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 coordination among the donors and with the partner countries.

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.

- 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 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).

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

- 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),
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 20 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

- Framework for donor cooperation (objective: align assistance and donor coordination with poverty reduction strategies, or equivalent frameworks, owned and led by the partner countries)
- 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)
- 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)
- Reporting and monitoring (objectives: strengthen partner countries’ reporting and monitoring systems; coordinate and simplify donor systems; rationalise review missions)
- Financial reporting and auditing (objectives: enhance partner country capacity in accounting and auditing; align donor requirements with strengthened national systems; provide common financial reports)
- 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)

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.

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-

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

- 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)
2. Challenges for the EU

The EU is facing various challenges, particularly contained in the Maastricht/Amsterdam Treaty. The EU should be more complicated to meet the demand for coordination that is 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 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 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 demands for coordination that is similarly contained in the Maastricht/Amsterdam Treaty. The EU should help the new Member States to familiarise themselves with the rules of this community.

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, fragmental development cooperation is hardly 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.

Further literature: