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**Research Report**

## Donor coordination: a basic requirement for more efficient and effective development cooperation

Briefing Paper, No. 7/2004

**Provided in Cooperation with:**

German Institute of Development and Sustainability (IDOS), Bonn

*Suggested Citation:* Ashoff, Guido (2004) : Donor coordination: a basic requirement for more efficient and effective development cooperation, Briefing Paper, No. 7/2004, Deutsches Institut für Entwicklungspolitik (DIE), Bonn

This Version is available at:

<https://hdl.handle.net/10419/199594>

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## Donor Coordination: a Basic Requirement for More Efficient and Effective Development Cooperation

The international community of official development aid donors currently comprises 37 countries (bilateral donors) and some 30 international organizations (multilateral donors). This multiplicity of donors, many with projects, programmes, interests, concepts, structures and procedures of their own, increases the transaction costs of development cooperation for donors and partner countries and diminishes the possible impact of development cooperation. Donor coordination is meant to counteract this and has become an important item on the international development agenda.

The underlying reason for this is the growing pressure to improve the efficiency and effectiveness of development cooperation exerted, on the one hand, by the ambitious Millennium Development Goals (MDGs) and the comprehensive poverty reduction strategies being pursued by many low-income countries and, on the other hand, by scarce development cooperation resources. At the International Conference on Financing for Development held in Monterrey in 2002, the donors and partner countries committed themselves to closer coordi-

nation. The OECD's Development Assistance Committee (DAC) drew up detailed recommendations, which were endorsed by many donors and developing countries in February 2003 (Rome Declaration on Harmonisation). A number of donors subsequently put forward action plans (Germany doing so in April 2003). Their implementation will be considered at an international conference to be held in Paris in early March 2005.

Although significant progress has been made, donor coordination is still a challenge. The frame of reference is to be formed by the strategies established by the partner countries on their own responsibility, with which the donors are to align their contributions. Donor coordination is ideally undertaken by the partners, but they must be willing and able to do so. For the donors this means taking seriously and neither overtaxing nor undermining their partner countries' ownership and capacity with respect to their development. The donors must also be willing to subordinate their individual interests, concepts and visibility to a joint approach appropriate to development.

### I Goal and current importance of donor coordination

Donor coordination means agreement among the development aid donors with the aim of improving the efficiency and effectiveness of development cooperation. Though the subject is not new, it has gained considerably in importance for several reasons:

- In the UN Millennium Declaration of September 2000, the international community agreed, among other things, on eight development goals (MDGs), which constitute a silent revolution in development cooperation in that they are not primarily input goals (e.g. more financial resources or better concepts) but outcome goals (including the halving of extreme poverty), and are subject to a clear time horizon (2015). The achievement of the MDGs will require great efforts and closer coordination among the donors and with the partner countries.
- Similar to the MDGs in their ambition are the Poverty Reduction Strategies (PRSs), which have been agreed as part of the debt relief initiative for the heavily indebted poor countries and have meanwhile been introduced by further low-income countries, giving them access to special loans from the World Bank and the International Monetary Fund (IMF). The PRSs require the partner countries to establish comprehensive concepts (Poverty Reduction Strategy Papers, PRSPs) and the donors to coordinate their development cooperation contributions and to align them with those concepts. By the end of December 2004, PRSPs had been drawn up by 42 countries and interim PRSPs by a further 13.
- The donor community's official development assistance (ODA) continues to lag behind what has been agreed internationally. Although the donors represented in the DAC increased their ODA in 2003 to US\$ 68bn from US\$ 58bn the previous year, ODA as a proportion of gross national income rose only from 0.23% to 0.25%, still well below the 0.7% target. Given the ambitious goals, this increases the pressure to ensure that the scarce resources are used as efficiently and effectively as possible.

### II Grounds for donor coordination

#### 1. Point of departure: wide and still growing range of donors

Donor coordination will be relevant as long as a large number of donors engage in development cooperation. According to DAC figures, the international donor community (excluding non-governmental organisations, NGOs) currently comprises 37 bilateral and some 30 multilateral donors, the number of which will grow further (Box 1).

#### 2. Improving the efficiency of development cooperation by reducing transaction costs

Development cooperation entails transaction costs for donors and partner countries. They originate not from the financing of development cooperation projects and programmes but from their preparation, implementation, monitoring and evaluation.

- The large number of donors, each with its own projects, programmes, interests, priorities, concepts, conditions, administrative structures and procedures, has resulted in an enormous variety of interventions, giving rise to high transaction costs (owing, for example, to numerous analyses, negotiations, implementation agreements and progress reports) and imposing a substantial burden on the partners. In Nicaragua, for instance, some 40 bi- and multilateral donors and more than 200 foreign NGOs are involved. The many donor missions have led Tanzania and Mozambique to introduce a "quiet time" lasting several months of the year, when no donor missions are wanted.

Transaction costs can be cut by reducing the multiplicity and diversity of donor activities. There are three main approaches to achieving this:

- reducing the number of donors through (i) concentration on fewer partner countries, (ii) concentration on fewer sectors per partner country and (iii) joint implementation of projects and programmes of several donors (e.g. co-financing),

### Box 1: Bi- and multilateral development aid donors

#### Bilateral donors (donor countries)

- 22 bilateral donors represented in the DAC: the 15 EU Member States before the recent EU enlargement plus Australia, Canada, Japan, New Zealand, Norway and the USA
- 6 donors who are members of the OECD but not yet of the DAC: the Czech Republic, Iceland, Korea, Poland, Slovakia and Turkey (soon to be joined by Hungary)
- 9 donors who do not belong to the OECD: 3 new EU Member States, namely Estonia, Latvia and Lithuania (soon to be joined by Slovenia), 3 Arab donors (Kuwait, Saudi Arabia, United Arab Emirates) and China, Israel and Taiwan

#### Multilateral (i.e. international and supranational) donors

- EU (which is a member of the DAC)
- 9 international financial institutions (including the World Bank, IMF and regional development banks)
- numerous UN agencies, programmes and funds (up to about 15, depending on the counting method)
- global funds: Global Environmental Facility; Montreal Protocol Fund; Global Fund to Fight AIDS, Tuberculosis and Malaria
- a number of Arab funds

Source: OECD/DAC, Efforts and Policies of the Members of the Development Assistance Committee, 2003 Report, Paris 2004, pp. 2, 177, 219

- reducing the number of development cooperation measures by (i) combining several measures to form one, (ii) raising the level of intervention from project to programme level (such as sectoral programmes or budget aid),
- harmonising the different procedures.

Coordination is either directly involved in these approaches (e.g. harmonisation of procedures; participation of several donors in one programme) or helps to ensure that the reduction of the number of donors and thus of transaction costs is not achieved at the expense of the effectiveness of development cooperation (as when donors so align their concentration on countries or sectors that certain countries or sectors are not neglected).

### 3. Improving the effectiveness of development cooperation through joint approaches and the pooling of donor contributions

Irrespective of the rise in transaction costs, a large number of uncoordinated donors may impair the effectiveness of development cooperation in various ways.

- Where the activities of several donors in the same sector are uncoordinated, there is a danger not only of duplication of effort (the intended effects are already being achieved by another donor) but also of mutual obstruction, with the result that the effects cancel each other out. In some countries, for example, several donors have become involved in vocational training, but have pursued such different concepts that the reform of vocational training sought by the countries concerned has been hampered. To a significant extent, therefore, donor coordination consists in the agreement of joint concepts or guidelines for development cooperation in individual sectors or thematic areas (policy coordination).
- The negative concomitants of poor donor coordination include "project piracy" (pressure to spend aid resources leads to rivalry for "good" projects, with the associated danger of such basic principles of aid policy as sustainability and ownership being neglected), "personnel piracy" (rivalry for scarce local experts, which may have adverse effects on local administrations and labour markets) and the playing off of the donors one against the other by the partners (entailing the risk of appropriate conditionality being relaxed).

Donor coordination improves the effectiveness of development cooperation not only by precluding the aforementioned effects but also by pooling donor contributions (e.g. in the form of sectoral programmes or budget aid), because of the greater chances of partner countries being encouraged to undertake structural reforms and of their being backed with a larger volume of resources. Some problems (e.g. indebtedness and environmental destruction) can, moreover, be solved only if a coordinated approach is adopted.

### III Partner responsibility and orientation as the frame of reference for donor coordination

The frame of reference for donor coordination is to be formed by the strategies established by the partner countries on their own responsibility (ownership). Donor coordination is ideally undertaken by the partners. This follows from the principle of what is known today as "putting the partner country in the driving seat", meaning that development cooperation can only ever consist of contributions from the donors to the partners' own efforts. Donor coordination therefore requires alignment of the donors with the partner countries. The three principles of ownership, alignment and coordination/harmonisation form the "aid effectiveness pyramid".

### IV The international agenda for donor coordination

Donor coordination has long been practised in many different ways (Box 3), but in recent years it has become an increasingly important item on the international development agenda.

- In December 2000, following the Millennium Declaration, the DAC formed a task force consisting of DAC members, representatives of multilateral donors and 16 developing countries, which drew up detailed recommendations for the harmonisation of procedures in six areas (Box 2). These recommendations were approved by the DAC at ministerial level and endorsed in February 2003 by more than 40 bi- and multilateral donors and 28 developing countries (Rome Declaration on Harmonisation). Many donors subsequently put forward action plans (German doing so in April 2003). The implementation of the Rome Declaration will be considered at an international conference (Second High-Level Forum on Aid Effectiveness) to be held in Paris in early March 2005.

### Box 2: Harmonising donor procedures for effective aid delivery – main areas of the good practices approved by the DAC

7. Framework for donor cooperation (objective: align assistance and donor coordination with poverty reduction strategies, or equivalent frameworks, owned and led by the partner countries)
8. Country analytic work (CAW) and preparation of projects and programmes (objectives: undertake CAW in the context of a government-led strategy; share diagnostic tools; disseminate results)
9. Measuring performance in public financial management (objective: harmonise different diagnostic reviews and place them in the context of a coherent programme of work to strengthen public financial management)
10. Reporting and monitoring (objectives: strengthen partner countries' reporting and monitoring systems; coordinate and simplify donor systems; rationalise review missions)
11. Financial reporting and auditing (objectives: enhance partner country capacity in accounting and auditing; align donor requirements with strengthened national systems; provide common financial reports)
12. Delegated cooperation (one donor acts on behalf of one or more other donors; objectives: greater use of the comparative advantage of individual donors, lower transaction costs and enhanced aid effectiveness)

Source: OECD/DAC, Harmonising Donor Practices for Effective Aid Delivery. Good Practice Papers, Paris 2003

- At the International Conference on Financing for Development held in Monterrey (Mexico) in March 2002, donors and partner countries explicitly committed themselves, as part of the Monterrey Consensus, to making ODA more effective and efficient through coordination and the harmonisation of procedures.
- Immediately before the Monterrey conference, the EU (Member States and Commission) had formulated at the European Council in Barcelona their contribution to the conference in the form of eight commitments, which provided, among other things, for better coordination and practical measures to be taken by the end of 2004 to achieve it. In March 2004, in a mid-term review of the implementation of the commitments, the EU Commission noted that little progress had been made in the area of coordination. An ad hoc working party then set up by the Council of Ministers, consisting of representatives of the Commission and the Member States, drew up a number of recommendations, which were submitted to the Council of Ministers in late November 2004 for its approval (Box 4).

## V Challenges posed by donor coordination

Donor coordination is a challenge for all concerned. Nor is it bound to be positive: it entails risks, which should be borne in mind.

### 1. General challenges

- Coordination means additional expense and can therefore be justified from a financial point of view only if the reduction in transaction costs achieved through coordination exceeds the expense of coordination. Quantifying coordination costs and gains is difficult in practice. Coordination should, however, be as efficient as possible. There are shortcomings in this respect. The EU, for example, has repeatedly established its own guidelines for its development cooperation in areas in which the DAC had already drawn up guidelines with the approval of the very same EU Member States and Commission represented in the DAC (duplication of effort).
- It should be remembered that rising transaction costs due to coordination do not necessarily argue against coordination, namely when it results in more effective development cooperation and hence a better cost-benefit ratio. This is important because the coordinated involvement of donors in comprehensive sectoral programmes may, for example, lead (initially) to rising transaction costs and should not therefore be rejected from the outset.
- If several or, in the extreme all donors act erroneously in coordinated fashion, considerable damage may be done. Thus some past IMF and World Bank stabilisation and adjustment programmes that formed important frames of reference for the donor community proved to be problematical. If several donors pool their development cooperation contributions in the form of budget aid, and it is not then used appropriately because of the partner countries' inadequate planning, implementation and monitoring capacities or encourages corruption, the effects may be limited or negative. This risk is not, however, an argument against donor coordination, but for the agreement of joint concepts and procedures to be based on best practices and constantly reviewed and for a careful analysis of the requirements to be met if coordinated donor contributions are to succeed in the partner countries.
- If development cooperation is to be effective and sustainable, donor coordination must neither overtax the partners' ownership and capacity (e.g. by imposing the donors' concepts on them) nor undermine them (as when, owing to pressure to spend resources and/or the pooling of donor contributions, aid assumes proportions that lead to "overaiding" and reduces the incentive to partners to make efforts of their own). The donors can foster the partners' capacity for coordination by providing technical assistance, but this presupposes the partners' willingness to engage in coordination (rather than playing the donors off one against the other).
- Successful coordination requires willingness on the part of the donors (i) to participate actively in the donor-donor and donor-partner dialogue, (ii) to put their own interests and concepts last if there is a prospect of coordination that is appropriate in develop-

## Box 3: Donor coordination in practice

### Types of donor coordination

- Policy coordination: agreement on principles, guidelines and best practices. The most important forum is the DAC, whose members establish common guidelines (examples being guidelines on evaluation, technical cooperation, the environment, gender issues, good governance, conflict prevention, poverty reduction). Implementation is examined by the DAC in its Peer Reviews. The EU Council of Ministers has also adopted numerous guidelines on the EU's and its Member States' development cooperation.
- Operational coordination: alignment during the implementation of projects and programmes (e.g. co-financing, joint reviews and evaluations)
- Harmonisation of procedures

### Subjects and range of donor coordination

- General aspects of development cooperation, e.g. objectives, principles, guidelines, best practices, quality standards and procedures
- Development cooperation with individual partner countries, e.g. joint country and sectoral concepts, coordinated aid commitments (including debt rescheduling or relief), donor contributions agreed as part of PRSs
- Individual projects and programmes

### Forms, forums and levels of donor coordination

- Formal coordination (as an institutionalised forum or binding joint action):
  - general development cooperation issues: UN, annual meetings of the IMF and World Bank, Group of Leading Industrialized Nations (G7), DAC, EU Council of Ministers
  - development cooperation with certain developing regions, e.g. Strategic Partnership with Africa, Club du Sahel
  - development cooperation with individual countries, e.g. Consultative Group Meetings, Round Tables, Paris Club for the settlement of debts to official creditors
  - thematic forums, e.g. Consultative Group to Assist the Poorest (CGAP, theme: microfinancing), Committee of Donor Agencies for Small Enterprise Development
  - sectoral forums relating to support for sectoral programmes
- Semi-formal coordination (semi-institutionalised), e.g. regular donor meetings in partner countries chaired by a lead donor or under alternating chairmanship, donor meetings at ministerial level, as in the case of the Utstein Group (development cooperation ministers of Germany, Canada, the Netherlands, Norway, Sweden and the UK)
- Informal coordination (often ad hoc, but not necessarily less important because of that): contacts, exchange of information and agreements at working level among the donor ministries responsible for development cooperation, the donors' implementing organisations and their external offices in the partner countries

### Donor coordination in the EU

- EU Council of Ministers: adoption of principles and guidelines for the EU's and its Member States' development cooperation
- Working parties of the EU Member States and the EU Commission: adoption of joint guidelines for development cooperation in specific areas
- Coordination between EU delegations and the EU Member States' embassies or aid missions
- Committees in which decisions are taken on Community development cooperation measures (e.g. European Development Fund Committee)



ment terms, (iii) to forgo the visibility of some of their development cooperation contributions (when, for example, participating in sectoral programmes and budget financing) and (iv) to implement decisions on coordination taken jointly, as in the DAC and EU.

- Donor coordination is not necessarily attractive to development cooperation institutions and their staff. It is attractive only to working units which are primarily concerned with it and are therefore indispensable. It is less attractive to those for whom coordination means extra work. It is therefore important to include aspects of coordination in country, programme and project planning from the outset and to make it clear that the additional expense involved will bring relief in other ways (e.g. individual donors can forgo concepts of their own when others already exist in the donor community). Unavoidable additional work on coordination should also be taken into account in job descriptions and capacity planning. Coordination can be very unattractive indeed if it results in more joint donor programmes and so restricts the range of activities of individual development cooperation institutions. In this case, there must be political will to press ahead with appropriate coordination, if necessary in opposition to those institutions' own interests.

## 2. Challenges for the EU

Box 4 shows the agenda defined by the EU Commission and the Member States themselves. On the one hand, it reaffirms earlier intentions declared at EU level and in the DAC (including the Rome Declaration), which some Member States have been slow to put into practice.

### Box 4: Recommendations by the EU Ad Hoc Working Party on Harmonisation adopted by the EU General Affairs and External Relations Council on 23 November 2004

1. Establish a roadmap for coordination and harmonisation indicating steps to be taken by the Member States and the Commission to enhance the implementation of the Rome Declaration
2. Member States and the Commission are encouraged to join donor initiatives in accordance with the principle of non-exclusivity
3. Member States and the Commission are encouraged to decentralise competencies, responsibilities and decision-making to the delegations in order to strengthen flexibility and responsiveness to the local context
4. Develop a strategy and a timeframe to apply sector and thematic guidelines agreed at EU level to bilateral and Community assistance and use them as a common platform for dialogue with partner countries and the donor community
5. Develop an EU strategy for multi-annual programming and the harmonisation of key analytical and diagnostic input to EU programming cycles around each pilot country's national policy framework and budget cycle
6. Develop an operational strategy for complementarity in the EU
7. Develop a common framework for implementation procedures

On the other hand, it sets out more ambitious tasks, including the development of an operational strategy for the promotion of complementarity. This stems from the call in the Maastricht/Amsterdam Treaty for the Community's development cooperation to complement that of the EU Member States. It is for the EU Commission and Member States to translate the nature of this complementarity (e.g. division of labour) into practical terms through coordination.

Although the fact that almost all of the ten new EU members are about to engage in development cooperation activities of their own is welcome as additional involvement in this field, it will make it even more complicated to meet the demand for coordination that is similarly contained in the Maastricht/Amsterdam Treaty. The EU should

help the new Member States to familiarise themselves with the *acquis communautaire* of policy and operational coordination and harmonisation as quickly as possible.

The fact that the EU already accounts for more than 50% of the ODA of all DAC members, but has done so in the past with 16 and will soon do so with as many as 26 separate development cooperation policies, should prompt greater efforts to achieve coordination. In view of the attempts to establish a common EU foreign and security policy, fragmented development cooperation is hardly in keeping with the times. This is also important because the Maastricht/Amsterdam Treaty and the Draft Constitution uphold the co-existence of Community development cooperation and the Member States' bilateral development cooperation rather than its communitarisation.

## 3. Challenges for German development cooperation

The action plan "Harmonisation of Donor Practices in German Development Cooperation" put forward by the BMZ in April 2003 will be reviewed in late 2004. Progress, some beginning even before the action plan was adopted, has been made in the following areas:

- concentration on fewer countries and focal areas and introduction of multiannual commitments similar to those entered into by other donors,
- active involvement in the DAC and EU working parties on harmonisation,
- participation in the donor community's coordination initiatives in various partner countries,
- inclusion of harmonisation issues in internal performance agreements and further staff training.

On the other hand, there are still a number of "building sites" where further progress is essential, examples being:

- increasing account to be taken of other donors' country assistance strategies and of PRSPs in the BMZ's country concepts and strategy papers for focal areas,
- further strengthening of external representation to permit active participation in on-the-spot donor-partner coordination,
- greater participation in sectoral programmes and budget financing in partner countries under appropriate conditions.



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### Further literature

**BMZ (2003):** Harmonisation of Donor Practices in German Development Cooperation - Action Plan

**OECD/DAC (2003):** Harmonising Donor Practices for Effective Aid Delivery. Good Practice Papers, Paris