



European Commission

Aid Effectiveness Agenda: Benefits of a European Approach

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The Aid Effectiveness Agenda: **Benefits of a European Approach**

A Study Prepared by HTSPE

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TABLE OF CONTENTS

ACRONYMS AND ABBREVIATIONS	I
ACKNOWLEDGEMENTS.....	III
1. MEASURING THE COSTS OF INEFFECTIVE AID.....	8
1.1 DEFINITIONS OF TRANSACTION AND ADMINISTRATIVE COSTS.....	8
1.2 THE BASIS FOR THE STUDY'S PROJECTIONS: EU DEVELOPMENT ASSISTANCE	8
1.3 MEASURING COSTS: SOME METHODOLOGICAL ISSUES.....	9
2. IDENTIFICATION OF COSTS	14
2.1 COUNTRY LEVEL DONOR PROLIFERATION - TOO MANY DONORS PER COUNTRY..	14
2.2 SECTOR-LEVEL PROLIFERATION - TOO MANY DONORS PER SECTOR.....	24
2.3 FRAGMENTATION OF AID ACTIVITIES	27
2.4 COSTS OF TIED AID	29
2.5 AID VOLATILITY AND PREDICTABILITY	31
2.6 COUNTRY SYSTEMS AND GOVERNMENT OWNERSHIP	34
2.7 MANAGING FOR RESULTS AND LESS CONDITIONALITY.....	40
3. SPECIFIC EUROPEAN EXAMPLES	42
3.1 CASE STUDY NO. 1: CAMBODIA	42
3.1.1 Introduction	42
3.1.2 AE Progress.....	43
3.1.3 The Cambodia Project Portfolio	44
3.1.4 Projected ODA for Cambodia	46
3.1.5 The Costs of the Technical Working Groups (and CDC)	47
3.1.6 Field office costs.....	48
3.1.7 The Costs of preparing a Country Cooperation Strategy.....	49
3.1.8 The Costs of preparing a Programme/ Project	49
3.1.9 The Benefits of a European Approach - Conclusions.....	51
3.2 CASE STUDY NO. 2: ETHIOPIA	52
3.2.1 Introduction	52
3.2.2 Donor proliferation in Ethiopia.....	52
3.2.3 Aid Fragmentation in Ethiopia.....	53
3.2.4 A better European allocation of resources.	54
3.2.5 Ethiopia and the Paris Declaration.....	56
3.2.6 Conclusions.....	58
3.3 CASE STUDY NO. 3: MOZAMBIQUE	58
3.3.1 EU donor proliferation.....	59
3.3.2 Sector proliferation is high even when sectors are narrowly defined	60
3.3.3 Project number and size in Mozambique	62
3.3.4 Despite progress, the project approach still dominates.....	62
3.3.5 The use of budget support is undermined by donor proliferation	63
3.3.6 Unpredictability has serious macro-economic consequences for Mozambique	64
3.3.7 Conclusion.....	64
4. EXTRAPOLATION OF COSTS TO EU LEVEL	66
4.1 COUNTRY LEVEL DONOR PROLIFERATION.....	66
4.1.1 Duplication of Country Strategy Processes – Joint Multi-annual programming	66
4.1.2 Duplication of Country Offices/representations.....	67
4.1.3 Duplication of Missions and Studies	67
4.2 SECTOR LEVEL DONOR PROLIFERATION.....	67
4.3 FRAGMENTATION OF AID ACTIVITIES	68
4.3.1 Project preparation costs.....	68
4.3.2 Project implementation costs.....	68
4.4 TIED AID	68
4.5 AID VOLATILITY/LACK OF PREDICTABILITY	69
4.6 COUNTRY SYSTEMS, GOVERNMENT OWNERSHIP AND CONDITIONALITY	69
4.7 SUMMARY OF COSTS AND POTENTIAL SAVINGS	70
5. SUMMARY AND CONCLUSIONS	71

6. BIBLIOGRAPHY.....	74
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LIST OF TABLES

Table 1 EU ODA volumes in 2007, actual and projection	9
Table 2 Proliferation and concentration of EU donors according to two indices	16
Table 3 Number of priority countries per EU donor	18
Table 4 Partner countries with more than 5 EU donors designating priority	19
Table 5 Office and staffing data for EU donors.....	21
Table 6 Burdens by frequency of mention (Source Amis et al. 2005)	23
Table 7 Sector fragmentation. Disbursements by EU donors in 2007(DAC 15 plus EC).....	25
Table 8 Estimates of the volume of DAC EU 15 aid that is still tied ^a	30
Table 9 Tying status of bilateral grant commitments for EU DAC 15 member states. (Source: CRS 2007).....	31
Table 10 Volatility of Aid. Large net ODA shortfalls, 1970 – 2006.....	32
Table 11 Paris Declaration Monitoring Indicators for Cambodia.....	43
Table 12 Number of projects (all projects) by duration	44
Table 13 Number of on-going projects/activities and 2008 disbursements, by donor	46
Table 14 Number of projects by technical working group August 2009	47
Table 15 EU development cooperation offices in Cambodia	48
Table 16 Current ongoing activities in Ethiopia by sector	54
Table 17 Current ongoing activities in Ethiopia by donor	54
Table 18 Division of Labour in Ethiopia.....	55
Table 19 In how many sectors do EU donors want to lead/be active?	56
Table 20 How much European aid is programme based in Ethiopia?	57
Table 21 Sectoral proliferation in Mozambique using purpose codes.....	61
Table 22 Numbers and average costs of development activities finances by EU donors in 2007	62
Table 23 Percentage of EU ODA given through various aid modalities in 2007 (Source: ODAMOZ)	63
Table 24 Estimates of possible savings to be made in Mozambique through the use of aid effectiveness measures.....	65

LIST OF FIGURES

Figure 1 Proliferation increase since 1960	15
Figure 2 Difference between average size of aid activities and general budget support activities for EU donors	38
Figure 3 Proportion of Country Programmable Aid disbursed through General Budget Support (CRS global disbursement data 2007) and wider Direct Budget Support & Other Programme Approaches (OECD 2008b for 55 countries only).....	40
Figure 4 European CPA to Ethiopia in 2007 million USD (OECD-CRS).....	53
Figure 5 Breakdown of country programmable aid provided to Mozambique in 2007 by EU member states and the European Commission.	60
Figure 6 Aid modality figures as proportions of total aid.....	63

LIST OF BOXES

Box 1 Examples of donor administrative costs.....	10
Box 2 DAC data on donor administrative costs.....	11
Box 3 Examples of donor proliferation.....	14
Box 4 Donor proliferation in Vietnam	15
Box 5 Donor Proliferation indices	16
Box 6 Global figures for aid activities reported to the CRS by EU DAC 15 donors and the EC.	27
Box 7 Definitions of use of Government systems.....	34
Box 8 EU performance on use of country systems.....	35
Box 9 Parallel PIUs and the project modality.....	36
Box 10 Quantification of administrative savings to donors from DBS	37
Box 11 Can GBS mitigate some of the longer term costs of project aid?	38
Box 12 Conditionality	41
Box 13 Aid volumes in Ethiopia for 2007.....	52
Box 14 Ethiopia's progress towards the Paris Declaration targets.....	56
Box 15 Aid volumes in Mozambique for 2002.....	60
Box 16 Imputed lost/aid*, average 1970-2006	69

LIST OF ANNEXES

Annex 1 Sectoral proliferation in Mozambique.....	79
Annex 2 Terms of Reference.....	84

ACRONYMS AND ABBREVIATIONS

AAA	Accra Agenda for Action
ACP	African, Caribbean and Pacific Countries
AE	Aid Effectiveness
AFD	French Development Agency
AIDA	Accessible Information on Donor Activities
BMZ	Federal Ministry for Economic Cooperation and Development
BTC	Belgian Technical Cooperation
CDC	Council for the Development of Cambodia
CF	Common Funds
CPA	Country Programmable Aid
CPIA	Country Policy and Institutional Assessment Instrument
CRDB	Cambodian Rehabilitation and Development Board
CRS	Creditor Reporting System
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DAG	Development Assistance Group
DBS	Direct Budget Support
DFID	Department for International Development
EC	European Commission
ECOSOC	Economic and Social Council (of the United Nations)
EDF	European Development Fund
EU	European Union
GAERC	General Affairs and External Relations Council
GBS	General Budget Support
GoE	Government of Ethiopia
GTZ	German Technical Cooperation
HAR	Harmonisation and Results
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFI	International Financial Institutions (WB, ADB, IBRD, EBRD etc.)
IPO	International Programme Officer
LDC	Least Developed Country
MBPIS	Merit Based Pay Incentive System
MDG	Millennium Development Goals
MoFE	Ministry of Finance and Economy
MPF	Ministry of Planning and Finance
NGO	Non-Governmental Organisation
NPO	National Programme Officer
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PBA	Programme Based Approaches
PD	Paris Declaration
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMS	Public Financial Management System
PIU	Project Implementation Unit
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
RGC	Royal Government of Cambodia
SCAC	Service de Coopération et d'Action Culturelle
SIDA	Swedish International Development Cooperation Agency
SPS	Sector Programme Support
SWAp	Sector Wide Approach

TA	Technical Assistance
TC	Technical Cooperation
TWG	Technical Working Group
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund

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INTRODUCTION AND SUMMARY OF KEY FINDINGS

The Problem: ineffective aid

Official Development Assistance (ODA) is subject to a number of characteristics, which reduce its effectiveness, among them:

1. ODA is not a homogenous, forward-looking concept but only the ex post summation of annual disbursements by some twenty to thirty donor governments' foreign aid programmes, each following its own individual aid policies, procedures and programmes;
2. Each donor programme is delivered through a multitude of channels such as bilateral donor government agencies, multilateral institutions and funds, which in turn implement aid 'projects' through a multiplicity of agencies, contractors or NGOs and – occasionally – the partner government itself; and
3. Aid flows lack long term predictability and are often volatile: donor parliaments allocate their aid budgets on an annual basis and partner governments are therefore often faced with disparities between agreed commitments and disbursements of funds.

Partner governments must therefore deal with many entities, whose sheer number often lead to duplication of efforts and the corruption of allocation procedures for national resources. Furthermore, the programming of projects is often donor-driven and not always aligned with national priorities, sometimes because recipient governments lack overarching development strategies, which are sufficiently detailed. However, even where these exist, aid is still often disbursed outside the partner country budgets and financial management systems through donor banks, using donor procurement and audit systems. This assistance is therefore not taken into account in national planning. Some assistance is still tied to procurement of goods and services from donor countries, raising the costs of aid significantly.

Ineffective aid therefore carries a number of direct costs (overhead costs associated with preparation, negotiation, implementation, evaluation, etc. of aid activities) and indirect costs (distortion of government ownership, allocative inefficiencies, etc.). These costs represent an inefficient provision of development assistance, and reduce the development impact as well as the quality of governance, economic growth and the sustainability of reforms.

PURPOSE OF THIS STUDY

The reduction of these above-mentioned "transaction costs" is frequently used as one of the main arguments for advancing the international aid effectiveness agenda. There have, however, been very few, if any, attempts to systematically identify and quantify the costs associated with fragmented, donor dominated aid systems. More knowledge is needed about the negative effects that ineffective aid has in terms of the broader aid architecture. A better understanding of these issues could constitute a powerful incentive towards moving the aid effectiveness agenda forward, especially in the context of the run-up to the Fourth High Level Forum on Aid Effectiveness in Seoul in 2011.

The purpose of this study therefore is to identify and present costs (overheads) associated with ineffective, fragmented aid, as well as potential savings in such transaction costs from further implementing basic aid effectiveness principles into European (EU and Member States) development cooperation. The study looks specifically at the costs of, *among others*, donor proliferation, the fragmentation of aid programmes, tied aid, volatility and lack of predictability in aid flows, as well as the shortcomings in donors' use of country public management systems and approach to government ownership of its reform and development strategies and programmes.

This study has three specific objectives (see terms of reference in Annex 2):

1. To elaborate and identify quantitative and qualitative costs associated with ineffective aid both to EU donors and to partner countries;

2. To elaborate specific European examples of where aid effectiveness principles have been applied and illustrate savings incurred by EU donors, in a balanced sample of countries; and
3. To extrapolate and illustrate the savings potential of fully applying aid effectiveness principles to EU bilateral aid worldwide.

In pursuit of the purposes of the study, the team of consultants has undertaken a thorough desk review of research available under each of the cost types listed above. This has been combined with selected visits to interview some EU donors and agencies, a country desk study (Mozambique) and two field visits (Cambodia and Ethiopia) to validate findings and seek further data and information. However, much of the relevant information regarding the costing of various aid management actions remains elusive. Clear definitions as to what constitutes administrative overhead costs – transaction costs – are only now being discussed in the context of the second OECD evaluation of the implementation of the PD/AAA agenda. This study should therefore be seen as an exploratory step and catalyst for future discussion on this issue.

MAIN FINDINGS

1. **Lack of information.** None of the European donors and their agencies – nor their development partners – seem to have developed management information systems able to provide evidence data on the costs and benefits of using different aid/ development cooperation modalities. Even basic cost data, such as costs of offices and use of staff time are difficult to obtain, in particular where donor development cooperation is integrated into their ministries of foreign affairs and external relations. Administrative cost information provided to the DAC CRS database is only reported in aggregate, global terms and definitions of such costs vary significantly between donors. As a result, **this study uses best estimates collected from experienced development practitioners at HQ and in visited field offices and can therefore only illustrate the order of magnitude of costs attached to the lack of a more coordinated European approach to aid effectiveness, with approximations of potential savings that could support a better use of aid.**
2. **Donor proliferation.** EU member states have, between them, designated a total of 400-500 (depending on definition) priority partner countries and provide aid in some form to many more. For partner countries with up to 15 bilateral EU donors, this is creating serious planning and coordination problems for both donors and for partner governments. At the sector level proliferation is also rife: forty-one percent of all sectors in recipient countries had recorded disbursements from more than three EU donors in 2007. Forty-five percent of all EU donor sector programmes account for only twelve percent of total spending, implying that there are considerable economies of scale to be gained from rationalisation of projects and programmes. Overall, **increased consolidation of programmes and projects, use of joint financing arrangements, delegated cooperation and agreed division of labour could result in savings of between 200 and 500 million Euro per year.**
3. **The fragmentation of aid.** While the OECD/DAC CRS database on development activities records close to 100,000 entries worldwide, divergent reporting practices and a lack of a common definition of what constitutes a development activity, makes it difficult to ascertain and analyse the actual situation. However, it can be estimated that EU member states and the Commission together accounted for some 40 – 50,000 entries (aid activities, projects) in 2007, an increase from 30,000 in 2003. Furthermore, data on new commitments made in 2007 imply that around 22,000 new projects/ programmes (commitments) were approved for funding by EU donors in 2007 with an average budget of 0.7 – 1 million Euro. **With an average cost (staff time and consultants) for design, formulation, appraisal and approval of a new project estimated at somewhere between 90,000 and 140,000 Euro, the total costs to the EU donors of preparing this number of projects would be between 1.9 and 3 billion Euro per year.** Hypothetically, if these 22,000 new projects and programmes were instead to be replaced by five new GBS/SPS programmes per year and

development partner the costs could be calculated to ultimately be less than one billion Euro per year.

4. **High burden on partner governments.** It is universally acknowledged that the proliferation of donors with different procedures, and fragmentation of programmes into projects is extremely demanding on senior government staff, although factual evidence is mostly in anecdotal form. However, a survey published in 2005 indicates that partner governments experience aid as donor-driven, procedurally complicated and leading to a lack of control and ownership of its own development ambitions and strategies. The lack of integration of the external development resources into their (strengthened) public finance management systems undermines their already weak planning, budgeting and treasury systems. Excessive time is spent working with donor missions, use of donor procedures, and on co-ordination itself in the multiplication of different working groups. Equally disturbing is evidence that proliferation and fragmentation negatively affect corruption levels, bureaucratic quality of recipient governments and even economic growth itself.
5. **Tied aid.** Procurement tied to a limited number of countries reduces price competition and may also incur delays in delivery and problems servicing the capital goods purchased. Institutionally, the 'easy wins' to be made would be through the elimination of tied aid to which cost increases of 15-30 percent are attached. At present around ten percent of EU aid is still tied. While most DAC members have made commitments to untie aid in the future this is the one Paris Declaration commitment to which a quantitative target has not been attached. **Costs to the EU aid programme from remaining tied aid may be estimated at 500 million Euro per year.**
6. **Volatility and predictability of aid.** It is a fundamental fact that all Official Development Assistance, ODA, emanates from donor government budgets, voted and appropriated annually¹ by national parliaments in OECD/DAC member countries (and an increasing number of emerging donors, like China, Korea etc.). Donor parliaments determine volumes and conditions of aid. These annual and short-term aspects of aid have serious and costly implications for donors' ability – both individually and collectively - to provide predictable aid flows to their developing partners. The consequences of this include conservative budgeting practises by partner governments, poor resource allocation, investments in capital expenditure to the detriment of recurrent costs and even macro economic instability. This lack of multi-year predictability of funding for longer-term reform and development programmes, according to macroeconomic studies and models², reduces the value of aid involved by between 8 and 20 percent (depending on choice of model, donor country and ODA definition). Taking conservative definitions and projections of EU CPA, **increased predictability of future total EU bilateral aid commitments could increase the value of EU country programmable aid by between 2 and 4 billion Euro per year and 10 to 20 billion per five year period.**

¹ "DAC member countries primarily fund their foreign assistance programmes through annual appropriations voted by their national Parliaments on the basis of proposals made by the government. Such budgets have the force of law and are sometimes used to define the main features of the foreign assistance programme. Normally these budgets are sufficiently general in nature to allow governments, the responsible minister or senior officials some flexibility to adjust allocations to fit evolving circumstances or unpredictable events, including emergency situations and humanitarian crises. However, in some countries where the legislature operates fairly independently of the government, parliaments give more precise indications in terms of geographic allocations, aid levels for particular countries or regions, or specific uses. This may reduce the efficiency and effectiveness of foreign assistance programmes as it forces aid managers to concentrate on adjusting existing programmes and allocating new resources to comply with the various requirements set by parliament." Managing Aid: Practices of DAC member countries, OECD-DAC (2005).

² See Kharas, H. (2008) and Arellano et al. (2009)

7. **The use of country systems and government ownership.** The literature review suggests that increased alignment through increased use of government financial management systems and programme based approaches, in particular direct budget support, is likely to lead to long term positive effects on the capacity and institutionalisation of planning and budgetary systems and gains in allocative and operational efficiency. Data are not available to confidently estimate differences in transaction costs for different degrees of alignment, nor differences between multi and single donor programme based approaches. However, both case studies and the large amount of literature on programme-based approaches emphasise that the up-front costs of preparation, time spent in coordination and delays increase when many donors are involved.

WHAT DOES THIS MEAN IN TERMS OF EUROPEAN DEVELOPMENT ASSISTANCE?

In summary, the study identifies and illustrates a number of areas where increased aid effectiveness could lead to significant quantitative and qualitative enhancements of the value of EU aid. The major obstacles to increased cost-effectiveness of aid are to be found in the proliferation of donors and implementing organisations (with different priorities and procedures) and the ensuing fragmentation of aid programmes into tens of thousands of aid 'activities' (projects).

Overall there are two main areas where concerted EU action would have a major impact: improved conditions for aid predictability (through common frameworks for country strategies and funding), and a better division of labour. If a more rational mechanism for a better cross-country division of labour among donors were introduced, then many of the costs related to preparation of strategies, programmes and projects, such as mission and office costs, could be reduced. Scaling up of programmes including general and sector/thematic budget support, might require larger up-front investments, but would not only have significantly beneficial effects on government ownership and capacity building, it would also reduce the heavy donor costs for preparation and implementation of free-standing projects.

EU donors are projected to spend, at least, an additional USD 160 billion (around 120 billion Euro) in country programmable bilateral aid (CPA)³ from 2010 to the MDG target date of 2015. If improvements were made in terms of increased predictability, reduced donor proliferation and a further untying of aid, the potential benefits from a European approach towards Aid Effectiveness could, with a full caveat for the paucity and uncertainty of actual data, be estimated to be in the magnitude of **3 to 6 billion Euro per year** or 15 to 30 billion Euro over the period of 2010 to 2015. Moreover, a reduction in the fragmentation of aid from a large number of smaller projects into consolidated, longer term programmes, could increase this level of savings considerably. If, hypothetically, these fragmentation costs were reduced to 500 million Euro a year (for a consolidation into some 750 programmes), the additional savings, above and beyond the 3 to 6 billion amount, would be in the magnitude of 1.4 to 2.5 billion Euro a year. While it is not possible to operate with precise figures, it is possible to establish that the potential savings are substantial and to infer that the link between aid fragmentation and division of labour needs to be tackled further.

³ CPA, Country Programmable Aid, is that part of gross bilateral ODA which remains after deduction of humanitarian assistance, debt relief, entails no cross-border flow and is not susceptible to country programming. It was defined by DAC in its 2009 report as a more relevant concept to measure fragmentation of aid.

1. MEASURING THE COSTS OF INEFFECTIVE AID

1.1 DEFINITIONS OF TRANSACTION AND ADMINISTRATIVE COSTS

Brown *et al.* (2000) define transaction costs of aid as **the costs arising from the preparation, negotiation, implementation and enforcement of agreements for the delivery of ODA**. The hypothesis underpinning this study is that these costs can be reduced by application of aid effectiveness principles such as those defined in the Paris Declaration and Accra Agenda for Action. The following transaction costs have been identified by various authors (Knack and Rahman (2004), Acharya *et al.* (2004) and Brown *et al.* 2000):

Short term or direct costs⁴: These are overhead costs associated with programming, identification, preparation, negotiation, agreement, implementation, monitoring and evaluation of aid activities (programmes and projects) including the policies, procedures and diverse donor rules and regulations for managing aid projects and programs, translations and adjustment to divergent fiscal periods. They may be incurred by donor governments, implementing agencies, or partner governments. These costs cover country analytical work carried out in the context of developing country/sector cooperation strategies, impact assessments (e.g. gender, environment or education) and capacity assessments (public expenditure and financial management system assessments and reviews). Such studies are often undertaken by each donor and can involve significant costs to both donor and partner governments, who are expected to provide information and staff time.

Long term or indirect costs: These can result from the impact of aid delivery mechanisms, in particular donor practices that impair the quality of government systems or hinder development of public sector capacity. Examples include distortion of government ownership and policy/priority consistency, disbursement diversion, allocative inefficiency (poor matching of funds to needs) and poor matching of capital investments with recurrent expenditure requirements. Such costs are borne by the partner government and the population of the recipient country in the form of delayed or distorted development processes. The discussion and analysis of the impact of ineffective aid systems on the development process is far beyond the scope of this study.

1.2 THE BASIS FOR THE STUDY'S PROJECTIONS: EU DEVELOPMENT ASSISTANCE 2010 - 2015

In order to attempt a quantification of transaction costs for the period of 2010 -2015, it is necessary to estimate the level of EU development assistance for this period as a basis for calculations. One way to arrive at this estimate is to start with the EU donors commitment to reach the UN target for development assistance of 0.7 percent of GNI by 2015, scaling up from the interim target of 0.51 percent in 2010 to the full 0.7 percent in 2015. This may, however, prove to be unrealistic. An alternative therefore could be to assume that EU ODA will at least stay at the interim 2010 target level each year until 2014. Given the current financial crisis, it may be better to err on the side of caution, and assume the EU bilateral ODA levels will not fall below 2007 levels, i.e. USD 56 billion per year which adds up to USD 280 billion or Euro 204 billion.

It would however be methodologically incorrect to simply use ODA as a basis for costs. In order to have more relevant results, only Country Programmable Aid (CPA) has been included. CPA is a measure recently developed by DAC members and observers (OECD-DAC 2008a and OECD-DAC 2009). It is particularly useful here because it provides a measure of the volume of actual aid to which aid effectiveness principles might be applied. It is defined by subtracting from total gross ODA aid that is: unpredictable by nature (humanitarian aid and debt relief); entails no cross-border flows (administrative costs, imputed student costs, promotion of development awareness, and research and refugees in donor countries); does not form part of co-operation agreements between governments

⁴ These have also been labelled **administrative costs** by Brown *et al.* (2000) and comprise overheads, in particular staff time.

(food aid and aid from local governments); or is not country programmable by the donor (core funding of NGOs).

Globally, in 2007 CPA amounted to about 65 percent of *total gross* ODA (OECD-DAC 2009). For EU donors CPA as a percentage of *gross bilateral* ODA was about 56%. On the assumption that future EU bilateral ODA will not fall below the 2007 level, (and rounding to the nearest 10 billion), it can be estimated that CPA for 2010 -2014 could be around 160 billion USD (or **120 billion Euro**) (see Table 1 below).

Table 1 EU ODA volumes in 2007, actual and projection
(USD billion, current prices, disbursements)

	15 EU DAC member states, plus other EU OECD members and EC ⁵		5 year projection assuming ODA no less than at 2007 levels
	2003 -2007	2007 only	2010 – 2014
Total Net ODA	258.6	62.3	311.5
Bilateral ODA, net ^a	212.6	50.0	250.0
Bilateral ODA, gross	237.2	56.0	280.0
Of which grant	218.6	51.6	258.0
Bilateral Country Programmable Aid (CPA)	NA	31.6	158.0
Bilateral Country Programmable Aid as percent gross bilateral ODA	NA	56 percent	56 percent

Source: OECD/DAC STAT, Dataset ODA by donor

^aNet bilateral ODA is gross bilateral ODA minus the principal from earlier loans.

1.3 MEASURING COSTS: SOME METHODOLOGICAL ISSUES

Below we outline some of the sources of existing data on the various cost types outlined in Section 1.1 and describe the methodology of the present study in the light of availability of data.

⁵ **EU DAC members:** Austria, Belgium, Denmark, European Commission, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. **Other EU OECD members, or ‘emerging donors’:** Czech Republic, Hungary, Slovak Republic, and Poland. Slovenia will also become a member in the near future.

Short term costs to donors: problems of definition and transparency

Box 1 Examples of donor administrative costs

It could be assumed, that costs which should be most easily identified and quantifiable are *short term* costs, in particular donors' own administrative costs. However there is no consensus on what constitutes overhead or administrative costs. A major difficulty is to distinguish overhead from ODA programme costs.

For example, it is not clear whether "overheads" on funds channelled through in-country Project Implementation Units (PIUs) or Non-Governmental Organisations (NGOs) or sub-contracts awarded to construction, audit and consulting firms are to be counted as ODA or as administration. Consequently, there are few standard definitions even for basic data such as "number of aid agencies employees". Aggregate administrative costs are reported by each DAC member donor annually to the Creditor Reporting System (CRS) Aid Activity Database⁶ but they are not broken down by country or by programme or activity. They largely remain a 'black box' as there is no means to find out exactly how they were calculated by each individual donor (Box 1). Total DAC-reported administrative costs for EU donors in 2007 are given in Box 2 and form a base estimate, which is referred to throughout this report.

- | | |
|-----|---|
| (a) | Belgium reports a figure of 5 percent to the DAC for administration costs on its net bilateral ODA. However data on the website of its major agency, BTC, suggests that such a percentage would cover only management costs at headquarters. If costs such as local staff, country offices and project operating costs are included then the total comes to about 24 percent of the 217 million Euros spent in 2008, and this does not include costs of expatriate staff/ consultants working in projects. This does not imply that Belgium's administration costs are higher than those of other countries; it simply highlights questions of definitions. |
| (b) | GTZ, acting as implementing agent for the German Government (BMZ) is entitled to charge for actually incurred costs of up to 12 percent of total project costs. This overhead does not include administrative costs at BMZ (see Section 3.1). This suggests that the figure for administration costs of 3 percent (of net bilateral ODA) reported to the DAC by Germany is rather low and is likely to include only costs at HQ. |
| (c) | Lastly it appears that costs defined as 'overhead' have changed over time. In the 1970s UNDP administrative costs were calculated at 16 percent including administrative and support services and agency overhead costs. It is interesting to compare this with current DAC reporting of administration costs as being 5.7 percent of total net ODA disbursements (which include significant amounts of debt relief and emergency assistance). While economies of scale may have played a role, the more likely explanation might be that much of what was then recorded as overhead and administration costs, is today counted as project expenditures. These remain controversial issues. |

Equally, the increasing tendency of integrating development cooperation into the Ministries of Foreign Affairs has made the distinction of what should be charged to foreign and consular affairs and what to development cooperation a most contentious issue. Many embassies in developing countries are entirely justified by the needs of development cooperation. Embassy staff are sometimes career MFA staff, but are more often seconded from development agencies.

⁶ The DAC database contains data on global ODA volumes for the EU 15 DAC members, the EC, Hungary, Poland, the Czech Republic and Slovak Republic. These ODA figures can be disaggregated by partner country, but administration costs are available only at the global level and only for the EC & EU DAC 15. The CRS or Creditor Reporting System provides ODA data for the DAC EU 15 and the EC at the level of each aid activity. Activities are listed by partner country together with sector and purpose information to allow detailed analysis. Administration data may also be submitted but this is voluntary, in reality only a small number of EU donors provide this information at the country level.

Box 2 DAC data on donor administrative costs

Total reported Administrative Costs (as recorded in DAC statistics) of the main 15 DAC EU donors plus the EC in 2007 amounted to USD 2.84 billion. **This amounts to about 5.1 percent of gross bilateral EU ODA or 5.7 percent of net bilateral EU ODA.** If we compare DAC-reported administration costs for EU donors to their total CPA we arrive at an overhead ratio of **8.3 percent**⁷ (although some of this administration cost is used for aid management of activities which are outside CPA). In a recent study of transaction costs, Easterly and Pfutze (2008) conclude that for the total international aid effort, the global ratio of administrative costs to total ODA is around 9 percent, although they stress the extremely poor quality of available data. Given the paucity of data on donor and partner administration costs, it is not possible to assess what proportion of these costs may be susceptible to changes in volume and modalities of activities in partner countries.

Because it is not clearly defined what is included in the DAC databases under administrative costs, the search for information on administrative costs has included other, less formal sources. The search has concentrated first on identification of **institution/ organisation costs and budget cost norms**, including:

- HQ staffing costs (Ministry and Agency) – number of staff;
- Number and location of country offices (priority partner countries) or development cooperation sections within an embassy or delegation;
- Number of international staff in country offices (professional staff only);
- Number of national staff in country offices (professional staff only);
- Budget cost norms (for 2009 budget) for HQ and out-posted International Professional Staff and National Professional Officers;
- Office and HQ Administrative budget (2007), excluding staff costs.

Second, we have searched to identify and quantify the aid flow **process costs**. These are the costs associated with the stages of the programme and project management cycle: preparation of the multi-year cooperation strategy, the annual country programming, project identification and formulation, appraisal, approval, implementation and evaluation for different aid modalities. A specific aim was to compare these process costs between aid activities having different levels of donor harmonisation and alignment.

While the first approach included a full questionnaire survey of transaction costs to selected donors and partner countries, this approach was discarded due to time constraints on the donor side. Instead an approach of selected donor visits combined with partner country visits to validate findings from donor HQs was chosen. However, initial visits to donor agencies indicated that this type of transaction cost data is not easily extracted from donor accounting and management information systems. It was therefore decided to undertake a more extensive search of development literature and studies undertaken by development institutions and research centres for macro- and micro-level transaction cost information related to aid effectiveness. The information thus gathered and analysed was complemented by a desk study of aid effectiveness in Mozambique and two two-week field studies in Cambodia and Ethiopia to validate findings and to collect field level information from donor offices and from the partner governments.

It must be recognized, however, that sourceable information of the kind indicated above is not systematically collected, either at HQ or at country office level. Workload information and cost norms collected and used for the illustrative calculations in this report are therefore not statistically verifiable. They are, however, based on estimates from development practitioners and, wherever possible, supported by budgeting guidelines, actual project budgets or project information recorded in ODA project databases maintained in partner countries. Wherever possible they have been triangulated

⁷ CPA does not include administrative costs. Therefore to find administrative costs as a percentage of CPA we sum CPA and administrative costs and then find the percentage of admin from the resulting figure.

with information obtained from other sources (e.g. from OECD/DAC publications and statistics and EU/EC documents).

One major source of information researched has been donor websites both at HQ and in partner countries. It was found that transparency of cost information is generally very poor among donors. Most annual reports are long on anecdotal information on project activities, but very short on specific information on costs. Evaluation reports tend to focus on development results and compliance with financial and procedural regulations, but rarely address the cost-effectiveness of chosen aid modalities or designs. While some donors provide names and titles of international and national staff and consultants working in recipient countries on their web sites, most do not. Information on salaries and benefits is not generally available to the public online from any donor. In some cases even the donor presence in a development cooperation programme country in terms of office with long term staff was not available.⁸ Process costs, for example the cost of preparing a multi-annual cooperation strategy, the preparation of a General or Sector Budget Support programme, were not found in any websites nor were they available upon request. Evidence-based management decision-making on cost-effectiveness of different development approaches or modalities seems not to be a priority among donor agencies.

Short term costs to governments: the difficulty in collecting data on the burden to partner governments

Short term costs are also incurred by governments at all points of the project cycle, mostly in terms of staff time. There have been some attempts to measure the direct burden on governments from the proliferation and fragmentation of ODA programmes. A study in Vietnam by ODI-CAPE (Brown *et al.* 2000) attempted to measure transaction costs in terms of time spent dealing with donor procedures, donor missions and co-ordination meetings. However the study found that government officials were unable to break down and cost their time in relation to specific activities. The OECD-DAC set up a *Task Force on Good Practices (2000-2002)* to develop guidelines for good donor practices (OECD-DAC 2002, Amis *et al.* 2005). The intention was to improve operational procedures and strengthen partner country ownership. Essentially, it concentrated on identifying which donor practices cause unnecessary problems for partner governments. The survey (commissioned in eleven countries⁹) decided to name and rank burdens encountered in the aid delivery process. We will refer to these rankings again in more detail when considering each type of cost (Section 2), however they do not provide us with any quantitative information; indeed no studies were found in the literature which presented cost information on government burdens in monetary terms.

⁸ Easterly and Pfütze (2008) created an index of donor transparency in which EU donors obtained scores implying that almost none of them had basic information on staffing and overhead on the internet and many did not supply it even after enquiries. The authors also found that HellenicAid, IrishAid, the Spanish Agency for International Cooperation (AECI) and the German Development Bank (KfW) report no data whatsoever on their employment and budget. Beside that, the Development Cooperation Agency of the Danish Ministry of Foreign Affairs (DANIDA), The German Agency for Technical Cooperation (GTZ), Lux-Development and the Portuguese Institute of Development Aid (IPAD) do not disclose data on administrative or salary budgets.

⁹ Bangladesh, Bolivia, Cambodia, Egypt, Mozambique, Romania, Senegal, South Pacific (Fiji, Samoa, Vanuatu), Tanzania, Uganda and Vietnam. The survey was undertaken by International Development Department, University of Birmingham (UK).

Long term costs to partner countries and their governments

There are a large number of academic studies (mostly from the discipline of econometrics) on the long-term costs of ineffective aid both through its impact on the quality of partner administration and on the economies of recipient countries. Such costs are mostly given in qualitative terms although in some cases quantitative costs could be found in terms of economic growth foregone or cost increases from lack of predictability in development funding.

Study approach

Given the limitations described above, the following sources of information were used in this study:

- **The literature** which is particularly rich for longer term indirect costs of ineffective aid and for qualitative descriptions of short term costs;
- **DAC/CRS ODA databases** provide some aggregate data on global administrative costs (see Box 2) and also data on donor proliferation in countries and sectors;
- **Online data** on agency budgets are available for some donors and have been used to estimate some cost types, which have been extrapolated to the EU level. This is supplemented and triangulated with additional estimates provided unofficially by donor officials at HQ and CO country office levels on institutional and process costs;
- **Donor-coordination websites** provide information on EU donor activities for individual countries (see section 3 on specific European examples). Comprehensive ODA **project databases**, established and made publicly available on-line have made it possible to describe the extent of donor proliferation and aid fragmentation both at country and sector levels.
- Lastly **two country case studies** were undertaken in order to look in more detail at both donor and government costs at a country level. These case studies were undertaken in Cambodia and Ethiopia and comprised interviews with staff of EU country offices and government staff involved in donor co-ordination. They are presented in detail in Section 3 on specific European Examples.

2. IDENTIFICATION OF COSTS

This section is an introduction to the ‘academic’ treatment of the costs of ineffective aid. The Accra Guidelines (SEC(2008) 435) identify a number of ‘drivers for progress’ under which concrete actions taken at the level of the EU can lead to improved aid effectiveness. This study focuses on the costs of not taking action in these areas. We therefore list these ‘drivers for progress’ here and then turn them on their heads to discuss the implications of non-action, the costs of the present situation as it stands today.

- **Division of labour:** The costs of lack division of labour can be conceptually understood under the headings of **donor proliferation** and **fragmentation of aid**. We use the World Bank (2008) definition, which associates “**proliferation**” with the number of donors providing ODA to a given recipient country and in specific sectors and “**fragmentation**” with the number of donor-funded activities¹⁰. Thus proliferation is associated with multiple donor country or sector programmes and fragmentation is associated with the number of aid activities (‘projects’). We look for evidence of the transaction cost impact of joint/pooled financing and/or co-financing instruments such as delegated co-operation (including sub-contracting of implementation to other donor agencies).
- **Untying of aid:** While untying of aid has increasingly become the norm, we look at the costs of remaining tied aid and its cost implications for EU ODA at current levels.
- **Increased predictability and reduction of volatility of aid flows:** Here we look at the costs of volatility and unpredictability to recipient countries.
- **Use of country public financial management systems:** Here we discuss the types of cost likely to be incurred when country systems are not used and government ownership of the ODA process is weak. We look for evidence that various aid instruments and activities specifically promoted in EU policies can reduce transaction costs. These include General Budget Support and other programme approaches such as SWAp.
- **Stronger management for results, mutual accountability and less conditionality:** Here we review the costs of traditional forms of conditionality.

2.1 COUNTRY LEVEL DONOR PROLIFERATION - TOO MANY DONORS PER COUNTRY

Donor proliferation has increased over time. In addition to the traditional DAC donor governments, a number of new donors have emerged and a large number of NGOs, foundations, private sector actors and local or regional governments (decentralized cooperation) from donor countries are also active. Box 3 provides some figures on donor proliferation.

Box 3 Examples of donor proliferation

- Today 22 bilateral donors and the European Commission are members of the OECD Development Association Committee (DAC). In addition, eight other donor governments and 20 multilateral organisations report annually their aid commitments and disbursements in 151 recipient countries and territories to the DAC ODA databases (OECD-DAC 2008c).
- At least 29 transition economies and middle-income countries have also established official development aid programs including countries like Thailand, Brazil and some of the new members of EU. Medium sized donors like Korea and Turkey and large donors like China now fund annual aid programs of 1 billion USD or more (Kharas 2007a).
- Multilateral aid agencies (around 230) now outnumber donors and recipient governments combined (Kharas 2007b). Since 2001 UN organisations, programmes and funds have increased from 27 in 1980

¹⁰

Some empirical studies use different definitions, Knack and Rahman (2004) and OECD (2008a) define ‘donor fragmentation’ in a way similar to that of proliferation used in this paper. Acharya *et al.* (2006) use ‘source proliferation’ to describe provision of aid from many donors in small amounts (close to proliferation as used here) and ‘use proliferation’ to describe the division of aid amongst a wide variety of end users (close to fragmentation is used here).

to over 40 in 2005 (SEC (2008) 435).

- There are now more than 1000 single issue international trust funds (SEC (2008) 435) established.
- In 2005-6, 38 partner countries hosted 25 or more DAC and multilateral donors; in 24 of these countries 15 or more donors collectively provided less than 10 percent of that country's total aid (OECD 2008a).
- In 2000 the median number of donors which developing countries hosted was 23 (Acharya *et al.* 2004).
- Even at the level of the donor country proliferation is rife: the EU 15 donors plus the EC worked through 82 agencies in 2007 (CRS).

Most development practitioners are well aware of redundant practices and examples like the one presented in Box 4 below. While significant decentralisation and delegation of authority to the country offices have taken place over the last few years, thousands of project reports are still submitted each quarter to multiple oversight agencies, hundreds of missions are fielded to monitor, review and evaluate projects and programmes, hundreds of meetings with key government officials are held to obtain comments on its reports are but some examples.

Box 4 Donor proliferation in Vietnam

In the year 2002 **Vietnam**, with aid receipts amounting to about 5 percent of GDP (and therefore a relatively typical example of ODA recipient countries), registered 25 official bilateral donors, 19 official multilateral donors and about 350 international NGOs active in the country. Collectively they accounted for over 8000 on-going activities, or one project per 9000 people¹¹.

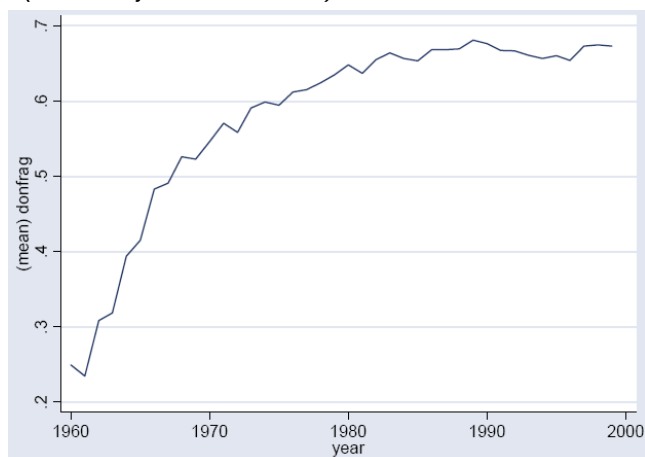
Measuring proliferation

On a country level proliferation describes both the number of donors providing aid to the country and the extent to which aid shares are spread equally amongst donors. Djankov *et al.* (2008) constructed an index of global donor proliferation¹² which takes into account both of these factors. It measures the probability that two randomly sampled dollars of foreign aid would come from different donors. The index ranges from 0 to 1 (0 =only 1 donor; 1 = highest possible level of proliferation) for 22 bilateral

donors and 15 multilateral donors from 1960 to 1999. The results are shown in Figure 1 and indicate a steep rise in global proliferation since 1960.

Figure 1 Proliferation increase since 1960

(Source: Djankov *et al.* 2008)



According to a recent OECD study (OECD 2008a) proliferation becomes a major obstacle when partner countries have to devote precious and scarce staff and decision maker time to deal with large number of donors that provide insignificant shares of Country Programmable Aid (CPA). The number of donors that combined, provide less than 10 percent of CPA, constitutes a measure of how serious the proliferation is. A number of 15 or above indicates that proliferation has become a serious management issue. This is the case in a significant number of countries¹³, which stands in stark contrast to the success stories like Taiwan, Botswana and Korea, where

¹¹ In Acharya *et al.* 2004

¹² The authors refer to proliferation as fragmentation in their paper.

¹³ Afghanistan, Albania, Bangladesh, Bosnia-Herzegovina, Brazil, Cameroon, China, Colombia, Congo, Dem.Rep., Egypt, Georgia, Honduras, India, Indonesia, Iraq, Jordan, Kenya, Mongolia, Nigeria, Pakistan, Peru, Philippines, Rwanda, Senegal, Serbia, South Africa, Sri Lanka, Tanzania, Thailand, Tunisia, Turkey, Viet Nam.

development success has been, at least in part, attributed to the presence of a single or dominant donor (Brautigam 2000; Azam *et al.* 2002).

Country level Proliferation among EU donors

Proliferation can also be measured for individual donors, describing the extent to which they provide funds equally over a large number of countries. Box 5 presents two indices of **donor proliferation** across countries and compares results for EU donors.

Box 5 Donor Proliferation indices

Acharya *et al.* (2004) created an Index of Proliferation based on the extent to which an aid donor disperses its budget among a portfolio of potential recipients. In statistical terms, it is equivalent to **dispersion**, and the opposite of **concentration**. There is more proliferation (dispersion) when (a) aid is shared among a larger proportion of the total potential number of recipients and (b) each receives a relatively equal share. For example, amongst a group of donor countries, each with an annual aid budget of 100 million USD, and all operating in the same aid universe in which there are 100 potential recipient countries, the biggest proliferators would be the one who disperses its aid as widely as possible, dividing its aid budget equally among those 100 countries, giving each 1 million USD. According to this index Germany comes out as the worst proliferator, having both a large number of partner countries and a relatively equal distribution of aid to each. The OECD (2008a) produced a concentration index which describes concentration as the number of countries to which a donor extends more than its average share of global CPA as a percentage of the total. Thus larger numbers show less concentration and smaller numbers more concentration. The OECD index measures concentration in terms of the percentage of partner countries receiving more than the average share of aid. It does not take into account the number of countries receiving aid. In this sense Denmark and the UK come out as the least concentrated. Both the OECD index of concentration and Acharya's proliferation index are shown for EU DAC 15 donors in Table 2.

Table 2 Proliferation and concentration of EU donors according to two indices

EU 15 bilateral donors	Concentration of donors based on Country Programmable Aid (OECD 2008a)				Proliferation index (Acharya et al 2004)	
	Total number of partners*	No of partners above average share	Concentration measure	Rank (1=least concentrated)	Proliferation index	Rank (1=least concentrated/ most disbursed)
	a	b	c	d	e	f
EC	144	82	57%	14	na	na
France	123	50	41%	3	183	5
Germany	110	59	54%	12	299	1
United Kingdom	93	36	39%	2	160	8
Netherlands	93	42	45%	7	220	2
Sweden	91	44	48%	9	191	4
Belgium	83	39	47%	8	200	3
Spain	81	42	52%	11	148	11
Italy	76	32	42%	5	160	7
Denmark	71	27	38%	1	149	10
Finland	62	27	44%	6	166	6
Ireland	56	23	41%	4	120	13
Austria	53	27	51%	10	137	12
Luxembourg	40	25	63%	15	160	9
Greece	34	23	68%	16	69	15
Portugal	20	11	55%	13	73	14

*Partners are defined here by the OECD as countries receiving CPA, but this analysis excludes 'noise' generated by small non-governmental to government aid activities, to this end a threshold of 250,000 USD was applied by the authors. Co-operation programmes below this level were not included in this analysis. These figures are averages of gross disbursements 2005-2006 given in OECD 2008a.

However it is intuitively much easier to measure proliferation by examining 1) the number of countries where EU donors disburse CPA; and 2) the number and identity of priority partner countries designated by each EU donor.

It is important to look at both because, although in the case of 8 EU donors, more than 80 percent of bilateral aid goes to priority countries, other donors allocate only 50 percent or less (results of Monterrey Survey cited in COM(2009) 443) to designated priority countries. Thus large volumes of CPA are provided outside the priority country framework and this raises questions regarding the significance of priority partner designation process.

First we consider proliferation in terms of EU donors providing CPA. Data on CPA provided by 15 DAC EU donors, the EC and the four emerging donors (Poland, the Czech Republic, Slovakia and Hungary) has been obtained from OECD. These data show that in 2007, there were **127** partner countries hosting more than five EU donors providing CPA, and **106** more than ten. It is interesting to note, that the list of countries hosting the highest number of EU donors, in terms of CPA, differ significantly from those indicated as core priority countries¹⁴ and it may be noted that many of them are in the middle income category. If we use the OECD method of applying a filter of 250,000 USD to remove 'noise' from very small projects (see note to Table 2), **105** countries received CPA from more than 5 EU donors in 2007 while **65** countries received CPA from more than 10¹⁵.

Second, we consider proliferation in terms of priority countries. Among core priority countries, proliferation of donors is lower and the countries with the highest number of EU donors differ from those identified when using CPA disbursement alone. However definitions of priority designation criteria differ from donor to donor. Table 3 lists priority countries from two different sources: Mürle (2007)¹⁶, who divides priority countries into core and general partners, and the EU questionnaire "From Monterrey to Doha and beyond, - EU progress on financing for development and MDGs", which uses a different definition of priority country¹⁷.

¹⁴ Countries with the maximum of EU donor proliferation (20 donors) in terms of CPA are: Bosnia-Herzegovina, Serbia, Kenya, Afghanistan, India and Peru. These are closely followed by Colombia, China, Sudan, Egypt, Thailand, Brazil, Ethiopia, PAA and Moldova which all have 19 donors.

¹⁵ In this case the top countries in terms of EU proliferation are Afghanistan, Serbia, Palestinian Administered Areas, Bosnia-Herzegovina, DR Congo, Viet Nam, Sudan, Albania and Rwanda which all have over 15 EU donors.

¹⁶ The Author used data on priority countries for the EU 15 from the Agence Française de Développement (2006): An overview of public development aid systems in the European Union, Paris. For emerging donors the following reference was used: Bucar M., Pilbersek E. and Mesic A. (2006): Development Policies of New Member States and their participation in European Union Development Co-operation, Mimeo, Ljubljana.

¹⁷ The monitoring of the EU commitments to the Monterrey Consensus and the Doha Declaration is an annual exercise. The Monterrey Survey asked the question: In how many countries did you provide bilateral government-to-government ODA in 2007? How many of these countries would you classify as priority countries?

Table 3 Number of priority countries per EU donor

Donor	Priority countries (Mürle 2007)		Priority from survey	countries Monterrey	percent of aid allocated to priority countries (Monterrey survey data)
	General priority	Core priority			
Austria	29	12	12		46
Belgium	18	18	18		95
Cyprus	5	5	-		-
Czech Republic	8	8	8		75
Denmark ¹⁸	28	16	16		36
Estonia	4	4	4		89
Finland ¹⁹	8	8	8		59
France	54	54	55		51
Germany	84	40	57		66-81
Greece	18	18	12		60
Hungary	5	5	16		
Ireland	8	8	9		97
Italy	-	-	12		100
Latvia	3	3	4		90
Lithuania	6	6	-		-
Luxembourg	10	10	10		44
Malta	6	6	-		-
Netherlands ²⁰	36	36	40		64-90
Poland	6	6	-		-
Portugal	6	6	6		61
Slovak Republic	7	7	-		-
Slovenia	6	6	2		
Spain	54	23	36		60
Sweden	28	28	33		67
United Kingdom	68	20	22		83
Total	505	353	380		

Overall, **EU donors (except EC) designate between 380 and 505 countries as priority partners** depending on definition. In the light of EU efforts towards both cross-country and in-country division of labour, this implies significant opportunities for reductions in programme management costs. Some EU donors have already, on a bilateral basis, progressed in delegated cooperation.

Mürle (2007) has suggested that the presence of more than five donors in a developing country is likely to lead to deterioration in aid effectiveness. Using the conservative estimate given in the Monterrey survey (given in COM(2009)443) we obtain a list of 23 countries in which more than 5 EU donors designate priority²¹. This list is given in Table 4. Also shown in the table are OECD CPA

¹⁸ Denmark also has a large neighbourhood programme (not to be confused with the EU initiative) which includes a further 13 countries.

¹⁹ Finland has an additional 5 post-crisis countries.

²⁰ The Netherlands is phasing out 7 countries to bring the total to 36 (website), listed under three types of co-operation.

²¹ Our own research using partner country definitions from donor websites suggests that of the EU 15 donors alone, there were 21 countries with more than 5 donors designating core priority and 37 countries with more than five designated some level of priority or partnership. These figures do not include the EC.

figures for 2007. It can be seen that even in countries which have a relatively small number of EU donors designating priorities, there may be many more large programmes in any given year.

Table 4 Partner countries with more than 5 EU donors designating priority

(Sources: Monterrey data taken from COM(2009) 443; EU donors providing CPA in 2007 from OECD data).

Country	Number of EU donors			
	Priority country Monterrey Study ^a	CPA over 0.25 million USD ^b	CPA over 1 million USD	CPA over 5 million USD
Mozambique	12	15	15	14
Vietnam	12	17	15	13
Palestine	10	18	15	11
Moldova	10	15	11	5
Afghanistan	10	20	18	15
Ethiopia	10	15	14	12
Tanzania	10	15	13	10
Mali	9	12	10	9
Zambia	8	12	9	8
Uganda	8	13	13	11
Yemen	8	9	8	5
Ukraine	8	13	11	6
Angola	7	15	13	8
Georgia	7	13	10	5
DRC	7	17	13	8
Senegal	6	13	10	9
Bangladesh	6	12	10	7
Bolivia	6	13	11	9
Burkina Faso	6	14	11	8
Cambodia	6	11	11	8
Egypt	6	13	11	8
Nicaragua	6	15	15	12
Kenya	6	13	13	11

Notes to table:

^aMonterrey data includes 25 EU Member States;

^bOECD CPA data includes EU DAC 15 plus the 4 emerging EU donors that are members of the OECD.

A lack of co-ordination of cross-country designation of priority countries among EU donors has led to the creation of a number of, what have been called, 'donor darlings' and 'donor orphans'. An analysis of priority countries based on donor websites identified 28 low-income countries²² with less than 3 EU donor indicating core priority. Seven countries (shown in bold in the same footnote) are not included as priority countries by any EU donor. However this does not mean they do not receive aid. For example Papua New Guinea received significant country programmable aid from 12 EU donors in 2007²³, without being designated as a priority country by any donor.

While there are many factors influencing the process of designating priority partner countries and the allocation of aid funds, it is important to note that the records shown above indicate the importance of

²² Bhutan, Equatorial Guinea, Eritrea, Lesotho, Sierra Leone, Ivory Coast, Central African Republic, Chad, Comoros, Djibouti, Gambia, Guinea, Haiti, Liberia, Maldives, Somalia, Togo, Vanuatu, Kyrgyzstan, Tajikistan, Uzbekistan, **Kiribati, Myanmar, Samoa, Solomon Islands, Tuvalu, Korea Dem Rep, Papua New Guinea.**

²³ More analysis of donor 'orphans' and 'darlings' is given in detail in Mürle (2007).

political considerations and emerging strategic situations beyond those of absolute poverty and needs in the process of designating priority. The issue of cross-country considerations, division of labour and priority designation therefore needs to be addressed at politically competent fora, where also other foreign policy and security aspects can be considered. This would also include issues relating to the allocative impact on development funds (ODA) of the progression from emergency and relief into rehabilitation and development, such as demonstrated in the Western Balkans.

Attaching costs to country level EU donor proliferation

Direct costs to donors – The major cost items at the country level can be identified as

- Country Representation (agency, development section);
- Development Cooperation Staff costs (including allowances, social security etc.);
- Office administrative, financial, transport and maintenance costs;
- Country Programme development and management costs;
- Project and programme development, approval, monitoring and evaluation costs;
- Overhead cost reimbursements paid to sub-contracted (delegated) implementing organisations;
- Expert Missions for studies and assessments.

It should be noted that these items are not additive or mutually exclusive. Most of the programme related work is performed by the office staff and should not be double counted. While there are potential savings from a cross-country division of labour – and reduction of staff and office costs, if the level of CPA and the fragmentation of aid activities were to persist, the workload may not necessarily decrease. There is little excess capacity in the country offices.

Opening of an office does not always follow the designation as priority country. However, data presented in Table 5 suggest that there are just over 500 EU donor offices including EC delegations, (about 400, excluding EC)²⁴. It can be estimated that there are 38 countries where more than 5 EU donors (including the EC) probably have an office and staffing presence. With that definition it can be calculated that in these countries there are around 100 ‘surplus’ offices. However, if EU donors were to aim for a maximum of 3 offices, including that of the commission, in each priority country, there would be **217** surplus offices in 63 countries²⁵.

Data in Table 5 would suggest an average of about 8 international field expatriates per country office. However removing donors with exceptionally large number of expatriate staff (Germany, Denmark and the Netherlands), the average drops to 4 expatriates per office. Increasing decentralisation to country offices has meant a recent increase in field staffing. Denmark has developed a ‘model’ staffing complement for a mission, which requires posting more staff to partner countries and greater reliance on locally recruited staff (OECD-DAC 2005 p 60). This model, for a typical country programme with three priority sectors, implies a total professional staff complement of 12, of which 8 are expatriates on posting from Copenhagen (6 of these are involved principally in cooperation activities)²⁶.

It could be assumed that donors prepare country Cooperation Strategy Programmes (CSP, but also referred to as Multi-Annual Strategic Programmes or MASP) for each of their priority countries, as

²⁴ These are minimum estimates. Whilst we were able to obtain lists of offices from donor websites, for others we had to infer office presence from priority country information rather than from actual office lists. These donors have large projects in non-priority countries also and are likely to have additional representations in those countries. They include Finland, the Netherlands, Denmark. Given Denmark’s high number of total staff it is highly probable that they are placed in more than 29 countries.

²⁵ In the preliminary report we gave an estimate for surplus offices (above 5 EU donors) of 150. This included Norway and emerging donors and also assumed many priority countries which we now know do not have offices. The refined estimate includes as far as possible information on actual office presence, however is probably an underestimate for reasons discussed above.

²⁶ The ‘model’ is (i) The Ambassador and/or deputy head of mission, ii) one Danish and one locally recruited professional for each main sector in the country programme, iii) a Danish macro-economist, iv) one Danish and one locally recruited professional for institutional reform, and v) a Danish financial manager.

these form the legal basis for bilateral development cooperation between a donor and a developing partner country. The CSP process results in a document, which normally records agreed priority areas, sometimes specifying the projects/programmes/sectors, which are to be supported during the period.

Our estimates of priority countries from Table 3 suggest **between 380 and 505 priority countries, not including the EC** and there are many non-priority countries where large programmes exist. Thus we can assume that about 500 country strategies are regularly prepared by EU member states across the 151 listed DAC recipients. Equally the Commission prepares Country Strategy Papers (CSP) for all partner countries, which would add a further 130 or so to the total.

These strategies take on average about 40 weeks to prepare in the case of EU donors, ranging from 28 to 48 weeks (EuropeAid 2007), however this does not imply 40 weeks of staff time. Indeed it is extremely difficult to calculate the costs (staff time, studies, analyses, workshops, negotiations etc.) associated with the production of CSP. Interview responses indicate that strategy development has become a comparatively continuous process with earlier programmes tending to form the basis for a new programme and that major exercises to restructure the CSP tend to take place following exceptional events or changes in donor policies. The preparation of a new CSP therefore has tended to become a fairly ritualistic exercise, making extensive use of assessments and studies made by IFI and other donors. Benefits associated with the introduction of a framework for joint multiannual programming application of a common/joint EU format would therefore mainly be found in the form of improved division of labour and increased use of joint PBA in the preparation of new programmes.

Lastly, proliferation of donors greatly amplifies the number of missions and studies which take place both at the programming phase and over the project cycle. The survey to monitor the Paris declaration reported **2282 uncoordinated missions and 487 uncoordinated studies for EU donors in 2007, across 55 countries** (OECD 2008b). The real number across all 151 DAC recipients would be much higher.

Table 5 Office and staffing data for EU donors

Donor	Staff at HQ	Field expatriates	Field staff local	Number of offices	Average number of field expatriates per office	Source of office data
Austria	93	21	11	14	2	Website
Belgium	193	68	9	23	3	Website
Denmark	847	503	974	29	17	No office data available - Based on 16 priority countries plus 13 Danish neighbourhood programme countries
Finland	164	69	22	13	5	No office data available - Based on 8 priority countries + 5 post-crisis countries
France	1460	610	-	65	9	Website: In many countries both AFD and SCAC offices exist; in such cases one office is counted ²⁷ .
Germany	1900	1300	3350	77	17	Website: Some offices shared with DED and KfW. List includes

²⁷ AFD is the Agence Française de Développement, SCAC is the Service de Coopération et d'Action Culturelle in the embassy which also has a co-operation role. In most of France's partner countries (Zone de Solidarité Prioritaire) both exist.

Donor	Staff at HQ	Field expatriates	Field staff local	Number of offices	Average number of field expatriates per office	Source of office data
						offices abroad with 'special tasks'; additional offices exist around thematic programmes.
Greece	130	1	-	1	1	Website
Ireland	125	34	250	8	4	Website
Italy	427	21	-	12	2	No office data available - Based on 12 partner countries given in Monterrey survey
Luxembourg	84	16	3	7	2	Website
Netherlands	645	395	325	33	12	No office data available, based on 36 partner countries given in website. 7 countries recently phased out so staffing figures from 2006 probably pertain to 43 offices.
Portugal	160	11	-	6	2	Website and donor information
Spain	493	200	466	42	5	Website and donor information
Sweden	664	185	88	41	5	Website and donor information
UK	1565	453	920	49	9	DFID internal information
European Commission	959	559	2021	110	5	Website and donor information
Total	9909	4446	8439	530	8	

Notes to the table:

Staffing data comes from the EU Donor Atlas (EU 2006). The numbers are very different from those available on donor websites or given in the DAC peer reviews. However we have used these staffing figures for consistency as it is the only source which brings data together for all the EU donors. These figures must be considered however with extreme caution. Office data includes only countries where a physical office is situated, so offices responsible for a number of countries are counted only once. Where development co-operation is done from within an embassy, in some cases no information was available on whether a sub-office or staff group dedicated to development co-operation existed, in these cases we have assumed that priority countries must have staffing and so have counted 'an office'.

Short term costs to governments

As we have seen, both long term and short term costs of proliferation are incurred by partner governments. **Short term costs** include the cost of co-ordination itself in the multiplication of different working groups, requirement for complex project databases (although these are usually financed by donors) and large amounts of time spent in aid co-ordination meetings, many of which are ineffective (Brown *et al.* 2000). Table 6 lists some of the major burdens of aid cited by government officials in 11 countries (OECD 2002, Amis *et al.* 2005). All of these burdens can be measured in terms of staff time and all of them will be exacerbated by donor proliferation. Some are also connected to lack of alignment with country systems and are discussed further in Section 2.6.

Table 6 Burdens by frequency of mention (Source Amis et al. 2005)

Rank	Type of Burden	Frequency of mention – government interviewees in 11 recipient countries
1	Donor driven priorities and systems	28 percent
2	Difficulties with donor procedures	20 percent
3	Uncoordinated donor practises	14 percent
4	Excessive demands on time	12 percent
5	Delays in disbursements	12 percent
6	Lack of information	8 percent
7	Demands beyond national capacity	4 percent

One way to mitigate short term costs of donor proliferation both to donors and governments whilst maintaining flows from donors wishing to invest in a country is through **delegated cooperation**. However we were unable to find any quantitative evidence that this mechanism actually saves on short term donor costs and there are no EU wide statistics on the volume of delegated cooperation which might enable us to calculate possible savings. The Monterrey Survey asked donors in what percentage of partner countries they have collaborated in delegated cooperation arrangements. Of the DAC 15 EU donor member states, 12 replied to this question, of which 7 had such arrangements in less than 10 percent of partner countries and only 2 had such arrangements in more than 30 percent of partner countries.

Long term costs of country-level proliferation

Djankarov *et al.* (2008) have used econometric modelling to show that the presence of **multiple donors decreases the effectiveness of aid in terms of economic growth**. They suggest that this occurs as the presence of multiple donors increases the recipient government's negotiation power and encourages corruption. Statistical relationships between donor fragmentation indices and corruption levels were identified by the authors. Secondly Knack and Rahman (2004) found that *"The preoccupation of many donors with ensuring that their local administrations have a full complement of qualified staff and with securing, at all costs, the manpower required to implement their projects is depriving the government of the capacity to effectively manage its administration"*. They created an index of donor proliferation²⁸ and found a negative and statistically significant relationship between this proliferation and bureaucratic quality as measured by the International Country Risk Guide. **They concluded that proliferation undermines budget processes, increases transaction costs and increases the risk of uncontrolled donor spending**. Even when not directly employed by aid agencies the fact that government staff may also obtain significant remuneration (fees, travelling allowances etc.) by virtue of being responsible for project aid design or management means that they face powerful incentives to neglect other duties. These incentives may also encourage staff to protect and extend certain aid projects independently of merit and to continue to promote the practice of spending aid through projects rather than through programmes such as SWAps where they would obtain less benefit (Acharya *et al.* 2004).

Proliferation is likely to work against other aid effectiveness agendas also – *"A donor with a small share of the aid market is unlikely to be concerned about the sustainability of future recurrent spending on investment projects and about whether projects are mutually consistent"* (Knack 2008). Such a donor is less likely to use country systems or participate in complex multi-donor arrangements such as SWAps. Lastly, a higher number of donors can contribute to a lack of responsibility for the outcomes of aid. It is easier for donors to focus on obtaining good results from their own projects, even if this undermines overall aid performance (Acharya *et al.* 2004).

²⁸

Fragmentation, as used in the terminology of the referenced paper.

2.2 SECTOR-LEVEL PROLIFERATION - TOO MANY DONORS PER SECTOR

In-country division of labour between donors (including delegated cooperation) is assumed to decrease the burden on government, reduce transaction costs through improved economies of scale and decrease the costs of donor co-ordination. For example, transaction costs of setting up a SWAp would be significantly reduced if there were to be only 3 to 4 donors involved rather than 14 or 15²⁹. The EU Code of Conduct on Complementarity and Division of Labour in Development Policy sets as a guiding principle that EU donors should, in addition to participation in budget support or delegated cooperation arrangements, focus their assistance in a country on three sectors only.

In this section we use 2007 CRS data to count the number of EU donors present in each sector for all recipient countries. We designate the largest three donors per sector as major donors and all others as minor donors; we then examine the relative volumes of aid provided by these major and minor donors for each sector. The sector definitions used for our analysis include DAC sector/sub-sector codes up to number 400³⁰. These sectors are listed in Table 7 together with figures on EU sector-level proliferation. The findings may be summarised here as follows.

- Across the 151 DAC recipient countries we find **EU donor funding in 2384 sectors** with a total of 8554 cases of EU donor activity across these sectors, for an average of 3.6 EU donors per sector.
- Of recorded sectors, 41percent had recorded disbursements³¹ from more than 3 EU donors in 2007.
- In more than 80 cases there were more than 10 EU donors active in a particular sector.
- **The average programme size of the three largest donor countries per sector in a recipient country is around USD 3.4 million, or more than six times that of the minor donors in the sector (USD 0.5 million).** This illustrates the potential for economies of scale to be gained by following the EU code of conduct. Such savings can be illustrated using data from a study on aid effectiveness in Ethiopia (Benfield 2009), which indicated that the largest three donors in each sector disbursed Euro 2.3 million per staff member, while other donors disbursed an average of only Euro 0.7 million per staff member.
- Overall the total amount disbursed in 2007 by minor EU sector donors globally was 2.1 billion USD or **12 percent** out of a total of 17.4 billion disbursed by all EU donors in the analyzed sectors. Yet these minor sector donors make up over **45 percent** of the total number of donor-per-sector programmes in recipient countries. **In other words, 45 percent of EU donor sector programmes account for only 12 percent of spending and the transaction costs of these programmes will be disproportionately high for each intervention.**

It should be noted that it has not been possible to identify what volume of funds disbursed in each sector constitute programme based aid or delegated cooperation as the CRS database does not provide such information. However we may still conclude that there are too many EU donors in some sectors and that many of these donors are providing small amounts of funding

²⁹ Mürle (2007) quotes a case of a sector-wide programme in Tanzania involving 23 donors who took part in monthly management meetings.

³⁰ These include all sector allocable aid but not aid which is disbursed across multiple sectors such as general environmental protection, commodity aid and general programme assistance or general budget support.

³¹ For this analysis we use donor disbursements rather than commitments. Disbursement data has the problem that there is a considerable lag between allocation and actual expenditure during which changes in donor strategy might have occurred, however as we are interested in costs it is more interesting to take actual disbursements as the goal is to examine the real situation in 2007 and to use this year as an example to illustrate the types of savings which might be made.

Table 7 Sector fragmentation. Disbursements by EU donors in 2007(DAC 15 plus EC)

Sector name ^a	Number of recipient countries	Number of donor programmes per sector	Total Disbursement 2007 mUSD ^b	Average disbursement per donor programme mUSD ^d	Average number of EU donors per sector (recipient countries only) ^c
I.5.a. Government & Civil Society-general	145	1052	4000	3.80	7
I.6. Other Social Infrastructure & Services	134	882	2061	2.34	7
I.2.b. Basic Health	114	610	1049	1.72	5
III.1.a. Agriculture	131	600	1294	2.16	5
I.1.b. Basic Education	122	523	1354	2.59	4
I.5.b. Conflict, Peace & Security	117	501	708	1.41	4
I.3. Population Pol./Progr. & Reproductive Health	108	457	812	1.78	4
I.4. Water Supply & Sanitation	121	499	1168	2.34	4
I.2.a. Health, General	113	457	625	1.37	4
I.1.a. Education, Level Unspecified	131	519	706	1.36	4
I.1.c. Secondary Education	119	399	581	1.46	3
III.2.a. Industry	95	293	238	0.81	3
II.4. Banking & Financial Services	107	320	199	0.62	3
II.5. Business & Other Services	100	270	307	1.14	3
II.3. Energy	94	218	379	1.74	2
II.1. Transport & Storage	105	215	1320	6.14	2
III.1.b. Forestry	75	152	138	0.91	2
II.2. Communications	89	174	50	0.29	2
III.3.b. Tourism	71	125	42	0.33	2
III.3.a. Trade Policies & Regulations	90	146	248	1.70	2
III.1.c. Fishing	60	92	51	0.55	2
III.2.c. Construction	14	19	35	1.83	1
III.2.b. Mineral Resources & Mining	29	31	65	2.09	1
Total (all donors, all sectors, all recipient countries)	-	8554	17431	2.04	-
Major donors (three largest donors in each sector)	-	4534	15368	3.4	-
Minor donors (all other donors)	-	4020	2063	0.51	-

Notes to the Table:

^aHere sectors up to DAC number 400 only, are used. So multi-sectoral programmes such as budget support and sectors which are often seen as cross cutting by donors – such as gender and environment are not included. In addition post-secondary education was removed as much of this is student scholarships and thus not country-programmable. If subsectors are aggregated then health and education sectors record an average of 5-6 EU donors per recipient country.

^bHere only bilateral grant disbursements are analysed. Only data allocable by country is used, so regional programmes and unallocated bilateral aid are removed

^cDonors here include only those reporting to the CRS (DAC EU 15 and the EC).

^dA donor 'programme' typically includes many separate aid activities (or 'projects') usually implemented by a number of different agencies, NGOs or government bodies.

2.3 FRAGMENTATION OF AID ACTIVITIES

Measuring the global fragmentation of aid

Box 6 Global figures for aid activities reported to the CRS by EU DAC 15 donors and the EC.

Why count aid activities? It is important to know how many aid activities (projects and programmes) are designed and implemented every year as these are the base of the development cooperation process and each carries a cost in preparation and negotiation. However, identifying and counting activities is problematic, the first obstacle being how to define an activity³⁵. The CRS Directives state that “an aid activity can take many forms – it could be a project or programme, a cash transfer of delivery of goods, a training course or a research project, a debt relief operation or a contribution to a non-governmental organization. The aid activity database covers them all, but to facilitate database management some may have been aggregated (grouped) as follows: Scholarships, contracts of individual experts and other technical co-operation activities of relatively small monetary value; food and emergency aid.”

A key figure of interest to us is the number of new and ongoing projects (activities), as direct costs are always associated with the management of projects and programmes. Thus disbursement data are used to identify the number of on-going projects. Depending on how we define activities **the number of individual projects ranged from about 40,000 to 50,000 in 2007³²**. The upper figure includes all listed activities for which positive disbursements are recorded. The lower estimate aggregates activities listed with the same name and does not include data for Ireland which lists expenditure items rather than discrete development activities. **The average size of disbursements in 2007 ranged from about 0.6 to 0.8 million USD.**

In terms of commitments estimates range from 22,000 to 34,000 listed activities globally in 2007 for EU donors. The average size of each commitment was between 1 and 1.5 million USD. The lower estimate again aggregates projects with the same name and does not include data for Ireland. It also includes only new commitments (new projects) made in 2007 and excludes amendments to existing commitments.

In addition the number of entries reported to the CRS increased since 2003. **Taking set criteria for defining activities, the number of disbursements increased from about 30,000 in 2003 to 50,000 in 2007 and the number of new commitments increased from around 20,000 in 2003 to 30,000 in 2007³³**, although reporting to the CRS by donors was not consistent over this period.³⁴

It is very difficult to quantify the number of activities because **there is a large variation in the data concerning the level of aggregation**. While donors in practice adhere to the traditional programme and project management cycle, their manuals and training materials increasingly use other

³² Here all sector allocable aid plus general budget support and food security projects are included (DAC codes up to 540). Emergency interventions are excluded.

³³ These time series estimations include bilateral ODA grants only, DAC codes up to 540 and all EU DAC donors & EC. There is no aggregation by project name.

³⁴ Disbursement data are only reliable since 2002 and commitment data only since 1995. This is because before that coverage ratios of the CRS compared to total DAC aggregates was low. For disbursements coverage reached 90 percent in 2002 and is now close to 100 percent, for commitments it reached 90 percent in 2000 and was nearly 100 percent from 2003. Some donors report all data on the basis of disbursements, so in these cases both commitments and disbursements are necessarily exactly the same.

³⁵ We do not use the word ‘project’ as in the context of aid effectiveness the word project is used to define stand alone aid activities which are managed through donor systems (as opposed *programme* activities such as SWAps or GBS).

terminology: investment management (DfID), contributions management (Sida), activities management (Netherlands) etc. In their reporting to the DAC CRS database some donors list each activity once only with accompanying disbursement and commitment data. Others list the activity many times with all sub-projects included as separate entries. Usually these sub-projects correspond to distinct activities on the ground, such as agricultural and infrastructure components of the same project. We may consider each to be a discrete aid activity. However other donors include entries for the same activity to include audits, evaluations and other expenditures as distinct data. Such entries are part of single projects and cannot be counted as separate development activities, however it is very difficult to filter these entries³⁶.

A second issue is whether to count disbursements or commitments. Disbursements refer to funds actually disbursed in the reporting year in question. Commitments are funds for which a grant or loan agreement was signed with the recipient regardless of the date at which those funds are to be spent. Most commitments (projects) are implemented over a three to five year period. Thus commitment data refer to multi-year spending plans. In addition these data include revisions of commitments which may have been made in earlier years. Cancellations and reductions of earlier years' agreements are not taken into account. **A third issue concerns the problem of double counting of the same activity financed by multiple donors.** Whilst the CRS records instances of general budget support, it does not provide information about whether recorded activities are funded through other programme approaches (SWaps, baskets or pools). Thus entries from different donors may in fact refer to one large, multi-donor programme.

To summarise, depending on how we treat the data we obtain very different estimates of project number. The ranges corresponding to various different treatments of the data are summarised here in Box 6 above. **Due to the problems with CRS data regarding project number, specific country examples using donor co-ordination databases are probably more accurate and are presented in Section 3 of this report.**

The costs to donors of aid fragmentation

The *short term costs* of project fragmentation can be counted over the project management cycle in terms of:

- **Activity identification, formulation and appraisal:** Some so-called project 'design phases' may last up to a year and cost hundreds of thousands of USD in staff time and expert (consultant) fees. Donors, who have to follow their own procedures, often repeat and duplicate studies on the same topic. EuropeAid (2007) estimates that the average length of this 'design phase' is 38 weeks for EU donors.
- **Negotiation and approval of financing agreements:** More projects means more negotiating time. Where donor decision making for larger commitments is highly centralised, delays can be particularly lengthy. The lead time from approval of a project and actual start of operations can be long and last between 20 and 30 weeks depending on procurement rules and procedures (EuropeAid 2007).
- **Project implementation, monitoring and evaluation:** Here fragmentation will result in duplication of administrative costs of projects as discussed in Section 2.1. Costs will depend on whether donors use their own systems or those of government and this is discussed further in section 2.6 on use of country systems. Audits, monitoring systems and evaluation missions will also be duplicated. The increased use of delegating (sub-contracting) the implementation of projects to other donors or development organisations (UNDP, GTZ) relieves the burden on the country offices. Reimbursement of overhead costs for these services seems to vary between 6 and 12 percent on disbursed amounts.

Estimating preparation costs: New commitments as recorded in the CRS offer some possible estimate of the number of projects prepared by EU donors per year. As shown in Box 6, in 2007 about 22,000 new commitments were made. However differences in aggregation level of aid activities given in the CRS means that it cannot automatically be assumed that one commitment will correspond to

³⁶ The most extreme case is Ireland for which each entry corresponds to a single expenditure item (e.g. purchase of tyres, printers, per diems, staff salaries).

one project preparation activity. The time span between identification and start of operations for EU donors is, on average, 65 weeks, even though this does not include the CSP programming phase (EuropeAid 2007). However preparation time cannot be equated with staff working time as they are not working continuously on the projects. Instead, field office information implies an input of around 4 months of staff time. Information from interviews was used to estimate typical costs for project preparation (see Section 4).

Estimating implementation costs: It is even more difficult to quantify the global costs of aid fragmentation during implementation because, although it seems logical that a smaller number of larger projects would result in lower overheads, we do not have data enabling us to establish relationships between project size and administrative costs. We also do not have global data for the number or costs of audits and evaluations made by EU donors. These issues are discussed further in Sections 4 and 5. Also see above regarding the use of delegated (sub-contracted) implementation of projects.

Costs to governments of aid fragmentation

Government burdens will be heavier in a fragmented aid environment. The study of Vietnam (Brown *et al.* 2000) and an OECD study on donor practices (OECD 2002) both found that the largest time-waster on partner governments is donor-driven procedures and practises at every level of the project cycle (see Section 2.6 on country systems). During the programming phase some donors expect the government to provide new types of information, leading to delays and heavy burden on government staff. During implementation procurement, reporting, auditing and monitoring and evaluation while using donor required procedures, may all incur significant costs to government. These costs will be multiplied by the large number of aid activities. More long term costs which are specifically linked to fragmentation alone and not to use of donor systems are (Brown *et al.* 2000):

- Inability of government to impose order upon project portfolio or even obtain an overview of aid-funded investments and activities;
- Lack of effective planning;
- Geographical patchiness –project coverage is often irrational, some areas receive more aid than they can handle; others receive little or none;
- Failure to develop collective learning as mistakes made by one donor are subsequently repeated by others;
- Multiplication of different and often contradictory solutions to a common problem.
- Administrative costs may become so high that the capacity of the country to absorb and use the aid effectively is surpassed³⁷.

2.4 COSTS OF TIED AID

Many studies over the years have demonstrated how tied aid can raise the costs of goods, services and works by 15 percent to 30 percent and by as much as 40 percent or more for food aid (Jepma 1991, Clay *et al.* 2008). These costs are incurred because procurement tied to a limited number of countries reduces competition and the price of goods in the countries to which the aid is tied (principally from the donor country) is generally much higher than in developing countries. In addition there are other short term costs related to tying of aid including delays in delivery and lack of spare parts leading to short life spans of capital goods purchased. Longer-term costs include indirect effects like inhibiting ownership and capacity building in partner countries themselves, or hampering broader efforts to promote their integration into the global economy (Clay *et al.* 2008). While OECD and the World Bank have long argued for internationally open tendering several EU donors still have various degrees of tied aid, which undermine both a higher degree of aid effectiveness and basic development objectives.

³⁷

Roodman (2004) has worked out theoretical models whereby the administrative burden from aid fragmentation becomes such that development maximization calls for the recipient to withdraw from some donor-backed projects, but they do not due to the private benefits to be gained. Thus over a certain aid volume, marginal aid effectiveness drops sharply. Donors can push back this threshold by moving to fewer, larger projects *if there are scale economies in aid projects*.

Statistics on the tying of aid are available from the DAC (DAC Online) and from the CRS for EU DAC 15 members. The volume of tied aid in both is measured in terms of commitments rather than disbursements. Estimates on the volume of tied aid committed by the DAC EU 15 donors in 2007 vary depending on whether we use DAC or CRS data (Table 8)³⁸. They also vary depending whether total bilateral aid or grants alone are counted. EU member states perform better than DAC donors as a whole; taking all these donors together, in 2007 about 15 percent of aid was tied or partially tied (DAC data, all bilateral ODA). We present estimates of the costs of EU tied aid based on these volumes in Section 4.

Table 8 Estimates of the volume of DAC EU 15 aid that is still tied^a

Source	Aid type	ODA on which tying status reported (mUSD)	Volume tied (mUSD)	percent Tied
DAC	Bilateral grant commitments	27,662	1,701	6percent
CRS	Bilateral grant commitments	37,542	3,869	10percent
DAC	All bilateral commitments	32,363	2,694	8percent
CRS	All bilateral commitments	41,795	4,422	11percent

^aNote: Partially tied aid is not included in the figures for tied aid presented here.

Although Table 8 indicates a range of estimates for the volume of tied aid, even the highest is on the low side for the following reasons:

- In the case of the DAC data, Technical Assistance (TA) is not included in the tying statistics and in the case of the CRS reporting of TA at the activity level is optional. Tying status of administrative costs is also not reported. This lack of or incomplete reporting on TA is important as it is generally more tied than other types of assistance: **in 2006, of the reported ODA to LDCs which included a TA component, only about 60 percent was reported as untied. The equivalent figure for ODA with no TA component was 93 percent (Clay et al. 2008)³⁹.**
- Secondly the coverage is not complete for either of the databases due to non-reporting. The CRS has a higher coverage of tied aid than the DAC and thus gives a more complete picture of untying status. According to Clay *et al.* (2008) globally DAC CRS coverage of aid tying is 89 percent of total commitments whilst DAC statistics cover about 79 percent (or 60 percent if TA is included).
- Both total ODA and grant only data are shown in the table because loan assistance is subject to greater tying than grants and thus comprises an important cost. In 2006 the proportion of loans which were untied (48 percent) was substantially below that of grant aid (84 percent), (Clay *et al.* 2008).

Data on tying status for individual EU member states is given in Table 9. Because estimates from the CRS and DAC are so different, it was decided to use the CRS for its more complete coverage. These data come from the CRS and are given for grants only.

³⁸ Almost 100 percent of EC development assistance is *partially tied*. Partially tied aid refers to loans and grants which are tied, contractually or in effect, to procurement of goods and services from a restricted number of countries which must include substantially all developing countries and can include the donor country (CRS directives).

³⁹ These 2006 data are for grant ODA only, and include all DAC donors. The total amount with no TA component was 14,598 mUSD, the amount with a TA component was 5,823 mUSD (Clay *et al.* 2008).

Table 9 Tying status of bilateral grant commitments for EU DAC 15 member states. (Source: CRS 2007)

Donor	Commitments on which tying status reported mUSD	Coverage (as percent total commitments)	Tied %	Partially tied %	Untied %
Total EU 15	37542	89	10	3	87
Total EU 15 + EC	50597	91	8	28	65
Austria	1382	100	24	0	76
Belgium	1504	96	3	0	97
Denmark	1238	85	0	5	95
Finland	570	92	8	0	92
France	3689	55	10	0	90
Germany	7546	92	25	0	75
Greece	57	23	34	10	55
Ireland	833	100	0	5	95
Italy	1017	84	10	19	71
Luxembourg	253	100	0	0	100
Netherlands	4800	100	22	0	78
Portugal	252	100	0	8	92
Spain	3006	95	0	22	78
Sweden	1925	86	0	0	100
United Kingdom	9473	100	0	0	100
EC	13054	100	0	100	0

2.5 AID VOLATILITY AND PREDICTABILITY

Definitions of predictability and volatility

Bilateral aid is inherently **unpredictable** due to its origin in donor annually decided budgets. During the period from 2000-2003 disbursements fell short of commitments by about one third. Disturbingly, the largest disparities between commitments and disbursements are for the lowest income countries (Buliř and Hamann 2006)⁴⁰. The Paris declaration calls for reliable indicative commitments of aid over a multi-year framework. However the OECD monitoring survey, which looked at in-year predictability of aid, set a seemingly far more modest target to reach (OECD 2008b). The in-year predictability of aid was defined as the difference in the volume of ODA scheduled by donors for the government sector and the actual amount recorded by government in 2007. **The gap between aid scheduled and aid actually disbursed was on average 46 percent in 2007 (OECD 2008b).**

Although multi-annual country programming is now practised by most EU donors, ODA budgets are determined and approved only annually by donor parliaments. A significant and costly degree of unpredictability has its roots in the annual application of eligibility and disbursement conditions (SEC(2008) 435). **It should be highlighted that, not only is each donor's aid budget approved annually, but aid must often be disbursed within the year for which it allocated. This is one of the key problems in development cooperation and leads to a reduction in aid effectiveness as described in the following quote from OECD-DAC (2005):**

⁴⁰ The authors used the Global Development Finance database which is a database of long term development loans, thus this estimate is not made for global ODA.

"One perennial question about managing foreign assistance funds is how to reconcile the long-term nature of development co-operation, calling for multi-year planning horizons, with the normal practice of aid appropriations lapsing each year. In many DAC member countries, general government procedures require that funds appropriated in a given fiscal year be disbursed within that year or, as a minimum, committed within that year and spent soon afterwards. As a consequence, aid managers in some countries operate under considerable pressure to commit and disburse funds rapidly, promoting undue emphasis on the financial inputs of development activities, rather than desired outcomes and actual results."

Aid is also **volatile** – this means that the amount disbursed fluctuates from year to year. Buliř and Hamann (2006) found that the volatility of aid is much higher than that of government revenue; Kharas (2008) found it to be five times as volatile as GDP. Volatility increased in the early 2000s as compared to the late 1990s, despite the introduction of the PRSP initiative in 1999, which was aimed at addressing key issues such as insufficient donor co-ordination and lack of government ownership (Buliř and Hamann 2006). Volatility can exceptionally, for countries with an aid-to-revenue ratio of above 50 percent, reach 80 or 90 percent between years (see Table 10).

Table 10 Volatility of Aid. Large net ODA shortfalls⁴¹, 1970 – 2006

Recipient	Major Shortfall count	Maximum shortfall percent GDP/capita	Average shortfall percent GDP/capita
Burundi	2	-35.8	-33.9
Cambodia	4	-84.7	-40.9
Cape Verde	1	-25.5	-25.5
Congo, DR	1	-78.6	-78.6
East Timor	2	-45.7	-40
Liberia	4	-49.8	-35.3
Mauritania	2	-20.9	-18.9
Mozambique	4	-30.3	-22.5
Nicaragua	1	-23.6	-23.6
Rwanda	2	-49.2	-37.9
Viet Nam	1	-18.6	-18.6
Zambia	1	-44.6	-44.6

Source: Kharas (2008) – *Measuring the cost of aid volatility*

How do lack of predictability and volatility incur costs to partner countries?

Predictability is a fundamental issue for the effective management of public finances. This is even more compelling in the case of highly aid dependent countries. The volatility of aid flows puts pressure on important policy decisions, like fiscal planning, and often results in weakening the impact of development efforts. The costs of a combination of unpredictability and volatility may be expressed intuitively as follows:

- Countries will react to risk by using conservative budgeting practices: Uganda's Ministry of Finance "discounts" donor aid projections when preparing its budget. The discount factor was set to 35 percent, corresponding to the average level by which disbursements fell short of donor commitments in preceding years (OECD-DAC 2004). The difficulty in forecasting aid inflows weakens the national budget as a tool of government policy and a basis for a meaningful parliamentary discussion on the allocation of resources.
- The OECD-DAC (2004) suggest that higher predictability and lower volatility facilitates the implementation of policies geared towards macroeconomic stabilization, the design of

⁴¹ An aid shortfall is the difference in aid per capita between two years. Major aid shortfalls are those that involve a loss of more than 15 percent in per capita income.

medium term expenditure frameworks, strategic allocation of funds across policy priorities and the rational choice of the least costly financing strategies. Conversely if such policies cannot be implemented, costs will be attached, again due to ineffective spending.

- Unpredictable aid will encourage governments to invest in capital expenditure rather than planning for recurrent costs in projects.
- In the case of general budget support, unpredictable aid inflows can lead to budgetary and overall economic instability, especially when budget support amounts to a significant share of government inflows (Norad 2006).
- Buliř and Hamman (2006) argue that aid volatility would be less of a problem if such volatility were predictable. However fully anticipated aid would be still problematic as most aid-dependant countries face serious liquidity constraints. These countries would not be able to borrow in capital markets to completely smooth out a volatile pattern of aid disbursements.
- Buliř and Hamman (2006) and Kharas (2008) also find that aid is often pro-cyclical, magnifying business cycles in recipient countries. Thus countries experiencing growth often receive more aid, whilst aid is often reduced in periods of recession. Aid very rarely compensates for GDP shocks and thus does not support macro-economic stability. Aid volatility has been shown to cause volatility in variables such as inflation, real exchange rates and fiscal policy. Volatility in these variables has been shown to reduce aggregate growth (references in Kharas 2008).

All the above factors cause concrete costs for partner countries - most can be expressed in relation to inefficient spending associated with poor fiscal planning and risk averse budgeting. Kharas (2008)⁴² used international finance theory to put a price on these factors⁴³. He calculates the difference between expected and actual aid receipts and expresses this as a **deadweight loss**⁴⁴ associated with aid volatility. The deadweight loss is the cost of activities undertaken by the country to mitigate the effects of aid volatility such as that of our Uganda example cited above. The lack of information about aid financing will push finance ministers to develop smooth and predicable development plans, pre-financing part of the next period during the initial one. This is a strategy to cover risk, but it has opportunity costs for the funds involved.

The eventual impacts of volatile aid are felt by ordinary households. Arellano *et al.* (2009) have shown in models that where countries have limited access to international capital markets, shocks to aid are reflected in variations in household consumption that detract from welfare. We discuss these costs further in relation to EU disbursements in Section 4.

⁴² It is worth noting, however, that the effects of the volatility of aid remain a divisive issue among scholars and policy-makers due to the lack of robustness of the data employed and the models applied to measure it.

⁴³ In order to price the risk inherent to aid volatility and thus the deadweight loss which it causes, the author uses data from international capital markets, expressed using the Sharpe Ratio. This is the premium over a benchmark risk-free return demanded by investors per unit of risk associated with a cash-flow. Apparently investors use the Sharpe Ratio to compute the certainty equivalence of cash flows and derive the value of the underlying asset.

⁴⁴ Mainly used in economics, the term "deadweight loss" can be applied to any deficiency due to an inefficient allocation of resources. Lost production due to inaccurate forecasting for labour is an example of a deadweight loss.

2.6 COUNTRY SYSTEMS AND GOVERNMENT OWNERSHIP

Box 7 Definitions of use of Government systems

ON PLAN

Programme and project aid spending integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind budget submissions.

ON BUDGET

External financing, including programme and project financing, and its intended use reported in the budget documentation.

ON PARLIAMENT

External financing included in the revenue and appropriations approved by parliament.

ON TREASURY

External financing disbursed into the main revenue funds of government and managed through government systems.

ON ACCOUNTING

External financing recorded and accounted for in government's accounting system, in line with government classification systems.

ON AUDIT

External financing audited by government auditing systems.

ON REPORT

External financing included in ex-post reports by government.

ON PROCUREMENT

Externally financed procurement follows the government procurement procedures.

Source: CABRI/SPA Aid on Budget Report in OECD 2008b.

Government ownership of development programming

Aid is only effective when it allows partner countries to achieve their own development goals. One of the major ways in which this can be achieved is by encouraging government ownership of programming and using country systems (Box 7). **The lack of use of these systems was identified as the single most important source of burdens on partner governments** (Amis *et al.* 2005, see Table 6 above).

Government ownership starts at the Programming level. Where strategies do not exist or donors do not align their country strategies with them there is a general lack of government ownership and frustration with the aid process including the following **specific costs**.

- Poor setting of priorities;
- Project overlap and duplication;
- Geographic and thematic inequities;
- Reduced sustainability and contingent liabilities (donors set up projects and systems which the government cannot support once the donor pulls out).

At present only 20 percent of countries have adopted operational development strategies. The aim is to reach 75 percent by 2010 (OECD 2008b)⁴⁵. A major problem is that linkages between the strategies and the budget are often poor. Even where strategies are highly developed (such as in the case of Public Investment Programmes in Vietnam) their effectiveness may be reduced as only larger donor programmes are included and they suffer from a lack of information on future resource availability due to poor aid predictability (Cox *et al.* 2007). A second factor which undermines country ownership of programming is when country programmable ODA is not included in the budget cycle. The costs associated with non-budget aid are again lack of information for government planning and inefficient allocation of resources. At present the percentage of EU ODA to the government sector included in the government budget is 70 percent (OECD 2008b). This implies that the other 30

⁴⁵

Based on World Bank Review of Results-Based National Development Strategies. Criteria are (1) The existence of a unified strategic framework (2) A realistic development policy that clearly identifies priorities and (3) well costed policies that can be funded, i.e. which are linked to the budget.

percent was disbursed by donors but that the government was not informed at all or that it was not informed in time to include it in its budgetary or planning processes.

Use of government systems for project implementation

Box 8 EU performance on use of country systems

In the OECD/DAC survey to monitor the Paris Declaration (OECD 2008b), country systems are identified as covering four main areas: (i) national budget execution procedures; (ii) national financial reporting procedures; (iii) national auditing procedures; and (iv) national procurement systems. The EU uses these areas also to measure its progress⁴⁶. Current use of these country systems by the EU is given in Box 8.

Percent ODA to government sector :

- using national budget execution procedures 51 percent
- using national financial reporting procedures 48 percent
- using national auditing procedures 42 percent
- using national procurement procedures 54 percent

Source OECD (2008b), 55 countries only, EU member states and EC.

The costs of not using these procedures are as follows:

- Government staff must learn and use a multitude of systems. Reports may have completely different forms of financial and non-financial tracking (i.e. frequency and calendars of reports requested, forms, procedures, indicators);
- Training must be employed for government officials on donor financial reporting, procurement, monitoring and evaluation by every donor (Brown *et al.* 2000);
- Projects hire additional personnel to address various donor requirements, which leads to increase of project expenses, duplicated efforts, reduced efficiency, and increasing transaction costs (OECD 2002);
- Whilst donor systems are in some cases seen to be of higher quality and efficiency or are even preferred by government officials (Cox *et al.* 2007) this is not always the case⁴⁷ and these systems usually entail higher administration costs than those of government systems, especially when they are run from parallel PIUs (see Box 9);
- Whilst of course government systems also have administrative costs, all too often **both donor and government systems are employed**, incurring huge burdens on government staff and high opportunity costs;
- There is a reduction in transfer of know-how and institutionalization of experience.

All of the above costs are highest where the project approach is used (see Box 9) but they also apply to many pooled or basket funds which although they encourage harmonisation, are only partly aligned with government systems.

⁴⁶ The EU target is to Channel 50percent of government-to-government assistance through country systems, including by increasing the percentage of assistance provided through budget support or sector-wide approaches. See also Meeting EU Target 2 on Aid Effectiveness : Channel 50percent of government to government assistance through country systems (Young 2007).

⁴⁷ At the implementation stage, the main complaint was the excessive time taken to issue 'no-objection' in connection with procurement processes. One procurement operation usually involves a series of 4-6 such approvals by the donor, of which one approval could take up to a year. The World Bank and the European Commission were the main targets for such critiques (OECD 2002).

Box 9 Parallel PIUs and the project modality

The OECD (2008b) defines a PIU as being parallel when it is created and operates outside existing country institutional and administrative structures at the behest of a donor. More specifically PIUs are said to be parallel when:

- They are accountable to external funding agencies/donors rather than to the country implementing agencies;
- The terms of reference for externally appointed staff are determined by the donor ;
- Most of the professional staff are appointed by the donor;
- The salary structure of national staff (including benefits) is higher than those of civil service personnel.

PIU staff are not usually involved in project preparation leading to lack of knowledge about the project and low ownership and commitment (Brown *et al.* 2000). PIUs limit the development of institutional (as opposed to individual) capacity, reduce scope for lesson learning and encourage governments to see ODA financed activities as supplemental to their core tasks, weakening ownership. **In 2007 the EU donors funded 818 parallel PIUs in the 55 survey countries (OECD 2008b).**

Measuring costs of not using country systems

Although these costs are discussed in the literature there is not one case where they have been quantified. Theoretically the most obviously quantifiable cost should be that of a PIU and its administrative staffing requirements. However PIUs range hugely in size⁴⁸ and thus averages and medians are hard to come by. Often information on PIU costs in terms of staff and administration is available only at the country office level, and information about a large enough number of them to obtain a reasonable average estimate was not forthcoming. We can however discuss whether the aid instruments aimed at increasing use of country systems are likely to lead to savings in short term transaction costs or to reduce some of the longer term indirect costs of project aid. These aid instruments generally come under the heading of **programme approaches** and are discussed below.

Programme approaches and reduction of transaction costs

What is programme aid?

The Paris Declaration sets a target of 66 percent of ODA to be disbursed through programme approaches. Programme approaches may be defined as follows (OECD 2008b)⁴⁹:

Direct budget support (DBS) is defined as a provision of funds directly to the national treasury. General Budget Support (GBS) is direct budget support which is not earmarked by sector or for a specific use. Sector Budget Support refers to funds provided for a specific sector. The funds thus transferred are by definition managed in accordance with national financial management procedures and government management structures.

Other Programme Approaches include various arrangements for Sector and Thematic Programme Support which vary in their alignment with country systems. These include project aid delivered in the context of a SWAp (Sector Wide Approach)⁵⁰, basket and pooled funds. Pooled funds are not

⁴⁸ In Vietnam for example from 5 to 150 staff (Brown *et al.* 2000)

⁴⁹ This definition is also used for the EU Monterrey Survey and widely used also in recent literature.

⁵⁰ SWAPs are defined as a process in which funding for the sector supports a single policy and expenditure programme, under government leadership, and adopting common approaches across the sector. It is generally accompanied by efforts to strengthen government procedures for disbursement

channelled into government budgets but are managed according to different rules and regulations earmarked to a specific sector. Basket funds are less aligned still as they are not part of the government's financial management and policy planning mechanism (Wilibald 2007). According to OECD (2008b) the various arrangements qualify as programme support if:

- The host country exercises leadership;
- A single comprehensive budgeting framework is used;
- There is a formalised process for donor co-ordination in reporting, budgeting, financial management and procurement;
- They usually should follow at least some of the government procedures for programme design, implementation, financial management, reporting and monitoring and evaluation.

Programme based approaches are expected to improve both co-ordination between donors and country ownership. Direct budget support is also expected to improve aid effectiveness in other ways including predictability of funding and improved resource allocation (International Development Department and Associates, 2006)⁵¹. Yet government systems are still little used, often they do not conform to international standards, carry fiduciary risks and are perceived to result in delays. However there is some evidence that programme based approaches can help to improve the systems which they are meant to use (Cabral *et al.* 2007, Lawson *et al.* 2005, International Development Department and Associates (2006).

Does general budget support reduce transaction costs?

The recent Joint Evaluation of General Budget Support (International Development Department and Associates 2006) states that start-up and monitoring costs of GBS are high, however it concludes that partner government's transaction costs at implementation stage are significantly reduced as they may follow standard government procedures rather than a multiplicity of donor ones. Donor costs may also be reduced (see Box 10) although the effort required to build common systems is often underestimated. There is some evidence that donor transaction costs are more likely to fall when a multilateral organisation takes a lead role in administering GBS (Development Information Services 2006).⁵⁴

Box 10 Quantification of administrative savings to donors from DBS

From the donor side, one example was found which quantified savings associated with direct budget support. Miovic (2004) studied World Bank budget support projects in Uganda⁵². He found that budget support projects transferred at least 1.5 times more dollars per unit preparation and supervision costs than standard projects. Thus the cost of using project type interventions rather than budget support comes to 50 percent of the preparation and supervision costs of these projects⁵³.

According to Bigsten (2006) authors attempting to study savings in transaction costs made through programme based approaches in Tanzania were unable to conclude with any certainty whether these

and accountability. A SWAp should ideally involve strong coordination among donors and between donors and government (ODI, 2001 *in* Williamson and Kizilbash Agha, 2008).

⁵¹ As measured by allocative and operational efficiency. Allocative efficiency is the degree to which resources are allocated according to strategic priorities of government. Operational efficiency is the rate at which resources allocated towards and spend on government's strategic priorities are translated into results.

⁵² Poverty Reduction Support Credits

⁵³ See also the case study on Cambodia in this report (Section 3.1). EU donors in that country estimated that single donor GBS projects cost no more to prepare than ordinary technical cooperation projects; given the much larger size of GBS projects this would represent significant savings. However the cost of preparing multi-donor GBS projects seems to be several times more expensive than the cost of equivalent single donor projects.

⁵⁴ In Timor-Leste where the World Bank administers all GBS funds associated with the Transition Support Programme; it charges an administration fee of 2percent to donors, which many estimate is less than they would require to administer the programme themselves.

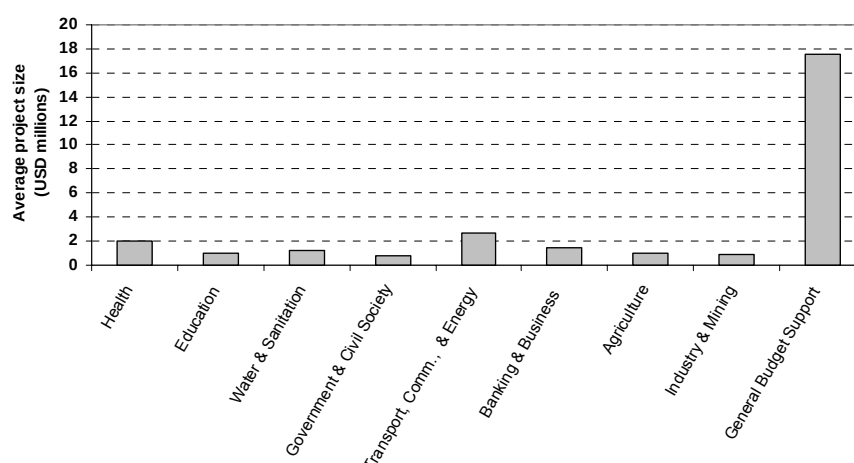
costs had fallen or not. However all authors reviewed concluded that there will not be any marked decline in aid transaction costs unless the volume of project aid declines further. **Thus continued dominance of projects and other modes of aid delivery that by-pass the national budget process offsets many of the advantages of budget support including savings in transaction costs** (Lawson *et al.* (2005), International Development Department and Associates (2006)). Perhaps the best insight into transaction cost savings from GBS comes from Cox *et al.* (2007): “*Budget support may complement, but is not a substitute for intensive policy dialogue, high quality relationship and well designed capacity building. Donors who enter into budget support arrangements in the hope of reducing their own transaction costs are likely to be disappointed* “. The extent to which GBS lives up to expectations in terms of long term gains is discussed in detail in International Development Department and Associates (2006) and summarised here in Box 11.

Box 11 Can GBS mitigate some of the longer term costs of project aid?

- One of the most positive contributions of GBS is its positive effects on planning and budgetary systems, this is an important end in itself;
- It helps focus dialogue on economic management and improved policy;
- There are clear gains in allocative and operational efficiency;
- It reinforces macroeconomic stability and fiscal discipline;
- However there are few studies about the actual impact on service provision and direct links between budget support and poverty reduction appear to be weak.

The example in Box 10 suggests that donor-side savings from GBS are associated mainly with economies of scale. General budget support activities given in the CRS for EU bilateral donors are over 10 times larger than other activities listed (see Figure 2)⁵⁵. However as data are lacking for establishment of a relationship between project size and administration costs we can only speculate on the volume of this type of savings to be made through this aspect of GBS.

Figure 2 Difference between average size of aid activities and general budget support activities for EU donors



(Source: CRS, commitments grant only 2007)

Note to the figure: Data here are for new commitments in 2007 only, not for amendments to previous commitments. They apply to grants from DAC 15 EU member states and the EC.

⁵⁵

However problems with the CRS activity data outlined in section 2.3 should be taken into account here.

Costs and savings associated with use of other programme approaches

- In programmes where a **sector wide approach** has been adopted high transaction costs are still reported and indeed these are likely to increase in the early phases of a SWAp as new mechanisms have to be set up (Brown *et al.* 2000, Cabral *et al.* 2007).
- Even in later phases co-ordination burdens may be high and fatigue often sets in. Williamson and Kizilbash Agha (2008) note that SWAps are complex and dialogue-heavy. Dealing with a single donor is easier than a group through SWAp or GBS. According to their review of sector approaches, in Mozambique the number of meetings has proved untenable for many and has contributed to a loss of policy focus. This is due to the sheer number of donors in the group. In Tanzania not only are time and resources absorbed by the large number of meetings but a focus on sub-sectors has negatively affected overall sectoral planning.
- Negotiation is longer: Time between agreement to proceed to a SWAp and first disbursement is typically 2.5 years (Brown *et al.* 2000). This can be compared with the equivalent average for EU activities (all modalities) of 65 weeks (Europeaid 2007);
- Donor monitoring missions are less frequent but are larger and more intensive (Brown *et al.* 2000);
- Donors need to increase country staff based complement due to breadth of the issues addressed;
- In many SWAps alignment is still poor and some parallel systems are still used by some or all donors;
- In the long term SWAps may actually be an impediment to advancing coherence of government policy and efficiency resource allocation as they represent a platform for donor policy prioritisation.

Regarding other types of programme such as **TA pooling and other types of common funds** (pools or baskets) it appears that TA pooling has not decreased overall costs of TA (Baser and Morgan 2001). Common Funds may reduce some costs to donors (although no evidence for this has been found in the literature) but several authors are critical of their lack of alignment and other features which mean they carry many of the costs of project funding (Williamson and Kizilbash Agha 2008, International Development Department and Associates 2006).

These points do not mean that SWAp and common funding arrangements do not have positive effects. Ownership, operational transparency, strategy formulation and donor harmonisation are all improved. It is also probable that economies of scale are higher than those of project-type aid activities (see Mozambique case study Section 3.3). However it appears that overall they are likely to be less effective than DBS and benefits are even more difficult to measure, let alone quantify. **No studies were identified which quantified the savings associated with DBS or other programme approaches** (apart from the study in Box 10) however in order to make the first step in describing potential benefit of them to the EU, we need to quantify the volume of aid channelled through such approaches. In the next paragraph we estimate this volume and then discuss these figures in terms of costs and savings in Section 4.

How much EU aid is transferred through programme approaches?

There is a lack of data to quantify the percentage of EU funds disbursed through programme approaches, especially given that we need to separate data into direct budget support and other programme approaches, as the literature suggests widely differing levels of benefit. The two sources of multi-country data used here are the CRS and the second OECD survey to monitor implementation of the Paris Declaration (OECD 2008b). Figure 3 shows programme aid provided by EU donors as a percentage of Country Programmable Aid for the two data sources⁵⁶.

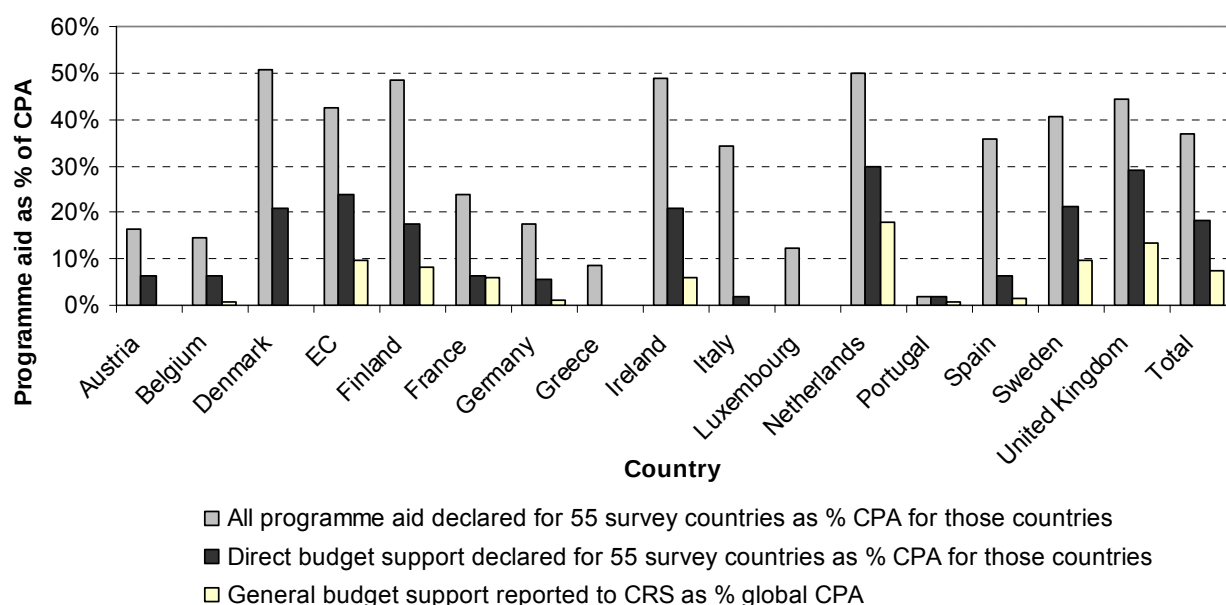
⁵⁶

The Monterrey survey asked donors to quantify the percentage of their programme disbursed through project aid, budget aid and other programme approaches. However the results from donors are not comparable so it is difficult to give an overall EU total for programme-based ODA using the survey data.

The CRS: Figures on General Budget Support (GBS) figures are provided in the CRS⁵⁷. The amount of GBS disbursed globally by EU donors in 2007 was 2.5 billion USD which is about 4.7 percent of total EU bilateral grant ODA. Total CPA given by those EU donors reporting to the CRS for that year was 31.3 billion USD of which GBS comes to about 7.6 percent of the total.

The OECD survey on monitoring the Paris Declaration: The survey had two categories of programme approach: direct budget support (general plus sectoral) and other forms of programme approach. Overall in 2007 EU member states and the EC provided 6.48 billion USD of ODA through programme based approaches to the 55 survey countries. As a percentage of EU ODA reported in the 2007 survey for those 55 survey countries, this comes to 46 percent⁵⁸. Almost exactly half of this figure was through direct budget support and half through other programme approaches⁵⁹.

Figure 3 Proportion of Country Programmable Aid disbursed through General Budget Support (CRS global disbursement data 2007) and wider Direct Budget Support & Other Programme Approaches (OECD 2008b for 55 countries only).



2.7 MANAGING FOR RESULTS AND LESS CONDITIONALITY

Countries often face hundreds of different types and levels of conditionality from various donors (Box 12). These often involve contradictory policy or strategy advice which may present an unmanageable burden on a partner country. It is essential that the donor community reduces the number of such conditionalities whilst maintaining quality. Coordinating and reconciling conditional policy advice will significantly reduce administrative costs for partner countries (SEC (2008) 435).

⁵⁷ In the CRS GBS is defined as 'unearmarked contributions to the government budget; support for the implementation of macroeconomic reforms (structural adjustment programmes, poverty reduction strategies); transfers for the stabilisation of the balance-of-payments (e.g. STABEX, exchange rate guarantee schemes); general programme assistance.

⁵⁸ The definition of ODA as reported in the survey was close to that of CPA, (excluding beneficiaries not based in the country, debt reorganisation, humanitarian assistance and support to regional programmes). However reporting from donors was not complete, if we find the EU PBA declared through the survey as a percentage of total CPA for the 55 countries it comes to 37percent of the total.

⁵⁹ The 23percent of survey-reported ODA disbursed as direct budget support is still far higher than the 7.6 percent of CPA imputed from the CRS because the latter includes only *general* direct budget support and omits DBS given for specific sectors.

Box 12 Conditionality

In the second generation of poverty reduction support credits (PRSC) there are long lists of conditions with attached indicators and benchmarks for governments to fulfil before additional funds are released. For example in Burkina Faso there were 211, of which 30 constitute prior actions to be taken; in Uganda there were 241 indicators. The programme for Burkina Faso requests 18 action plans to be prepared by the government. By linking disbursements to a smaller number of actual development outcomes, administrative costs and complexity can be reduced whilst government ownership is increased. Volatility and subjectivity are also reduced (Hervio 2005).

There is much, albeit controversial, evidence that foreign aid has an impact on economic growth only when provided in sound policy environments, particularly when provided as general budget support (references in Djankov *et al.* 2008). However Easterly (2002) shows that this link is not reflected in donor policy: there is little evidence of a positive relationship between aid flows and 'good' policies (using World Bank ratings and aid flows). Svensson (2003) finds no link between a country's reform effort or fulfilment of conditionality, and the disbursement rate of aid funds (in Kanbur 2003). It has been suggested that conditionality does not work as there are too many short term incentives to donors to release the aid whether conditions are met or not (Kanbur 2003).

The costs of conditionality include:

- Undermining of country ownership;
- Reduction of resources available for countries with good policies and sincere reformers;
- Waste of resources on poor policy environments.

(Omotunde 2005 and references in Koeberle *et al.* 2005).

3. SPECIFIC EUROPEAN EXAMPLES

It needs to be immediately recorded that information regarding transaction costs related to the management of development cooperation, its design, implementation, monitoring and evaluation of programmes and projects, is not systematically collected, recorded and analysed, either by donors or by the Government. The figures and illustrative calculations presented below must therefore be viewed as estimates only, provided by practitioners and, wherever available, based on budget norms used when preparing office and programme and project budgets.

3.1 CASE STUDY NO. 1: CAMBODIA

3.1.1 Introduction

Cambodia is one of the poorest and most aid dependent developing countries in Asia, with total ODA reaching up to 50 percent of the Government budget. Recently, however, following a string of years of high economic growth and improved revenue collection, this ratio is seen to be declining to less than 30 percent for 2009. As part of the Government's capital expenditure resources, ODA made up close to 80 percent in 2007. While the global financial crisis is likely to impact economic growth in 2009, rapidly increasing aid and investments from other Asian countries may cushion the impact.

Even so, Cambodia remains a country where aid proliferation – with more than 35 bilateral and multilateral development partners, 300 NGOs and over 5.5 billion USD of humanitarian and development assistance since 1991 - has been more pervasive than in almost any other developing country. With more than 700 on-going projects and programmes recorded in 2009 in its ODA database, it is easy to understand why the Royal Government of Cambodia (RGC) became one of the earliest participants in and supporters of the OECD/DAC Working Group for Increased Aid Effectiveness. The joint Cambodia Declaration on Aid Effectiveness in 2006 and adoption of a 2006/2010 Harmonisation, Alignment and Results action plan (HAR Plan) in 2005 further underscores the Government's interest in and commitment to increasing aid effectiveness. Nevertheless, the 2008 Cambodia Aid Effectiveness report (Cambodian Rehabilitation and Development Board 2008) cites evidence of AE fatigue and a stalling process. The machinery created under the Cambodian Rehabilitation and Development Board's Council for the Development of Cambodia (CRDB/CDC) with its 19 Technical Working Groups (TWG – see Table 11 below) and an unparalleled online database of ODA activities provides a platform and a source of information for donor-government cooperation on the implementation of the Paris Declaration and Accra Agenda for Action in Cambodia. The resulting reports are exceptionally comprehensive, with quality of project and programme information included in the database high and improving.

Most prominent among the AE achievements are, on the Government side, the completion of the first platform for a new Public Financial Management System (PFMS), which lays the foundation for more donor funds to be integrated in and channelled through the Government budget and financial management system. Second, the introduction of a new Merit Based Pay Incentive system (MBPI), including salary supplements for Government staff to undertake additional workload in the context of Government reform programmes (e.g. health and education sector reforms), creates the base for further integration into the new, three-tiered, regular Government administrative structure and a reduction of parallel programme/project support units. In this context it should also be noted that the programme coordination system of technical working groups created under CDC will potentially form a good base for intra-governmental, cross-sector coordination between line ministries (a perennial and serious government problem, not only in developing countries) also when the needs for external partner participation and funding has become less dominant.

While previously the government experienced difficulties in recruitment of competent staff in the face of very restricted compensation and promotion schemes and donor and NGO recruitment of such staff at significantly higher wages ('poaching') to secure implementation of their programmes, it has been stated that this problem has now been significantly reduced given increased number of qualified candidates for government service becoming available from the higher education system and supported by MBPI. Even so, the highly compartmentalised government structure with seniority still

the guiding principle for promotion and the lack of any cross-government management career service, continues to impede the governance reform progress and innovative ideas.

3.1.2 AE Progress

While the efforts of implementing the PD and AAA in Cambodia are among the most comprehensive in any developing partner country, it needs to be pointed out that it in itself represents a significant investment in both time and limited high level staff resources. The following quote from the Cambodia Aid Effectiveness Report (Cambodian Rehabilitation and Development Board 2008) highlights the problem as seen from the RGC perspective:

“The principal exercise for Cambodia in 2008 was the Paris Declaration monitoring survey. This was simplified by making extensive use of the Cambodia ODA Database and was characterised by strong cooperation between Government and development partners. The results are shown below in Table 11 (and discussed in the next chapter) but, as the global analysis also highlights, they must be interpreted with caution. There was little opportunity to validate the data as it relied on development partner reporting, resulting in inconsistent methodology and starkly different approaches between reporting partners and across time. Continued concern as regards the utility of the indicators and their relevance to Cambodia was therefore a topic for consideration during the Evaluation that took place in the last quarter of 2008”.

Table 11 Paris Declaration Monitoring Indicators for Cambodia

No	Indicator	2005 Baseline	2007 Status	2010 Target
1	Implementation of national plans and frameworks	C	C	B or A
2	Quality of PFM Systems (CPIA rating)	2.5	3.0	3.5
3	Aid reported in budget %	79	85	90
4	Coordinated TC %	36	35	50
5a	Use of country PFMS %	10	12	tbc
5b	Use of country procurement systems %	6	16	tbc
6	Parallel PIUs	49	121	16
7	In-year predictability of aid flows %	69	96	85
8	Untied aid %	86	99	>86
9	Use of PBA %	24	28	66
10a	Coordinated missions %	26	12	50
10b	Coordinated country analytical work %	58	17	70
11	Sound performance assessment framework	C	C	B or A
12	Reviews of mutual accountability	Yes	Yes	Yes

While participation in the global initiative has significantly reinforced Cambodia's own efforts, including by galvanising development partners who may be more responsive to internal drivers of change than those established nationally, the possibility that the Paris Declaration may have become a 'double-edged sword' for national aid effectiveness also arises. Most notably, the road to Accra in 2008 became somewhat pitted and potholed as the number of pilot and diagnostic studies quickly escalated, placing a strain on Government as it sought to reconcile its enthusiasm to participate in global work with the need to make headway in implementing its own national work programme⁶⁰.

⁶⁰

“CRDB/CDC officials were invited to participate in meetings and studies related to aid effectiveness and their links to: gender; human rights; civil society; Beyond Aid (migration, trade, partnership); health tracking tracer studies; technical cooperation; capacity development; the monitoring survey; the first phase of the evaluation of the Paris Declaration; three regional workshops to support the High-Level Forum; three meetings on South-South cooperation and one on trilateral assistance; a DAC sub-group on Complementarity and Division of Labour; a Brookings Institute health study and other civil society studies and meetings rooted in global mandates; the EU Roadmap; the International Health Partnership;

Second, there is increasing evidence, also discussed during the Evaluation, that the process may have become increasingly technocratic and formulaic, captured by a narrow posse of aid effectiveness experts, and over-shadowing innovation and nationally-determined responses. Finally, and as discussed above, the survey may distract attention towards a narrow set of indicators that may not reflect the true nature of Cambodia's own challenges (and, in extreme cases, may even distort incentives to accurately report progress)."

On the Donor side, participation in the AE effort has caused several donors to enhance their staffing to accommodate their participation in TWGs and other coordination meetings, workshops, data validation and submission etc. Among the EU donors it can be estimated that 4-6 international posts have been devoted to/ created for AE at an annual cost of not less than USD 0.9 million.

3.1.3 The Cambodia Project⁶¹ Portfolio

The predictability of donor funding would appear to still be tied to approved programmes and projects with most bilateral donors unwilling to firmly commit themselves to future levels of funding. The result would appear to be an asymmetric focus on short-term, freestanding projects with 63 percent of all projects in the CDC database having a duration of less than three years, of which almost 28 percent have a duration of less than one year. The following table shows the number of projects in Cambodia by duration.

Table 12 Number of projects (all projects) by duration

Duration	No of projects	percent
Less than 1 year	294	27.9
More than 1 but less than 3 years	370	35.2
More than 3 but less than 5 years	260	24.7
More than 5 but less than 10 years	99	9.4
More than 10 years	10	1.0
Not reported	19	1.9
Total	1052	100.0

(Source: CDC Database, July 2009 all projects)

While several 'projects' – especially ones funded by international financial institutions (IFIs) – may be of a financial contribution nature, reflecting just one payment, and others are continuations of previous projects, the table nevertheless provides a picture of funding of 'gap-filling' needs, rather than the longer-term, scaled-up reform and development programmes that could deliver a serious impact on the poverty situation in Cambodia. Nevertheless, it can be estimated that with an on-going portfolio of 700 projects, of an average duration of 2 - 4 years, that some 200 projects will have to be developed and completed annually (assuming a constant portfolio of projects). In the case of EU member states, with a combined portfolio of 300 projects, the corresponding figure would be around 90 projects to be developed annually, with the same number being completed. Discussions with EU donor missions in Cambodia would tend to indicate that an average cost – staff time and expert studies/consultants – for project formulation of between USD 130 and 200 thousand. Similarly, costs associated with terminal reviews/ evaluations/ audits of completed projects, would not exceed USD 200 thousand. However, post project evaluations are rarely performed. The cost of an audit is estimated to be not more than USD 20 thousand and is normally included in the project budget.

the Hanoi Roundtable on Management for Development Results (MfDR); two ECOSOC meetings to gather views on aid effectiveness; a sub-regional study on mutual accountability; and other assorted joint ventures, contact groups, working parties, focus groups, pulse groups, and committees. Invitations to participate in meetings dedicated to 'post-Accra' analysis have been declined."

61

The Cambodia ODA Database uses the traditional concept of project to denote all types (modalities) of ODA activities. As the analysis is based on the CDC database, the term project is used here to denote all types of development activities including programme and budget support. It also includes humanitarian assistance, such as food aid and landmine clearance.

A very tentative cost estimate for the development of 90 new projects annually would land at between USD 12 and 18 million. Evaluations/ reviews could be estimated at around USD 10 million per year. The costs to the Government in staff time are not known.

The tendency to prefer short term commitments is another element of the fragmentation problem, conditioned by bilateral ODA being appropriated only annually by donor Parliaments and made available for disbursements on an annual basis. With increased delegation of responsibility to donor country offices where performance is often still measured in annualised disbursements ('delivery'), small, short term projects may offer more flexibility to fine-tune disbursements within the fiscal year.

Out of 722 on going projects with recorded disbursements in 2008, some 469 projects involved free-standing (385) and investment related (84) Technical Cooperation (TC), while 195 were defined as investment projects/ programmes. Only 7 'programmes' were labelled as Budget Support, 3 of which from EC as General Budget Support (1) and Sector Support (2), 3 from UK and 1 from Japan as structural adjustment support. Table 13 provides an overview/snapshot of the number of on-going projects and their 2008 disbursements. It is worth noting the dominant size of ADB and the World Bank/IDA grants and credits, together with the rapidly expanding role of China and Japan as major donors, together accounting for more than 50 percent of all ODA disbursement to Cambodia in 2008.

Table 13 Number of on-going projects/activities and 2008 disbursements, by donor

Donor Group	Donor	No of Projects		Disbursement 2008 USD'000	Disbursement /project 2008 USD '000
UN Agencies			87		
IFI			97		
	IBRD/IDA	42		45,508	1,083
	ADB	55		143,931	2,617
Global Fund			10		
EU			295	179,311	0,608
	Belgium	17		3,209	0,189
	Denmark	3		10,079	3,360
	Finland	17		6,629	0,390
	France	45		31,530	0,701
	Germany	40		25,899	0,647
	Italy	4		--	
	Netherlands	12		4,120	0,343
	Spain	30		6,545	0,218
	Sweden	11		17,633	1,603
	UK	21		29,330	1,397
	EC	95		46,259	0,487
Other Bilateral			233		
	Australia	29		29,824	1,028
	Canada	33		16,278	0,493
	China	11		128,165	11,651
	Japan	123		153,442	1,247
	New Zealand	6		2,494	0,416
	Republic of Korea	22		16,442	0,747
	Switzerland	4		3,667	0,917
	USA	5		55,672	11,134
Total, all donors			722	877,118	1,214

(Source: CDC Database, July 2009)

3.1.4 Projected ODA for Cambodia

The RGC Aid Effectiveness Report 2008 (Cambodian Rehabilitation and Development Board (2008), Table four) includes projections of disbursements for 2009 (627.8 MUSD) and for 2010 (371.6 MUSD) as provided by the development partners as estimates for on-going and actively considered pipeline projects. *This rapid decline in commitments is again an indication of the short- termness in programming by donors and lack of long term predictability in ODA flows.*

Bilateral ODA funds are appropriated – globally - by each donor parliament as part of their annual budgeting process. Indications of future allocations of aid for a specific country can therefore only be made contingent on Parliamentary approvals. It is therefore often not legally possible for donors to make firm commitments of future amounts of assistance to the partner country. The problem of predictability of aid, at the global or partner country level, is therefore inherent in the system. Individual projects, however, are often – but not always – approved in full for the duration.

The loss of value from the lack of multi year predictability of ODA resources has been estimated in various macroeconomic studies⁶² at either around 8 percent or between 10 and 20 percent depending on the model and the base definition of ODA. Using total aid figures given in the CDC database (see Table 13) these figures indicate a “loss” of value to Cambodia of somewhere between 70 and 170 million USD per year.

⁶² Kharas (2008); Arellano et al. (2009), see Section 4.5.

The corresponding figures for EU member states and EC is between 15 and 30 million USD per year, again based on total aid figures given by the CDC (Tables 14 and 16).

3.1.5 The Costs of the Technical Working Groups (and CDC)

As indicated in the Cambodia Aid Effectiveness Report, the backbone of the Aid Coordination/ Aid Effectiveness machinery in Cambodia is built round the Council for the Development of Cambodia (CDC), under the Government's Cambodian Rehabilitation and Development Board (CRDB). CDC is supported by a 4.6 million USD, 5-year multi-donor project through UNDP.

Table 14 Number of projects by technical working group August 2009

Technical Working Group	Number of Projects
Agriculture and Water	116
Decentralization and Deconcentration	48
Education	98
Fisheries	18
Food Security and Nutrition	29
Forestry and Environment	39
Gender	22
Health	115
HIV/AIDS	32
Infrastructure Regional Integration	77
Land	30
Legal and Judicial Reform	42
Mine Action	44
Partnership and Harmonization	29
Planning and Poverty Reduction	31
Private Sector Development	45
Public Administrative Reform	19
Public Financial Management	37
Rural Water & Sanitation	16
(Not Reported)	304

The UNDP project has also supported capacity building for the various TWGs, but the key feature is that they are integrated into the lead ministry, where the designated senior official combines the TWG duties with normal line functions. Hence the burden on RGC officials is minimized and should rather be seen as building capacity in programme and project management. Besides, the TWG, whose main function is information exchange, tend to meet once every two months, for a half-day meeting.

For the donor community, however, those country offices that are staffed with very few International Programme Officers (IPOs) and which are charged with co-chairing a TWG, the burden of attending ten to fifteen half-day meetings every two months, may be significant. One donor estimated that 80 percent of the working time of a First Secretary was devoted to co-chairing a TWG, possibly more for those TWG with a very large number of donors and programmes (see Table 14).

Given the existence of 18-19 TWG co-chairs and an annual meeting of the Cambodia Development Conference Group, it must be recognised that aid coordination/ aid effectiveness workload is significant, possibly more to the donors than the government staff. Indications are that the workload for a designated donor co-chair can amount to 50-80 percent of one IPO or, for the donor community as a whole, 9 – 15 IPO-years. This cost can then be estimated at between 1.8 and 3.0 million USD per year.

3.1.6 Field office costs

Nine EU Member States, in addition to the EC, provide ODA assistance to Cambodia. It is worth noting that several EU donors do not maintain a representation in Cambodia (Netherlands, Finland, Italy, UK closing in 2011) while most of the others form part of a regional representation based in Bangkok (Sweden, Denmark, EC). Only France and Germany retain full representation (Embassy plus AFD, GTZ office) in Phnom Penh.

While the donor mapping exercise was not completed in Cambodia, Table 15 provides an overview based on oral information from interviews with development cooperation staff. Cost norms represent figures used for budgeting purposes and do not necessarily reflect actual salaries or labour costs.

Table 15 EU development cooperation offices in Cambodia

EU MS	Country Office	No. projects 2008	Disbursements 2008	Staffing Phnom Penh*	
				IPO	NPO
			USD '000		
Belgium	No office	17	3,209	0	0
Denmark	BKK, liaison PP	3	10,079	2	7
Finland	No office (BKK)	17	6,629	0	0
France	Embassy and AFD office	45	31,530	6	5
Germany	Embassy and GTZ office	40	25,899	15	7
Italy	No office	4	0	0	0
Netherlands	No embassy (BKK)	12	2,195	0	0
Spain	AECID	30	6,544	1	3
Sweden	BKK, dev section in PP	11	17,632	5	2
UK	Office. Phasing out in 2011	21	29,330	4	10
EC	Delegation	95	46,259	7	6
Total		295	179,306	40	40

(Sources: CDC ODA database and interview responses)

*Estimates provided locally. May not correspond to official budgeted numbers, depending on definitions

An illustrative calculation, based on an average development cooperation office being staffed with 5 International Programme Officers (IPOs) and 6 National Programme Officers (NPOs), using an average IPO annual cost of 200,000 USD and NPO of 24,000 USD would imply staff costs of around 1,150,000 USD. If it is assumed that other, common costs and office costs would also amount to around 0.4 million USD, it would seem reasonable to assume an average annual development cooperation office cost of 1.5 - 2.5 million USD.

It is worth noting that Denmark, with disbursements in 2008 of over 10 million USD, has reduced its 80 million USD portfolio to only three programmes:

- Human Rights and Good Governance (8.6 million USD)
- Natural Resource Management and Livelihood (65.3 million USD, co-funded with DfID and New Zealand)
- Private Sector Development (7.9 million USD)

This programme is managed with two IPO and seven NPO, providing an illustration of potential cost savings from a joint programme based approach. Similarly, Finland funds 17 on-going projects in Cambodia with no country office, but by using delegated (sub-contracted) cooperation.

The EC, which supports 95 different projects, with annual disbursements of over 46 million USD, uses a staff complement of 7 international and 6 NPOs, however their delegation and all staff within it have both political and development co-operation functions, thus it is difficult to compare their operation with that of other donors.

3.1.7 The Costs of preparing a Country Cooperation Strategy

One of the key elements in the development cooperation process is the dialogue leading to an agreement between the development partners on the focus /and magnitude/ of the cooperation over a specified period – the preparation of country strategies. This is the opportunity to consult the partner country as to its commitment to achieving the MDGs and to the implementation of the Paris Declaration, which requires the committed donor parties to align their cooperation with the strategic priorities of the partner country. It would also be the opportunity for the donors, especially the EU Member states following the European Consensus on Development, to engage in a serious dialogue to agree on a division of labour in accordance with their assessed respective strengths and experiences to assist the partner country.

It would therefore be assumed that the analysis, evaluation and assessment of the country's development situation, policies, strategies and plans would be a key activity in the development cooperation process. While there are no management information systems in place to record time and resources spent by the donor or the Government on this key activity, the interviews would indicate that considerably less time is spent than previously assumed. While the procedures on how to prepare the CSP are often prescribed in great detail, the time devoted to substantive discussion, consultations and analysis would appear to be mostly confined to a review mission and drafting/editing of a document likely not to be objected to by political bodies on both sides. Instead, the real discussions seem to take place in the contexts of developing programmes and projects, where the issues involved tend to be more of a technical nature, avoiding sensitive policy issues.

While significant time and discussion may be devoted at HQ level to formulate the terms of reference and guidelines for the CSP exercise, most of the actual drafting is done at the country office level, often supported by a mission from HQ including sector/thematic specialists. Estimates (guesstimates) from HQ (MFA) staff and in country offices would indicate that the total costs involved in the preparation of a final draft of a CSP rarely would exceed USD 500,000 (in staff time and consultants/experts' missions). Only the IFIs devote significantly more resources in preparing assessments and reviews (which are then often relied upon and used by bilateral donors). Often there is also great continuity in a new CSP, a large portion of foreseen funds to become available, already earmarked for new phases/extensions of on-going priority programmes.

3.1.8 The Costs of preparing a Programme/ Project

Unlike the CDC ODA database for programme/project activities, there are no management information systems to record work spent by staff on the various stages of the programming cycle. It is mostly implicitly assumed that the entire budget of the office is justified by its work in implementing the Cooperation Strategy and not analysed in terms of how much staff is needed.

General Budget Support

The Cambodia ODA database lists 10 budget support projects, including one GBS (EC). Nine out of the ten projects are single donor budget support, indicating the complexities of preparing multi-donor GBS projects. The general observation seems to be that it was not more costly - or demanding - to prepare the 22.2 million Euro, single-donor EC GBS to Cambodia than an ordinary, free-standing TC project, or less than 100-150,000 Euro. Multi-donor GBS are generally perceived as extremely time-consuming and demanding to put together. One actual case of multi-donor mission to prepare a multi-donor GBS was estimated at close to 0.9 million USD.

Sector Programme Support and delegated cooperation

While SWApS are not separately recorded in the CDC database, they nevertheless seem to be the predominant form used for programmes with a budget exceeding 5 million USD and for co-funding programmes implemented by UN organisations. As a general observations, many EU donors (DfID, Sweden, Denmark) state that, almost as a matter of policy, they delegate (sub-contract) the implementation of their projects to other bilateral agencies (GTZ) and multilateral (UNDP, UNFPA, UNICEF, World Bank) or provide co-funding for their programmes. This can be a cost-effective way of implementing projects and increase delivery. While UNDP has global agreements with several donors regarding reimbursement for overhead costs of 3-6 percent, UNICEF charges 12 percent. GTZ, acting as implementing agent for the German Government (BMZ) is entitled to charge for actually incurred costs up to 12 percent of total project costs (as applied to the annual global total of delivery) – currently at 10.4 percent. The inherent danger of providing co-funding to programmes developed by other organisations lies in the atmosphere of salesmanship in the competition for funds from bilateral donors (and contributions to their staff budgets) which might distort the prioritisation of the use of ODA funds for Cambodia. It should also be noted that some 30 percent of total bilateral ODA for Cambodia (like mine-clearing and food security) is contracted with NGOs.

Technical support projects

Technical Cooperation (TC) forms the cornerstone for capacity development, transfer of know-how, development of institutions and management systems. The following quote from the 2008 Aid Effectiveness Report highlights the importance of reforming the system for developing and managing the currently 385 ongoing, free-standing TC projects in Cambodia

“The role of development cooperation in facilitating capacity development, primarily through the provision of technical cooperation (TC) is perhaps the most fundamental test of the development partnership. Given that development cooperation is premised on supporting a transition in society between a present and a future state, the ability of Government and development partners to collaborate in establishing a shared vision, to jointly implement agreed activities, and to review and learn together from their experience will provide the basis for determining the overall effectiveness of aid delivery and management in Cambodia. Based on empirical evidence in the 2007 Aid Effectiveness Report and further dialogue at the CDCF, it was agreed that urgent action was required to reform the delivery and management of technical cooperation.”

If we assume that TC projects in general have a duration of less than 3 years and take around 16 months from origination to the start of project operations (longer, if the window of opportunity to include the proposal in the budget request is missed), it would imply the preparation of 100-130 new TC projects per year. While most of the preparatory work is staff time (estimated at around 4 months per TC project) in the country office, a two to four week programming mission (1 consultant @ 1,500 USD per day/consultant) is normally budgeted at no more than 60,000-80,000 USD. The costs of preparation of a free-standing TC project could then be estimated at 130,000 – 200,000 USD. With 100 free-standing TC projects prepared every year, the total cost could be estimated at 13-20 million USD per year.

Programme Implementation Units – Capacity building or Overheads

The role of project implementation units (PIU) to implement programmes/ projects is under serious discussion. In those cases (most cases) the 121 PIUs listed in the 2008 PD evaluation, are integrated in the implementing ministries and are generally seen as important instruments for building programme and project management capacity which will remain after the project has been completed (or funding terminated). However, the general consensus seem to be that PIUs are dismantled following the completion of the project, with the staff often moving on to other projects.

Burden on the Government

While it is quite obvious that the size and fragmented nature of the aid programmes in Cambodia causes a lot of RGC activities to be focused on managing these programmes, there are no estimates as to how much staff time is devoted to this. Instead, as most of the Government's reform and investment activities are funded by donors, it is seen as an integral part of Government functioning.

3.1.9 The Benefits of a European Approach - Conclusions

The Aid Effectiveness Agenda has made significant progress in Cambodia, more so than what was reflected in the 2008 PD evaluation. The number and amount of SWAs are increasing and the number of donors making use of delegated cooperation (sub-contracting) or joint funding/implementation of programmes and projects is increasing. Most donors have decentralised programme management to the country office (or regionalised to the Embassy in Bangkok).

The quality and comprehensiveness of the CDC ODA database is rapidly increasing, soon to include also NGO activities. The RGC donor partner machinery for coordination and information exchange in the form of 18-19 Technical Working Groups co-chaired between sector ministries and lead donors provides a potential mechanism for intra-governmental coordination even when RGC's own resources have taken over the bulk of the public development investments in Cambodia.

Already the ratio between annual ODA disbursements and the RGC budget has come down to less than 30 percent, according to statements from MoFE. The donor composition is also changing with the emergence of China as the major provider of infrastructure funds, followed by Japan and the IFIs while other donors, like UK, are phasing out their involvement in Cambodia, reducing the proliferation of donors.

Still, however, the pervasive AE problem remains the fragmentation of the development support effort. With 722 on-going projects/programmes in mid 2009 funded by more than 35 bilateral and multilateral donors, the programme retains an impression of essentially doing gap-filling rather than a coordinated attack on the pervasive poverty and the poor quality of health care and education. While some countries, like Denmark, have concentrated their resources into three programmes, others are still widely dispersed into a large number of smaller interventions.

Another aspect of the fragmentation problem concerns the annualization of the programmes. As ODA is appropriated in the annual budget of donor country parliaments, bilateral ODA funds can only be legally committed when formally appropriated. This is a fundamental impediment to an effective multi-year rolling framework of predictable funding for the public investment programme in Cambodia.

Hypothetically, on the assumption that all EU member states – and the EC Development Cooperation Instrument (DCI) funds – would pool their resources to maintain the 2008 disbursement level of USD 180 million per year, it would be possible to envisage a rolling three-year framework of around USD 540 million. The increased value of these funds from predictability alone could be calculated between 8 and 20 percent or somewhere between 43 and 90 million USD. Further savings in transaction costs could be estimated at around 7 million USD annually (or 21 million USD for a three year period) as follows:

Joint offices	USD 4 million (reduction by 2-3 offices including 12-14 IPO) posts plus office costs)
Joint programming	USD 2 million (reduction by 6 CSP exercises over 3 yrs)
Reduced no of missions	USD 1 million

3.2 CASE STUDY NO. 2: ETHIOPIA

3.2.1 Introduction

Ethiopia is another remarkable case to assess the potential of Aid effectiveness principles. External assistance has been an important resource for Ethiopia during the last decades. However, foreign aid has increased considerably over recent years, to the extent that, in the year 2005, Ethiopia was the largest aid recipient in Africa and the second in the world, after Indonesia. In addition to financial resources, Ethiopia also hosts a large donor community, which provides a valuable case to illustrate proliferation and fragmentation trends.

For the purpose of this case study it is relevant to make reference to the events that took place in the context of the 2005 elections in the country, which meant a turning point in the relation between the donor community and the government. Concerns about the quality of democratic governance lead to suspension of General Budget Support, a decline in new commitments to the country and the creation of new assistance instruments.

Overall ODA indicators (see Box 13) show that **EU donors together provide a considerable share of bilateral ODA** to the country. At the same time, it is worth noting that even if net bilateral aid constitutes a substantial amount, CPA has been progressively decreasing, to become a fairly small part of it.

Box 13 Aid volumes in Ethiopia for 2007

- | |
|--|
| <ul style="list-style-type: none">• Total Net bilateral ODA (DAC countries): 1275 million USD;• EU Net bilateral ODA (EU DAC members): 705 million USD (1070 million USD including the EC);• Total bilateral CPA from all donors: 949 million USD;• EU bilateral CPA: 621 million USD (921 million including the EC). |
|--|

3.2.2 Donor proliferation in Ethiopia

The progress of Ethiopia in meeting the targets set up in the Aid effectiveness agenda is mixed. One of the overall characteristics is the large number of donors present in Ethiopia. Multiple donors operate in the country using a broad range of aid instruments, from project to sector support. The quality and impact of aid are, in this regard, elements frequently questioned. The following numbers give a good impression of the extent to which Ethiopia is a relevant case to assess the effects of donor proliferation:

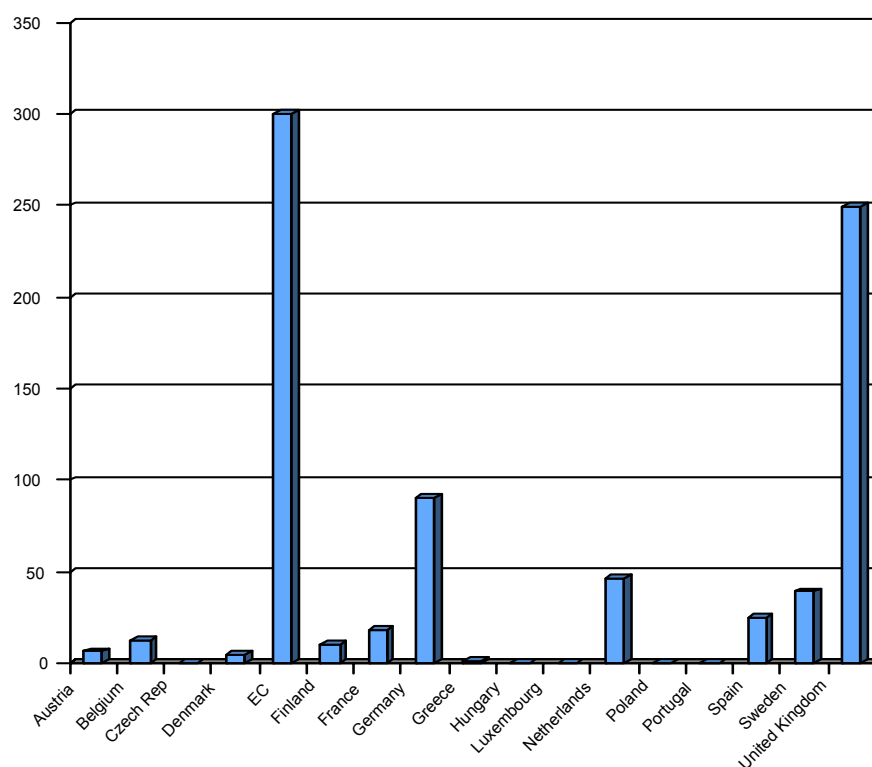
- OECD data tells us that there were in Ethiopia 14 multilateral and 32 bilateral donors providing country programmable aid in 2007, of which **20 were EU donors (including EC)**.
- **10 EU donors designated Ethiopia as a priority country** and, at least 15 of them have a representation in the country.
- Out of the vast European representation in the country, **13 EU donors provided together only around 8 percent of Ethiopia's EU CPA⁶³, or around 4 percent of total CPA to the country.**

Figure 5.1 illustrates the size of CPA that European donors provide to the country. At the same time, it also gives an impression of the extent of proliferation in Ethiopia. The great majority of them provide less than 5 percent of EU CPA, which in absolute terms would mean less than 40 million USD per year. In sum, Ethiopia provides an excellent example of “a place to be” for the donor community; contributing with very thin “envelopes”, leading to a classic weakening of the partner government capacity to promote a fully efficient use of aid.

⁶³ Austria, Belgium, Czech Republic, Denmark, Finland, France, Greece, Hungary, Lithuania, Luxembourg, Poland, Portugal and Spain.

If we assume that each donor country office/cooperation section costs between 1.5 USD and 2.5 million USD per year, some substantial savings could be made out of an increased rationalization of resources, use of delegated cooperation or division of labour. A reduction of 10 offices would result in savings of between USD 15 and USD 25 million per year.

Figure 4 European CPA to Ethiopia in 2007 million USD (OECD-CRS)



3.2.3 Aid Fragmentation in Ethiopia

The previous section highlighted the large number of official donors present in Ethiopia, illustrating a typical case of donor proliferation. This section describes how aid is greatly fragmented among donors, sectors and activities.

Currently, the Accessible Information on Donor Activities (AIDA)⁶⁴ counts **3061 ongoing activities in Ethiopia**. Tables 16 and 17 outline the number of activities taking place by sector and the number of activities that donors are financing. Needless to say, the activities shown in the AIDA database include activities funded both by bilateral and multilateral sources and differ greatly in terms of financial size, duration, etc. At the same time, it is worth warning that the completeness of the data raises certain questions and figures vary when contrasted with the information gathered by other sources, like the Donor Management Platform.

Therefore further analysis would be needed to extract accurately the number of activities, identify where exactly duplication takes places and, therefore, a better use of aid expected. However, for the time being, it provides an overall picture and a good overview of the aid fragmentation situation. As we describe in section 2.3, so many activities put a large burden on both donors and recipients to deal with all the bureaucracy attached to each one of those activities. It is in this area, in the context of all

⁶⁴ <http://aida.developmentgateway.org/index.do>

the “procedural” part associated with 3061 ongoing activities (more than 1200 activities from EU donors) where enormous gains could be made in terms of aid effectiveness.

It would not be accurate to provide an average size for a project since many of them account for activities or project of less than 50,000 USD. However for illustrative purposes, if divided by total Net ODA to the country, activities would have an average size of around 800,000 USD per year. The relevant issue would not be the overall size but the multiplication of costs attached to such a high level of fragmentation and, ultimately, the deterioration of the real impact intended.

Table 16 Current ongoing activities in Ethiopia by sector

Agriculture (180)	Banking and Financial Services (22)
Business Services (57)	Civil Society and Democracy (242)
Communications (26)	Construction (3)
Debt Relief (25)	Education (377)
Emergency Assistance (352)	Energy (31)
Environment (91)	Fishing (8)
Food Aid (222)	Forestry (26)
General Programme Assistance (16)	Government Administration (137)
Health (283)	Housing (1)
Industry (65)	Information and Communication Technology (15)
Mineral Resources and Mining (3)	Multisector (136)
NGO Support (28)	Peace Building (27)
Population and Reproductive Health (273)	Rural development (51)
Social Services (220)	Tourism (10)
Trade Policy and Regulations (19)	Transport (46)
Unspecified (44)	Urban development (11)
Water Supply and Sanitation (138)	Total: 3061 ongoing activities

Table 17 Current ongoing activities in Ethiopia by donor

African DB (13)	Australia (10)	Austria (28)	Belgium (75)
Canada (51)	Denmark (1)	European Commission (32)	European Development Fund (44)
Finland (34)	France (109)	GEF (35)	Gates (2)
Germany (339)	Greece (1)	IFAD (3)	Ireland (226)
Italy (152)	Japan (279)	Korea (51)	Kuwait Fund for Arab Economic Development (2)
Luxembourg (14)	N/A (26)	Netherlands (3)	New Zealand (7)
Norway (61)	Portugal (16)	Spain (174)	Sweden (23)
Switzerland (35)	The Global Fund to Fight AIDS, Tuberculosis and Malaria (2)	The World Bank Group (91)	UNAIDS (42)
UNDP (132)	UNFPA (62)	UNICEF (145)	United Kingdom (45)
United Nations (1)	United States (681)		

Source AIDA

3.2.4 A better European allocation of resources.

This section explores the behaviour of the biggest EU donors in Ethiopia, contrasting it with guidelines of the Aid effectiveness agenda and the Code of Conduct on the Division of Labour. It highlights once

again a major barrier in the effectiveness of development actions: the contradictions that arise between country context, institutional arrangements and political priorities.

The following tables are not exhaustive – since data from some EU members active in Ethiopia is missing – but encompass the major European players in the country and provides an insightful and clear overview of the structural problems that characterize further progress in terms of more coordination and harmonization.

Table 18 Division of Labour in Ethiopia

EU Donors per sector and approximate number of full time staff	EU Donors providing bilateral aid in more than 3 sectors
Agriculture (7 EU Donors) – (approx 40 full time staff)	EC (10 sectors)
Education (7 EU Donors) – (approx 130 full time staff)	France (12 sectors)
Gender (5 EU Donors) – (approx 6 full time staff)	Netherlands (9 sectors)
Governance (9 EU Donors) – (approx 35 full time staff)	Italy (9 sectors)
Health (7 EU Donors) – (approx 20 full time staff)	Ireland (6 sectors)
Infrastructure (5 EU Donors) – (approx 22 full time staff)	Sweden (8 sectors)
Trade (6 EU Donors) – (approx 55 full time staff)	Germany (5 sectors)

Source: Development Assistance Group (DAG) Division of Labour Questionnaire

Table 18 above shows how the Division of Labour can be a problematic process in countries with a high level of proliferation and how, perhaps, pooling funds may be a more efficient mechanism. In the case of the European donors selected, it is very difficult to find any clear behavioural dynamic that could be systematized, or in other words, to find clear affinities in terms of the practical arrangements that follow development goals. The following example shows the great gap between theory and practice, between broad political commitments at European level and day to day work at partner country level. It exemplifies the difficulties in bringing together those practices into a more coherent and systematic approach.

As stated in the Member States responses to the Monterrey Questionnaire, Ethiopia is a priority country both for France and for the UK. On one hand, France is a very small donor in Ethiopia. Its share of CPA was about 17 million USD in 2007, or less than 1 percent of the total CPA provided to the country. However, it is active in 12 sectors, employs more full time resources than any other donor (approximately 150 people) and has a portfolio of around 109 ongoing activities.

On the other side of the European spectrum we have DFID. The UK is the largest bilateral donor, with almost 250 million USD in CPA for 2007. DFID is only involved in two sectors; it has only around 20 full time people employed and finances approximately 45 projects.

The diversity in the way European donors operate brings about difficulties to identify gains in terms of aid effectiveness, but at the same time calls for putting into practice some of the rationalization efforts brought about by the Division of Labour. Table 19 illustrates the challenges to a more “coordinated” approach to sectors. In few words, too many countries want to lead; too many countries want to be present.

Table 19 In how many sectors do EU donors want to lead/be active?

Country	Lead	Active	Total
Austria	0	3	3
UK	1	3	4
Finland	2	1	3
France	1	4	5
Germany	5	1	6
Ireland	5	0	5
Italy	2	3	5
Netherlands	5	2	7
Spain	2	1	3
Sweden	0	3	3

Source: DAG Division of Labour Questionnaire

Overall, while there is a clear rationale for increased cooperation at “technical level”, both political “manoeuvres” and many long-established routines persist – including the “visibility” issue – and reduce the chances to advance in a more efficient use of aid.

3.2.5 Ethiopia and the Paris Declaration

Ethiopia is an important country to test the feasibility of the Aid Effectiveness agenda. The large number of donors illustrates both the challenges and the opportunities that arise from following the agreed commitments. In Ethiopia, the creation of the Development Assistance Group (DAG) in 2001 provided a good platform to share information, expertise and ideas between the donor community and the government and to advance in higher levels of cooperation and coordination. The following box shows that there have been some advances.

Box 14 Ethiopia's progress towards the Paris Declaration targets

- **Ownership:** Donors are organized around GoEs' Plan for Accelerated and Sustained Development to End Poverty (PASDEP) and the thematic working groups now have Government counterparts and in some cases are chaired by the Government.
- **Alignment:** Progress is evidenced by (a) multi-donor programs that aim to support improved public financial management; (b) a larger percentage of aid that is reported on the Government's budget; (c) a decrease in the number of parallel project implementation units; (d) the latest OECD figures showing 96 percent of aid demonstrates in-year predictability; and (e) OECD figures also showing that 98 percent of aid is untied in Ethiopia.
- **Harmonization:** OECD data reveals a number of indicators which reflect greater harmonization in the country. These include: (a) 53 percent of aid delivered in the form of program-based approaches; (b) 27 percent of all donor missions are joint; and (c) 50 percent of donor analytical work is joint.
- **Managing for results:** DAG thematic working groups have been asked to systematically report on sectoral results, which will be posted on the new DAG website. The revitalization of the High Level Forum and the inclusion of Government representation in all Thematic Working Groups (TWGs) will make it easier for Government to assess donor performance.
- **Mutual accountability.** The revitalization of the High Level Forum and Harmonization Task Force along with inclusion of Government representation in DAG TWGs will also improve mutual accountability.

Source: OECD-World Bank

This section describes the evolution in a number of areas relevant to the PD, which have been measured. Additional coordination between donors should reduce unnecessary costs and lead to substantial improvements in financial terms and in the quality of aid.

(a) *Programme based aid*

It has been repeatedly mentioned in this study that lack of coordination between donors lead to increased costs both for donors and partner countries as it fosters a general multiplication of efforts, ultimately leading to a steep increase of the transaction costs related to managing aid. This is the case when a large number of individual projects are taking place. In this regard, the establishment of common arrangements within programme based approaches (PBAs) is one of the dimensions stressed in the Paris Declaration.

The suspension of budget support after the 2005 elections was a major blow for achieving higher levels of harmonization. However, the progress in terms of using programme based is certainly on the right track, having already reached the 2010 target. The government and donors are working towards establishing sector-wide approaches (SWAs) in several sectors and the donor Development Assistance Group (DAG) has a mechanism for pooling funds to support joint donor initiatives. Table 20 shows the general progress among the chosen EU donors and the overall result for the donor community, which clearly depicts a positive trend.

Table 20 How much European aid is programme based in Ethiopia?

Country	Total Aid Disbursed (mUSD)	2005 (percent)	2007(percent)
Austria	4	-	0
Belgium	9	-	45
EC	304	31	82
Finland	12	33	25
France	12	0	0
Germany	63	16	21
Ireland	48	22	67
Italy	94	14	25
Netherlands	45	68	17
Sweden	40	55	78
UK	195	100	87
Total above EU donors	826	30	45
Total donors	1986	53	66

Source: OECD (2008b)

(b) *In country analytical work*

Country analytical work is one of the areas where it is generally agreed that more progress should take place. In the case of Ethiopia, the EU donors studied in the previous table have generally reported considerable progress towards increasing joint country analytical work. The OECD 2008 survey to monitor the Paris Declaration identified that 22 out of the 33 “studies” undertaken in 2007 were coordinated, leading to a general improvement in terms of policy dialogue, avoiding duplication and curbing transaction costs.

(c) *Joint missions*

According to the 2008 Survey on Monitoring the Paris Declaration those EU countries sent a total of 63 missions. Out of that number, 34 - a bit more than half - were already coordinated. This is certainly more than the rest of the donor community, where 49 missions were coordinated (34 EU donors) out of a total of 221.

It is worth mentioning that the figures expressed above, both in terms of analytical work and missions undertaken by EU donors are incomplete. This is for two reasons. On one hand many active EU donors (even with small budgets) are not recorded. On the other, the definition of a mission and the way it is recorded varies from country to country and very often does not include programming, monitoring, evaluations, etc, which are even more cost-intensive than official visits to partner governments.

(d) Project Implementation Units

One of the most successful factors recorded in the “rationalization” of aid practices in Ethiopia has been a rather “drastic” reduction of PIUs. The Paris Declaration encouraged donors to “avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes” as they generally contribute – among other things - to weakening national capacity building efforts and diminish the level of accountability in development activities.

In Ethiopia the evolution has been very positive in this regard. While in 2006 Ethiopia hosted a total of 103 PIUs, this number was almost halved in 2008, registering 56. The European donors did not account for many of them. However, their progress in this regard has been rather poor, passing from a total of 19 PIUs in 2005 to 17 in 2007.

(e) More predictable aid

Ethiopia is heavily dependent on external financing. The likelihood of having reliable information in terms of the size and time of aid disbursements is of essential importance to manage public finance and elaborate realistic development plans.

However, the way predictability is measured varies producing different results. According to the OECD Survey that monitors the progress of the Paris Declaration, the government recorded 96 percent of scheduled disbursements to Ethiopia in 2005. In 2007, predictability fell to 73 percent. Another concrete example shows that between the year 2000 and 2006 only one fourth of the commitments of Ethiopia’s IDA credit portfolio were disbursed as planned giving a very different impression of the predictability of aid in the country.

If we continue with the measurement that we have used in this study, we understand that the lack of multi-year predictability of funding long-term development programmes reduces the value of the funds by between 10 and 20 percent (see Section 4.5). If this were applied to the EU and EC CPA for the year 2007, it would result in approximately between 90 USD and 180 USD million USD per year or an amount of 450 USD and 900 USD million in the period between 2008 and 2012.

3.2.6 Conclusions

Aid to Ethiopia shows several lines of progress in terms of the Aid effectiveness agenda and still, an enormous room for improvement. The barriers to effective aid created by a large number of donors, leading to more than 3000 ongoing activities, should promote increasing levels of cooperation at the “technical” level, through increased use of PBAs and a reduction of project-based activities with their associated transaction costs. More coordination among donors and higher levels of harmonization are the subject of recurrent debates. While plenty of it happens at theoretical level, through the DAG working groups, a clear political push should occur to turn it into practical realities that should strongly improve use of aid in the country.

All in all, the combination of a more sensible use of country offices in accordance with the principles of the Division of Labour, the reduction of the large number of projects into common programmes or funds and the improvement of aid predictability could already result in substantial savings for the years to come, in the range of 150 USD million per year, with an enormous potential for gains out of higher degrees of technical coordination through common programmes and funds. This, in turn, would lead to other qualitative gains like partner governments facing less reporting requirements or other administrative or staff time related costs arising from dealing with many donors.

3.3 CASE STUDY NO. 3: MOZAMBIQUE

This case study comprises purely office-based research using the literature, official aid statistics and the Mozambique online aid database.

3.3.1 EU donor proliferation

Mozambique presents an extreme example of donor proliferation. The existence of a country database of donor-funded activities enables us to obtain better detail on activity number, cost and modality than is possible globally using the CRS. We use this case study to look at sectoral proliferation in more detail and to look also at the effects of extreme proliferation on attempts to improve harmonisation and alignment through the use of programme-based-approaches.

First we present some aid statistics for Mozambique (see Box 15). These indicate firstly that **the EU donors together are by far the most significant providers of ODA** and secondly that Mozambique is a highly aid dependant country.

- OECD data tells us that in Mozambique in 2007 46 bilateral and multilateral organisations provided country programmable aid of which **18 were EU donors**.
- **12 EU donors have designated Mozambique as a priority country** and 13 or 14 of them have a representation in the country.

Figure 5 presents a breakdown of EU country programmable aid in Mozambique by donor for 2007. **Eight EU donors together provide less than 10 percent of Mozambique's EU CPA.**

There are two sources of information on ODA in Mozambique: the DAC CRS and the local donor coordination database 'ODAMAZ'⁶⁵. The ODAZ database includes about 626 million USD (as compared to a CRS figure of USD 963 million, see above) of EU aid disbursed in 2007 of which about 444 million USD is sector-allocable, 162 million USD was general budget support and 19 million USD is emergency aid, administration and other. Overall 561 EU sector-allocable aid activities/projects were reported to be on-going in 2007, involving 15 EU donors⁶⁶. The CRS coverage is similar including about 447 million USD of sector-allocable aid and 223 million USD in general budget support. This suggests that the ODAZ database is reasonably complete. It has the advantage over the CRS of including information on modality and there is a greater aggregation of aid activities.

⁶⁵ <http://www.odamaz.org.mz/reports/indexsub.asp>

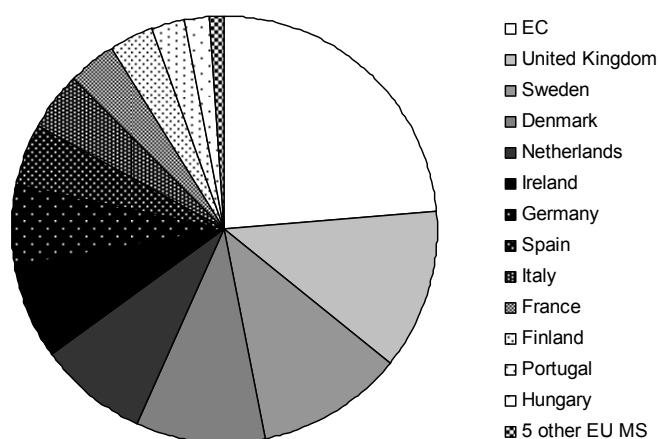
⁶⁶ Flanders is recorded as a separate donor in the ODAZ database.

Box 15 Aid volumes in Mozambique for 2002

- Total Net bilateral ODA 1400 million USD
- EU Net bilateral ODA 963 million USD or about **69percent total net bilateral ODA**
- EU Grant ODA 910 million USD
- Total CPA (all donors) – 1600 million USD (1240 billion USD from bilateral donors only)
- EU CPA – 939 million USD or about **75percent total bilateral CPA**

“In 2007 Mozambique received 1.4 billion USD in foreign aid of which USD 375 million was provided as budget support. Total foreign aid made up half of the fiscal budget” (Development Today 2009).

Figure 5 Breakdown of country programmable aid provided to Mozambique in 2007 by EU member states and the European Commission.



3.3.2 Sector proliferation is high even when sectors are narrowly defined

Donor proliferation by sector can be measured using disbursements or commitments. Here rather than DAC *sector codes* which we used for the global analysis, for Mozambique we use DAC *purpose codes* which are far more detailed in terms of the area of activity described. The CRS disbursement data indicates large numbers of EU donors concentrated in a number of narrow sectors. For example in 10 sectors there are eight or more EU donors. Whilst these include some quite general categories such as rural development they also include more specific ones such as water and sanitation, HIV control, strengthening civil society, government administration, vocational training, primary education, economic and development policy, health policy and higher education. However disbursement data include records for projects which are coming to an end, and do not reflect forward-looking policy. Thus in Table 21 we present purpose-level CRS Commitment data showing new commitments made in 2007 alone⁶⁷. This is shown alongside figures from ODAMOZ on the number of donors declaring an activity to be running in 2007 (start and end dates include some or all of that year). We can see that the ODAMOZ database reports high levels of EU donor proliferation in HIV, vocational training road transport government administration and public sector financial management. CRS commitment data

⁶⁷ The data are shown for all sectors in which more than 3 EU donors are engaged. For data on all sectors see table in Annex 1.

indicate similar levels of proliferation for the future. On the other hand some sectors such as forestry, fishing and population policy are poorly represented with only 1 or 2 donors including the EC (see Annex 1).

Table 21 Sectoral proliferation in Mozambique using purpose codes

Data from CRS: New commitments made in 2007		Data from ODAMOZ: Activities running over 2007	
Sector	Number EU donors	Sector	Number EU donors
STD CONTROL INCLUDING HIV/AIDS	10	Rural development	10
GOVERNMENT ADMINISTRATION	9	General budget support	10
RURAL DEVELOPMENT	8	Public sector financial management	9
STRENGTHENING CIVIL SOCIETY	8	STD control including HIV/AIDS	7
EDUCATION POLICY & ADMIN. MANAGEMENT	7	Government administration	7
HIGHER EDUCATION	6	Road transport	7
GENERAL BUDGET SUPPORT	6	Agricultural development	6
ECONOMIC AND DEVELOPMENT POLICY/PLANNING	6	Education facilities and training	5
PUBLIC SECTOR FINANCIAL MANAGEMENT	6	Vocational training	5
BUSINESS SUPPORT SERVICES & INSTITUTIONS	5	Higher education	5
WATER RESOURCES POLICY/ADMIN. MGMT	5	Health policy and administrative management	5
SOCIAL/WELFARE SERVICES	5	Basic health	5
PRIMARY EDUCATION	5	Basic health care	5
TEACHER TRAINING	5	Basic health infrastructure	5
CULTURE AND RECREATION	4	Strengthening civil society	5
BASIC DRINKING WATER SUPPLY AND SANITATION	4	Agricultural land resources	5
SOCIAL MITIGATION OF HIV/AIDS	4	Education policy and administrative management	4
AGRICULTURAL POLICY & ADMIN. MGMT	4	Primary education	4
VOCATIONAL TRAINING	4	Medical services	4
EDUCATION FACILITIES AND TRAINING	4	Infectious disease control	4
BASIC HEALTH INFRASTRUCTURE	4	Economic and development policy/planning	4
BASIC HEALTH CARE	4	Legal and judicial development	4
MEDICAL SERVICES	4	Social mitigation of HIV/AIDS	4
TOURISM POLICY AND ADMIN. MANAGEMENT	4	Agricultural policy and administrative management	4
HEALTH POLICY & ADMIN. MANAGEMENT	4	Sectors not specified	4

It is possible that much of the sectoral ODA listed above is given through delegated cooperation, which would greatly reduce sectoral transaction costs. However evidence from Killick *et al.* (2005)

suggests that such cooperation is rare in Mozambique. In 2004 only 3 EU donors were involved in such arrangements, although 3 others indicated plans for 2005-6. Adoption of other joint procedures was also poor according to the study. However the data from ODAMOZ can be aggregated also by modality, including projects SWAs, common funds, technical assistance and general budget support. **This reveals that in Mozambique much of the sectoral proliferation seen can be attributed to multiple donors contributing to pooled funds and SWAs.** These by definition help to align procedures but, although this is positive for aid harmonisation, even proliferation through these channels can have its costs as we will see.

3.3.3 Project number and size in Mozambique

In the ODAMOZ database not all EU donors reported disbursement information for all activities listed for 2007. For those that did, data on activity costs are provided in Table 22. Using sector-allocable aid only, 433 development activities were listed distributing a budget of 445 million USD. The average contribution per donor to each sector was 2 million USD and the average size of each activity was 1 million USD. The activity data tend to be aggregated at a higher level than that of the CRS, implying a greater probability that each is really a separate development activity or project⁶⁸. Interestingly general budget support activities come out at an average size per donor of 18 million USD, again indicating huge economies of scale compared to project aid, as we saw in Section 2.6.

Table 22 Numbers and average costs of development activities finances by EU donors in 2007

Number donor-sectors (sector allocable only)	Total disbursements mUSD	Number of development activities listed with disbursements given for 2007	Average size of total disbursements per donor per sector mUSD	Average size or disbursement per donor per activity mUSD
221	445	433	2.0	1.0

We also looked at the number of EU aid activities prepared per year for Mozambique. The average length of sector-allocable activities listed in the ODAMOZ database is 44.8 months, or 3-4 years. Over the life of all these activities the average disbursement per year per activity is 1.1 million USD, which is close to the estimate for 2007 disbursements given in Table 22. **Given that there were 561 EU donor activities running in a single year (2007), this implies that between 100 and 200 are prepared per year by EU donors.**

3.3.4 Despite progress, the project approach still dominates

The ODAMOZ database provides statistics on the type of aid activities and volume of disbursements given during 2007. This information is summarised in Table 23 and Figure 6 and tells us the following:

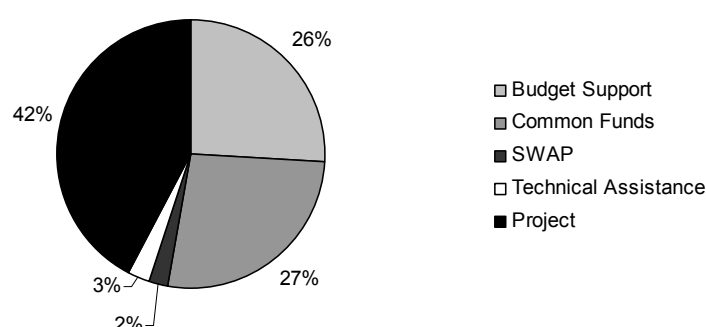
- The project approach is still the dominant funding modality. In 2007 EU donors prepared over 360 projects outside government systems. In addition the OECD survey reports that there are still 12 EU parallel PIUs in Mozambique in 2007 (OECD 2008b).
- The data give us some idea of the economies of scale obtained through common funds and SWAs. For example, average disbursements to the 11 common funds listed were 4.4 million USD per EU donor. **Whilst still 4 times lower than GBS disbursements, they are five times greater than average project disbursements** which were 0.7 million USD per EU donor per project. The average size of GBS disbursements is close to the global figure presented in Figure 2 (Section 2.6)

⁶⁸ The figure for average activity size from the ODAMOZ database (1 million USD) is slightly higher than the global averages estimated from the CRS (see Box 6) which was 0.6-0.8 million, but both are in a similar order of magnitude.

Table 23 Percentage of EU ODA given through various aid modalities in 2007 (Source: ODAMOZ)

Funding Type	Total EU disbursements 2007 mUSD	Number of activities given	Average cost of activity mUSD
Budget Support	162.1	9	18.0
Common Funds	166.9	38.0	4.4
SWAP	14.7	9	1.6
Technical Assistance	17.0	53	0.3
Project	263.6	367	0.7
Studies	2.0	14	0.1

Figure 6 Aid modality figures as proportions of total aid



3.3.5 The use of budget support is undermined by donor proliferation

A number of recent studies have looked at some of the advantages and transaction costs of budget support and other programme approaches in Mozambique. A review of these studies suggests that these advantages may be seriously undermined when there are 'too many donors at the table'.

The large Joint Evaluation of General Budget Support, which included a Mozambique case study, gave GBS there a generally good review (International Development Department and Associates (2006). They authors concluded that many of the transaction costs associated with the transition to GBS and development of partnership structures will exhibit positive externalities in the longer term, such as improved coordination between the Ministry of Planning and Finance (MPF) and line ministries, strengthened monitoring and evaluation systems and better safeguards against misuse of funds. The transaction costs are now incurred more heavily by the MPF but without any significant reduction in costs to line ministries owing to the continuation of other aid modalities. In addition many donors still continue to use individual criteria laid out in bilateral agreements to guide disbursement decisions and this reduces the predictability and harmonisation usually associated with budget support (Development Information Services 2006). These two points are also reiterated by the Mozambique government itself (in Killick *et al.* 2005) – it stresses that the co-existence of GBS with other aid modalities prevent the full benefits of DBS from being achieved and cites the large number of performance indicators and individual donor exceptions.

DBS does not seem to result in streamlining of missions, in 2004 the G-16 donors (those then providing budget support) **between them sent 143 missions to the country of which 111 were made by EU donors** (Killick *et al.* 2005). Although many of these missions were jointly organised, this still represents an extraordinary **2.5 missions per week**.

In a review of donor management of general budget support in Mozambique the Auditors General of Denmark, Sweden and Norway criticised the growing bureaucracy around GBS there (Development Today 2009). **They stated that 375 million USD was provided as budget support by sixteen bilateral donors and three multilaterals (World Bank, EC and African Development Bank).** These donors operate as a joint donor group in negotiations with the government. In addition to a joint secretariat and steering committee the donors have set up **28 working groups involving 360 officials**⁶⁹. A similar number of staff is involved on the Mozambique side. The authors conclude that the burden of managing budget support programmes, in particular monitoring mechanisms have become too onerous. Decision making is also affected. Killick *et al.* (2005) suggest that within the 'G-16' group of GBS providers there are some who subscribe only to a limited extent to the desirability of the GBS modality and principle of mutual accountability and who pay a minimal subscription in order to 'buy a seat at the table'. They comment on the fact that smaller GBS donors are able to exert pressure on policy (and thus slow down decision making) to the same extent as larger ones.

3.3.6 Unpredictability has serious macro-economic consequences for Mozambique

The Performance Review of Aid Partners (Killick *et al.* 2005) suggests that the number of multi-annual arrangements is increasing but most of these are still only for two years. Whilst some reported delays were due to perceptions of poor performance by government, others were experienced due to donor systems – overdue audits, lack of a new government agreement, late decisions by national donor government and administrative requirements at HQ. The consequences as perceived by the Mozambique government are as follows:

- Cuts in overall expenditure, particularly of investment;
- Increasing domestic debt and debt service;
- Costly emission of treasury bills;
- Increase in interest rates;
- Monetary and exchange rate instability.

In particular the government blames donors for the lack of clarity and harmonisation with respect to criteria that have to be fulfilled for disbursements of take place.

3.3.7 Conclusion

Overall we can see that although Mozambique is one of the best examples of donor coordination with a donor coordination platform, good database and a long history (and relatively positive experience) with budget support. However donor proliferation and continuation with project modalities weakens these positive aspects. High numbers of donors each with their own prerogatives undermine budget support which becomes difficult to manage. The literature reviewed here concluded that programme arrangements only work where donors are committed to them. Wide membership combined with lack of common views make these arrangements unmanageable. This commitment to procedures and policies is difficult to obtain through voluntary codes of conduct unless government leadership is strong and accountability mechanisms are put in place.

Table 24 below presents some possible savings of aid effectiveness measures for Mozambique. These savings were calculated on data for 2007 and are presented also as percentages of CPA for that year. It should be noted that the costs presented here cannot necessarily be summed to find an overall total figure of possible savings. Savings made by reducing fragmentation and increasing use of programme-based approaches are particularly likely to overlap.

⁶⁹ The review processes for the GBS Performance Assessment Framework involve 23 working groups each of which invariably results in a long list of recommendations for the government to act upon (Martinez 2006).

Table 24 Estimates of possible savings to be made in Mozambique through the use of aid effectiveness measures.

Estimation type	Source of data to which calculations applied	Minimum costs		Maximum costs	
		million Euro	As percent CPA 2007	million Euro	As percent CPA 2007
Division of Labour and greater use of programme approaches					
Cost of 9 surplus offices (i.e. consolidation to 5 EU donor representations) (note 1)	EU donor websites	9	1.3%	18	2.6%
Cost of 63 uncoordinated missions (note 2)	OECD Survey (2008b)	1	0.1%	1	0.1%
Cost of 12 uncoordinated analyses (note 3)	OECD Survey (2008b)	0.3	0.0%	1	0.1%
Savings made on the administration costs of 100 million Euros of 'minor' donor programmes (the 130 donor programmes over and above 3 EU donors per sector) if these were implemented through delegated cooperation (note 4)	CRS	5	0.7%	8	1.2%
Saving made if the 205 million Euro currently disbursed through projects and TA was all disbursed through budget support. (note 5)	ODAMOZ	10	1.5%	16	2.4%
Tied aid					
15-30% of 28 million (note 6)	CRS	3	0.4%	6	0.9%
Predictability					
10-20% of total Mozambique CPA (note 7)	OECD	69	10.0%	137	20.0%

Note 1: Using office costs as estimated in Section 5.1.2. It might be argued that closing some offices implies that remaining offices must employ extra staff. However there are huge differences in aid disbursed per staff member between EU donors. For example, in Ethiopia EU donor disbursement efficiency varies between 8 and 0.5 million Euro per staff member.

Note 2: Using mission costs as in Section 5.1.3

Note 3: Using costs of analysis as in Section 5.1.3

Note 4: Using methodology given in Section 5.2 of this report. In Mozambique there are 100 million Euro in minor sectoral programmes with an average size of <1 million Euro compared to an average programme size of 4 million Euro for the 3 largest donors in each sector (a programme here refers to the sum of all funds disbursed by a donor in a sector regardless of the number of 'aid activities' they are funding in that sector). These savings partly duplicate those given below (*note 5*) as most of the minor donors in each sector are funding stand-alone projects whilst many of the major donors in each sector are in fact engaged in DBS, SWAs or Common Funds (which average 4 million Euro each or 13 million Euro for DBS).

Note 5: Using methodology given in Section 5.6 which estimates that perhaps 50% of administration costs on the 205 million Euro could be saved if the funds were disbursed through direct budget support programmes with small numbers of donors. ODA data suggest that each year 100-150 stand-alone projects and 10-20 large programmes are prepared by EU donors. Reducing the number of the small projects and incorporating them into the larger programmes would also incur lower total preparation costs. Such savings are assumed to be part of those given here.

Note 6: Using 15-30% cost of tied aid from Jepma (1991) as discussed in section 5.4. This is low and does not apply to the 17 million Euro ODA disbursed as technical cooperation according to ODA data. Much more than 30% of those funds are likely to be tied.

Note 7: From Kharas (2008) as described in Section 5.5

EU aid represents 70 percent of bilateral ODA and more than half of the donors involved in direct budget support programmes are EU member states. The major finding of this case study is that donor harmonisation and alignment with government systems through participation in budget support is not enough. Mozambique would be better served by a decrease in the number of EU donors present combined with more delegated cooperation.

4. EXTRAPOLATION OF COSTS TO EU LEVEL

In this section we use the items identified in Section 2, and costed by using estimates obtained from donor information and country case studies, to scale up the costs of ineffective aid to a global EU level in order to postulate a total⁷⁰ minimum cost. However a number of conceptual problems need to be considered when trying to quantify transaction costs (Brown *et al.* (2000):

- **Additionality** - many of the management activities relating to ODA implementation and now born by the donors, would have to be undertaken by the government itself, if the activities were financed directly through the government's budget. Thus reducing donor costs may increase those of the government. This applies to costs such as audits, procurement, reporting and monitoring. **In addition many of the costs calculated may overlap.** For example, duplication in preparation of country strategies generates higher mission costs, sector and country proliferation both incur costs such as duplicated administration and country office budgets.
- **Distinguishing between costs and benefits** – some overhead costs, e.g. PIUs and embedded advisors, may be regarded as aid delivery, and be seen to bring benefits in terms of capacity building. What might be transaction costs for governments in terms of negotiation of country strategies may be seen as benefits to donors with positive policy results. Another example is the transaction cost of setting up a General Budget Support programme, which are high initially but which bring important benefits in the long term.
- **Last, many indirect and important development opportunity costs are extremely difficult to calculate in financial terms and not included in the scope of this study and are not included in the analysis here.**

4.1 COUNTRY LEVEL DONOR PROLIFERATION

In section 2.1 we identified costs of country level proliferation associated with **Country Strategies, Country Offices and Missions**, all of which can be duplicated or uncoordinated. These costs are quantified below.

4.1.1 Duplication of Country Strategy Processes – Joint Multi-annual programming

It can be estimated that some 500 country strategies (CSP, equivalent) are regularly prepared by the 25 EU donors across the 151 listed DAC recipients with another 130 prepared by the EC. As discussed in Section 2, it has been difficult to obtain verifiable cost data (staff time, studies, analyses, workshops, negotiations etc.) associated with the production of the CSP. We obtained estimates of the cost of country strategy formulation from one donor only. This estimate was around 180,000 Euro including assessments, missions and work time of staff at HQ and country offices. Other donors have estimated that costs of preparing, drafting and processing a new CSP would be likely not to exceed USD 0.5 million (0.35 million Euro), but often less. Theoretically it could be argued that, if only one, common EU strategy were to be negotiated per recipient country, this would leave between 400 and 450 'superfluous' strategy processes. Using the one estimate given, the cost of these superfluous documents would come to between **140 and 150 million Euro per year**, assuming a CSP annual review process. However, given that many EU donors may have differing country priorities the need for individual strategies is likely to remain. Nevertheless, there would seem to be significant scope for implementing more widely a common multi-annual programming framework among EU donors, with potential cost reductions in the order of magnitude of up to Euro 100 million per year. It should be underscored, however, that most of these costs consist of staff time, thus such savings are not additive to other savings.

⁷⁰

While most of ODA costs are provided in USD, they are here converted to Euro using the average exchange rate for 2007 of 0.73 Euro to the USD (from European Central Bank statistics), <http://www.ecb.int/stats>.

4.1.2 Duplication of Country Offices/representations

It was calculated in Section 2.1 that, based on a hypothetical norm of not more than 5 EU donor offices per country including that of the Commission, then there could be up to 100 surplus offices in 38 countries⁷¹. If EU members were to agree on more consolidation to no more than 3 offices, including that of the Commission, per partner country there would be 217 surplus offices in 63 countries. It is estimated (as shown in Table 5) that the mean staffing of donor offices are around a staff complement of between 4 and 8 international officers and a similar number of national officers⁷². Overall data reported by donors suggest that an average cost to ODA of a donor office is likely to fall between 1.5 and 2.5 million USD per year (or between 1 and 2 million Euro)⁷³. Based on these data **the cost of 100 to 200 surplus offices would therefore lie at between 100 and 400 million Euro per year. While there would undoubtedly be a need to strengthen the remaining consolidated offices, this would imply potential net savings from a consolidation to 300 EU donor offices worldwide of more than Euro 100 million per year.**

4.1.3 Duplication of Missions and Studies

The 2008 survey monitoring the implementation of the Paris declaration reported 2,282 uncoordinated field missions and 487 uncoordinated studies in 2007, across 55 countries by EU donors (OECD 2008b). The total figure across all 151 DAC recipients would be much higher. The survey data revealed a median number of uncoordinated missions per country of 33. This could imply about 4900 uncoordinated missions over 151 countries. A typical mission cost from a donor HQ estimated at about 9,000 Euro⁷⁴, thus 4,900 uncoordinated missions **could cost between 40 and 50 million Euro per year.**

Regarding reviews and analysis work there was a median number of 8 EU uncoordinated studies per survey country, which would imply up to 1200 uncoordinated EU studies for all 151 DAC recipient countries. Analysis costs are highly variable. Estimates were given from 20,000 to 100,000 Euro per study⁷⁵. Data on studies from the ODAMOZ database (see Table 22) suggests that about USD 100,000 (or 75,000 Euro) may be a reasonable estimate for one such study. These figures imply a range of 25 to 120 million Euro per year for 1200 uncoordinated studies with costs around **90 million Euro per year.** However it should be cautioned that many studies and missions cannot be consolidated, either in time or by subject, as they may be required by one donor only. These mission costs might also overlap with those of strategy and project preparation given below.

4.2 SECTOR LEVEL DONOR PROLIFERATION

In Section 2.2 we indicated that the total amount disbursed in 2007 by 'minor EU donors in a sector' globally was 2.1 billion dollars out of a total of 18.3 billion disbursed by all EU donors in the analyzed sectors. It can be estimated that, if these funds were disbursed through scaled-up delegated co-operation arrangements and/or JFA, it could be possible to reduce overhead costs on this USD 2.1 billion. Donor administration costs, as reported to DAC for 2007, amounted to 8 percent of CPA and about 5 percent as measured against total bilateral ODA (see Box 2). Thus we may estimate that administrative costs of between 5 percent and 8 percent of the 2.1 billion USD could be saved by

⁷¹ The estimate of five is given in Mürle (2007) who has suggested that the presence of more than five EU donors in a developing country is likely to lead to deterioration in aid effectiveness.

⁷² The cost of an expatriate staff member based on figures from five different donors is between 100,000 and 200,000 Euro per year. The cost of 8 staff members is thus between 0.8 and 1.6 million Euro per year which represents minimum costs. The cost of expatriates in some of the larger offices visited in case studies is likely to come to more than 1.5 million Euro.

⁷³ These costs include international staff, locally recruited staff and office overheads.

⁷⁴ Based on missions of 5 days, 2 officials of EC salary grade 8 travelling business class with a per diem of 150 Euros per day.

⁷⁵ Maximum is based on Aidco Results Oriented Monitoring missions of 10 monitors for 10 days travelling business class with per diems of 150 Euros per day, and fees of 600 Euros per day. The minimum is for other types of consulting mission which have similar costs but which typically involve 2 consultants.

consolidation or scaling-up of these projects into larger, sector-wide programmes. Such “savings” could amount to between **80 and 120 million Euros per year**.

4.3 FRAGMENTATION OF AID ACTIVITIES

4.3.1 Project preparation costs

The DAC CRS database suggests that, in 2007, some 22,000 new commitments (here interpreted as projects or ‘aid activities’) were approved (and a similar number presumably evaluated or reported upon completion) in that year. Most of these were, presumably, prepared/formulated by staff in the country office (in close consultation with the partner country). It is estimated that such staff time (estimated at 4 person-months per project, or approximately 40,000-60,000 Euro) plus a consultant mission (50-80,000 Euro) provides an estimate of a cost per project preparation of around 90 - 140,000 Euro. This implies a total annual cost to all EU donors for project preparation in the magnitude of **1.9 – 3.0 billion Euro**.

Were these 22,000 new ‘projects’ hypothetically to be consolidated into a maximum of five sector/theme programme support projects per EU partner country (151 DAC defined eligible recipient countries), or 755 Sector Support Programmes, estimated at requiring up to 0.7 million Euro per programme and year, the total costs would be in the magnitude of **500 Euro million per year** (of which a significant portion would overlap with office staff costs).

4.3.2 Project implementation costs

It is difficult to quantify the costs of aid fragmentation during implementation because, although it seems logical that a smaller number of larger projects would result in lower overheads, data to establish relationships between project size and administrative costs are not available. Equally, global data for the number or costs of audits and evaluations made by EU donors are not easily available. It should be noted, however, that where project implementation is delegated (sub-contracted) to multilateral and bilateral agencies, overhead reimbursements for TA projects vary between 6 and 12 percent of disbursed funds for TA. Rates for Financial Aid (FA) tend to be around 3- 6 percent. Where implementation is sub-contracted to private organisations (consulting firms, NGOs etc) implementation overheads (margins) are included in the costs of the project (and thus not reported as administrative costs). ‘Normal’ overheads/margins for implementation of TC projects by private organisations can be estimated at 10-30 percent of project costs.

Costs for operational and/or financial completion and closure of projects/programmes are not systematically recorded. While audit costs (rarely exceeding 10,000 USD per project) are normally included in project budgets, post project evaluations tend to take place only after the closing of project accounts and are therefore mostly undertaken as separately funded and independent exercises. Such evaluations tend to vary significantly in scope and cost and no meaningful average cost illustrating savings from joint evaluations has been found. Still, given the magnitude of many thematic or institutional evaluations and that each donor tends to have established an independent evaluation institution with highly qualified staff, the costs can be assumed to be quite significant.

4.4 TIED AID

Table 8 in section 2.4 showed a number of estimates for the remaining volume of tied EU aid. Here we use the volume for Bilateral Grant ODA given by the CRS to calculate costs, as the CRS data shows a higher level of tying. **We calculate costs only on aid classified as tied, and not on that classified as partially tied** because the latter is open for procurement from most developing countries and thus is probably not included in the 15-30 percent cost estimate range given in the literature.

In 2007 tying status was reported to the CRS on USD 37,524 million of EU DAC 15 bilateral grant ODA. Of this amount **3,869 million USD** or approximately **10 percent** were reported as tied. Taking an estimate of 15-30 percent of losses associated with tied aid, a total loss of value in 2007 of

between about **400 and 800 million Euros**. This figure would be on the low side. Actual losses will be higher as this figure includes only part of EU technical assistance (of which far more than 10 percent is tied), nor does it include bilateral loans and credits for infrastructural investments, where a greater proportion is often tied to procurement from the donor country.

4.5 AID VOLATILITY/LACK OF PREDICTABILITY

Box 16 Imputed lost/aid*, average 1970-2006

As explained in Section 2.5 the major losses associated with aid volatility come from deadweight loss. We use data from Kharas (2008) who quantifies these losses by putting a price on the risk inherent in aid volatility. The author uses data from international capital markets, expressed using the Sharpe Ratio. This is the premium over a benchmark risk-free return demanded by investors per unit of risk associated with a cash-flow. Investors use the Sharpe Ratio to compute the certainty equivalence of cash flows and derive the value of the underlying asset. The model estimates

	Net bilateral ODA	CPA
World	0.148	0.166
EC	0.108	0.128
France	0.149	0.230
Germany	0.147	0.200
Netherlands	0.118	0.124
UK	0.145	0.148
Sweden	0.077	0.075
*volatility cost/loss per dollar of aid		

that **the imputed deadweight loss associated with aid volatility can be estimated at between 15 percent and 20 percent of the total value of ODA** in recent years. Globally at current aid levels, this would amount to around USD 16 billion. This would vary significantly with the level of aid dependency. In the case of Sub-Saharan African countries and some small Pacific islands, losses related to aid volatility have been reported to reach 7 percent of GDP.

Deadweight losses as a percentage of net bilateral ODA are given in Kharas (2008) for six DAC EU donors and the EC (shown here in Box 16). However deadweight loss is best calculated on CPA because this is the aid actually programmed to be spent in-country. The author's estimates of losses on CPA for the EU donors, given in the paper, range between 10 percent and 20 percent. Using this estimate, **losses due to the lack of predictability in aid flows from all EU donors could be estimated at between 2.3 and 4.6 billion Euro⁷⁶ per annum.**

An alternative estimate is given by Arellano *et al.* (2009) who use dynamic modelling to predict the impact of aid volatility on welfare measured in terms of household consumption. They estimate that more predictable aid flows would result in an 8 percent increase in the value of that aid. In terms of CPA this would correspond to **2.5 billion USD or about 1.8 billion Euro per year. For the purposes of this paper we are using the above estimate from Kharas (2008).**

4.6 COUNTRY SYSTEMS, GOVERNMENT OWNERSHIP AND CONDITIONALITY

As outlined in Section 2.6 we were not able to find literature which proved conclusively that use of programme approaches generates quantifiable savings which can be used for extrapolation. Likewise, we have some data from the PD surveys on number of parallel PIUs (see Box 9) but it has not been possible to find any relevant cost data. However both literature and data available suggest that transaction cost savings and economies of scale are greater for direct budget support than for other types of programme approaches. The percentage of EU ODA as (defined by the OECD survey) disbursed through DBS in the 55 survey countries in 2007 was 23 percent (OECD 2008b). Because the survey definition of ODA was very close to that of CPA, we can scale this up globally to 23 percent of global EU CPA in 2007, or approximately 7 billion USD⁷⁷. This leaves about 24 billion USD of CPA which is **not** disbursed through budget support. Potential savings could therefore be calculated on

⁷⁶ As shown in Table 1, CPA was **31,576** USD in 2007 (again EU DAC 15, EC and 4 other EU OECD emerging donors). Costs in USD are given in Table 24.

⁷⁷ This scaling up to the global level using data for 55 countries implies that those 55 countries are representative of global aid programmes and that they were chosen randomly. They were not, and a large proportion of them are aid dependant countries.

USD 24 billion, but it is unclear how much of it could, or should be disbursed through DBS. In some situations or countries DBS is simply not appropriate.

The Paris Declaration sets a target of 66 percent⁷⁸ to be disbursed through programme based approaches. Here we discuss a hypothetical case in which 66 percent of EU CPA is actually disbursed through DBS. For the EU donors this implies that to reach this target, a further 13.6 billion USD of CPA should be disbursed through programme-based approaches. We have two sources of evidence that if this 13.6 billion was disbursed through *direct budget support*, then savings could be made:

- i) Miovic (2004), quantified savings from DBS for World Bank DBS poverty credits in Uganda (see Box 10). For these credits it was estimated that preparation and supervision costs were 50 percent lower per dollar disbursed for DBS than for other projects, probably due to economies of scale.
- ii) Data from the Cambodian case study on GBS also suggests that, for *single donor programmes*, costs of preparation are in fact no higher than those of ordinary TC projects. Globally, EU GBS programmes are over 10 times larger than other project types and so economies of scale, and thus potential savings, may be large. *However there is some evidence that savings from multi-donor budget support programmes will be much lower.*

Applying the estimate from Miovic to EU aid, then perhaps 50 percent of administration costs of the 13.6 billion USD could be saved. Given a low estimate for administration costs of between 5 percent and 8 percent of CPA, then this could amount to **between 300 and 400 million Euros per year**. However these savings are on the donor side only and some of the savings in administration on the donor-side will reappear as costs on the government side. This may be partially compensated through reduction in use of donor procedures by government.

4.7 SUMMARY OF COSTS AND POTENTIAL SAVINGS

At this point it is important to highlight the problems of additivity and double-counting of costs. Most of the work done on programming (multi-annual, annual, sector etc), and design and formulation of projects is done by office staff. Therefore, counting office staff time as both 'office costs' and as the main cost item for preparing programmes and projects would imply double-counting. These costs are therefore shown in a separate column for 'non-additive' costs.

However even disregarding potential costs and savings of sector proliferation or common strategy preparations, which are confounded with other costs such as office staff and missions, our analysis still implies that **between 3 and 6 billion Euro of bilateral EU aid could be used more effectively every year**. This estimate does not include savings from the increased use of the Direct Budget Support aid modality, estimated at several hundred million Euro per year, as it is based on far too many assumptions to be included in the summary table. Such savings overlap with those, which might be made in project preparation if aid was less fragmented and channelled through larger sector programmes rather than through a multitude of free-standing, gap-filling projects. Such savings are of a similar order of magnitude but are equally not included in this table. Overall the figures given in the table below imply that the value of total EU ODA over a five-year period, could be increased by **between 15 and 30 billion Euros if EU CPA levels were to remain, at least, at 2007 levels**. This assumption reflects the ambition of this study not to exaggerate potential aid effectiveness savings.

⁷⁸ This 66 percent is given by the OECD as a percentage of ODA as defined in the survey which is close to that of CPA. Thus it does not correspond to 66percent of total ODA but only that which is country programmable.

5. SUMMARY AND CONCLUSIONS

The three High Level Meetings resulting in the Rome and Paris Declarations and the Accra Agenda for Action set in motion a major effort to reform the development cooperation system, especially at the development partner level. While some progress has been achieved towards more efficient and effective aid delivery, the general consensus among donors and development partners is that the system is still beset by serious inefficiencies, reducing the impact of aid. The objective of this study has been to shed some light in that direction, looking into both the quantitative and qualitative costs associated with “inefficient aid” and highlighting how increased coordination at the European level may provide a platform for a more value for money approach to aid.

The present study has investigated one of the areas in development cooperation where everyone agrees that more information and transparency is needed: the causes and costs of ineffectiveness in the aid system. No donors – or partner countries – have installed the type of management information systems needed to collect and analyze workload and financial data required for analysing the transaction and administrative costs (‘overheads’) associated with the development and implementation of their development programmes. Those costs, which could be quantified, mostly come from donor sources. It has, however, not been possible to find verifiable sources for quantitative, and even less for cost estimates for those transaction and administrative costs that are borne by partner governments. Equally, only a limited number of studies – mostly at a macroeconomic level – attempt to quantify costs associated with the proliferation of aid organisations or the fragmentation of aid flows into the tens of thousands of small ‘projects’ flooding the developing world. These studies, together with ODA data from the OECD-DAC, provide some basis for calculations that have enabled us to gauge the order of magnitude of the ‘losses’ incurred by the proliferation of donors, the fragmentation and the lack of predictability of future aid flows to a partner country.

Before reviewing the findings it is important to revisit the overall architecture of the ODA system. All Official Development Assistance funds (excluding private flows) emanate from annually appropriated national budgets of the 23 donor countries who are members of the OECD Development Assistance Committee (DAC) and, recently, from new emerging donors such as China, Republic of Korea, Brazil, Czech Republic, Hungary, Slovenia etc. It is important, therefore, to keep in mind that ODA does not consist of one single flow of aid funds, but distinct, separate flows from each donor. These flows are made in their own currencies and follow their own procedures as prescribed by laws and regulations for the use and accounting for public funds, sometimes though, with separate, specific laws regulating the management of foreign assistance funds.

The EU ODA amount most frequently quoted, annual net disbursements as reported to DAC by each EU donor, of USD 62.3 billion for 2007, is therefore only an ex post summation of total net disbursements made in 2007 40 - 50,000 ‘projects’ (programmes, activities, contributions etc.) in 151 eligible recipient countries and territories. Similarly, the 258.6 billion USD of EU ODA disbursed during 2003 to 2007 shown in Table 1, equally constitutes only an ex post summation of funds spent during that period by all EU donors for their efforts towards reaching the Millennium Development Goals by 2015, not the outcomes of any multi-year, proactive planning and budgeting process.

By far the highest cost associated with ineffective aid practices concerns a combination of volatility and lack of predictability of aid flows, especially in highly aid dependent countries, seriously reduces the value of these funds. Case studies and economic models indicate that, where reasonably secure multi-year funding commitments cannot be fed into the public finance management planning and budgeting system, the value of the foreign aid is reduced by 8 to 20 percent⁷⁹.

Multi-year reform and development programme investments need secure long term funding for optimal planning and implementation. In one case, Uganda, the government was reported to apply a discount factor of 35 percent to the budget for programmes funded by foreign aid, to account for the lack of predictability of this source of funding. The annual costs of unpredictable, volatile aid could be

⁷⁹ Again depending on model, country and definition of ODA, losses are estimated at 10-20 percent of EU Country Programmable Aid.

between 2 and 4 billion Euro for EU aid and add up to Euro 10 – 20 billion over a five year period. It should be noted that the EU guidelines for the third High Level meeting on Aid Effectiveness in Accra in 2008, call for member states to make efforts towards the establishment of a three year rolling planning system for CPA. However, the root problem of predictable aid flows must be sought upstream in the aid flow process, with the donors themselves and their national foreign aid legislation and policies. Equally, while donors can make legally binding funding multi-year commitments to the aid instruments of the EC budget, to EDF and to the multi-year replenishments of the IFI concessionary windows (e.g. the World Bank's IDA), bilateral aid is almost universally subject to annual budget approval by donor parliaments. A common (for EU MS) multi-annual strategy process (including cross- and in-country division of labour) might provide a mechanism towards a European approach for more predictability in aid flows.

The second largest source of aid effectiveness savings is through the elimination of remaining tied aid, to which a cost factor of 15-30 percent is attached. These costs arise through the purchase of goods and services in developed countries rather than in cheaper developing countries. At present around 10 percent of EU aid is still tied; most DAC members have made commitments to untie aid in the future but it is the one Paris Declaration commitment to which a quantitative target has not been attached. The costs of remaining tied EU aid may be estimated at 500 million Euro per year, or Euro 2.5 billion over a five-year period.

Third, the proliferation of donors, where EU donors between them count over 500 priority partner countries, raises questions of large scale duplication and overlap. Proliferation costs are associated with duplication of offices, missions, studies and country strategies. In around 40 countries over 5 EU donors maintain an office and staffing presence. At the sector level proliferation is rife. The EU code of conduct suggests that there should be no more than 3 EU donors per sector, but in 41 percent of all sectors disbursements were recorded from more than 3 EU donors in 2007. Forty five percent of all EU donor sector programmes account for only 12 percent of spending, indicating that there are considerable economies of scale to be gained from scaling up. Overall costs of duplication of strategies, missions, offices and studies can be estimated at between 200 and 500 million Euro per year. The burden on partner countries administrations from dealing with a large number of donors could not be quantified but every indication is that it is very significant.

Fourth, aid fragmentation is a major source of aid ineffectiveness. While the interpretation of data is complicated (terminology and definitions of reported activities/ investments/ contributions vary by donor), a reasonable interpretation is that the total EU bilateral ODA portfolio consists of between 40,000 and 50,000 aid activities (projects and programmes), up from 30,000 in 2003. The management cycle of these programmes and projects is at the core of development cooperation and occupies most of the time of donor staff, both at HQ and in the country offices, as well as of government staff. Consolidation and scaling up of projects into jointly funded sector and thematic programmes (as already under implementation by Germany, Denmark and other donors) is likely to produce significant savings in the cost of implementation of aid over the coming years. Given that current overhead reimbursement rates for project/programme implementation tend to be between 6 and 12 percent, such savings are likely to be very significant.

CRS data also imply that new funding commitments for around 20,000 new projects or programmes were approved in 2007. If we assume that one new funding commitment is equivalent to one new project or 'aid activity' then the total costs of preparation (design, formulation, appraisal, approval) of 20,000 new projects can be estimated at between Euro 1.9 and 3.0 billion.

This brings up the use of country systems and government ownership. Examples from development literature suggest that increased alignment through use of programme based approaches, in particular direct budget support, is likely to lead to significant qualitative, but non-quantifiable effects on planning and budgetary systems and to gains in allocative and operational efficiency. Savings in transaction costs have proved difficult to quantify and research suggests that these are, possibly, not the main benefit from multi-donor programme based approaches, which require significant upfront coordination work both among donors and for partners. It therefore appears that immediate savings may be greatest in the case of single donor direct budget support programmes. Data have not been available

to more accurately quantify cost differences between joint funding and single donor programme based approaches.

This again brings us back to donor proliferation. The major EU initiative to reduce donor proliferation is listed in the EU Accra drivers for progress is the Division of Labour initiative, embodied in the Code of Conduct for the Division of Labour. However, the benefits of such division of labour exercises extend beyond direct monetary savings. As described above, donor proliferation at country and sector level can undermine other items on the aid effectiveness agenda, such as increased direct budget support and scaled up sector programme approaches. Proliferation of donors can also weaken the aid effectiveness effort itself through escalating costs of coordination and reporting. 'Aid effectiveness fatigue' is already becoming apparent. Therefore, in some sense the aid effectiveness agenda itself depends firstly on a rationalisation of donor numbers.

Of the EU initiatives to improve aid effectiveness discussed in this report two stand out as being most likely to generate savings: improving aid predictability through better donor coordination at the central level, and further division of labour *at both cross- and in-country levels*. If a common, rolling multi-year programme could be put in place and country-level division of labour improved as set out in the EU code of conduct, then benefits could be significant.

If savings made from untying of remaining tied aid are included, the benefits over a five year period from a European approach towards Aid Effectiveness could be estimated in the order of magnitude of 15– 30 Euro billion out of an estimated 120 billion Euro of CPA over a five year period. Moreover, if these fragmentation costs were hypothetically reduced to 500 million Euro a year (for a consolidation into some 750 programmes), the additional savings, above and beyond the 3 to 6 billion amount, would be in the magnitude of 1.4 to 2.5 billion Euro a year. However benefits to the quality of the development process as a whole, although unquantifiable, could be more important still.

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ANNEX 1

SECTORAL PROLIFERATION IN MOZAMBIQUE

Annex 1 Sectoral proliferation in Mozambique

Data from CRS: New commitments made in 2007		Data from ODAMOZ: Activities running over 2007	
Sector	Number EU donors	Sector	Number EU donors
STD CONTROL INCLUDING HIV/AIDS	10	Rural development	10
GOVERNMENT ADMINISTRATION	9	General budget support	10
RURAL DEVELOPMENT	8	Public sector financial management	9
STRENGTHENING CIVIL SOCIETY	8	STD control including HIV/AIDS	7
EDUCATION POLICY & ADMIN. MANAGEMENT	7	Government administration	7
HIGHER EDUCATION	6	Road transport	7
GENERAL BUDGET SUPPORT	6	Agricultural development	6
ECONOMIC AND DEVELOPMENT POLICY/PLANNING	6	Education facilities and training	5
PUBLIC SECTOR FINANCIAL MANAGEMENT	6	Vocational training	5
BUSINESS SUPPORT SERVICES & INSTITUTIONS	5	Higher education	5
WATER RESOURCES POLICY/ADMIN. MGMT	5	Health policy and administrative management	5
SOCIAL/WELFARE SERVICES	5	Basic health	5
PRIMARY EDUCATION	5	Basic health care	5
TEACHER TRAINING	5	Basic health infrastructure	5
CULTURE AND RECREATION	4	Strengthening civil society	5
BASIC DRINKING WATER SUPPLY AND SANITATION	4	Agricultural land resources	5
SOCIAL MITIGATION OF HIV/AIDS	4	Education policy and administrative management	4
AGRICULTURAL POLICY & ADMIN. MGMT	4	Primary education	4
VOCATIONAL TRAINING	4	Medical services	4
EDUCATION FACILITIES AND TRAINING	4	Infectious disease control	4
BASIC HEALTH INFRASTRUCTURE	4	Economic and development policy/planning	4
BASIC HEALTH CARE	4	Legal and judicial development	4
MEDICAL SERVICES	4	Social mitigation of HIV/AIDS	4
TOURISM POLICY AND ADMIN. MANAGEMENT	4	Agricultural policy and administrative management	4
HEALTH POLICY & ADMIN. MANAGEMENT	4	Sectors not specified	4
FOOD SECURITY PROGRAMMES/FOOD AID	3	Education, level unspecified	3
RADIO/TELEVISION/PRINT MEDIA	3	Health, general	3
WATER SUPPLY & SANIT. - LARGE SYST.	3	Water resources policy and administrative management	3
BIO-DIVERSITY	3	Water supply and sanitation - large	3

Data from CRS: New commitments made in 2007		Data from ODAMOZ: Activities running over 2007	
Sector	Number EU donors	Sector	Number EU donors
		systems	
SME DEVELOPMENT	3	Basic drinking water supply and basic sanitation	3
ELECTIONS	3	Government and civil society, general	3
ENVIRONMENTAL POLICY AND ADMIN. MGMT	3	Land mine clearance	3
LEGAL AND JUDICIAL DEVELOPMENT	3	Culture and recreation	3
LAND MINE CLEARANCE	2	Monetary institutions	3
POPULATION POLICY AND ADMIN. MGMT	2	Support to national NGOs	3
INFECTIOUS DISEASE CONTROL	2	Basic education	2
MULTISECTOR AID FOR BASIC SOC. SERV.	2	Health personnel development	2
HOUSING POLICY AND ADMIN. MANAGEMENT	2	Human rights	2
EMPLOYMENT POLICY AND ADMIN. MGMT.	2	Statistical capacity building	2
FREE FLOW OF INFORMATION	2	Telecommunications	2
SECONDARY EDUCATION	2	Radio/television/print media	2
HUMAN RIGHTS	2	Electrical transmission/ distribution	2
CIVILIAN PEACE-BUILDING, CONFLICT PREVENTION AND RESOLUTION	2	Formal sector financial intermediaries	2
SECURITY SYSTEM MANAGEMENT AND REFORM	2	Agricultural water resources	2
WOMEN'S EQUALITY ORGANISATIONS AND INSTITUTIONS	2	Agricultural education/training	2
MEDICAL EDUCATION/TRAINING	2	Agricultural financial services	2
ROAD TRANSPORT	2	Mineral prospection and exploration	2
WATER TRANSPORT	2	Environmental policy and administrative management	2
TELECOMMUNICATIONS	2	Bio-diversity	2
AGRICULTURAL EDUCATION/TRAINING	2	Women in development	2
STATISTICAL CAPACITY BUILDING	2	Other multisector	2
AGRICULTURAL DEVELOPMENT	2	Urban development and nmanagement	2
FISHERY DEVELOPMENT	2	Research/scientific institutions	2
INDUSTRIAL CROPS/EXPORT CROPS	2	Food aid/Food security programmes	2
URBAN DEVELOPMENT AND MANAGEMENT	2	Teacher training	1
MINERAL PROSPECTION AND EXPLORATION	1	Basic life skills for youth and adults	1

Data from CRS: New commitments made in 2007		Data from ODAMOZ: Activities running over 2007	
Sector	Number EU donors	Sector	Number EU donors
BIOSPHERE PROTECTION	1	Early childhood education	1
TRADE FACILITATION	1	Secondary education	1
TRADE POLICY AND ADMIN. MANAGEMENT	1	Post-secondary education	1
TECHNOLOGICAL RESEARCH & DEVELOPMENT	1	Medical education/training	1
COTTAGE INDUSTRIES & HANDICRAFT	1	Medical research	1
MEDICAL RESEARCH	1	Basic nutrition	1
HEALTH EDUCATION	1	Population policy and administrative management	1
SITE PRESERVATION	1	Reproductive health care	1
ENVIRONMENTAL RESEARCH	1	Personnel development for population and reproductive health	1
EARLY CHILDHOOD EDUCATION	1	River development	1
BASIC LIFE SKILLS FOR YOUTH & ADULTS	1	Waste management/disposal	1
NON-AGRICULTURAL ALTERNATIVE DVPT	1	Elections	1
EDUCATIONAL RESEARCH	1	Security system management and reform	1
MULTISECTOR EDUCATION/TRAINING	1	Social/ welfare services	1
RESEARCH/SCIENTIFIC INSTITUTIONS	1	Employment policy and administrative management	1
ADVANCED TECH. & MANAGERIAL TRAINING	1	Transport policy and administrative management	1
FOOD CROP PRODUCTION	1	Rail transport	1
AIR TRANSPORT	1	Water transport	1
INFORMATION AND COMMUNICATION TECHNOLOGY	1	Communications policy and administrative management	1
FINANCIAL POLICY & ADMIN. MANAGEMENT	1	Information and communication technology (ICT)	1
POST-CONFLICT PEACE BUILDING (UN)	1	Energy policy and administrative management	1
MONETARY INSTITUTIONS	1	Gas distribution	1
FORMAL SECTOR FINANC. INTERMEDIARIES	1	Informal/semi-formal financial intermediaries	1
INFORMAL/SEMI-FORMAL FIN. INTERMED.	1	Business support services and institutions	1
REPRODUCTIVE HEALTH CARE	1	Food crop production	1
AGRICULTURAL LAND RESOURCES	1	Industrial crops/export crops	1
MALARIA CONTROL	1	Agricultural extension	1
AGRARIAN REFORM	1	Agricultural co-operatives	1
AGRICULTURAL RESEARCH	1	Forestry development	1
AGRICULTURAL FINANCIAL	1	Fishing policy and administrative	1

Data from CRS: New commitments made in 2007		Data from ODAMOZ: Activities running over 2007	
Sector	Number EU donors	Sector	Number EU donors
SERVICES		management	
FORESTRY DEVELOPMENT	1	Fishery development	1
FORESTRY RESEARCH	1	Industrial policy and administrative management	1
FISHING POLICY AND ADMIN. MANAGEMENT	1	Technological research and development	1
TRANSPORT POLICY & ADMIN. MANAGEMENT	1	General environmental protection	1
HEALTH PERSONNEL DEVELOPMENT	1	Site preservation	1
PRIVATISATION	1	Import support (commodities)	1

ANNEX 2

TERMS OF REFERENCE

Annex 2 Terms of Reference

TERMS OF REFERENCE

(Revised)

The Aid Effectiveness Agenda: Benefits of a European Approach

1. Introduction

Development assistance has brought many benefits to partner countries—but it has also brought unintended burdens. Donors' policies and requirements are often different from each other and from those of the partner country—a situation that has often led to inconsistency of systems and programmes, and duplication and misdirection of efforts. Furthermore, the sheer number of procedures, reports, and visiting missions that partner countries have to handle every year entail direct costs in operational terms as well as in terms of opportunity costs of tying up scarce national managerial capacity. All of this takes up resources that could have been used to reduce poverty, educate children, save lives, and promote growth. The international aid effectiveness agenda, embodied in documents such as the Paris Declaration and the Accra Agenda for Action, represents an attempt to redress these types of problems and establish a more cost-effective public policy.

2. Background

The reduction of these operational and transaction costs is frequently used as one of the main arguments for advancing the international aid effectiveness agenda. The Paris Declaration explicitly makes a commitment to eliminate duplication of efforts and rationalise donor activities to make them as cost-effective as possible. This should be done by way of increasing partner country ownership, achieving a better donor harmonisation and alignment with the partner country's development strategy, managing for results as well as focusing on mutual accountability. In working towards these goals, operational and transaction costs should consequently be reduced, and benefits should accrue to both donors and partner countries.

There have, however, been few, if any, attempts to systematically identify and quantify the costs associated with fragmented, donor dominated aid systems. More knowledge is needed about the negative effects that ineffective aid has in terms of the broader aid architecture. In addition, more knowledge is also needed about the benefits which have already been achieved when aid effective policies have been put into place.

A better understanding of these issues could constitute a powerful incentive towards moving the aid effectiveness agenda forward. If it is demonstrably shown that the fragmented "business-as-usual" way of development aid is associated with substantial and very real costs, more donors will find it in their interest to move quickly towards making their aid more effective, streamlined and cost-efficient. In doing so, more resources would conceivably be available for the fight against poverty.

3. Scope of the assignment

• General objective

The objective of this study is therefore to identify and present in a study the costs of ineffective fragmented aid, as well as the savings incurred by implementing basic aid effectiveness principles. The focus should be on European development cooperation (Member States and the Commission), with a view towards showing the difference between "going it alone" and cooperating at a European level. Furthermore, an attempt should be made to estimate what this could mean in terms of full adherence to aid effectiveness principles on a European scale.

Civil society activities and cooperation with private foundations represent an important part of the aid delivered in a given country. This exercise will however mainly focus on the relationships between public authorities, while not excluding civil society if data is readily available.

This exercise is meant to produce a reasonably sound picture and a comprehensive estimate of the savings involved when European donor countries choose to apply basic aid effectiveness principles. It is acknowledged that estimating costs is not a precise science, and that some amount of approximation based on deductive reasoning will be necessary to reach a result.

Initial one-off costs associated with starting-up aid effectiveness procedures (for example carrying out prerequisite studies and missions) is not an area of particular interest for this study, unless it is shown that they have a long-term impact on the cost-benefit ratio of aid effectiveness procedures.

This exercise should be undertaken as a candid and frank analysis undertaken in a spirit of awareness raising in EU countries.

- **Specific objectives**

1. **Identify costs**

- a) elaborate and identify **quantitative costs** (i.e. those which can be estimated/measured monetarily) which could be associated with ineffective aid, both for donor countries and partner countries. These could be related to:

- costly foreign expatriate experts.
- parallel implementation units number and costs of parallel PIUs implemented on an annual basis
- donor HQ resources for follow-up administration
- external consultants to carry out separate reviews
- external auditors
- need for expensive donor embassy staff in the partner country.
- international travel between donor countries and partner country.
- number of visiting missions, i.e. number and costs of uncoordinated missions performed on an annual basis
- extra paperwork for each donor country
- inefficiency due to unpredictable financial flows: amount of RAL (Reste à Liquider) per programme/Budget heading
- tied aid preventing purchase of goods and services from cheaper alternative sources
- bureaucratic requirements for following up conditionality requirements.
- extra overhead costs
- Costs of analytical work not joint

- b) elaborate and identify **qualitative costs** (i.e. those of a more intangible nature) which could be associated with ineffective aid, for both donor and partner countries. An attempt should be made to present these costs in monetary terms if possible. These could be related to:

- poor reporting due to lack of capacity
- reduced ability to follow programs and analyse progress
- misunderstandings due to complex systems
- duplication of efforts and overlapping
- lack of governmental control and oversight
- donors dominating decision making processes
- lack of accountability
- lack of harmonisation of procurement procedures
- programs not aligned with partner country goals
- conditionalities not tied to results

2. **Elaborate specific European examples** : using the cost structure identified under 1a) and 1b), investigate specific European examples where aid effectiveness principles have been applied and illustrate the savings incurred by way of having avoided certain quantitative and qualitative costs. The examples should seek a reasonable balance between the experiences from various regions of the world (regional coverage), and the experiences of small, big and emerging donors. At least 10 examples good/bad; small/large, etc. per region should be provided.

3. **Extrapolation at European level** : illustrate what current savings of applying the aid effectiveness agenda at a European level is, and furthermore, what the savings potential could be if aid effectiveness principles were fully carried out within the EU. This could be presented in terms of a cost-benefit analysis (the cost of not applying aid effectiveness principles in comparison with the benefits/savings of doing so). The potential savings should also be considered in the context of EU scaling-up commitments, and expanding development cooperation programs in the new Member States.

- **Requested Services and outputs**

The Consultant will prepare a Study "as exhaustive as possible" in line with the specific objectives above.

They will have to work at their own place and travel to meet (Brussels for EC and Paris for OECD or any other country) other services of interest for their study approved by Commission. One or two trips overseas (mainly in ACP countries) can be taken into account while preparing financial breakdown.

4. **Operational Modalities**

A team of consultants will be commissioned to conduct such work. European Commission (DG DEVELOPMENT) will follow their work. Unit DEV/A2 will be responsible for the funding and implementation of this project.

- Profile of the requested experts and categories

The requested team will be composed of three experts.

The team leader will be a Category II expert with at least 10 years experience in development related issues and research work. S/He will be graduated in international development and economics and able to work in English and French. S/He should have leading skills to carry out this mission as team leader. S/He will be in charge of the general coordination of the team, of data and synthesizing the work of the rest of the team for the preparation of the final report. The two other experts will be category III consultants with at least 5 years experience in development related issues and economics, and familiar with research work. They will be able to work independently and in team, in English and French.

- Working language(s)

The working languages for this mission are English and French. All the official communications and reports shall be made in one of those two languages.

- Location and duration of the mission

The Compendium should be undertaken in **three steps** :

- (i) a first **detailed outline** (*incl. initial findings*) – by mid- February 2008
- (ii) a **draft compendium** – by mid-September 2009
- (iii) a **final compendium** – By end of September 2009

The mission shall begin before mid December 2008 and be finalised no later than end of September 2009.

The experts will be working 310 working days over a period of up to 10 months.

The repartition will be as follow : 110 man/days for expert Cat. II/ Team leader and 200 man/days of cat. III (100 working days per expert).

17 days x 3 experts (51 days) for meetings in Brussels (DG DEV and other meetings)
2 days x 1 expert (2 days) for meeting AIDCO in Brussels
3 days x 3 experts (9 days) for meetings OECD in Paris
3 days x 1 expert (3 days) for meetings in Germany

3 days x 1 expert (3 days) for meetings in Spain
3 days x 1 expert (3 days) for meetings in Portugal
12 days x 1 expert (12 days) for mission to Cambodia
12 days x 1 expert (12 days) for mission to Ethiopia

78 days for the Team leader for desk study (home-based)
137 (59 + 78) days for Expert II for desk study (home-based)

Total : 310 working days

5. Reporting

All the reports will be prepared in English and or French. They will be submitted to the European Commission DEV/A2 electronically for comments and therefore approval.

Comments may be addressed to the experts to amend/detail their report. The final version agreed with the Commission shall be sent no later than end of September 2009. The Commission may address the Consultants penalties in case of non respect of this calendar. Therefore any change in the calendar should be justified and approved by the Commission in order to keep the calendar updated.

6. Financing and budget

The EC will finance this initiative under budget line "coordination" 21.0802
The maximum budget allocated to this mission is 199.999 Euros.

7. Administrative information

The reimbursable costs will be paid against original supporting documents. Per diem and tickets will be covered under "reimbursables". A maximum of 7 missions to Brussels per expert and 6trips in other countries in total are planned.