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Deutsches Institut für
Entwicklungspolitik



Years | 1964 - 2014

German Development
Institute

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 21st, 2014
Dr. Stephan Klingebiel

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'



- **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



- **Coordination is a multidimensional problem:** no possible univocal ranking of coordination structures. Gains can be:
 - In efficiency or effectiveness
 - On donor or recipient side
 - At policy, programming or implementation level
 - At HQ, country office or partner level
 - Based on ex-ante or ex-post coordination
 - The results from different degrees of coordination (ranging from info-sharing to integration)
 - Of different nature (system-wide or recipient-related)

- Theoretical frameworks are **unable to provide an ‘ideal model’** for EU integration/coordination

- But **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



Policy Level

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

- **Cross-country aid allocation**
 - Huge potential gains in effectiveness and efficiency (hundreds of millions of euros on donor side)
 - Addressing aid darling/orphan phenomenon
 - 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

Quantitative Re-Assessment of EU Donor Coordination



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)

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

Source: OECD CRS. Own calculations.

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) *

Type of effects	Bigsten (2013)	Own re-estimation
I. Savings from reducing number of partner countries	0.5	0.5 ± 0.4
II. Savings from shifting aid modalities	0.3	0.3 ± 0.1
Savings on transaction costs	0.8	0.8 ± 0.5
III. Gains from the untying of aid	0.9	0.8 ± 0.3
IV. Gains from reducing aid volatility	1.8	(1.8)*
V. Growth indirect effects of increased Budget Support	(2.0)	(2.0)**
VI. Gains from coordination of country allocation	8.4	(8.4)***
<p>* Despite likely positive correlation, the extent to which increased coordination would imply less volatility and more predictability is unclear.</p> <p>** 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.</p> <p>*** Important assumptions with potential substantial effect on the estimate. Additionally, it follows Collier and Dollar (2002) allocation approach, which has earned much critique.</p>		

* 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' dichotomy)



- 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.

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Thank you for your attention!

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