

Cost of Non-Europe Report

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

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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.

This text builds on expertise commissioned specifically from and provided by the Südwind Institut, Siegburg; the Royal Elcano Institute, Madrid; and Professor Arne Bigsten, University of Gothenburg.

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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by Iliana Olivié, Aitor Pérez, Rafael Domínguez, Elcano Royal Institute, Madrid
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by Professor Arne Bigsten, University of Gothenburg.

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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 coordinating 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 ODA¹ 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 increased² and seven maintained their ODA levels³, 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).

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 coherence⁴ 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).

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 billion⁵) 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 Labour⁶ in Development Policy of 2007, or the most recent Agenda for Change⁷. 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 countries⁸. 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 sectors⁹, 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 Effectiveness¹⁰, 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 policy¹¹, 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 1 st (89%) and Spain 2 nd (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 (PGAEE)** has been operating since 2009 as the main donor coordination mechanism. It includes 45 donor agencies. PGAEE 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 2012¹².

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 States¹³ 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

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 capacities¹⁴ 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 request¹⁵.

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	<u>(2.0)</u>
<i>Total efficiency gains excluding indirect effects</i>	3.5
<i>Total efficiency gains including indirect effects</i>	(5.5)
Hypothetical gains from a full coordination of country allocation	<u>8.4</u>

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 out 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.

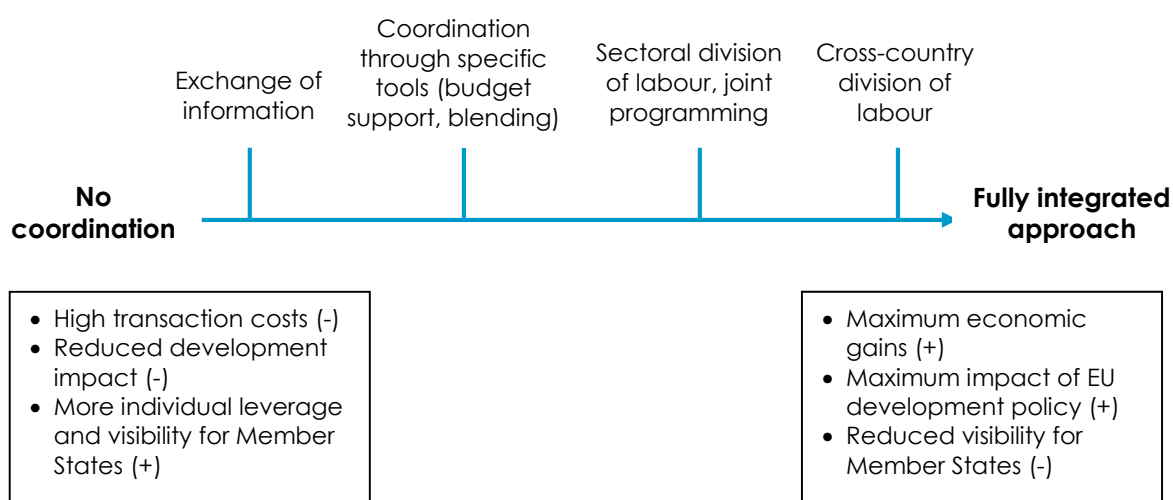
Third, the **"political economy" of partner countries** is not straightforward either and indeed relevant when it comes to coordination of aid. If coordination is perceived as means to increase the leverage of donors, this runs against the interests of recipients. Additionally, a concerted in absolute 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 mechanisms 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 "communitarised" 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.

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.

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