EU Aid Coordination and Aid Effectiveness

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This paper is intended to provide a framework for the eudaico network to undertake a series of comparative country studies of aid EU coordination within the context of the Paris Declaration on Aid effectiveness. It begins with a review of the relevant economic concepts that may provide a theoretical framework and then proceeds to outline the evolution of EU aid administration in general and then specifically in relation to the aid effectiveness agenda. Finally it considers the various assessments of EU performance in this area and concludes with a review of some quantitative assessments of the potential gains to be realised from the adoption of the Paris Agenda proposals on Aid Effectiveness.

A Conceptual Framework

The most obvious component of the economic gains to be obtained from aid coordination relate to the potential reduction in transaction costs. Such cost savings in the process of programming, administration and evaluation are likely to demonstrate economies of scale, exceeding the additional costs of agency coordination. Such efficiency savings may be received either by the donors or the recipient governments. From the perspective of the recipient country greater aid coordination should reduce the demands upon public administration and therefore increase absorptive of capacity. But further more significant indirect benefits may arise from improvements in the governance of the recipient countries. Aid coordination, if accompanied by effective implementation of conditionality and better monitoring of aid use, could make a major contribution to the more effective realisation of poverty reduction.
It is in discussing the contribution that aid coordination can make to this ‘governance effect’ that a literature has been created which has attempted to analyse the optimal forms of aid conditionality and aid coordination. Starting with the concepts of the Principle-Agent problem and ‘moral hazard’, various theoretical models have suggested alternative policy approaches. The Principle-Agent problem addresses the information asymmetry that may exist between the principal, in this case the donor country, and its agent, the local government administration. This asymmetry may allow the agent to exploit their advantage in the misallocation of resources. Whilst this conceptual framework emphasises the importance of information in achieving efficient aid allocation it assumes that donors have a limited administrative role in the allocation of their assistance. As we will see, one of the criticisms of EU aid policy has been the creation of parallel aid administrations. Nonetheless the move to budget support from directly administered project aid, will return the issue of effective monitoring and evaluation to centre stage. As for ‘moral hazard’, most recently discussed in regard to the banking crisis, it draws attention to the removal of penalties for riskier or inappropriate behaviour by recipient governments. Greater aid coordination amongst EU donors should offer the opportunity to increase the penalties for inappropriate recipient government behaviour and reduce the opportunities for donor substitutability. However, the increasing importance of non-EU donors, especially China, has to considerable extent restored the post Cold War competitive nature of development aid.

Turning to more relevant theoretical studies we find many of the policy conclusions that are far from surprising. Thus Azam and Laffont (2003) conclude that to mitigate the capture of aid by recipient government elites the focus must be upon the imposition of
conditionality embodied in optimum aid contracts. Gaspart and Platteau (2011) suggest that competition between aid donors will reduce aid effectiveness by inducing aid agencies to disburse aid quickly in order to achieve aid targets and avoid destabilising an aid-supply relationship. Given that aid budgets are often specifically allocated to particular projects, budget headings or countries, recipients may be able to exploit the constraints upon aid agencies. Amongst the EU donors there is a long-standing criticism of the failure to achieve disbursement targets. Given the international commitments to targets of ODA of 0.7% of GNI, there is clearly a real danger of aid efficiency being sacrificed to achieving such disbursement targets and thereby undermining the relative control of aid donors relative to aid recipients. A reduction in donor competition can be achieved either through enhanced coordination or through concentration/complementarity, i.e. a reduction in the number of donors active in a particular sector or country. Thus reducing competition between aid agencies not only rebalances the relative influence of donors and recipients but will also provide efficiency gains in the programming, auditing and evaluation. The degree of information exchange will be central to the effectiveness of aid conditionality and the EU has a significant advantage in this regard given its comprehensive institutional framework.

The literature has also addressed other elements of the dynamics of aid policy. In particular it has highlighted the relationship between aid agencies and their funders. In the case of NGOs the adverse publicity associated with identifying misallocation of aid or failed projects may disincentivise public dissemination of these evaluations. Similar considerations may arise with European Commission administered aid, which could be subject to criticism by the European Parliament or by national governments. Given the
shared competence of the European Commission and Member States for development assistance it continues to be a highly disputed area of activity; one of those policies where the issue of subsidiarity always looms large. Sensitivity to adverse monitoring and evaluation would be expected under such circumstances. Similar considerations may arise with national aid agencies and their need to demonstrate ‘mission success’ to their political masters and the general public.

Given the vulnerability of aid agencies to organisational self-interest one of the potential advantages of increased EU aid coordination is the potential for peer assessment of their performance. As we will see this is nonetheless quite problematic as evidenced by the limited progress that has been made in identifying donor agency comparative advantage. Establishing common measures of performance, assuming all agencies share similar objectives e.g. poverty reduction, and avoiding ‘adverse selection’ of the countries or communities in which the aid agencies engage which offer the easiest opportunities for achieving performance targets, present major challenges. Some authors have suggested that self-reported cases of fraud detection or poor evaluations should be viewed as indicative of effective monitoring rather than as indicators of poor performance.

In their review of the literature Bigsten et al (2011) paid particular attention to two papers addressing aid coordination, those by Torsvik (2005) and Knack and Rahman (2007). The latter focuses upon the implications for staff recruitment (a major administrative cost) of multiple donors and conclude, not surprisingly, that the required number of administrators declines when donors demonstrate increasing concern for the success of the projects of other donors. Torsvik defines the donor’s utility function as
dependent both upon the consumption of its own citizens and upon the consumption of
the poor in the recipient country (i.e. poverty reduction). Thus successful poverty
alleviation by other donors yields utility to each donor. Here we may have an example of
a ‘public good’ where analysis tells us that there will be under provision in a ‘free
market’, as each party will have an incentive to understate their preferences and ‘free
ride’. Cooperation in aid programmes would overcome this problem and raise the level of
aid closer to its social optimum. However, how far the provision of aid can be regarded as
comparable to consumption of a good or service, and the administrative environment of
aid ownership comparable to that of a market, with its central role for price signalling,
remains debatable. More interestingly, Torsvik also focuses upon the importance of
enforceable conditional aid contracts to influence recipient’s behaviour. With such
contracts donors will always achieve greater utility with coordination. This debate draws
attention to the central issue of enforceability of contracts and whether recipient
governments can exploit the poverty aversion of donors to their advantage. If the
recipient government shares, to some degree, the poverty reduction goals of the donors,
then donor aid coordination is unambiguously beneficial. However if the recipient
government has no commitment to poverty reduction, while donors have a strong
commitment to such outcomes and it is anticipated by the recipient governments, the
government elite may reduce its support to its own poor in order to induce greater aid
(‘crowding out’). Donor coordination would again lead to increased aid flows, but would
not necessarily lead to more recipient government ‘crowding out.’ Thus with enforceable

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1 Consumption of a public good by one individual fails to reduce the amount of a good available to others, in contrast to a private good.
conditionality aid coordination will unambiguously enhance the achievement of poverty alleviation i.e. aid effectiveness.

Bigsten et al (2011) in their assessment of the costs and benefits of aid coordination within the EU (see below), begin from a recognition that the larger the number of donor participants in a coordinating group (participants in a “Multilateral Reputation Mechanism”) the greater its influence upon the recipient government to pursue governance-improving measures through the reduction in the possibilities for donor substitution. Thus there exists a critical threshold of donors beyond which it becomes individually beneficial for each donor to bear the costs of collective action. Seen as a ‘public good’, they identify the danger of free-riders failing to participate in aid coordination. As we will see although, within an EU context, Member States’ formal participation in aid coordination is required in each recipient country in which that donor is active, the extent of coordination remains variable. Member States have a choice as to how far they participate in joint missions, programming, negotiation, monitoring and evaluation. Thus in this context the focus is not upon the number of participants but the form of participation.

They also argue that recipient countries, when required to negotiate with a donor group will also be required to define their development priorities more clearly and consistently, contributing to ‘transparency’. This would contrast with individual donor negotiations, where there may be a temptation to tailor claimed development objectives to perceived donor preferences in order to extract the maximum ‘rent’. However, Bigsten et al recognise that country ownership may be adversely affected by the imbalance of negotiation between the recipient and the donor group, which may be seen as “ganging-
up” to predetermine the country’s development strategy. It is also possible that this loss of ‘ownership’ of the development may undermine the sense of domestic accountability of governments to their own population.

Although enhanced coordination offers greater aid effectiveness through reduced transaction costs and greater policy impact, it will also involve some additional resource costs, but more importantly, from the perspective of the Member State, the reduction in national autonomy. A trade-off is posited between the renunciation of political control and the achievement of poverty reduction. Other objectives for national development aid besides poverty reduction (e.g. commercial interests, political influence) must also be recognised and will influence the trade-off. Bigsten et al suggest that transaction cost savings will be a greater importance to those donors with smaller overall aid budgets, viz. aid effectiveness is likely to be significantly enhanced by any additional increment of aid coordination. But, more significantly, larger aid donors are likely to assign greater weight to their political autonomy than smaller ones, suggesting that they will require greater demonstrable increments in aid effectiveness in order to surrender their autonomy under a regime of aid coordination. Given the greater political influence of the large aid donors in the EU it would be expected that they would set the aid coordination agenda, and if Bigsten et al are correct, they will demonstrate a preference for lower levels of coordination.

**European Administered Aid**

Development assistance is funded by the EU from two sources, the general budget and the European Development Fund (EDF). The general budget, determined by the current
Financial Perspective, is subdivided into headings and budget lines related to policy areas or instruments. This overall allocation between policy areas is determined by negotiations between the EC, the Council of Ministers and the European Parliament. In regard to the development component of the External Actions budget, funds were committed on both a regional and thematic basis. The regional allocation to the Mediterranean was funded under MEDA, that for Eastern Europe and Central Asia under TACIS and that for Asia and Latin America under the ALA budget lines. In addition there were more than 30 thematic budget lines funding projects ranging from the sustainable management and tropical forests to the eradication of HIV/AIDS. These thematic funds could be drawn on by any partner country in addition to their regional allocation. The creation of budget lines by the European Parliament was originally aimed at ensuring effective budgetary control but resulted in inflexibility and administrative complexity. As a result the number of policy instruments has been reduced under the 2007-2013 Financial Perspective.

In addition development aid to the African, Caribbean and Pacific (ACP) group of developing countries is provided under the Cotonou agreement through the European Development Funds (EDF). Although administered by the EC the basis of Member State contributions to this inter-governmental Fund differs from that of the general budget of the EU and the European Parliament has no formal involvement.

As in all areas of EU policy the EC has significant powers of initiative in determining aid allocation. While the Council of Ministers has ultimate political authority its level of involvement and influence through its ‘Comitology’ Committees (such as the EDF Management Committee) is greater when dealing with the aggregate levels of development funding. Thus the overall allocation to the External Relations budget lines
and the EDF are likely to significantly engage the attention of Member State
governments. By contrast the detail of the distribution of individual country allocations
between projects or sectoral assistance is unlikely to involve the Member States in
Brussels, although formally the EDF Committee must approve any project involving
expenditure greater than €8 m. The Comitology Committees “input into the programming
process is at quite a late stage and in the period in question they had not had a major role
in shaping the strategy” (Holden 2008). Member State influence on the detailed shape of
individual country aid programmes is more likely to be exercised at the country level
through negotiations between local delegations in the preparation of Country Strategy
Papers (CSP) and National Indicative Plans (NIP).

In explaining the factors influencing country allocations it is this distinction
between the development assistance provided from the External Actions budget lines of
the EU’s general budget and the EDF that is the most significant. Funding from the
general budget, especially that targeted towards the ‘near abroad’ of the Balkans, Central
and Eastern Europe and the Mediterranean, is much more heavily influenced by
geopolitical and security considerations than that allocated under the EDFs (see Holden
2008 and Dearden 2009) which have a more explicit poverty-focus. It was also
programmed by the DG for External Relations (DG Relex) with its broader ‘foreign
policy’ agenda; in contrast the EDFs were programmed by DG Development. Tensions
arose from the differing perspectives of DG Relex and DG Dev and this organisational
division remained subject to continuing criticism. All funds were however disbursed and
monitored by EuropeAid, an Office of the EU.
The European Development Funds

The Cotonou Agreement provides for the locally managed (i.e. at Delegation level) assessment of five programme elements (Annex IV, Article 5) – the results achieved in terms of identified targets in the focal and non-focal sectors, use of resources by non-state actors, effectiveness of implementation of the current operations and the extension of the programming perspective for the following seven years. It also specifies the conditions under which aid may be suspended (Article 96 and 97). In addition a succession of Development Policy Statements (EC 2000, EC 2005) have identified the EU’s sector priorities and reinforced its commitment to good governance, the rule of law and human rights.

The initial Statement on Development Policy (EC 2000) affirmed that poverty reduction was the main objective of Community development policy, with qualified priority in assistance to be given to low-income developing countries. It also specified seven areas where the EC would concentrate its assistance – trade and development, regional integration, macro-economic support, transport, rural development, health and education, and institutional capacity building. The 2005 ‘Development Consensus’ (EC 2005) reaffirmed the original pledge to low-income developing countries, but qualified it with a continuing commitment to middle-income developing countries where they have large low-income populations, inequalities or weak government, or where they are important as regional anchors. The sectors in which the EC would engage were expanded to include water and energy provision, rural development and agriculture and ‘social cohesion and employment’. In some ways it is difficult to regard this as the genuine
expression of policy focus.

Aid allocation was to be based upon “the use of standard, objective and transparent resource allocation criteria based on needs and performance.” Unfortunately the “needs and performance criteria” were based upon those of the Cotonou Agreement, which remain rather imprecise. ‘Needs’ were defined in terms of per capita income, population, social indicators, indebtedness and export dependence. Special treatment was to be accorded to the least-developed, land-locked or island ACP states. ‘Performance’ was to be assessed in regard to the implementation of institutional reforms, poverty alleviation, the efficient use of resources, sustainable development and macroeconomic and sectoral performance. The criteria for the allocation of aid between regions and countries remained far more obscure than was implied by these policy statements.

While, as has already been observed, the allocation of aid from the External Action budget lines was recognised as a product of the broader political, security and commercial priorities of the Community, the poverty-focus of the EDF had sometimes been exaggerated. This can be seen in the continual criticism of the EC’s excessive relative support for middle-income developing countries. For example, in 2000 EC ODA to low income LDCs had fallen to 39% of the total EC aid budget (House of Commons 2002).

Each EDF runs for five years, and is allocated through individual country National Indicative Programmes (NIP) and Regional Indicative Programmes under two headings, ‘Envelope A’ and ‘Envelope B’. ‘Envelope A’ represents a relatively firm commitment of funds, subject only to the mid-term reviews, while ‘Envelope B’ is available to meet the need for flexibility in addressing unanticipated country requirements, such as
instability in export earnings (previously funded under Sysmin and Stabex), contributions to international debt relief initiatives and to support exceptional country performance. Despite the emphasis upon performance evaluation, after the EDF9 mid-term review few countries experienced any significant reduction in their overall level of aid. An important component of EC aid administration is the central role of the Country Strategy Papers (CSP) prepared by the local Delegations in dialogue with the recipient country government and local non-state actors (see Dearden 2007). However these CSP’s have been subject to critical appraisal (EC 2002). In particular their use of performance indicators was often found to be inconsistent, too numerous and non-quantitative. A set of robust and relevant performance indicators for application across the CSP’s has yet to be developed. The high degree of continuity in aid funding levels under the NIPs suggests there is relatively limited use of performance indicators in determining aid allocation between countries. Nor is it clear how far CSPs and their associated NIPs are prepared within the context of a Brussels determined aid allocation or how far their appraisal influences that allocation.

Recent Developments
Dissatisfaction with the plethora of external assistance instruments led to major reforms in 2006 to cover the period of the next Financial Perspective, 2007 – 2013. Six instruments were adopted to replace those supporting policies with a geographic or thematic focus. These six instruments fall under the following headings:-

Instrument for Pre-accession Assistance (IPA)

European Neighbourhood and Partnership Instrument (ENPI)
Instrument for Development Cooperation (DCI)

Instrument for Co-operation with Industrialised Countries (ICI)

European Instrument for Democracy and Human Rights (EIDHR)

Instrument for Nuclear Safety Co-operation (INSC)

In addition three instruments are available to address crisis situations:-

Instrument for Stability (IfS)

Humanitarian aid (including food aid)

Macro financial assistance instruments.

The thematic regulations covering areas such as gender equality and the environment are now covered by thematic programmes within the Development Cooperation Instrument.

However the EDF continues to operate independently from the EU’s external assistance funded from the general budget; ‘budgetisation’ having been rejected. Statistical analysis (Dearden 2009) demonstrated a strong ‘development’ orientation for ACP aid allocations over the years 2000 – 2007 as reflected in the individual country HDI, as would be expected from the original application of the quantitative allocation model. This model was to provide the basis for the proposed allocation of €22.7 bn. of aid under EDF 10 to cover the period 2008-2013. The starting point was to be 50% of EDF9 funds extrapolated over 6 years plus 50% of EDF10 funds determined by the population and income criteria. A substantial number of adjustments were then made under three headings – ‘needs’ (ranging from -29% to +15%), ‘performance’ (-30% to +29%) and Medium Term Review (-14% to 33%). The allocations were also constrained to a minimum equal to EDF9 and, for African ACPs, to a maximum of a 50% increase (except if ODA per capita was less than €1.25) or, for Caribbean and Pacific ACPs, to a
20% increase (except ODA per capita <€3.75).

It is also clear that the funds to be allocated under the DCI from the general budget will adopt a similar approach to that developed by the EDF. In 2003 the UK had called for a common country aid resource allocation criteria and in 2004 the EC made its initial recommendations (RELEX D(2004)526240) for adoption from 2007. Starting from an initial regional allocation individual country provision will be determined by three ‘needs’ and four ‘performance’ criteria. ‘Needs’ will be established through reference to population, poverty levels (based upon GNP per capita) and the level of social development (HDI or Millennium Development Goal indicators). ‘Performance’ will be assessed in terms of aid performance (absorptive capacity as reflected in the previous record of EC commitments and payments); economic performance as reflected in outcomes such as changes in the standard of living and the distribution of income; social performance as measured by changes in MDG indicators, especially in relation to health and education and political performance. The assessment mechanism of Country and Regional Strategy Papers was to be adopted across all countries. However this allocation mechanism will not apply to the IPA and ENPI instruments where other ‘political’ considerations may be pre-eminent. Thus a clear distinction is emerging between development policy objectives as embodied in the DCI and instruments for the achievement of the EUs other external policy objectives.

With increasing emphasis upon aid coordination and complementarity, country allocations will also be subject to negotiation with other donors. The EC has proposed, amongst other measures, the preparation of ‘roadmaps’ for each developing country - identifying the potential for further harmonisation - the adoption of a common framework
amongst EU donors for their CSP’s and the development of joint multi-annual programming (EC 2006). A major step forward in aid coordination in the EU was taken with the adoption of a Code of Conduct on Complementarity and Division of Labour (EC 2007).

The Lisbon Treaty

The existing division of responsibility for aid programming between DG Development (ACPs) and DG External Relations (non-ACP excluding pre-accession), with implementation undertaken by Europe Aid and emergency aid provided by ECHO, had always been subject to criticism. The adoption of the Lisbon Treaty has led to organizational changes that address this issue. It identifies the reduction of poverty in developing countries as a goal of all external actions and “the reduction and, in the long-term, eradication of poverty” as a specific objective of development policy. This specific commitment is reflected in the new organisational structure that has followed from the creation of the position of High Representative for Foreign Affairs and Security Policy, who will also be Vice President of the European Commission and a member of the Council. The High Representative is to be supported by the EEAS, which will have responsibility for all geographical aid allocations (both EDF and DCI) through the preparation of multi-annual country and regional development plans and their respective National and Regional Indicative Programmes.

At the same time a separate DG for Development and Cooperation (DEVCO) Development Commissioner (Andris Piebargs) has been preserved accompanied by its integration with EuropeAid. The new DEVCO will be responsible for preparing the
thematic programming, other than the European Instrument for Democracy and Human Rights and part of the Instrument for Stability and for broad policy development and for implementation across all developing countries. This broader remit, beyond the ACP group alone, is seen as offering considerable potential for increasing the coherence of the EU’s development efforts. The precise detail of the division of responsibilities between the EEAS and DEVCO however remains to be settled. Thus although a split remains in the aid programming cycle, the geographical division of responsibilities has been eliminated.

Meanwhile the process of deconcentration of responsibilities from Brussels to the Delegations, begun in 2002, has made substantial progress. The interrelation of the Delegation and Brussels roles in aid programming and administration is illustrated in Fig.1. Delegations are responsible for the identification, formulation and implementation of the country aid programmes, including the contracting and payment stages, whilst Europe Aid remains responsible for the overall financing agreements. Europe Aid also supports Delegations by monitoring the quality of proposed elements of the aid programme at the end of the identification and formulation stages, and remains responsible for the overall multi-annual country aid programme and overall monitoring and evaluation of the Commission’s development assistance.

From a development perspective the success of the Lisbon Treaty will very much depend upon the degree to which development policy objectives are fostered within the new EEAS. The greatest concern is that long-term development objectives will be sacrificed to short-term foreign policy considerations. The EEAS will have significant responsibilities in both conducting political dialogue with the recipient developing
countries as well as in the allocation and programming of development funds. The EEAS and the High Representative will also have a central role in ensuring the achievement of Policy Coordination for Development across EC policies and donor coordination to realise the commitments made under the Paris Declaration on Aid Effectiveness. Thus the EEAS is central to facilitating donor coordination at the country level through joint EU country strategies, programming, monitoring and evaluation.

Figure 1: Source ECA 2011
The Paris Declaration on Aid Effectiveness

The Paris Declaration represents the conclusions of the High Level Forum on Aid Effectiveness held in 2005. It committed the participants to strengthening partner country’s national development strategies; increasing alignment of aid with partner countries priorities and systems; enhancing donors and partner countries accountability to their citizens; eliminating duplication of effort and rationalising donor activities to make them as cost-effective as possible; reforming and simplifying donor policies and procedures; and developing measures, standards of performance and accountability in partner country systems. In particular they commit themselves to addressing weakness in partner countries institutional capacities to develop and implement results driven by
national development strategies; to provide more predictable aid flows; to enhance delegation of authority to field staff; integrate global programmes and initiatives into the broader development agendas; and to highlight the issue of corruption and the lack of transparency.

The Declaration identified 12 targets to be achieved by 2010.

1. 75% of partner countries to have operational development strategies.
2. 85% of aid flows aligned to national priorities.
3. 75% of aid disbursements released according to agreed schedules in annual or multiyear frameworks.
4. 25% of aid programme based.
5. 75% of countries with transparent and monitorable and performance assessment frameworks.
6. Number of countries with satisfactory procurement and public financial management systems
7. Percentage of donor capacity development support provided to coordinated programmes.
8. Percentage of donors and/or aid flows utilising partner country procurement and or financial management systems.
9. Reduction in the number of parallel project implementation units.
11. Percentage of field missions and country analytical work jointly undertaken.
12. Partner countries to undertake mutual assessments of progress
On harmonisation the donors committed themselves to ‘implementing, where feasible, arrangements at country level for planning, funding (e.g. joint financial arrangements), disbursement, monitoring, evaluating and reporting to government on donor activities and aid flows and to ‘work together to reduce the number of separate, duplicative, missions to the field and diagnostic reviews and promote joint training to share lessons learnt and build a community practice’.

Recognising the inefficiencies arising from the fragmentation of aid the Declaration calls for ‘a pragmatic approach to the division of labour and burden sharing. The donors therefore committed themselves to ‘make a full use of respective comparative advantage except at sector or country level by delegating, where appropriate, authority to the donors for the execution of programmes, activities and tasks’, and ‘work together to harmonise separate procedures.’

*The EU Code of Conduct on Complementarity*

The EC has sought to establish the EU as a leading proponent of policies aimed at increasing aid effectiveness. In 2005 the EU had adopted the European Consensus for Development with a complementary action plan of measures to deliver a more effective aid policy. In a Joint Policy Statement in November 2000 a first attempt was made to achieve operational complementarity between the EC and the Member States by defining areas of value added in community assistance. However little progress had been made. But in 2007 the EC again turned its attention specifically to the issue of aid complementarity and the division of labour amongst EU donors. (EC 2007).
The EC recognised that progress in this policy area is constrained by two major considerations. Firstly, development cooperation is part of donor countries foreign policy and there may be a reluctance to surrender a role in a given sector or country. Historical links, commercial interests and strategic considerations may be an important element in determining the particular pattern of country engagements. Visibility is also often an important consideration in ensuring continued domestic support for national aid policies. Secondly EU member states differ significantly in their areas of experience and expertise – i.e. their comparative advantage.

The EC’s operational strategy towards complementarity, reflecting its commitment to the Paris Declaration, is reflected in the European Consensus on Development (2005) and in the EU Effectiveness Action Plan (2006). The EC defines complementarity as the ‘optimal division of labour between various actors in order to achieve optimum use of human and financial resources’. It recognises five dimensions of complementarity. Firstly ‘in-country’; where fragmentation leads to an increased administrative burden and transaction costs for the recipient countries, diffuses policy dialogue and may misallocate resources. Secondly, ‘cross-country’ complementarity; with too many donors focusing on particular countries and the creation of ‘aid orphans’. Thirdly ‘cross sector’; donors should concentrate upon those sectors where they have a comparative advantage in priority areas. Fourthly, ‘vertical complementarity’; where there is a need to avoid the emergence of initiatives operating at the regional, national and sub-national levels. Finally ‘cross-modalities and instrument complementarity’; the need to ensure an optimum choice of aid instruments e.g. grants, loans or private capital flows.
The EC also identifies the central principles required for implementation. These include ownership by the partner country that should provide primary leadership in determining development policy. Initiatives need to be built on existing processes and readily transferred to the government whenever appropriate, thus emphasising the importance of capacity building. However the primary responsibility lies with the EU itself to establish its own division of labour based upon Member States and EC comparative advantage and added value. Once comparative advantage has been identified the EC advocates the appointment of lead donor’s with the authority to act on behalf of other donors with delegated authority. The level and form of delegation may vary from responsibility for one element of a project cycle to complete sector or country programmes. Although the EC has been committed to complementarity for some time progress has been limited. This experience suggests a number of crucial elements are essential for the effective development of complementarity. For success it requires clear political commitment and appropriate organisational arrangements including appropriate joint programming, joint financing and implementation and effective monitoring systems.

These considerations underpinned the Code of Conduct on the Division of Labour in Development Policy. The Code’s focus is only upon in-country, cross-country and cross-sector complementarity and, most crucially, remains voluntary. It proposes 10 principles:-

1. EU member states will focus upon only two sectors in which they have a comparative advantage as well as providing general budget support. The EC’s own Country Strategy Papers having already adopted the principal of concentrating upon two sectors in each country, while in Zambia EU donors have
reduced the number in sectors in which they are involved to a maximum of three from six.

2. EU donors will redeploy aid activities outside the focal sectors through delegation of the aid contributions or through general budget support.

3. The EU will ensure that at least one EU donor is actively involved in the strategic sectors contributing to poverty reduction. The EU will seek to limit the number of active donors to a maximum of three per sector.

4. The principles of in-country division of labour will also be applied to work with partner regional institutions.

5. EU donors will reinforce their geographical focus taking into account broader donor engagement. The decisions as to geographical focus will be informed by regular EU consultations utilising information on EU donor activities and plans, and self assessments conducted by each donor utilising comparative benchmarks. This process has already begun with, for example, the Netherlands reducing is priority partners from over 70 to 20, although it still has 20 ‘sector countries’ through which it could channel aid.

6. EU donors will collectively ensure that ‘aid orphans’ are not created by identifying fragile states requiring stabilisation.

7. The Member States and the EC will deepen the self-assessment of their comparative advantage, allowing greater specialisation in their contribution to overall EU development policy.

8. The EU commits itself to further progress on vertical and cross modality/instruments dimensions of complementarity
9. The EU will increasingly rely on joint statements to clarify the purpose, modalities and outcomes of the division of labour.

10. The EU recognises that increased division of labour will imply major structural changes.

Identifying donor’s comparative advantage will be a central issue in operationalising complementarity. A donor’s comparative advantage can be indicated by its aid programmes relative performance in contributing to poverty elimination, its lower costs and in its value added. ‘Value added’ has been defined by the EC as being determined by its existing presence in the field, particular experience in the country or sector, technical expertise, existing relationship with partner governments and other donors, the volume of aid, flexibility, recognised efficiency of methodologies, procedures and quality of human resources. The partner countries will be encouraged to identify their donor preferences and will work with the EU to identify the sectors on which they should focus. EU donors are expected to make a commitment to long-term engagement in any given focus sector of five to seven years, or one period of a National Poverty Reduction Strategy.

In each priority sector lead donors are expected to be appointed reflecting their comparative advantage. The objective being to ensure that every partner country is presented with a structured donor set-up. The lead donor is expected to have a substantial mandate, while being under an obligation to maintain continuous consultation with other donors in the sector. In order to achieve effective specialisation and continuity long-term appointment to this role will be expected. An example of such a lead donor arrangement is that of the role of Austria since 2006 in the water and sanitation sector in Uganda. Austria’s selection as the lead donor reflected its historical record, its staffing capacity,
financing system alignment and its decentralisation-headquarter relations. However it has been given this lead role on only a one or two year rotational basis. For those EU donors whose presence in a sector or country is not considered strategic, they may fulfil their role through delegated cooperation-partnership arrangements, delegating authority for the administration of funds or policy dialogue. A delegated cooperation-partnership role in a sector is regarded as additional to the maximum three focal sectors in which a donor should be engaged. A number of such delegated cooperation-Partnership Agreements have already been established between EU donors. For example in South Africa the UK has delegated the implementation of its support to land reform to Belgium and in Malawi Sweden has delegated its entire country programme to Norway.

The success of implementation will also depend upon coordination between local Delegations and Brussels. To this end the redeployment of donors should be based upon local negotiations, with EU Delegations being offered sufficient flexibility in their mandate to ensure an efficient adjustment process.

_The Third High Level Forum on Aid Effectiveness: Accra 2008_

In September 2008 130 countries met in Accra Ghana to discuss progress on the aid effectiveness agenda established in Paris in 2005. A number of additional issues were introduced into the discussions including south-south cooperation, the role of civil society and the fragile states. In 2008 a survey monitoring progress in achieving the Paris Declaration targets had been published. The subsequent Accra Agenda for Action included 48 new commitments in addition to the 12 agreed at Paris, of which 34 were
donor commitments. For the EU this involved four additional targets to the 12 already agreed.

The EC addressed its own performance in light of the Accra discussions in a 2009 Commission paper (COM(2009)160). The following table summarises the degree of progress that the EC and 14 Member States had made in regard to its existing Paris Declaration targets. In terms of the coordination of country studies and analytical work, use of partner procurement and financial systems and aid untying the EU achieved its target. As might be expected the EC itself has progressed further in coordinating their analytical work.
In 2008 the EC had identified a number of partner countries and sectors where
delegated cooperation appeared feasible. By 2009 there were 37 proposals for delegation
by the EC to a Member State in a sector, valued at €162 million, and 14 proposed
delegations from a Member State to the Commission valued at €90 million. Under the
Fast Track Initiative on Division of Labour, donor mapping had been completed in 11
countries, lead donors created in 9 countries and the assessment of comparative

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<th>Paris Indicators</th>
<th>EU (Member States and EC)</th>
<th>EC</th>
<th>2010 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Aid flows are recorded in countries' budgets</td>
<td>44%</td>
<td>57%</td>
<td>85%</td>
</tr>
<tr>
<td>4. Technical assistance is aligned and coordinated</td>
<td>53%</td>
<td>43%</td>
<td>100% (EU target; Paris target is 50%)</td>
</tr>
<tr>
<td>5a. Donors use Country Systems for public financial management</td>
<td>47%</td>
<td>35%</td>
<td>50-80 (EU and new Accra global target is 50%, targets for each individual partner country depends on performance)</td>
</tr>
<tr>
<td>5b. Donors use country procurement systems</td>
<td>54%</td>
<td>34%</td>
<td>50-80 (EU and new Accra global target is 50%, targets for each individual partner country depends on performance)</td>
</tr>
<tr>
<td>6a. Donors reduce stock of parallel PIUs with two-third</td>
<td>780 (Per Member State: 56)</td>
<td>203</td>
<td>Indicative EU: 118</td>
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<td></td>
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<td></td>
<td>Indicative EC: 68</td>
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<tr>
<td>7. Aid is more predictable</td>
<td>43%</td>
<td>53%</td>
<td>71%</td>
</tr>
<tr>
<td>8. Aid is united</td>
<td>94%</td>
<td>N.A.</td>
<td>Indicative: 100%</td>
</tr>
<tr>
<td>9. Donors use coordinated mechanisms for aid delivery (through programme-based approaches)</td>
<td>46%</td>
<td>44%</td>
<td>66%</td>
</tr>
<tr>
<td>10a. Donors coordinate their missions</td>
<td>33%</td>
<td>33%</td>
<td>66% (EU target; Paris target is 40%)</td>
</tr>
<tr>
<td>10b. Donors coordinate their (country)studies and analytical work</td>
<td>62%</td>
<td>72%</td>
<td>66%</td>
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advantage carried out in 6 countries. As for EC administered aid, the number of sectors in each country in which the Commission is engaged averages 2.9 in Latin America, 3.3 in Asia, and 5.6 in the ACP group. This latter broader concentration in the ACPs countries may have arisen from their inclusion of post conflict and fragile states.

Whilst five Member States indicated that they were unable, at that time, to undertake delegation, most reported that they already attempted to concentrate their aid in three sectors or less, although six were currently engaged in a larger number of sectors in most of the countries in which they are involved. Almost all Member States were committed to engage in joint programming and joint reviews (annual and mid-term reviews of County Strategy Papers) and supported the principle of division of labour, whether in their multi-annual programming or entering into delegated cooperation arrangements. Again, although all the Member States recognise the importance of comparative advantage as a selection criteria, this was often interpreted in terms of historical engagement with a partner state rather than in response to an analysis of their current strengths and weaknesses as a donors.

In terms of the cross-country division of labour, in 2005-6 the OECD/DAC estimated that the average aid recipient country hosted 17 donor programmes, while 38 had 25 or more donors. Amongst EU donors 4 Member States provided no government bi-lateral aid programmes whilst, at the other extreme, five were engaged in 70 or more countries. As would be expected the EC itself sustained programmes in 144 developing countries. The number of Member State priority countries ranged from 2 to 57, the number usually correlated with the overall size of their aid programmes. Member State donor programmes are most common in Mozambique, and Vietnam (12), the Palestinian
territories, Ethiopia, Afghanistan and Tanzania (10) and Uganda, Mali, Zambia, Yemen, Angola and the Democratic Republic of the Congo (7 to 9). 19 developing countries were regarded as priorities for aid by 2 Member States, 23 by one and 39 countries by three to six. In terms of the concentration of aid 18 member states estimated that half of their ODA went to their priority countries. Progress had already been made in reducing the number of priority countries e.g. Belgian reduced its aid priorities in 2003 from 25 to 18, the Czech Republic in 2005 from 50 to 8, Germany in 2001 from 118 to 70 and later to 57 and Sweden decided in 2007 to concentrate on 33 countries.

The following Table identifies in more detail the trend in country aid focus amongst EU Member States and the EC over the whole period 1995-2009. The results suggest little progress was made in achieving ‘division of labour’, with the average number of EU donors per partner reaching 11 in 2009, the average number of Member State partners 104 and average number of sectors in which they are involved 4.5 (Petrikova & Chadha 2011). As would be expected EC aid is more widely dispersed. The Herfindahl index for each donor calculates the share of each recipient’s total aid provided by that donor and ranges from 1, perfect concentration to 0, perfect dispersion. Again the calculations suggest that EC aid is less concentrated than that of the Member States.
This relative lack of progress arises from a significant number of obstacles. These included a lack of information as to the overall flow of aid to sectors, which in part was expected to be addressed by the introduction of the EU donor Atlas in 2004 and the Web based TR-AID (transparent aid) system; unclear definitions of ‘lead’ and ‘active’ donors; legal barriers; incompatible donor administrative systems and programming calendars. Donor governments were also reluctant to limit their sector involvement, especially amongst the larger donors, and offered limited powers of delegation to their field offices.

But partner countries also showed a lack of engagement in the process having other
priorities or concerns that it would lead to the more effective imposition of donor views (‘ganging up’), with reduced flexibility and increased conditionality. They were also concerned that there would be a reduction in the interaction with individual donors, loss of support to particular sectors or in overall aid flows, as well as additional demands upon their administration. Concerns at the additional administrative burden of coordination was also an issue shared with the donors, although it is anticipated that the workload would reduce once effective division of labour had been established, especially within the context of the general scaling up of aid flows.

We can turn briefly to other aspects of the Paris Aid effectiveness agenda. By 2008 although there was evidence of improvement in the quality of developing countries public financial management systems, there had been little increase in their use by donors. Only eight EU donors exceeded the 50% EU target for the use of the recipient countries public financial management systems. Directly administered technical assistance and project aid continued to dominate. Only six EU donors provided more than a quarter of their aid through programmable aid, of which three were mainly through budget support. For the EC itself 28% of non-ACP aid was provided through budget support and for the ACPs 46%. The following table illustrates the longer-term trend in the adoption of budget support. With both the EC and Member States there is little evidence of any consistent increase in the employment of budget support.
Source: Petrikova & Chadha 2011

Technical cooperation and project aid is difficult to deliver through partner financial systems, especially where ODA is channelled through NGOs and multilateral organisations. For some Member States the use of a partner’s systems are restricted by legislation, but for most it was constrained by the risks associated with the quality of those systems. Many of the EU donors that provide budget support have adopted Performance Assessment Frameworks which monitor progress towards jointly agreed targets and which simplifies conditionality and increases predictability. But although the EU is committed to country ownership and mutual accountability, few EU donors appear to have established regular consultative processes for dialogue with partner countries.

Most EU donors already undertake multi-annual programming but Member States differ in how these commitments are accommodated within their domestic annual budgetary processes, but commitments remain of an overall fixed duration. To further aid predictability, in 2008 the EC launched the Millennium Development Goals (MDG) Contract featuring a six-year timeframe focused on performance related to the MDG’s. Reducing conditionality with project aid is more problematic and presents greater challenges for harmonisation. On aid untying the EU had made substantial progress. For almost all Member States bilateral aid procurement is available from other Member

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<td>MS</td>
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<td>48</td>
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<td>40</td>
<td>71</td>
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<tr>
<td>EC</td>
<td>39</td>
<td>43</td>
<td>11</td>
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States. Further the EC is seeking to extend untying, on a reciprocal basis, to other international donors.

Court of Auditors 2011

The EU’s Court of Auditors carried out a special review of the effectiveness of the EC’s devolution of the management of its external assistance programme (‘deconcentration’), which began in 2004 and was completed in 2009. It focused upon three aspects; the speed of delivery of aid, the use of financial management procedures and the quality of aid. It focused upon the role of EuropeAid and the Delegations but did not consider the programming phase and the roles of the Development DG or the External Relations DG.

Utilising the financial indicators of the amount of aid funding committed, contracted and disbursed, the state of dormant commitments and the speed of finance agreement contracting, the audit concluded that there had been a significant improvement in the speed of disbursement. For example, the amount of development aid committed in 2009 was 40% higher than in 2004, the amount contracted 45% higher and payments 30% higher, with the volume of dormant commitments falling by 25%. However some of this improvement may have arisen from the increased use of budget support and indirect financing through international organisations. The report also found evidence of continued progress in improving financial control systems. The establishment of harmonise financial procedures, increased use of external audits of projects, and improved risk assessment and budget support eligibility frameworks, have all contributed to this improvement. However the audit continued to find weaknesses in financial management controls in partner country administrations, including the national
organisations implementing the aid, the supervisors of infrastructure projects and the National Authorising Officer services (under the EDF).

Assessing the impact of devolution on the quality of the aid programme is far more problematic. The major tool employed by Europe Aid to assess the quality of aid interventions is the Results Orientated Monitoring System (ROM). This involves the employment of external monitors to assess the overall performance of projects in relation to the five standard criteria of relevance, efficiency, effectiveness, impact and sustainability. Between 2005 and 2009 the ‘relevance’ score increased from 68% to 82% and ‘impact’ from 69% to 78%. Efficiency and sustainability remained relatively constant while ‘effectiveness’ fell 4% over the period. Changes in methodology may have accounted for changes in the scores for both ‘relevance’ and ‘effectiveness’. Further, changes in the sample of projects selected for monitoring in a given year and its focus upon projects limit the extent to which the ROM system can provide a robust indicator of the overall effectiveness of aid delivery. The limitations of the ROM system have not been adequately compensated for by the use of other evaluative tools. Internal aid evaluations and external consultant reports do not employ a quantitative approach, nor are there systematic assessments scoring programmes and projects by Delegation staff at their completion. There is also as yet no robust methodology for evaluating the effectiveness of general budget support.

In terms of aid coordination the EC has attempted to concentrate its aid in no more than 2 focal sectors. However, Country Strategy Papers (CSP) generally includes non-focal sectors to finance smaller interventions and projects funded from horizontal thematic programmes. In the ACPs Delegations are also involved in the management of
general budget support programmes and regional programmes. The report observes that this involvement in a large number of sectors of intervention is contrary to the Code of Conduct on the Division of Labour and that considerable progress remains to be made in promoting the Codes implementation to facilitate effective coordination with other donors. In its reply the Commission recognised “that, in spite of substantial progress already made to reduce aid fragmentation among EU donors through a limitation of the number of intervention sectors, the process of division of labour is still slow due to its political nature. A consensus recently emerged that the Commission needs to play a stronger role in leading the process at country level.” While it is agreed that in the longer term joint programming would provide the most efficient approach to implementing division of labour, in the medium-term the EC has focused upon implementation in specific country cases.

OECD Peer Review 2012

In 2012 the Development Assistance Committee of the OECD published its peer review of the European Union. Whilst recognising the significant role played by the EU in advocating aid effectiveness and in achieving its implementation, it also emphasised the political and practical impediments to ensuring its achievement. Actively engaged in international forums, the EU had provided the co-chair for the Working Party on Aid Effectiveness, and had played an important role in evaluations of the effectiveness of budget support in Mali and Tunisia. Internally the EU had attempted to operationalise its commitments through the implementation of an operational framework in the three priority areas of division of labour, use of country systems and technical cooperation. The
framework is linked to Action Plans which set out the objectives and lines of responsibility in EC’s institutions, especially EuropeAid (now integrated with DEVCO).

In furtherance of the Division of Labour the EU has established a “fast track initiative” covering 32 partner countries, provided a tool kit for division of labour in-country and provided Delegations with consultants to help with aid mapping. A mid-term review of the fast track initiative found that a “large share of the countries had completed mapping and established lead donor arrangements, although few had assessed comparative advantage. It also noted that the decisive factor in improving donor coordination is partner country ownership of leadership of this agenda (EC 2009a). Similarly the mid-term review of the EDF (EC 2010a) “described overall progress on division of labour as disappointing, although it did note the presence of some form of coordination mechanism in more than half of the countries.” By 2011 the EC was delegating €457 to Member States, with even less delegated from Member States to the EC. The results for division of labour and the 10th EDFs are illustrated below.

**Figure 5.1  Results on division of labour from the 10th European Development Fund mid-term review**

![Bar chart showing the results of the division of labour from the 10th European Development Fund mid-term review.]

Source: COM 2010a
Limited progress had also been made with joint programming. The EDF mid-term review had established that joint programming had only occurred in three ACP countries. In some cases local initiative had been established, but without headquarters support. Many staff in the field regarded joint programming as unrealistic in the medium-term. Although the EC committed itself to joint programming as a priority at the Busan Forum in 2011 it still faces a lack of support among some Member States.

Overall the DAC review noted significant progress against some of the indicators used to measure implementation of the Paris Declaration; especially increasing coordinated support, use of country systems reinforced by the shift to budget support, increased transparency and a reduction in the use of parallel implementation units. However they had not achieved all of the 2010 targets and in the case of joint country analytic work there had been a significant decline (see below).
Further progress in achieving the EU’s targets is being supported by a number of strategies. Firstly, EuropeAid identified 10 priority actions to achieve its aid effectiveness (EC 2010b) and established staff networks, both in Brussels and in the field, to address aid effectiveness. These networks covered operational, thematic, legal and procedural issues. Aid effectiveness is also addressed specifically in the twice-yearly reports Delegations are required to submit and was considered explicitly in the mid-term review of the 10th EDF (EC 2010c).

However the EU failed to achieve half of the 2010 aid effectiveness targets. The OECD identified a number of factors that were hindering progress. Firstly, the use of country financial systems is particularly high amongst the ACPs, especially where budget
support is provided, but there remained a substantial amount of project aid where improved effectiveness would be essential to achieving EU targets. Secondly, the EU usually requires co-funding by partner institutions organisations. Governments and NGOs may have difficulty providing matching funding and this can exacerbate delays. It is suggested that the EU should consider derogation from the co-financing rule for humanitarian aid, actions in crisis situations and protection of health and fundamental rights. Thirdly, although the EU successfully reduced the number of parallel implementation units it often funds administrative support to National Authorising Officer’s in order to implement EDF programmes. These often operate parallel to the rest of the State’s administration and the OECD suggests these would be better integrated into government structures to form part of broader capacity development. Fourthly, although the EC works within a seven-year financial framework, providing a fair degree of predictability on a multi-year basis, there is great uncertainty in annual aid commitments. Further slow start up and a lack of information reduce predictability between the seven-year frameworks. Partners have therefore called for greater flexibility, extending the use of instruments such as the ‘B envelope’ in National Indicative Plans or the MDG Initiative in an Instrument for Stability. Member States have also identified increased flexibility in EU funding supporting existing successful initiatives as offering potential for enhancing the EC’s role.

In regard to the Commission’s role within the context of the EU the OECD emphasises its importance in the country concentration of Member State aid programmes, in particular in coordinating the reduction in bi-lateral aid programmes so as to ensure that ‘aid orphans’ do not emerge. This is particularly crucial in the case of fragile states.
Similarly the OECD argues that the EC has a crucial role in encouraging a harmonised approach to evaluating development results through mechanisms such as country compacts and common results frameworks.

In summary the OECD report calls upon the EC to focus upon implementing the EU Code of Conduct on Division of Labour, demonstrate the benefits of moving towards joint programming, identify the obstacles in Brussels and at country level to enhancing aid effectiveness and to review their procedures to ensure that they lead by example.

Quantitative Studies

In advocating reform the EC commissioned a number of studies of the estimated potential cost savings for the EU and Member States offered through implementation of the Paris Agenda. The 2009 (EC 2009b) study examined the costs associated with donor proliferation (i.e. the number of donors active in each country), fragmentation of aid programmes (i.e. the number of aid activities in which each donor is involved), aid tying and volatility in aid flows. Given the lack of data its estimation of potential savings are only indicative and excluded the additional costs imposed upon recipient governments. It suggested that joint programming and delegated financing could yield savings of between €200 m. to €500 m. a year and a reduction in the costs of project aid of between €1.9 bn and €3 bn. The latter estimate however seems particularly high given that in 2009 total administrative costs for project aid were only €3.2 bn. Aid tying increased costs in the range of 15% to 30%, with the complete removal of tied aid saving €500 m. per annum. The major savings identified in the study would arise from a reduction in the volatility of aid flows, which could result in an increase in the value of aid of between 8% and 20%,
yielding a gain of €2 bn. to €4 bn. a year. In total this study tentatively suggested total potential savings of between €3 bn. and €6 bn. per annum, arising principally from improving aid predictability and the more effective division of labour.

The latest study by Bigsten et al (2011) has estimated the potential transaction costs savings and indirect growth effects offered to the EU by the Paris Agenda. The study focuses upon programmable bilateral aid from the 27 EU countries, plus aid administered through the Commission (EC) for 2009.

Their estimate of the transaction cost savings focuses solely upon those to be realised by EU donors. They utilised regression analysis to define the relationship between administrative costs and the number of donors in each country, while controlling for the volume of aid and allowing for economies of scale in aid delivery. They estimate that a 37% reduction in the number of partner countries for each donor would reduce administration costs by 20%, worth €500 m. at 2009 prices. The study also addressed the potential savings that might arise from a shift from project to programmable aid (reduction in ‘aid fragmentation’), in particular general budget support. The Paris Agenda set a target of increasing the share of programmable aid to 66%. With EU programmable aid representing 43.7% of total aid in 2009 and the donor administration costs of programmable aid being only 33.5% of project aid, the authors estimated potential saving of €300 m. Overall Bigsten et al calculate that in 2009 the ratio of administration costs to ODA are slightly higher in the case of EC administered aid at 5.9% than amongst the EU 15 donors at 5.2%, suggesting that the EC is unable to realise significant economies of scale in order to lower transaction costs. However, following the methodology of Birsall and Kharas (2010) - employing 30 indicators organised into four
dimensions; maximising efficiency, fostering institutions, reducing burden and transparency and learning – the EC emerged ranked fourth amongst 31 donors.

They also estimate the benefits that would be derived from a reduction in the volatility of aid flows. Following the methodology of Kharas (2008) one can calculate the ‘certainty equivalent’ of existing unstable aid flows. But Levin and Dollar (2005) found that aid to ‘difficult partner countries’ was twice as volatile, on average, as that of other low income countries. However the authors recognise that not all volatility is necessarily undesirable e.g. humanitarian aid by its nature is volatile. To adjust for this the study focused solely upon variability in the level of a country’s programmable aid. The calculation of the dead weight loss of volatility is made using a formula derived from a Capital Asset Pricing Model (CPA). The average estimate of this variable for the EU is 15 cents per dollar of CPA. Using this methodology the authors compute an average annual dead weight loss in the range of €1,700 m.

A recurring criticism of EU aid has been its lack of a poverty focus. The share of EC Official Development Assistance received by the least developed countries, having increased from approximately 32% in 2000 to 45% by 2003, had since remained constant. Berthelemy (2006) in his analysis of country aid allocations concluded that neither recipient needs nor performance had played a significant role in the allocation of EC aid. By contrast Dearden (2009) undertook an econometric analysis of EC administered aid, both from the General Budget and the European Development Fund (EDF). It confirmed that the EC realised its ‘development orientation’ in the allocation of funds in the period 2000 to 2007 to the African Caribbean and Pacific (ACP) states through the application of its allocation model but that the allocation of aid to non-ACP
countries exhibited little ‘poverty focus’, although in the case of the Latin America and Asia there was still a strong inverse relationship to their countries Human Development Index. Bigsten et al estimated\(^2\) that should EC programmable aid be re-allocated to lower income countries, even allowing for the adverse effects of poorer ‘governance’, there was a potential substantial net gain to be realised of $7.8 bn.

Another major component of the Paris Agenda that they consider is the potential benefits to be derived from the untying of aid. Utilising data reflecting the amount of EU aid that is tied and the additional costs arising from tying, the author’s estimate a loss of 18.4 % of the value of the aid flow, worth approximately €800 m. Finally, and most speculatively, they attempted to estimate the indirect effects on growth arising from changes in the aid relationship. Confining the analysis to the period 2000-2009 they utilised OLS growth regression which included standard variables (including initial education level, investment level, GDP per capita, population, lagged aid) and variables reflecting Paris objectives (i.e. number of donors, share of general budget support, share of tied aid). Assuming the share of general budget support increases by 11% results in an increase in GDP levels of €1,800 m.

Overall Bigsten et al estimated the potential gains from implementing the Paris Agenda by the EU as ranging between €3.2 bn. to €5 bn.; €0.7 bn. from the reduction in transaction costs, €0.8 bn. from untying aid, €1.7 bn. from reducing aid volatility and €3.2 bn. from the indirect impact upon growth rates. But of greatest interest is the estimated €8 bn. gain that might be delivered with the effective coordination of the country allocations of EU aid; a sum greater than that to be derived from any other Paris Agenda policy change.

\(^2\) Following the methodology of Collier and Dollar (2002).
Conclusion

Progress by the EU in realising its commitment to aid coordination under the Paris Agenda remains mixed. Led by the Commission, and its Fast Track Initiative, the response of individual Member States suggests only qualified support. Progress in joint programming is almost non-existent, while even joint analytical work has been limited. In many ways this is hardly surprising given the highly political nature of aid programmes. The governments of the individual Member States place significant value upon their political autonomy to pursue national interests and maintain a high profile in the international arena. Thus political autonomy is likely to be traded-off against the objectives of overall aid effectiveness. Although there have been attempts to allocate aid leadership based upon ‘comparative advantage’ this has to some degree been frustrated by the ambiguity of the concept.

Thus any discussion of effective aid coordination must recognise this important political dimension. It will manifest itself at a number of levels, including the overall aid allocation discussions in Brussels, in the relationship between Brussels and the EC’s Delegations, in the relationship between the Member States’ aid agencies and their local Delegations and, in turn, their interaction at the country level with other EU Delegations. Finally there is the important issue of the interaction of Delegations with the recipient governments. These issues can only be effectively understood by detailed studies at the country level.
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