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19/2014

Managing Diversity: What Does it Mean?

An Analysis of Different Approaches and Strategies

Elena Pietschmann

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Abstract

An increasingly complex aid landscape makes it urgent to find ways for partner countries to manage the diversity of aid actors and channels. However, it remains unclear what 'managing diversity' actually means and how this vague idea should be put into practice. This paper explores potential approaches and strategies. It defines 'managing diversity' as the management of different sources of aid by the partner country, aimed at improving the effectiveness of aid in a complex aid landscape. Different approaches to managing diversity are discussed and compared. Drawing on country experiences, the paper also analyses the role that contextual factors play in shaping incentives for the actors involved to implement different aid coordination strategies. Despite the multiplicity of possible strategies and approaches to managing diversity, some elements can be identified that will be crucial for every approach to aid coordination. To enhance their ability to effectively manage multiple actors and sources of development assistance, partner countries should develop clear aid policies and set up strong aid management institutions. Where needed, donors should support partner country leadership and capacity development in the area of effective aid management.

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Abbreviations

AAA	Accra Agenda for Action
AFD	Agence Française de Développement
AfDB	African Development Bank
AIMS	Aid information management system
BPd	Busan Partnership Document
BRICS	Brazil, Russia, India, China, South Africa
BS	Budget support
CoC	EU Code of Conduct on Complementarity and Division of Labour
DAC	Development Assistance Committee (OECD)
DFID	Department for International Development (United Kingdom)
DIE	Deutsches Institut für Entwicklungspolitik / German Development Institute
DoL	Division of labour
DRC	Democratic Republic of Congo
EC	European Commission
EIB	European Investment Bank
EU	European Union
GPEDC	Global Partnership for Effective Development Cooperation
HQ	Headquarters
JP	Joint Programming
KfW	Kreditanstalt für Wiederaufbau (KfW Development Bank)
LDC	Least developed country
LIC	Low-income country
M&E	Monitoring and evaluation
MDBS	Multi-donor budget support
MDTF	Multi-donor trust fund
MRI	Mutual reliance initiative
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PBA	Programme-based approaches
PD	Paris Declaration on Aid Effectiveness
PIU	Project implementation unit
SWAP	Sector-wide approach
TC	Technical cooperation
UN	United Nations
UNDP	United Nations Development Programme

Summary

The current development landscape is characterised by a multiplicity of different actors and aid channels, and it is largely believed that finding ways to deal with the proliferation of donors is crucial for improving aid effectiveness. However, despite repeated international commitments at High Level Forums in Paris (2005), Accra (2008), and Busan (2011) to tackle the challenges posed by a diverse aid landscape, progress to date has been rather slow. Besides lack of incentives for both donors and partner countries to rationalise aid portfolios, a major reason for the disappointing progress is uncertainty about what the most desirable type of aid landscape should look like. Efforts for reducing fragmentation have progressively shifted from a focus on decreasing the number of donors per partner country by means of cross-country division of labour (DoL) to in-country DoL and the ‘management of diversity’ at country level. However, it remains unclear what managing diversity actually means and how this vague idea should be put into practice.

This paper defines managing diversity as the management of different sources and channels of aid by the partner country, aimed at improving the effectiveness of aid in a complex aid landscape. The activities for managing diversity do not necessarily result in a reduced number of donors, but in the long run they are all expected to reduce transaction costs and other undesirable consequences of a fragmented aid landscape. A broad range of options is envisaged, including pooling of aid, cross-sector DoL, joint strategies to achieve common objectives, sector working groups to enhance dialogue, etc.

There is no single approach to managing diversity that both maximises the benefits and minimises the costs of strong donor coordination for partner countries. In particular, there seems to be a trade-off between minimising transaction costs and minimising the risks of reducing fragmentation in terms of a loss of bargaining power by the partner country government. The trade-off between having more choice and higher transaction costs is unavoidable and each country will need to make this cost-benefit analysis for itself. Partner countries’ strategies will also be shaped by contextual elements that determine their ability to take advantage of multiple aid sources, as well as the need to reduce transaction costs and the perceived risk of reducing the number of donors. Key contextual factors include the quality of partner country’s institutions; the degree of aid dependency; the structure of existing coordination mechanisms in the country; and the nature of the relationship between donors and partner country governments.

Importantly, the choice of aid instruments also matters. Success in dealing with a multitude of donors might be related more to donors’ use of country systems than to the number of active donors per country or sector. Several countries that were relatively successful in managing diversity expressed a strong preference for budget support as a central piece of their strategies for better aid coordination. Partner countries could thus let donors distribute their aid in as many sectors as they wish and instead concentrate on their use of country systems. Also, they might decide to employ a combination of approaches in their efforts to manage diversity. Different approaches could be adopted for the different levels at which coordination can take place – i.e. the programming level, the implementation level, and the level of monitoring and evaluation (M&E).

Despite the multiplicity of possible strategies and approaches to managing diversity, some elements can be identified that will be crucial for every approach to aid coordination. If managing diversity is defined as the management of aid from different sources by the

partner country, then partner country leadership in coordination efforts is essential, independent of the specific approach chosen. The establishment of clear priorities and strategies for aid coordination by the partner country government is a crucial success factor in managing diversity.

Partner countries should develop detailed aid policies that lay out their preferences regarding donor coordination at the programming, implementation, and M&E levels. A comprehensive aid policy should define the sectoral and thematic priorities to be addressed by donors, the form and structure of coordination mechanisms and forums, the preferences in terms of aid modalities, and the use of country systems including a clear position on technical cooperation and the use of project implementation units (PIUs), and the extent to which the partner government wishes to take part in M&E activities. Aid policies should also clarify the extent to which partner countries wish to include new donors in coordination efforts.

To ensure the implementation of aid policies, effective aid management institutions need to be in place. These should be located within an institution in charge of central coordination, such as the Ministry of Finance. It is crucial that aid management institutions are well connected to the rest of the government and spread awareness of the importance of aid coordination among line ministries. An important condition for aid management institutions to work effectively is the availability of reliable data on aid activities. In order to make efficient use of information on aid, partner countries should set up or strengthen aid information management systems (AIMS).

The management of diversity should lie primarily in the hands of partner countries. However, success in coordinating aid also requires an active contribution by development partners. An effective management of aid will be impossible without donors' readiness to conform to partner countries' priorities and aid policies. Given the wide range of possible strategies for managing diversity, the actions required from donors will vary from country to country depending on the approach chosen by the partner government. However, independently of the specific approach chosen, donors can always support both the willingness and the capacity of partner countries to manage diversity. Partner countries' willingness to take the lead in coordination efforts is often undermined by the fear of losing funding and by the perception that coordinated donors might exercise excessive influence on domestic policies. Donors can address the first concern by underlining their commitment to the principle set in the Accra Agenda for Action (Paragraph 17a) that DoL and other coordination processes will have no impact on the overall aid volumes of individual countries. Addressing the fear that coordination might reduce partner countries' bargaining power and undermine their ownership is more challenging. Here, reinforcing the link between coordination and alignment could be helpful. Donors should also support partner governments' capacity development in the area of aid management by assisting in the creation and the strengthening of aid management institutions. Donor agencies can also facilitate the work of these institutions in two important ways: first, by minimising and harmonising the number of reports, assessments, and other project rules and requirements; second, by making information on their aid activities available timely and feeding it into the countries' AIMS.

Besides these crucial activities to be undertaken on both sides, there are also joint tasks for donors and partner countries: these include improving the conditions for dialogue between donors and partner countries; establishing strong mutual accountability mechanisms to ensure the implementation of coordination commitments; and promoting policy discussion on fragmentation and managing diversity at the regional and international level.

1 Introduction

The current development landscape is characterised by a multiplicity of different actors and it is largely believed that finding ways to deal with the proliferation of donors is crucial for improving aid effectiveness (Bigsten / Platteau / Tengstam 2011; Bigsten / Tengstam 2012; Knack / Smets 2012; Anderson 2012, 2; EC 2014, 15). With the increasing concentration of aid in least developed countries and fragile states (Sumner / Kanbur 2012) – precisely those which are least equipped for dealing with a fragmented aid landscape – finding ways to manage the multitude of development actors becomes even more important (Mackie 2013, 16). However, despite repeated international commitments at the High Level Forums in Paris (2005), Accra (2008), and Busan (2011) to tackle the challenges posed by a diverse aid landscape, progress to date has been rather slow (Building Block on Managing Diversity and Reducing Fragmentation 2014a, 4).

Besides a lack of incentives for both donors and partner countries to rationalise aid portfolios, a major reason for the disappointing progress is uncertainty about what the most desirable type of aid landscape should look like. Academics and practitioners stress that better coordination would improve the developmental impact of aid, but it remains unclear what exactly the international community should aim for (Chandy / Kharas 2011, 742). Some argue that reducing the number of donors active in the same sector or country would go a long way towards increasing aid effectiveness (Bigsten / Platteau / Tengstam 2011; Bigsten / Tengstam 2012; Knack / Smets 2012; Anderson 2012, 2). Others point out that there is also value in the multiplicity and diversity of actors and approaches to development (Brinkman 2013, 16; Severino / Ray 2009, 7). There is increasing agreement that there is no ‘one-size-fits-all’ approach to managing diversity, and that the type and degree of coordination should be shaped by the country context (Dreher et al. 2013; Mackie 2013, 5; OECD 2011b, 19; Klingebiel / Morazán / Negre 2013, 94). However, it remains unclear what managing diversity actually means and how this vague idea should be put into practice.

The present paper aims at filling this gap. In Sections 3 and 4, it proposes a definition of ‘managing diversity’ and compares different approaches for its implementation. Drawing on country experiences, it also analyses the role contextual factors play in shaping incentives for the actors involved to implement different strategies for managing diversity. Following this, in Section 5, the paper identifies important activities that partner countries and donors should undertake to allow an efficient management of multiple aid actors and channels. The concluding sections, Section 6 and 7, draw attention to the most important requirements for managing diversity and formulate policy recommendations for both donors and partner countries.

The analysis focuses on development aid at the country level. The presence of a large number of uncoordinated donors presents serious challenges for humanitarian aid as well (Vollmer 2012, 51–52; Darcy / Hofmann 2003, 10). However, humanitarian aid would require a separate analysis as it has its own distinct coordination structure and actors, notably the United Nations Office for the Coordination of Humanitarian Affairs (OCHA). The discussion presented here is embedded in the context of the aid effectiveness agenda, which is predominantly centred on development aid. Since most coordination efforts to date have been limited to DAC donors, the analysis predominantly focuses on these donors. However, opportunities for integrating non-DAC donors in different coordination approaches are also discussed in Section 4.3.3. Differences between multilateral and

bilateral donors are discussed not with reference to specific multilateral or bilateral actors but in the context of the comparison between different approaches to managing diversity, when analysing the properties of pooled aid as opposed to aid provided by bilateral sources.

The paper is based on a review of papers and documents related to aid management and coordination. The desk research was complemented by interviews with donors – both at headquarters and at country offices – and with government officials working in the aid management units of various different partner countries. Field research was conducted in August 2013 in Bangladesh and Madagascar, and in December 2013 in Uganda.

2 Background on fragmentation and managing diversity

Aid fragmentation refers to the problem that individual donors tend to be engaged in too many countries, and spread their aid across too many sectors, which produces high transaction costs on both sides of the aid relationship (OECD 2011b, 3). Many official donors today give aid to more than a hundred countries (Frot 2009, 3) while emerging and private donors are increasingly engaging in development cooperation as well (Fengler / Kharas 2011, 6), resulting in a very fragmented aid landscape. The presence of a multitude of actors also undermines aid effectiveness in a number of other ways, such as by weakening partner countries' institutions and blurring lines of accountability (Davies / Klasen 2013, 2–3).

Increasing concerns over the negative impact of fragmentation on aid effectiveness have led donors to commit in a series of high-level international forums on aid effectiveness to rationalise the provision of development assistance. At both the Paris (2005) and the Accra (2008) High Level Forums, approaches for reducing fragmentation focused mostly on establishing a more effective division of labour (DoL) among donors, both at country and at sector level (Paris Declaration on Aid Effectiveness (PD), Paragraph 33–35; Accra Agenda for Action (AAA), Paragraph 17). The Paris Declaration and the Accra Agenda for Action gave impetus to the DoL agenda especially at EU level, leading to the adoption of the Code of Conduct on Complementarity and Division of Labour (CoC) in 2007 (Keijzer / Corre 2009, 92).¹ The CoC encourages EU donors to concentrate their aid on fewer partner countries by establishing priority countries for their bilateral aid programmes and specialising in three sectors. These commitments were reinforced by similar recommendations expressed in the OECD's International Good Practice Principles for Country-Led Division of Labour and Complementarity (OECD 2009).

The implementation of DoL commitments, however, has proven extremely difficult, especially at cross-country level. Individual donors face strong incentives against concentrating their aid in fewer partner countries. Concerns about visibility towards domestic taxpayers, as well as political and commercial interests, make donors reluctant to exit

1 The principles of coordination, complementarity and coherence between the development activities of EU member states and the European Commission, as well as among member states, had already been established by the Maastricht Treaty in 1992. A number of initiatives to improve EU coordination in the field of development cooperation had already been undertaken in the years after 1992, but progress remained tentative. In the meantime, the country and sector portfolio of both the EU and of its member states kept expanding throughout the years between 1992 and 2007 (Keijzer / Corre 2009, 91).

countries where they have an established aid programme (Bigsten / Platteau / Tengstam 2011, 152–153; Schulz 2007, 1; Odén / Wohlgemuth 2011; Chandy / Kharas 2011, 746; Rasmussen 2013, 42). Progress has been slow and is currently stalling (Brown / Swiss 2013; EC 2011, 7; Mackie 2013, 15). Therefore, donors have started focusing predominantly on in-country coordination, perceived as politically less sensitive than cross-country DoL (Corre / Mackie / Trenner 2008, 22; Grimm / Schulz 2009; Mackie 2013, 4–5). EU efforts to tackle fragmentation are now predominantly driven by the EU Joint Programming initiative², which focuses on coordination within partner countries rather than a reduction in the number of donors per country (EC 2014, 15).

Besides the political challenges met during the implementation of cross-country DoL, the shift in focus away from this approach to reducing fragmentation was influenced by the idea that there is value also in the multiplicity and the diversity of development actors. This argument is increasingly put forward both in academic papers (Severino / Ray 2009, 7; Brinkman 2013, 16) and at policy level. In 2011, the Busan High Level Forum on Aid Effectiveness introduced the concept of ‘managing diversity’. The Busan Partnership Document states that donors and partner countries:

“Welcome the diversity of development cooperation actors. Developing countries will lead consultation and coordination efforts to manage this diversity at the country level” (Busan Partnership Document (BPd), Paragraph 25).

The international working group launched in Busan in response to the problem of fragmentation was given the name “Building Block on Managing Diversity and Reducing Fragmentation”.

Recently, the First High Level Meeting of the Global Partnership for Effective Development Cooperation in Mexico (April 2014) makes no reference in its final Communiqué to cross-country DoL. Regarding fragmentation, it states:

“In accordance to the priorities and policies set out by recipient countries, we will continue avoiding aid fragmentation pursuing division of labor under country leadership, strengthening joint programming [...]. In this context, we encourage all providers of development assistance to actively support and participate in country-led coordination mechanisms” (Mexico High Level Meeting Communiqué Paragraph 10).

Here DoL is envisaged as taking place under country leadership, indicating that reference is made to in-country DoL across sectors, not international DoL across partner countries.

Despite the emphasis on ‘managing diversity’, it remains unclear what exactly is meant by the term, and how the management of diversity should be implemented. The Paris Declaration underlines the importance of improving coordination, but provides little guidance on how this should be done at the country level (Linn 2009, 1). The following sections propose a definition for the term, and discuss different implementation approaches.

2 Joint Programming is a European initiative aimed at increasing aid effectiveness, whereby the EU and its member states elaborate a Joint Strategy based on the national development strategy of each partner country which includes a joint analysis of the partner country, identifies priority areas for support, and agrees on which donor should work in which sector. Joint Programming still faces important challenges, but the process is advancing in about 40 partner countries (EC 2014, 7).

3 What is managing diversity? Definition and possible approaches

This paper defines ‘managing diversity’ as the management of different sources of aid by the partner country, aimed at improving the effectiveness of aid in a complex aid landscape. While suggestions for improvements in coordination tend to be focused on relations and negotiations among donors (Woods 2011, 13–14), emphasising the partner country’s perspective is in line with the principles of aid effectiveness, as the importance of partner country leadership in coordination efforts has been underlined in all the international High Level Forums and is the first of the International Good Practice Principles for Country-Led Division of Labour and Complementarity (OECD 2009). Moreover, although still weak, incentives for increasing coordination are likely to be stronger on the partner country than on the donor side (Woods 2011, 13–14). Adverse incentives hinder coordination efforts on the donors’ side. Concerns about visibility and accountability to domestic taxpayers, as well as vested interests, make donors reluctant to release control over their funding. Lack of trust among donors and technical difficulties constitute serious additional obstacles (Schulz 2007, 1; Odén / Wohlgemuth 2011; Leiderer 2013, 33–34; Chandy / Kharas 2011, 746; Rasmussen 2013, 42; Carbone 2012, 9–10; Lawson 2013, 18; Rasmussen 2013, 42; Wentzel 2011, 9). Taking incentives into account is crucial because lack of incentives to implement coordination commitments constitutes the main obstacle for progress (Leiderer 2013, 34).

The activities for managing diversity do not necessarily result in a reduced number of donors, but they are all expected to reduce transaction costs and other undesirable consequences of a fragmented aid landscape, such as collective action problems, inefficiencies in aid allocation, and the overlap of contrasting approaches and strategies. A broad range of options is envisaged, including pooling of aid, cross-sector DoL, joint strategies to achieve common objectives, sector working groups to enhance dialogue, use of country systems, etc. (Building Block on Managing Diversity and Reducing Fragmentation 2014a, 6; DFID 2010, 1).

To assess the several possible ways in which developing countries can deal with the complexity of the current aid landscape, it is helpful to analyse existing tools in a systematic way. Mechanisms for country-level coordination can be classified according to different criteria. Mackie (2013, 4–5) identifies different approaches according to the extent to which they would produce a reduction in the number of donors (pooling of resources; cross-sector DoL; coordination and complementarity). On the other hand, Klingebiel, Morazán, and Negre (2013, 23) distinguish between the different levels at which coordination can take place (the policy, the programming, and the implementation level). Because the problem of fragmentation is closely related to the presence of a large number of donors, this paper will first apply Mackie’s classification and analyse the advantages and disadvantages of reducing the number of donors. Such an analysis shows that there is no ‘ideal’ number of donors, and that there are trade-offs between the costs and benefits of differing approaches. Given this conclusion, Section 4.7 makes reference to the classification by Klingebiel, Morazán, and Negre (2013, 23), as it is particularly useful for highlighting the possibility for partner countries to use different approaches to managing diversity in different phases of development cooperation.

Following Mackie’s classification, three main approaches for managing diversity can be identified:

a. *Pooling of resources*: Partner countries could invite donors to pool resources and channel them through multilateral vehicles of some form – multilateral organisations, trust funds, co-financing arrangements among bilateral donors such as the Mutual Reliance Initiative (MRI)³, or through the partner country's institutions in the form of multi-donor budget support (MDBS)⁴. Depending on donors' trust in the partner government, pooling arrangements can be run by the government, by the donors, or jointly (Klingebiel / Morazán / Negre 2013, 81). In its extreme form, pooling would have one single multilateral organisation as the only donor to the country. The extent to which the pooling approach is currently adopted varies from country to country but in general it is not particularly large. There appears to be a slowing down of multilateral aid since 2009, when its share decreased to 28% of total Official Development Assistance (ODA) from a peak of 33% in 2001 (OECD 2011a, 5). Donors tend to use multilateral aid mechanisms to supplement, rather than replace, bilateral aid (Lawson 2013, 17). However, earmarked funding (i.e. aid that bilateral donors allocate to specific projects implemented by multilateral institutions), and in particular the use of multi-donor trust funds (MDTFs)⁵, has seen a substantial increase in recent times. In 2010, 12% of total ODA, though counted as bilateral, was channelled through and implemented by multilateral agencies (OECD 2011a, 5). Some movement in the direction of pooling can also be observed among EU donors: 25% of collective EU ODA is now administered through a central institution, the European Commission (Mackie 2013).

b. *Cross-sector division of labour*: The DoL approach envisages a coordinated distribution of donors across sectors, with individual donors concentrating aid in a limited number of thematic areas. Partner countries could encourage donors to focus on areas where they have a comparative advantage, while allowing them to contribute to other sectors through delegated cooperation.⁶ Actual progress on in-country DoL dwindled after having peaked in 2009 (EC 2011, 7; Nunnenkamp / Öhler / Thiele 2011; Bürcky 2011). However, the DoL agenda has recently been pushed forward by the current momentum in EU Joint Programming (EC 2014, 15).

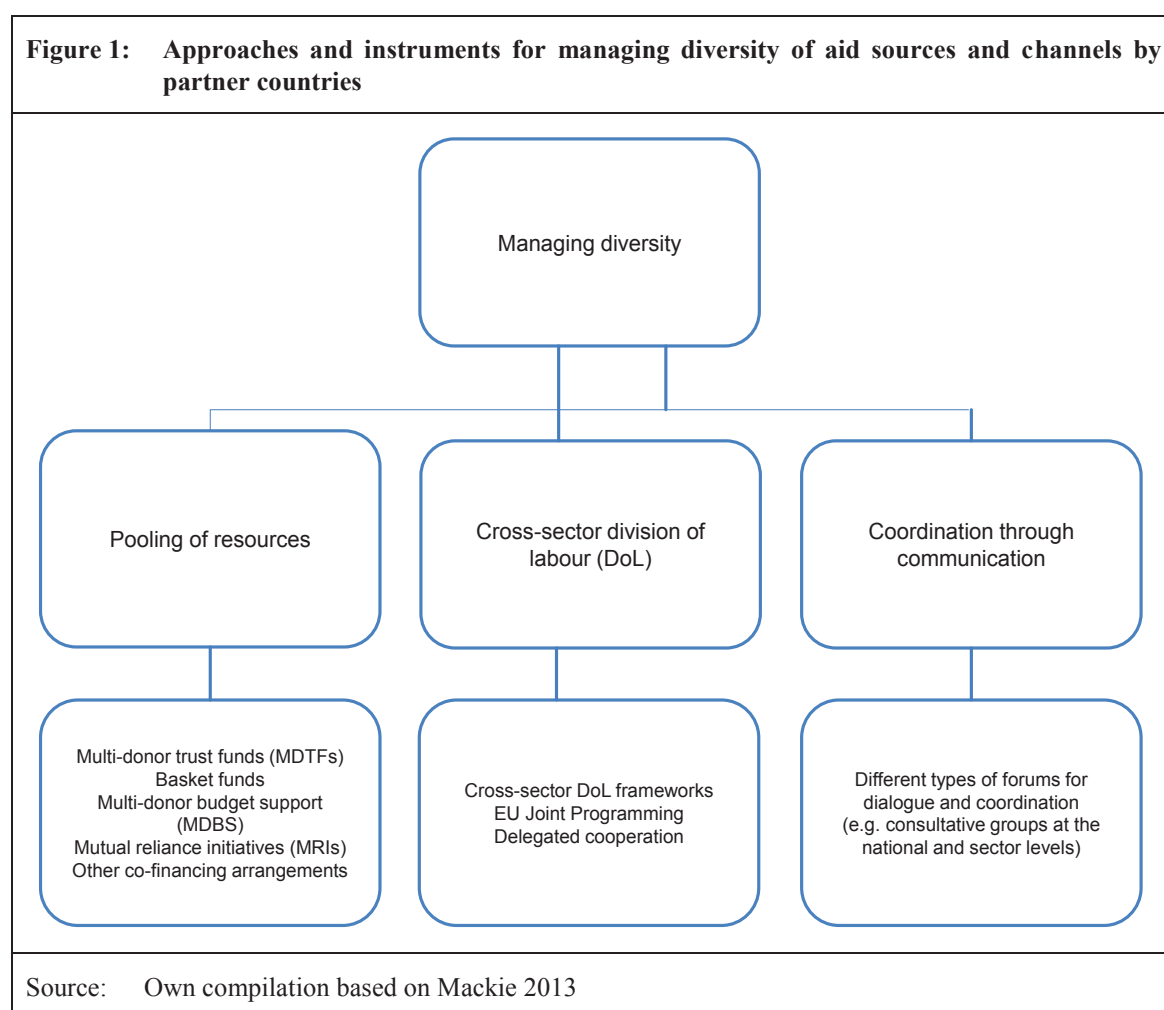
3 For example, the French aid agency Agence Française de Développement (AfD), the German *Kreditanstalt für Wiederaufbau* (KfW, the KfW Development Bank), and the European Investment Bank (EIB) recently signed an MRI for the joint funding of a common programme which will be implemented by one of the agencies taking the role of 'lead donor' (see: <http://www.eib.org/infocentre/events/all/the-mri-effective-partnering-for-growth-development.htm?lang=de>).

4 Budget support can be provided in various different forms: as general or sector budget support, in fixed or variable tranches, or in combinations thereof. Despite these variations, MDBS asserted itself as the most common modality in most least developed countries where budget support is provided by several donors. Generally, dedicated budget support donor groups are established to coordinate the policy dialogue between the partner government and donors and discuss the conditions that need to be in place for the disbursement of funds. MDBS groups are usually chaired by one or more donors and offer a framework for donor coordination which has high potential for a reduction of transaction costs and other disadvantages of fragmentation (Klingebiel / Morazán / Negre 2013, 46).

5 Bilateral donors increasingly provide aid to fragile states through MDTFs that collect contributions from many donors and administer them under a single governance structure, generally managed by multilateral donors such as the World Bank (Barakat / Rzeszut / Martin 2012, 10). MDTFs serve both as a joint funding modality and a coordination framework (DFID 2010, 5–6).

6 Delegated cooperation, also known as 'silent partnership', allows bilateral donors to support sectors where they do not have a presence by channelling aid through another bilateral donor active in that area (NORAD 2006). Only 9 of the 21 countries involved in the fast-track DoL initiative have used this instrument (Klingebiel / Morazán / Negre 2013).

c. *Coordination through communication*⁷: Following this approach, partner countries would not ask individual donors to concentrate aid, but would strengthen coordination with and among the multiple donors through donor consultative groups, sector working groups, and other coordination mechanisms at the national or sector level. To date, forums for dialogue between partner country governments and donors, as well as among donors, have been set up in most partner countries (UNDP 2011). However, such mechanisms are predominantly used for information exchange on ongoing development projects and programmes, whereas a full implementation of the ‘coordination through communication’ approach would require *ex-ante* coordination of individual donors’ activities to prevent the duplication of efforts and other undesirable consequences of fragmentation (Woods 2011, 10). Figure 1 illustrates these three different approaches to managing diversity:



In practice, the distinction between these three different approaches is not straightforward, because in most partner countries elements of all three can be observed. This is sometimes the result of donors’ actions and of the lack of a clear strategy by the partner country, and sometimes it corresponds to a strategy adopted by the partner country to combine different approaches (Rocha Menocal / Mulley 2006, 20–21).

7 Mackie (2013, 4–5), calls this third approach “coordination and complementarity”. Here, I prefer referring to it as ‘coordination through communication’, because all of the three approaches outlined can be seen as forms of coordination, and because DoL also implies complementarity.

Importantly, the choice of aid instruments also matters. Aid modalities have primarily been distinguished according to the technical arrangements governing the disbursement and the management of funds. These include: i) type and terms of finance; ii) disbursement channels; iii) procurement conditions; and iv) targeting and tracking of donor resources. Programme-based approaches (PBAs)⁸ can be implemented through different aid instruments including budget support (BS), basket funds, and sector-wide approaches (SWAPs)⁹. Because they include pooling of resources, DoL, and coordination through communication, PBAs have elements of all the approaches in Figure 1. PBAs aim at reducing transaction costs and other problems of fragmentation not only by increasing donor harmonisation but also by making greater use of country systems. In fact, success in dealing with a multitude of donors might be related more to donors' use of country systems than to the number of active donors per country or sector (Klingebiel 2013, 6). These essential points are discussed in Sections 5.1 and 5.2.

4 Comparison of different approaches

It is very difficult to give an assessment of different approaches to managing diversity which is independent of context. Empirically, the evidence does not offer general answers on the advantages or disadvantages of reducing the number of donors or aid channels, as these will largely depend on the context (Dreher et al. 2013). Such inconclusiveness is also due to the fact that some of the costs and benefits of having a large number of donors are very hard to measure (Lawson 2009, 13; Carlsson / Schubert / Robinson, 2009, 10). Also, coordination efforts are relatively recent while their costs and benefits are likely to only become visible in the medium to long term (Wentzel 2011, 12–15). Conceptually, both costs and benefits can be associated with reducing the number of donors, and trade-offs exist between the advantages and disadvantages of different approaches, as will become clear in the following sections. However, it is possible to identify the costs and benefits of different approaches, and partner countries can subsequently weigh up these costs and benefits in order to design the most suitable strategy for managing diversity in their particular context.

The literature on fragmentation identifies a number of benefits and costs associated with strengthening coordination. Main advantages include:

-
- 8 According to the OECD DAC definition, PBAs are a coordinated support for a locally owned development programme such as a national development strategy or sector and thematic programmes. PBAs should: i) be led by the partner country; ii) have a single comprehensive programme and budget framework; iii) include a harmonisation of donor reporting, budgeting, financial management and procurement; iv) make increased use of country systems for programme design and implementation, financial management, and monitoring and evaluation (M&E). Implementation of PBAs can take place through different aid instruments ranging from basket funding of specific activities or reform programmes to joint support of SWAPs and sector and general budget support. PBAs are expected to reduce transaction costs through harmonisation and strengthened country ownership through the use of country systems (Klingebiel / Morazán / Negre 2013, 44–45).
 - 9 SWAPs are approaches that operate following the principles of PBAs but are focused on one specific sector or thematic area, such as health or governance (Klingebiel / Leiderer / Schmidt 2007, 5).

*Reduced transaction costs*¹⁰: This is the most commonly cited benefit of reducing fragmentation, and refers to savings in resources spent on meetings, missions, negotiations, monitoring, reports, etc. Transaction costs can be reduced for partner countries, for donors, or for both. Reducing transaction costs for partner country governments is particularly important because it promotes the strengthening of government capacity (ODI 2005, 26). Indeed, if government officials are constantly busy dealing with donors they will not be able to attend their core business (Klingebiel / Morazán / Negre 2013, 13). However, inefficient coordination mechanisms can also produce an increase in transaction costs (DFID 2010, 5).

More efficient aid allocation: A second, frequently mentioned problem associated with a fragmented development landscape is that many uncoordinated donors tend to focus on the same sectors, sub-sectors and geographical areas, producing a duplication of efforts on the one hand and funding gaps on the other (Carlsson / Schubert / Robinson 2009, 29). Coordination helps to achieve an efficient overall aid allocation that addresses the partner country's main development priorities and is therefore better aligned (Klingebiel / Morazán / Negre 2013, 13).

More coherent approaches and strategies: Fragmentation produces a multiplication of different and sometimes contradictory strategies and approaches to development (Carlsson / Schubert / Robinson 2009, 29). Aid can be ineffective or even harmful if farmers, election officials, or health providers receive contradictory guidance from technical advisors provided by different donors (Lawson 2013, 4). Government actors exposed to contradictory signals from different donors experience difficulties in prioritising their actions (ODI 2005, 32).

Reduced collective action problems: Fragmentation tends to produce collective action problems that arise when actors do not take part in efforts whose benefits will be shared by all, leading to outcomes that are sub-optimal for everyone involved. Because development in the partner country is a good shared by all donors, the presence of many donors lets individual actors free-ride on other donors' efforts (Olson 1965). With a large number of actors, responsibility for the development impact of aid is diffused and individual donors will tend to concentrate on the success of their own projects to the detriment of the overall effectiveness of aid (Bigsten 2006, 4; Acharya / De Lima / Moore 2004, 8; Williamson 2010, 22). Collective action problems also induce uncoordinated donors to compete for the most capable staff, and aid agencies' 'poaching of officials' often leads to the weakening of government institutions (Knack / Rahman 2008).

On the other hand, strong donor coordination might also carry disadvantages for the partner country, such as:

10 Aid transaction costs are the costs which allow an aid transaction to take place but which add nothing to the actual value of that transaction. According to Lawson (2009, 10), transaction costs can be divided in three categories: a. Search costs: the costs necessary for partner country governments and potential donors to identify appropriate development partners, projects or programmes; b. bargaining and decision costs: the costs of negotiating and agreeing financing agreements for projects and other operations; c. Policing and enforcement costs: the costs to partner country governments of fulfilling requirements for project execution and monitoring and to donor agencies of supervising adherence to project and programme conditions and of undertaking corrective actions where necessary. All these costs tend to increase in the presence of many uncoordinated donors.

Loss of partner-country ownership: For the partner country, it is often not obvious that increased coordination among donors will lead to better alignment to the country's needs (Bigsten 2006, 15; UNDP 2011, 7). On the contrary, it could lead to a "donor cartel" that imposes its own preferences and conditions (Rocha Menocal / Rogerson 2006, 9). While donors consider a more effective use of conditionalities one of the advantages of stronger coordination (Bigsten / Tengstam 2012, 3), partner countries do not see it as a desirable outcome of reducing fragmentation. If donor coordination leads to a unified position among the whole donor group, this might undermine the partner-country's room for manoeuvre in the choice of policies (Klingebiel / Morazán / Negre 2013, 14; UN 2011, 28; Rogerson 2005; Frot / Santiso 2010; OECD 2011b). This is part of the reason why some partner governments find the idea of donor coordination threatening and prefer to deal with donors individually – whatever the transaction costs (DFID 2010, 2). The link between coordination on the one hand and ownership and alignment on the other was emphasised in the Accra Agenda for Action (Woods 2011, 14) and the Busan Partnership document, which both stress that aid coordination should be led by the partner country. However, there are some unresolved trade-offs between those concepts (Booth 2011, 5).

Tied aid: Reducing fragmentation might impact negatively on the quality of aid provided. Concerns have been expressed about the fact that in a less fragmented aid landscape donors might gain monopoly power and be in a position to deliver prevalently tied aid¹¹ (UN 2011, 28; Rogerson 2005; Frot / Santiso 2010; OECD 2011b)¹².

Loss of donor expertise: One cost commonly associated with reducing fragmentation is the loss of donor expertise produced by a donor's exit from a country or a sector (Rogerson 2005, 543). In contrast, reducing fragmentation might strengthen the partner country's national expertise if it allows the poaching of officials by multiple development agencies competing for staff to be limited. In this paper, the sections focusing on the loss of expertise refer to donor expertise, since the effects of reducing fragmentation on national expertise are covered in the sections that concentrate on reduced poaching of officials and the use of country systems.

Some of the benefits and costs outlined above are related to the strengthening of coordination among donors, while others are due to a reduction in the number of donors. This important difference will become clearer in the following sections which analyse the presence of such advantages and disadvantages in the various different approaches to managing diversity.

11 'Tied aid' is defined as development assistance provided under the condition that certain goods and services are purchased from firms in the donor country, or otherwise directly involve donor country stakeholders. Donors often justify the tying of aid by stating that it increases taxpayers' support for development assistance. The tying of aid reduces the effectiveness of development cooperation by placing purchasing decisions in the hands of development partners and thereby reducing ownership; by increasing the costs of supply; and by reducing aid's potential to boost the local economy (Keijzer 2013, 24).

12 The evidence however is not uncontroversial: Knack and Smets (2012) find that lower numbers of donors are instead associated with less aid tying.

4.1 Pooling of resources

4.1.1 Advantages of coordination in the pooling approach

Reduced transaction costs: Among the different approaches to managing diversity, pooling has the greatest potential for reducing transaction costs. The programming, design, and supervision of aid activities could in principle be carried out by one agency on behalf of several donors (Lawson 2009, 13). With pooled funding, transaction costs are expected to be very low on the partner country side, as partner governments would not have to negotiate with each donor bilaterally any more. Donors would also see a substantial reduction in operational transaction costs (Klingebiel / Morazán / Negre 2013, 124). Reducing transaction costs is one of the reasons why multilateral organisations such as the World Bank and UN agencies were conceived (Lawson 2013, 9; Abbott / Snidal 1998, 4–5). Some argue that donors should focus not on harmonisation, but on the multilateralisation of aid instead (Woods 2011, 8; Manning 2012, 11). Joint funding arrangements among bilateral donors can also be expected to carry a reduction in transaction costs. Budget support (BS) is another form of pooled funding, and this is why it brings with it many of the advantages of pooling (Klingebiel / Morazán / Negre 2013, 48). It can be argued that delivering aid through partner country governments in the form of direct BS is the most effective way to harmonisation (Lawson 2013, 16).

Efficient aid allocation: In terms of efficient allocation of resources, a pooling approach would be particularly helpful, as centralisation enables a better overview of aid activities and the avoidance of gaps in coverage (Abbott / Snidal 1998, 13–14). Moreover, pooling mitigates bilateral donors' risk-aversion and their tendency to avoid allocating aid to projects that present larger risks (Klingebiel 2013, 6). Finally, pooling creates economies of scale that allow financing energy and infrastructure projects that would be too large for individual bilateral donors (Lawson 2013, 4).

Improved coherence of strategies: Pooling would also be helpful for avoiding the coexistence of contrasting strategies and approaches to development. According to the DAC (2001, 16), incoherent strategies and preferences among donors arise for three reasons: differing analysis; differing mandates; and differing domestic pressures. While the first source of discrepancy could be avoided by recurring to joint analyses, which is compatible with all three approaches to managing diversity, the second and third sources of discrepancy are best addressed through pooling.

Reduced collective action problems: Pooling would also help mitigate collective action problems by reducing the number of donors, which is expected to promote burden-sharing in providing collective goods because it makes free-riding more difficult (Abbott / Snidal 1998, 12). If provided through multilateral organisations, pooled aid would have the additional advantage that multilateral institutions tend to be less competitive and readier to coordinate than bilateral donors, thereby making common efforts easier (Abbott / Snidal 1998, 12; Öhler 2013, 17). This advantage however seems to be weakened in the case of trust funds and other entities financed by earmarked contributions, because they often carry the particular wishes of each bilateral donor in the form of conditions applied to the use of funds (Powell / Bobba 2006, 7).

4.1.2 Disadvantages of coordination in the pooling approach

While it has large potential for reaping the benefits of reducing fragmentation, pooling also carries many of the risks associated with it.

Reduced country ownership: From the perspective of country ownership, pooling seems the most risky option. The presence of a dominant donor might undermine ownership because such donors tend to take over state operations (ODI 2005, 41) and because dependency on one donor will provide it with excessive influence on the partner country's policies (Rogerson 2005; Frot / Santiso 2010; OECD 2011b). However, multilateral aid generally leaves less scope for individual donor countries to pursue their own interests, making this kind of aid less politicised and interest-based than bilateral aid. As a result, multilateral aid can facilitate greater ownership by partner countries (Klingebiel 2013, 5–6; Powell / Bobba 2006, 21). Multilateral organisations also tend to provide less tied aid than bilateral donors (Jepma 1991; Kanbur 2000; 2006).

Loss of donor expertise: The pooling approach is likely to produce the largest loss of expertise, as it would generally require bilateral donors to exit. Limiting the variety of independent donors might also undermine the promotion of pluralism, creativity and innovation (Lawson 2013, 5; Severino / Ray 2009, 7; Brinkman 2013, 16). On the other hand, it can also be argued (Abbott / Snidal 1998, 13–14) that due to the large number of activities they carry out in many sectors and countries, large multilateral organisations are better placed than bilateral donors to accumulate knowledge and develop expertise. In contrast, many co-existing donors might fail to develop collective learning, with one donor's mistakes being subsequently repeated by others (Carlsson / Schubert / Robinson 2009, 29; Brown et al. 2000).

4.2 Division of labour (DoL)

4.2.1 Advantages of coordination in the DoL approach

Reduced transaction costs: While a DoL approach might carry larger transaction costs than pooling, at the bottom line it is still expected to have lower transaction costs as compared to coordination through communication. Indeed, partner countries would have to deal with fewer donors per sector, and donors active in only a couple of sectors would be able to reduce operational costs as well (Weingärtner 2008, 23). However, a reduction in transaction costs is likely to occur in the medium to long term rather than in the short term. The three monitoring reports of the EU Fast-Track Initiative on DoL assess that transaction costs have increased for both partner countries and donors as a result of an increased number of donor meetings (Klingebiel / Morazán / Negre 2013, 37). Delegated cooperation might still involve transaction costs for both donors and partner countries because delegated cooperation arrangements have to be prepared and negotiated between donors and with the partner government (NORAD 2006, 12–14). However, once arrangements have been negotiated they are expected to reduce transaction costs for the partner country, as the delegating donor is supposed to remain silent in relation to the partner government (ibid., 21). In general, transaction costs from DoL tend to rise during an initial phase as the framework is set up, and then to decrease in a second phase (Weingärtner 2008, 18–19; Wentzel 2011, 12–15).

Efficient aid allocation: DoL also has the potential to improve the overall allocation of aid (Weingärtner 2008, 23). A more rational distribution of donors across sectors would avoid the emergence of ‘darling’ and ‘orphan’ sectors (Pietschmann 2014, 91). By concentrating on their areas of competitive advantage, donors could also fund fewer but larger projects than if they were involved in more sectors, thereby enhancing their leverage (Rogerson 2005, 543). However, DoL entails the risk of producing funding gaps in cross-cutting issues that span sectors led by different donors (Government of Malawi 2010, 32–33; Weingärtner 2008, 19).

Reduced collective action problems: DoL leads to a reduction in the number of donors per sector, which is likely to reduce collective action problems by making it harder for donors to free-ride (Abbott / Snidal 1998, 12). However, it also decreases competition among providers of development assistance, thereby increasing their ability to deliver tied aid (UN 2011, 28; Rogerson 2005; Frot / Santiso 2010). In the case of DoL, the risk would be greater than with the pooling option because bilateral donors tend to have a more pronounced tendency to promote their national commercial interests by tying aid (Jepma 1991; Kanbur 2000; 2006).

4.2.2 Disadvantages of coordination in the DoL approach

Reduced country ownership: Concerning ownership, with DoL the problem lies predominantly at the sector level, as limited numbers of donors per sector make it more difficult for the government to play one donor off against another and have its own way in sector policies. Moreover, the presence of strong lead donors may also crowd out emerging policy leadership from the partner country government in the relevant sectors (ODI 2005, 41). Combined with the fear of losing funding as a result of a reduction in the number of donors per sector, concerns over ownership often make partner country governments reluctant towards DoL (Brinkman 2013, 15–16).

Loss of donor expertise: It is likely that some expertise will get lost as donors exit sectors where they have been active for many years. This is particularly true for large donors who have typically developed expertise in many sectors (Mackie 2013, 16). However, concentrating on fewer sectors can also be seen as an opportunity for donors to develop even greater expertise in their areas of comparative advantage (Mürle 2007, 36).

4.3 Coordination through communication

4.3.1 Advantages of coordination in the ‘coordination through communication’ approach

Reduced transaction costs: Coordination through communication accepts the presence of many donors active in multiple sectors and is thus likely to present the largest transaction costs both for donors and for partner countries (Easterly / Williamson 2011). With this approach, transaction costs are likely to be reduced for the partner country government

(Linn 2009, 15), although this is not always the case (DFID 2010, 5).¹³ For donors the transaction costs might actually even increase with coordination through communication as compared to non-coordination because they not only have to negotiate with the partner government, but also with all other donors in all sectors (Carlsson / Schubert / Robinson 2009, 47; Bůrcký 2011, 7–8)¹⁴. Coordination through communication thus appears to be the least suitable option for reducing transaction costs because coordinating large numbers of donors active in many areas also produces transaction costs (Wood et al. 2011, 27).

Efficient aid allocation: Because it does not involve the redistribution of donors across sectors, coordination through communication appears to be also less suited for avoiding the emergence of under-assisted and overcrowded sectors. The problem of inefficient allocations can in theory be also solved by a ‘coordination through communication’ approach by means of increased exchange of information, which would allow donors to adjust their allocations to a certain sector based on other donors’ allocations to that sector (Halonen-Akatwijuka 2004). Increased exchange of information among donors active in the same sector might also help to improve allocative efficiency at the sub-sectoral level and may result in something similar to an informal DoL across sub-sectors. However, with a larger number of donors involved, such allocation decisions would require more negotiations and coordination meetings as compared to pooling or DoL, thereby increasing transaction costs and delays (Klingebiel / Morazán / Negre 2013, 14). Delays in disbursements could be counterproductive especially in fragile or post-conflict situations that often demand immediate action and the quick delivery of tangible results (Klingebiel / Morazán / Negre 2013, 14).¹⁵ Despite its not being included in the aid-effectiveness agenda, speed of disbursement was identified as a key priority for partner countries (Greenhill / Prizzon / Rogerson 2013, 27).

Improved coherence of strategies: Coordination through communication would not eliminate the existence of many different and potentially contradictory strategies for development. However, exchange of information among donors can at least help to avoid the same groups being targeted with incompatible strategies (Lawson 2013, 4). This would allow the coexistence of different strategies, which can promote pluralism, creativity and innovation (Lawson 2013, 5; Severino / Ray 2009, 7; Brinkman 2013, 16).

Reduced collective action problems: While some of the benefits of coordination identified above could be achieved with all three approaches – albeit with rising transaction costs from pooling to coordination – it will be harder to solve collective action problems in

13 For instance, the coordination mechanism initiated in the Democratic Republic of Congo (DRC) was successful in bringing 17 donors together under one framework, but this also meant that the planning processes became very transaction intensive, and, for the partner country, transaction costs probably increased (DFID 2010, 5).

14 Even if donors were to incur higher transaction costs than with no coordination, coordination through communication might still increase the development impact of aid if it reduces transaction costs for the partner government. It can be argued that receiving governments, who already suffer from capacity constraints in the normal business of government, should carry less of the burden of aid transaction costs than donors whose capacity to absorb those costs is greater (Lawson 2009, 19).

15 While the problem seems to be particularly serious with a ‘coordination through communication’ approach, lengthy procedures are associated with other coordination modalities too. Joint pooled funding mechanisms have also been criticised for not being flexible enough to be able to disburse funds rapidly in critical situations (Hoyos / Muggah 2009, 56).

ways other than by reducing the number of actors. Coordination through communication can mitigate those types of collective action problems that arise from lack of information (Halonen-Akatwijuka 2004), but does not necessarily limit civil servant poaching or the diffusion of responsibility.

4.3.2 Disadvantages of coordination in the ‘coordination through communication’ approach

Reduced country ownership: With a ‘coordination through communication’ approach the risk of weakening ownership is reduced, as the presence of many donors increases the partner government’s bargaining power and its ability to approach other donors if one does not meet its needs or terms (Gibson et al. 2005, 65). However, coordination through communication can also undermine government ownership if it comes with long negotiations that distract attention and energy away from the government processes of priority-setting, implementation, and monitoring (Odén / Wohlgemuth 2011, 7). There is a risk that the focus shifts to inter-donor relations and negotiations and that during coordination meetings the country’s representatives sit watching donors argue (Woods 2011, 13).

Tied aid: In terms of avoiding the risk of tied aid, coordination through communication seems to be the best option, since a large number of donors per sector will help to maintain competition among them (UN 2011, 28; Rogerson 2005; Frot / Santiso 2010). The tying of aid might even be reduced as compared to a situation of no coordination due to the increased peer-pressure that coordinated donors may exercise on each other to deliver aid in line with the Paris Declaration.

Loss of donor expertise: Similarly, expertise will not get lost with the ‘coordination through communication’ approach as donors are not required to exit any sector, and it might even be strengthened thanks to an increased exchange of information and the sharing of different experiences among donors and the partner government within the framework of sector working groups or other forums for dialogue.

4.3.3 Opportunities for coordination with non-DAC donors in the different approaches

One of the factors leading to an increasingly diverse and fragmented landscape is the growing role of non-DAC donors¹⁶ (Kharas / Rogerson 2012, 14). The emergence of new donors increases the fragmentation and complexity of the development landscape, thereby worsening transaction costs (Fengler / Kharas 2011). The presence of non-DAC donors is an often-mentioned challenge when it comes to managing diversity, as these donors are reluctant to be integrated into coordination efforts (Öhler 2013, 17; Chigunta / Matshalaga

16 It is estimated that new donors such as China, India and Brazil provide around US\$ 15 billion worth of aid yearly, and that this flow could grow to more than US\$ 50 billion by 2025 (Kharas / Rogerson 2012, 14).

2010, 13; EC 2011, 2). An important question to ask is therefore which approach would be best suited for integrating these donors into coordination processes.

In general, when it comes to managing diversity, China and other important new donors are not eager to participate in what they perceive as an OECD-led process (Kragelund 2008, 580; Xu 2012, 2; Greenhill / Prizzon / Rogerson 2013, 30). Pooling does not seem to be a likely option: although new donors are increasingly contributing to multilateral agencies (OECD 2011a, 6; OECD 2012b, 17), they still strongly prefer to channel aid through their bilateral programmes (Xu 2012, 2). However, the presence of donors that do not pool funds can also be seen as something that would decrease the risk that pooling might lead to a monopolistic aid landscape (Klingebiel / Morazán / Negre 2013, 15–16). Partner countries might be less reluctant towards pooling by DAC donors if the presence of non-DAC donors gives them alternative partners to address.

Attempts by DAC donors to involve non-DAC bilateral donors in the negotiation process of DoL frameworks have largely been unsuccessful (Nunnenkamp / Öhler / Thiele 2011, 13; Klingebiel / Morazán / Negre 2013, 37; Weingärtner 2008, 24). At the same time, some sort of ‘natural’ DoL has emerged, as new donors tend to focus on the productive sectors while DAC donors currently prefer the social ones (Woods 2011, 12; Linn 2009, 8; Wentzel 2011, 15; Carbone 2012, 11; Berthélemy 2009, 15; Burnet 2011, 181).

For the moment, a ‘coordination through communication’ approach that focuses on improving the exchange of information among DAC and non-DAC donors seems the most feasible approach. Even achieving this less ambitious goal has the potential to improve aid coordination, as information on aid activities by non-DAC donors is still very scarce (Sinha / Hubbard 2012; Grimm et al. 2011).

However, for many partner countries, including non-DAC donors in coordination approaches does not seem to be a priority. Countries where emerging donors make up a relatively large share of ODA often see a strengthening in their bargaining power towards DAC donors (Gore 2013, 777). Therefore, partner countries often show a preference for keeping DAC and non-DAC donors separate (Gore 2013, 777; Walshe Roussel 2013; Greenhill / Prizzon / Rogerson 2013). According to Greenhill, Prizzon and Rogerson (2013, 27), emerging donors fare relatively well in terms of alignment to partner governments’ development priorities, mostly because they tend to focus on the productive sectors. Their policy of non-interference in government policies and their limited use of conditionalities was also found to make non-DAC donors popular with partner governments. Finally, emerging donors scored well in terms of speed of disbursement, which emerged as a key priority for partner governments along with alignment and ownership. For these reasons, partner country governments sometimes do not see the necessity of integrating non-DAC donors in coordination structures (ibid., 46–47).

However, there are considerable differences among partner countries. A strategic approach to keep DAC and non-DAC donors separate was found in Cambodia and Ethiopia, for example, and this arguably allowed the national governments to increase their bargaining power towards donors. In contrast, in Zambia the government seemed less interested in strategically using the presence of non-DAC donors to bolster its negotiating power, presumably because the share of aid provided by non-DAC donors is smaller than in Cambodia and Ethiopia, and because in Zambia aid dependency is lower, meaning that

obtaining negotiating power towards donors is less of a priority for the government. In Zambia, new donors were seen to be participating in donor coordination mechanisms and some sectoral advisory groups. This was found to be the result of various factors: firstly, traditional donors were engaging with non-DAC donors and showing openness to dialogue and learning from the BRICS countries in particular (Brazil, Russia, India, China, South Africa). Second, the national government encouraged non-DAC donors to participate in coordination mechanisms. Thirdly, staff from non-DAC donors' embassies showed willingness to share experiences and information with other donors (ibid. 30–31).

4.4 Overview of the advantages and disadvantages of different coordination approaches

The above analysis indicates that there is no universal approach to managing diversity that both maximises the benefits and minimises the costs of strong donor coordination, as Table 1 shows.

Table 1: Advantages and disadvantages of different coordination approaches			
Advantages & disadvantages	Pooling	Division of labour (DoL)	Coordination through communication
Reduced transaction costs	+++	++	+
Efficient aid allocation	+++	++	+
Coherence of donor strategies	+++	++	+
Pluralism of approaches	--	-	+
Reduced collective action problems (free-riding, competition for staff, etc.)	+++	++	+
Partner country ownership and alignment	---	--	-
Tied aid	-	--	+
Loss of donor expertise	--	-	+
Opportunities for including non-DAC donors	+	++	+++
Note: The plus and minus signs refer to the difference the adoption of these approaches would make as compared to a situation of no coordination.			
Source: Own compilation			

4.5 Synergies and trade-offs between approaches

In particular, there seems to be a trade-off between minimising transaction costs and minimising the risks of reducing fragmentation. Coordination through communication appears to be the best approach for maintaining partner country ownership and avoiding an increase in tied aid and loss of expertise. On the other hand, it is the least suitable approach

for reducing transaction costs. The trade-off is even greater than what can be shown in the table, because improving the efficiency of aid allocation and the coherence of approaches with a ‘coordination through communication’ approach comes at a higher price in terms of transaction costs as compared to pooling or DoL. Among the benefits associated with reducing fragmentation, only mitigating collective action problems seems to require a reduction in the number of donors. Other benefits, such as more efficient allocation of resources and coherence among approaches and strategies could also be achieved via increased coordination among multiple donors. This means that while the benefit of reducing collective action problems, such as free-riding and the poaching of officials, can be achieved only with pooling, and to a lesser extent with DoL, all other advantages can in principle also be reaped with coordination through communication. This, however, is likely to happen at a higher price as compared to pooling or DoL due to the larger transaction costs involved in coordinating many donors.

The trade-off between having more choice and accepting higher transaction costs is unavoidable and each country will need to make this cost-benefit analysis for itself (OECD 2011b, 19). Partner governments tend to prioritise ownership and alignment when choosing a strategy for managing diversity and often strategically choose to keep donors separate in order to boost their bargaining power (Greenhill / Prizzon / Rogerson 2013, 26–30). This makes it unlikely that partner countries would ask donors to deliver all aid through one multilateral organisation, for example. However, partner countries’ strategies will also be shaped by contextual elements that determine their ability to take advantage from multiple aid sources (Greenhill / Prizzon / Rogerson 2013, 34), as well as by the need to reduce transaction costs and the perceived risk of reducing the number of donors. The context not only determines what is feasible, but also shapes partner governments’ incentives for or against implementing different approaches such as pooling, DoL, or coordination through communication. Taking incentives into account is crucial because the choice of tools and options for managing diversity is not a purely technical one, but a matter of negotiation among the different political and strategic interests (DFID 2010, 2).

Three important contextual elements that shape partner countries’ strategies for managing diversity are: i) the quality of government institutions, ii) the coordination structure already in place, and iii) the nature of the relationship between donors and the national government.

Firstly, the quality of government institutions can be a very important factor for choosing an approach to managing diversity. It defines the government’s ability to bear transaction costs and determines at what point the presence of multiple donors starts to become a problem. Countries with better institutions (see Section 5.2) can benefit from a degree of fragmentation that would be far too high for less advanced countries (Dreher et al. 2013).¹⁷ While countries at different stages of economic development can have similar levels of donor proliferation and equally weak aid coordination mechanisms, the effects of proliferation on government capacity may be substantially worse in less developed countries (McCormick / Schmitz 2011). Thus, partner countries with stronger capacities to manage a

17 For example, Dreher et al. (2013) find that in Vietnam the multitude of different donors was regarded as an advantage by government officials who were able to set their own priorities and schedules for meetings. Multiple international contacts established through aid were considered useful to promote international trade and foreign direct investment. On the other hand, in Burkina Faso, a country with weaker institutions, government officials reported being overburdened as a result of aid fragmentation.

multiplicity of donors are often able and willing to incur relatively higher transaction costs in order to gain room for manoeuvre and take advantage of the diversity of expertise. They might thus prefer to deal with individual donors rather than with a group of development partners (Rogerson 2005, 544).

Second, the coordination structure already in place in a specific country also plays a role when considering different approaches to managing diversity. The status quo influences the perceived need to change or strengthen established coordination structures. For example, Carbone (2012, 10) notes that, in countries where coordination mechanisms worked relatively well, such as Kenya, Mozambique, Rwanda, or Zambia, EU efforts to act more cohesively were considered redundant and undesirable. Instead, countries with weak coordination mechanisms, such as Cameroon or Senegal, considered greater EU cohesiveness as a potential tool for involving reluctant donors in coordination efforts. Moreover, the coordination structure already in place determines what can be aimed for in terms of short-term coordination objectives. In countries where coordination and alignment are weak, a phased approach seems to be more appropriate. Where coordination is already advanced, a more ambitious approach may be feasible from the start (Linn 2009, 11). This is also because creating coordination structures from scratch has rarely worked well, and experience shows that it is preferable to build on existing mechanisms (DFID 2010, 1). Setting up new, parallel structures can be damaging and may lead to confusing situations where donors struggle to know which policy or system they should align to (ODI 2005, 26; Linn 2009, 8).

A third contextual element that might shape partner countries' strategies for managing diversity is the nature of the relationship between donors and the national government, which shapes the partner country's perceptions of the risks associated with reducing the number of donors. If donors prove unable or unwilling to submit to partner countries' desires, then partner governments may prefer to have a large number of donors to play off against each other, rather than a cohesive group (Brinkman 2013, 15–16). In particular, DoL seems to be most suited to countries where donors and the partner government enjoy relatively high degrees of reciprocal trust and mutual understanding (Weingärtner 2008, 22). Indeed, the establishment of a DoL framework and the assessment of comparative advantages can be a very sensitive and even divisive exercise that requires donors and the government to closely work together (Wentzel 2011, 9; Schumacher / Sawadogo 2010, 64–66).

Partner countries do not necessarily need to choose between pooling, DoL, and coordination through communication (Rocha Menocal / Mulley 2006, 20–21). Partner countries often prefer to focus on aid modalities and donors' use of country systems instead of reducing the number of donors per sector or even per country. Also, they might decide to employ different coordination approaches for different phases of development cooperation. Both options are discussed in the sections below.

4.6 Promoting coordination through the use of country systems

Success in dealing with a multitude of donors might be related more to donors' use of country systems than to the number of active donors per country or sector (Klingebiel 2013, 6). Several countries that were relatively successful in managing diversity expressed a strong preference for budget support (BS) as a central piece of their strategies for better aid

coordination (Rocha Menocal / Mulley 2006, 8). Despite repeated commitments by donors to make larger use of country systems, progress is still limited, as donors are reluctant to release control over funds. To give an indication, in 2010 donors reported giving only about 2.7% of ODA in the form of general BS (Lawson 2013, 17). The fact that most aid is being delivered through project aid that makes insufficient use of country systems is considered one of the main obstacles to better coordination at the country level (ODI 2005, 26; Booth 2009, 100). Partner countries could thus let donors distribute their aid in as many sectors as they wish and instead concentrate on their use of country systems.

The use of country systems helps to reduce collective action problems and strengthens the country's institutions (Keijzer 2013, 25–26). Across the countries participating in the Global Partnership monitoring for 2013, the share of aid disbursements for the government sector that made use of national public financial management and procurement systems was 49%, well below the Busan target of 57%. The use of country systems does not seem to have increased for the 38 countries that have data for both 2011 and 2013 (OECD / UNDP 2014, 46).

The aid modalities through which funds are delivered can increase or decrease the costs and benefits associated with different approaches to managing diversity. The extent to which pooling of resources undermines ownership and alignment largely depends on how pooled funds are delivered. Although multi-donor budget support (MDBS) could give donors an excessive influence over the partner country's policies (Carlsson / Schubert / Robinson 2009, 63–64) it has the potential for promoting ownership and alignment while also reducing transaction costs¹⁸ (Klingebiel / Morazán / Negre 2013, 48; Manuel et al. 2012, 38).

On the other hand, pooled funding can also be delivered in a way similar to project aid, with detrimental effects on ownership and alignment. MDTFs are criticised for often being off-budget and earmarked by donors for specific activities, and for making insufficient use of government systems (DFID 2010, 5–6; ODI 2005, 39; Booth 2009, 100).¹⁹ Pooled funds that retain many features of the traditional project approach tend to focus the efforts of donors and partner countries on the design and management of the common fund, diverting attention away from the strengthening of country systems. Because of the larger size of the funding, their potential to distract attention away from government processes and priorities is larger than for bilateral project aid (ODI 2008, 3).

Equally, the amount of transaction costs produced by a 'coordination through communication' approach with multiple donors will depend on how bilateral programmes

18 For the moment, transaction costs do not seem to have fallen as a result of aid being delivered as BS (Riddell 2014, 10). An immediate reduction of transaction costs was not to be expected due to the new costs of intense multi-donor coordination and monitoring processes, coexisting with traditional project-type aid instruments (Rogerson 2005, 535). Still, it is likely that the transactions costs per "unit of BS" are lower than for other aid modalities (Klingebiel / Morazán / Negre 2013, 48).

19 For instance, in Tanzania the Primary Education Development Programme (PEDP) financed through an MDTF was strictly earmarked to a sub-sector within education and essentially operated like a large project. Similarly, in Uganda the Joint Partnership Fund (JPF) for water supply in small towns had a centralised project approach. Although it improved alignment and somewhat reduced fragmentation of funding in the urban sub-sector, its use of government systems was limited to being reported in the budget and appearing on the agenda of the Ministry contracts committee. In Mozambique, the three common funds established in the health sector ended up increasing transaction costs due to the creation of new structures and procedures (ODI 2008, 3).

are provided. Transaction costs will be substantially lower if bilateral donors avoid setting up parallel implementation units, make large use of country systems, and align the delivery of funds to the partner country's budget cycles and reporting, disbursement and procurement modalities (ODI 2005, 10).

While the use of country systems can be helpful in promoting coordination, three considerations speak against exclusively focusing coordination efforts on promoting the use of country systems and in particular the provision of aid through BS. First, the number of donors and the degree of coordination among them also influences how well BS modalities work. BS becomes difficult to manage with large numbers of donors (Carlsson / Schubert / Robinson 2009, 64) and its potential to reduce transaction costs is undermined by donors' use of different conditionalities, by the presence of a multiplicity of monitoring missions, and by the diversity of disbursement procedures (Klingebiel / Morazán / Negre 2013, 48). For example, De Renzio and Hanlon (2007) find that in Mozambique the participation in BS by a growing number of donors increased transaction costs and reduced the effectiveness of BS, as meetings with the government became larger and less expert. Thus some argue that donor harmonisation and alignment with government systems through participation in BS is not enough, and that Mozambique would be better served by a decrease in the number of active donors, combined with more delegated cooperation (Carlsson / Schubert / Robinson 2009, 65). Second, coordination efforts excessively focused on the BS element can weaken pre-existing cooperative arrangements with development partners that are not providing BS if the excluded donors feel rebuffed (Linn 2009, 8; Rocha Menocal / Mulley 2006, 10–11; Killick / Castel-Branco / Gerster 2005). Third, the provision of BS is vulnerable to changes in the political relationship between partner countries and donors, and a freeze in BS would cause a disruption in coordination as well.

Besides increased use of country systems, other commitments from the Busan High Level Forum are also important for managing diversity. The Busan Partnership document (Paragraph 18b) encourages the use of transparent, country-led and country-level results frameworks based on partner countries' development priorities. Output and outcome indicators included in those frameworks are expected to serve as a common tool for all actors concerned to assess performance, and donors committed to limit the use of additional frameworks. The respect of this commitment would facilitate the management of multiple aid actors and channels by partner countries. The Busan commitment of increasing transparency and setting up AIMS (Paragraph 23) is also crucial for aid coordination, as discussed in Sections 5.2.2 and 6.2.

4.7 Combining approaches

Since no single 'best' approach to managing diversity can be identified, combining them could be an option for partner countries. In Rwanda for instance, while the government successfully introduced DoL, coordination is also pursued through pooling of resources, and basket funds are excluded from requirements to donors to concentrate their aid in a limited number of sectors (Nkuzi 2010, 2). A similar stance was taken by the government of Malawi (Government of Malawi 2010, 22). Cambodia prefers to deal with the diversity of donors by focusing on the implementation of programme-based approaches (PBAs), which sometimes include delegated cooperation and co-financing arrangements, rather than going for a strict DoL approach (Wentzel 2011, 10). The different approaches to

managing diversity may also reinforce each other. For example, structures for dialogue and coordination through communication might be set up as a first step towards DoL (Linn 2009, 19–20) and pooled funds can promote the coordination of projects carried out by bilateral donors (DFID 2010, 7).²⁰

Partner governments may also adopt different approaches for different phases of development cooperation. Building on Klingebiel / Morazán / Negre (2013), a distinction can be made between three levels at which coordination in development cooperation can take place in a partner country: at the programming level, at the implementation level, and at the Monitoring and Evaluation (M&E) level.²¹

Partner countries could adopt different coordination mechanisms for the design of country strategies, for financing and implementation arrangements, and for M&E reports and missions. For example, they could foster joint analysis, which would then facilitate donor coordination at the implementation level even if aid would continue to be delivered through bilateral channels (Hoyos / Muggah 2009, 54; Klingebiel / Morazán / Negre 2013, 41). In its current form of implementation, Joint Programming (JP) could be seen as a combination of different approaches for the programming and the implementation levels of coordination. Indeed, while the term could suggest joint design, financing, and implementation of programmes, for the moment JP has mostly been about developing a common country strategy, while implementation is supposed to take place via bilateral donors distributed in different sectors through a DoL arrangement. Financing decisions and the organisation of programme delivery is usually done separately by each EU member state and the Commission (Klingebiel / Morazán / Negre 2013, 41).

Partner country governments may also have different preferences in different sectors, as some line ministries might have better capacities than others for dealing with multiple donors. Stronger institutions in certain sectors also make it more likely that donors will make greater use of country systems when delivering aid to those sectors (Rocha Menocal / Mulley 2006, 8). The interviews conducted for this paper indicate that there are large differences in the functioning of sector working groups, depending on the institutional quality of the relevant line ministry. Moreover, some sectors tend to have fewer donors than others, meaning that fragmentation might not constitute an equally pressing concern in all areas (Pietschmann 2014, 77–78).

20 In Zambia, for example, basket funding mechanisms included in sector-wide approaches (SWAPs) appear to have increased coordination among bilateral donors, although pooled funds represented a small share of ODA and bilateral project aid continued to run in parallel (Leiderer 2013, 14).

21 In Klingebiel / Morazán / Negre (2013, 23) the three levels of coordination are: *i) The policy level* (concerning principles, standards, and strategic approaches, such as common positions on aid effectiveness reached at international High Level Forums); *ii) The programming level* (regarding specific country strategies adopted during the aid programming phase, such as country strategy documents, the choice of focal sectors, alignment with partner-country systems, etc.); *iii) The implementation level* (touching on coordination during the aid-delivery phase, such as joint implementation arrangements like PBAs). The first level of coordination is not relevant for the topic discussed here, as it concerns coordination processes that take place above the country level. Instead, this paper introduces the M&E phase as a separate level at which coordination can take place.

5 Partner country leadership in managing diversity

Despite the multiplicity of possible strategies and approaches to managing diversity, some elements can be identified that will be crucial for every approach to aid coordination. If managing diversity is defined as the management of aid from different sources by the partner country, then partner country leadership in coordination efforts is essential, independently of the specific approach chosen (Building Block on Managing Diversity and Reducing Fragmentation 2014b). Given donors' reluctance to share power and release control over their funding, coordination requires a decisive push from the partner country government (Woods 2011, 13). Widespread lack of country leadership has been identified as a major obstacle for coordination efforts (EC 2011, 10). Government leadership seems to be particularly important for DoL, because strong leadership is needed to push reluctant donors to undertake an assessment of their comparative advantages and to take forward the concentration of aid (Wentzel 2011, 9; Linn 2009, 12–13; Schumacher / Sawadogo 2010, 64–66; Weingärtner 2008, 19, 23).²²

Partner countries differ widely as to the degree to which they are able and willing to take the lead in coordination efforts. In some countries, such as Cambodia or Uganda, there are coordination structures led by relatively active governments. In others, such as Somalia or Zimbabwe, there is almost no capacity in the government to lead coordination efforts. In most countries, national governments are gradually developing capacities for aid coordination, while multilateral institutions – the United Nations and the World Bank in particular – play a strong leadership role in coordination activities (DFID 2010, 2). Aid coordination has advanced mostly where the government has taken leadership and has been very assertive, as in Rwanda (Nkuzi 2010, 1–2). The following sections discuss the main elements that shape partner countries' willingness and ability to take the lead in managing diversity.

5.1 Partner country willingness to undertake coordination efforts

Partner countries may be reluctant to take the lead in coordination efforts for a number of reasons, including:

- the risk of reducing their room to manoeuvre
- perverse incentives among government officials
- weak bargaining power towards donors
- perception of insufficient benefits from costly coordination efforts
- lack of mutual trust between the partner government and donors.

First, stronger donor coordination risks reducing the partner country government's room for manoeuvre, as discussed in Section 4. This can induce partner countries to prefer to keep donors fragmented, even if that produces higher transaction costs.

Second, a number of perverse incentives on the government side can work against rationalising the provision of aid. Government officials in partner countries are often reluctant to undertake coordination efforts because uncoordinated and intransparent allo-

22 For the moment, participation of partner countries in the DoL process has been very weak, with best practices limited to four countries: Tanzania, Rwanda, Ghana and Zambia (Klingebiel / Morazán / Negre 2013, 37).

cations make it easier to use aid resources for personal benefits and patronage networks (Moss / Pettersson / van de Walle 2006, 10; Knack / Rahman 2008, 13–14; Djankov / Montvalo / Reynal-Querol 2008; Acharya / De Lima / Moore 2004, 8; Lawson 2013, 18).

Third, partner governments often lack either the necessary bargaining power or sufficient interest to exercise leadership in the coordination process. Countries with low aid dependency enjoy enough bargaining power to tell donors where they want them to work and how. At the same time, countries where ODA does not play a central role tend to have limited interest towards engaging in costly coordination efforts (ECOSOC 2012, 5). Aid dependency makes partner governments reluctant to ask donors to exit certain sectors because they fear a reduction in overall funding to the country (Schulz 2007, 5; Government of Malawi 2010, 18).²³ Such concerns are less pressing for countries that are not aid dependent. Middle-income countries have much more bargaining power, especially towards small donors, and in some cases (e.g. India) have even asked them to leave (Rogerson 2005, 544). However, DoL is often seen as an effort not worth undertaking where ODA represents a small share of the country's budget and development cooperation has a low political priority (TT DOL 2011, 9).²⁴ Low aid dependency can also occur in low-income countries that are resource-rich, and can reduce the government's interest in aid coordination efforts. This was the case for example in Angola, Mozambique, or Zambia (ODI 2005, 29; Vollmer 2013b; Weingärtner 2008, 19; Greenhill / Prizzon / Rogerson 2013, 29). Lack of government engagement in these countries is more problematic because low income countries generally have large numbers of donors and weak institutions that would benefit from more effective aid coordination (TT DOL 2011, 2).

Finally, the extent to which partner countries are willing to exercise leadership in coordination efforts also depends on the political relations between national authorities and the international community. Partner countries' ability to modify donor behaviour depends on partner governments' and donors' capacity to develop a relationship based on mutual trust and confidence (Rocha Menocal / Mulley 2006, 22). Difficult political relations can

23 However, being aid dependent does not necessarily mean that the partner country cannot set conditions for the acceptance of aid, as the case of Afghanistan shows. Despite its aid dependency, Afghanistan managed to take the lead in coordination efforts. The government of Afghanistan has established a set of 'hard' conditions for the acceptance of aid, such as a limited number of sectors for any particular donor, minimum contributions before donors can expand to new sectors, and an upper limit for overhead costs (Rocha Menocal / Mulley 2006, 8). Still, Afghanistan is an 'aid darling' (OECD 2012a, 49) and donors' strong commitment to giving aid to the country arguably allowed the government to insist on hard conditions for the acceptance of aid. The situation might have been different in aid-dependent countries with fewer donors. For example, interviews in Madagascar, a country identified as a potential 'aid orphan' (OECD 2013, 10; Building Block on Managing Diversity and Reducing Fragmentation 2014a, 52–54), suggest that the government would like to introduce DoL, but the country's low aid receipts will probably make it hard for the government to refuse aid that does not comply with the proposed DoL framework.

24 For example, Vietnam, initially took active part in harmonisation efforts and was showcased at the High Level Forum on Harmonisation and Alignment in Rome (Rocha Menocal / Mulley 2006, 18). The country recently graduated to lower middle-income (LMIC) status and is able to offset imbalances in ODA allocation across sectors using domestic resources. Since ODA makes up only a small share of the budget, the government now takes the view that efficiency gains from a major reorganisation of the donor presence are unlikely to be sufficient to justify the effort (Wentzel 2011, 9–10). On the other hand, in Bangladesh the reduction of aid dependency allowed the government to take the lead in coordination efforts thanks to its increased bargaining power (Building Block on Managing Diversity and Reducing Fragmentation 2014, 16). Relatively strong engagement by the Government of Bangladesh might be due to the fact that the country receives very large volumes of aid in absolute terms, and that ODA still makes up nearly 37% of the government's annual development budget (*ibid.*, 10).

be a huge obstacle for the functioning of government-led coordination mechanisms, even when the partner country has relatively strong institutions in place (ODI 2005). For instance in Ethiopia, despite good capacities in the Ethiopian government for aid management, recurrent political disagreements between donors and the national government led to periodic disruptions of coordination efforts (DFID 2010, 9). A history of open and frank – if not always free-of-friction – relations between donors and the national government was identified as an important factor in countries where the government has taken the lead in the coordination process, such as Tanzania, Mozambique, Uganda and Vietnam (Rocha Menocal / Mulley 2006, 22).²⁵

5.2 Partner country capacity to undertake coordination efforts

Managing aid from different sources requires considerable government capacity in partner countries. The partner country's institutional strength is a crucial determinant of success in managing diversity, independently of the specific approach chosen (EC 2014, 6; Klingebiel / Morazán / Negre 2013, 42–43; Kasuga 2008, 14–16; ODI 2005, 22; Wentzel 2011, 9). Strong country systems – and in particular a reliable public financial management system, internal policy coherence, and coordination among the different ministries are all crucial elements for a successful aid management by partner countries (DFID 2010, 5–6; Rocha Menocal / Mulley 2006, 20–21; Weingärtner 2008, 9; Manuel et al. 2012).

Unfortunately, the institutional capacity necessary for managing diversity is not found in many partner countries (DFID 2010, 2). In particular, countries with high aid dependency tend to have at the same time a more fragmented aid landscape and a lower institutional capacity to enforce discipline among donors (De Renzio 2009, 13). Building strong institutions is a long and difficult process that cannot be achieved through aid (Keijzer 2013). However, even in fragile states there are a number of specific activities that can increase partner governments' capacity to manage diversity and encourage donors to comply with the country's preferences (ODI 2005, 22). The following sections lay out some important elements that can assist partner countries in managing diversity.

5.2.1 A clear aid policy

The establishment of clear priorities and strategies for aid coordination is a crucial success factor in managing diversity. Rocha Menocal / Mulley (2006, 22) analyse a set of countries that were successful in managing diversity. While there were important differences in the strategies adopted by these countries, all the partner governments involved had set out their

25 At the same time, the relationship between donors and partner countries is also shaped by coordination efforts (DFID 2010, 1). If focused on real dialogue, the coordination process can help to build trust between donors and partner governments, as well as among donors themselves. In Bangladesh, for example, the establishment of a vibrant dialogue between the government and development partners within the Bangladesh Development Forum has strongly supported aid management (Building Block on Managing Diversity and Reducing Fragmentation 2014, 15). Although too much emphasis on the process can be damaging (Weingärtner 2008, 23), assessments of coordination efforts in different countries stress that the exercise of formulating common strategies is often more important than the resulting strategy document itself. Inclusive and thorough processes are key to creating the trust and cooperative spirit necessary during the subsequent implementation phase (Linn 2009, 11). However, this potential benefit of coordination processes is often undermined by the frequent rotation of donor agencies' staff (Woods 2011, 11).

own development priorities and approaches and developed clear aid policies which have provided the basis for effective aid management. This also holds for fragile states where donors play an important role in setting up coordination structures. Ball and van Beijnum (2010, 21–22) analyse 15 MDTFs in several fragile states and find that, while these mechanisms proved helpful for managing diversity overall, the mere existence of a pooled funding mechanism did not in itself produce better coordination. A major factor leading to uneven performance in the various countries was found to be the quality of the government-led strategy on which the allocation of funds was based.

By developing clear aid policies, partner countries can set standards and criteria for the acceptance of aid. Of course, these will be all the more powerful when the government enjoys enough bargaining power to refuse aid that does not meet these conditions, as was the case for example in Ethiopia²⁶ or in Cambodia (Greenhill / Prizzon / Rogerson 2013, 25). But even when the partner government is in a position of weakness towards donors, detailed rules might help donors to align, or at least make it more difficult for them to justify their lack of alignment (Rocha Menocal / Mulley 2006, 22). A coherent plan with clear deadlines makes it easier for donor country offices to obtain headquarter’s clearance for the requested adjustments (Nkuzi 2010, 1–2).

Aid policies should indicate partner countries’ preferences regarding donor coordination at the programming, implementation, and M&E level. Important elements that should be contained in aid policies are summarised in the table below:

Table 2: Detailed aid policies for different levels of aid coordination		
Levels of coordination	Areas concerned	What the aid policy should specify
Programming	Strategies adopted during the aid-programming phase, such as country and sector strategy documents, the choice of focal sectors, etc.	<ul style="list-style-type: none"> – Preferences for pooling, DoL, coordination through communication arrangements, or a combination of the above – Development priorities for aid allocation – Inclusion of non-DAC donors in coordination efforts
Implementation	Coordination instruments in the aid-delivery phase, such as joint implementation arrangements like programme-based approaches (PBAs)	<ul style="list-style-type: none"> – Aid modalities – Use of country systems by donors for procurement, disbursing, and implementation – Stance on technical cooperation (TC) and project implementation units (PIUs) – Alignment with national budget (synchronisation, aid on/off budget)
Monitoring & evaluation	Coordination in the M&E phase, such as joint evaluations and harmonisation of reporting requirements	<ul style="list-style-type: none"> – Degree of partner country involvement in M&E – Preferences for harmonisation of reporting standards
Source: Own compilation		

26 In Ethiopia, ownership of and alignment to the national aid strategy are considered so important that even grants are sometimes not accepted if they do not finance the priorities stated in the national plan, or if they come with conditions or delays that are considered unacceptable (Greenhill / Prizzon / Rogerson 2013, 25).

At the programming level: A comprehensive aid policy should guide aid allocation by defining the sectoral and thematic priorities to be addressed by donors. In case the approach chosen by the partner country for managing diversity includes DoL, the preferred distribution of donors across sectors should be spelled out. It should also lay out the form and structure of coordination mechanisms and forums. Such forums now exist in most partner countries, but often respond more to donor reporting requirements than to the partner country government's needs (UNDP 2011, 4). Experience suggests that a lean coordination structure is preferable (Building Block on Managing Diversity and Reducing Fragmentation 2014a, 22), as a high number of parallel coordination forums can lead to the loss of overview and raised transaction costs (Government of Malawi 2010, 35).

At the implementation level: Aid strategies are particularly effective if they lay out not only the policy priorities but also the partner country's preferences for coordination mechanisms during the implementation phase. In Uganda, for instance, interviewed donors suggested that the government's demand for better coordination could be more easily met if the government produced a document that clearly spelled out who donors should address and in what sequence for a coordinated programme implementation. In the absence of clear procedures, donors will be tempted to bypass the Ministry of Finance or other institutions in charge of coordination and directly deal with line ministries and local authorities. Preferences in terms of aid modalities and the use of country systems by donors for procurement, disbursing, and implementation should also be clearly expressed. Partner countries should also develop a clear position on the use of project implementation units (PIUs)²⁷, on whether and in what form they wish to receive technical cooperation (TC), and on how to deal with aid that is off-budget (EC 2008, 18).

At M&E level: It is important that aid policies give clear indications of the extent to which the partner government wishes to take part in monitoring and evaluation activities. Partner countries should also express their preferences regarding donor joint monitoring, supervision, and evaluation missions, as well as for the harmonisation of reporting standards and requirements (Lancaster et al. 2003, 35).

Aid policies should also clarify the extent to which partner countries wish to include non-DAC donors in coordination efforts. This can vary from country to country, as discussed in Section 4.3.3. Even in the case where it prefers to keep DAC and non-DAC donors separate, a partner government may still wish to clearly express a need to be better informed about aid activities carried out by non-DAC donors on its territory, since information of this kind is still very scarce (Sinha / Hubbard 2012). The finance ministries of partner countries have difficulty in obtaining information on the monetary value of Chinese aid activities, for example (Grimm et al. 2011, 4–5).

27 The OECD defines PIUs as dedicated management units established by donors in partner countries to support the implementation of development projects or programmes. This practice undermines the development of capacity in the partner government for planning and implementation, and weakens its accountability to parliaments and citizens. Therefore, the Paris Declaration encourages donors to: *“avoid to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes”* (OECD 2011, online: <http://www.oecd.org/site/dacsmpd11/indicator6strengthencapacitybyavoidingparallelimplementationstructures.htm>).

The degree of donor involvement in the development of aid policies and country assistance strategies differs from country to country (Rocha Menocal / Mulley 2006, 22). Joint analysis can be particularly helpful in countries with limited government capacities (Hoyos / Muggah 2009, 54; DFID 2010, 2). Other countries might prefer to involve donors only at a later stage (Rocha Menocal / Mulley 2006, 7–8).²⁸ While excessive donor involvement in the preparation of such documents might undermine the partner country's ownership of the strategy, it is important to avoid disconnects between the government's and the donors' strategies (Linn 2009, 10). Jointly developing aid-strategy documents helps to prevent the emergence of such disconnects and encourages donors' compliance during the implementation phase (Government of Malawi 2010, 19–20). A jointly developed strategy can also facilitate the establishment of a framework for assessing donor performance, which has proven important for the implementation of aid policies (Nkuzi 2010, 1–2; ECOSOC 2012 17; Rocha Menocal / Mulley 2006, 11).

Preparing joint assistance strategies can be a costly and lengthy exercise that can raise transaction costs on the donor side.²⁹ Unless they are simple, tightly prioritised, and sequenced, joint strategic frameworks risk resulting in higher transaction costs even for the partner country (DFID 2010, 3–4). A review of joint country strategies by the African Development Bank judges the process to be particularly useful for establishing effective country-assistance programmes and fostering alignment, while the potential of the process to reduce transaction costs was in most cases assessed as modest or even negligible (AfDB 2006).

5.2.2 Effective aid management institutions

To ensure the implementation of aid policies, effective aid management institutions need to be in place (Ohno / Shimamura 2007; Schumacher / Sawadogo 2010, 64–66). Aid management units are generally located within an institution in charge of central coordination, such as the Ministry of Finance or the Office of the Prime Minister. The Ministry of Finance is a particularly suitable location for three main reasons: First, the national budget provides a useful anchor for government-led aid coordination and alignment (ODI 2005, 22; Moon / Mills 2010). Secondly, the Ministry of Finance is the best placed for guaranteeing greater coherence between domestic resources and aid (Manuel et al. 2012, 4). Thirdly, while line ministries often resist central coordination of aid for fear of losing funds, finance ministries have more incentives to push for a coordinated and centralised approach that would give them more control over funds (Klingebiel / Morazán / Negre 2013, 15–16).

28 For instance, the Government of Afghanistan presented donors with “Securing Afghanistan’s Future”, an extremely detailed document that stands in contrast to the needs assessment developed by donors. Based on a visit of less than one week to the country, the donor-driven needs assessment was considered by the Government of Afghanistan as unrealistic in its cost estimates and insufficiently focused on state-building (Rocha Menocal / Mulley 2006, 7–8).

29 For instance, the preparation of joint strategies took two to three years in Tanzania, Uganda, and Cambodia. In the case of Cambodia it was reported that preparing a joint strategy had cost donors twice as much than if they had developed their own country strategies. For the African Development Bank, estimates assess that on average 25% more time and money are required for joint strategies as compared to individual country strategies (Linn 2009, 13).

At the same time, it is important that aid management institutions are well connected to the rest of the government and spread awareness about the importance of aid coordination in other ministries beyond finance ministries. Interviews in Bangladesh suggest that despite the existence of an effective aid management unit, line ministries have limited knowledge of aid coordination efforts and the aid effectiveness agenda in general. Weak ownership of coordination efforts by line ministries was identified as one of the main obstacles to managing diversity by the Bangladeshi aid management unit. Institutions in charge of aid coordination should also have strong political backing by key policymakers. Interviews indicate that in many receiving countries the lack of strong political backing for the rationalisation of aid was one of the reasons why aid management institutions could not insist effectively on cross-sector DoL once the formal negotiations with donors had already been started.

Strong aid management institutions allow partner governments to make effective use of existing coordination structures. The usefulness of forums for dialogue and coordination between donors and the partner government will largely depend on governments' ability to go beyond mere information exchange and make use of those coordination structures for engaging in strategic policy discussions with donors (Woods 2011, 10). To achieve this, sufficient analytical capacity of the country's aid coordination institutions is crucial (Leiderer 2013, 12).

An important condition for aid management units to work effectively is the availability of reliable data on aid activities (Rocha Menochal / Mulley 2006, 22). In order to make efficient use of information on aid, partner countries should set up aid information management systems (AIMS) (Manuel et al. 2012, 39). Governments in many partner countries have found such databases helpful for maintaining a good overview of development activities, improving aid alignment with national priorities, and reflecting aid flows in national budgets. AIMS are not very common yet but their expansion could considerably ease coordination at a relatively low cost (EC 2014, 58).

6 What can donors do?

According to the definition adopted in this paper, the management of diversity should lie primarily in the hands of partner countries. However, success in coordinating aid also requires an active contribution by development partners. An effective management of aid will be impossible without donors' readiness to conform to partner countries' priorities and aid policies. Given the wide range of possible strategies for managing diversity, the actions required from donors will vary from country to country depending on the approach chosen by the partner government. However, independently of the specific approach chosen, donors can always support both the willingness and the capacity of partner countries to manage diversity.

6.1 Encourage partner countries' leadership of coordination efforts

Partner governments' willingness to take the lead in coordination efforts is undermined by fear of losing funding and by the perception that coordinated donors might exercise excessive influence on domestic policies. Donors can address the first concern by

underlining their commitment to the principle set in the Accra Agenda for Action (Paragraph 17a) that DoL and other coordination processes will have no impact on overall aid volumes for individual countries. Addressing the fear that coordination might reduce partner governments' bargaining power and undermine their ownership is more challenging. Here, reinforcing the link between coordination and alignment could be helpful.

Indeed, full alignment of development assistance is impossible without donor coordination: even if every individual donor aligns its own development assistance to the country's priorities, the overall allocation of aid might still end up being misaligned if uncoordinated donors choose to focus on the same areas of the national development strategy (Klingebiel / Morazán / Negre 2013). In this regard, the EU Joint Programming (JP) could be a particularly promising instrument because it aims at introducing DoL, while firmly anchoring development assistance in partner countries' national development strategies. However, JP also carries the risk that the sectoral distribution of aid might be misaligned if head quarters' preferences weigh more than the partner country's ones when it comes to the choice of sectors to engage in (*ibid.*, 48). Aligning development assistance to the national budget allows the government to coordinate aid spending with government spending, while also preparing the ground for the project/programme to move towards sector or general budget support in a second stage (Manuel et al. 2012, 40).

In order to promote partner country leadership in coordination efforts and strengthen the link between coordination and alignment, donor agencies should further decentralise their decision-making process. Increased flexibility and autonomy from headquarters would enable country offices to be more accommodating for a country-led coordination that focuses on alignment (Wood et al. 2011, 26–27). Finally, donors can also encourage partner countries' engagement in coordination efforts by funding case-by-case analyses on how partner governments can manage diversity in their specific context (Riddell 2014, 38; Linn 2009, 19–20).

6.2 Support partner countries' capacity in the area of aid management

The quality of institutions in partner countries has been identified as a major factor determining success in managing diversity. Donors cannot 'build the capacity of government' if that government has different priorities. But they can support partner countries' own plans to develop their systems for aid management and coordination (Keijzer 2013, 51). Even in fragile states where donors take up most of the coordination task, it is important that parallel efforts are geared towards building capacity for aid management in partner governments from the start. In Afghanistan – a fragile state with many donors – a main reason why aid coordination worked surprisingly well was the fact that UNDP started providing assistance to the government to develop capacity for aid coordination early on (ODI 2005, 21). In many countries, UNDP has been assisting capacity development of government officials in aid coordination and management. It has also promoted and accompanied the setting up of AIMS (UNDP 2011; 2006). Interviews in Madagascar suggest that this support has been important for advancing national efforts to enhance aid effectiveness.

Specific capacity-development efforts seem to be particularly helpful when they address the government budgeting process. The national budget can serve as a basis for government-led

donor coordination, with donors and the government discussing the prioritisation of resources in a timeframe consistent with the budget cycle (ODI 2005, 22; Manuel et al. 2012, 40). Importantly, donors can support the creation of aid management units, as well as their strengthening in countries where they are already in place. Donor agencies can also facilitate the work of aid management units in two important ways: first, by minimising and harmonising the number of reports, assessments, and other project rules and requirements (ODI 2005, 10). Second, by making information on their aid activities regularly available and feeding it into the countries' AIMS (Lawson 2013, 12).³⁰ The format of aid data provided is important, as information on aid activities is particularly helpful if it is delivered in a way that can be easily aligned with the administrative / organisational classification and the functional / purpose classification of a partner government's budget (Moon / Mills 2010, vii).

7 Conclusions and policy recommendations

This paper has analysed the management of multiple actors and channels of development assistance from the partner country perspective. It has compared potential benefits and risks and disadvantages of different approaches to managing diversity, such as pooling of resources, DoL, and coordination through communication. It then laid out important elements that need to be in place for successful aid coordination efforts.

It is difficult to say in the abstract which approach works better for managing diversity. In particular, a trade-off exists between minimising transaction costs and limiting the risks associated with reducing the number of active donors per sector. Each partner country will have to make its own assessment, and this assessment will largely depend on the country context, which also determines what is feasible in terms of implementation. Partner countries will have to weigh the advantages and disadvantages of different approaches and choose the strategy or combination of strategies that is most suited to their specific context. Donor agencies can provide assistance by funding and in some cases managing the necessary analytical work.

Despite the fact that approaches to managing diversity should be tailored to the local conditions, some elements have been identified that might help to manage diversity in general, independent of the approach chosen. Specifically, partner countries should develop clear aid policies, reinforce their budgeting process and set up effective aid management institutions assisted by an aid information management system (AIMS). Donors should reinforce the link between coordination and alignment and support the development of capacity for managing aid in partner countries. They can help to strengthen aid management institutions and ease the work of these institutions by harmonising their implementation and reporting requirements and by increasing transparency.

30 The International Aid Transparency Initiative (IATI) aims at introducing an aid-reporting standard that provides information on aid activities in a form that can be read directly into partner countries' AIMS. This is expected to reduce transaction costs both for donors (staff in country offices would spend less time coordinating, assembling and preparing information) and for partner countries (aid management institutions would not have to spend so much time collecting and verifying information, and feeding it into their AIMS) (Collin et al. 2009, 6).

Besides these crucial activities to be undertaken on both sides, there are also joint tasks for donors and partner countries:

Improve the conditions for dialogue: Given the importance of establishing a relationship of trust between donors and partner governments, coordination meetings should be seen not only as transaction costs, but also as opportunities for dialogue. If it can build the trust and cooperative spirit necessary for the implementation of coordination frameworks, the process of formulating a coordination strategy might be even more important than the strategy document itself. This seems to somehow contradict the idea that coordination efforts should be outcome-oriented, focused on results and not on meetings. But the building of trust should also be considered a valuable outcome, and more efforts should be made for moving away from pure donor talkshops towards creating space for real dialogue between donors and partner countries. Experience of successful coordination efforts shows that it is crucial that there is a group of committed staff members from different donor agencies engaging in frequent communication with the government and among themselves (Wright 2001, 9–12). To allow the emergence of a cooperative spirit between donors and the government, officials in partner countries should engage fully in coordination meetings, and aid agencies should reconsider the frequent rotation of their staff.

Establish strong mutual monitoring systems: The political economy of coordination and the role of incentives cannot be underestimated. Because of the lack of strong incentives on both the donor and the partner country side to push for increased coordination, it is crucial that monitoring systems are established to foster action by creating peer pressure among donors to implement commitments, and by strengthening mutual accountability relationships between donors and partner countries. Strong mutual accountability mechanisms have promoted the implementation of coordination commitments in Rwanda and Mozambique, for example (Nkuzi 2010, 1–2; Government of Malawi 2010). Mutual accountability systems centred on donor coordination have also proved helpful for improving relationships between donors and partner countries (ECOSOC 2012, 17; Rocha Menocal / Mulley 2006, 11). Of the countries that participated in the Global Partnership Monitoring Survey in 2013, only 59% reported having mutual assessment reviews in place (OECD / UNDP 2014, 89–90). More efforts should be made by both donors and partner countries to quickly reach the 100%-target agreed on in Busan. Information on progress should be shared publicly in order to allow the civil society in both donor and partner countries to exercise additional pressure (ODI 2005, 11).

Promote policy discussion on fragmentation and managing diversity at the international level: Donors and partner countries should keep discussing different strategies for managing diversity and sharing experiences in order to diffuse best practices and report on challenges met. The Building Block on Managing Diversity and Reducing Fragmentation can offer a useful forum for continued sharing of knowledge and experiences, as well as for creating trust among bilateral donors, multilateral organisations, and partner countries. The Building Block could further upscale its efforts to raise awareness in the general public about the problems related to fragmentation. Donors' accountability to taxpayers does not need to undermine cooperation and joint efforts if the benefits of coordination are adequately communicated to the public in donor countries (Rasmussen 2013, 42). Awareness of the damaging consequences of fragmentation and greater engagement in coordination efforts should also be promoted among new donors. Capitalising on its inclusive character, the Global Partnership for Effective Development Cooperation

(GPEDC) is in a good position to foster dialogue and information-sharing on development activities between DAC and non-DAC donors, as well as with partner countries. Further research can facilitate the discussion on successful methods to manage diversity in several ways: firstly, by collecting additional evidence on the success or failure of different approaches to managing diversity in differing contexts; secondly, by better operationalising the concept of transaction costs, so that reductions in transaction costs can be better measured and assessed (Wentzel 2011, 12–15); and thirdly, by developing indicators for tracking the degree and success of aid coordination efforts.

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Annexes

Annex I: List of organisations and persons interviewed

Persons interviewed at donor headquarters			
Name	Position	Organisation	Country
Ludovic Signarbieux	Programme Officer for Multilateral aid	Ministry of Foreign Affairs	France
Marta Wytrykowska	Specialist of Development Cooperation	Ministry of Foreign Affairs	Poland
Nicoletta Merlo	Deputy Head of Unit, Policy and Coherence	EU Directorate General for Development and Cooperation (DEVCO)	European Union
Timo Olkkonen	Head of Unit, Department for Development Policy, Unit for General Development Policy and Planning	Ministry of Foreign Affairs	Finland
Ronald Meyer	Head of Division, Policies Regarding Cooperation with Countries and Regions	German Federal Ministry for Economic Cooperation and Development (BMZ)	Germany

Persons interviewed in Bangladesh		
Name	Position	Organisation
Arastoo Khan	Additional Secretary, Economic Relations Division	Ministry of Finance, Government of Bangladesh
Monowar Ahmed	Aid Effectiveness Unit, Economic Relations Division	Ministry of Finance, Government of Bangladesh
Johannes Schneider	Head of Development Cooperation	Embassy of Germany
Roswitha Amels	Deputy Head of Development Cooperation	Embassy of Germany
Stephanie Rousseau	Head of Coordination & Aid Effectiveness	Delegation of the European Union
Nicolas Simard	Deputy Director	Embassy of Canada
Carel Richter	Deputy Head of Mission	Embassy of the Netherlands
Luke Bailey	Head of Policy Coordination and Corporate Business	Department for International Development (DFID)/UK
Fahmida Khatun	Research Director	Centre for Policy Dialogue

Persons interviewed in Bangladesh (cont.)		
Name	Position	Organisation
Mogens Strunge Larsen	Head of Cooperation	Royal Danish Embassy
Wahida Musarrat Anita	Programme Officer	Royal Danish Embassy
Todd Andrews	Deputy Programme Office Director	US Agency for International Development (USAID)
Lindsey Moore	Economist	US Agency for International Development (USAID)
Karolina Hulterström	First Secretary, Development Cooperation	Embassy of Sweden

Persons interviewed in Madagascar		
Name	Position	Organisation
Jean Razafindravonona	General Director of Budget	Ministry of Finance: Government of Madagascar
Isaora Zefania Romalahy	Head of the Aid Coordination Permanent Secretariat	Office of the Prime Minister, Government of Madagascar
Jean-Marie Vianey Dabire	Economist	African Development Bank (AfDB)
Charlotte Adriaen	Head of Department, Governance, Economics, Commerce and Social Sectors	Delegation of the European Union
Helmut Burmeister	Resident Director	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
Alan Walsh	Head Coordinator for the Environmental Programme	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
Patricia Aubras	Assistant Director	Agence Française de Développement (AFD)
Naivosoa Andriamitandrina	Representative	Plate-forme Nationale des Organisations de la Société Civile de Madagascar (PFNOSCM)
Hajime Watanabe	First Assistant of the Resident Representative	<i>Japan International Cooperation Agency (JICA)</i>

Persons interviewed in Madagascar (cont.)		
Name	Position	Organisation
Voahary Rakotovelomanantsoa	Head of Programme	<i>Japan International Cooperation Agency (JICA)</i>
Manoela Razafimahefa	Head of Programme	<i>Japan International Cooperation Agency (JICA)</i>
Hery Ramiarison	Professor, Economics Department, Faculty of Law, Economics, Administration and Sociology	University of Antananarivo
Janne M. Knutrud	Senior Adviser	Embassy of Norway
Daniel Andriamanjaka	Chief-of-Staff	Embassy of the United Kingdom
Nicolette Matthijsen	Programme Director	Helvetas
Julia Randimbisoa	Assistant Director	Helvetas
Philippe Georgeais	Director, SCAC Cultural and Cooperation Service	Embassy of France
Sebastien Vittet	Cooperation Attaché, SCAC Cultural and Cooperation Service	Embassy of France
Quentin Gouzien	Economist, SCAC Cultural and Cooperation Service	Embassy of France
Miriam J. Onivogui	Project Development Officer	US Agency for International Development (USAID)
Cathy Jane Bowes	Programme Officer	US Agency for International Development (USAID)

Persons interviewed in Uganda		
Name	Position	Organisation
Fred Twesiime	Principal Economist, Aid Liaison Department	Ministry of Finance, Planning and Economic Development, Government of Uganda
Mary Ssonko-Nabacwa	Senior Lecturer of Development Studies	Uganda Christian University of Mukono
Florence Cassam Chenai	Cooperation Officer	Embassy of France
Udo Weber	Head of Development Cooperation	Embassy of Germany

Persons interviewed in Uganda (cont.)		
Name	Position	Organisation
Christine Gandomi	Deputy Program Officer	US Agency for International Development (USAID)
Zdenek L.Suda	Supervisory Program Officer	US Agency for International Development (USAID)
Barry Wojega	Senior Budget Specialist	US Agency for International Development (USAID)
Simone Knapp	Head of Office, Coordination Office for Development Cooperation	Embassy of Austria
Sybille Schmidt	Programme Officer, Social Sectors and Economic Affairs	Delegation of the European Union

Persons interviewed from other partner countries			
Name	Position	Organisation	Country
Mwamba Peni	Public Policy Specialist	Cabinet Office, Policy Analysis and Coordination Division	Zambia
Karolin Pacheco	Vice-Minister for Planning and Technical Cooperation	Ministry for Planning and Technical Cooperation	Honduras
Gamar Eissa Elswar	Director, Aid Management and Coordination Unit	Ministry of Finance and the National Economy	Republic of the Sudan
Richard Zimba	Debt and Aid Officer	Ministry of Finance	Malawi

Annex II: Glossary of key concepts

Aid information management system (AIMS): Data-bases collecting information on aid activities within a partner country. These platforms can be used by governments in partner countries to maintain an overview of development activities, improve aid alignment to national priorities, and reflect aid flows in national budgets.

Aid modalities: Aid modalities have primarily been distinguished according to the technical arrangements governing the disbursement and the management of funds. These include: i) type and terms of finance; ii) disbursement channels; iii) procurement conditions; and iv) targeting and tracking of donor resources.

Alignment: Donor countries target development cooperation to partner countries' development objectives and use local systems.

Cross-sector division of labour (DoL): A coordinated distribution of donors across sectors, with individual donors concentrating aid in a limited number of areas. Donors focus on areas where they have a comparative advantage, while contributing to other sectors through delegated cooperation.

Delegated cooperation: Delegated cooperation, also known as 'silent partnership', allows bilateral donors to support sectors where they do not have a presence by channelling aid through another bilateral donor active in that area.

Fragmentation: Aid fragmentation refers to the problem that individual donors tend to be engaged in too many countries, and spread their aid across too many sectors, which produces high transaction costs on both sides of the aid relationship.

Harmonisation: Donor countries coordinate and simplify procedures and share information to avoid duplication.

Joint evaluation: An evaluation of a development project or programme to which different donors and/or partners take part. Joint evaluations can vary largely regarding the extent to which individual actors cooperate in the evaluation process, pool resources for evaluation and combine their reporting.

Managing diversity: The management of different sources of aid by the partner country, aimed at improving the effectiveness of aid in a complex aid landscape.

Multi-donor budget support (MDBS): Budget support jointly provided by several donors. It is the most common modality of budget support. Generally, dedicated budget support donor groups are established to coordinate the policy dialogue between the partner government and donors and discuss the conditions that need to be in place for the disbursement of funds.

Multi-donor trust funds (MTDFs): MTDFs collect contributions from many bilateral donors and administer them under a single governance structure, generally managed by multilateral donors such as the World Bank. MTDFs are increasingly used in fragile states and serve both as a joint funding modality and a coordination framework.

Mutual accountability: Donors and partners are accountable to each other for development results.

Ownership: Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.

Pooling of resources: Donors pool funding for development cooperation and channel it through multilateral vehicles of some form – multilateral organisations, trust funds, co-financing arrangements among bilateral donors such as the Mutual Reliance Initiative (MRI), or through the partner country's institutions in the form of multi-donor budget support (MDBS).

Programme-based approaches (PBAs): a coordinated support for a locally owned development programme such as a national development strategy or sector and thematic programmes. PBAs should: i) be led by the partner country ii) have a single comprehensive programme and budget framework; iii) include a harmonisation of donor reporting, budgeting, financial management and procurement; (iv) make increased use of country systems for programme design and implementation, financial management, and monitoring and evaluation (M&E). Implementation of PBAs can take place through different aid instruments ranging from basket funding of specific activities or reform programmes to joint support of Sector-wide approaches (SWAPs) and sector and general budget support.

Project implementation units (PIUs): Dedicated management units established by donors in partner countries to support the implementation of development projects or programmes.

Sector-wide approaches (SWAPs): Approaches that operate following the principles of **programme-based approaches (PBAs)** but are focused on one specific sector or thematic area, such as health or governance.

Tied aid: Is defined as development assistance provided under the condition that certain goods and services are purchased from firms in the donor country, or otherwise directly involve donor country stakeholders.

Transaction costs: Aid transaction costs are the costs which allow an aid transaction to take place but which add nothing to the actual value of that transaction. These include: *i) Search costs:* the costs necessary for partner country governments and potential donors to identify appropriate development partners, projects or programmes; *ii) Bargaining and decision costs:* the costs of negotiating and agreeing financing agreements for projects and other operations; *iii) Policing and enforcement costs:* the costs to partner country governments of fulfilling requirements for project execution and monitoring and to donor agencies of supervising adherence to project and programme conditions and of undertaking corrective actions where necessary.

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