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COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**The EU — a global partner for development  
Speeding up progress towards the Millennium Development Goals**

**An EU Aid Effectiveness Roadmap to Accra and beyond**

**From rhetoric to action, hastening the pace of reforms**

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## TABLE OF CONTENTS

Introduction .....	4
1. SIX CRITICAL MONTHS FOR DEVELOPMENT.....	5
1.1. Objective: maintaining a dynamic process .....	5
1.2. Complex challenges .....	6
1.3. An important moment for dialogue with our Partner Countries .....	6
2. NEW FRONTIERS.....	7
2.1. The EU-27, a new dimension.....	7
2.2. A key role for parliaments.....	8
2.3. Working with local authorities.....	8
2.4. The challenge of vertical funds.....	9
2.5. Specific contribution of civil society organisations.....	9
2.6. Facing the challenge of cross cutting issues .....	10
3. WHAT HAVE WE ACHIEVED? .....	10
3.1. Monitoring the Paris Declaration.....	11
3.1.1. What is the EU baseline? .....	11
3.1.2. What is the European Commission baseline?.....	14
3.2. What is the situation regarding the EU deliverables? .....	14
3.2.1. Joint programming .....	15
3.2.2. Division of labour .....	17
3.2.3. A strategic approach to co-financing .....	17
3.2.4. Support for local processes .....	18
4. FOCUSING ON DRIVERS FOR PROGRESS.....	19
4.1. More predictable aid .....	19
4.2. Enhanced use of country systems .....	20
4.3. Stronger management for results, less conditionality .....	21
4.4. Further untying aid.....	22
4.5. Situations of fragility .....	23
4.6. Division of labour (DoL) .....	24
4.6.1. In-country dimension of DoL .....	24

4.6.2. The cross-country dimension of DoL .....	28
4.6.3. Starting a political dialogue .....	30
Annex 1 — Joint EU input into the “Zero” draft of the Aid Effectiveness High Level Forum (HLF-3) Ministerial Declaration (February 2008) .....	32
Annex 2 — Individual performance on the PD indicators.....	34
Annex 3 — Joint Programming .....	35
Annex 4 — Co-financing .....	40
Annex 5 — Contributions from civil society on aid effectiveness and gender issues .....	44

## INTRODUCTION

Today, the concept of “aid effectiveness” is on everyone’s lips. It is a compulsory term in any report or chapter on development assistance. While this is an excellent sign that the concept is becoming mainstream, one can only hope that it will not share the fate of most other cross-cutting issues that have ended up being paid little more than lip service in the “good donor mantra”.

Despite signs of good progress, which should be underlined, we are now at the crucial moment of having to make hard choices. Even in partner countries and among donors recognised for their reforms and good practices, change is slowing. The complexities of structural change cannot be an excuse for a lack of determined action. It is time to quicken the pace of reform.

There are a number of good aid effectiveness practices available, but no general trend with a mass effect. Most progress has been achieved in “easy areas” related to coordination and harmonisation. There is limited progress on the tougher areas of complementarity and alignment, but new products such as the *EU Code of Conduct* have created a renewed dynamism, rekindling the potential for progress.

It is widely accepted that significantly more funds are needed to achieve the Millennium Development Goals (MDGs). However, the promised scaling-up of aid will make less difference if it is not matched by more efficient delivery. This roadmap takes stock of the progress made by the EU on aid effectiveness since the adoption of the Paris Declaration in 2005, and outlines the EU’s ambitions for the forthcoming Third High Level Forum (HLF-3) in Accra in September 2008 and beyond.

This roadmap builds on the principles of the Paris Declaration (PD) and the European Consensus for Development. Furthermore, it is founded on the conviction that partner countries (PCs) play a central role - not only in terms of political dialogue and defining their own development, but also in terms of operational implementation. It is based on respect for multilateral frameworks and donor-wide perspectives, and on the EU’s willingness to deliver on its share. Lastly, it promotes a pragmatic and flexible approach, targeting country-based progress and field results.

Indeed, it is essential that donors shift determinedly *from rhetoric to action* in implementing the Paris Declaration by maintaining a strong dynamic process on aid effectiveness in the next six ‘strategic’ months (see section 1). This implies *a new dimension engaging new actors* in a new frontier (see section 2). The EU has to *report and deliver on its commitments* (see section 3). It is equally important that the donor community at large *hastens the pace of change and ensures new qualitative leaps* by addressing drivers for progress in implementing the Paris Declaration (see section 4).

The above guidelines for action form the basis of a strong EU contribution towards Accra. They are supported by long-term working arrangements, together with an exhaustive list of related reports and products (supporting documents and reports from the Commission, the EU and non-state actors).

## 1. SIX CRITICAL MONTHS FOR DEVELOPMENT

The next six months represent a moment of truth for the three interlinked pillars of development - namely achieving the MDGs, scaling up aid volumes and improving aid effectiveness. It is therefore essential that we maintain a dynamic process, while delivering and reporting on our commitments. It is a question of collective credibility for the development community and, having served as the main driver of change in the past, including for the EU.

In this light, the Third High-level Forum (HLF-3) in Accra is a crucial political opportunity to agree strong and decisive action by all donors and partner countries on the outstanding implementation issues that are key to meeting the Paris Declaration targets.

### 1.1. Objective: maintaining a dynamic process

The adoption of an ambitious Paris Declaration on Aid Effectiveness at the Second High Level Forum (HLF-2) in 2005 was largely due to strong EU input. It allowed the limited launch obtained in the first High Level Forum, held in Rome, to develop into a new, more promising political process. The EU achieved this impact through intensive coordination, in the run up to, during, and (immediately) after the HLF-2, on the finalisation of the Paris targets<sup>1</sup>. It gave the EU a strong voice that helped create a dynamic international process for aid effectiveness.

While the international post-Paris process has represented a significant amount of work (in terms of surveys, analysis, consultation processes, evaluation of the Paris Declaration, etc.), the EU needs to ensure that its high ambitions for the Paris Declaration are carried through into the Accra HLF and beyond. The overall EU objective for the Accra HLF-3 should be to ensure an ambitious Ministerial Declaration, the “Accra Agenda for Action” (AAA), by securing strong EU input and impact. The AAA should reaffirm the Paris commitments, reflect the conclusions of the mid-term review of the Paris commitments, and include guidance on areas where further progress is needed.

In this context, the EU has produced a one-page “(Joint) Input” which frames its ambition for Accra (see Annex 1). We now need to build and organise a collective momentum that will allow us to have more input, more impact and more results. In this regard, the coherence and synergies between individual or collective European initiatives, from EU individual donors, groups of EU donors and the Commission, will be essential to create an aggregate result on the agenda. This collective effort must not be seen in isolation. It should aim to support and enhance an international process which will be key in delivering the MDGs.

Accra is an important step on the road to aid effectiveness, but not an end in itself. It is also not yet a success. We need to establish working mechanisms to create further progress before Accra. We also need to work on dynamic trends for medium- and long-term results that go much further than Accra.

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<sup>1</sup> The Paris Declaration targets are: 1) Partners have operational development strategies; 2) Reliable country systems; 3) Aid flows are aligned on national priorities; 4) Strengthen capacity by coordinated support; 5a) Use of PFM systems; 5b) Use of country procurement systems; 6) Strengthen capacity by avoiding parallel implementation units; 7) Aid is more predictable; 8) Aid is untied; 9) Use of common arrangements or procedures; 10a) Joint missions; 10b) Joint country analytical work; 11) Results-oriented frameworks; 12) Mutual accountability.

## 1.2. Complex challenges

It is essential to show proof of concrete progress both on the Paris commitments, and on specific EU activities and commitments. It is equally important to strengthen relationships with our partner country governments, civil society organisations, and other donors, including non-OECD/DAC donors and emerging donors. It is similarly crucial that the EU collectively secures further progress by determined actions to remove remaining constraints to achieving the Paris targets.

The first challenge now lies in translating this achieved policy framework into field reality. All donors need to ensure actual implementation of all agreements and commitments. One essential challenge in the implementation of the aid effectiveness agenda is the diversity of partner countries - countries in a situation of fragility, aid-dependent and non-aid-dependent countries - which demands differentiated and flexible responses. Nonetheless, it is essential that no Partner Country (PC) is left behind.

Accra will be the first of several important interlinked international events. It could set the tone for a strategic period for the international development agenda. It is therefore imperative that discussions related to the effectiveness of aid stay detached from biased attitudes motivated by the coming debate and negotiations on financing for development and the allocation of the coming scaling-up of aid.

Finally, strengthening institutional communication and raising public awareness remains a major challenge. In this context, some key messages need to be recalled. First, the aid effectiveness is not an agenda of its own. The objective behind sometimes very technical issues is to deliver concrete, daily advances in the eradication of poverty. Second, there is a need to act fast but changes take time. We need to find a balance between realism, pragmatism and dynamism. Third, most actors have invested time and resources in the process. It is time for a return on investment and a real reduction of transaction costs. Fourth, tremendous progress has been achieved and the EU “*has a good story to tell*”. Nevertheless, there are challenges, lessons and bottlenecks that we must address in a candid and transparent manner. Focusing on these challenges is a sign of proactiveness that should not damage our standing.

## 1.3. An important moment for dialogue with our Partner Countries

The EU has put the notion of partnership at the centre of its Development Policy. The new EU-Africa Strategy has recently meant a new qualitative leap in the dialogue between the EU and its partners. This approach is based on the conviction that partner countries (PCs) play a central role not only in political dialogue and in defining their own development but also in operational implementation. The capacity for candid dialogue between donors and PCs will be an important test for Accra.

***Box1 - In Rome in 2003, 14 PCs agreed to conduct the first monitoring exercise on Harmonisation. In 2006, 34 PCs joined the first Monitoring Survey of the PD. In 2008, 55 PCs will conduct the second Survey.***

The EU is therefore committed to further encouraging and supporting partner countries in taking the lead in improving both EU aid and EU-funded multilateral aid. In this context, the donor community must address each of the six priority issues put forward by the partner countries in preparation of the HLF: untying, predictability, division of labour, incentives for

change in donor behaviours, conditionality and capacity development. This roadmap reports on results achieved to date and further EU commitments on several of these issues.

***Box 2 - In 2007, a country action plan to implement the Vientiane Declaration on Aid Effectiveness, a localised version of the Paris Declaration, was approved. Laos now has eight Sector Groups that improve sector aid coordination and effectiveness.***

## **2. NEW FRONTIERS**

The development community has changed considerably since the launch of the first International Task Force on aid effectiveness in 2001. New donors and new actors have emerged, as well as new cross-cutting issues such as climate change that threaten the success of development policy on a fundamental level. Non-state actors have scaled up their activities. It is crucial that more of these actors adopt the principles of the Paris Declaration.

### **2.1. The EU-27, a new dimension**

Since the run-up in 2004 to the High Level Forum of Paris, the EU has expanded twice. It now has a “new dimension” with the inclusion of an extra 12 “*emerged*” donors. It is important to highlight the efforts made by these Member States, which were not present in Paris, but which have subsequently endorsed the principles of the Declaration.

Moreover, these 12 Member States, together with the other 15 EU Member States, have adopted the European Consensus on Development and the EU Code of Conduct on Division of Labour. They have also adopted substantial targets for scaling up their aid by 2010 and 2015, and have already collectively doubled their aid since accession.

***Box 3 - Since 2005, the new EU “emerged donors” have all committed to the principles of the PD through the European Consensus. The Czech Republic, Hungary, Poland and the Slovak Republic have formally acceded to the PD.***

While still facing the challenge of rapidly increasing their aid activities, the 12 new EU donors have brought very concrete inputs into development cooperation, such as practical experience in structural reform and democratisation processes. They are also bringing lessons on aid effectiveness from their own past, as former aid recipients. They benefit from the advantage of being able to integrate the division of labour in their aid systems right from the outset, with less inherited institutional resistance to new instruments such as delegated cooperation, joint funding, etc.

***Box 4 - In December 2007 the EC and USA organised a seminar to exchange best practice with new donors, looking at Eastern Europe and the Southern Caucasus as “targets” for their new programmes. There was a consensus on using consolidated assistance matrices matching the priorities of the ENP action plans with cooperation measures in order to strengthen donor coordination in partnership with the governments of Armenia, Azerbaijan, Georgia, Moldova and Ukraine.***

## 2.2. A key role for parliaments

In the Paris Declaration, partner and donor countries committed themselves to strengthening the parliamentary role in national development strategies, thereby enhancing mutual accountability and transparency of development resources.

Parliamentary scrutiny of a credible budget broadens country ownership. The latest 2006 OECD survey monitoring the Paris Declaration indicates that for nearly all partner countries monitored the credibility of development budgets is undermined by sizeable inaccuracies in the budget estimates of aid flows from donor governments, reducing the ability of Parliaments to scrutinise government development policies. Furthermore, a large proportion of aid flows to the partner country governments are not comprehensively and accurately reflected in their annual budget estimates. Governments should be increasingly accountable for their strategies through the regular mechanisms of democratic accountability. Donors and partners need to work together, to ensure that budget estimates are more realistic. Support for strong budget committees can then ensure that aid is spent effectively.

The Paris Declaration principles on aid effectiveness should also be taken into account by European parliaments. Division of labour may mean countries and aid sectors have to be abandoned in the name of aid efficiency. This will confront parliamentarians with difficult choices on “lowering” national interests in countries or sectors; it is hoped that the appropriate choices will be made to advance global aid effectiveness.

## 2.3. Working with local authorities

Local authorities play a major role in achieving the MDGs and eradicating poverty by ensuring more effective and accountable local infrastructure and social service delivery and by improving dialogue among state citizens, their communities, civil society and the private sector. Specific expertise available at local/regional level often gives a distinct comparative advantage. Municipalities and regional governments are crucial to ensuring the implementation of the Paris Declaration, not only by the capitals, but also by the entire governance structures down to local level.

***Box 5 - The French Rhône-Alpes region and Luxembourg have developed close cooperation in Laos.***

Several European regions and cities have committed both to scaling up aid (0.7%) and to the Paris Declaration. Decentralised EU involvement in development cooperation is quite high, with sub-national actors in 15 Member States having their own development budgets and often engaging in co-financing. Capitalising on local skills is a primary motivation behind co-financing, along with reducing fragmentation. Local authorities also occasionally engage in cross-border activities. The Community and multilateral organisations also constitute co-financing partners: decentralised actors can apply for Community co-funding via competitive grants and funds are often delegated to the UNDP through ART programmes.

***Box 6 - The Spanish region of Galicia is helping the UNDP to set up a tourism school in Sri Lanka.***

European Community support for decentralised actors varies from region to region. For example in Latin America, Asia and ENPI countries, support is provided for cooperation between municipalities. In Africa, however, Community support has been mainly directed at



consolidating national decentralisation processes in partner countries without any substantial involvement of European local authorities. It is essential to facilitate interaction and better communication between decentralised actors in the EU and developing countries in order to maximise the benefits from these different programmes and to enhance their role in the development process, within the aid effectiveness agenda.

***Box 7 - Capacity building in local governance structures has helped tackle the complex cross-border problem of water management between Tanzania and Kenya.***

The principles of the Paris Declaration are equally valid for cooperation via decentralised actors. At times regional development hinges upon cross-border management of common problems, needs and obstacles, for instance in water management, environmental protection and infrastructure development. Capacity building in local and regional governance structures can strengthen ability to address these issues.

#### **2.4. The challenge of vertical funds**

Recent decades have seen the emergence of many new multilateral actors. Since 2001, the UN family, to which the Community is deeply committed, has passed from 27 agencies, funds and programmes to 40. There are more than 1000 international trust funds that act as donors.

In particular, the vertical funds are full actors in the development agenda and therefore in the aid effectiveness chapter of that agenda. They are sometimes the perfect nexus for sector coordination or to lower administrative costs of aid in a given sector or crisis. Their proliferation, however, can in some cases create certain governance challenges. This is why they need to be fully integrated into the Paris agenda and into the discussions on division of labour (DoL). Not only between them in a restrictive multilateral approach to DoL, but also in a vertical dimension that correlates all the layers of development (i.e. country, regional and international levels).

***Box 8 - In Vietnam, 11 UN agencies account for only 2% of aid. Twenty are active in the island of Zanzibar alone.***

It is also important to continue to seek ways to ensure that vertical funds respond to the strategic development needs expressed in developing countries, particularly in Sub-Saharan Africa. We must avoid a proliferation of vertical funds which risks going against the principle of ownership and leading to further fragmentation of development assistance and to inconsistency in the way it is delivered. There is a need for caution and for systematic assessment of the value added of vertical funds compared to “traditional” in-country assistance.

***Box 9 - There are today more than 1000 international trust funds.***

#### **2.5. Specific contribution of civil society organisations**

Civil society organisations (CSOs) have so far been the “missing element” in the Paris Declaration (PD). Yet these stakeholders are key development actors in their own right, with a distinctive contribution to make to the aid effectiveness agenda by virtue of their independence, advocacy and watchdog roles, closeness to the grassroots and effectiveness as a channel for aid delivery. While each actor has its own particular features, CSOs, donors and governments cannot act in isolation. It is crucial to examine how their policies and activities

may complement or indeed undermine each other. The shared objective of greater aid effectiveness must provide the impetus for a more systematic and direct dialogue between all development cooperation actors, including CSOs. Effective civil society participation in policy dialogue and discussion on aid effectiveness is crucial in this respect.

***Box 10 - A civil society report, "Turning the Tables", drafted by Eurodad, highlights evidence from several country cases of progress and bottlenecks on aid effectiveness.***

CSOs are in the process of examining their own aid effectiveness and some initiatives have already been taken. For example, in June 2006, 11 leading international NGOs signed up to an "Accountability Charter" setting out a common commitment to excellence, transparency and accountability with a view to promoting support for common standards of conduct for NGOs working transnationally. CSOs should be encouraged in these processes with a view to capitalising on the specific civil society perspective in applying and enriching the Paris Declaration. A detailed list of supportive positions from the European Commission is attached at annex.

## **2.6. Facing the challenge of cross cutting issues**

A number of cross-cutting issues affect the very nature of the effectiveness of aid within development policy. Two of these, climate change and gender, have emerged as particularly worrisome. Climate change presents the threat of uncertainty, while gender continues to pose long-identified challenges that we have yet to overcome.

Adaptation to and mitigation of climate change is one of the formidable challenge of this century. The Paris Declaration includes a commitment to promoting a harmonised approach towards environmental assessments, and the Commission and Member States will pursue their collaboration to jointly undertake these assessments whenever appropriate.

***Box 11 - More than 95% of the draft 2008-2013 programming of community assistance for ACP countries include a commitment to undertake Strategic Environmental Assessments when necessary.***

Given the key role women play in the development process, aid effectiveness must address gender equality and incorporate women's empowerment in national development planning. Donors and partner governments should undertake a strong commitment to support gender sensitive development policies. The development of new aid architecture and policy developments provide an opportunity for action.

***Box 12 - EC/UNIFEM/ILO have developed a three-year programme (2007-2009) to link gender equality and women's empowerment with the aid effectiveness agenda in 12 countries.***

## **3. WHAT HAVE WE ACHIEVED?**

The European Commission has a dual role. First, as a donor, a DAC member and a signatory of the PD, it reports on the implementation of its related commitments, like any other donor. Second, as an EU facilitator, it has also been mandated to report on EU progress on aid effectiveness. The following reporting sections cover both roles.

The EU has major achievements to its credit. The principles of the PD have been integrated into all policy frameworks and operational tools. An exhaustive list of strategic partnerships and working arrangements has been drafted. Aid effectiveness is an essential pillar of the European Consensus for Development, which is, in itself, an expression of policy coordination, complementarity and coherence (the “3Cs”).

While the policy framework has been renewed, the challenge now lies in translating it into field reality. Implementation has started and a lot of good practice is being introduced. The tremendous EU progress made since 2001 — in particular in terms of political and operational dialogue, Commission partnership with other donors, EU coordination in the field, and collective approach to the neighbourhood countries — must be acknowledged. Nevertheless, the EU still has a long road ahead to meet its promises and to translate them into field reality.

*Box 13 - The EC-EIB-IRDB Memorandum of Understanding for the Middle East, North Africa and the Southern Mediterranean region, is a unique case of a coordinated approach linking EC grants, EIB project financing and World Bank loans and technical capacity. It entails joint policy dialogue, joint analytical work, co-financing and staffing agreements.*

### **3.1. Monitoring the Paris Declaration**

The 2006 survey on Monitoring the Paris Declaration was conducted in 34 countries that receive aid<sup>2</sup>. This list includes 13 of the 20 top recipients of EU aid<sup>3</sup>. Despite some window dressing by some actors, the 2006 Survey provides a baseline and benchmark of performance. In the run-up to the Accra summit, this baseline data will be updated (and compared with the results of the second round of monitoring to be finalised in spring 2008). In July 2008 we should therefore be in a position to further assess the evolution of progress.

#### *3.1.1. What is the EU baseline?*

According to the 2006 Survey, the EU was already above two of the PD targets (on (i) untying and (ii) the use of a programme-based approach), and it is on track to reach a third target (reducing the number of programme implementation units (PIUs)).

On four other targets, the EU was better than the average for all donors (i.e. the two targets on the use of country systems (PFM and procurement), the target on coordinated missions, and the target on coordinated analytical work).

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<sup>2</sup> Afghanistan, Albania, Bangladesh, Benin, Bolivia, Burkina Faso, Burundi, Cambodia, Cape Verde, Democratic Republic of the Congo, Dominican Republic, Egypt, Ethiopia, Ghana, Honduras, Kenya, Kyrgyz Republic, Malawi, Mali, Mauritania, Moldova, Mongolia, Mozambique, Nicaragua, Niger, Peru, Rwanda, Senegal, South Africa, Tanzania, Uganda, Vietnam, Yemen, Zambia.

<sup>3</sup> Seven out of the top ten recipients of EU aid in Sub-Saharan Africa, five in Latin America and Caribbean, four in Asia, two in the Middle East and North Africa, one in Europe.

**Table 1 — EU baseline for PD indicators<sup>4</sup>**

Paris Indicators	EU	Global Baseline	2010 target
3 Aid reported on budget	68%	88%	94%
4 Coordinated capacity development	39%	48%	50%
5a Use of country PFM	46%	40%	80%
5b Use of country procurement systems	52%	39%	80%
6 Parallel PIUs	674	1832	611
7 In-year predictability	65%	70%	87%
8 Untied aid	87%	75%	66%
9 Use of programme-based approaches	47%	43%	40%
10a Coordinated mission	27%	18%	40%
10b Coordinated country analytical work	49%	42%	66%

On the majority of the remaining targets, the EU was at about two-thirds or more of the level to be reached. These targets are therefore likely to be reached with sustained efforts. But for two targets, on (a) the use of country Public Finance Management and (b) the use of country procurement systems, the EU was below two-thirds of the level to be reached. To collectively reach these two targets will require considerable effort and a specific push. Only seven MS are individually attaining certain targets. A full breakdown of the state of play by EU donor is attached at annex.

**Table 2 — Member States with a baseline at or above targets**

Paris Indicator	EU countries that achieved their target in 2005
3 Aid reported on budget	....
4 Coordinated capacity development	FI, IE, PT, SE, UK
5a Use of country PFM	....
5b Use of country procurement systems	....
6 Parallel PIUs	....
7 In-year predictability	....
8 Untied aid	IE, LU, SE, UK
9 Use of programme-based approaches	NL
10a Coordinated mission	IE, NL, PT, UK
10b Coordinated country analytical work	DK, NL, LU, UK

*How does the EU compare?* The 2006 OECD DAC survey shows that on six targets the EU was at a higher level than Japan and USA (i.e. the two targets on country systems (PFM and

<sup>4</sup> Data source of table 1, 2, 3 and 4: 2006 OECD/DAC Survey on Monitoring the Paris Declaration – Overview of the Results

procurement), the one on untying and the one on programme-based approach). On the target for capacity building, which is an important concern to our partner countries, the EU was at a lower level than the USA and Japan.

**Table 3 — Benchmarking EU-Japan-USA performances on the PD indicators**

Paris Indicators	EU	USA	JAPAN
3 Aid reported on budget	68%	90%	68%
4 Coordinated capacity development	39%	47%	74%
5a Use of country PFM	46%	10%	29%
5b Use of country procurement systems	52%	12%	26%
6 Parallel PIUs	674	208	2
7 In-year predictability	65%	45%	66%
8 Untied aid	87%	7%	...
9 Use of programme-based approaches	47%	28%	33%
10a Coordinated mission	27%	28%	2%
10b Coordinated country analytical work	49%	39%	52%

In Paris, the EU agreed to commit to higher standards on four of the PD targets. They are commonly referred as the “four EU additional commitments”. These EU targets were reaffirmed in the European Consensus 2005, as well as in several subsequent Council Conclusions<sup>5</sup>. They are:

- to channel 50% of government-to-government assistance through country systems, including by increasing the percentage of our assistance provided through budget support or SWAP arrangements;
- to provide all capacity-building assistance through coordinated programmes with an increasing use of multi-donor arrangements;
- to avoid setting up any new project implementation units (PIUs);
- to reduce the number of uncoordinated missions by 50%.

The EU baseline was below the target for three of these four additional commitments — i.e. capacity building, PIUs, and uncoordinated missions. On the use of country system the EU's baseline already exceeded the target. One must, however, bear in mind that the 2006 DAC survey is based on 34 PCs that are generally considered “good performers”. In addition, it is important to remember that the EU target is 50% worldwide, while the PD is 80% (but in a limited number of good performers). Hence, the lower EU target is more ambitious. In fact, the Commission has performed rather well on the first target, as it has already almost reached the target of 50% of General Budget Support (45.6%) for the EDF national programme.

<sup>5</sup> 10-11 April 2006 and November 2007.

### 3.1.2. What is the European Commission baseline?

According to the 2006 DAC survey, the Commission baseline was not above any of the targets. Following the internal process put in place by the EuropeAid Cooperation Office, the Commission's performance should be much better in July 2008 and is likely to be on track with the 2010 objectives of the PD. Eight Paris Targets (Nos 3, 4, 5a, 5b, 7, 9, 10a, and 10b) are likely to be achieved. Only one of the targets (No 6 on PIUs) is not likely to be achieved, given the current stock of PIUs (204).

**Four response strategies.** It is of the utmost importance to boost the implementation of the four additional EU commitments. In order to do so, the Commission is developing four response strategies to reach each of the four EU targets. Two strategies, respectively for increasing the use of country systems and the proportion of joint missions, were approved in 2007. Their implementation will allow the Commission to achieve the related targets. The strategies for the other two targets on TC and PIUs are being finalised. They will be ready in the run-up to Accra. Note that these two targets cannot, by their very nature, be met by the Commission alone. They imply a coordinated EU response.

**Table 4 — European Commission performance on the PD indicators**

Paris Indicators	EC	Global Baseline	2010 target
3 Aid reported on budget	81%	88%	91%
4 Coordinated capacity development	35%	48%	100%(EU target)
5a Use of country PFM	40%	40%	50% (EU target)
5b Use of country procurement systems	41%	39%	50% (EU target)
6 Parallel PIUs	204	1832	68 & no new PIUS (EU target)
7 In-year predictability	65%	70%	83%
8 Untied aid	...	75%	...
9 Use of programme-based approaches	50%	43%	66% (EU target)
10a Coordinated mission	33%	18%	40%
10b Coordinated country analytical work	45%	42%	66%

### 3.2. What is the situation regarding the EU deliverables?

The EU has delivered on its plans. In order to foster the implementation of commitments made by the EU in Paris, the Community adopted an Action Plan on Aid Effectiveness, largely supported by the Council Conclusions of April 2006. The nine deliverables of the Action Plan have all been delivered, and serve as a policy framework for the EU's work on aid effectiveness. Each of the nine deliverables has led to a specific EU process at HQ level or in the field, and the setting-up of a working arrangement. The field implementation of these deliverables has started — and there is a long list of good practices and progress, but no real mass effect. In summary one could say that 20% of the work is done, but that this represents the easiest part.



This statement is based on supporting documents and evidence-based analysis (six donor atlases, a compendium of good practices on DoL, a report from the field on the implementation of DoL, a compendium of good practices on co-financing, replies from Member States to the questionnaire for the Monterrey Staff Working Paper). The following four deliverables should be highlighted.

***Box 14 - The 9 deliverables of the EC Action Plan on Aid Effectiveness :***

*Refining the mapping of our aid*

*Reviewing EU development rules*

*Monitoring our promises*

*Supporting local coordination processes*

*Developing a Joint Multiannual Programming Framework*

*Developing Joint Local Arrangements*

*Enhancing the division of labour*

*Increasing joint EU activities*

*Strengthening the EU vision on development assistance*

***3.2.1. Joint programming***

EU joint programming has so far shown mixed results. While the push for joint analysis and multiannual planning is moving forward, the use of the EU Common Framework for Country Strategy Papers (CFCSP) has been limited to only three real cases (i.e. Somalia, Sierra Leone, and South Africa). It is, however, true that the EU has made a fundamental contribution to the development of half a dozen donor-wide joint assistance strategies. EU Aid for Trade Strategy and the Enhanced Integrated Framework are also examples of good practice in increasing EU joint actions on the ground.

***Box 15 - The Country Strategy Paper for Sierra Leone was drafted jointly by the Government of Sierra Leone, the European Commission and the UK.***

Further to the Council Conclusions of April 2006, joint programming started with ACP countries where the beginning of the 10th EDF programming process provided a unique opportunity to kick-start efforts in the field. Specific attention was paid to the joint programming process in Burkina Faso, the Dominican Republic, DRC, Ethiopia, Ghana, Haiti, Kenya, Mali, Sierra Leone, Somalia, South Africa, Tanzania, Uganda and Zambia in order to include both joint analysis and joint response strategy in the joint programming process. Concerning the non-ACP countries, when the Council Conclusions were adopted, the programming for the DCI and ENP instruments, which cover the period 2007–2013, was already at an advanced stage. Therefore, the Common Framework for Programming was not used. Nevertheless, the partner countries and Member States were fully involved in the programming exercise and the main principles of the joint programming were maintained. The next Mid Term Review, foreseen in 2009, will provide the opportunity for joint programming in these countries as well.

In addition to interesting achievements, experiences so far also highlight the complexity of the process. Insufficient communication between HQ and field staff, the heterogeneous nature of donors' programming mechanisms and cycles, most notably regarding timing of the planning cycles and formats of the programming documents, alignment with the partner countries' programming cycles (systems and processes) and potential tension between EU and donor-wide harmonisation processes (in particular the Joint Assistance Strategy — JAS) are some obstacles to be dealt with when it comes to translating the political commitment into field

realities. Also, the adoption of the EU CFCSP proved to be a sensitive issue: whilst it was developed to build a comprehensive and exhaustively coherent approach, it also tends to make the process more complex and demanding for the donors participating in the joint programming exercise.

***Box 16 - In South Africa, the EC and 10 Member States present drafted a joint Country Strategy Paper setting out the common broad strategic objectives of EU-South Africa development cooperation. In Somalia, six Member States and Norway coordinate their responses.***

Although not all EU Member States took part in the process (13 out of 27 countries<sup>6</sup>), most of those Member States who did gave positive evaluations of the joint programming exercise in general. It is felt by Member States<sup>7</sup> that facilitation of joint programming will benefit from common practical EU guidelines, the organisation of joint missions, reinforced in-country communication and coordination. A description and analysis of the joint programming process is attached at annex 3.

Joint programming has emerged as a promising exercise and there remains considerable scope for the Commission and Member States to advance the process in the future. First of all, joint programming is by definition a flexible and gradual process that has not come to an end with the conclusion of the 10th EDF programming exercise. The experiences so far represent important first steps in a longer-term process meant to structure development cooperation between EU donors and partner countries and thus provide the potential and momentum for deeper joint programming in the future. Secondly, both the Commission and the Member States remain highly committed to going ahead with this exercise and to extending its scope by enlarging the range of partner countries involved in the ACP region and beyond. For instance, most new Member States<sup>8</sup> would be interested in considering the option of joint programming in the region<sup>9</sup>, in particular in the countries within the former Soviet sphere, where they think they could have a real added value. In Asia and Latin America, too, there are good prospects for developing joint programming especially in those countries where advanced coordination mechanisms among donors are already in place, most notably in Vietnam and Nicaragua.

***Box 17 - In Ghana and Mali, discussions on EU joint programming marked the start of donor wide preparations for a division of labour as envisaged by the EU Code of Conduct.***

Priority actions for the future can be divided between two levels:

- Field level: facing the implementation challenges

The joint documents form a solid basis for harmonised and aligned delivery of EU development assistance. Now the process needs to be intensified by moving from the strategic, policy level to more operational aspects, involving coordinated implementation and monitoring of individual work programmes and the achievement of a good division of labour optimally based on the comparative advantages of each donor. In this respect the EU Code of

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<sup>6</sup> AT, BE, DK, FI, FR, DE, EL, HU, IE, IT, NL, ES, SE and UK

<sup>7</sup> Based on their response to the Monterrey questionnaire

<sup>8</sup> BG, CY, EE, HU, LT, LV, MT, PL, PT, RO, SI, SK.

<sup>9</sup> Among others: Bosnia Herzegovina, Georgia, Ukraine, Moldova, Serbia, and the Former Yugoslav Republic of Macedonia.



Conduct represents a fundamental tool to further enhance the joint programming exercise. As an example, more than 95% of the draft 2008-2013 Country Strategy Papers for ACP countries includes a commitment to undertake Strategic Environmental Assessments when necessary. The Commission and the Member States will pursue their collaboration to jointly undertake these assessments whenever appropriate.

- Political level: strengthening the dialogue between the Commission and the Member States

In the medium to long term the challenge will be to extend the geographical scope of joint programming. Better communication among EU actors will be crucial to reaching this goal: sharing lessons learned and identifying best practices from current experiences will indeed provide valuable insights for future exercises and sound and coherent support to the field, where the joint programming exercise will be ultimately designed.

### *3.2.2. Division of labour*

Convinced of the need to further progress on complementarity of aid, in May 2007 the EU adopted a Code of Conduct on Division of Labour in Development Policy. This Code of Conduct is voluntary and flexible and should be implemented with a country-based approach, taking into account the specific situation of the partner countries, with the primary leadership and ownership lying with the partner country government. The Code proposes an inclusive approach that is open to all interested donors, and should wherever possible build on existing coordination mechanisms.

It is crucial that the division of labour is not implemented at the expense of global aid volumes or predictability of aid flows, and that it is carried out in collaboration with the partner countries. The implementation of the Code covers three dimensions of complementarity: (i) in-country, (ii) cross-country and (iii) cross-sector. It is based on 11 operational principles.

#### ***Box 18 - The 11 guiding principles of the Code of Conduct on DoL***

- Concentrate on a limited number of sectors in-country
- Redeployment of other in-country activities
- Lead donor arrangement
- Delegated cooperation/partnership
- Ensure adequate donor support
- Replicate practices at regional level
- Establish priority countries
- Address the “orphans” gap
- Analyse and expand areas of strength
- Pursue progress on other dimensions of complementarity
- Deepen reform

### *3.2.3. A strategic approach to co-financing*

Scaling up EU aid (from EUR 46 billion in 2006 to EUR 90 billion by 2015) will trigger disproportionate increases in bilateral aid flows and pose significant managerial challenges to Member States. Indeed, bilateral aid is expected to account for 80% of total aid in 2015, compared to 68% in 2006. Small and scattered project activities, which inflate overall administrative costs and reduce impact and visibility, are set to increase as emerging and decentralised donors join the ranks of development actors.

In response to this, there has been a political will to advance to capitalise on the use of co-financing – corresponding to 'joint local arrangements' deliverable - at EU level. It has been repeatedly expressed by the Commission and by Member States. In order to implement the European Consensus and the Paris Declaration, the Commission defined a strategic approach to co-financing with a four-step approach (to clarify definitions, to create the proper enabling environment, to implement the Paris Declaration, and to create an incentive mechanism for collaborative behaviour) in the communication *EU Aid: Delivering more, better and faster*<sup>10</sup>. In their Council Conclusions of April 2006 EU ministers welcomed “co-financing and joint financing arrangements as concrete steps to more action and supported the Commission’s intention to develop a methodological framework”.

***Box 19 - A practitioners’ network has been set up to allow EU donors to share good practices on aid implementation, such as DoL, cofinancing, institutional reforms and quality of programmes.***

EU donors have started to use co-financing often to support division of labour or increase the impact of projects. The European Commission has revised its financial regulations specifically to facilitate co-financing. Driven by this political will, the new Financial Perspective 2007–13 and the 10th EDF provide an enabling legal environment for co-financing between the Commission and Member States. In addition, the wealth of co-financing experience and expertise amassed within the EU over years of practice further lends itself to the promotion of co-financing among EU actors.

***Box 20 - In 2007, in Haiti, EUNIDA, a grouping of eight technical assistance agencies, jointly implemented a public administration capacity-building programme co-financed by the European Commission, France and Spain.***

In this context, a study on the current levels of EU co-financing was carried out on the basis of the experience learned from case studies of co-financing in the beneficiary states, highlighting some substantial improvements that have been observed either from the Commission side or the EU Member States.

***Box 21 - The EC study on co-financing describes lessons learnt from existing practices.***

#### 3.2.4. *Support for local processes*

To improve coherence and aid effectiveness, the Commission submitted to the Council in 2006 a report on local processes towards greater aid effectiveness providing baseline data on aid effectiveness in partner countries. This report was an input to the preparation of the 2006 OECD/DAC Survey. The Report focused on the four additional commitments made by the EU in Paris and the obligation to assess, support or establish local roadmaps on harmonisation. It underlined the status of local processes in 95% of the partner countries that signed the Paris Declaration and all of those which signed the Rome Declaration. It showed that, while progress is being made, greater efforts are needed to advance the aid effectiveness agenda at field level.

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<sup>10</sup> “EU Aid: Delivering more, better and faster”, Communication from the Commission, COM (2006) 87 final, 2 March 2006, Art. 60

***Box 22 - The EC Report on DoL highlights progress on implementing the Code of Conduct on DoL and the follow-up of local harmonisation roadmaps.***

#### **4. FOCUSING ON DRIVERS FOR PROGRESS**

It is essential to reach a higher standard in the implementation of the PD. To do so, it is important to invest in a few drivers for progress that leverage success in the wider aid effectiveness agenda. It should be noted also that the Commission and the EU MS commit themselves to promote a harmonised approach to cross-cutting issues, such as gender equality across all the drivers (see annex 5) .

##### **4.1. More predictable aid**

The macroeconomic management of volatile aid inflows, and the decision on how best to use instruments of monetary policy while containing inflation, is one of the main struggles partner countries face. In fact, concerns with the short-run management of aid inflows can threaten to overshadow the positive effects of aid in the medium term. In the long run, aid volatility negatively affects real economic growth, because large fluctuations in aid inflows can result in instability of employment, changes in government budgets and uncertainty about the degree to which resources will be utilised in the future. This negative relationship — which is stronger for sub-Saharan African countries — may generate pressures for countries to reduce reliance on aid flows, even when the medium-term returns on aid remain high and when donors are committing to substantially increase their aid budgets.

***Box 23 - On average, aid flows are at least six times more volatile than fiscal revenues. The relative volatility of aid is highest for the most aid-dependent countries.***

The European Commission has taken steps to improve long term predictability in its aid management system. There are multiyear allocations to non-ACP partners through the budget Financial Perspective, and to ACP partners through the 10<sup>th</sup> EDF (Cotonou agreement). The national envelopes translate into programme cycles in the Country Strategy Papers (CSP) of seven years for non-ACP (2007-2013) and six years for ACP (2008-2013).

Budget support is one important instrument for improving aid effectiveness to meet the MDGs, but current approaches could still be made more long-term and predictable. Firstly, there is a relatively short time horizon, which has up to now has consisted of typically three years in the case of the Commission. Secondly, a significant and costly degree of unpredictability arises from the annual application of eligibility and disbursement conditions. While these are important to reduce the risk of aid being wasted should the policy environment deteriorate, they should be assessed in view of their overall impact on the likelihood of meeting the developmental objectives of budget support. By making the actual availability of donor resources uncertain, the annual application of conditionality measures and the short term commitment horizon can limit the effectiveness of budget support and may also discourage Ministries of Finance from allowing more ambitious spending plans, despite the availability of donor resources. This is particularly true for those spending programmes — including capital spending — that entail long term recurrent cost commitments, such as teachers' and nurses' wages, and that are necessary to achieve the MDGs and for which significant financing gaps have been identified. For this reason, the European Commission has been developing the "MDG Contract" in consultation with the EU Member States as a longer-term, more predictable form of budget support.

***Box 24 - EC Financial Perspectives and Country Strategy Paper ensure transparent multiannual predictability of aid allocations.***

The MDG Contract targets well-performing countries that have successfully implemented budget support and show a commitment to achieving and monitoring the MDGs (more than half of Community general budget support from 10th EDF). This form of budget support would last for six years; provide a minimum, virtually guaranteed level of support; entail annual monitoring with a focus on results; assess performance in a medium-term framework; and be targeted at strong performers. The contractual nature of the agreement sets it apart from other long-term forms of “commitment” and implies harder financial engagement, offering long-term predictability in return for greater commitment to results by partners. The effectiveness of the MDG Contract will be enhanced if implemented in harmony with other budget support providers. The Commission remains committed to ensuring that the MDG Contract will be pursued in accordance with in-country harmonisation processes, while encouraging all budget support partners to promote and adopt the principles of longer-term, more predictable budget support with a strong focus on results.

***Box 25 - The MDG Contract: a longer-term, more predictable form of budget support.***

#### **4.2. Enhanced use of country systems**

The use of country systems (including both public finance management and procurement systems) is an important proxy of the reality of ownership and alignment. It is also a key component for strengthening capacity building and developing the local market. This is why the EU has agreed to a target that goes beyond the Paris Declaration (50% of use globally). In line with the commitments it made in the Paris Declaration, the EU recognises budget and sector support, where it can be justified, as the most suitable instrument to support ownership, alignment and lower transaction costs in international aid.

In 2006/2007, the Community integrated this objective into its new programming cycle. Convinced of the impact of General and Sector Budget Support and its collateral benefits in terms of capacity building, the Community has chosen to make this 50% target an objective for the level of aid passing through Budget Support. Of course, such a target cannot be “one size fits all” and depends on both local spending conditions and the country’s absorption capacity. It is based on uneven levels that might result in a higher or lower percentage in PCs. Around 20 non-ACP countries will benefit from budget support for 2007-2010. In 2007 a record level of 28% of total budget funds (with 5% GBS and 23% SBS) was reached. Presently 45.6% of the 10th EDF national indicative amounts are programmed as budget support (29.6% general budget support and 15.9% sector budget support).

***Box 26 - In Asia, Budget Support represents 22.8% of programmed aid (2007-2010). General BS represents 43% provided to Cambodia, Laos, and Vietnam. 18.5% will be channelled through Sector BS dedicated to natural resources (Bhutan), health (India, Philippines and Vietnam), and basic education (India, Indonesia)***

This includes both countries that have programmed budget support and countries that wish to introduce budget support as part of their response strategies as soon as prospective eligibility improves. Moreover, the number of countries that have programmed budget support is on the increase, from 28 countries that had done so at the beginning of the 9th EDF, to 44 countries for the 10th EDF that started this year. Another 10 countries may qualify later. And in

countries where conditions are not met, support will be provided to help them qualify, thus improving country capacity for public finance management, auditing and procurement. Therefore following the mid-term and end-of-term reviews these trends may increase further. The Commission is therefore well on track to reach this double objective of 50% of country system use by 50% of budget support.

***Box 27 - General and Sector Budget Support has reached the unprecedented level of 45.6% of the new national programmes of the 10th EDF.***

#### **4.3. Stronger management for results, less conditionality**

Conditionality cannot (for long) impose donor strategies on unwilling governments. But in areas where interests overlap, international partners can work towards common objectives. Agreed performance targets and conditions serve as signals, so that conditionality creates managerial pressure for reforms. This helps donors to strike a balance between maximising partners' policy ownership and their accountability to domestic tax payers. Collaboration on policy development and implementation requires mutual accountability in commitments and in results. The onus is on both parties to continue to learn from experience without disincentives to candour. Joint reviews of aid performance against the Paris Declaration benchmarks offer a way forward for countries that do not yet have mutual accountability mechanisms.

***Box 28 - The challenge is to move from a rule-based approach to a risk-based approach which compares the risk of acting with the risk of not acting.***

Several policy choices for results-based management are available:

- A greater level of selectivity among recipient countries in favour of countries committed to policy objectives favoured by donors.
- The use of “floating tranches” which are likely to trigger aid disbursements. This practice effectively gives the recipient a degree of freedom but also moves donors away from having to confront the dilemma of either brutally interrupting the aid programme, or waiving the condition not met at the risk of removing all credibility from the sanctions.
- A third approach, recommended and implemented by the European Commission, has been to link aid to performance (ex post) rather than to the adoption of policy changes (ex ante). Performance is measured in terms of ultimate objectives (e.g., reduced child mortality) rather than intermediate targets (such as the number of children inoculated). The idea is that a performance-based approach allows for better ownership of reforms, since the choice of instruments would reside with the country; it avoids arbitrary judgment on multiple heterogeneous economic policy measures; and it facilitates gradual and progressive support according to the degree of progress of performance relative to outturns.

The above-mentioned MDG contract also places greater emphasis on a government's performance and results for development, rather than its compliance with numerous, detailed conditions.

Finally, countries often face hundreds of different conditionalities from various donors. Apart from being an unmanageable burden on the partner country, they also risk clashing. It is essential that the donor community drastically reduces the number of conditionalities, while

maintaining their quality. The Community, the World Bank, and African Development Bank are currently working on a pilot project to develop a common set of indicators. The three donors together comprise a significant part of global aid flows. If these donors can coordinate conditionalities, this will significantly reduce administrative costs for partner countries.

***Box 29 - Tanzania produces about 2400 reports annually to donors. And just for multilateral development banks, the government is required to submit 8 000 audit reports annually.***

#### **4.4. Further untying aid**

Untying is not a technical issue. It is a highly political question that touches on the reality of ownership and the neutrality of aid. It has deep effects on the costs and transparency of aid. According to World Bank estimations, tied aid raises the cost of goods and services by up to 30%. It is also a constant procedural impediment to joint operations. Despite the longstanding OECD Recommendation on untying ODA to the LDCs, the relevant PD indicator is not ambitious. It is in fact the one and only indicator which is not forward looking. There is an urgent need for more progress on untying.

***Box 30 - Completely untying aid could result in an estimated €6.5 billion increase in “value for money”.***

Progress has been made since 2004:

- Most EU aid is untied, well above the global ratio of 75%.<sup>11</sup> Eleven Member States have completely untied their aid<sup>12</sup>, including Lithuania and Malta, considered to be “emerged donors”. The Member States that are OECD/DAC donors have either almost fully untied their ODA or introduced new measures to further untie part of their aid. The remaining EU-27 countries have started to implement the 2001 OECD/DAC Recommendation. Nevertheless, four of the Member States that participated in the DAC survey are still below the global baseline.
- The Community adopted two regulations concerning tied aid in 2004/2005 that have been incorporated in the new aid instruments. They untied EC external assistance far beyond the scope of the DAC recommendations. They go far beyond the sole trade off between DAC donors, and put the partner countries centre-stage by largely untying aid to them as well as maintaining existing price preference systems. The EC offer of full access on the basis of reciprocity for non-EU donors is currently being applied to several DAC members<sup>13</sup>.
- As of 2007, the EU now represents a community of 27 donors that, under the Public Procurement Directives, are completely untied by law in relation to each other. Note that

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<sup>11</sup> According to the 2006 Survey on Monitoring the Paris Declaration, the EU baseline ratio is 87%. However, the Survey is based on the reduced interpretation of untied aid based on the OECD DAC Recommendation (excluding technical assistance and food aid, accounting for a significant share of some donors’ ODA). That is why the current data presented in it do not reflect reality in terms of the ongoing untying process

<sup>12</sup> Belgium, Denmark, Finland, France, Ireland, Lithuania, Luxemburg, Malta, the Netherlands, Sweden, and the United Kingdom

<sup>13</sup> Australia, Canada, Switzerland



this implies a high level of untying for the 55% of ODA and the 80% of the future scaling up of aid that the EU ODA represents.

Since 2002, the EU has constantly reaffirmed its willingness to continue to accelerate the discussion on further untying and welcomed the first, albeit limited, extension of the DAC Recommendation's scope.<sup>14</sup> The Commission supports the ongoing extension of the DAC recommendation to all HIPC countries. It is supporting further untying of technical assistance, food aid and food aid transport. It also calls for a more pro-poor approach centred on developing countries by opening access to developing countries themselves.

#### 4.5. Situations of fragility

Situations of fragility constitute a major challenge to sustainable development and peace. Fragility may exacerbate the risk of failing to reach the Millennium Development Goals and also involve regional and global security risks. The EU should make more effective use of the full range of existing EU policy tools and external action instruments to address, in a coherent and timely manner, situations of fragility in partner countries. This represents a specific challenge and requires an appropriate response in the context of aid effectiveness.

***Box 31 - In 2006, three bilateral donors provided 65% of total ODA to Central African Republic, Côte d'Ivoire and Liberia.***

The Council has asked the Commission to present by 2009 an implementation plan based on an EU response to situations of fragility and on the experience acquired through "pilot" cases. The ***EU response*** should therefore combine political, diplomatic, development, security and humanitarian instruments. A comprehensive and forward-looking use of Community and Member States' development instruments is required to progress in meeting the MDGs and in preventing and addressing situations of fragility. This plan should be prepared in close cooperation with Member States and the Council, taking into account the work being carried out on fragility by international organisations and in dialogue with civil society and other stakeholders.

***Box 32 - In Uganda, DFID and the NGO Saferworld are supporting local partners to ensure that a new water distribution does not fuel conflict amongst local communities.***

It is essential for donors, particularly in situations of fragility, to be ***conflict-sensitive***: that is "to do no harm and to guard against unwittingly aggravating existing or potential conflicts" as well as effectively addressing the underlying causes of poverty and conflict. It is essential that practitioners have a thorough understanding of the causes and dynamics of conflict so that they can design their programmes and projects in a way that addresses these and helps contribute to peace. This requires basing development interventions on a constantly updated conflict analysis and applies to all types of funding mechanisms, from macro-level instruments, such as direct budget support, through national poverty reduction strategies and the support of more localised or focused projects and programmes.

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<sup>14</sup> Lowering the threshold for its application

## 4.6. Division of labour (DoL)

Convinced of the need to further progress on aid complementarity, in May 2007 the EU adopted a Code of Conduct on Division of Labour between donors.

### 4.6.1. In-country dimension of DoL

After a first phase of adoption and information, the EU is now moving on to a second phase of outreach to partner countries and other donors and of implementation in the field. In this context it is important to draw initial lessons from emerging practices. The following analysis is based, on the one hand, on country cases reported from the field by Member States and Commission delegations and, on the other hand, on the compendium of good practices on division of labour that the Commission has been asked to draft for the OECD/DAC.

***Box 33 - A consultation on the implementation of the Code of Conduct in Nicaragua was held (end 2007 – early 2008). It highlighted the donor-driven aspect, the heterogeneity of cycles as difficult factors, Member State sector dispersion, and the PC's cautiousness about the process.***

There are limited operational cases of implementation of the Code. Most of them were ongoing processes that have been re-launched by the adoption of the Code i.e. Ethiopia, Ghana, Tanzania, Mozambique, and Vietnam. The launching of the Code prompted discussions on DoL in a number of countries (Laos, Bangladesh, Cambodia, Nicaragua and Bolivia). Most of the processes for implementing the Code are still under discussion and they are being questioned by the partner countries themselves. It is unrealistic at this stage to expect much global progress, but numerous good practices can be put forward. The level of coordination and the need to define concrete DoL differ amongst countries, but partially correspond to the categories of “orphans” and “darlings”.

In “donor darling” countries — like Burkina Faso, Ghana, Kenya, Mali, Mozambique, Senegal, Vietnam — coordination is fairly good, but the principles of the Code are not yet being applied. For example there are too many donors by sector, more than three sectors of concentration per donor and very limited use of implementation instruments (e.g. delegated cooperation, co-financing, silent partnerships).

In “orphan” countries — such as Congo-Brazzaville, Madagascar, RCA and Togo — the picture is more uneven. Dialogue among donors is often less coordinated. Incentives for DoL are limited — i.e. few donors, many needs, and the principles are sometimes not applicable (e.g. no country leadership). Nevertheless, good practices are observed in some countries — such as in Chad and Niger — and in particular in post-conflict countries where coordination is deemed necessary such as in Côte d'Ivoire, Togo, and Lebanon.

In most countries that conducted the 2006 DAC survey, emerging donors have yet to get involved. The Code has been presented to the PC and other donors in most countries. There is an emerging consensus on the importance of the Code of Conduct in some countries, i.e. Burkina Faso, Kenya, Mali. In most countries, specific EU coordination has taken place to push the Code.

***Box 34 - In Burkina Faso, five donors are active in half of all the country sectors. Half of donors are active in one third of the sectors.***



## Outreach to partner countries and other donors

There seems to be a general lack of ownership by partner countries that have not been sufficiently associated with donors' coordination and implementation of the Code. Good perspectives have been developed in Vietnam, Kenya (signature of partnership principles) and in Burkina Faso (creation of a national structure for aid effectiveness). It is a positive sign that partner countries have placed DoL in their list of priorities and expressed an interest in adapting the Code in order to own and implement it. Strengthening PCs involvement in and ownership of the Code should therefore be a priority. Dialogue with PCs must be reinforced. Accra will provide the occasion to show proof of results, to exchange good practice and to further engage in dialogue using the workflow on division of labour that Germany is helping to devise for the EU.

***Box 35 - The DAC Working Party on Aid Effectiveness has mandated France and the EC to compile a Compendium of Good Practices on Division of Labour.***

### Sector concentration

Sector concentration is a medium-term objective. Its implementation depends on strategic decisions by donors, but also on technical elements such as the programming cycle. If this argues for a pragmatic and step-by-step process, it cannot be an excuse for inertia — as 11 Member States and the Commission have engaged in new programming cycles since 2005. Very few donors have engaged in an in-depth sector concentration process (e.g. Denmark). In most cases, sector concentration has started where a joint programming mechanism has been initiated. It is linked in most cases to the revision by the partner country of its strategy (e.g. the Action Plan in Madagascar), the development of a Joint Assistance Strategy, such as the Nordic+ model or other (e.g. Ghana, Zambia, Uganda, Tanzania, Mozambique, Mali, RCA) or new programming for one or several donors.

***Box 36 - In Vietnam, the EC will concentrate 80% of its aid for 2007-2010 in two sectors of concentration (general budget support and capacity building in the health sector). The remaining 20% will be dedicated to non-focal sectors (trade and governance).***

As far as the Commission is concerned the new cycle of Country Strategy Papers, in accordance with the Code, has inserted a strong sector concentration obligation for a substantial part of Community aid. In the majority of Community partner countries, aid is increasingly concentrated in a limited number of sectors. The average is 2.9 in Latin America, and 3.3 for Asia, compared to average of 5.6 in ACP and 6.2 in neighbourhood countries. In the majority of the EDF countries, aid is concentrated in three sectors, with the lower level of concentration mainly occurring in support to fragile, post-crisis countries with broad multi-sector LRRD-type<sup>15</sup> activities.

Sector concentration is strongly based on comparative advantages built up under previous programming exercises. Further concentration, including other instruments and thematic budget lines, will need to be addressed in the next period. Several lessons can be drawn from country cases. First, there are a few key drivers behind the existing cases of division of labour. Second, there are certain recurrent operational elements that have emerged from

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<sup>15</sup> Linking Relief, Rehabilitation and Development

existing good practices. Third, some fundamental quandaries central to implementation have yet to be resolved.

***Box 37 - Denmark is one of the first Member States to initiate in-depth sector concentration, based on an attempt to define its comparative advantage.***

### **Further efforts are needed**

The Code of Conduct is to be mainstreamed in all Member States and relevant Commission concerned services. It has been designed to be widely applied, whenever process and conditions allow for it. In its application appropriate account will be taken, for example of the broader political framework for a given region (e.g. the need for multi-sectoral and "acquis" related partnership in the context of the European Neighbourhood Policy (ENP)).

***Box 38 - In Mali, more than 26 donors are active in rural development.***

There is a long list of countries where potential for progress is emerging. It is essential to quickly invest with the Member States in some country cases to develop some success stories that go beyond the usual showcases. It is essential to target cases of potential success and to help field offices to move forward in a complex and difficult context.

***Box 39 - Member States and the EC are identifying fast-track countries where they could jointly invest to speed up the implementation of the Code of Conduct.***

These should not be considered "pilot countries", but rather countries where EU donors have agreed to support existing local processes by bringing in political support and additional inputs. It is not about HQ "diktats" but about supporting country-driven processes. Several Member States have agreed to try to facilitate, with the Commission, some country processes.

### **Self-assessment of respective added value**

In the Paris Declaration donors committed to "make full use of their comparative advantage at the sector or the country level by delegating, where appropriate, authority to lead donors for the execution of programmes, activities and tasks". Subsequently the EU Code of Conduct specified a number of criteria to determine comparative advantage<sup>16</sup>, and indicated that the comparative advantage of a donor should be self-assessed, endorsed by the partner government and recognised by other donors.

Donors committed in the PD to make full use of their respective advantage at sector or country level; in line with this, the EU donors have agreed in the Code of Conduct<sup>17</sup> to "deepen the self-assessment of their comparative advantages as regards sectors and modalities with the aim to identify those in which they would like to expand, as well as those where they

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<sup>16</sup> Such as: (i) presence in the country, (ii) experience in the country, the sector or the area, (iii) trust and confidence of the partner government and of other donors, (iv) technical expertise and specialisation, (v) aid volume at the country or sector level, (vi) capacity to enter into new or forward-looking policies or sectors, (vii) capacity to react rapidly and/or long-term predictability, (viii) efficiency of working methods, procedures, quality of human resources, (ix) relatively better results, (x) relatively low cost compared to other donors for satisfactory level of quality, (xi) acquiring experience and new capacity as an emerging donor.

<sup>17</sup> Guiding Principle 9 — Analyse and expand areas of strength

might be willing to reduce their own activities.” The Commission has committed itself to further developing its expertise and capacities in areas where it has comparative advantages.

***Box 40 - Some of the new EU-27 Member States have developed niches of comparative advantage with solid expertise and good added value such as Estonia on e-governance or Slovenia on women and children in post-conflict areas.***

The assessment of Community added value was started since the first Development Policy Statement of November 2000. Community aid was focused on six sectors where the Community has added value and which relate to the poverty reduction objective (link between trade and development; regional integration and cooperation; support for macro-economic policies and promotion of equitable access to social services; transport; food security and rural development; and institutional capacity-building). While this focus was judged useful in terms of institutional set-up, it was also judged too restrictive to respond to country-driven needs and agendas. The European Consensus has refined the definition of the Community’s comparative advantages in a two-step approach.

As a first step, at institutional level, the Commission will aim to provide added value through the following elements: its global presence; policy coherence; promotion of development best practices; facilitation of coordination and harmonisation; delivery in areas where size and critical mass are of special importance; promotion of democracy, human rights, good governance and respect for international law, with special attention paid to transparency and anti-corruption; and the facilitation of dialogue with local economic and social interest partners.

In a second step, at country level, the Commission will choose, in dialogue with the PC, Member States and other donors, and in accordance with national strategies, specificities and needs, its sector of activities, according to the sector concentration entailed in the Code of Conduct, amongst the areas defined at institutional level.

This two-step approach has been used for the new programming cycle for Community aid. It allowed a pragmatic view of how the Community can today assess the reality of its added value in the field.

As explained above (see Sector Concentration), EDF support is usually concentrated in three sectors, except in fragile, post-crisis countries. The main ones are general budget support (>40% of countries, around 30% of volume), infrastructure, including water/energy (>60% of countries, around 30% of volume), governance, including peace/security (>60% of countries, around 15% of volume), rural development and agriculture (>30% of countries, around 8% of volume).

***Box 41 - France has used the OECD/DAC Peer Review 2008 to evaluate its comparative advantage in Mali and Central African Republic.***

The impact of this concentration is in many cases reinforced by trade support and regional integration, in synergy with the planned actions at regional level. Social sectors receive relatively modest direct support (around 8% going to specific health, education and social cohesion programmes), but Community support in concentration areas and general budget support in support of the partners’ poverty reduction strategies also contributes to reaching the MDGs. Support for trade, regional integration and private sector development and for non-state actors is widespread (explicitly provided for in 50% of the countries), environmental

projects are provided for in 20% of the countries, mostly through non-focal area projects. Sector concentration is strongly based on comparative advantages built up under previous EDFs. Further concentration, including other instruments and thematic budget lines, will need to be addressed in the next period.

During recent EU joint multi-annual programming for the 10th EDF (2008-2013) in ACP-countries the EU donors, and sometimes other donors, started or deepened the discussion on rationalising their presence, some donors<sup>18</sup> having already taken steps towards more concentration. Member States that have not yet started similar process are encouraged to start conducting similar exercises on self-assessment of their respective added value.

#### *4.6.2. The cross-country dimension of DoL*

The cross-country dimension of division of labour is an essential strategic aspect of further progress on complementarity. It is of a different nature from the in-country dimension of DoL, and touches on very political and institutional issues. In order to support further progress in this area, in May 2007 the EU adopted a few related principles in its Code of Conduct where the decision was taken to start political dialogue about future engagement and strategic planning concerning geographic concentration and country priorities.

***Box 42 - The revised EU donor atlas highlights aid trends at global level, and in four regions (SADEC, ECOWAS, ASEAN and Central America). They are linked to emerging country atlases such as the ODAMOZ.***

Member States and the Commission have agreed in particular to address their geographic concentration and country priorities, to strive for more transparency in their strategic planning and to share forward-looking data on commitments. In order to provide transparent data on aid flows the Commission has revised and updated its Donor Atlas.

#### **Establishing priority countries**

***Box 43 - Some Member States have started to reduce their list of priority countries: France (12), Sweden (25), The Netherlands (37), and the UK (22).***

All EU donors have procedures for selecting partner countries that could be a basis for further geographic concentration. Criteria used for this purpose include the economic, social and poverty situation, the potential for promoting democracy and good governance, experience with past cooperation in the country, the presence of an embassy, relevance for global public goods, and historical or cultural ties. In addition to these criteria, the selection of partner countries also implies political considerations.

However, (too) many EU donors are still present in too many countries, with too many projects with limited impact. Trends show that there is an ongoing geographical process whereby donors are concentrating their aid in order to achieve stronger impact. It is important that such processes are somehow put in a global context. EU donors have committed themselves in the Code of Conduct to make this point an important element of their political dialogue on cross-country division of labour.

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<sup>18</sup> Notably Finland, France, and the Netherlands

***Box 44 - Thanks to enhanced concentration on priority countries, Luxembourg is now one of the largest donors in Burkina Faso.***

### **Support for regional partner organisations**

The EU is strengthening its strategic partnerships with different regions in the world based on political dialogue, enhanced trade and a sustained level of development cooperation. In this context, regional organisations are evolving as increasingly important actors. The EU is backing this development financially. Thus, for the period 2007-2013, the Community allocated to regional integration €1 783 million through the 10th EDF (ACP), €775 million for Asean, the ASEM and the SAARC (Asia), €75 million for the SICA (Latin America) and €38 million for Mercosur. The Member States are also contributing with funds to these regional integration organisations.

It is indeed essential that this new dimension be completely integrated within the ongoing work on DoL. This is why the Code of Conduct highlighted the vertical dimension as an important element of DoL, which needs to put in synergy donor efforts at local and multilateral efforts at regional level<sup>19</sup>. The coordination and complementarity of EU support to regional partner organisation should be a priority of the forthcoming political dialogue on cross-country division of labour.

***Box 45 - The 2006 OECD/DAC report identifies Burundi, the Democratic Republic of Congo, Guinea, Nigeria, Uzbekistan, and Yemen, as “marginalised countries”.***

### **Orphans, darlings and situations of fragility**

The EU Donor Atlas shows two trends: (i) a concentration of aid in certain “attractive” or “darling” countries and sectors, creating “orphan” or forgotten countries and sectors, and (ii) fragmentation of activities in the “darling” countries/sectors, with a plethora of actors and small-scale projects. The issue of “orphans” cannot, of course, be simplified to mean countries receiving little aid. In some cases, low aid is the result of explicit political decisions by donors in reaction to bad policies. In addition, countries in situations of fragility are too often donor orphans.

***Box 46 - In 2006, 75% of ODA to the 38 DAC fragile states went to five countries: Nigeria, Afghanistan, Sudan, the Democratic Republic of Congo (DRC) and Cameroon.***

While acknowledging the Commission’s added value provided through its global presence, the Member States and the Commission decided to address jointly the current imbalance in resources provided to aid “darlings” and “orphans” and avoid the creation of new imbalances. This commitment has been put into practice in the Code of Conduct on DoL, which provides clear guidelines<sup>20</sup>. Although donor concentration should be encouraged, changes in donor priorities and policies could impact significantly on the predictability of aid flows to countries dependent on exceptionally few donors.

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<sup>19</sup> Code of Conduct Guiding Principle 4 — Replicate practices in cooperation with partner regional institutions: Taking into account the increasing/scaling up of aid volumes and activities at regional level, EU donors will also apply the above principles of in-country division of labour in their work with partner regional institutions.

<sup>20</sup> Code of Conduct Guiding principle 6 — Address the “orphans” countries of aid allocations: EU donors will strive to dedicate part of their aid budget to “under funded” countries. These are often ‘fragile states’ whose stabilisation has a positive spill-over effect for the wider region

#### 4.6.3. *Starting a political dialogue*

The EU has agreed to start political dialogue based on information compiled by the Commission, in order to:

- identify countries in which there are substantial overlaps (“*darling countries*”) or gaps (“*aid orphans*”) in terms of donor activity and/or in the level of aid allocations;
- address the issue of aid orphans, and where appropriate aid darlings, and address specific sector issues;
- develop specific response strategies for fragile states, which among other things will serve as an input to the ongoing OECD/DAC initiative and initiatives in other international fora;
- examine how all aid, i.e. existing and additional aid (“*scaling up*”) could be allocated in a complementary way.

In order to trigger this political dialogue, the Commission is intending to produce specific thematic atlases that will help inform such dialogue by benchmarking donor activities on related areas, in particular Member States’ and Commission activities. A first “benchmarking atlas” has been produced that compares donors’ aid and other activities in those partner countries that are often commonly referred as countries in situations of fragility.

***Box 47 - A first thematic Atlas aims at triggering political dialogue on cross country division of labour. It benchmarks donors’ activities on situations of fragility.***

## **Conclusion: a roadmap for results**

While scaling-up aid is vital to achieving the Millennium Development Goals (MDGs), “better aid” is equally important. Progress is needed on both the quantitative and qualitative aspects of aid. They are not alternatives.

The EU has developed instruments and processes for most of its promises. These now increasingly need to be translated into field reality. There is a long list of good practices available on aid effectiveness, but no general trend with a mass effect. Most progress has been achieved in the “easiest 20%” areas.

In the lead-up to the HLF-3 in Accra, we are therefore at a crucial and critical moment in time. The EU needs to pass from “rhetoric to action” on a larger scale in the implementation of the Paris Declaration commitments by hastening the pace of reforms.

Accra needs to be a success. Accra needs to be forward-looking. It needs to build on a comprehensive dialogue with PCs and all actors — in a process of increased mutual accountability. It is particularly important to ensure extensive progress on the following six drivers of progress, namely:

- predictability of aid
- enhanced use of country systems
- further progress on untying aid
- results and conditionalities
- division of labour
- situations of fragility.

On all these six issues, all key embedded aspects of the Paris Declaration, the EU has carried out relevant conceptual analytical work and has concrete experience on the ground for the wider donor community to build on. Several of these issues are common to the priorities identified by Partner Countries.

This roadmap supports work-in-progress and constitutes a basis for a strong EU contribution in Accra. It also intends to go beyond and target the cycle of international events to take place at the end of 2007 and in 2008. In addition, it targets longer-term results and institutional reforms for 2010, in view of the fourth High Level Forum in 2011. Finally, it also targets the achievement of field results for the six drivers for success, in particular a process of fast-track countries for which concrete action and results must be set up by the end of 2008.



## **Annex 1 — Joint EU input into the “Zero” draft of the Aid Effectiveness High Level Forum (HLF-3) Ministerial Declaration (February 2008)**

The European Union reconfirms its commitment to further enhance the implementation of the principles of the Paris Declaration on Aid Effectiveness and the four additional commitments it made at the Paris High Level Forum II.

The EU is therefore committed to further encouraging and supporting partner countries in taking the lead in a country-led approach to improve both bilateral and multilateral aid. In particular, the EU shall address development efforts more systematically in situations of fragility and pay more attention to the “aid orphans”. The EU will work jointly with all development stakeholders, including emerging donors, with a view to further improving the quality and the impact of its aid, including the amelioration of donor practices.

The Accra High Level Forum (HLF-3) on Aid Effectiveness is a crucial political opportunity to agree strong and decisive action by all donors and partner countries on the outstanding implementation issues that are key to meeting the Paris Declaration targets. The forum should also be the opportunity to strengthen the Paris declaration’s implementation by increasing the involvement of all partners, including civil society actors and the private sector.

The EU believes that it is particularly important to ensure extensive progress on four key aspects of the Paris Declaration, namely division of labour among donors, predictability of aid, enhanced use of country systems and mutual accountability for development results. On all these four issues, the EU has carried out relevant conceptual analytical work and has concrete experience on the ground for the wider donor community to build on.

Cross-cutting issues should be systematically addressed. The EU also recognises the necessity to address the six priority issues put forward by the partner countries in preparation of HLF-3.

The EU is proceeding further with the work started with the “EU Code of Conduct on Complementarity and Division of Labour”, adopted after the Paris Declaration as a basis for rationalising, better coordinating and improving the global efficiency of EU development assistance. The EU recognises that the primary leadership and ownership of in-country division of labour should first and foremost lie in the partner country government, taking into account the specific situation of the partner countries. It should be achieved on the basis of a national development strategy.

While “better aid” is vital for achieving the Millennium Development Goals (MDGs), scaling up aid is equally important. The EU will keep its promises on scaling up aid. Furthermore, the EU will support work on a target for predictability in the Paris Declaration and on respective delivery mechanisms. The Commission has proposed the MDG contract concept, on which work is ongoing.

In line with the approach adopted on the extension of the Paris Declaration to further signatories, the EU would like to highlight the efforts made by those Member States that were not present in Paris but, in parallel, have subsequently endorsed the principles of the Paris Declaration. Moreover, these Member States, together with the rest of the Member States of the EU have adopted the European Consensus on Development, the EU Code of Conduct on Complementarity and Division of Labour and ambitious targets for scaling-up their aid by 2010 and 2015.



Finally, the High Level Forum in Accra will also provide an opportunity to address emerging future issues related to promoting effective aid for poverty reduction in the context of sustainable development (such as issues related to climate change).

## Annex 2 — Individual performance on the PD indicators

	3	4	5a	5b	6	7	8	9	10a	10b
Austria	79%	15%	22%	32%	18	36%	51%	45%	14%	33%
Belgium	44%	18%	24%	43%	67	38%	97%	32%	22%	33%
Denmark	47%	48%	29%	45%	69	49%	85%	60%	33%	80%
EC	81%	35%	40%	41%	204	65%		50%	33%	45%
Finland	87%	53%	38%	52%	9	27%	98%	39%	26%	58%
France	52%	20%	28%	60%	63	45%	90%	28%	10%	41%
Germany	55%	37%	35%	34%	40	75%	94%	20%	28%	50%
Ireland	48%	52%	90%	96%	6	72%	100%	64%	41%	57%
Italy	36%	39%	29%	50%	30	45%	41%	40%	8%	18%
Luxembourg	77%	0%	0%	0%	1	57%	100%	41%	20%	67%
Netherlands	70%	36%	71%	78%	23	65%	91%	68%	46%	77%
Portugal	24%	77%	79%	80%	1	20%	26%	4%	50%	0%
Spain	87%	10%	16%	14%	66	76%	30%	14%	8%	12%
Sweden	49%	64%	47%	48%	36	54%	100%	47%	32%	34%
United Kingdom	84%	61%	75%	76%	41	90%	100%	59%	44%	69%
<b>EU</b>	68%	39%	46%	52%	674	65%	87%	47%	27%	49%
<b>TOTAL ALL DONORS</b>	88%	48%	40%	39%	1832	70%	75%	43%	18%	42%
<b>United States</b>	90%	47%	10%	12%	208	45%	7%	28%	28%	39%
<b>Japan</b>	68%	74%	29%	26%	2	66%	89%	33%	2%	52%
<b>World Bank</b>	94%	57%	42%	40%	223	68%	--	57%	21%	49%
<b>Worst performer</b>	GAVI 0%	LUX 0%	LUX 0%	, Lux, GFATM 0%		GAVI 0%	US 7%	Korea 0%	Korea 0%	Portugal 0%
<b>2010 global target</b>	94%	50%	80%	80%	611	87%	66%	40%	40%	66%

### **Annex 3 — Joint Programming**

The general principles of joint multi-annual programming and the Common Framework for Country Strategy Papers — CFCSP) were adopted by the Council<sup>21</sup> in April 2006. It marked the start of a process that has provided the EU with powerful input into the coordination, harmonisation and rationalisation of EU support to partner countries. Thus it has enabled the EU to make a valuable contribution towards enhanced aid effectiveness.

Joint multi-annual programming is the collective effort of the EU and national partners working together to prepare and implement activities in support of the national priorities of the Poverty Reduction Strategy Papers (PRSPs) or similar national strategies aimed at achieving the MDGs. It is based on the leading role of the partner country and respect for partner country ownership, on principles of flexibility and gradualism (taking into account the country situation), on openness (allowing other donors to join), on complementing and strengthening any ongoing harmonisation process (avoiding unnecessary parallel processes). It consists of two steps (1) a joint analysis of the country's situation and (2) a joint response strategy (selecting focal areas based on the needs and priorities of the partner country). The Council invited the Commission and Member States to initiate these first steps gradually and voluntarily on the basis of the CFCSP as a pragmatic tool.

Joint analysis started immediately in 2006 in the ACP countries for the programming of the 10th EDF (2008-2013). A joint response strategy was specifically supported in a number of countries where local circumstances were deemed to be favourable<sup>22</sup>.

This first application of an EU joint programming process has provided valuable experience for taking aid effectiveness forward. It has helped to bring EU donors together, sometimes joined by other donors, to consult each other, to coordinate and streamline their support programmes, to start talks on more concentration of aid, to discuss their roles, to start exploring possibilities for delegated cooperation/co-financing, and to support the government in its leading role in donor coordination. Equally it has allowed the EU to work on articulating EU processes and donor-wide processes, to contribute to these donor-wide processes as an EU group, sharing the same EU approach.

In this way the EU joint programming process has proven a useful stepping stone towards the implementation of in-country complementarity, as envisaged by the EU Code of Conduct, adopted by the Council in May 2007. Joint programming is a dynamic process that will continue during the implementation of the 10th EDF on the basis of joint monitoring and joint reviews. In the coming period the implementation of the EU Code of Conduct will help to deepen the EU joint programming process by more joint work, further enhancement of joint response strategies, and more concentration on a limited number of sectors based on donors' comparative advantages resulting in division of labour. Thus EU joint programming and implementation of the EU Code of Conduct will go hand in hand to contribute to improved aid effectiveness.

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<sup>21</sup> Conclusions of the Council (GAERC) on Financing for Development and Aid Effectiveness: Delivering more, better and faster, adopted on 11 April 2006

<sup>22</sup> As mentioned in Council Conclusions (see 1): the existence of a PRS or equivalent, the existence of a sufficient number of active EU donors revising their programming, the existence of local coordination processes, specific considerations for fragile states, and a positive field assessment.

Now that the initial 10th EDF joint programming process is virtually completed, conclusions can be drawn. The “Monterrey survey”, providing interesting feedback from Member States and the Commission’s overall assessment of the process, highlights the complexity of implementing such a joint process.

The joint process will continue in the implementation phase of the 10th EDF: on the basis of joint monitoring during the annual, mid-term and end-of-term reviews. The ongoing work on division of labour following the adoption by the Council in May 2007 of the EU Code of Conduct on complementarity and division of labour<sup>23</sup> has permitted the EU to give a new dimension and dynamism to joint programming.

### *Response in ACP countries*

Specific attention was paid to the joint programming exercise in Burkina Faso, the Dominican Republic, DRC, Ethiopia, Ghana, Haiti, Kenya, Mali, Sierra Leone, Somalia, South Africa, Tanzania, Uganda, and Zambia, with a view to including both steps: the joint analysis as well as the joint response strategy already in the programming process.

In these countries a favourable climate<sup>24</sup> already existed: the existence of a PRSP or equivalent, a sufficient number of active EU donors revising their programming, local coordination processes, a positive field assessment, and an advanced harmonisation process. There were specific considerations for states in a situation of fragility (Haiti, Somalia and DRC) or exiting from such a situation (Sierra Leone), i.e. countries in crisis or a post-crisis situation with no or weak poverty reduction strategies, where donors considered it necessary to enhance their cooperation in order to have a real impact.

However, as joint programming applies to all ACP countries, experience has not remained restricted to these 14 countries.

Generally speaking, helped by the CFCSP joint programming tool, the EU joint programming process in ACP countries has enhanced information sharing, consultation, coordination, and joint work at least between EU donors if not always with other donors as well. Thus a step towards achieving more aid effectiveness has been made.

The first step, drafting a shared analysis, was taken in many countries. This also applies to the drafting process for governance profiles, the outcome of which fed into the country analysis of the CSPs. The second step, drafting a joint response, was less evident but did take place in a number of countries.

Examples that could be mentioned are: the Country Strategy Paper for Sierra Leone was drafted jointly by the government of Sierra Leone, the European Commission and the UK Department for International Development (DFID). In South Africa the Commission and 10 Member States present drafted a joint Country Strategy Paper setting out the common broad strategic objectives of EU-South Africa development cooperation. In Somalia six Member States plus Norway coordinated their response. In Ghana and Mali EU joint programming marked the start of donor-wide preparations for a division of labour as envisaged by the EU Code of Conduct.

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<sup>23</sup> COM (2007) 72 final of 28.02.2007 “EU Code of Conduct, on Division of Labour in Development Policy”, and GAERC Conclusions of 11th May 2007.

<sup>24</sup> As defined by the Council Conclusions of April 2006

### *Member States' Responses on Joint Programming*

Although not all EU Member States took part in the process (13 out of 27 countries<sup>25</sup>), most of those Member States who did gave positive evaluations of the joint programming exercise in general. Most emerging donors did not yet participate and do not yet know whether they will do so in future<sup>26</sup>. The processes in Tanzania, Zambia, Uganda, Kenya, Somalia, Ghana, Mozambique, Ethiopia, South Africa, DRC, and Mali were singled out as good examples of joint programming.

Adjustment of the programming cycle to that of the partner country does seem possible for most Member States, in the sense that changes in needs and priorities can be taken on board either by adapting the period of the programming cycle to that of the partner country, or by build-in flexibility during the implementation of the multi-annual strategy.

The perception of the consistency between EU joint programming and donor-wide joint assistance strategies varies, with the more negative responses warning about different processes at different levels and two competing systems. This is an important message that needs to be addressed in further work on division of labour.

It is felt by the Member States that facilitation of joint programming will benefit from:

- drafting EU common practical guidelines for joint programming;
- organisation of joint missions by headquarters/capitals, in cases where they provide added value to the local process;
- reinforced communication and continuity of meetings of a technical experts' group, made up of representatives from the Commission and the Member States, to act as a link between the field-led exercise and headquarters/capitals;
- creation of a common website on joint programming;
- better quality coordination at field level, and emphasis on quality of the process.

These aspects are intimately linked with the ongoing work on the implementation of the EU Code of Conduct. Therefore the facilitation work will be integrated in current and future work on the implementation of complementarity and division of labour.

### *Bottlenecks*

**Alignment with the partner countries' agendas and programming cycles (systems and processes).** Commission and Member States' programming processes differ in terms of scope, content, frequency and timing. As suggested in the Council Conclusions of 2006, the problem of reconciling diverging timescales should be resolved through progressive alignment with the partner countries' multi-annual planning cycles (PRSPs and budget processes). Complete synchronisation seems feasible only in the long term, as it also means rethinking the current fixed and standardised period of the EDF programming cycle. In the meantime,

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<sup>25</sup> AT, BE, DE, DK, EL, ES, FI, FR, HU, NL, PL, SE and UK

<sup>26</sup> BG, CY, CZ, EE, LT, MT, RO, SI, and SK. Ireland and Sweden prefer to focus on Joint Assistance Strategies.

flexible arrangements that can be agreed among donors to periodically adjust ongoing multi-annual strategies to the changing needs and priorities of the partner country may offer a solution.

**The format of the programming document.** As stated in the Council Conclusions, the agreed EU CFCSP is one tool for joint programming. Although a large number of Member States stated that the CFCSP was a useful tool, it is less clear whether the format itself will also be adopted as such, or whether a parallel strategic document or a complementary internal strategic work plan will be used complying with specific bilateral reporting obligations while remaining coherent with the CFCSP and adopted CSP in terms of analysis and response. As compared with 2006, it seems in 2007 the discussion is focused on the experience of the process rather than on the use of a particular format, the process being of the utmost importance in the efforts to reduce the transaction costs of aid for the recipient country.

**The relationship between joint programming and JAS.** Some Member States<sup>27</sup> have expressed doubts about the added value of EU-based joint programming compared with other harmonisation processes (in particular, JAS initiatives) or voiced concerns about apparent inconsistencies between the two processes.

The Commission underlines that its objective is to strengthen and complement joint assistance strategies, where needed going beyond the common denominator and promoting EU values; there should be no competition or duplication. The Commission is sensitive to this point. The Commission and EU Member states in 2007 played an important role in developing the Joint Assistance Strategies in Zambia, Tanzania, Uganda, Kenya, Ghana and Mali, in particular the joint donor response including a division of labour.

**Issues of complementarity.** The question of how to achieve a division of labour based on the comparative advantage of each donor is a core element of joint programming. It implies concentration of aid by having fewer donors active per sector, better coordination between donors and improved coordination between donors and the beneficiary country's government. Specifically to answer that question, the Council adopted the EU Code of Conduct on complementarity and division of labour in development policies. It provides much-needed specific and detailed guidance in this respect. Given that in May 2007 the EDF joint programming process was far advanced, the details of the EU Code of Conduct could only be taken into account in a limited way in the joint programming process. However, its general principles of country ownership, leadership, inclusiveness<sup>28</sup>, being based on partner countries' needs and priorities, long-term perspective, and pragmatic approach are shared principles with the joint programming process, and were very much part of that process.

### *Steps forward*

Whilst useful results have been achieved in joint programming, the lessons learnt equally highlight the complexity of the process. The EU Code of Conduct on complementarity and division of labour has given a new dimension and a new impetus to the process. Joint programming is a dynamic process that will continue during the implementation of the 10th EDF on the basis of through joint monitoring and joint reviews. In the coming period the implementation of the EU Code of Conduct will help to deepen the process by more joint

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<sup>27</sup> France signals competition between JAS and CSP in Tanzania, Spain signals different processes at different levels in Haiti, Sweden considers the CSP to be superfluous after drafting a JAS.

<sup>28</sup> Process open to all donors

work, further enhancement of joint response strategies, and more concentration on a limited number of sectors based on donors' comparative advantages resulting in division of labour.

## **Annex 4 — Co-financing**

Major challenges lie ahead of the EU collectively over the next years, with co-financing poised to provide an effective solution: scaling up EU aid (doubling from EUR 46 billion in 2006 to EUR 90 billion by 2015) will trigger disproportionate increases in bilateral aid flows and pose significant managerial challenges to Member States. Indeed, bilateral aid is expected to account for 80% of total aid in 2015, compared to 68% in 2006. Small and scattered project activities, which inflate overall administrative costs and reduce impact and visibility, are set to increase as emerging and decentralised donors join the ranks of development actors. EU commitments on aid effectiveness and division of labour require urgent action, as does the need to support emerging donor activities at EU level. Lastly, enhanced involvement of decentralised actors is critical for timely delivery of the MDGs.

Hand in hand with these challenges go opportunities for the EU to fulfil its commitments and responsibilities as the world's largest aid donor, and to deliver more, better and faster aid by capitalising on co-financing. First and foremost, there exists a political will to advance the use of co-financing at EU level. It has been repeatedly expressed by the Commission and by Member States, most recently in the newly adopted Code of Conduct. Driven by this political will, the 10th EDF and the new Financial Perspective 2007-13 provide an enabling legal environment for co-financing to occur between the EC and Member States. In addition, the wealth of co-financing experience and expertise amassed within the EU over years of practice further lends itself to the promotion of co-financing among EU actors.

In case studies of co-financing in the beneficiary states<sup>29</sup>, some substantial improvements have been observed either from the Commission side or the EU Member States. These improvements concern the establishment of monitoring and information systems tracing relevant data on co-financing, ongoing adaptation of EU regulation to remove administrative and legal obstacles in the way of co-financing at EU level, the identification of adequate and harmonised procedures and arrangements in order to facilitate commitments on co-financing at EU and Member States level and the positive involvement of co-financing partners.

Some efforts must, however, be pursued by the Commission and the Member States to improve the effectiveness and the quality of EU co-financing activities. The GAERC of April 2006 “[welcomed] co-financing and joint financing arrangements as concrete steps to more action and [supported] the Commission’s intention to develop a methodological framework”. In order to implement the European Consensus and the Paris Declaration, the Commission defined a strategic approach to co-financing with three steps. This strategic approach to co-financing was announced in the communication “EU Aid: Delivering more, better and faster”<sup>30</sup> and received the support of all EU ministers in the GAERC conclusions of April 2006.

Firstly, clarifying definitions. Co-financing is a broad term that entails a wide range of modalities from delegated authority to pooling of funds or parallel funding or even budget support. It is important to capture in a simple manner, and in relationship with DAC work, the various types concerned. In addition a study will show the current level of co-financing in the EU.

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<sup>29</sup> See “Study on Co-financing,” November 2007, p.68.

<sup>30</sup> “EU Aid: Delivering more, better and faster”, Communication from the Commission - COM(2006) 87, 2.3.2006, Art. 60.



Secondly, creating the proper enabling environment. Commission regulations were not in line with the Paris Declaration and co-financing was hardly feasible at this stage.

The new aid instruments and financial regulations make the Commission's external assistance systems simpler and more flexible; they also allow more efficient and effective ways of providing assistance, for example, through joint co-financing. Furthermore, the approval of the EU Code of Conduct on Division of Labour<sup>31</sup> envisages a radical change in the way the EU and other donors will provide aid. This makes it even more urgent for the Commission to move towards joint co-financing.

In the context of the European Community general budget or the 10th European Development Fund (EDF), the Commission may decide to finance an action or programme alone or together with other donors (co-financing)<sup>32</sup>. Under joint co-financing different donors jointly co-finance an action and decide: (i) that the total cost of the action will be divided among them and (ii) that all the funds will be pooled in a way which makes it impossible to identify the source of funding for a specific activity within the project. Under joint co-financing, authority to manage the co-financing might be delegated among the co-financiers (delegated cooperation). As a result, the Community can therefore now delegate authority to another donor and/or can also be delegated authority by another donor.

Thirdly, implementing the Paris Declaration. The Commission, like any donor, will develop a maximum number of relevant co-financing initiatives with other donors. This will be done in accordance with the principles of ownership, alignment, harmonisation and management by results of the Paris Declaration and the political guidance defined by the European Consensus. These co-financing initiatives will be conducted in a flexible and pragmatic manner, based on needs assessed at field level and donor-wide, with the sole condition that they bring added value to ongoing activities and do not contradict any decision taken at EU level. They will take both an "active" and a "passive" form, therefore with the Commission both receiving and transferring funds.

There is extensive involvement in bilateral co-financing, with 21 Member States already engaged to date. The frequency of engagement differs, with Member States like Sweden showing extensive experience and others participating in pilot initiatives. Co-financing alliances are seen to emerge between the Nordic Plus; AfD and KfW; and many emerging donors and CIDA. Clear preferences exist for assuming active or passive roles, with implementing agencies and development banks mainly receiving funds and many donors like Finland delegating more than receiving. The direction of funds is often shaped by comparative advantage. For instance, the UK delegates funds in many francophone countries to Belgium and France. Engagement is mainly driven by aid effectiveness, capacity building and limited capacity motives. In addition to co-financing in a narrow sense, other forms of cooperation often appear under the name of co-financing. For example, Luxembourg's delegation of funds to BTC in Ecuador, with no funds being provided by Belgium, indicates a managing-agent relationship.

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<sup>31</sup> Conclusions of the Council and Representatives of the Governments of the Member States meeting within the Council (15 May 2007)

<sup>32</sup> Voluntary contributions made to the EDF by Member States do not constitute co-financing, but a simple additional contribution to that Fund. Once the contributions have been made, they become an integral part of the EDF.

Despite such lively engagement, several factors currently complicate bilateral co-financing, often creating suboptimal practices. Some Member States like Spain and Belgium face legal obstacles that block or restrict their ability to co-finance. Others link engagement to certain conditions. Sweden, for example, must sign an agreement with the partner country even when acting as delegating partner; DfID cannot sign legally binding documents. Different practices with respect to administrative fees add further complications, with implementers and banks being fee-chargers and selected donors (e.g. Nordic Plus) being non-chargers. Moreover, the keen interest expressed by many emerging EU donors to engage in trilateral cooperation is not matched by adequate EU action. This vacuum has been filled by CIDA and clearly indicates a lack of leadership at EU level.

Most Member States' co-financing experience with the Community has so far been restricted to co-financing via competitive award. Direct delegation of funds and mandates is less widespread and emerged actively (Community giving funds) on the initiative of AfD and KfW in the 1990s and passively (Community receiving funds) under Italian co-financing in 1985. Resource mobilisation was a major motive behind co-financing for AfD and KfW, which faced declining aid budgets in France and Germany at that time. Limited capacity was decisive for Italy, given its rapidly rising aid budgets during the 1980s. Moreover, ad hoc co-financing sometimes occurred between the Community and Member States like Denmark. All co-financing activities based on the delegation of funds and mandates came to a halt under the 9th EDF, but are set to return following the establishment of a necessary legal environment under the 10th EDF and FP 2007–13. The Community and Member States show a keen interest to jointly finance development activities, although fears are expressed, particularly by smaller Member States, of the Europeanisation and/or re-nationalisation of aid.

Albeit for different reasons and motivations (ranging from aid effectiveness to resource mobilisation and capacity building) a keen interest prevails among EU actors to co-finance and the level of engagement is set to rise rapidly in the near future. Building on lessons learned from experience gained, the following areas have emerged where progress is necessary.

There is an urgent need to clarify terms and definitions surrounding the practice of co-financing. Agreeing on a standard terminology is essential for ensuring a common language for discussion among EU actors and countering the tendency towards mission creep and institutional bias.

EU actors need to establish effective monitoring and information systems capable of tracing relevant data on co-financing. This is crucial for allowing lessons to be learned from recorded experience. Such information systems need to harmonise to ensure comparability of data across EU actors.

Remaining obstacles that prevent, restrict, or complicate the use of co-financing need to be removed. This is vital for allowing optimal use of co-financing at EU level. An enabling legal environment has been/is being created by many EU actors, indicating a step in the right direction. The European Commission has revised its financial regulations specifically to facilitate co-financing. Legal and procedural details are being ironed out and guidance has been prepared for Commission staff. The details have been discussed with Member States and their aid implementing agencies and those that expressed interest in co-financing with the Commission will be formally assessed.

Finally, the operationalisation of co-financing between EU donors imposes reciprocal legal and financial analysis. One could note that a comprehensive system allowing each EU public donor to comply with all other EU public donors would entail conducting about 2500 of these analyses. There is indeed a larger potential for an alternative legal facilitation mechanism. The EU has in this regard long experience of pragmatic facilitation systems, such as case law on “mutual recognition”, that could be used.

## **Annex 5 — Contributions from civil society on aid effectiveness and gender issues**

CSOs are in the process of examining their own aid effectiveness and some initiatives have already been taken. For example, in June 2006, 11 leading international NGOs signed up to an “Accountability Charter” setting out a common commitment to excellence, transparency and accountability with a view to promoting support for common standards of conduct for NGOs working trans-nationally. CSOs should be encouraged in these processes with a view to capitalising on the specific civil society perspective in applying and enriching the Paris Declaration.

On ownership and mutual accountability (domestic accountability) — The Community will promote the idea of democratic ownership, which requires active involvement of a wide range of state actors and civil society organisations in the formulation, implementation and monitoring of national development process civil society organisations.

On alignment — The Community will promote the integration of gender-sensitive benchmarks and inclusive processes with civil society in performance assessment frameworks guiding the implementation of the new aid modalities.

On harmonisation — Government donor coordination efforts should include a strong gender equality dimension. The Community will promote the transformation of donor-government coordination groups on gender equality from “information sharing” platforms to influential actors in development planning such as the GEST Group in Ghana and GTEG Group in Cameroon.

On managing for results — The Community will support partner countries in their efforts to strengthen linkages between national development strategies and annual and multi-annual budget processes. In this regard, the Gender-Responsive Budgeting initiative is a very interesting tool. It ensures streamlined allocation of resources towards national gender equality commitments. By enhancing monitoring of financial allocations and tracking of expenditures, GRB promotes transparency of financial resources and increases accountability of donors and governments.

On mutual accountability — Mutual accountability mechanisms and monitoring frameworks can be strengthened by ensuring that data collected are broken down by sex and gender-sensitive indicators are part of the performance frameworks. Active participation by civil society organisations is needed to ensure increased domestic accountability of government towards its citizens.