

029716/EU XXIV.GP
Eingelangt am 21/04/10

EN

EN

EN



EUROPEAN COMMISSION

Brussels, 21.4.2010
SEC(2010) 422 final

COMMISSION STAFF WORKING DOCUMENT

AID EFFECTIVENESS - ANNUAL PROGRESS REPORT 2010

accompanying the

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

A twelve-point EU action plan in support of the Millennium Development Goals

{COM(2010) 159}
{SEC(2010) 418}
{SEC(2010) 419}
{SEC(2010) 420}
{SEC(2010) 421}

COMMISSION STAFF WORKING DOCUMENT

AID EFFECTIVENESS - ANNUAL PROGRESS REPORT 2010

TABLE OF CONTENTS

1.	INTRODUCTION.....	3
2.	THREE LEVELS OF EU ACTION	4
2.1.	Bilateral level	4
2.2.	EU level.....	5
2.3.	International level.....	6
3.	EU ACTION ON OWNERSHIP	6
3.1.	General actions.....	6
4.	EU ACTION ON ALIGNMENT	7
4.1.	Increasing the use of country systems.....	7
4.2.	Changing the nature of conditionality.....	10
4.3.	Making aid more predictable	11
4.4.	Reducing PIU's.....	11
5.	EU ACTION ON HARMONISATION.....	12
5.1.	Establishing a better in-country division of labour	12
5.2.	Improving joint programming.....	15
5.3.	Cross-country division of labour.....	15
5.4.	Coordinating missions.....	17
6.	EU ACTION ON MUTUAL ACCOUNTABILITY	17
6.1.	Improving mutual accountability	17
6.2.	Making aid more transparent	17
7.	EU ACTION ON MANAGING FOR DEVELOPMENT RESULTS.....	18
8.	CONCLUSIONS.....	19
	ANNEX: proposed EU approach on cross-country division of labour.....	21

1. INTRODUCTION

Every year since 2003, the Commission has been reviewing the EU's efforts to implement the commitments established in the Monterrey Consensus, and subsequently on commitments on aid effectiveness established by the Paris Declaration and the Accra Agenda for Action. As part of this process, this paper attempts to analyse the information received from this year's Monterrey questionnaire and to draw some operational conclusions on how the EU can improve its performance.

Efforts will need to be stepped up dramatically if the aid effectiveness targets embedded in the Paris Declaration and the Accra Agenda for Action are to be achieved. In 2011, the Fourth High Level Forum on Aid Effectiveness will be held in Seoul, and the EU will be expected to present results which are in line with the declared EU level of ambition.

In broad terms, achieving aid effectiveness from an EU perspective is still a work in progress. On the positive side, the EU has established clear policy aims and is a leading player on aid effectiveness at the global level. The EU has worked steadfastly towards finding practical ways of working together to implement aid effectiveness commitments.

EU donors are gradually, but unmistakably, moving forward in terms of making the necessary adjustments in their development programs. Furthermore, the responses to this year's Monterrey questionnaire show that these changes are beginning to have an impact. However, the results from this year's survey indicate that the EU is still in an early stage in implementing the Paris and Accra commitments, and that continued focus and consistency will be required to achieve the desired results.

It is important to note that the Treaty of Lisbon marks a new era in European development policy. Article 210 of the Treaty states:

"In order to promote the complementarity and efficiency of their action, the Union and the Member States shall coordinate their policies on development cooperation and shall consult each other on their aid programmes, including in international organisations and during international conferences. They may undertake joint action. Member States shall contribute if necessary to the implementation of Union aid programmes."

This represents a brand new opportunity to make development aid from EU donors more effective, efficient, and potent in terms of actual impact on the ground. It should also make a real difference in terms of EU political impact and visibility. This is an opportunity which should be grasped.

The picture provided in this paper shows what the EU is doing to achieve its commitments in terms of the five principles of the Paris Declaration (Ownership, Alignment, Harmonisation, Mutual Accountability and Managing for Development Results). It is also an attempt to look for potential ways to enhance European cooperation to more effectively implement aid effectiveness goals¹.

¹ This EU progress report does not intend to provide comprehensive data and analysis on the EU performance against all target indicators and commitments made in Paris and Accra. Such a report is being prepared in the context of OECD DAC monitoring and survey process, with a view to provide a comprehensive factual basis for the HLF IV in Seoul in 2011.

2. THREE LEVELS OF EU ACTION

For the EU, implementation of aid effectiveness commitments requires action at three complimentary and frequently overlapping levels. Firstly, at the **bilateral level**, each Member State and the Commission have the obligation to fulfil their aid effectiveness commitments as donors in their own right. Secondly, at the **EU level**, Member States and the Commission use established EU coordination mechanisms and channels to move further ahead in areas where this makes practical sense. Thirdly, the EU has played a leading role at the **international level** in moving the aid effectiveness agenda forward.

2.1. Bilateral level

With regard to the bilateral level, the May 2009 Council Conclusions call for EU donors (i.e. Members States and, in terms of implementing the EU budget and the European Development Fund, the Commission) to establish individual plans to remove obstacles to aid effectiveness. Sixteen EU donors report in the Monterrey questionnaire that they have a plan or strategy to implement the Paris Declaration and the Accra Agenda for Action, but 11 have not yet prepared a plan².

The Commission launched an Action Plan in 2009 focusing on five priority areas: use of country systems including capacity building; division of labour; untied aid; changed conditionality; and predictability and transparency. The action plan also covers three specific themes: countries in fragile situations, gender and non-state actors. This was further refined by a 10 point action plan early this year.

As part of the work at the bilateral level, several EU donors are also strengthening incentives for implementing international commitments on aid effectiveness, as shown below:

<i>Actions taken to enhance incentives</i>	<i>EU Donors</i>
Assessment of internal incentives for aid effectiveness	<i>Denmark, Italy, Latvia, Netherlands, Spain, Sweden and the UK</i>
Organisational assessment in 2010, including a look at incentives	<i>Ireland</i>
Undergoing the WP-EFF assessment exercise.	<i>UK and the Netherlands have done and Spain³</i>
Internal reporting exercise	<i>Sweden</i>

² Austria, Belgium, The Czech Republic, Denmark, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Slovenia, Spain, Sweden, UK and the Commission had established plans. Thirteen of these are in the DAC-website:

http://www.oecd.org/document/6/0,3343,en_2649_3236398_18638150_1_1_1_1,00.html.

Bulgaria, Cyprus, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Malta, Poland and Romania have yet to establish plans, though Finland has a plan for implementing the Paris Declaration.

³ For *Netherlands* and the *UK* the recommendations of the WP-EFF assessment included the need for increased communication and personnel policy, such as review of the posting system and clarifying responsibilities in induction and hand over. In the meanwhile *Spain* is in the process of tackling legal and administrative obstacles to facilitate delegated cooperation and entering into multiannual commitments.

2.2. EU level

At the EU level, the EU continued to work on the basis of the four priority areas to which the EU committed itself in the Council conclusions of May 2008 and in the EU Guidelines for Accra: division of labour, use of country systems, predictability of aid and mutual accountability for results, including less conditionality.

The EU Operational Framework on Aid Effectiveness was established in November 2009⁴. The Framework consists of thematic chapters on common, harmonised approaches for the EU and the Member States and a set of measures to be implemented individually and jointly by EU donors. New thematic chapters can be added to the Framework in the future. The Operational Framework currently contains chapters on key Aid Effectiveness commitments, specifically Division of Labour, Use of Country Systems and Technical Cooperation.

Main elements of the Operational Framework:

<i>Division of labour chapter</i>	<i>Use of country systems chapter</i>	<i>Technical cooperation chapter</i>
Accelerate the implementation of <u>Fast Track Initiative</u> on Division of Labour which aimed at supporting a selected group of partner countries in the process of achieving in-country division of labour	Use the partner countries' <u>own systems as the first option</u> , if not, explain why	Base technical cooperation on <u>ownership and leadership by partner countries</u> .
Pursue <u>sector concentration</u> through redeployment and joint programming	<u>Joint assessments</u> for the use of country systems	<u>Demand-led approach</u> where technical cooperation is not provided by default
<u>Monitor progress</u> systematically at headquarters and country Level	<u>Make assessments made by one donor available</u> for the use by other EU donors	<u>Results orientation</u>
<u>Joint programming</u> by EU donors in a number of partner countries	Work towards <u>harmonisation</u> of assessments	Focus on <u>capacity development</u> .
Launch an EU process on <u>Cross Country Division of Labour</u> , with a view to preparing a proposal during 2010.	Promote use of country systems <u>irrespective of the aid modality used</u>	

Future chapters of the Framework could include issues such as mutual accountability, predictability of aid, cross-country division of labour, vertical funds and global initiatives and incentives for aid effectiveness.

⁴ <http://capacity4dev.ec.europa.eu/operational-framework-aid-effectiveness>

2.3. International level

The EU within an international context continues to promote aid effectiveness within various fora, and in particular within the Working Party on Aid Effectiveness (WP-EFF) and the upcoming High Level Event on the Millennium Development Goals. The EU agreed and presented a common position on the renewed mandate and structure of the WP-EFF in the spring of 2009 and the EU is recognised for its coordinated approach. Like the run up to Accra, when the EU established a common position which had a profound effect on the final outcome of the Accra Agenda for Action (AAA), the EU will establish a common position for the Fourth High Level Forum in Seoul. The international community expects the EU to maintain its high level of ambition, and deliver on its previous commitments.

3. EU ACTION ON OWNERSHIP

Ownership is the first principle established in the Paris Declaration. Donors committed themselves to respect partner country leadership and help strengthen their capacity to exercise it.

3.1. General actions

EU donors undertook the following general actions to support ownership in 2009:

- Ownership integrated into guidelines, plans and strategies and/or training of staff on this issue: *Austria, Belgium, Denmark, France, Germany, Ireland, Netherlands, Poland, Spain, Sweden and the United Kingdom*
- Consultation and coordination with partner country to ensure ownership: *Czech Republic, Finland, Italy, Latvia, Luxembourg, Netherlands, and Slovenia*
- Supporting partner country capacity development: *Estonia, Germany, Netherlands, and Portugal*
- Requiring a local partner: *Poland*
- Strengthening incentives: *Sweden and the United Kingdom*

Eight EU donors did not report any actions to support ownership.

4. EU ACTION ON ALIGNMENT

*Increasing alignment of aid with partner countries' priorities, systems and procedures and helping to strengthen their capacities is a central principle of the Paris Declaration. To improve alignment donors agreed to **use country systems** (national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring) to the maximum extent possible. Using a country's own institutions and systems, increases aid effectiveness by strengthening the partner country's sustainable capacity to develop, implement and account for its policies to its citizens and parliament. Donors also committed themselves to draw **conditions**, whenever possible, from a partner's national development strategy, and make them public. Improving the **predictability** of aid is another aspect of alignment, and donors have committed themselves to disburse aid in a timely and predictable fashion according to agreed schedules. In terms of technical cooperation, donors have agreed to reduce the stock of parallel **project implementation units**, in order to strengthen the capacities of partner countries.*

4.1. Increasing the use of country systems

4.1.1. Aid Modalities

Aid modalities give a picture of how country systems are being used. Budget support finances the overall budget, and by definition, uses the country's public financial management (PFM) system. Project aid and technical cooperation, on the other hand, are modalities that often rely much less on the country's PFM system. It is important to note, however, that all aid modalities can use country PFM systems (in part or in their entirety).

The table below shows that nine EU donors (*Cyprus, Czech Republic, Estonia, Italy, Latvia, Luxembourg, Portugal, Slovakia, and Slovenia*) deliver almost all of their bilateral aid (80 - 100 %) through either project support or technical cooperation⁵. The situation is reflected in the responses on the share of use of programme-based modalities: only *Ireland* channels more than half of its aid through programme based approaches.

⁵ Responses to question "Of your country programmable aid (excluding also aid channelled through multilateral organisations or the European Commission) ,please enter an approximate percentage share according to modalities used in 2009 in % of country programmable aid").

Aid modality:	Technical cooperation	Project support	Budget support	Other (programmes etc.)
Austria (2008)⁶	6 %	52 %	10 %	32 %
Belgium		74 % (incl. TC)	26 %	
Cyprus	25 %	75 %		
Czech Republic	40 %	50 %		10 %
Denmark	7 %	54 %	8 %	31 %
Estonia	95 %	5 %		
Finland	40 %	30 %	30 %	
France	27 %	43 %	15 % ⁷	15 % ⁸
Germany			5.82 %	
Ireland	0 %	35 %	55 %	5 %
Italy	30 %	65 %	5 %	
Latvia	90 %			
Luxembourg		100 % (incl. TC)	("marginal")	
Portugal⁹		91.5 % (incl. TC)	8.5 %	
Slovakia		100 % (incl. TC)		
Slovenia	20 %	60 %	20 %	
Spain	27.99 %	31.1 %	18.32 %	18.6 %
United Kingdom¹⁰	15 %		26 %	
Commission	9%	44 %	36%	11 %

Fifteen EU donors confirmed they were able to use country systems in ways other than budget support. The way in which country systems are used varies: the most common method is through partial use of country systems on the basis of assessments of the quality of public financial management in the partner country. In some cases pooled funding also uses country systems, either fully or partially.

⁶ Based on ADA's 2008 operational budget.

⁷ General budget support and structural adjustment loans.

⁸ Programme-based outside GBS and structural adjustment loans.

⁹ Calculated on the basis of provided preliminary information: 32.790.430€ for TC and projects, 3.050.000€ for BS (Comment: "At this moment we are beginning the collection of 2009 data. It is not possible yet to make a distinction between the amount to technical cooperation from the one to project support.")

¹⁰ **UK** does not differentiate project support versus other forms of bilateral aid so cannot provide this information.

Of the EU donors that use budget support, *Denmark, France, Germany, Netherlands* and *Portugal* channel more than half of their budget support through general budget support, whereas more than half of the budget support of *Austria, Belgium, Greece, Ireland, Italy, Lithuania, Spain, Sweden* and the *Commission* was accounted for by sector support. For *Finland* the situation was equally balanced. For the *Commission* figures vary depending on the financial instrument used.

The reasons listed for preferring sector budget support include:

- assumed comparative advantage of the donor in a given sector
- need for a sector-specific dialogue with the partner country;
- facilitating assessment of results;
- donor's internal need to earmark funding;
- facilitating division of labour through sector concentration;
- lack of confidence to enter into general budget support with the partner country
- lower threshold to move into sector budget support from other aid modalities
- general budget support was deemed to be more appropriate for larger operators (European Commission, World Bank)

4.1.2. *Status, guidance and plans for increasing the use of country systems*

Thirteen EU donors¹¹ have drawn up plans for making greater use of country systems in line with the Accra Agenda for Action, while 15 have not. For those who have plans, these often are part of a wider plan or development programme focusing on implementing the Paris Declaration and the Accra Agenda for Action.

The situations of the reporting Member States are as follows:

- not using public financial management systems: *Estonia, Latvia, Luxembourg, Poland and Slovakia*
- not using country procurement systems: *Estonia, Latvia and Slovakia*
- leaving the question unanswered: *Bulgaria, Hungary, Lithuania, Malta* and *Slovenia*
- reporting that the question did not apply to their cooperation: *Cyprus* and the *Czech Republic*

Reasons reported by Member States for the low level of use of country systems (apart from arguments related to aid modalities):

¹¹ *AT, DK, EE, FR, DE, IT, LU, NL, PT, SI, ES, SE, COM*

- the poor quality of partner countries' systems;
- the preference on the part of partner countries to use donor procedures to speed up processes (in view of the slowness of domestic processes and the investment needed to start them up);
- cooperation with other donors who are not willing to use country systems;
- the amount of time required to change the portfolio of aid interventions.

In this context it is important to note that the 2008 Paris Declaration monitoring report showed that the use of country systems did not increase in line with the improved quality of those systems¹². The EU has previously acknowledged that country systems will be strengthened by their increased use¹³. Although no EU donors have a specific mechanism in place to fulfil the AAA commitment for transparent explanations when country systems are not used, references were made to consultations with partner countries, joint selection of aid modalities as well as internal verification of donors and review processes.

EU donors who have conducted joint assessments of the quality of country systems are: *Austria, Denmark, Finland, France, Germany, Ireland, Netherlands, Portugal, Spain, Sweden*, and the *UK*. These assessments are available for other countries to use (except for *Austria*) and to partner countries, which represent a positive basis for moving towards the harmonisation of assessments as set out in the Operational Framework. In some cases joint assessments are supplemented by additional measures, such as private audits. Four EU donors reported that they had not been involved in joint assessments at all, which is probably due to the use of non-programme-based aid modalities.

The EU Operational Framework recognizes that, in order to foster the use of country systems, common approaches are needed. There is a need to avoid duplication and overlap in assessing existing country systems. Instead donors should aim at establishing some sort of **mutual recognition** of assessment methodologies and results.

4.2. Changing the nature of conditionality

Several EU (*Finland, France, Germany, Netherlands, Spain and the United Kingdom*) donors are attempting to reduce conditionalities, for example by making aid interventions more outcome-oriented, enhancing use of performance assessment frameworks and working at within international fora. Several have a very limited use, or do not use at all, conditionalities (*Czech Republic, Estonia, Ireland, Italy, Latvia, Poland, and Slovenia*).

The justification for non-action by other EU donors included the difficulties in changing relevant legislation, the need for some conditions for anti-corruption purposes, that conditionality was deemed irrelevant since budget support was not given, or because conditionalities were already seen as mutually agreed with partner countries or marginal.

¹² The 2008 Survey on Monitoring the Paris Declaration: Making aid more effective by 2010, p. 41-42; <http://www.oecd.org/dataoecd/58/41/41202121.pdf>

¹³ Third High Level Forum on Aid Effectiveness, Accra, Ghana, 2-4 September 2008. Guidelines for the participation of the European Union. 11592/08, paragraph 19.

Twelve Member States reported that their conditionalities are made public (*Austria, Belgium, Estonia, Finland, Germany, Greece, Italy, Latvia, Netherlands, Portugal, Romania* and the *UK*). However, there are few indications as to exactly how these conditionalities were made public, with some referring to the public availability of country strategies or performance assessment frameworks, annual reports and general information on the internet. For the *Commission*, detailed information on interventions is included in the public Annual Action Programmes (financing decisions adopted by the European Commission). The European Commission continues efforts with other donors to harmonize measures and indicators in Performance Assessment Frameworks. Logically, this leads to less conditionalities on behalf of the donor community.

4.3. Making aid more predictable

The majority of the EU donors (19) are making multiannual commitments, with more than one third also now making multiannual commitments for a programme-based approach in general. Fixed duration commitments remain the rule. *Finland, France, Netherlands, Portugal, Slovakia* and *Slovenia* have been able to apply a rolling programme for at least part of their cooperation, and *France* and *Netherlands* have a system that allows them to make both annual and multiannual commitments.

Sixteen donors have a tracking mechanism to monitor the differences between planned and actual commitments and disbursements, for a large majority on an annual basis (*Cyprus, Denmark, Estonia* and *Finland* have a multiannual tracking system, the system in Finland and Denmark actually allowing for both). Usually, those who do not have such a system are not planning to have one in the short-term, either because they report at country level rather than at central level, or because their aid budget is too small to justify setting up such a system.

4.4. Reducing PIU's

Luxembourg, Sweden and the *Commission* track the establishment or dismantling of parallel project implementation units (PIU)¹⁴. Other EU donors do not use aid modalities that might involve PIU's). In most cases, information on expenditure related to providing technical cooperation was reported to be available to the public.

¹⁴ *Sweden* responded not to have established any new PIUs, although figures indicate an increase from 2005 to 2008. The reason for the increase was interpreted solely that countries have understood the definitions differently from. *Luxembourg* explained that arrangements were mostly in place to develop capacities and only to a limited extent to administer projects. For the *Commission* the stock had went down from 109 to 93 in 2010, but with 9 new PIU's established.

5. EU ACTION ON HARMONISATION

*EU donors have committed themselves to establishing a more effective division of **in-country division of labour**. In terms of achieving this goal, **joint programming** represents a fundamental tool for the EU. In Accra, donors agreed to start dialogue on **cross country division of labour**, and this is also a subject for EU level action in the Operational Framework. **Coordinating missions** is also important in terms of harmonisation, since the number of donor missions often represents a serious challenge in terms of the time and resources that must be devoted to these visits.*

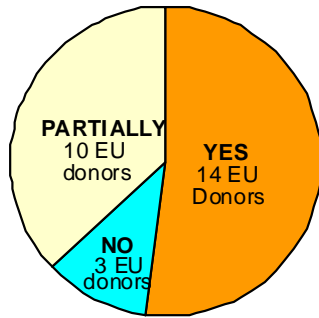
5.1. Establishing a better in-country division of labour

The EU has been addressing the issue of aid fragmentation first and foremost within the context of the EU Code of Conduct on Complementarity and Division of Labour¹⁵ and an initiative to fast track division of labour in a number of countries as listed in the Operational Framework. Actions being undertaken by EU donors both Headquarters and Country level, include:

- preparation of specific guidelines and notes for staff, provision of specific training,
- dissemination of information,
- having a direct dialogue with embassies on this issue,
- increasing delegation of authority to embassies to allow Division of labour decisions to be taken at partner country level,
- carrying out comparative advantage self-assessments either globally or in a number of countries (all but four EU donors).

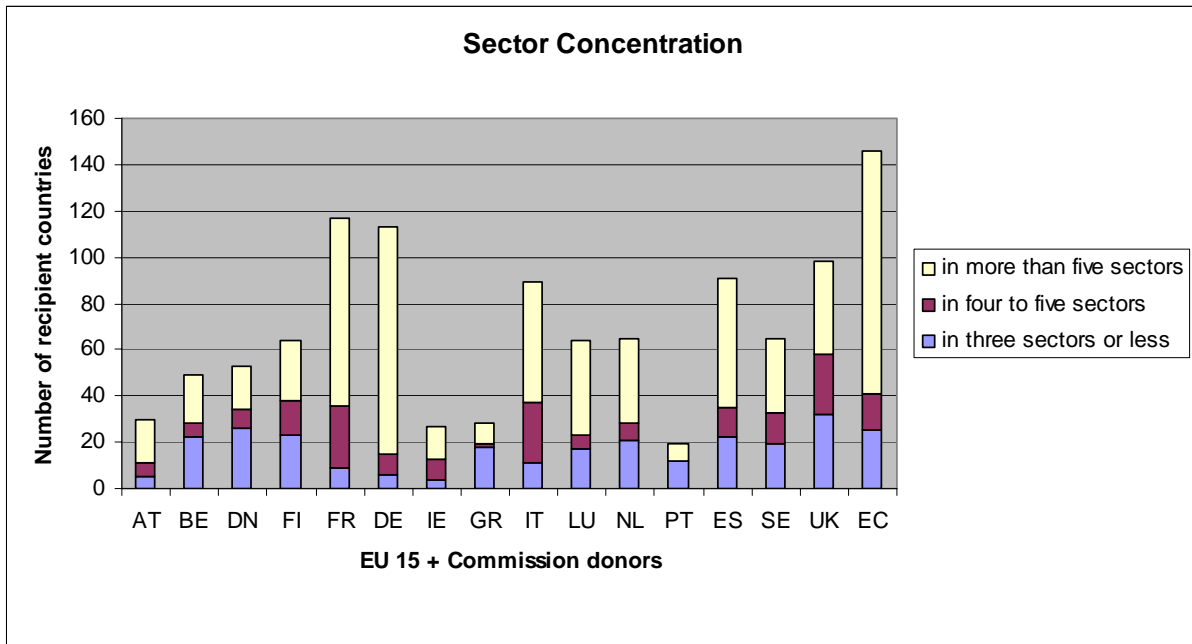
¹⁵ Council Conclusions on the EU Code of Conduct on Complementarity and Division of labour in Development Policy, 15 May 2007 (9558/07); <http://register.consilium.europa.eu/pdf/en/07/st09/st09558.en07.pdf>

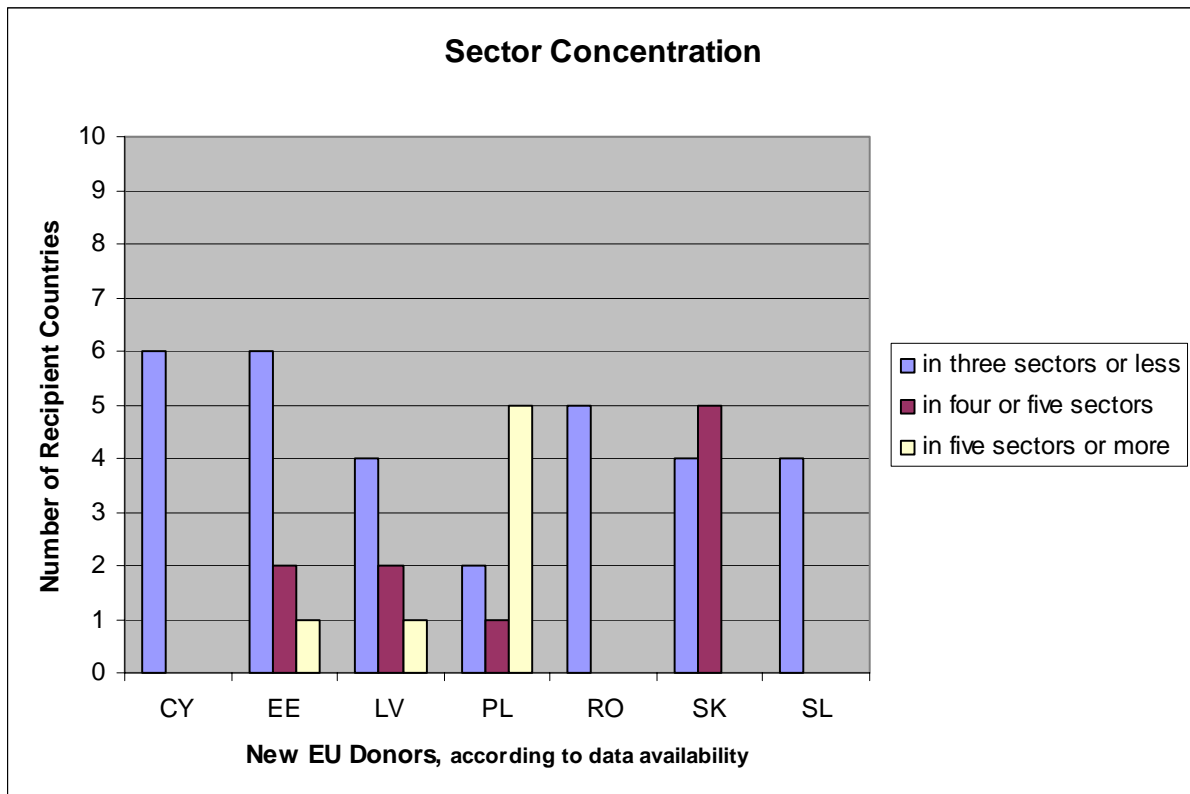
Are the principles of the Code of Conduct on Division of labour being integrated in strategies, staff guidance and programming?



These efforts are making a difference. Nearly all Member States report that they are improving complementarity in partner countries where they are involved. Practical results are being achieved through cooperation in sector involvement, and by establishing EU thematic platforms. In addition, some Member States, such as *Austria* and *Estonia*, have changed over from project support to budget support or multi-donor funds in certain partner countries.

In terms of *sector concentration*, the following picture emerges:





This shows that there is still room for improvement. However, *Austria, Finland, Germany, Ireland* and the *Netherlands* pointed out that they are in the process of phasing out one or more sectors in partner countries, which will have a positive effect on this overview.

Member States have continued to actively use *delegated cooperation* as a method for reducing fragmentation of aid, as demonstrated below:

Legal arrangements in place	21 donors have such arrangements. <i>Bulgaria, Czech Republic, Italy, Malta, Poland, Slovak Republic</i> , and <i>Spain</i> do not have them yet (although they are due to be introduced in <i>Italy</i> and <i>Spain</i>)
Actual delegation of funding	Range from one other donor (several cases) to 11 other donors (in one case), the general range is between two and five
Value of EU delegation to other donors	€242.7 million (for 30 countries)
Value of delegation from other donors to EU delegation	€123.4 million
Delegated cooperation tracking systems	<i>Austria, Belgium, Cyprus, Estonia, France, Greece, Ireland, Latvia, Luxembourg, Netherlands, Spain, Sweden and European Commission</i>

5.2. Improving joint programming

Joint programming is by far, the best way to achieve coordination of aid and division of labour. Nine Member States (*Belgium, Denmark, Finland, Germany, Greece, Ireland, Italy, Netherlands, and Sweden*) indicated that they had taken part in a joint programming exercise during the mid-term review of the European Commission's development cooperation instruments. In some countries joint programming has been applied to Joint Assistance Strategies (Ghana, Tanzania, Uganda, Zambia), to sector programmes and to mid term reviews of PRSP¹⁶. In eleven partner countries, this process led to the drafting of a complete country strategy, including a shared donor response¹⁷. Within this group the EU Common Framework for Country Strategy Papers was used to draft the joint document in three specific cases, i.e. Sierra Leone, Somalia and South Africa. Under the terms of the Operational framework, a number of countries where the EU will work to implement joint programming will be identified by July 2010 with the aim of being fully operational by 2014. In order to meet this deadline, EU donors should start taking the necessary steps to synchronise programming cycles.

Example of EU concerted action – Division of Labour in Ethiopia and Bolivia

In Ethiopia, there are 13 EU donors active in 12 sectors¹⁸. In September 2009, an EU process was initiated to examine the cases of specific countries in order to support the implementation of division of labour at country level. There had been broad support for organising a practical country discussion by bringing together decision makers from headquarters and field level. A consensus had emerged to look first at the situation in Ethiopia and Bolivia.

The methodology of this country discussion was the following:

- Presentation from the field, by the facilitating donor (here the EU Delegation) on the analytical work carried out at field level on how to improve division of labour in Ethiopia - in terms of a Donor Matrix and a Donor Self-Assessment on perceived comparative advantages (carried out in 2008).
- Presentation by the European Commission headquarters of newly developed analytical work from the OECD/DAC on aid fragmentation.
- Exchange of views between Directors General of Development of European Commission and the Member State.
- Decision on follow up actions: EU Director General's agreed that the EU provides the right framework to initiate and develop a collective division of labour process in order to reduce aid fragmentation in Ethiopia. One of the main follow up actions will be the development of an **EU Joint Response Strategy**, which will include an 'EU Aid reallocation' exercise.

5.3. Cross-country division of labour

Fragmentation of aid across countries continues to be a problem for EU donors. There are 10 EU donors present in Tanzania, 13 in Nicaragua, and 14 in Mozambique. On the other hand, there are only five in the Central African Republic and in Papua New Guinea.

¹⁶ Main structured source of information about joint programming is in Monterrey Reports 2007-09.

¹⁷ According to Commission programming documents.

¹⁸ 2009 OECD Report on Division of Labour – Addressing Fragmentation and Concentration of Aid across Countries.

However, the responses to the Monterrey questionnaire show that there has been progress, as seen in the table below:

Number of countries in which Country Programmable Aid¹⁹ is provided	From 3 to 113
Number of priority countries	From 3 to 57
Proportion of aid delivered to priority countries out of total aid delivered	Around 100% for <i>BE, CY, IE, HU</i> 70% or more for <i>AT, CZ, EE, IT, LV, SE, UK</i>
Redeployment processes	<i>BE, DE, UK</i> and <i>SE</i> indicate that such redeployment decisions have already been implemented. <i>AT, IT, NL, ES, SE, UK</i> are currently carrying out other redeployments processes, with results due by 2011-2012. <i>CZ, EE, GR, HU</i> and <i>LT</i> are ready to look at potential redeployment plans in 2010.

The Monterrey survey clearly illustrates many of the specific difficulties which Member States have encountered in moving the division of labour agenda forward. Those difficulties are summarised as follows:

Lack of information	Difficult to elaborate meaningful plans when donors do not know about the activities and plans of others
Political dimension	Long-standing relations with some developing countries Political dimension of potential redeployment/ or exit decisions.
Administrative impediments	Different procedures and regulations of the different donors Complexity and lack of flexibility of procedures Time needed to adapt national regulations Need to share and harmonise delegated cooperation contracts
Lack of donor resources	When donors decide to pull out, it is a challenge for other donors to allocate enough resources keep the aid volume stable.

¹⁹ Country Programmable Aid (CPA) reflects the amount of aid that can be programmed by the donor at partner country level. CPA is defined through exclusions, by subtracting from gross ODA aid that is unpredictable by nature (humanitarian aid and debt forgiveness and reorganisation), entails no cross-border flows (development research in donor country, promotion of development awareness, imputed student costs, refugees in donor country and administrative costs), does not form part of co-operation agreements between governments (food aid and aid extended by local governments in donor countries), is not country programmable by the donor (core funding to national NGOs and International NGOs), or is not susceptible for programming at country level (e.g. contributions to Public Private Partnerships, for some donors aid extended by other agencies than the main aid agency).

5.4. Coordinating missions

While some Member States have been very successful in coordinating missions with other donors (Denmark reported that 100% of missions were coordinated), the overall picture tends to show that there is a lot to be done in this area. Information about the coordination of missions with other donors is not very detailed and varies greatly. Some countries do not provide information because information is not monitored centrally.

6. EU ACTION ON MUTUAL ACCOUNTABILITY

Mutual accountability lies at the heart of the Paris Declaration, and is a process by which two (or multiple) partners agree to be held responsible for the commitments that they have voluntarily made to each other. It helps build trust and partnership around shared agendas and provides incentives for behaviour change needed to achieve better results. A central element in this regard, is making aid flows more transparent.

6.1. Improving mutual accountability

The 2008 Paris Declaration Monitoring Survey report showed that only 14 out of the 53 partner countries surveyed had functioning mutual accountability mechanisms between partner governments and donors²⁰. This is an area of concern as mutual accountability at both country and international levels is vital because of the inherently unequal relationship between donors and recipients. While recipients are required to explain their performance to donors in return for funds received, there often are no systems that require donors to explain their performance to partner governments and their citizens. Among EU donors, *Austria, Finland, Ireland, Italy, Netherlands, Portugal, Spain, Sweden* and the *UK* reported to have taken part in joint review mechanisms and *Germany* and *France* indicated their readiness to do so. Apart from these exercises, there does not seem to be very many practical initiatives on mutual accountability. In order to make further progress, the Commission and Member States could work together to establish common EU approaches, for example, by developing a country level performance assessment framework that includes all EU donors' commitments on aid effectiveness. EU donors are pursuing a specific initiative by *Ireland, Spain, UK and the European Commission*.

6.2. Making aid more transparent

In general, EU donors make aid information available consist in publishing the reports of development cooperation on national websites on an annual basis. *Finland* has systematised its procedures of reporting on ex ante notifications and contract awards, and has considerably increased the number of notifications published on the DAC Procurement Opportunities website. In general, it is worth noting that the International Aid Transparency Initiative which aims to improve public availability and accessibility of information on aid flows, could provide a useful vehicle for EU action. On the basis of EU team work, we should be able to make significant progress on publishing regular, accurate, detailed, timely, comprehensive

²⁰ Afghanistan, Burundi, Cambodia, Colombia, Ethiopia, Ghana, Malawi, Moldova, Mozambique, Nicaragua, Papua New Guinea, Senegal, Tanzania and Vietnam. The 2008 Survey on Monitoring the Paris Declaration: Making aid more effective by 2010, p. 90.

and comparable information on volume, allocation, conditions and, where available, the results of development expenditure.

As for the EU budget and the European Development Fund, the European *Commission*, it

- publishes on the internet the annual programmes providing information about forthcoming activities which will receive financial support;
- has set up a specific search engine for beneficiaries of grants and contracts administered by the headquarters which allows for different search criteria²¹;
- is rolling out a new template for projects managed by delegations for Delegations' websites, incorporating the basic data for EU funded projects²²;
- has so far coordinated the publication of more than 300 case studies and has set itself the target of producing 100 more every year²³;
- is also developing the TR-AID²⁴ information tool further, to facilitate the sharing of aid funding data. So far, TR-AID has relied on information from the Commission and available open sources, but it has the potential to become an up-to-date source of information on EU actions, provided that Member States are willing to share their data with TR-AID.

7. EU ACTION ON MANAGING FOR DEVELOPMENT RESULTS

*The focus on results makes the promotion of **management for development results (MfDR)** central to the entire aid effectiveness agenda. It means that stakeholders push partner country governments and donor agencies to show results, i.e. to demonstrate the effectiveness and actual impact of aid. It means that donors and recipients oblige each other to demonstrate that they are honouring their commitments and promises.*

Some EU donors are still in the initial phases of moving forward in terms of MfDR. *Slovakia* and *Poland* referred to the fact that their aid management system, including monitoring and evaluation, was still under construction, and there were internal capacity constraints to come up with a more fully developed model for MfDR at this stage. *Greece* and the *Czech Republic* will take the issue into account when their development strategy or organisation is to be renewed. *Italy* was in the process of reviewing programme design and implementation guidelines to this end, while *Finland* and *Sweden* were reviewing their mechanisms for the quality and control of aid intervention in the interest of MfDR.

²¹ http://ec.europa.eu/beneficiaries/fts/index_en.htm

²² http://ec.europa.eu/delegations/ukraine/projects/list_of_projects/projects_en.htm

²³ http://ec.europa.eu/europeaid/what/rural-development/index_en.htm

²⁴ TR-AID is an information gathering system that has been developed to support sharing of information across major international donors with the aim to using aid funds most effectively.

Other EU donors are pursuing a number of interesting approaches, as illustrated below:

<i>Actions taken to enhance MfDR</i>	<i>EU Donors</i>
MfDR part of the agency's management plan	<i>Denmark, Netherlands, UK, Ireland Spain, Sweden and France</i>
Performance management framework or log frame in place	<i>Denmark, Ireland and UK</i>
Indicators for MfDR used	<i>Netherlands and France</i>
Programme management is based on MfDR.	<i>Finland</i>
Recommendations in annual reports to be taken into consideration for the next cycle of implementation	<i>Latvia</i>
MfDR introduced as basis for dialogue with partner countries.	<i>France and Germany</i>
MfDR training, strengthening of country offices	<i>Estonia, Austria</i>
New IT system for project management	<i>Finland</i>
Strengthened MfDR on the basis of an increased number of evaluations.	<i>Portugal</i>

8. CONCLUSIONS

The responses to the Monterrey questionnaire present a **mixed picture** of what is happening within the EU on aid effectiveness. While EU working methods and processes could at times be better coordinated, there clearly is a genuine willingness to pursue this issue and some real movement is taking place.

In terms of alignment, undertaking joint assessments and continuing to work towards establishing a **harmonised approach for assessments on country systems** represents a good first step towards reducing duplication and unnecessary demands on partner countries. The EU should go further in this direction, because harmonisation between donors is a key commitment embedded in the Paris Declaration. Furthermore, Article 210 of the Lisbon Treaty imposes an obligation on the Union and the Member States to coordinate development actions and to act jointly at EU level. This could be achieved through **mutual recognition** of a number of tools and processes. Ultimately, this type of work could play an important role in terms of increasing partner country ownership and alignment.

In terms of harmonisation, much progress can still be made by effectively tackling the **fragmentation of in-country aid** by actions associated with the Division of Labour Fast Track Initiative. **Joint EU programming** provides a strong opening for achieving sector concentration. In the context of in-country division of labour, the issue of **vertical funds** should also be considered.

A common European approach for making headway on **cross-country aid fragmentation** should be included in the Operational Framework. As the EU provides nearly 60 per cent of global ODA, it could be regarded as 60 per cent of the problem or 60 per cent of the solution. By establishing principles in terms of the neutral impact of aid volumes and addressing the orphan's gap issue, and by agreeing on measures such as a systematic process for sharing information, the EU can potentially have a powerful impact on making aid more effective. A more detailed proposal for an EU approach on Cross-Country Division of Labour is presented in Annex.

Mutual accountability, including transparency, are crucial as they define the aid-relationship between donors and partners. This is also an issue which deserves to be addressed at EU level in a separate chapter in the Operational Framework, building on the ongoing work carried out at technical level.

The EU has a real opportunity to boldly move the aid effectiveness agenda forward. The Operational Framework in particular offers a way forward. Working together on these issues within the EU is not simply a matter of doing something at the EU level for the sake of it. Not all aid effectiveness issues are appropriate for action at the EU level. However, for many of these issues, there is a clear added-value of an EU approach which makes practical sense. Also these issues often represent a way to open up avenues to move forward on the wider aid effectiveness agenda on the road to the Fourth High Level Meeting on Aid Effectiveness in Seoul.

ANNEX: proposed EU approach on cross-country division of labour

The Commission and Member States agree that:

- National sovereign decisions concerning country level reallocations of aid will be coordinated at the EU level in order to provide a better response in dealing with cross country aid fragmentation. Joint EU programming and delegated cooperation opportunities will be used as instruments for achieving this goal.
- A systematic process of information collection will be initiated through the annual Monterrey questionnaire (i.e. self-assessments), with a view to drawing up a map of opportunities for reducing cross country aid fragmentation.
- Each year a technical seminar will be held to analyse and discuss the results, and the information will be disseminated as part of the annual Commission Communication containing the Monterrey Report.
- National decisions on cross country reallocations will then be recognised by the Council.
- The following principles will be borne in mind during this process:
 - ensuring a neutral or beneficial impact on overall aid volumes
 - reducing the orphans' gap and improving situations where partner countries are lagging in their ability to achieve the Millennium Development Goals, including by providing additional resources and/or delegating cooperation to the Commission's in order to take advantage of the Commission's global presence established in the European Consensus.
 - giving special consideration to new Member States who are approaching the issue of cross country division of labour from an entry, rather than an exit perspective.
 - communicating immediately with relevant partners when the EU has a preliminary view of how to implement cross country Division of labour, in order to enrich donors' decision-making processes by integrating the view's of partner.