



Scenarios for Increased EU Donor Coordination: What Is the Right Level of Aid Coordination?

Summary

The need for more coordination in European development cooperation is acknowledged by most academics and practitioners. It emerges because there has been a strong increase in the level of fragmentation and proliferation of official development assistance (ODA) in recent years, despite the calls for stronger harmonisation and division of labour. Over the last 10 years, the European Union has invented a number of good technical solutions to overcome the disadvantages of fragmentation. However, the main challenges of inadequate European coordination are not related to technical coordination but to a clear policy commitment and guidance to improve further.

Existing EU commitments on coordination in development cooperation and current mechanisms offer a mixed picture on the benefits and costs of EU coordination. The EU's efforts in the context of the international aid-effectiveness debate – and more specifically, aspects related to aid coordination – are not always accompanied by similar improvements at the national level of individual member states. Existing coordination efforts for the three main areas of coordination (policy, programming and implementation) have to be reviewed in order to adapt European development policy to the challenges. This includes a review of tools like division of labour, joint programming, programme-based approaches and blending.

Savings and other benefits from improved or increased coordination in EU development aid have to be assessed both qualitatively and quantitatively. Overall, there are three pivotal explanations for the current shortcomings with coordination at the EU level:

1. There is no consensus on what the right level of coordination is or should be.

2. The political economy of donor coordination is complex; there are strong incentives working against more coordination (such as the interest of member states in “visibility”).
3. The political economy of partner countries is complex as well and not always in favour of more coordination (fragmentation of donors as a strategy to diversify risks, e.g. in cases of enforced political conditionality).

Savings in transaction costs seem to be the most evident and straightforward potential gains of coordination. Aid coordination at the EU level may create significant benefits both in terms of efficiency and in terms of impact. However, the calculation of transaction costs is challenging because the identification of the “inflection point”, where the benefits surpass the costs, is virtually impossible and because qualitative benefits are difficult to assess.

Currently, there are five model scenarios for shaping future EU development policy, of which only three would correspond to a progressive increase in EU coordination: i) “bilateralisation of EU aid policies”, ii) business as usual, iii) “different-speeds approach”, iv) “escalation of coordination” and v) “aid as an integrated policy”. For European development aid, a fully integrated approach would be, at least in theory, the best way to tackle fragmentation and the costs associated with it. However, member states do not really appear to be ready to fully “buy in” and “walk the talk”.

An “escalation of coordination” (incremental increase of coordinated approaches) may imply a combination of short, medium and long-term coordination efforts in order to comply with international commitments through minor changes to the Lisbon Treaty.

EU coordination

EU efforts for more coordination are part of long-standing efforts. In 2007 the Council of the European Union adopted the EU Code of Conduct on Complementarity and Division of Labour in Development Policy (CoC-DoL); in 2008 the EU Fast Track Initiative on Division of Labour and Complementarity was created with the objective of supporting a group of partner countries and monitoring progress in the operationalisation of the CoC-DoL. According to the EU, division of labour can operate at three levels: “in-country” (how many donors in a country, etc.), “cross-country” (“darling” versus “orphan” recipients) and “cross-sectoral” (comparative advantages of donors in sectors). There are three broad levels of EU coordination: i) policy level, ii) programming level and iii) implementation level.

Policy level

Coordination at the policy level in the field of EU development aid (European institutions and member states) is challenging because of the number of different political rationales driving the actors involved, including institutional changes since the creation of the European External Action Service (EEAS) in 2010, and the need to clarify the division of responsibilities between the EEAS and the Directorate-General for Development Cooperation. At the same time, EU member states do not usually miss opportunities to increase their own visibility and to push their national aid interests (e.g. in the case of a new recipient country such as Myanmar). There are two main policy documents related to the improvement of EU coordination: the “Communications on Aid Effectiveness” and the “Agenda for Change”. In these documents, the Commission tries to clearly define the efficiency agenda and draw a road map that includes the issue of coordination.

The Communications suggest focusing on implementation on a limited scale – six pilot countries. One of the three selection criteria is the “local coordination capacity” of partner countries. With the conclusion of the Agenda for Change in 2012, the Council started its new efforts towards coordination, stressing that member states should continue their work on cross-country division of labour, in line with the CoC. However, the Agenda reveals ambiguous tendencies, as 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 the member states.

Programming level

The programming level is about approaches and strategies (such as a specific country strategy) during the aid programming phase. The EU has started to improve donor coordination at the country level through the wider use of joint programming (JP).

Joint programming

Under this system, the goal is to incorporate member state and Commission bilateral country programmes in a single EU country strategy that is aligned with the partner country’s own national development plan and agreed upon by the EU institutions and member states.

The potential qualitative benefits that this mechanism may provide are many. First and foremost, this mechanism aims at improving the levels of both alignment and ownership, which in turn allow for improved effectiveness and sustainability of aid. 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 mappings for instance, is significantly enhanced. And sixth, it has the potential to increase EU donors’ synchronisation with the recipients’ budget cycles, 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 occur in a more timely fashion in relation to the recipients’ political dynamics.

In terms of specific benefits for EU donors, JP can contribute to more leverage and a stronger impact of “one-voice approaches”. On the recipient side, partner countries would benefit from a reduction in “conceptual diversity” and, therefore, in conceptual contradictions typical of a fragmented donor landscape that often materialise in the presence of a high number of donor-funded experts to push specific sector policies.

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)

PBAs can be implemented in different ways. In practice, this modality ranges from pooled (or basket) funding of specific activities or reform programmes to joint support of sector-wide approaches 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 funding of larger programmes without a proportional increase in transaction costs.

Table 1: EU development policy: Costs of no coordination				
	Little or no coordination		High level of coordination	
	Advantages	Disadvantages	Advantages	Disadvantages
EU member states	<ul style="list-style-type: none"> • Low transaction costs (coordination between member states, etc.) • More individual visibility • Easier national accountability 	<ul style="list-style-type: none"> • Duplication • Lack of information • Low leverage 	<ul style="list-style-type: none"> • Higher leverage • Higher efficiency • EU visibility 	<ul style="list-style-type: none"> • Loss of individual visibility • Limited impact attribution • Potential damage to individual aid agencies
Recipients	<ul style="list-style-type: none"> • Weak conditionality • More ownership 	<ul style="list-style-type: none"> • Transaction costs • Moral hazard • Under-funding • Overcrowding of some sectors 	<ul style="list-style-type: none"> • Reduced fragmentation • Higher efficiency • More untied aid 	<ul style="list-style-type: none"> • Higher risk of strong conditionality • Loss of ownership
Both	<ul style="list-style-type: none"> • Low transaction costs • Mutual accountability 	<ul style="list-style-type: none"> • Reduced impact • Duplication • High opportunity costs • Overcrowding of some sectors 	<ul style="list-style-type: none"> • Higher effectiveness • Large-scale impact 	

Source: Authors' representation

This modality of aid provision is credited with notably increasing efficiency and effectiveness. Among their general benefits, one can identify: a higher potential for ownership and alignment; a reduced number of interventions; diminished donor competition in certain areas; simplified and harmonised reporting, monitoring and evaluation (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.

- Multi-donor budget support (MDBS)

Arguably, MDBS is the most comprehensive form of PBA. However, it is also the most demanding in terms of partner capacity and commitment to make good use of the provided resources. Beyond the widely recognised benefits of MDBS in terms of reductions in transaction costs, it is the potential advantages that it offers in a number of key areas of the Paris Declaration that 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 internally (to parliament and taxpayers) and externally (to donors). Savings in transaction costs created by avoiding parallel donor projects and through reporting arrangements are also important, particularly due to 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.

Benefits and costs of increased EU coordination

The most evident, straightforward potential gains of coordination within development cooperation is savings in transaction costs, as they are not linked to any specific policy choice that other potential gains may require. Transaction costs might be related with the management of projects such as preparation of a donor-funded project, reporting requirements, the time needed by a Minister of Finance to receive donor delegations, etc. When speaking about benefits or cost savings through coordination on 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. The calculation of transaction costs, or of benefits, is challenging because both are present in every "transaction activity". Identifying the "inflection point", where the benefits surpass the costs, is virtually impossible in the praxis at a reasonable cost.

The large number of donors who provide rather small amounts of aid may reduce the efficiency of aid delivery. Hence, proliferation and fragmentation become major obstacles for ODA. The exorbitant increase in transaction costs due to fragmentation and proliferation is obvious. Poor coordination translates into too many missions, large numbers of projects to be managed, 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 to the recipient country where it takes place, both in terms of the aid setup and of officials' salaries and levels of involvement.

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

Aid coordination may also create significant benefits in terms of increased impacts. It can be assumed that a single donor is not in a position to cover all identified needs in terms of countries and sectors that 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 on 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.

Scenarios for EU coordination

For the EU, there are five model scenarios of progressively increasing degrees of coordination. These scenarios might support EU aid actors in reflecting 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 of European aid actors to coordinate, and especially to harmonise. This risk might occur if member states perceive more structural "coordination costs" and fewer "coordination benefits".
- ii) **Business as usual**: In this case, initiatives for more and better European coordination will continue. However, since the commitment of European aid actors is largely voluntary, member states might tend

to "cherry-pick" where and how to engage (pushing the coordination agenda in one country, avoiding joint approaches in another country, etc.). This scenario is based on the current interpretation of "shared and parallel competences", as described in Art. 4.4 of the Lisbon Treaty and the Code of Conduct on Complementarity and Division of Labour.

- 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 only little progress.
- iv) **"Escalation of coordination"**: A fourth scenario follows what we call an "escalation model of coordination", which would roughly entail three levels: a) short-term coordination efforts focusing on quick wins through the use of existing best practices and the implementation of the joint programming agenda and PBAs, b) midterm coordination efforts focusing on even more ambitious areas (e.g. M&E systems), c) long-term coordination efforts in order to have a tightly coordinated EU development cooperation landscape. Some important changes to the Lisbon Treaty would be required for this long-term approach: the coordinating role of the Commission is strengthened by removing development policy from Art. 4.4 and incorporating it into Art. 4.3. This would imply that member states cannot exercise competence in areas of development policy where the Union has done so.
- v) **"Aid as an integrated policy"**: Finally, European aid actors could agree to abandon individual aid policies of member states. This would require significant changes to the Lisbon Treaty: development policy then becomes an area handled by Art. 4.3. Similar to the EU's Common Fisheries Policy and trade policy, this scenario would imply a transfer of the development policy from the national level to the EU level.

Literature

Klingebiel, S. / P. Morazan / M. Negre (2013): Cost of non-Europe in development policy, Aug. 30, Research Paper CoNE 1/2013; online: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2349301



Dr Stephan Klingebiel
Head of Department

Department I: "Bi- and Multi-lateral Development Policy"
German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)



Dr Pedro Morazán
Senior Researcher

SÜDWIND e.V.
Institut für Ökonomie und Ökumene Siegburg



Dr Mario Negre
Senior Economist

World Bank Research Department, seconded by the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)