

Annex 4

Division of Labour among Donors: Progress, Results and Challenges on the Road to HLF 4

Review of the Country Studies Conducted for the Evaluation of the Paris Declaration (Phase 2)

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List of Abbreviations and Acronyms

AAA	Accra Agenda for Action
AEA	Aid Effectiveness Agenda
BRIC(K)S	Brazil-Russia-India-China-Korea-South Africa
CC DoL	Cross-Country Division of Labour
CET	Core Evaluation Team
CoC DoL	EU Code of Conduct on Complementarity and Division of Labour in Development Policy
CP	Cooperating Partner
CPA	Country Programmable Aid (subset of ODA)
CRS	Creditor Reporting System (OECD)
DAC	Development Assistance Committee (OECD)
DoL	Division of Labour
DP	Development Partner
EC	European Commission
EU	European Union
FTI DoL	Fast Track Initiative on Division of Labour
GAVI	Global Alliance for Vaccines and Immunisation
GEF	Global Environmental Fund
GFATM	Global Fund for Aids, Tuberculosis and Malaria
GNP	Gross National Product
GPP	International Good Practice Principles for Country-led Division of Labour and Complementarity
HLF	High Level Forum
HQ	Headquarters
IC DoL	In-Country Division of Labour
IRG	International Reference Group
LDC	Least Developed Country
MDGs	Millennium Development Goals
NGO	Non-governmental organization
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
PBA	Program Based Approach
PD	Paris Declaration
PTF	Partenaires Techniques et Financiers (= development partners, donors)
SWAp	Sector-wide approach
TT DoL	Task Team on Division of Labour and Complementarity (under the Working Party on Aid Effectiveness, Cluster C: Transparent and Responsible Aid)
UN	United Nations
WP-EFF	Working Party on Aid Effectiveness

Executive Summary

In February 2010, Task Team Division of Labour and Complementarity (TT DoL) submitted an Input Paper to the Management of Phase 2 of the Evaluation of the Paris Declaration (PD). This **review paper** now gives an overview of the **evidence on DoL processes and their outcomes** in the **21 country studies** and identifies some important emerging issues for HLF 4.

Overall, since DoL is covered under one of a total of eleven “expected outcomes” of the PD, the evidence in the country evaluations is **qualitative** and often not very detailed. Nevertheless, this evidence is interesting since it is placed in the context of the implementation of the much broader Aid Effectiveness Agenda in each partner country and provided from a **country perspective**.

With regard to the **fragmentation** of DAC donor contributions as a key problem to be addressed by DoL approaches, the studies provide a mixed picture on the degrees to which this is **perceived** as a problem for aid management and on the ways it is dealt with at country level. What is evident, however, is that in all countries rapidly expanding activities of so-called “new” or “non-traditional” donors and new financing schemes are further increasing the **complexity of the “aid architecture.”**

What could be called “**Core DoL**” **processes** oriented towards a reprogramming of donor contributions at sector level are reported from a number of countries, both those which already started before HLF 3 and newer DoL initiatives based on the 2007 EU Code of Conduct on DoL and supported by the EU Fast Track Initiative on DoL. However, most do not seem to be very dynamic, and country ownership and leadership for DoL are generally described as low. The studies also give many examples of donor behavior limiting DoL.

According to the Core Evaluation Team’s 12/2010 “Emerging Findings”, **progress** towards the DoL-related PD expected outcome “Less duplication of efforts and rationalized, more cost-effective donor activities” is **behind country-level expectations**. Consequently, there is also no evidence for direct contributions of DoL approaches via “rationalization of donor activities” to development outcomes. This can in part be explained by the time lag involved in reprogramming, and targets and expectations may have to become more realistic.

However, since reduction of **transaction costs** is one major argument for DoL approaches, the fact that many country evaluations cite complaints that transaction costs are actually increasing for both governments and donors due to “PD-type reforms” should be a reason for concern.

Overall, the review of the country evaluations reconfirms **challenges of the DoL approach** already discussed in the Input Paper, many of which have to do with interests and incentive systems on the side of both partner governments and donors. These should be dealt with more systematically in the context of country-specific, more focused approaches to aid effectiveness which integrate appropriate DoL elements.

In this context, the **increasing complexity of the “global aid architecture”**, as it is being felt and dealt with at country level, emerges as an important issue to be discussed among donors and partner countries on the road to and at HLF 4.

1. Introduction

In February 2010, Task Team Division of Labour and Complementarity (TT DoL), which operates under the umbrella of the Working Party on Aid Effectiveness (WP-EFF) Cluster C “Transparent and Responsible Aid”, submitted an Input Paper to the Core Evaluation Team (CET) of the Paris Declaration (PD) Evaluation. The paper was meant as a brief conceptual and methodological input on how to cover Division of Labour (DoL) in the second phase of the PD Evaluation which focuses on the overall results of the Aid Effectiveness Agenda (intermediate and development outcomes).¹ The paper presented country-led DoL as an important strategy under the PD principle of harmonization, discussed problems to be addressed by DoL, DoL policies and strategies as well as challenges of the DoL approach and provided basic evaluation questions on DoL. The underlying cause-effect logic was illustrated in a flowchart (see Annex 1).

This input was taken into account by the CET in its refinement of the evaluation methodology, mainly for the country studies, which was based on the “PD Program Theory” (Annex 2) and structured by three broad “core evaluation questions” covering context, process and intermediate outcomes, and development outcomes (see Figure 1).

Figure 1: Core Questions in the Operational Matrix for Country Evaluations

<p>Core Q1. “What are the important factors that have affected the relevance and implementation of the PD and its potential effects on aid effectiveness and development results?” (The Paris Declaration in context)</p> <p>Core Q2. “To what extent and how has the implementation of the PD led to an improvement in the efficiency of aid delivery, the management and use of aid and better partnerships?” (Process and intermediate outcomes)</p> <p>Core Q3. “Has the implementation of the PD strengthened the contribution of aid to sustainable development results? How?” (Development outcomes)</p>

DoL objectives were found to be included in one of eleven explicit “expected outcomes” in the preamble of the PD which were covered under Core Q2: “**Less duplication of efforts and rationalized, more cost-effective donor activities**” (all outcomes are listed in Annex 2). Under this “expected outcome”, which was grouped under the AAA-derived heading “Building more inclusive and effective partnerships for development”, the Operational Matrix for Country Evaluations contained five “planned progress markers” which assessed both DoL processes and their immediate outcomes.² DoL processes and outcomes were thus covered as one of many work streams within the much broader Aid Effectiveness Agenda (AEA) in each country.

This paper is a brief review of the evidence on DoL and closely related topics in the country evaluations, ahead of the official Synthesis Report being produced by the Core Evaluation Team (first draft submitted on April 7, 2011).³ It is part of TT DoL’s efforts to gather evidence on both progress and challenges of DoL implementation and an input for discussions on strategies for HLF 4 and beyond. Since the PD Evaluation provided a rigorous system of quality control, both at country and international levels, the paper treats the results of the 21 country studies as accepted evidence, although the quality of documentation and depth of analysis in these studies varies

¹ The management of the PD Evaluation discouraged thematic/supplementary studies on individual principles or commitments of the PD which were rather to be covered in the country and donor studies.

² The “progress markers”, which are further specified by “potential indicators of change”, are: “Increased use of donor comparative advantages led by government”, “increased division of labour at country/sector level”, “increased delegation to lead donors”, “reduced fragmentation, overall”, “reduced fragmentation within sectors” as well as “increased untying of aid” (which is unrelated to DoL).

³ In Dec. 2010, at its 3rd Meeting, the International Reference Group (IRG) of the PD Evaluation discussed draft Emerging Findings which, however, did not yet contain conclusions and recommendations (CET 2010). A summary can be found on the OECD DAC PD Evaluation Website:

http://www.oecd.org/document/60/0,3343,en_21571361_34047972_38242748_1_1_1_1,00.html.

considerably.⁴ The paper follows the structure of the Country Reports which in turn follow the questions in the Operational Matrix (see Fig. 1).

Table 1: Partner Countries Participating in the PD Evaluation

Continent	Subcategories (WB classification for 2011 Fiscal Year: GNI/capita in 2009 US\$)	Low Income Country (LIC) (\$ 995 or less)	Middle Income Country (MIC)		High Income Country (HIC)	Total
			Lower Middle Income Country (LMIC) (\$ 996-3,945)	Upper Middle Income Country (UMIC) (\$ 3,946-12,195)		
Africa	Anglophone	Ghana *) Malawi +*) Uganda +*) Zambia *)	---	South Africa	---	5
	Lusophone	Mozambique *)	---	---	---	1
	Francophone	Benin +*) Mali +*)	Cameroon +*) Senegal +*)	---	---	4
Asia & Pacific	Asia	Afghanistan Bangladesh *) Cambodia *) Nepal	Indonesia Philippines Vietnam *)	---	---	7
	Pacific	---	Samoa ⁵	---	Cook Islands ⁶ (New Zealand)	2
Latin America	South America	---	Bolivia +*)	Colombia +)	---	2
Total		11	7	2	1	21

Sources of country classifications

Homepages of OECD-DAC 1/2011, World Bank 1/2011; UN 1/2011:

www.oecd.org/dataoecd/32/48/43407491.pdf

<http://data.worldbank.org/about/country-classifications>

<http://www.unohrls.org/en/ldc/related/59/>

Notes

bold: Least Developed Country (LDC);

underlined: involved in the OECD DAC Task Force on Donor Practices (2001/02) and already present at HLF 1 in Rome, 2/2003 (as a proxy for pre-PD involvement with the Aid Effectiveness Agenda which in several cases goes back to involvement in other OECD pilot initiatives at the end of the 1990s);

+) country presentation at Regional DoL Workshops in Africa 2010 and Latin America 2011;

*) covered in the EU FTI monitoring 2010/11;

With the exception of the Cook Islands, all countries are covered in the 2011 PD Monitoring Survey.

⁴ Three countries “dropped out” since early 2010: Ecuador, Kirgistan, and Sri Lanka. The studies were conducted by teams of national consultants, sometimes involving also regional or international consultants. The length of the studies (without annexes) varies between about 40 and 115 pages, totaling more than 1,700 pages. Quotes are simplified by just mentioning the country and the page number. The final versions of the country evaluations can be downloaded from the OECD DAC PD Evaluation Website (see Footnote 3).

⁵ Graduation from LDC status was foreseen for the end of 2010 but was postponed to 2014 due to the impact of the 2009 tsunami.

⁶ OECD fragmentation tables list the Cook Islands as UMIC; however, Cook Islanders are also citizens of New Zealand, and the country is certainly a special case.

Since countries volunteered for participation in the PD Evaluation, these 21 country evaluations cannot be considered a representative sample. Nevertheless, as Table 1 shows, they cover all regions (though Latin America is underrepresented⁷) and a range of country types (Least Developed and/or Low Income Countries vs. Middle Income Countries) as well as different periods and intensity of involvement in the Aid Effectiveness Agenda (AEA) – aspects which will be considered in the analysis of evidence on DoL processes.

2. Evidence on the Problem to be Addressed by DoL: Fragmentation

Despite some guidance in the Operational Matrix (see Footnote 2), the country evaluations vary considerably in their description and analysis of the key problem the DoL Agenda strives to address, i.e. the fragmentation of donor contributions at country or sector levels, and the consequences and trends of this fragmentation.⁸ Recent OECD analyses (e.g. those cited in the Input Paper) are hardly made use of; also, local Aid Information Management Systems (where they exist) do not yet seem to be used to their full potential.⁹ However, for the overall evidence on DoL processes to be compiled for HLF 4 by TT DoL, this quantitative information can be added from available sources or other ongoing monitoring processes - the PD Evaluation is more useful as a source of **qualitative assessments and analyses on “DoL in context” from a partner country (though not necessarily government) perspective.**

From OECD information on the numbers of donors per country alone (ranging between 25 and 35 for 2008 OECD DAC CPA data)¹⁰, one could conclude that fragmentation should be an aid management problem in all countries with the exception of Samoa (population 180,000) with a total of about 10 donors (“relatively uncrowded”, p. 30) and the Cook Islands with even less (population 14,000 and a “relatively small and stable pool of donor partners”, p. 13).¹¹ Therefore, the following **perceptions of fragmentation** emerging from the country evaluations are of particular relevance for the DoL approach:

- Only few studies (e.g. Uganda, Senegal) explicitly mention fragmentation in terms of **high numbers of donors** *per se* as an aid management problem, referring e.g. to well known side effects like “congestion” in attractive sectors. For example in Uganda, “... the highest level of congestion of aid is in the health sector (16 development partners). This is followed by agriculture (13), social development (11) and education. Many small donors (particular non-traditional European donors) are disbursing very small amounts of aid across many sectors” (34).
- Some reports (also) stress fragmentation in terms of the number of (donor or NGO) **projects**, especially if they are **outside of PBAs**, as a major problem (Malawi, Uganda, Zambia).

⁷ The CET tried to compensate this with a special survey on opinions about the implementation and outcomes of the AEA in 14 other Latin American countries (Foro Nacional Internacional 2010b; 32 valid interviews). The questionnaire contained questions about government leadership of DoL among donors, reprogramming and delegated cooperation, but results are reported only in a very general way: most respondents saw only partial or no government leadership with regard to DoL (Figure 11).

⁸ The “other side of the coin”, i.e. donor proliferation across (too many) sectors, is only mentioned in few of the studies. There was no time to review the donor studies (7 new studies and several updates of the 11 Phase 1 donor studies) on this issue.

⁹ Information about the importance of aid in relationship to GNP or the national budget (as simple though not completely satisfactory aid dependency indicators) is also not very consistent across the studies.

¹⁰ E.g. the table “Global Fragmentation on the basis of CPA data: 2008 Disbursements in Constant 2007 USD (EU-15)” (Suzanne Steensen, OECD DAC, 2010). The country evaluations refer to over 50 (Vietnam) or even 60 (Senegal) donors, obviously including a broader range than the OECD statistics.

¹¹ However, the report describes a donor increase to at least 17 during the last 10 years which does seem to create management problems, given the limited capacities of this very small island state.

- In most countries, the five or ten major donors already concentrate a high proportion of ODA. Further **concentration** is seen as a threat to country ownership e.g. in Afghanistan.
- Malawi is also concerned with frequent **fluctuations** in its “small” donor community which are seen as a negative effect of “international DoL” (according to the OECD DAC 2008 CPA figures, Malawi had 29 donors).
- In contrast, the report on Vietnam discusses the fact that 40 donors together provide less than 10% of total ODA as follows:

“Arguably, this **proliferation of small donors** gives rise to disproportionately high transaction costs for the ODA portfolio as a whole. ... however, (government) does not see it in these terms. Each bilateral aid relationship is seen as important in diplomatic terms, and there has been no attempt to discourage small bilateral donors” (10). “(Government) agencies did not express any particular concern with the transaction costs associated with ODA coordination, and have not actively promoted joint programming, delegated cooperation or joint missions” (37).

- In general, **outside of Africa**, with the exception of Afghanistan, the reports do **not** convey the impression that fragmentation in the sense of the presence of high numbers of “traditional donors” *per se* is a serious aid management issue.
- Differences or complementarities between **bilateral and multilateral donors** are not much discussed with the exception of the study on Bolivia which reports that, despite the lack of a formal DoL process, bi- and multilaterals contribute to different types of sectors, with the UN agencies focusing on “multisectoral” topics.
- **Global Programs** (e.g. GFATM, GAVI, GEF and other vertical funds) and, in the case of the Pacific, regional programs emerge as a **frequent source of complaints** about their insufficient alignment with country priorities and systems as well as lack of harmonization with other donors and the resulting high transaction costs they cause (notable exceptions are Uganda, Philippines and Bolivia). For example, in Malawi

“(b)oth government and the donors state that Global Programmes and initiatives are not sufficiently integrated into the national strategy or national systems, and tend to take a top-down approach, requiring additional conditionalities and reporting. For example, in the Ministry of Health, high transaction costs have been reported in the implementation of vertical funded programmes” (38).

Emerging Issue: “New” Donors and Thematic Financing Lines

However, the most striking phenomenon in all reports is the more or less extended discussion of the increasing importance of “**emerging**”, “**new**”, “**non traditional**” or “**non DAC**” donors (there is no consistent use of the terms), especially China, which often combine “aid & trade” and are described as being able to react fast(er) than “traditional donors” and to impose no conditionalities, although their aid is often “tied.”¹² While lack of data about their contributions and activities is a recurrent complaint, the available figures and examples demonstrate that **China** has already joined the five most important donors e.g. in Cambodia and Mali and provides 11% of all loans to the Philippines. Its focus on infrastructure – a sector hardly supported by “traditional donors” - is highly appreciated, possibly indicating an emerging “informal DoL” among “old” and “new” donors.

Other “emerging donors” mentioned rather frequently are the remaining BRIC(K)S (Brazil-Russia-India-China-Korea-South Africa) or the Arab countries. The South Africa evaluation reports:

“In November 2010 in Tunis, the Second African Regional Meeting on Development Effectiveness confirmed the ongoing maturity towards the establishment of a common agenda for aid effectiveness that is country led, coherent, coordinated and results driven. ... The BRICS were again viewed as a huge opportunity for the continent, and here, Africa needs strategic leadership to shape and set priorities to effectively marshal resources for development” (71).

¹² Recognizing the importance of this phenomenon, the PD Evaluation Secretariat also commissioned a Supplementary Study on this topic available on the Website (Foro Nacional Internacional 2010a).

Only in Latin America, the Philippines and South Africa is there a discussion of **South South Cooperation** (SSC) with a focus on technical cooperation. The report on Colombia challenges “traditional” donors to give more support to Triangular Cooperation, as stipulated in the AAA.

Most studies state that many of these “new” donors do not submit to PD principles, nor do they participate in donor coordination schemes. They stress the risk that these donors undermine basic aid effectiveness principles and, where they provide “cheap loans”, contribute to the risk of new indebtedness. The report on South Africa emphasizes the country’s role in the region vis-à-vis Asian “new donors” and sees

“ ... a unique opportunity to alter the colonial/neo-colonial development and trading paradigms by engaging with Asian countries to ensure that their activities in Africa are aligned with African objectives” (24-25).

Similar concerns apply to the rapid proliferation of **climate change financing** which is discussed in some detail in the studies on the Philippines, Vietnam and South Africa as a risk for aid management. According to the Philippines study,

“Most donors are aggressively queuing in lending technical and logistic support and capacity building in climate change adaptation and mitigation efforts ... During the period of program/project gestation, a framework for Climate Change interventions from aid is critical to avoid pre-PD principles experience” (32).

The strategic implications of these new phenomena for the DoL approach will be picked up again at the end of this paper.

3. Evidence on the Degree of Implementation of DoL Approaches

Reviewing evidence from 21 countries on DoL in the context of much broader descriptions and assessments of aid management, donor coordination and the implementation of the PD¹³ at country level, it became apparent that it may be useful to distinguish between

- The **Core DoL Agenda** which, based on the 2007 EU Code of Conduct and supported by the EU Fast Track Initiative, includes delegated cooperation and contains quantitative targets for sector engagement for EU donors (the effects of which should eventually become evident in OECD DAC statistics);
- A **Broader DoL Agenda** which reaches out to other donors and also includes lead donor arrangements and other attempts to reduce transaction costs by better coordination at sector level;
- The yet broader **Harmonization Agenda** which is assessed in the PD Monitoring Surveys via Indicator 9 on PBAs and Indicator 10a&b on joint missions and analytic work at country level.

In this sense, **more or less formalized “Core DoL” processes** are reported from the following countries: **Ghana**, **Uganda**, **Zambia**, **Mozambique**, **Mali**, **Cambodia**, **Vietnam**, and **Bolivia** (underlined if there is explicit reference to the 2007 EU Code of Conduct¹⁴ and/or EU initiatives towards DoL). In addition, **Malawi** has established Sector Working Groups in 2008 said to be a first step towards DoL, **Bangladesh** is preparing a concept note on DoL, and EU donors in **Colombia** are working towards delegated cooperation. However, there is no reference to DoL processes in the francophone EU FTI countries Benin, Cameroon and Senegal. Overall, the country evaluations thus capture most “Core DoL” cases known to the EU FTI and TT DoL; they are less detailed on DoL implementation than e.g. the EU FTI monitoring reports but richer in context information.

¹³ Rather: the AEA in general, since many reports stress that there were Pre-PD initiatives the impact of which cannot plausibly be separated from that of the PD – and which in some cases actually influenced this document.

¹⁴ There is no reference to the 2009 International Good Practice Principles for Country-Led Division of Labour and Complementarity.

With regard to the “ideal type” sequence and instruments of “Core DoL” processes (see Input Paper and Annex 1), some reference is made to **donor mappings** (e.g. Mozambique and Mali, planned in Bangladesh, no longer updated in Bolivia), but hardly any to cases of delegated cooperation. Actual **reprogramming** of aid after a DoL exercise (more on this in the next chapter on intermediate outcomes) is reported only from Uganda and Zambia which hosted the two earliest DoL processes (both written up already for HLF 3 in 2008¹⁵).

In view of the importance of country leadership stressed in DoL policy papers, it is noticeable that there does **not** seem to be much **government interest, ownership and leadership for DoL** processes - quite on the contrary. In the case of Mozambique, for example,

“... the work on DoL ... has been **wholly donor-driven** rather than government-led due to (i) a **concern** by government that rationalisation may decrease external financing and limit its options in terms of partners and aid modalities and (ii) a perceived **lack of a suitable “instrument”** to make decisions on who should work where” (37).

Similar reasons are reported from Mali. The Benin report also stresses the **concerns of sector ministries**:

“... des appréhensions notamment des ministères sectoriels qui peuvent craindre de perdre des ressources en cas d’abandon d’un secteur par un donneur” (20).

In the case of Uganda, one reason given for the “stalling” of its DoL process is **political change**, i.e. the transition to the new National Development Plan.

In other **LICs and African LMICs**, country leadership in aid management and donor coordination in general is still said to be rather weak (Afghanistan, Bangladesh, Nepal, Cameroon, Senegal).

In the case of **Vietnam**, a recently graduated LMIC, where the EU tries to foster a DoL process, the government

“... prefers to set out its priorities and leave each DP to select among them according to its own interests and specialisation. Vietnam is able to offset any resulting imbalance in ODA allocation from domestic resources. MPI also takes the view that a formal assessment of DP comparative advantage would be a divisive exercise, and that improving complementarity between ODA and other sources of development finance is a more important objective” (29). “With aid representing only a small share of the budget, the efficiency gains from a major reorganisation of the donor presence are unlikely to be sufficient to justify the effort – particularly when some of the bilateral aid programmes only have a few years left to run” (48).

Only the report on **Bolivia** – which stresses the country’s recently much improved fiscal situation - mentions that several DPs withdrew from certain “strategic sectors” (like governance and justice) on government demand, even without a revitalization of the previous more formalized DoL process.

On the other hand, the studies also contain many pertinent observations on **donor logic and behavior** across all country types which in part explain why aid coordination and harmonization, let alone country-led DoL, is rather difficult (see box below). Phenomena like the need to be “visible”, to show quick results and to be accountable to headquarters and home constituencies are in principle well-known, but the perverse incentives they create against in-country harmonization and DoL are apparently still insufficiently addressed. One aspect of this which virtually all country evaluations stress is the overall insufficient degree of decentralization of donor decision-making.¹⁶

¹⁵ See http://www.oecd.org/document/41/0,3746,en_2649_3236398_45465449_1_1_1_1,00.html.

¹⁶ The Inception Report notes that the performance of PD Expected Outcome „Sufficient delegation of authority to donors’ field staff, and adequate attention to incentives for effective partnerships between donors and partner countries” is “slow and very uneven.” “The reasons are primarily attributed to lack of political will and a determination to maintain tight control in HQs” (CET 2010:iv).

Observations on Donor Behavior

- **Malawi:** “Donors have an inherent tendency to have their presence felt in all key areas” (24).
- **Uganda:** “Rigid perceived sector mandates, interests and comparative advantage of some DPs have kept those DPs in ... sectors like health and education even though such sectors have clearly been congested, leaving behind sectors ... underfunded” (x); “... debates among donors on comparative advantage have proved contentious. Many donors find it difficult to act as silent partners due to their own accountability requirements” (55).
- **Zambia:** “Among the donors themselves, the DoL is understood differently. Some so called “silent” donors have actually been very visible and articulate ...” (20); “... harmonization has provided CPs a convenient platform with which to mobilize themselves to criticize government” (21); “... there were misgivings among CPs regarding moving out of their preferred sectors, particularly from the most popular sectors ...” (26); “Despite the prolonged period of negotiation ..., the final outcome was more a reflection of the current or proposed commitments of CPs, rather than a restructuring of CP engagement to support the implementation of the FNDP (Fifth National Development Plan)” (26).
- **Mozambique:** “... pressures from donor headquarters to stay involved in certain sectors for political and visibility reasons remain high and local sectoral choices are generally strongly influenced by capitals as opposed to starting with a blank page and a local consultation with Government and other donors to establish where value could be added” (37).
- **Afghanistan:** “Several of the donors criticized the international community members for lack of willingness to coordinate because each has its own capital’s political and military interests influencing strategies and policies” (51).
- **Senegal:** «Les PTF, quel que soit leur intérêt pour la Déclaration de Paris, sont en majorité très sensibles à la visibilité des résultats obtenus à travers leurs interventions» (81).
- **Vietnam:** “On the DP side, implementation (of the AEA in general, SW) encounters restrictive headquarter rules, risk aversion, institutional inertia, capacity constraints in small aid missions and fatigue with time-consuming aid processes” (34).
- **Bolivia:** “Los donantes tienen incentivos para concentrar sus esfuerzos en sectores donde las capacidades de gestión garantizan la implementación de programas y prefieren evitar sectores débiles institucionalmente o con deficiente capacidad de absorción ... Las agencias y sus oficiales siguen siendo evaluadas primariamente por el nivel de desembolsos, y luego por la construcción de capacidades” (57).
- **South Africa:** “One government view was that it (i.e. DoL, SW) is not really working well, since many development partners’ headquarters decide and change priority areas for focus, and locally, compete amongst themselves for ‘visibility’” (38).

Cambodia, though still rather aid dependent, prefers a **different way of dealing with the number and diversity of donors instead of a “Core DoL” approach**: the government’s focus is on the implementation of PBAs (including delegated cooperation and co-financing arrangements) as a strategy for donor harmonization. Nevertheless, DoL is promoted in the EU Road Map (2009). Similarly, **Samoa** since 2008 has been introducing SWAs as major management tool and does not even accept the term “lead donor”, preferring to address them as “coordinating DPs” (66).

In other country reports, especially those on **Asian-Pacific LMICs** whose aid dependence is by now rather low, the terms “DoL” and “comparative advantages” are used in much more informal ways. In the case of **Indonesia**, general harmonization attempts seem to be satisfactory:

“Every DP has its own mission to carryout, and it may significantly different with others. Having such challenge, the current quality of harmonization could be considered as significant achievement” (65).

In the case of **Vietnam**, seen as a “global leader on aid effectiveness” (14), the “vagueness” of the national AEA suits the government’s

“approach to managing the development partnership, which is to accommodate the different interests and preferences of its donors” (42).

In the three “best-off” countries, not much has been happening with regard to DoL: The **South Africa** report only refers to a discontinued World Bank attempt at donor mapping in the context of climate change financing. **Colombia** regularly updates a matrix of donor interventions to check their alignment with national policies, not with a view towards DoL; the report also questions the appropriateness of the “comparative advantage” concept in this context. The **Cook Islands**, while interested in reducing transaction costs, have doubts about too much harmonization and DoL and also question the concept of comparative advantages:

“The risk ... is in the limited access to DP expertise if required under a harmonised approach. This would require DPs leading the harmonisation to be very familiar with each other’s relative strengths and competencies” (73). “Comparative advantage is something that DPs build rather than bring into a country. It is not about bringing something new from outside that has worked or been appreciated elsewhere. ... regardless of whether DPs are emerging and are new to a country or have long established engagement, it is about building relationships and establishing credibility based on a sound approach and a willingness to learn” (64).

4. Evidence on Intermediate Outcomes of DoL Processes

Under **Core Q2** (see Figure 1), all country studies report on the “intermediate outcomes” of DoL and related aid reform processes towards the expected outcome “**Less duplication of efforts and rationalized, more cost-effective donor activities.**” According to the 2010 Emerging Findings Report, results are **worse** than for any other outcome (besides combating corruption):

“Seen from the country level, while the overall direction appears right in all these countries, the pace and distance traveled are **far behind** the implied expectations at this stage” (CET 2010:iv).¹⁷

With regard to the expected outcomes of DoL processes, this assessment is not really surprising given the limited progress in implementation summarized in the previous chapter. Indeed, even “early DoL-implementers” like Uganda, Zambia and also Mozambique report **only minor progress in “rationalization”** at sector level and with caveats that this happened “without sufficient consultation” (Mozambique, p. 37). In the case of Zambia, the report estimates that the health sector actually lost funding at the level of US \$ 25 million/year due to DoL (p. 44), an outcome which according to DoL policy documents should be avoided. Overall, in Zambia

“Some rationalisation of CP engagement took place at sector level as a result of the DoL. ... however, ... it was less clear as to whether the DoL, and the JASZ more generally, managed to reduce transaction costs for CPs and for GRZ (Government)” (26).

Unintended Consequences

One of the major arguments for DoL and the AEA in general is the expected reduction of **transaction costs**¹⁸ - “not a concept which lends itself to easy measurement” (Lawson 2009:2). Therefore, recurrent critical observations in the country studies on this issue deserve special attention (see box below).¹⁹

In summary, the quotes indicate that in many countries, **the AEA in general has apparently not reduced and may even have increased transaction costs** which in turn can contribute to aid and aid effectiveness fatigue. This situation can certainly not be blamed specifically on the

¹⁷ The presentation on preliminary findings at the March 2011 meeting of the WP-EFF’s Executive Committee reclassified the “distance and pace of movement” of this Expected Outcome as “varied/uneven”, similar to three other outcomes, due to the “more nuanced picture” in the Draft Synthesis Report (Niels Dabelstein, e-mail, March 16, 2011) which, however, still contains the wording “far behind” (CET 2011:29).

¹⁸ As the case of Cambodia shows (see box), the “burden of aid management” (which goes beyond the consequences of fragmentation) can be high in a country explicitly not interested in a formal DoL approach.

¹⁹ These are often found under the heading “unintended consequences.” Note that some of these were already discussed in the Input Paper (see Flowchart in Annex 1).

implementation of DoL approaches, but there is also **no** country study making a strong **positive statement about DoL having contributed to a reduction of transactions costs**, as intended.

Observations on the Issue of Transaction Costs

- **Ghana:** "... the different initiatives are mostly DP driven, they are very time-consuming for DPs and the partner country and do not allow partners to focus on the core business" (53).
- **Malawi:** "The implementation of PD looks simple on paper, but does exert very high administrative burden on the part of government and donors ... may not justify the results" (43).
- **Uganda:** "... the PD resulted in many ... groups ... many meetings ... taking valuable time of government counterparts away from ... generating the required results on the ground." (41); "Slow or non-realisation of tangible development results from SWAps (or the PD) can result in donor and government fatigue that slows down progress or even reverses achievements made in improving aid effectiveness" (75).
- **Zambia:** "... evidence presented suggests that transaction costs may not necessarily reduce even with what may be a successful DoL For donors, DoL because it has heightened the need for more intense and regular consultation may have actually increased transaction costs. ... For the GRZ (Government), transaction costs may not reduce when there is failure to respect the principles of the DoL" (68).
- **Mozambique:** "The cost in terms of time and resources of working on common approaches is higher than that incurred when operating bilaterally" (46).
- **Cambodia:** "The harmonisation pillar of the PD has undoubtedly increased transaction costs for DPs who spend significant time talking amongst themselves. (Government) also reports continued high additional management and administration costs linked with the coordination function" (71). "Reducing the burden of aid management for all concerned which was a key reason for aid reform has not yet taken place in Cambodia and remains high." (81)
- **Nepal:** "The evaluation concludes that few of the transaction cost benefits of the PD have yet been realised" (66).
- **Senegal:** « Beaucoup d'efforts ... mais peu de gains d'efficacité ou des réductions des coûts opérationnels ... » (37).
- **Vietnam:** "Vietnam has experimented with different ways of organising implementation of the AEA. Like many other countries, it has found the implementation process to be resource intensive and rather fatiguing for participants, and therefore prone to stalling..." (49).
- **Samoa:** "Both donors and the government advise that the transaction costs associated with the implementation of the PD have been very high" (67).
- **Cook Islands:** "Reducing the burden of aid management was a key driver towards aid reform but this has not been realised in the Cook Islands" (74).

While the transaction costs of implementing the PD for both governments and DPs are expected to be **transitional** e.g. in the studies on Zambia, Bangladesh and Senegal, the Cambodia report voices concern that they may be **permanent**:

"Given the well established finding that aid effectiveness efforts in Cambodia predate the PD by some considerable time, it is possible to argue that these PD-type arrangements will require permanently higher costs. Arrangements need to be made to accommodate them if the benefits, in terms of development results, are considered to outweigh these costs" (71).

As the Zambia report concludes, the concept of transaction costs urgently needs better **operationalization**, given its importance as an argument in the Aid Effectiveness Agenda:

"A fundamental issue still to be resolved is how to define indicators to measure and monitor these transaction costs in order to determine the most appropriate level of coordination/harmonisation that keeps the costs to a basic minimum" (68).

A second relevant “unintended consequence” of the AEA in general but of concern also for DoL is reported especially from Mozambique and Vietnam where the **quality of political dialogue** between the governments and donors²⁰ is said to have **declined**:

- **Mozambique:** “Increasing focus on process rather than results” (10) - “The space for real debate and policy dialogue has shrunk” (46).
- **Vietnam:** “PD has led to government and DPs spending much of their time talking about the mechanics of aid delivery ... at the expense of dialogue on development itself and the many difficult policy choices facing Vietnam.” (37).

In this context, the **Malawi** study describes how the **government’s frustration** with donors and the AEA may actually lead to a positive unintended consequence:

“PD has led the (government) to start understanding the limits of aid, since ... there is no improvement in aid relations. The government is now renewing efforts to expand its horizon in development financing ...and start moving towards aid exit strategy” (44).

5. Evidence on the Contribution of DoL to Development Outcomes

The methodology of the PD Evaluation in Core Q3 (see Figure 1) is rather careful with regard to tracing a number of possible and plausible contributions (no direct attribution) of the implementation of the AEA to improvements in the quality of aid in selected sectors, which in turn should contribute to overall development outcomes. Many studies point to factors and processes besides aid that have influenced positive or negative development outcomes in the particular country and complicate this analysis.

As a result, few studies dare to come to firm conclusions with regard to the impact of the AEA on aid and the impact of “PD-type aid” on development in the particular country. Most country evaluations only comment on trends and hypothesize about potential benefits of continuing with PD-type reforms, especially in those cases where the processes only began based on the PD, i.e. from 2005 onwards. The CET’s Synthesis Report will have to deal with this situation.

In this context and given the limited implementation of DoL in most countries and the lack of evidence on progress with regard to reducing fragmentation or transaction costs (see above), at this point, it is **impossible to trace any direct contribution of DoL processes to development outcomes**. However, this also applies for many other aspects of the AEA – more realism seems to be needed in view of the intended rather profound changes in both partner country and donor systems.

This is not to say that the PD has not been useful at partner country level already. Quite on the contrary, most studies confirm that the PD either gave **support to already ongoing reforms** in the national aid architecture²¹ or provided a **useful framework and common language** (e.g. the five principles) for initiating such a reform (this is stressed even in Afghanistan). The PD has certainly legitimized and strengthened partner countries’ negotiations with donors and in some cases supported local donor representatives vis-à-vis their headquarters.

²⁰ Improvements in the quality of sector dialogue are one important “progress marker” in the monitoring of the EU Fast Track Initiative on DoL.

²¹ Only the Colombia study calls the PD a “weak challenge considering the level of debate and practice happening in the country” (translation SW, p. 43).

6. Emerging Issues on the Road to HLF 4

“A particular risk is that the “clutter” of multiple processes on harmonisation, alignment, and results may generate more “noise”, consuming more and more time, rather than a sharp focus on progress in impact at the country level. ... The challenge going forward is to find ways to direct the building momentum for change to a few select “high-value” operational goals” (OECD et al. 2005:10; an input to HLF 2 in Paris, 3/2005).

The evidence from the country studies reconfirms many of the **challenges of the DoL approach** spelled out in the Input Paper, especially power differentials between partner and donor countries, and conflicting interests and perverse incentives on both sides, but especially among (different types of) donors, which are not yet adequately dealt with at both international and country levels. An additional challenge emerging from the last section is the apparent “overload” of aid effectiveness processes at country level which seem to lead to DoL being perceived as “yet another” obligation or agenda.

As the quote above shows, even before HLF 2 in 2005 was there already awareness of a **need for focus on impact at country level** in the implementation of the AEA. The need for prioritization and better integration of AEA processes at country level and under country leadership is made explicit in some studies:

- **Vietnam:** “One of the most basic lessons is that more should be done to adapt the AEA to country conditions. Vietnam moved very quickly to localise the AEA in the sense of reaffirming the PD with a local instrument. However, it has never really localised the agenda in the sense of specifying how the Paris principles should apply in the national context or setting its own priorities within a very broad agenda” (46).
- **Samoa:** “The PD, the AAA and whatever emerges from the Seoul Forum in 2011 must be seen as part of a continuum of change with each country taking what they need from the global change process to progress their own agenda. Each country must also determine its own pace of change and the global development community must respect that pace” (69).

Despite the justified calls for country leadership, **harmonization and DoL** will continue to be relevant for fulfilling commitments to “**good donorship**” and will require a combination of changes at headquarters and country levels. However, even if “traditional donors” (with EU donors as a core group) managed to “do their homework” and come up with e.g. a substantial reduction of their numbers at country and sector levels and a “perfect” division of labour in their contributions, **the total number and diversity of actors at country level would still be increasing** due to the rapidly expanding activities of “new donors” and “new financing lines” (like climate change). It is therefore very appropriate that - at least since a preparatory workshop on “The Evolving Global Aid Architecture” in Korea at the end of 2010 - “new challenges – new actors – new approaches” are on the agenda for HLF 4. They should also be dealt with primarily from a country perspective.

As was reviewed above, several studies explicitly refer to different ways in which **partner countries benefit from the increasing “competition” between “old” and “new” donors** – Senegal has even created a separate office for the latter. And while the Samoa study seems to see no problem with regard to government ownership vis-à-vis “new donors”, some country evaluations (e.g. Mozambique, Benin, Cambodia, Nepal, Bolivia) recommend to bring these donors also under the umbrella of PD principles. However, given the complaints about transaction costs, just expanding already cumbersome aid coordination mechanisms and DoL processes does not seem very promising.

In some countries, a “natural” DoL seems to be evolving at least at sector level (e.g. “traditional donors” focusing on social sectors, “new donors” on transport), so that the argument could be made to “just let it happen.” Nevertheless, the studies also contain considerable concern with potential negative side effects (e.g. new indebtedness) of what appears to be a trend of rapidly increasing yet unmanaged and uncoordinated contributions from these “new” actors.

At this point, only the Uganda report includes first ideas on more **innovative ways of dealing with the increasing complexity of the aid architecture at country level**: it recommends involving

parliament as a “clearing house” for all kinds of aid. Further discussions with partner countries on this issue could yield an important input for HLF 4 and the future AEA.

Recommendations on Changes in the Aid Architecture at Country Level

- **Uganda:** “As the nature of aid architecture is quickly evolving, (Government) should embrace new aid but safeguarding the **good practice principles for aid management ... Parliament should be a clearing house** for such aid ...” (74-75). “Prototypes of well functioning frameworks should be developed and promoted at international level to assist developing countries institutionalise technically sound models of clearing houses for aid.” (xviii); “Non-traditional DPs may not coordinate their efforts effectively with the OECD donors if not coerced by an **explicit policy statement** of the government to encourage their collaboration with other donors by joining aid effectiveness meetings and activities of the Local Development Group” (73).
- **Mozambique:** “Need to create a **more inclusive aid architecture**, especially given the increasing importance of non traditional and vertical funds” (11).
- **Benin:** “Le Gouvernement, doit développer avec ces nouveaux acteurs des **partenariats plus ouverts** à tous afin que les efforts collectifs aient davantage d’impact sur le développement ...” (13).
- **Cambodia:** “The key message to emerging donors and global funds is that they need to become more integrated into the aid architecture ...” (ix), i.e. “**integrated approaches consistent with the PD principles** ...”, while recognising the non-aid factors that also determine policy” (86).
- **Nepal:** “... aid effectiveness in the future will need to **mainstream and bring within the PD framework** Nepal’s partners who have traditionally not defined themselves as ‘DPs’ – India and China as neighbours who provide considerable support but through alternative approaches, and other new investors” (68).
- **Samoa:** “...these sources, while not subject to the PD are still **required to acknowledge government ownership** and accept government direction ..., seek alignment with government systems and be accountable to government for results” (68).
- **Bolivia:** “Es importante que el país defina una **estrategia de financiamiento externo** que no solamente tenga en cuenta los recursos que requiere para desarrollar sus planes, sino que también sea capaz de **diferenciar** en esta cooperación aquellos que tienen un **interés político y social** (Cuba, Venezuela, Ecuador, por ejemplo) de los países que parecen estar más interesados (por razones estratégicas propias) en **temas productivos y comerciales** (India, China, Irán, Corea, Chile o Brasil). ... ambas, aunque con distintos objetivos y métodos, junto con la cooperación internacional tradicional ..., pueden contribuir ... Esta estrategia puede apoyarse en los principios de la DdP, dada la disponibilidad de la mayoría de los donantes ...” (vi, 108).
- **South Africa:** “Aid from both traditional and non traditional development partners should continue to have a role in South Africa; even with its middle income status and considerable own resources. ... Aid continues to bring innovation and learning from other regions. It is, and should continue to be used as a resource to trigger change, in affecting upstream policy development, in unblocking bottlenecks and thus promoting delivery at a greater scale, as well as for innovation, not only based on other regional experiences, but also in exploring indigenous solutions to local challenges. The country and its development partners need to strengthen the organisation and implementation of the PD and AAA principles, through... the adoption of an instrument similar to the Windhoek Declaration and the Jakarta Commitment. ... This Charter could also provide for the establishment of a common platform and arrangements for the incorporation of non traditional development partners from the ‘South’ and their collaboration and participation with traditional partners nationally and regionally” (67).

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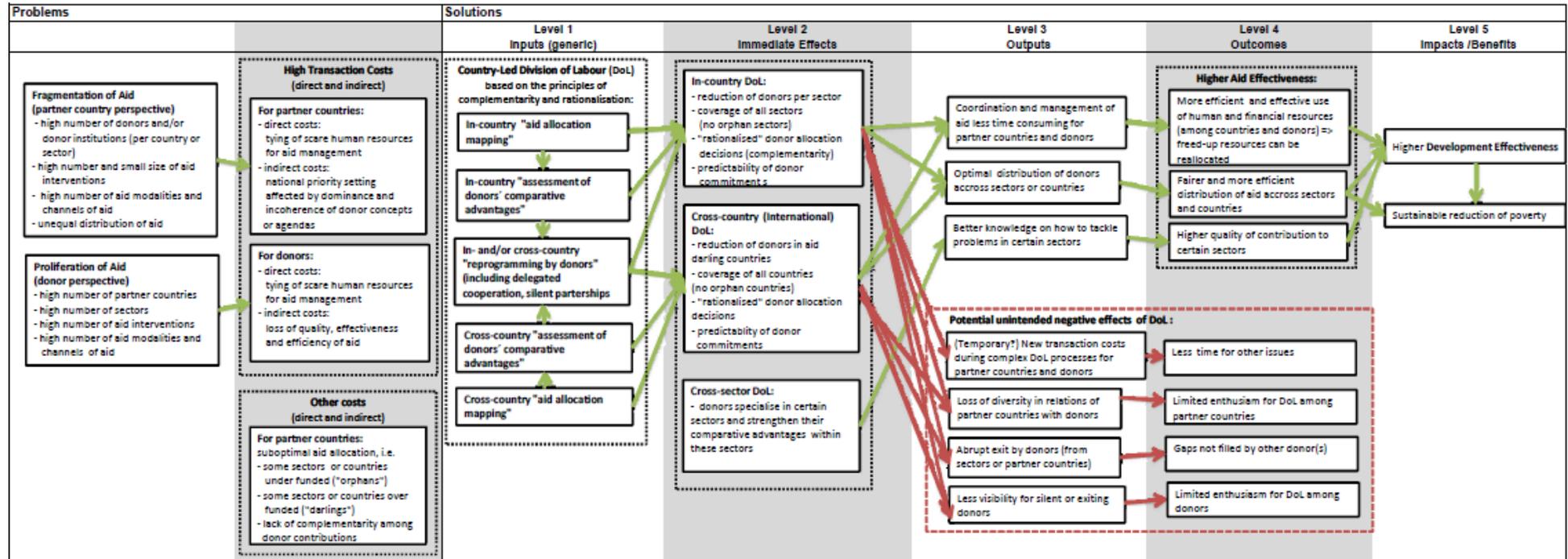
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Annex 1: DoL Cause-Effect Diagram (source: Input Paper, 2010)

Division of Labour and Complementarity among Donors
Working Hypotheses about Problems to be Solved and the Impact Chain of Solutions



Annex 2 - The Skeletal Program Theory of the Paris Declaration
 (Wording taken directly from the Declaration text; Elaboration: Core Evaluation Team, 2010)

INTENDED DRIVER S	PROGRAMMATIC INPUTS/ ACTIONS	PD OUTPUTS	INTENDED INTERMEDIATE (AID EFFECTIVENESS) OUTCOMES	INTENDED LONGER TERM (DEVELOPMENT EFFECTIVENESS) OUTCOMES
<ul style="list-style-type: none"> • 'Continued high-level political support' • 'Peer pressure' • 'Coordinated actions at the global, regional and country levels'¹ 	<ul style="list-style-type: none"> • 'Agreed political commitment to change'² • Backed by 56 Partnership commitments, progress measured against 12 specific indicators with targets for year 2010 • 'Initiatives by partner countries and donors to establish their own targets for improved aid effectiveness within the framework of the agreed Partnership Commitments and Indicators of Progress'³ 	<p>56 commitments</p> <p>Deliverables relating to changes in working practice by:</p> <p>Partner Countries</p> <p>Donors</p> <p>Donors & Partner countries</p>	<p align="center">MECHANISMS OF CHANGE – "PD EFFECTS"</p> <ol style="list-style-type: none"> 1. "Stronger national strategies and operational frameworks" 2. Increased alignment of aid with partner countries' priorities, systems and procedures, help to strengthen capacities 3. Defined measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary standards and environmental assessments 4. Less duplication of efforts and rationalised, more cost-effective donor activities 5. Reformed and simplified donor policies and procedures, more collaborative behaviour 6. More predictable and multi-year commitments on aid flows to committed partner countries 7. Sufficient delegation of authority to donors' field staff, and adequate attention to incentives for effective partnerships between donors and partner countries 8. Sufficient integration of global programmes and initiatives into partner countries' broader development agendas 9. Stronger partner countries' capacities to plan, manage and implement results-driven national strategies 10. Enhanced respective accountability of countries and donors to citizens and parliaments 11. Less corruption and more transparency, strengthening public support and supporting effective resource mobilisation and allocation⁴ 	<p align="center">MECHANISMS OF CHANGE – "PD IMPACTS"</p> <p>'Increase the impact of aid in:</p> <ol style="list-style-type: none"> 1. Reducing poverty 2. Reducing inequality 3. Increasing growth 4. Building capacity 5. Accelerating achievement of MDGs'

¹ We commit to accelerate the pace of change by implementing, in a spirit of mutual accountability, the Partnership Commitments presented in Section II and to measure progress against 12 specific indicators that we have agreed today and that are set out in Section III of this Declaration. As a further spur to progress, we will set targets for the year 2010. These targets, which will involve action by both donors and partner countries, are designed to track and encourage progress at the global level among the countries and agencies that have agreed to this Declaration.

² We resolve to take far-reaching and monitorable actions to reform the ways we deliver and manage aid.

³ We reaffirm the commitments made at Rome to harmonise and align aid delivery. We are encouraged that many donors and partner countries are making aid effectiveness a high priority, and we reaffirm our commitment to accelerate progress in implementation, especially in the following areas... We commit ourselves to taking concrete and effective action to address the remaining challenges.