	16%	9	Population Policies	13	1%
4	Watter Supply	248	13%	10	Humanitarian Aid	5	0.3%
5	Multi-Sector/Cross-Cutting	115	6%	11	Action Relating to Debt	0.5	0.03%
6	Government & Civil Society	76	4%	12	Commodity Aid	0.4	0.02%

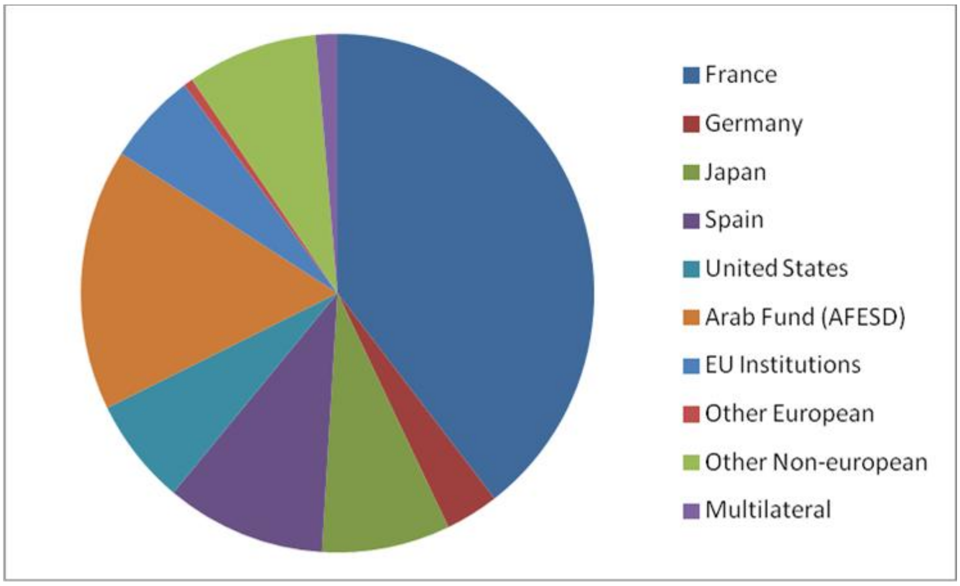
Source: DAC OECD

[24] Sectors correspond to main sectors according to OECD statistics, except for social infrastructure which has been split into Education, Health, Governance and Civil Society, Population, Water Supply and other social infrastructure

Economic infrastructure

- Position # 1
- 650 Million USD
- Fragmentation[25]: 16
- Scope: Transport and storage. communications. energy. banking and business services.
- Coordination activities: Thematic group on energy
- Leading donor: European Union Delegation / United Nations Development Program

ODA to Economic Infrastructure in Morocco:
Donor distribution of 2007-11 average of annual commitments.



Million USD (current prices)

Country	average 07-11	%	Country	average 07-11	%
France	257	40%	Arab Fund (AFESD)	106	16%
Germany	22	3%	EU Institutions	37	6%
Japan	52	8%	Other European	4	1%
Spain	65	10%	Other Non-european	53	8%
United States	43	7%	Multilateral	9	1%

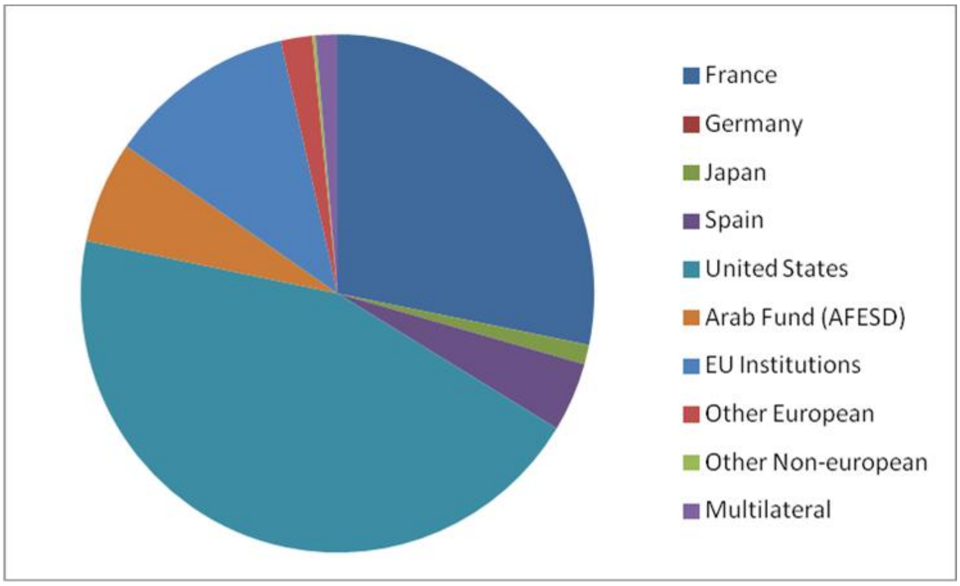
Source: DAC OECD

[25] Number of donors per sector

Productive sector

- Position # 2
- 307 Million USD
- Fragmentation: 15
- Scope: Agriculture. forestry. fishing. industry. mining. trade and tourism.
- Coordination activities: thematic group on environment. agriculture and natural resources
- Leading donor: Germany and Belgium

ODA to Productive Sector in Morocco:
Donor distribution of annual commitments. 2007-11 average.



Million USD (current prices)

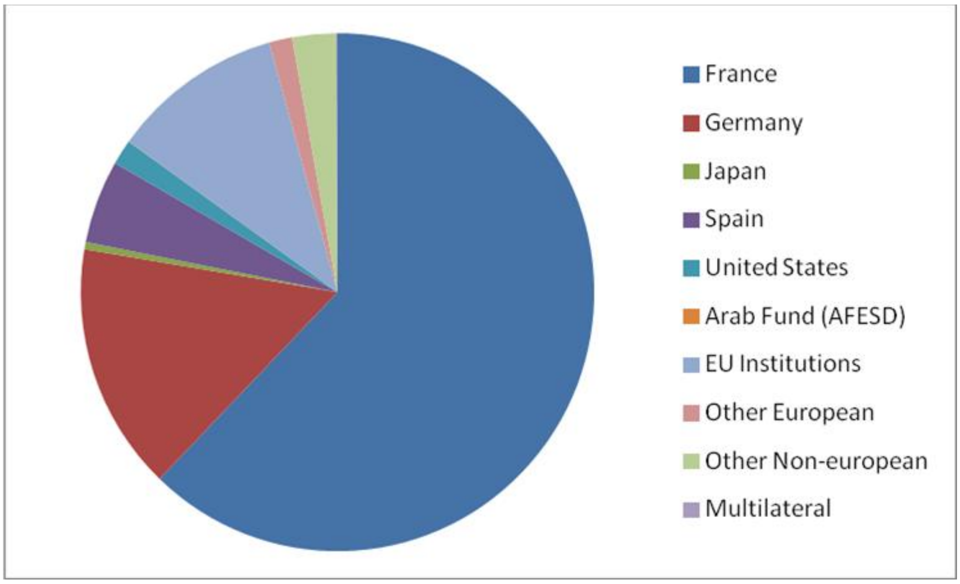
Country	average 07-11	%	Country	average 07-11	%
France	87	28%	Arab Fund (AFESD)	20	6%
Germany	0.04	0.01 %	EU Institutions	36	12%
Japan	4	1%	Other European	6	2%
Spain	13	4%	Other Non-european	0.7	0.2%
United States	137	45%	Multilateral	4	1%

Source: DAC OECD

Education sector

- Position # 3
- 304 Million USD
- Fragmentation: 17
- Scope: Basic education. secondary education. post-secondary education
- Coordination activities: Thematic group on education
- Leading donor: France (AFD) / European Union Delegation

ODA to Education Sector in Morocco:
Donor distribution of annual commitments. 2007-11 average.



Million USD (current prices)

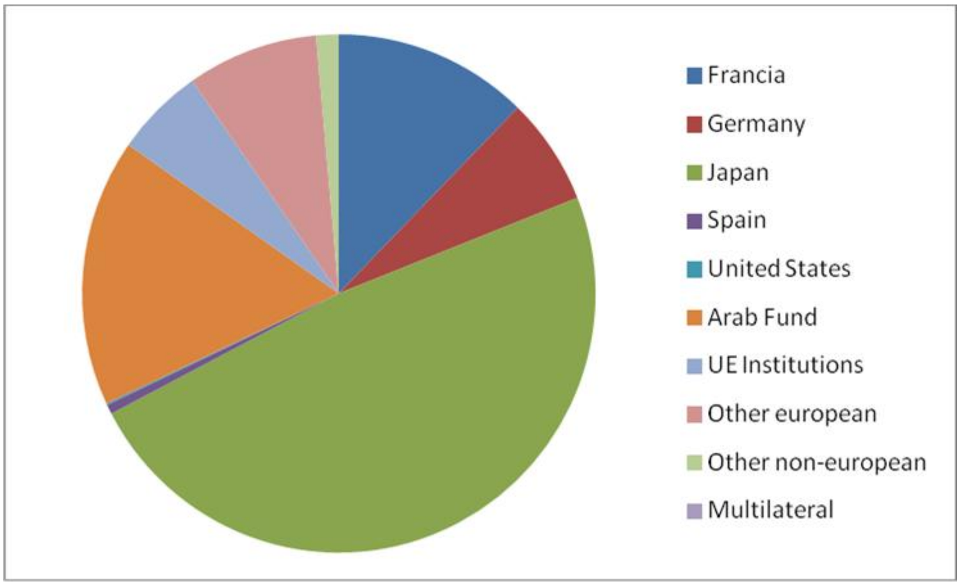
Country	average 07-11	%	Country	average 07-11	%
France	189	62%	Arab Fund (AFESD)	0.04	0.01%
Germany	47	15%	EU Institutions	33	11%
Japan	1	0.5%	Other European	4	1%
Spain	16	5%	Other Non-european	8	3%
United States	5	2%	Multilateral	0.3	0.1%

Source: DAC OECD

Water supply sector

- Position # 4
- 248 Million USD
- Fragmentation: 15
- Coordination activities: Thematic group on water
- Leading donor: France (AFD) / European Union Delegation

ODA to Water Supply in Morocco:
Donor distribution of annual commitments. 2007-11 average.



Million USD (current prices)

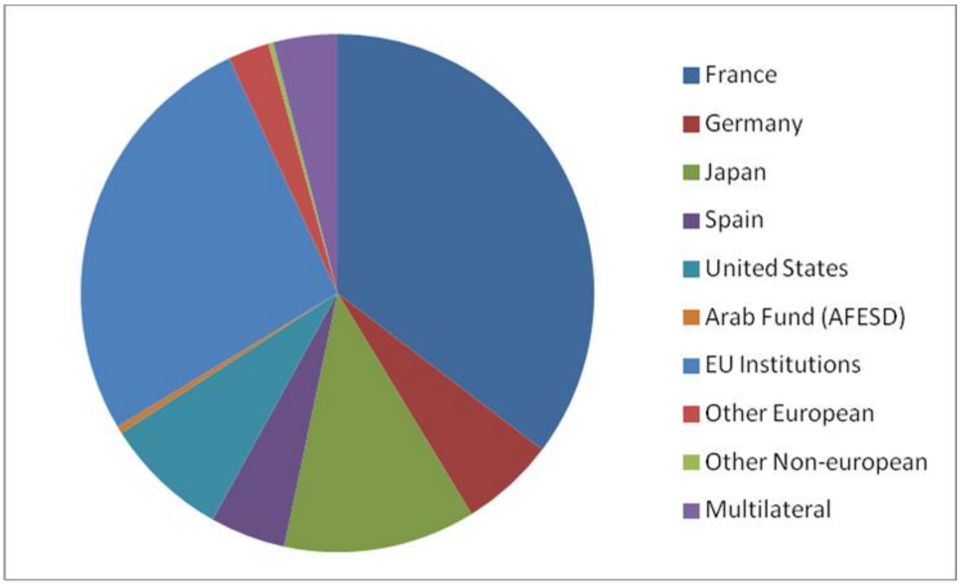
Country	average 07-11	%	Country	average 07-11	%
France	30	12%	Arab Fund (AFESD)	42	17%
Germany	17	7%	EU Institutions	14	6%
Japan	120	48%	Other European	21	8%
Spain	1	0.6%	Other Non-European	4	1%
United States	0.3	0.1%	Multilateral	0.00001	0%

Source: DAC OECD

Multisector Aid

- Position # 5
- 115 Million USD
- Fragmentation: 23
- Scope: General environment protection. other multisector aid

Multisector ODA to Morocco:
Donor distribution of annual commitments. 2007-11 average.



Million USD (current prices)

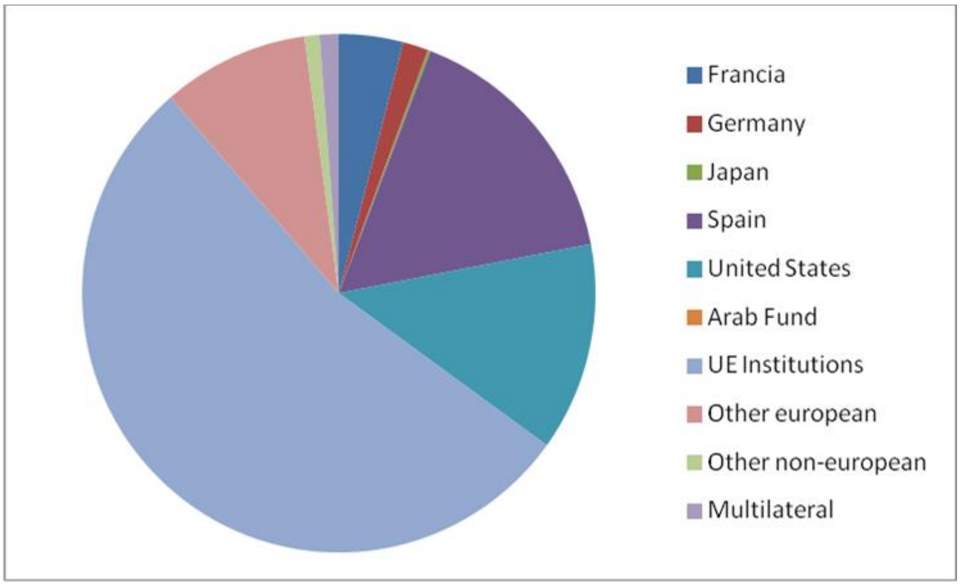
Country	average 07-11	%	Country	average 07-11	%
France	40	35%	Arab Fund (AFESD)	0.5	0.5%
Germany	7	6%	EU Institutions	31	27%
Japan	14	12%	Other European	3	3%
Spain	5	5%	Other Non-European	0.4	0.3%
United States	9	8%	Multilateral	5	4%

Source: DAC OECD

Governance & civil society sector

- Position # 6
- 76 Million USD
- Fragmentation: 25

ODA to Governance and civil society sector in Morocco: Donor distribution of annual commitments. 2007-11 average.



Million USD (current prices)

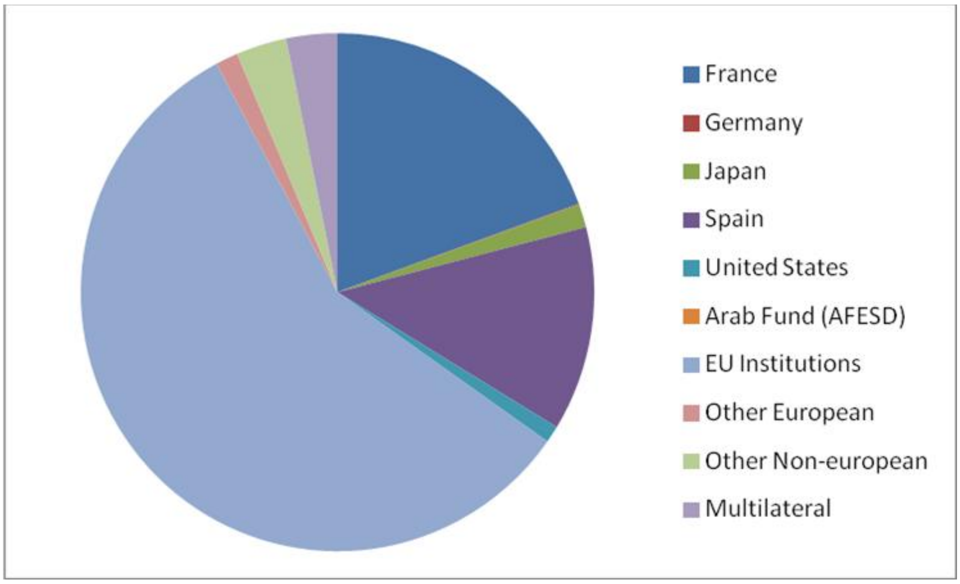
Country	average 07-11	%	Country	average 07-11	%
France	3	4%	Arab Fund (AFESD)	0	0%
Germany	1	2%	EU Institutions	41	54%
Japan	0.1	0.2%	Other European	7	9%
Spain	12	16%	Other Non-european	0.7	0.9%
United States	10	13%	Multilateral	0.9	1%

Source: DAC OECD

Health sector

- Position # 7
- 62 Million USD
- Fragmentation: 19
- Coordination activities: Thematic group on health
- Leading donor : Spain / European Union Delegation

ODA to Health Sector in Morocco:
Donor distribution of annual commitments. 2007-11 average.



Million USD (current prices)

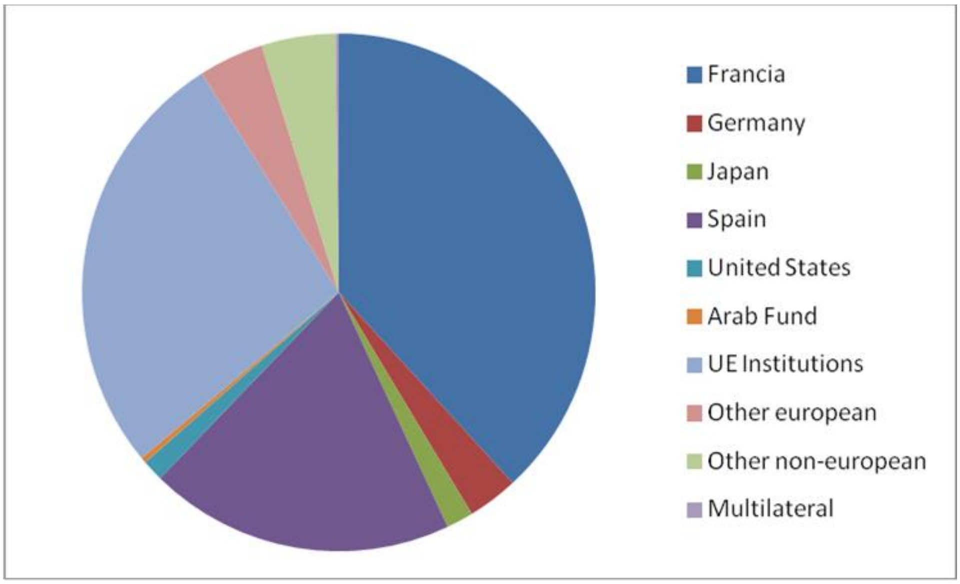
Country	average 07-11	%	Country	average 07-11	%
France	12	19%	Arab Fund (AFESD)	0	0%
Germany	0.03	0.1%	EU Institutions	36	57%
Japan	0.9	1%	Other European	0.9	1%
Spain	8	13%	Other Non-european	2	3%
United States	0.7	1%	Multilateral	2	3%

Source: DAC OECD

Other social infrastructure sector

- Position # 8
- 61 Million USD
- Fragmentation: 20

ODA to other social infrastructure in Morocco:
Donor distribution of annual commitments. 2007-11 average.



Million USD (current prices)

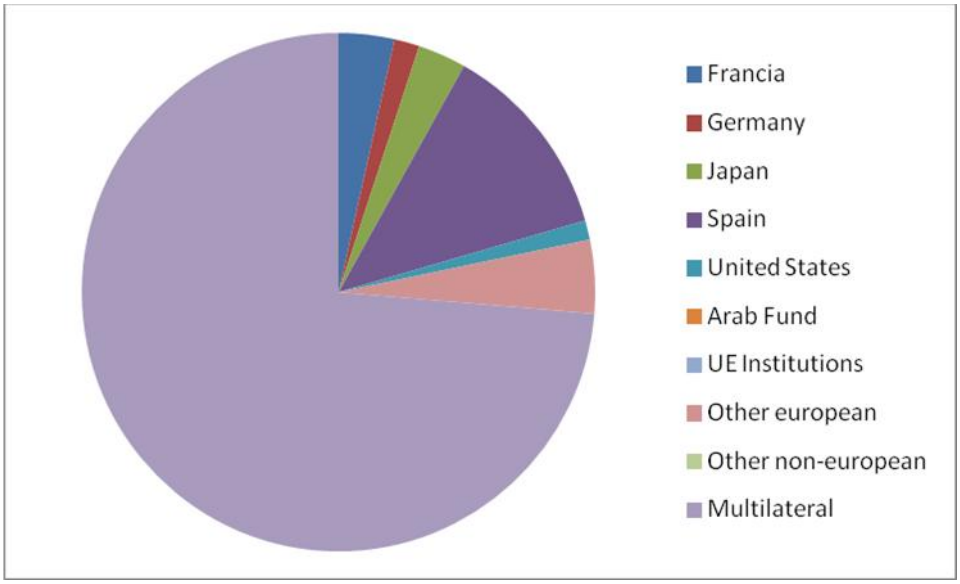
Country	average 07-11	%	Country	average 07-11	%
France	23	38%	Arab Fund (AFESD)	0.2	0.3%
Germany	2	3%	EU Institutions	16	27%
Japan	1	2%	Other European	2	4%
Spain	12	19%	Other Non-european	3	5%
United States	0.8	1%	Multilateral	0.1	0.2%

Source: DAC OECD

Population policies sector

- Position # 9
- 13 Million USD
- Fragmentation[ii]: 13
- Coordination activities: Thematic group on development and social protection
- Leading donor : Spain / European Union Delegation

ODA to Population Sector in Morocco:
Donor distribution of annual commitments. 2007-11 average.



Million USD (current prices)

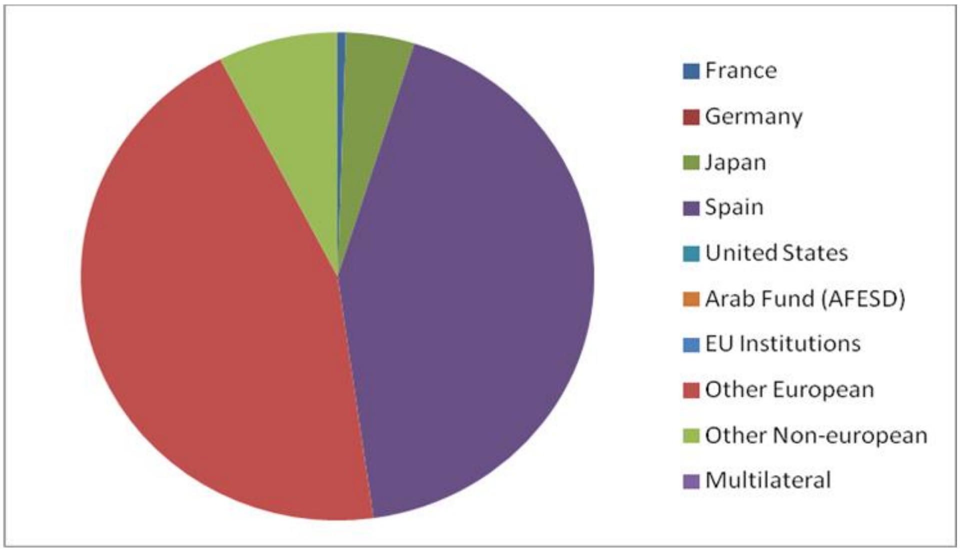
Country	average 07-11	%	Country	average 07-11	%
France	0.5	4%	Arab Fund (AFESD)	0	0%
Germany	0.2	2%	EU Institutions	0	0%
Japan	0.4	3%	Other European	0.6	5%
Spain	2	12%	Other Non-european	0.0002	0%
United States	0.2	1%	Multilateral	10	74%

Source: DAC OECD

Humanitarian Aid

- Position # 10
- 5 Million USD
- Fragmentation: 12
- Scope: Emergency response. reconstruction relief & rehabilitation. disaster prevention & preparedness

Humanitarian ODA Morocco:
Donor distribution of annual commitments. 2007-11 average.



Million USD (current prices)

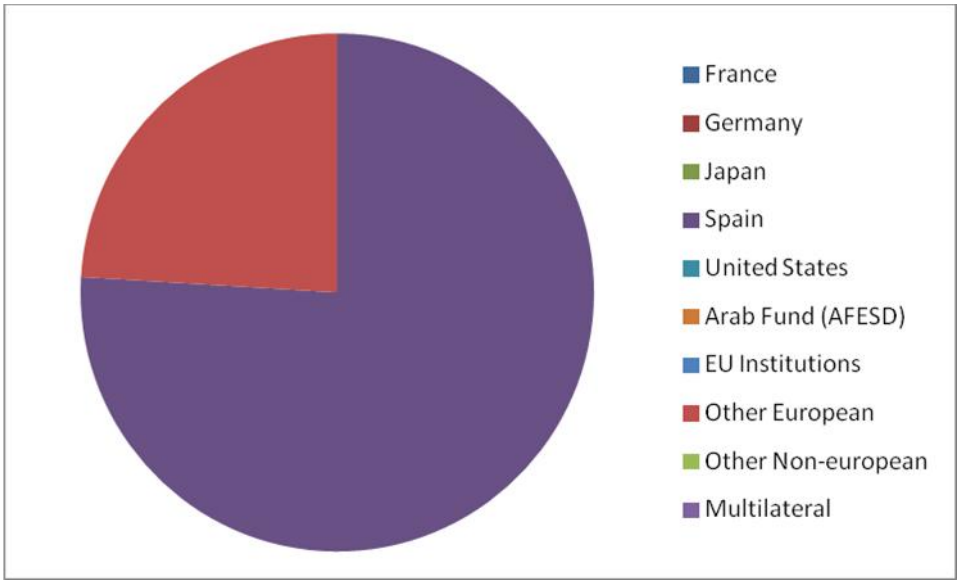
Country	average 07-11	%	Country	average 07-11	%
France	0.03	0.5%	Arab Fund (AFESD)	0	0%
Germany	0	0%	EU Institutions	0	0%
Japan	0.2	4%	Other European	2	45%
Spain	2	43%	Other Non-european	0.4	8%
United States	0	0%	Multilateral	0.001	0.02%

Source: DAC OECD

Action relating to debt

- Position # 11
- 0.5 Million USD
- Fragmentation: 2

Action relating to debt ODA Morocco:
Donor distribution of annual commitments. 2007-11 average.



Million USD (current prices)

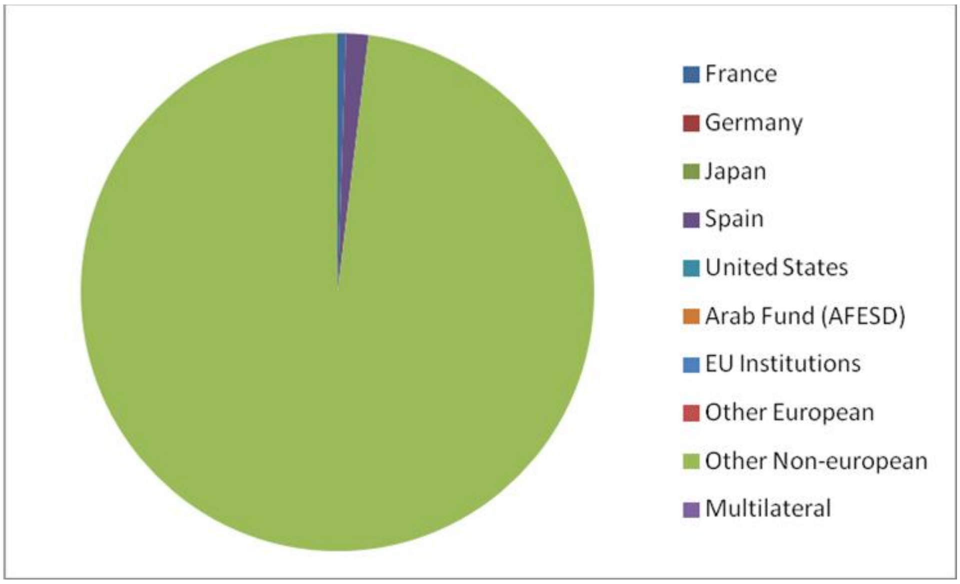
Country	average 07-11	%	Country	average 07-11	%
France	0	0%	Arab Fund (AFESD)	0	0%
Germany	0	0%	EU Institutions	0	0%
Japan	0	0%	Other European	0.1	24%
Spain	0.4	76%	Other Non-european	0	0%
United States	0	0%	Multilateral	0	0%

Source: DAC OECD

Commodity Aid

- Position # 12
- 0.4 Million USD
- Fragmentation: 3
- Scope: Food aid. food security assets

Commodity aid Morocco:
Donor distribution of annual commitments. 2007-11 average.



Million USD (current prices)

Country	average 07-11	%	Country	average 07-11	%
France	0.002	1%	Arab Fund (AFESD)	0	0%
Germany	0	0%	EU Institutions	0	0%
Japan	0	0%	Other European	0	0%
Spain	0.01	1%	Other Non-european	0.3	98%
United States	0	0%	Multilateral	0	0%

Source: DAC OECD

Annex C: List of key informers

#	Titre	Prénom	Nom	Fonction	Organisme	PAYS
1	M.	Jean Claude	KOHLER	Attaché de Coopération	Service de Coopération et d'Action Culturelle - Ambassade de France	France
2	M.	Sami	ASALI	Chargé des relations avec les organisations internationales et la société civile	Service de Coopération et d'Action Culturelle - Ambassade de France	France
3	Mme	Ingrid	BARTH	Conseillère de Coopération	Ambassade d'Allemagne	Allemagne
4	M.	Marc	DENYS	Conseiller de Coopération et Chef de Bureau	Ambassade de Belgique, Bureau de Coopération	Belgique
5	M.	Carlos	LIETAR	Conseiller au développement	Ambassade de Belgique, Bureau de Coopération	Belgique
6	Mme	Christina	GUTTIEREZ	Coordonnatrice Générale - Conseiller de Cooperation	AECID - Ambassade d'Espagne	Espagne
7	M.	Vicente	ORTEGA	CoordonnateurGénérala.i.	AECID - Ambassade d'Espagne	Espagne
8	Ms	Chantel	CARE	Political Officer	Ambassade de Grande - Bretagne	Grande-Bretagne
9	M.	Claudio	MARTINELLO	Premier Secrétaire, Chargé de la Coopération	Ambassade d'Italie	Italie
10	M.	Guido	PRUD'HOMME	Représentant	Banque Européenne d'Investissements	BEI
11	M.	Satoshi	IKOMA	Premier Secrétaire, Chef de la Coopération	Ambassade du Japon	Japon
12	M.	Tomoya	SAITO	Premier Secrétaire, Chargé des Affaires Economiques et Commerciales	Ambassade du Japon	Japon
13	Mrs	Tamika	CAMERON	Program Management Officer	USAID	United States
14	Mrs	Lyne	PAQUETTE	Contrôleur	USAID	United States
15	M.	Bruno	POUEZAT	Coordonnateur Résident du Système des Nations Unies	Programme des Nations Unies pour le Développement	ONU
16	M.	Joël	DALIGAULT	Directeur	Agence Française de Développement	France
17	M.	Youssef	FARHAT	Directeur Adjoint Direction du Budget	Ministere des Finances	Maroc
18	Mme.	Loubna	CHAMIM	Chef de la Division de la Coopération	Ministère de l'Agriculture et de la Pêche Maritime	Maroc

Annex D: Thematic groups

Thematic groups	Leader	EU donors	Scope
1. Health	ES / EU	FR (AfD) + SNU, BM, BAD	Maternal health
2. Energy	DE / DUE	FR (AfD), BE, BEI + BAD BM, JICA, PNUD	Energy policy Climate change
3. Water	FR / DUE	ES, BE, DE, (KfW), PT, IT NL, BEI + Suisse, BAD, BID, JICA, SNU	Water policy Potable water Sanitation
4. Environment, agriculture and natural resources	DE / BE / Dpt. Eau	ES, IT, DK, FR(AFD), NL+ JICA, BAD, SNU, BM, FAO, ACDI, FIDA, KOICA	Agriculture Rural development Climate change
5. Social development and protection	ES / DUE	FR, BE, DE, IT, DK + SNU, ACDI	Habitat Fight against poverty Social exclusion Gender
6. Education	FR / DUE	ES, BM, BAD, BEI, JICA, ACDI, SNU, USAID	Alphabetisation Vocational training University cooperation Research
7. Aid quality	DUE / PNUD	All donors	Aid effectiveness Geographic information system

The Cost of Non-Europe in Development Policy

ANNEX III

Quantifying the economic benefits of increased EU donor coordination

Research paper
by Prof. Arne Bigsten

Abstract

This research paper discusses the costs of the lack of coordination with the EU on development aid, and seeks to quantify the benefits of further coordination between EU donors and to identify the most appropriate tools to carry it forward. Chapter 2 presents the evidence from recent analyses of the costs associated with poor donor coordination within the EU, i.e. by the Commission and the 27 member countries. It is noted that EU could save €800 million (in 2012 prices) per year through reductions in donor transaction cost. Chapter 3 suggests that about €2000 million extra growth could be achieved by moving to more general forms of aid, that reduced volatility of aid would be worth €1800 million per year for the recipient countries, and that coordinated untying of aid could save another €900 million per year. It is further estimated that €8,400 million worth of extra poverty reduction could be achieved if country allocation was completely coordinated with the EU with poverty reduction as the only target. The chapter also discusses some important issues relating to the global economic system, where coordination of Europeans would be useful. Finally, against the background of the identified costs due to poor coordination, Chapter 4 discusses what the EU should do, in terms of changes in aid policy and in the way EU aid is organized.

AUTHOR
This research paper has been written by **Prof. Arne Bigsten** of the Department of Economics & Gothenburg Centre of Globalization and Development, University of Gothenburg (Box 640 - SE405 30 Gothenburg – Sweden), at the request of the European Added Value Unit, of the Directorate for Impact Assessment and European Added Value, within the Directorate General for Internal Policies (DG IPOL) of the General Secretariat of the European Parliament.

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Contents

List of abbreviations

ACP	Africa, Caribbean, and Pacific group of states
CPA	Country programmable aid
COM	Commission of the EU
DAC	Development Advisory Committee
DFID	Department for international Development (UK)
EU	European Union
EU15	EUs member countries before enlargement
EU27	EU's 27 current member counties
GBS	General Budget support
GDP	Gross domestic product
IFIs	International Financial Organizations
LDC	Less developed country
MAR	Multilateral Aid Review (of DFID)
NGO	Non-governmental organization
ODA	Overseas development assistance
ODI	Overseas Development Institute
OECD	Organization of Economic Cooperation and Development
PBA	Programme Based Approaches
Sida	Swedish International Development Cooperation Agency
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
USA	United States of America
USD	US dollars ($)
WTO	World Trade Organization

Executive summary

The European Parliament has commissioned this report on the costs of the lack of coordination with the EU on development policy. The purpose of this work is to ascertain and quantify the benefits of further deepening/broadening coordination between EU donors and to identify the most appropriate tools to carry it forward.

Chapter 2 first discusses the evidence from recent evaluations on the progress and challenges of harmonisation, but the focus is on Bigsten et al.'s (2011) analysis of the costs associated with poor donor coordination within the EU, i.e. by the Commission and the 27 member countries. They estimate the costs savings that EU-donors could achieve by coordinating their activities better. The estimation of transaction cost savings is done in two steps. First they estimate how much can be saved by reducing the number of partner countries for each donor, and then they estimate how much could be saved by shifting money from projects to programs (which have less administrative costs) in accordance with the target set in the Paris agenda. Total savings from these changes for EU27+COM is about €800 million per year in 2012 prices. These savings could then be used to extend aid activities to the benefit of recipient countries.

Chapter 3 first looks at the administrative burdens placed on developing countries and the costs of those. The types of costs discussed here are the administrative costs associated with the handling of many partners and projects as well as the negative consequences of the unpredictability of aid. There are no systematic estimates of the magnitude of transaction costs in recipient countries, but there is an abundance of anecdotal evidence suggesting that they are substantial.

It is empirically very hard to identify the effects of aid on growth (presumably via improved governance) in recipient countries, but Bigsten et al. have anyway sought to estimate how the growth effects vary by aid modality. Their very crude estimates suggest that channelling more of aid as General Budget Support increases recipient country incomes the first year by about €2000 million. Moreover, apart from this positive growth effects, general forms of aid to governments would be associated with lower administrative burdens on recipients.

Bigsten et al. also estimated the potential savings for recipients of reduced volatility of aid. Their rather conservative estimates suggest that there would be an annual saving of at least €1800 million if aid was perfectly predictable.

They also presented estimates that poor recipient countries lose about €900 million per year because EU donor countries tie aid transactions to suppliers in their own countries. This estimates only includes officially reported tying, but there are certainly also a large grey zone here were donors favour their own suppliers even if they are not the best options.

Bigsten et al. have also analysed how much more of poverty reduction could be achieved by a better allocation of all EU aid among recipient countries (the problem of aid orphans), and they also put a value on this potential improvement. The estimated net gain from the reallocation is about €8,400 million, after adjusting the estimated allocation for differences in the quality of recipient governance. This estimate is certainly an upper limit of what can be achieved, since this would require donor countries to give up many of their other aims of giving aid to specific countries. It is hard to determine how large the politically feasible reallocations are, but the estimates anyway suggest that there is a huge potential gain from coordination of country allocation of aid.

The chapter concludes with a section which discusses some important issues relating to the global economic system, where coordination of Europeans would be useful. This relates to the distribution of influence within the international financial institutions (IFIs) and with regard to policies on global public goods. The EU should develop a policy on the governance of global economic institutions. The EC might also have a particular role to play with regard to measures seeking to push for accountable governance. One could possibly seek to shift from classical policy conditionality to governance conditionality, since the former has tended to undermine accountability to citizens. A good system would be common to all donors, predictable and agreed. This is an area where the EC could have a comparative advantage relative to the member states. This could both push European democratic values, while it at the same time improving efficiency. Economic Partnership Agreements could be used to support private investment and export promotion.

Finally, against the background of the identified costs due to poor coordination, Chapter 4 discusses what the EU should do, and in short the following is proposed:

Aid policy changes

1) Each EU donor should be present in fewer countries.

2) EU donors should shift to more general forms of aid such as budget support.

3) There should be better coordination of the day to day activities of EU donors. This could be in the form of coordinating the donors' reporting systems, or by simply deciding (in good EU tradition) that if the reporting system of one EU member is used, it should accept by the other EU members as well. Synchronisation of rules and procedures as well as meetings with the recipients would also help. Joint analytical work could be done to a higher degree.

4) As long as a recipient government pursues a credible policy, donors should continue to seek to align aid to recipient policy. However, when policies are not acceptable, donors should use non-government channels for aid, or try to change government behaviour with the help of governance conditionalities.

5) EU donors should agree on the untying of aid.

6) Donors should coordinate to make country programmable aid flows less unpredictable and volatile. To make aid contracts longer one may need to have conditions associated to them specifying what should be done in case there are instances of inappropriate behaviour.

7) Donors should support measures that make recipient governments' budget procedures more transparent, since this is required for donors to be willing to accept more general forms of aid. Donor would be helped if they could put in place a specialized agency or mechanism able to collect information about the governance characteristics of the potential recipients, and to circulate information among EU donors (or all DAC donors).

Changes in EU's aid organization

8) One way to bring about increased coordination would be to increase the role of the Commission. This can be increased in two ways. Either the member countries can decide to channel more of their aid through the Commission, or it can provide tighter coordination of the aid of the EU member states.

9) Increased coordination of country allocation does not necessarily require channelling resources through the Commission (even if that would be one way of doing it). It would be enough if countries jointly decide about the country allocation of their aid, and it might seem natural that the negotiations are organized by the Commission.

10) Increased predictability is much harder to organize in a decentralized fashion, since all the donor countries have their own political and budgetary processes. This would be easier to handle if aid was channelled through the Commission, since there would essentially be one process to try to stabilize. But there are of course also other considerations that countries take into account when they decide on the fraction of their aid that they want to channel through the Commission.

11) The untying of aid does not require coordination *per se*, but it is probably easier to implement if it is done in a coordinated fashion. Peer pressure could help to advance the process.

12) Reductions in transaction costs would probably be easier within one structure, but again the bilateral donors also have other considerations to take into account. Steps to organise a division of labour should anyway be beneficial, and maybe the Commission could be a broker in this process.

13) Apart from the issues just mentioned, there may sometimes be other reasons for choosing the Commission route rather than the bilateral route. Some types of aid

might be better handled for political reasons in a multilateral setting. It should be part of EU's strategy to improve policies, enhance policy coherence, and improve implementation and delivery mechanisms. But there is a certain coordination fatigue among the bilaterals, so the political costs of reduced donor ownership of their aid policies may constitute a severe brake on closer coordination.

Chapter 1 - Introduction

This policy brief seeks to contribute to the debate about the development policy of the EU. The terms of reference note that "in recent years, the focus on aid effectiveness has led to a growing consensus that development aid is underperforming notably as a result of too little coordination among donors and the existence of too many projects and programmes with different actors and procedures." It further notes that "development cooperation is widely recognised as one of the EU policy areas of strategic importance." This is also reflected in the agreements of the broader donor community in Paris 2005[1], Accra 2008, and most recently in Busan 2011. It is also reflected in official EU policies such as the Lisbon treaty, which states that effective coordination of aid programmes is an obligation for the Union and its Member States.[2] The importance of aid coordination is further noted in the European Consensus on Development[3], the Code of Conduct on Division of Labour[4], and the Operational Framework[5]. The European Parliament has noted that, in spite of all the rhetoric, there is a lack of satisfactory implementation of the commitments and has called for more efforts towards a better coordination. (It may also be noted that although the EU is committed to providing 0.7 per cent of Gross National Income in aid no later than 2015, it seems obvious that many European countries will not honour this commitment.)

Because of these concerns the European Parliament has commissioned this Report on the Cost of Non-Europe in the field of development cooperation, to support the reflection on increasing coordination between the EC and the Member States on development aid programmes. The purpose of this work is to ascertain and quantify the benefits of further deepening/broadening coordination between EU donors and to identify the most appropriate tools to carry it forward. The analysis is based on a comprehensive literature review, and it draws in particular on the Bigsten, Platteau, and Tengstam (2011) study on the aid effectiveness agenda.

The paper is structured as follows: Chapter 2 reviews the evidence on the magnitudes of benefits and costs associated with better donor coordination within the EU. The focus here is on the analysis of the costs savings that donors could achieve by coordinating their activities better. These savings could then be used for new aid activities to the

[1] The Paris Declaration covering ownership, alignment, harmonisation, managing for results, and mutual accountability provided a comprehensive agenda for aid processes.

[2] Article 210 of the Lisbon treaty states: "In order to promote the complementarity and efficiency of their action, the Union and the Member States shall coordinate their policies on development cooperation and shall consult each other on their aid programmes including in international organisations and during international conferences".

[3] European Commission (2006). The European Consensus on Development, 2006C 46/01).

[4] Council Conclusions of 15 May 2007 on "EU Code of Conduct on Complementarity and Division of Labour in Development Policy", doc. 9090/07

[5] Council conclusions of 17 November 2009 on an Operational Framework on Aid Effectiveness, doc. 15912/09, and Council Conclusions of 14 June 2010 on Cross-country Division of Labour in Development Aid (doc. 10348/10)

benefit of recipient countries. Chapter 3 looks at the administrative burdens placed on developing countries and the costs of those. The types of costs discussed here are the administrative costs associated with the handling of many partners and projects as well as the negative consequences of the unpredictability of aid. This chapter also presents an estimate of how much money poor countries lose because EU donor countries tie aid transactions to suppliers in their own countries. It also presents evidence about how much more of poverty reduction that could be achieved by a better allocation of aid among recipient countries. The chapter concludes with comments on some issues of international collaboration that need to be considered by the EU. In Chapter 4, against the background of the identified costs of the lack of coordination, the way forward is discussed.

Chapter 2 - Quantification of benefits and costs on the donor side of increased EU donor coordination

The efficiency of aid measured in terms of effects for the intended beneficiaries depends on the quality of governance on both the donor and the recipient sides. Donors must organize their aid activities effectively (the focus in this paper is on coordination), and the recipients must implement sound policies and use aid money effectively. Both sides are important for the end results.

In this chapter the focus is on the donor side. We will discuss how large efficiency improvements can be achieved through a better coordination of donor activities. In particular we will present estimates of how aid transaction costs can be reduced by better coordination.

2.1 Review and discussion of previous evaluation evidence

It is hard to come up with precise estimates of the costs of not coordinating the aid activities of the European Union. An early EU-study (EC, 2009) sought to identify and measure costs of ineffective and fragmented aid and potential savings in transaction costs. That study looked at the costs of donor proliferation, fragmentation of aid programmes, tied aid, volatility and lack of predictability in aid flows, as well as shortcomings in the donors' use of country public procurement systems. The report sought to estimate savings from consolidation of programmes and projects, use of joint financing arrangements, delegated cooperation, and an agreed division of labour. It also estimated the costs of fragmentation in terms of staff time and consultants for design, formulation, appraisal and approval of new projects. It further noted that the current pattern of aid delivery puts a high burden on recipient governments, but it was not able to come up with any cost estimates of this. It estimated the costs associated with the tying of aid to purchases and deliveries from specific donor countries, and noted that aid volatility was causing major problems for recipients. Finally, it discussed the importance and role of recipient country ownership, but again without being able to provide any estimates of magnitudes. The report concluded that the EU could improve aid in particularly two areas, namely by improving aid predictability and improving the inter-country division of labour. The study suggested that the total annual savings of the EU could be in the range of €3-6 billion.

There are other studies trying to measure and compare donor quality from broader perspectives than cost effectiveness in aid delivery. There is the DAC peer review process, which monitors each donor's aid programme and provides information on a broad range of aspects of aid collaboration. The most comprehensive study of this nature has been done by Birdsall and Kharas (2010), who benchmark countries and agencies against each other. This study looks at country programmable aid (CPA) only, which means that they exclude the management of humanitarian aid, debt forgiveness, donor administrative costs, refugee support in donor countries, student scholarships in donor countries, food aid, and core financing of NGOs. The performance in the latter areas is harder to measure and compare. There is also DFID's (2011) Multilateral Aid Review, which constructs indices of the quality of multilateral donors.

In the run-up to the Busan meeting in late 2011 donors jointly undertook a comprehensive set of studies seeking to evaluate the impacts of the implementation of the Paris agenda. These studies provide useful discussions of a range of problems associated with aid delivery including coordination issues, but they generally find it hard to evaluate the effectiveness of the Paris agenda. It is noteworthy that some of the country studies find a certain "Paris fatigue" among donors, partly related to their desire to be able to measure the impacts of their specific aid interventions. This may mean that donors become less willing to coordinate and use common arrangements. *It is possible that the current drive towards impact evaluation may make it harder to improve donor coordination.* Still, the potential savings from better coordination should be an incentive for closer collaboration.

An interesting study was done by Odén and Wohlgemuth (2011), who review the implementation of the Paris agenda in Tanzania, Zambia, and Mozambique. They find that there has been some progress with regard to harmonization among the donors, but that there are increasing problems with regard to the dialogue between the donors and the recipient governments. The focus on General Budget Support in these countries has meant that the dialogue has become more political in nature[6], which they fear may imply a reduction in ownership. There is also increasing pressure from the donors for quick results, since they experience increased pressure from politicians at home for quick and visible results. They believe that transaction costs with the recipients have been considerably higher than expected, and they also note that donors increasingly want to micromanage programmes in the consultation bodies set up for coordination. It is also noteworthy that some donors do not want to be coordinated, for example the US, China, India, Brazil, as well as the rapidly expanding vertical or global funds, which run their projects outside the government. It is therefore far from clear that ownership and recipient control of coordination is on the rise. They draw the conclusions that there is weak willingness and capacity of the host governments to take up the leadership role in the Paris agenda process, at the same time as there is less willingness from the home consistency of the donors to accept delays due to increased ownership. The dialogue structure has become complex and demanding leading to increased transaction costs. One conclusion that one can draw from this report is that *the problems and transaction costs reported could be reduced if there were fewer players involved*. And one way to this is to have a better division of labour among donors.

Wood et al. (2011) have produced a synthesis report of the large DAC-evaluation. They find that the Paris Declaration has made a contribution by strengthening good practices

[6] Negotiations about general budget support typically cover a broad spectrum of government policies as well as governance issues, and therefore this process can be more intrusive than processes relating to projects.

and contributed to the aid volume, but they find that donor progress has been very uneven. There have been some improvements with regard to the implementation of the Paris agenda, but with regard to the aid effectiveness it summarizes results as follows (p. xiv):

> "The Declaration was aimed at improving effectiveness in three areas: the efficiency of aid delivery, the management and use of aid, and better partnerships. Overall, the picture on efficiency gains is mixed, but so far disappointing in relation to the original hopes of rapidly reduced burdens in managing aid. There has been generally little reduction to date in those burdens where Declaration-style cooperation has been applied and even increased loads are noted in a few cases. At the same time, many Declaration-style mechanisms and practices are allowing for a much better overview of aid by the partner country and donors. When matched by sufficiently robust country systems, they have increased the country ability to handle more strategic support, particularly at the sectorial level.
>
> While progress is slow and uneven, the management and use of aid has improved in the countries studied, especially in relation to the pre-Declaration situation, and Declaration-style aid appears to have made significant contributions to that change. Global programmes are found to be still mainly insufficiently integrated with other processes, but in some cases considered to be delivering stronger development results.
>
> In terms of building more inclusive and effective partnerships for development, aggregate standards are rising. The Declaration has placed an explicit focus on aid relationships, and opened up important dialogues about partnerships themselves – between countries and donors, among donors, and with other stakeholders, rather than just the technical or financing aspects of managing aid. A number of clear practical benefits are already being felt."

There are five key recommendations for the donors from the Wood et al. evaluation:

The first recommendation is to "make the hard political choices and follow through", since change will not be effective unless there is political backing of the reform process. The political problem is that there are donors that find that there are also costs associated with relaxing national control of the aid processes. This is particularly important for the large donors, who are concerned about their political stakes. A shift in the balance of interest towards the development goal of poverty reduction away from a focus other national interests requires a debate among the political parties and the electorate in donor countries and with the EU.

The second recommendation from the evaluation is to "focus on transparency, mutual accountability, and shared risk management". This recommendation is detailed to include "deepening adherence to the principles of country ownership, alignment and harmonization of donor support, and transparency and mutual accountability in tracking and achieving results". A new feature is that they argue that one should "add shared risk management to this framework of principles of aid". But donors do pay strong attention to the risk of failures in interventions, and this may hold back reforms to enhance ownership. Donors may feel that it is more important to keep tight control of *their* projects rather than let their and other donors' interventions be managed in a coordinated fashion by the institutions of the recipient government.

The third recommendation is to "centre and reinforce the aid effectiveness effort in countries" to strengthen ownership, transparency and mutual accountability.

The fourth recommendation is similar to the previous one. It is suggested that one should "work to extend the aid reform gains to all forms of cooperation". This is an increasingly important topic, since the number of actors in the aid business is increasing fast. It is an important and strategic question whether *all* aid really should or could be coordinated within the same framework.

It is also an intricate issue to define and estimate the costs and benefits of seeking to coordinate also the aid from NGOs, and I am not aware of any systematic studies of the costs and benefits. To what extent there may be beneficial effects would depend of the types of activities that are done. For example, if an NGO is involved in providing services that are generally handled by the government, there may be benefits of coordination, while other activities might function better without being integrated with government activities. If the NGOs are running innovative and experimental projects, it may be better to let them work within the general legal framework of the country without formal coordination with the government bureaucracy. There may well be more NGOs in some areas than what would have been optimal if one started from scratch, but this is not an option and one may possibly undermine their "idealistic" activities and fund raising ability by pushing for mergers. But there should be areas where coordination among NGOs, at least, would be beneficial.

It could also become too huge and complicated an operation to coordinate all activities including those of the NGOs, since the latter typically are numerous and not that large. And they are generally not involved in setting conditions for recipient government's policy, which means that there is less need for coordinating them as well. So there are some arguments in favour of letting them operate as independent agents outside the aid coordination framework. They would then also be part of and strengthen civil society and exert pressure on governments for policy reforms or accountability.

The fifth recommendation suggests that one needs to "reinforce the improved international partnerships in the next phase of reforms".

It also recommends that donors should "face up to and manage risks honestly, admit failures". This is a relevant observation when donor governments are becoming less and less willing to take risks in aid. The idea of "corruption free aid" may lead to aid being held back from potentially important but risky areas. This is an issue which policy makers should think through carefully. Their concern is, of course, that they are accountable to the tax payers, and also that failures may undermine the support for aid. This is a relevant concern, but it could, to some extent at least, be countered by a sensible and honest debate of the risks involved. This is a key concern if we believe in the ownership agenda.

The report provides a harsh critique against the donors for not having made more progress with regard to the aims that they have set up for themselves. The report's key recommendations are that the aid processes should be country led, risks should be managed more honestly, and there should be high-level political commitment to the Paris agenda process. At the same time there is some concern that the old agenda may become less relevant in the new aid environment with new players like China and new private initiatives. This is certainly a concern to be taken seriously and investigated further.

2.2 An estimate of transaction cost savings of coordinating EU aid

In this part we will present the results from the most comprehensive estimate so far of how large cost savings could be achieved by reducing the administrative cost of aid delivery. The estimates reported are from Bigsten et al. (2011).[7] The study focuses on two powerful ways to reduce transactions costs, namely by decreasing donor fragmentation and by concentrating activities. The number of partner countries can be decreased and the mix of aid modalities can be changed by shifting money from projects to programmes.

Since aid activities are often complementary, donors need to coordinate to avoid inefficient aid allocations (Bigsten, 2006). How difficult it is to coordinate among donors will depend on how similar their preferences are. These may differ because donors have different views on what matters for development or have different national interests. Channelling aid through multilateral institutions could help reduce these coordination costs and also the influence of vested interests within the various donor countries (Kanbur, 2000, 2003). This was originally the reason why for example UNDP was set up, and this could potentially be a role that the EU could shoulder to a higher degree.

When discussing aid coordination it is of course also important to consider how it would affect governance in the recipient countries. The question is how the efficiency is affected by reduced administration of aid interventions. Some administrative controls are obviously important – and in particular if aid is given to poorly governed and possibly corrupt countries. The appropriate level of administration is obviously not zero. The estimates by Bigsten, Platteau, and Tengstam (2011) presented in this section focuses on

[7] The report was extensively discussed at a Roundtable meeting at ODI in London, in June 2012, with participation from the EC, donor organizations and the academic community. Prizzon and Greenhill (2012) presented a report with comments and critique on the EU-study. An extension of this analysis covering also non-EU donors is presented in Bigsten and Tengstam (2012).

the short-term or transaction costs of aid on the donor side, while costs and indirect governance effects on the recipient side are discussed in Chapter 3.

The transaction costs of aid have been defined as "the costs arising from the preparation, negotiation, implementation and enforcement of agreements for the delivery of ODA" (Brown et al, 2000). A more detailed definition of transaction costs (EC, 2009, p. 8) is as follows: "These are overhead costs associated with programming, identification, preparation, negotiation, agreement, implementation, monitoring and evaluation of aid activities (programmes and projects) including the policies, procedures and diverse donor rules and regulations for managing aid projects and programs, translations and adjustment to divergent fiscal periods. They may be incurred by donor governments, implementing agencies, or partner governments. These costs cover country analytical work carried out in the context of developing country/sector cooperation strategies, impact assessments (e g gender, environment or education) and capacity assessments (public expenditure and financial management system assessments and reviews). Such studies are often undertaken by each donor and can involve significant costs to both donor and partner governments, who are expected to provide information and staff time".

The main problem in identifying potential cost savings is to come up with reasonable estimates as to how much could be saved by rationalizing aid allocation.[8] It is clear from the definitions of aid transactions given above that proliferation has costs both on the donor and recipient sides.

The first EC-study on the topic (EC, 2009) used a bottom-up approach trying to add cost savings of some micro-reforms. For example, it looked at the number of donor offices in a country, and then discussed how much could be saved by various reductions in donor office presence – say max 3 EU offices. It further looked at the number of expatriates per office, costs of preparing country programmes for priority countries and differentiated costs between priority and non-priority countries, number of missions and studies which increase with the number of donors. There could also be an addition for change in Headquarter costs. They identified savings from reduced country level donor proliferation via joint programming exercises, reduction in the number of offices, and reduced duplication of missions and studies. They further consider gains to be had from eliminating minor donors, whose resources could be disbursed through delegated cooperation arrangements. Finally, they looked at the costs of starting up new aid activities. They discussed both costs of preparation, and implementation. They arrive at very high estimates on the latter, which are not credible (see discussion in Bigsten et al., 2011).

Because of the problems of obtaining good estimates of the costs of lack of coordination in the way tried by the cited study, Bigsten et al. (2011) decided to use another approach.

[8] Djankov et al (2008) and Knack and Rahman (2007) have done some estimates of the effects of proliferation.

They looked at the number of partner countries and the number of activities each donor is involved in. To come up with an estimate of potential donor savings they sought to make some reasonable assumptions about the scope for reduction in the number of partner countries and activities per donor as well as estimates of the cost savings this would imply. They included all administrative costs that the donors report (admittedly not perfectly reported) and estimated to what extent the budget could be reduced. The question of what to include in administrative costs is admittedly a difficult one. The data used are from the DAC database, and includes a broader range of cost than those directly relating to the managing of programmes. It has been pointed out that policy work at donor headquarters may be included, while in other instances some administrative costs may be reported as programme costs. So clearly that data have weaknesses, but more precise data are not available.

The analysis of Bigsten et al (2011) thus starts with aggregate estimates of administrative aid costs of EU27 + COM and evaluates how much of these costs could be saved by donors provided they concentrated their activities. Two ways to save money are analysed. Money can be saved either via concentration to fewer countries or via concentration to fewer activities. They assume that the aid budget will not shrink, which means that the activities remaining after concentration will be larger. They acknowledge that they cannot grow in size without some increase in administrative overheads, but there are clearly economies of scale so the increase in project costs is not proportional to the growth of the budget. They derived econometric estimates of the magnitude of the economics of scale in aid delivery.[9]

They made computations of administrative savings possible for the year of analysis, 2009, as follows: First they scaled down the administrative cost by reducing the number of partner countries. They estimated the percentage reduction in administrative costs when reducing the number of recipients, while keeping the overall aid budget constant and not changing the composition of the aid flow, that is the mix of projects and programmes.

In the next step they reduced costs further by changing the aid modalities. They investigated how much money could be saved by shifting money from projects to programmes. This gave an extra cost saving on top of the effect of country concentration. They estimated how much aid needed to be shifted from project support to programme support to meet the target set up in the Paris declaration. This degree of concentration was chosen because it was once politically decided. To get an estimate of how large the cost savings are, they needed an estimate of the administrative cost reductions such a shift implied. One might here expect that there are also efficiency consequences of a switch from projects to programmes. Administrative costs of recipients would probably

[9] Anderson (2011) has estimated economies of scale in aid delivery among bilateral donors, and also he finds that there are high donor costs of fragmentation, that is the spread of aid among many recipient countries. He suggests that there are large gains to be had if donors coordinated their allocation decisions and specialised. If the donors globally would allocate their aid according to his formula they could potentially save as much as US$ 2 billion.

tend to fall, but it is possible that corruption can increase so that more aid is wasted. There may also be specific instances where projects should be preferred, for example when new types of interventions are tested. When resources are moved from projects to programmes when a project arrangement would have been more appropriate, then the gain in terms of lower costs would have been reduced by lower efficiency. However, it was not possible to come up with estimates of these potential effects.

The average number of recipient countries per donor (the sample here included of all bilateral DAC donors plus COM) is 101, and the question is how large a reduction one should simulate. The study followed the tradition in economics and tested the effect of a reduction in the number of partner countries by one standard deviation, that is 37 countries (a reduction in the number of partners by 37%) This would lead to a decrease in annual administrative costs for EU donors (EU27+COM) by about 20 % or €498 in 2012 prices[10]. One might discuss exactly which changes one should discuss (here as elsewhere), and some critics of the report have suggested that one should assess what is an "appropriate" improvement on the basis of political feasibility rather than promises made. But since it is hard to establish what is politically feasible, the authors only discussed the political constraints on the choices to be made but left it to policy makers to decide on how far to go in the reforms.

Once donors have focused on fewer countries, they can as a second step change the modalities of aid. It is a challenge to get estimates of how the price tags of administration differ between modalities. Since comprehensive information was not available they used information from the Swedish aid agency, Sida. This is a medium sized bilateral donor, which probably can be taken to be rather typical in terms of administrative costs.[11]

Sida undertook a detailed analysis of its administrative costs of Swedish aid 2010 (Sida, 2011). The administrative costs identified were of four types:

1. Preparation of policy strategy and method documents
2. Implementation of strategies for development cooperation
3. Collaborate and advice internationally and nationally
4. Management, steering and support.

These data showed that the cost of transferring aid resources in the form of programme aid was only a third of what it was if transferred as project aid. General budget support

[10] The estimates were originally made for 2009 in 2009 prices, but they have here been converted to 2012 prices with the EU rate of price increase of 8% over the three years.

[11] Easterly and Pfutze (2008) collected information from donors about administrative costs. They describe their data on overhead costs as the most novel, but note that this kind of aid data is the least trustworthy. It is hard to get consistent data. They compute the ratio of costs to official development financing (defined as the sum of ODA and non-concessional loans). This indicator takes the entire administrative budget. The estimates they present (their Table 4) indicates that there is a huge variation across countries and multilaterals. The average for bilaterals is 7%. It is noteworthy that the share of administrative costs in their sample of 21 countries is close to their own estimate for Sida (6.5%).

was especially cheap in terms of administration with a cost of 19 % relative to the average for project support. Technical assistance had a transaction cost of 46 % of the costs for a project. Thus, also technical assistance is associated with relatively low administrative costs.

The focus in the Paris Declaration is about shifting to programme based approaches (PBA) from non-PBA, i.e. projects and technical assistance. What Bigsten et al. simulate is a shift from projects to programmes, while they leave technical assistance aside. The goal set up was to have 66 % of the aid through PBA, so they looked at such a reduction on the project side in favour of programmes. By increasing the proportion of CPA that is PBA from the actual level for 2009 of 44 % to 66%, the administrative costs related to CPA would be lowered by 21 %. That represents an annual cost saving of €306 million for EU27+COM (2012 prices). Summing up the results of our two steps we get a total saving on transaction costs of €804 million (2012 prices). This is equivalent to about one per cent of total annual ODA of the EU27+COM.

Bigsten et al (2011) also compared COM with EU15 (for which data were available) to see whether administrative costs differ between the COM and the EU15. They simply compared average costs per unit of aid-Euro delivered, but found no significant difference between the costs in the two channels.

It should be noted that as much as 29 % of CPA is technical assistance, and this was not included in the computation. There were two reasons. First, it was possible to reach the 66 % target by shifting resources from projects to programmes. And, as noted, there was a bigger saving from shifting from projects to programmes than shifting from technical assistance to programmes. Secondly, it is less clear that it is as feasible to shift this type of aid into programmes, although there should be some scope for savings also here that donors could exploit if there is a political will to do so.

So the total annual cost savings from lowered transaction costs according to the base estimate would be about €800 million. They did some sensitivity analyses to show how sensitive these results are to changes in assumption and the precision of the estimate of the effects of concentration on costs. It is clear that there is a considerable margin of uncertainty around the base prediction, but it is clear that potential transaction costs savings are sizeable.

Chapter 3 – Quantification of benefits and costs of improved EU donor coordination on the recipient side

After discussing potential savings in donor transaction costs, we now shift to the analysis of recipient costs. These costs are certainly the more important ones, but here it is harder to come up with good estimates. The recipient costs can be broken down into administrative transaction costs on the one hand and indirect costs on the other. The latter work through effects on recipient country governance and its effects on relevant outcome variables such as growth. In principle gains from reduced transaction costs could be eaten up by deteriorations in governance - or the gains could be extended by improvements in governance. Bigsten et al. (2011) made an attempt to analyse the indirect effects. This includes effects on growth, the costs for recipients associated with aid tying and aid volatility, as well as an estimate of gains that could be achieved by coordinating country allocation of aid within the EU.

3.1 Administrative burdens placed on the public service of developing countries

Transaction costs here are the administrative costs arising from preparation, negotiation, monitoring, and enforcement of agreements for the delivery of ODA. The costs associated with the transfer of aid have been debated for a long time. Bauer (1971: 99-100) argued early on that "it is by no means unusual for projects to absorb domestic inputs of greater value than net output, especially when the cost of administering the projects and the explicit and implicit obligation to maintain and replace fixed assets originally donated is also considered. Large losses in activities and projects financed by aid have been reported in many poor countries."

More recently Kanbur (2003:18) wrote that "aid flows, and the mechanisms donors adopt to track and monitor them, are very intensive in terms of recipient capacity. Each donor agency has its own reporting system. In a typical African country, there can be upwards of 20 aid agencies from different countries and multilateral agencies. The hard-pressed civil servants spend much of their time managing the paper flow. At the political level, ministers have to spend a considerable amount of time in turn meeting with donor delegations. But perhaps as important as the sheer time use is that these senior technocrats and politicians become oriented towards convincing the aid agencies to keep the aid flow going, rather than towards listening to the domestic population and the local development agenda."

Transaction costs are increased by the multitude of diverse donor rules and procedures used by donors to manage aid projects. The problem is aggravated by different languages and fiscal calendars. There is also duplication of various forms of analytical work "such as poverty assessments, public expenditure reviews, governance and investment climate assessments, and fiduciary analyses sponsored by donors" (Knack and Rahman, 2007: 178). They also note that the bureaucratic quality in recipient countries tends to decrease when they receive substantial amounts of aid. When there is donor fragmentation combined with tied aid, recipient countries may also receive equipment from different donors which are incompatible and this increases operational costs of the recipients. Channelling aid to projects rather than through budget support can contribute to undermining government institutions, as can bypassing central government units via project implementation units, and relying on expatriates rather than training and using local staff.

Brown et al. (2000) attempted to measure transaction costs in Vietnam. They noted the lack of an accepted method, lack of good underlying data, and the very high costs of actually collecting data from respondents. Balogun (2005) discusses the difficulties of measuring administrative cost savings from donor coordination, for example by reducing the number of project implementation units. He notes that there are also some savings in staff time spent on missions following better donor coordination. Amis et al. (2005) note that considerable time is used in donor meetings, but again it is hard to measure and value.[12]

The introduction of Sector Wide Approaches, where donors jointly fund sector-wide activities, might be able to reduce transaction costs, but it is difficult to determine whether there has been a reduction in transaction costs rather than a shift. The decrease in direct administrative costs has in some instances probably been counterbalanced by increased coordination costs.

Three studies (IMG, 2002; Odén and Tinnes, 2003; Booth et al., 2004) of transaction costs in Tanzania found that the ambitious donor coordination activities put in place there would not lead to any marked decline in aid transaction costs unless the number of projects declines further. They were unable to determine whether public expenditure management as such has improved.

One should also keep in mind that the less coordinated donors are, the easier it should be for recipient governments to achieve the aid allocation they desire, so from that perspective donor coordination is not necessarily in the interest of the recipient. However, since lack of donor coordination increases transaction costs, there is a trade-off between transaction costs and policy autonomy for the recipient government.

This brief review suggests that transaction costs on the recipient side are substantial, but there are no solid estimates either about how it has changed over time or how they vary by aid-modality.

3.2 Effects of aid modalities on governance and growth

Donor behaviour, for example in terms of coordination, affects governance outcomes, i.e. the behaviour of recipients, which in turn affects growth and poverty reduction. Bigsten

[12] Other studies discussing these issues are Acharya et al. (2006), Roodman (2006), Aldasoro et al. (2009), and Frot (2009).

et al. (2011) analysed how the effects vary by the characteristics of the aid transfer.[13] They estimated the effects using cross-country growth regressions, but as noted in the extensive aid-growth literature it is very hard to sort out what is cause and effect in this relationship (Roodman, 2008). Therefore the results have to be interpreted with great caution. One must also note that many of the effects of aid on growth will not show up until after many years, and they would therefore not be picked up in these regressions. For example, it takes time before improvements in schools change the aggregate level of education, which influences growth. Improved health may take even longer to translate into growth. Effect from better donor coordination on the quality of governance may also take a long time to translate into higher growth.

Bigsten et al. investigated the effect on growth of three different aid modality aspects, namely Aid fragmentation, General budget support (GBS) per GDP, and Tied aid per GDP. The only one of these three variables they found to have a significant growth effect was GBS/GDP. They then simulated the effect of an 11% increase in the share of EU aid that comes in the form of general budget support, and found that this could boosts the GDP levels of the recipient countries the following year by about €2000 million. This is a large effect, and reflects the fact that everything that has an effect on growth will matter a lot.

The result is interesting from the perspective of this report, since General Budget Support is an obvious area where there is and must be donor coordination. Generally there are coordination gains to be had if donors pool resources. This makes it possible to reduce administrative inputs from the individual donors. The implication here is that an increased emphasis on GBS would have a positive effect on recipient country growth. At the same time it opens up for savings in transaction costs. And although it was not possible to show that the reduction in aid fragmentation and the tying of aid had a significant effect on growth in recipient countries, it still would reduce transaction costs and thereby make larger real aid flows possible,

3.3 Benefits from reducing unpredictability and volatility

The problem with volatile aid is that it makes policy making in the recipient countries much harder, and forces the countries to be conservative in deciding on the allocation of funds. It could also affect recipient institutions negatively. It must be noted, however, that not all volatility is bad. For example, humanitarian aid, by its nature, is, and should be, volatile. More generally, any component of aid that acts as insurance will exhibit volatility that might be welfare-increasing.

In the literature one distinguishes between the term unpredictability, which measures the extent to which actual aid disbursements from a donor to a partner country falls short of (or exceeds) the pledged amounts, while the term volatility denotes the extent to which

[13] The effects of aid on governance is hard to measure., but for example Djankov et al. (2008) have tried and find that large aid flows have a negative impact on governance.

aid disbursements vary from one year to another. Ideally one would like to analyse unpredictability, but it is hard to do because of lack of solid data. Therefore most analysis is about the consequences of volatility, which of course is related to unpredictability.

Aid flows are more volatile than other macro variables such as government revenue, private consumption, and output (e.g. Kharas 2008). Actually, a general problem with aid flows is that they tend to be procyclical. This means that they tend to go up in good times, when the resources are less needed, and go down in bad times, when resources are particularly needed.

One consequence of unpredictability is that this makes governments more conservative in their allocation of resources. They may hold back investments that would be worthwhile, since they are not sure about the size of their budget. It is generally harder for governments in poor countries to smooth revenues thorough borrowing. One may also be concerned about indirect effects of aid unpredictability on the quality of governance in recipient countries.

The volatility of aid flows can also be an incentive for recipient governments to try to spread the risks by seeking to have many different aid flows and donors to reduce the risk of large swings. And since we believe that fragmentation is negative from an efficiency point of view, this is another negative consequence of aid unpredictability.

The methodology employed used by Bigsten et al. (2011) was first used by Kharas (2008). This is a rather complex approach, which seeks to estimate how large a reduction in aid a recipient would be willing to accept provided it is perfectly predictable. The difference between the fluctuating aid and the smaller but certain amount is considered to be an estimate of the financial loss to donor countries that could have been avoided if the aid flows to the partner country were certain.

Kharas (2008) applied this methodology to the DAC data for 177 beneficiary countries between 1970 and 2006, and he found that the deadweight loss is between 15 and 20 per cent of total aid flows. This is a huge number.

Bigsten et al. (2011) presents an analysis of the cost of the unpredictability and volatility of the component of aid for which we know that volatility is bad, namely the country programmable aid for the period 2000-2009 and 129 partner countries of the EU. The result is that the benefits of reducing the volatility of EU (EU27+COM) aid for 2009 is at least €1800 million. This is a more conservative estimate than that of Kharas.

Compared with other donors the volatility of aid from EU Member States is relatively low, but fluctuations of flows from individual countries are still considerable. One thing that could be considered is to use the EU aid in some coordinated fashion to smooth swings in flows from other sources. Among EU member fluctuations of aid vary a lot. The highest volatility characterizes aid from Austria, Czech Republic, Hungary, Poland, Slovenia, and Slovak Republic, while the most stable flows come from Belgium, Denmark, Germany, Italy, Luxembourg, and Sweden. Aid from the EU countries taken together is fairly stable, though, since flows from different countries balance each other. If the EU-donors decide on their country allocation of aid together through some joint programming arrangement, it should be possible to reduce volatility of aid flows. However, there could still be instances where the EU-group together for some reason decides to reduce aid to a country, which then could imply a substantially larger shock than piecemeal reductions by the individual countries.

It still seems reasonable that donors should seek to coordinate their aid to make efficient use of their resources to counter economic fluctuations in the poor economies. The European Community (EC) could also seek to secure the access of developing countries to the international financial markets to make it easier for them to pursue countercyclical macro policy. Since recipients generally have serious implementation and institutional constraints it would be preferable if aid can be given to suffering countries in the form of budget support.

3.4 The tying of aid

This issue of tying of aid is not exactly about aid coordination, but one could argue that there should be an agreement among EU countries to avoid this practice. It is clearly the case that it is more prevalent in some countries than other, and this is in a sense "unfair" competition.

DAC (OECD, 2010) characterizes aid as untied when proceeds from loans and grants are fully and freely available to finance procurement from all OECD countries and substantially all developing countries. Tied aid means all other loans and grants are classified as tied aid, whether they are tied formally or through informal arrangements. . There is also an intermediate category called partially untied tied. This is defined as loans and grants which are tied, contractually or in effect, to procurement of goods and services from a restricted number of countries, which must include substantially all developing countries and can include the donor country.

Easterly and Pfutze (2008) discuss the extra costs associated with what they consider to be ineffective aid channels. They argue that tied aid is nothing more than ill-disguised export promotion and that food aid is in kind and could generally be bought more cheaply in the market. They argue that technical assistance is often tied and reflecting donor priorities rather than those of the recipients. Also Knack, Rogers and Eubank (2010) look at those aspects when constructing their aid quality indicator.

Clay et al. (2009) provide a comprehensive review of the literature on the impact of tying aid and point out that the studies surveyed invariably conclude that there are welfare losses of tying relative to getting untied aid. There may be a counterargument indicating that the tying makes it possible or interesting for donors to give more aid. Still, the comparison in Bigsten et al.'s estimates is with the situation where donors instead of giving tied aid give an equal amount of untied resources.

When it comes to food aid the development in Europe has been favourable in comparison to the development in e.g. the USA. There has been a gradual shift from commodity-in-kind food aid towards cash based food assistance. Most of European food aid is now purchased locally or regionally, which is more efficient (Lentz and Barrett, 2008, Gaus et al., 2011). Much of European aid goes through the World Food Programme, and that part is outside the scope of our study.

There are several studies that attempt to estimate the cost to the recipient of tying. There are issues about data availability, the extent of informal tying, and the degree of fungibility and so on. All these difficulties mean that the estimates are only rough approximations. The classical reference is Jepma (1991), who reviews the literature 1960-1990, and he concludes that tying implies a 15-30% increase in costs. Since then there have been studies looking at resource transfer efficiency that estimate the excess cost associated with tying. The approach is to compare the prices under tied aid with what they would have been if aid had been untied. The review by Clay et al (2009) finds that the estimates are in the same range as those reported by Jepma.

Bigsten et al. (2011) make an estimate of the magnitude of the extra cost that EU tying has for recipient countries. To compute this, one needs two parameters, the amount of EU aid that is tied and the cost increase associated with tying. In their calculations they use the midpoint of the estimated cost increase range of 15 % and 30 %, which is a cost increase of 22.5%. Their mid-point estimate of the total cost for the two categories of tying EU aid is about €900 million.

There has been some increase in EU reported tying in later years after an early decline, but it is hard to say to what extent this is driven by changes in reporting. In 2009 the EU DAC member average was 9 %, while the worst country cases in 2009 were Portugal (72 %), Greece (50 %), Austria (44 %), and Italy (43 %).

3.5 Addressing the issue of aid orphans

Developing and donor countries state in the Accra Agenda for Action that that "we will work to address the issue of countries that receive insufficient aid". One question one can ask is what gains could be achieved by optimizing the allocation of aid across countries with the single aim to maximize the aggregate poverty reduction effect. Here it is important to discuss issues of both needs and of the ability of recipient countries to transform increased aid volumes into poverty reduction.

One can assume that there is a trade-off for European governments between aid efficiency and politics. Aid coordination can be assumed to be efficiency enhancing, but it is at the same time associated with political costs. Thus, even if there are costs in terms of lower aid efficiency, the member governments may prefer bilateral aid relationships. We first discuss the political costs and constraints on coordination of the country allocation of aid, possible efficiency arguments against coordination, and then we report the estimate by Bigsten et al. (2011) of the gains that could be had in case these obstacles were overcome and the whole of the EU jointly sought a country allocation of aid that gives maximum poverty reduction. This exercise is done to illustrate what could hypothetically be gained from an optimization of the country allocation.[14]

It is clearly the case that political decision makers need to report results of their use of the tax-payers' money to be able to maintain support for the activity. There is no point in arguing that governments should not be concerned about their voters and the domestic policy agenda, but we can still discuss the potential costs associated with it. The individual governments may have their own agendas that they want to pursue, or simply feel that they need to be able to report to their principals, the tax payers, what has been achieved.

One would also assume that larger countries are more willing to sacrifice efficiency for political control. One would assume that the aid allocation of larger countries across countries is relatively more dependent on their own political interest than altruistic motives than is the case for smaller countries. It is hard to put a monetary value on the political costs, so we have to confine ourselves to a discussion of those issues. Here we discuss whether we can see from the country allocation choices of various EU governments to what extent they reflect political priorities or efficiency concerns.

Generally one would assume that allocation may be influenced by donor self-interest, recipient needs, and recipient merit. Self-interest may be either geo-political or commercial. The use of aid tying is one example of own commercial interests influencing aid allocation. Recipient needs are generally measured by levels of poverty, while merit indicators are related to governance. Smaller national controls of the aid budget may have political costs.

The most comprehensive analyses of country aid allocation have been done by Berthélemy. The most striking result of his analyses of country allocation of aid is that neither recipient needs nor recipient merits seem to play any significant role in the allocation of Commission aid (Berthélemy, 2006b, p.16). Instead special relationships developed between the Commission and the ACP countries since the 1970s have a significant influence. He also notes that the Commission aid allocation is influenced by British commercial interests. These results indicate that the allocation of Commission aid could be better allocated if the aim is development and poverty reduction. It thus seems as if the Commission lets political motives steer aid allocation to a rather higher degree. For other multilaterals, recipients' needs play a major role, while merits do not. Still, commercial interests influence also the bilateral allocation of aid, particularly for the large countries of France and Italy (Berthélemy, 2006b, p 11). This review indicates that there is a whole range of motives other than poverty reduction that come into play when it comes to the allocation of aid.

[14] An extension of this analysis including non-EU donors is done by Bigsten and Tengstam (2012).

So this discussion suggests that donors often have been unwilling to pay the political price of adhering to the Paris agenda – at least when it comes to the country allocation of aid. But we can also look at the adherence of donor agencies to the Paris agenda by using the relative rankings of aid institutions done by Birdsall and Kharas (2010). Their rankings are based on 30 indicators, largely drawn from the Paris agenda, and they should therefore be relevant. First, it is rather striking that the multilaterals tend to get high scores in their rankings relative to the bilaterals. The European Commission comes out as number four among the 31 institutions ranked, which of course is very good. This stands in some contrast against what was implied by the analysis of Berthélemy (2006a,b). It could be a reflection of different approaches and somewhat different questions being asked of the data, but it could also be an indication that the EU COM has managed to improve its operations.

The Commission has pioneered the allocation of aid based on recipient performance according to certain ultimate goals, and since 1999 financing conventions with ACP countries include a "variable financing tranche", where aid transfers are based on the outcomes of certain social and economic variables (Adam et al., 2004). Performance-based contracts are expected to lead to better ownership, which in turn is considered essential for good performance. It makes it possible for the recipient country to define its own policy packages, reduce the problem of donor coordination, and increase predictability of resource flows. So this is a modality that is in line with the Paris agenda (and Birdsall's and Khara's indices), and this may suggest that the Commission could handle more of the aid flows of the EU countries. These estimates give an indication of the efficiency in aid management given then current levels in the respective organizations. It is hard to evaluate whether a rapid expansion of volumes, for example within the Commission, would overburden it and lead to significant falls in efficiency. There are no good estimates available of the absorptive capacity of the Commission.

With regard to the bilateral EU donors that are covered by this study we find a wide dispersion of aid efficiency In the top eight we have five EU bilaterals, namely Ireland, Denmark, the Netherlands, the UK, and Finland, while in the bottom eight we have Belgium, Italy, Austria, and Greece. So there is a wide dispersion, but on the whole the European bilaterals on average come out better than the non-European ones. There is no clear pattern of variation by size of country, and the large Commission comes out well of the comparison.

Still, donors may be seemingly efficient by the indicators we have just discussed, but this certainly does not indicate that they allocate aid across countries in an optimal fashion. The estimates by Berthélemy indicated that that is not the case, particularly not for the Commission, so we need to be a bit cautious about what to conclude on the basis of these crude indices. It is clearly the case that the overall distribution of EU aid across recipient countries is not particularly focused on the poorest countries, since country choices are not coordinated and because country choice is often a very political choice. Thus, one would assume that much can be gained if 'aid orphans' got more aid with the help of a coordinated country allocation of aid.

Bigsten et al. (2011) investigate what gains the EU could achieve if it chose to jointly seek to optimize the allocation of its aid across countries with the aim to maximize the poverty reduction effect. The thought experiment we undertake is that EU27 + the Commission reallocate its aid to maximize poverty reduction. This requires the use of a complicated optimization procedure. The estimated net gain from the reallocation is about €8,400 million, after adjusting the estimated allocation for differences in the quality of governance. This improvement relative to the original allocation applies each year that the new allocation is maintained. This estimate must be seen as an upper limit as to what can be achieved. Still, this is a huge potential gain.

It is obvious that there are large gains to be had in terms of poverty reduction by reallocating aid resources according to need. So why have the proposed allocation of donor resources not been achieved? Obviously donors have other aims apart from the maximization of global poverty reduction. They want to be present in a broader range of countries for economic and political reasons.

A country reallocation of EU aid can be achieved without necessarily channel the resources through the Commission, but then donors have to get together and coordinate their allocations. This may be an easier way of moving on the proposed direction than to shift the resources to the Commission. And then again, for the Commission to achieve the optimal allocation across countries it must have the support of the countries in any case. At present it would seem that the Commission (and thus presumably its principals, the countries) rather is concerned to show a European presence across all countries. So irrespective of what form the coordination would take, there seems to be strong political restrictions on what can be achieved.

We have furthermore noted that donors have become more risk averse and it has become more important for them to transfer resources in ways that make it possible for them to trace their own money. This may limit their desire to allocate aid resources through the Commission. Previously there has also been a sense that the bilateral channels were more efficient than the Commission channels, which would also hold back resource shifts to the Commission. However, in terms of how the aid is organized, the Commission (like other multilaterals) now seems to be better adjusted to the Paris agenda than the bilaterals.

EU aid coordination could help bring about an allocation of aid resources across countries, which is closer to the optimal one in terms of poverty reduction effects. This could entail coordination both between the COM and the bilateral activities of EU member states and with the non-EU development community. Coordination can take different forms (to be further discussed below), but the extent of coordination will in the end depend on the political goals of the participating countries. The ideal model we analysed assumed that their only goal is poverty reduction, but this is not their revealed preference. There are also other aims, which will hold back the proposed reallocation.

3.6 International dimensions of coordination

Apart from coordinating classical aid interventions one also needs to consider the need to reduce the asymmetries which characterise the global economic system. This is required when it comes to the influence within the International financial institutions (IFIs), but also with regard to policies on global public goods. There are many areas which are important here relating to e.g. international pandemics, environment, regulation of international transactions, and global financial stability. A related area is the international system of trade and WTO. Since the EC handles the WTO negotiations for all member states, this is a natural area of strong EC involvement. The EU should develop a policy on the IFIs. It should review the international aid architecture and evaluate if a better division of labour can be envisaged. One needs a better system of allocating resources to the multilateral institutions. The EU should also take a stance on the governance of global economic institutions.

Aid to governments affects growth and development via two main channels. It provides resources that can be used for investment (or consumption) and it affects government behaviour. It seems rather clear that the major constraints on development in poor countries lie in the areas of policy and institutions. An important question in this context is therefore whether the international community including the EU can change institutions through aid and conditionality. The World Bank has been reluctant to push for accountable governance, but here the EU countries and the EC can take the lead because they are less constrained than the IFIs when it comes to making politically-sensitive interventions. The EC may here have a comparative advantage relative to the bilateral donors and the IFIs, when it comes to pushing for changes on the governance front. Since these areas probably will become more important, this may be reason enough not to abandon EC aid.

The greatest political challenge in Africa has been on the side of policy implementation, where the severe problems are due to both lack of competence and lack of incentives to do the right things. For policy reforms to be credible and sustainable they should be grounded in a democratic process. Democracy has two important dimensions: electoral competition, and checks and balances. System scrutiny is needed to achieve honesty, and other systems are needed to achieve efficiency. Scrutiny is a public good and donors may need to consider what can be done to support it. They could stimulate peer group evaluations, help improve access to information and to build the capacity to analyse it. One could possibly seek to shift from classical policy conditionality to governance conditionality, since the former has tended to undermine accountability to citizens. A good system would be common to all donors, predictable and agreed. This is an area where the EC could have a comparative advantage relative to the member states. This would both push European democratic values, while at the same time improving efficiency.

To be able to integrate with the world economy, developing countries need to have systems in place that make it possible for them to be an arena for outsourcing and FDI generally. This requires systems that can guarantee quality and timely deliveries. If products are part of process and a marketing drive it is fatal to deliver late. Stability and security are therefore essential for LDCs if they are to benefit from the forces of globalisation. This certainly requires major infrastructure improvements, but in a situation when governance is poor donors may have to seek other routes to support investment. For example the Economic Partnership Agreements are a major new feature of the relationship between the EU and the ACP countries. This could certainly be used to support crucial country drives for private investment and export promotion. It may also be the case that the government lacks capacity to handle aid effectively, which means that it may be advisable to seek channels outside the government instead of overburdening it with project support. One could for example try to set up investment institutions that support private investment directly, rather than trying to do so indirectly via support for government infrastructure and the like. If this were successful it would also strengthen civil society, which would possibly enhance governance. So it seems possible that one could seek to establish investment banks operating in the commercial market.

3.7 A summing up of gains from better aid coordination with the EU

The review of the evidence in the literature suggests that there are large potential gains from better aid coordination. Bigsten et al (2011) summarized the results of their analysis in the following table:

Table 1 - Summary of annual effects of an EU implementation of the Paris agenda (in billions of Euro at 2012 prices)

Type of effect	Estimate (€ billion)
Savings on transaction costs	0,8
Gains from the untying of aid	0,9
Gains from reducing aid volatility	1,8
Indirect effect	(2,0)
Total efficiency gains excluding indirect effects	**3,5**
Total efficiency gains including indirect effects	**(5,5)**
Hypothetical gains from a full coordination of country allocation	**8,4**

Note: The estimates were originally made for 2009 in 2009 prices, but for this report they have been converted to 2012 prices in accordance with the EU price increase as reported by Eurostat.

The study identified a range of gains (admittedly hard to measure) that would follow from improved donor coordination within the EU (or generally for that matter). The three first components in the table, that is efficiency gains excluding indirect effects, are measured with reasonable precision. The indirect effects are measured with a high degree of uncertainty, but they may well be very large (in particular in the longer term). Finally the large entry on gains from full coordination is also hard to measure, but it seems clear that it should be a large number in any case.

It is clearly not politically realistic to believe that EU will move all the way towards what is described as the optimal allocation, but the estimate gives an upper limit to the potential gains. Then it is up to policy makers to weigh these benefits against other political interests. One could of course experiment with partial reallocations, but they would not add much. It is better to let policy makers take this in and then consider how much of the way or at all they want to change allocations.

It should be noted that in these estimates of the potential gains from the implementation of the Paris agenda there are components for which the authors failed to come up with sensible estimates. These include targets on aligning aid flows on national priorities, co-ordinating capacity development support, use of country systems, and using shared analysis are not covered (Prizzon, Greenhill, 2012). The gains could thus plausibly be assumed to be larger if these effects were incorporated.

Chapter 4 – How should the EU coordinate its aid?

Against this background, what are the policy implications for the European Union? First we consider what policies should be changed and coordinated. We then discuss the relative importance of different policy changes and the political feasibility of the proposed changes. Finally we consider how aid coordination should be organized and in particular what role the Commission should play.

4.1 Implied policy changes

It is clear that major cost savings can be achieved if donors concentrate their aid efforts to *fewer countries* and to more *general forms of aid transfers*, e.g. General Budget Support. There are certainly political problems associated with this proposal, since it would mean that major countries would have to abandon certain countries, while they may feel that they have a political interest in showing presence there. One way of at least preserving an EU presence in all countries, while still reducing the number of players in each country, is of course to channel money though the joint channel, that is the European Commission. Alternatively EU countries could sit down together and decide on who should be present in which country. To focus the assistance on more general forms of aid may be politically easier than to drop countries, but donors may be reluctant to go for general forms of aid when they are uncertain about the quality of governance. Still, it is not self-evident that the quality of governance is less important for project support than general budget support.

Further gains could also be realised by better *coordination of the day to day activities* of the donors. This could be in the form of coordinating the donors' reporting systems, or by simply deciding (in good EU tradition) that if the reporting system of one EU member is used, it should accept by the other EU members as well. Synchronisation of rules and procedures as well as meetings with the recipients would also help. Joint analytical work could be done to a higher degree.

Much can be gained by *coordinating the country allocation of aid*. Here we have noted a huge scope for achieving more effective poverty reduction by letting the allocation of EU aid be determined wholly by the extent of poverty reduction that could be achieved in different countries. According to the estimates presented above, which take the effect of differences in the quality of governance into account, such a country allocation would imply a huge improvement in poverty reduction results. However, since the proposed allocation has not emerged from the political system of the donors as yet, we must assume that such a reallocation would have high "political costs". On the list of countries that would benefit from the reallocation are countries, which are not major economic partners of the EU, nor have a strong strategic value. Thus, such a reallocation of aid would mean that EU goes all the way to an allocation that is purely altruistic and is not in any way governed by self-interest (apart from the long-term self-interest of eradicating poverty and thereby creating a more stable world). One would not expect that all the EU countries would be willing to make the full adjustment, but we still think it is appropriate to point out what the costs are in terms of poverty reduction foregone of sticking to the current allocation.

We have also referred to (weak) evidence suggesting that there is a positive effect on growth from shifting towards *more of general forms of aid*, such as General Budget Support. As long as a recipient government pursues a credible policy, donors should continue to seek to align aid to recipient policy. However, when policies are not acceptable, donors will want to adjust their aid strategy. They can cease giving aid to the country in question, use non-government channels for aid, or try to change government behaviour with the help of conditions. But when seeking to channel resources through a government, it makes sense to see to it that this is integrated within the regular system of government, even if that increases the risk of misappropriation. It is important for sustainable development that aid helps build a viable governance structure, and that is not done by using parallel structures. That donors currently seem less willing to accept the risks of using government structures is a concern.

It is hard to find any strong economic arguments against the *untying of aid*. The argument against it would be that tying benefits donors themselves and reduces their cost of the aid transfer. But they could then instead reduce the aid allocation to an amount equivalent to the extra costs that tying implies. If donors really want to give effectively what they have set aside in their budgets, aid should be untied. The estimates provided are very approximate, but there is no doubt that major benefits would be realized.

That recipients would benefit greatly from more stable aid flows is not in dispute. The political challenge here rather relates to the issue of what is required for donors to be able and willing to *guarantee stable aid flows*. On the one hand there are the constraints implied by domestic budget procedures, which mean that there are limitations as to what can be promised. Donors could of course try to make agreements covering several years, but it is not clear for how long such agreements could be entered into in a way that reassures the recipients that the money will be forthcoming. And this leads us to the next problem with regard to the stability of aid flows (the CPA component), and this is the problem that there may be unexpected revelations of bad governance or corruption in the partner countries. The donors would then want to adjust its aid stance, which may be harder if there is a long-term agreement. So in the end there are major gains to be had if aid is more predictable, but to make aid contracts longer one may need to have conditions associated to them specifying what should be done in case there are instances of inappropriate behaviour.

Transparency is clearly important if the donors are to be willing to provide more general forms of aid, that is accept a higher degree of ownership. It is therefore essential that the budget processes of recipients are transparent and that it is possible to follow the money flows to the final beneficiaries. Given that there is more transparency and accountability, the donors would find it easier to accept more general forms of aid that leave decisions about the use of resources more fully in the hands of the recipient governments. Increased recipient control of the policy making process will also lead to more learning.

This leads us naturally to the issue of *conditionality*. It can be argued that one should apply some form of conditionality to recipient countries, whose leaders may exploit private information and that a number of benefits can be generated in this context by aid coordination. Donor would be helped if they could put in place a *specialized agency or mechanism able to collect information about the governance characteristics* of the potential recipients, and to circulate information among donor members. Aid coordination could allow for a more effective implementation of conditionalities and in a format that reduces the transaction costs involved on the recipient government side.

4.2 The role of the Commission in EU aid coordination

The results of the analyses reported in this review suggest that there would be substantial gains from better donor coordination and a closer adherence to the Paris Agenda.[15] The question is what form this should take and in particular what role the Commission should play relative to the member countries.

Exactly how the coordination should be organized and what the outcome of the process of stronger coordination involving the EU member countries will be is not necessarily straightforward. Schneider and Tobin (forthcoming) discuss this issue and argue that EU members can influence the aid allocation process towards their national interests by forming coalitions with likeminded members. If the preferences are varied the Commission has a greater chance of pursuing an independent multilateral aid strategy. Their empirical evidence supports their hypothesis that coalitions can have a strong influence, at least with regard to who gets the aid. One could envisage that member countries give the Commission a mandate to pursue only altruistic aid focusing on for example poverty reduction. The question then is how much autonomy the Commission should have and how well protected it should be from pressures from individual members and groups of members. If they are given a very high degree of autonomy, members could maybe become reluctant to allocate their aid money to the Commission. The question about how to organise extended aid through the Commission is not trivial, but we leave this discussion here with this caveat.

We have indicated that much can be gained by coordinating aid between the EU Commission and member states. One way to bring about increased coordination would be to increase the role of the Commission. This can be increased in two ways. Either the member countries can decide to channel more of their aid through the Commission, or it can provide tighter coordination of the aid of the EU member states?

[15] There is an ongoing debate about the role and importance of coordinated policy making generally within the EU. See Sapir (2007) for a set of analyses.

We have found that large positive effects in terms of poverty reduction could be achieved with a coordination of country allocation, and that does not necessarily require channelling resources through the Commission (even if that would be one way of doing it). It would be enough if countries jointly decide about the country allocation of their aid, and it might seem natural that the negotiations are organized by the Commission.

Increased predictability is much harder to organize in a decentralized fashion, since all the donor countries have their own political and budgetary processes. This would be easier to handle if aid was channelled through the Commission, since there would essentially be one process to try to stabilize. But there are of course also other considerations that countries take into account when they decide on the fraction of their aid that they want to channel through the Commission.

The third dimension which is the untying of aid does not require coordination. It is just a matter of doing it! But peer pressure, e.g. through the Commission, could help to advance the process.

Finally, reductions in transaction costs would probably be easier within one structure, but again the bilateral donors also have other considerations to take into account. Steps to organise a division of labour should anyway be beneficial, and maybe the Commission could be a broker in this process.

Apart from the issues just mentioned, there may sometimes be other reasons for choosing the Commission route rather than the bilateral route. Aid aimed at issues relating to politically more sensitive issues such as governance, accountability, and democracy might be better handled for political reasons in a multilateral setting. It should be part of EU's strategy to improve policies, enhance policy coherence, and improve implementation and delivery mechanisms. But, as we have noted, that there is a certain coordination fatigue among the bilaterals. So the political costs of reduced donor ownership of their aid policies may remain a severe brake on closer coordination.

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