Cost of Non-Europe in Development Policy

Joint JICA RI & DIE Workshop on ‘The Politics and Impact of Non-Coordination in International Aid’

Tokyo, February 21\textsuperscript{st}, 2014
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1. Introduction

- **Why aid coordination?**
  Aid coordination is an approach to deal with aid fragmentation

- **Our definition**: Aid donor coordination comprises activities of two or more donors – preferably under the lead of the partner country – that are intended to improve or to harmonize their policies, programs, procedures → maximize development impact & efficient use of resources

- **Study** commissioned by European Parliament: Stephan Klingebiel, Mario Negre & Pedro Morazán
Benefits and costs of coordination

Economic gains & transaction costs

- Costs for recipients and donors arising from delivering aid (overhead costs for donor offices etc.) → Coordination high potential (to some extent quantifiable)

Increased and improved impact

- Large number of impact benefits based on coordination (e.g. avoidance of aid ‘orphans’ and ‘darlings’). Governance impact (effective public institutions in recipient countries etc.) rely to a large extent on coordination

Costs of coordination

- Potential negative aspects: (a) coordination can create high transaction costs and ‘delays’ without value added, (b) coordination from the perspective of recipients can lead to a unified and strong position of a donor group – ‘risk sharing approach’
Measuring TAC

- **Shortage of donor reliable data** on administrative costs per recipients, instruments or aid modalities – difficult disaggregation

- Even **more difficult** to disentagling and estimate **costs at the recipient level** beyond some general indicators like number of missions, etc.

- In both cases, **savings are highly dependant on the form that coordination takes**
Increased and Improved Impact through Coordination

**Policy Level**
- Contributes to cross-country *allocative efficiency*
- Types of *conditionalities highly depend on coordination* – less impact if they are not agreed upon

**Programming Level**
- Critically affects the *effectiveness of the public sector* and its *absorptive capacity* (fragmentation disrupts its functioning)
- Requires *harmonisation* and *use of country systems* to facilitate alignment
- Contributes to *sectoral allocative efficiency*

**Implementation Level**
- Precondition for *PBAs built on consensus*
- Helps avoid ‘bads’ (poaching, moral hazard, etc)
- *Coordinated M&E: a major instrument to guide policies*
Coördinatie is een multidimensionale problem: geen mogelijk univocaal rangschikking van coördinatie structuren. Gacnen kunnen zijn:

- In efficiency of effectiviteit
- Op donor of recipient side
- Op de beleids-, programme- of implementatie niveau
- Op de hoofdkantoor, landelijke kantoor of partner niveau
- Afhankelijk van ex-ante of ex-post coördinatie
- De resultaten van verschillende graden van coördinatie (ruggend van info-sharings tot integratie)
- Van verschillende grond (systeem- of recipient-related)

- Theoretische frameworks zijn niet in staat een ‘ideale modell’ voor EU-integratie/coördinatie te bieden
- Maar potential gains are high, both quantitatively and qualitatively
Areas of EU coordination

Policy level

- International engagement: 4 High level forums + Global Partnership
- Internal policies: EU Code of Conduct on Complementarity and Division of Labour; Agenda for Change; Cross-country DoL (so far only for EC cooperation)

Programming level

- Sectoral-DoL (limited impact on fragmentation)
- JP in a few countries ~ 50 by 2020. (Keys: MS buy-in; donor commitment to and synchronisation with country systems; dependence on local circumstances)

Implementation level

- MDBS → high potential for donor coordination
- Blending → Pooling of resources and coordination (including improved transparency) of funding institutions
Costs and Benefits Assessments of EU Donor Coordination

Policy Level

➢ Coordination in international forums
  o EU pushing aid/development effectiveness agenda
  o Increased peer pressure within EU following international commitments

➢ Cross-country aid allocation
  o Huge potential gains in effectiveness and efficiency (hundreds of millions of euros on donor side)
  o Addressing aid darling/orphan phenomenon
  o No ideal allocation formula as allocation efficiency disputed
Costs and Benefits Assessments of EU Donor Coordination

**Programming level**

- **Joint Programming**
  - Highly dependant on government engagement and capability
  - Stronger leverage for donors (conditionalities, disbursement triggers, good governance, etc)
  - Potential great gains from reduced volatility and increased predictability but estimations remain unclear

- **Sectoral DoL**
  - Efficiency improvements (reduced duplication, competition and TAC; tackling sectoral over/underfunding)
  - Effectiveness improvements (exploiting MS comparative advantages; increasing complementarity)

- **Delegated cooperation – silent partnerships**
  - Additional advantages to sectoral DoL (TAC reduction; increased funding for same number of interventions; reduced need for staff and management)
Implementation level

- Programme-based approaches – particularly MDBS (potential savings for EU between €200 and 400 million for shifting 66% into PBAs and PERHAPS ~ €2 billion for indirect growth effects)
  - Increased harmonisation, alignment, ownership and use of country systems
  - Reduced number of interventions, moral hazard, tied aid (potential gains of untying: €0.6-1.1 billion)

- Blending
  - EU Platform for Blending in External Cooperation
  - Beyond usual benefits of coordination: improved accountability; establishment of rules and mandates; peer forum; economies of scale
Changes to Bigsten et al. (2011): **Strict application of CoC**

- Based on CRS data for 2009, we compute a total of **8,855** interactions for the EU15+EC
- CoC1: max 5 EU donors per sector in a given recipient (**6000** interactions)
- CoC2: max 3 sectors per donor in a given recipient (**4800** interactions) → **upper boundary**
  (46% reduction in the average number of recipients per donor)
Quantitative Re-Assessment of EU Donor Coordination

Summary of effects of better EU implementation of the Paris Agenda (€ billions; 2012 prices). Own re-estimations from Bigsten and Tengstam (2011) *

<table>
<thead>
<tr>
<th>Type of effects</th>
<th>Bigsten (2013)</th>
<th>Own re-estimation</th>
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</thead>
<tbody>
<tr>
<td>I. Savings from reducing number of partner countries</td>
<td>0.5</td>
<td>0.5 ± 0.4</td>
</tr>
<tr>
<td>II. Savings from shifting aid modalities</td>
<td>0.3</td>
<td>0.3 ± 0.1</td>
</tr>
<tr>
<td>Savings on transaction costs</td>
<td>0.8</td>
<td>0.8 ± 0.5</td>
</tr>
<tr>
<td>III. Gains from the untying of aid</td>
<td>0.9</td>
<td>0.8 ± 0.3</td>
</tr>
<tr>
<td>IV. Gains from reducing aid volatility</td>
<td>1.8</td>
<td>(1.8)*</td>
</tr>
<tr>
<td>V. Growth indirect effects of increased Budget Support</td>
<td>(2.0)</td>
<td>(2.0)**</td>
</tr>
<tr>
<td>VI. Gains from coordination of country allocation</td>
<td>8.4</td>
<td>(8.4)***</td>
</tr>
</tbody>
</table>

* Despite likely positive correlation, the extent to which increased coordination would imply less volatility and more predictability is unclear.

** Concerns over the robustness of the model linking budget support to growth and the direction of causality. Additionally, the estimate stems from testing an arbitrary 11% increase in the use of budget support.

*** Important assumptions with potential substantial effect on the estimate. Additionally, it follows Collier and Dollar (2002) allocation approach, which has earned much critique.

* We also make use of Prizzon and Greenhill (2012) comment on Bigsten and Tengstam (2011)
Country experiences

Myanmar

- Country transformation leads to totally new aid landscape
- Rush of donors → insufficient coordination (incentives for non- or ex post-coordination)
- Potential trade off between ‘speed to get concrete results’ and ‘coordination’
- Different reasons why MS have reservations about the value added of JP
- EU delegation not yet in place (envisaged for September 2013)

Rwanda

- Rwanda ‘frontrunner’ for the implementation of the aid effectiveness agenda
- Main incentive for coordination: Government pushes coordination
- Good performance: Cross-sector division of labour (all donors) and budget support
- Joint programming (high potential)
Political Economy of EU Donor Coordination

- **Consensus on need for more coordination**, but **no ideal model of the right level of ambition**

- **Complex PE of donor coordination** because of sometimes competing and contradicting interests:
  - competition on projects
  - access to government and public reputation
  - own aid industry
  - donors’ specifics requirements
  - specific visibility
  - sectoral preferences
  - MS differences in perspectives
  - foreign policy

- **Complex PE of recipient** (increased donor leverage; decreased flexibility for selected stakeholders; ‘all-or-nothing’ dychotomy)
Conclusions

- Research shows **value added** through more and improved **coordination** → In theory, a **fully integrated European approach** would provide most advantages

- Donors agree on the need for coordination → challenge: political economy of actors: **Incentives for non- or little coordination** (visibility of donors, collective actions problems, strong MS may not want to ‘disappear’ etc.)

- Good **instruments do exist** (CoC, JP etc.) → Some more aspects might be covered by EU approaches (joint consultations/negotiations, joint M&E under JP etc.)

- Challenge: **coordination is taking place on a voluntary basis** (cherry-picking) and commitment of all EU actors not always clear

- Sometimes **delink** between **policy level and in-country coordination structures** (e.g. JP)
1. **Bilateralisation of EU aid policies**: Decreasing commitment of European aid actors to coordinate and especially to harmonize.

2. **Business as usual**: The roles of European institutions and MS will remain the same. Limited progress; coordination instruments rather ‘heavy’ for actors, whereas the tangible results might be limited.

3. **‘Different speeds approach’**: A group of like-minded MS and the EC/EEAS in favour of a more intense coordinated approach develop more intense coordinates approaches.
4. ‘Escalation of coordination’: 

- **Short term coordination efforts** focusing on quick wins (through the use of existing best practices and the implementation of the joint programming agenda and programme-based approaches).

- **Mid term coordination efforts** focusing on more ambitious areas (more joint implementation arrangements and intensified policy / allocation coordination).

- **Long term coordination efforts** in order to have a tightly coordinated EU development cooperation landscape (binding approaches etc.).

5. **Aid as an integrated policy’**: European aid actors could agree upon to overcome individual aid policies of MS. Such an approach would be in need of a complete new foundation.
Thank you for your attention!

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