



# **Donor Coordination: Strategies and Perspectives**

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Borany Penh  
Stefan Medina  
Logan Behrend

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USAID Development Information Services

for

USAID/PPC/Office of Donor Coordination and Outreach

USAID DIS 1331 Pennsylvania Ave., NW, Suite 1425, Washington, DC 20004  
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## Abbreviations and Acronyms

ADB	Asian Development Bank ( <i>Also</i> , AsDB)
ADB	African Development Bank ( <i>Also</i> , AfDB)
APP	Agriculture Perspective Plan (Nepal)
AusAID	Australian Agency for International Development
CDF	Comprehensive Development Framework (World Bank)
CG	Consultative Group
CCPSP	Coordinating Council for Private Sector Participation (Philippines)
CIDA	Canadian International Development Agency
CRS	Catholic Relief Services
DAC	Development Assistance Committee (OECD/DCD)
DCD	Development Cooperation Directorate (OECD)
DfID	Department for International Development (UK)
DIS	Development Information Services
DG	Democracy and Governance Sector
DOF	Department of Finance
DROC	Democratic Republic of the Congo
ECHO	European Commission's Humanitarian Office
EIB	European Investment Bank
Ex-Im Bank	Export-Import Bank of the United States
GOC	Government of Colombia
GOH	Government of Haiti
GOJ	Government of Jamaica
GOM	Government of Mexico
GOM	Government of Morocco
GON	Government of Nepal
GOP	Government of the Philippines
GOR	Government of Rwanda
GPRA	Government Performance and Results Act of 1993
GRM	Government of the Republic of Mozambique
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (Germany)
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association (World Bank)
IDA13	IDA 13 <sup>th</sup> Replenishment
IDB	Inter-American Development Bank
IDGs	International Development Goals
IFIs	International Financial Institutions
ILO	International Labor Organization
IMEXCI	Mexican Institute for International Cooperation
IMF	International Monetary Fund
IWM	Integrated Watershed Management Project (Philippines)
HIPC	Heavily Indebted Poor Countries Initiative

HPZ	High Potential Zones (USAID/Haiti)
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
LGU	Local Government Unit
MADER	Ministry of Agriculture and Rural Development (Mozambique)
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MNE	Ministry of National Education (Morocco)
MTPDP	Medium Term Philippine Development Plan
NEDA	National Economic and Development Authority (Philippines)
NGO	Non-Governmental Organization
NORAD	Norwegian Agency for Development Cooperation
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OSCE	Organization for Security and Cooperation in Europe
PAHO	Pan American Health Organization
PHN	Population, Health, and Nutrition (USAID)
PIP	Public Investment Program (World Bank)
PPC/DCO	Bureau for Policy and Program Coordination/Office of Donor Coordination and Outreach (USAID)
PRSP	Poverty Reduction Strategy Paper
PVO	Private Voluntary Organization
RTs	Round Tables (UNDP)
SIDA	Swedish International Development Cooperation Agency
SME	Small and Medium-scale Enterprises
SO	Strategic Objective
SpO	Special Objective
SPA	Strategic Partnership with Africa
SWAp	Sector Wide Approach
TFD	Training for Development (USAID/Morocco)
UN	United Nations
UNDP	UN Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNMIK	UN Mission in Kosovo
USAID	U.S. Agency for International Development ( <i>Also</i> AID)
WB	World Bank
WB/BOM	World Bank/Bank of Morocco

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Borany Penh

Senior Information Analyst  
USAID Development  
Information Services

## Foreword

Beginning with the Marshall Plan after World War II, foreign assistance has always represented a commitment by the U.S. to help countries around the world struggling for freedom from conflict, famine, poverty, disease and other ills to become members of the community of peaceful and economically prosperous democracies. This commitment was reinforced after the tragic events of September 11, 2001. Now, as a component of the National Security Strategy and as affirmed by USAID's report, "Foreign Aid in the National Interest," the mission of international development has become even more critical.

The U.S.'s increased commitment to foreign assistance has resulted in dramatic changes in the U.S. approach to official development assistance—including the Millennium Challenge Account (MCA), the Global Development Alliance (GDA), and the proposed HIV/AIDS initiative. These changes have occurred in the context of a growing interest in the donor community with issues such as donor policy coherence, the impact of greatly expanded resources, appropriate implementation mechanisms, and the value of partnerships. Furthermore, since the UN Summit on Financing for Development in Monterrey, concerns about aid effectiveness have figured prominently in public discourse.

Donor coordination can play a significant role in advancing the mission of foreign assistance. Donor coordination can help forge common objectives among donors, promote aid effectiveness, and mobilize resources for development's immense needs. The contributions of donor coordination in recent years are evidenced by the Millennium Development Goals (MDGs), which together with poverty reduction strategy papers (PRSPs), have become the organizing framework for donor development efforts.

An important principle of donor coordination is to recognize that different donors have different comparative advantages in terms of delivery mechanisms, sectors, and resources. Some donors, especially the smaller ones, are "niche players" whereas donors such as the U.S. have global and complex assistance agendas that must be balanced. The multilateral development banks and the United Nations organizations have some obvious advantages and liabilities in comparison with the bilateral donors. The MDGs and PRSP exercises constitute a serious attempt by the donor community to provide a common context for these diverse donor perspectives, capacities, and resources. However, one should be careful that desirable harmonization efforts do not ignore important differences in donor programs.

Finally, USAID missions need to recognize three levels of responsibility in their coordination efforts. First, donor coordination needs to be driven by the needs of mission strategic objectives (SOs). Second, missions need to be active players in the design of broad macroeconomic and institutional reforms that provide the context for individual

development efforts. Third, USAID needs to play a practical role in monitoring overall donor performance, encouraging donor effectiveness, and supporting appropriate harmonization efforts.

Citing the importance of development to global security and the goals of the UN Millennium Declaration, President George W. Bush stated that the “evidence shows that where nations adopt sound policies, a dollar of foreign aid attracts \$2 of private investment. When development aid rewards reform and responsibility, it lifts almost four times as many people out of poverty, compared to an old approach of writing checks without regard to results.”<sup>1</sup> Donor coordination can help ensure that foreign assistance delivers the results that it is meant to achieve in the US national interest.

Norman Nicholson  
Director  
USAID/PPC/Office of Donor Coordination and Outreach

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<sup>1</sup> “President Proposes \$5 Billion Plan to Help Developing Nations,” May 14, 2003.  
[<http://www.whitehouse.gov/news/releases/2002/03/20020314-7.html>]

## Executive Summary

1. This paper shares the experience PPC/DCO has gained from working with missions on donor coordination strategies during a time of significant internal changes at AID as well as changes to the international development landscape. Combining **field experience** and appropriate **conceptual frameworks**, the paper can help others formulate development coordination strategies that will advance the in-country development process.
2. By donor coordination, we mean development partners working together to maximize aid effectiveness. It is **a means to an end**, intensely **process-oriented**, focusing on **relationships** and **linkages** (*vertical and horizontal*). Thus, donor coordination may be **difficult to quantify**, as success is often cumulative, long-term and highly qualitative.
3. The four types of donor coordination are: **1) Information Exchange, 2) Division of Labor, 3) Common Framework and 4) Harmonization**. The types are not naturally successive. Instead, they are highly dependent on proper country conditions, political will and efforts of all actors.
4. Frequent coordination challenges that missions encountered included **weak host country capacity, poor incentives** for coordination, **conflicting donor agendas**, and **organizational differences** among donors. These issues often interacted differently across individual countries and varying sectors. **NGOs, civil society, and the private sector** can help **bridge coordination gaps** but not all countries are accustomed to this approach.
5. **Strong country leadership, strategic direction** via a common framework, **partnership**, and **linkages** (vertical and horizontal) are essential elements of donor coordination. These lessons conform to the principles heralded as essential for aid effectiveness: country ownership, partnership, etc. In formulating a strategy, *ideally all four types of donor coordination at some level should be used as components of a strategy*.
6. Donor coordination is most challenged in special cases of crisis and cross-border issues. **Crises** require *urgent responses*, which may be a disincentive for coordination. However, coordination is needed to ensure a *sustainable response*. **Cross-border issues** underline the importance of coordination for achieving shared success in solving **problems that cannot be addressed by any one actor**.
7. While the lessons learned are valuable, further exploration is needed on the impact of non-state actors, sector-level versus national coordination, and special situations, such as crises and cross-border issues. Future studies should take into account the major issues now shaping the international donor landscape: **aid effectiveness, the PRSPs, the MCA, the MDGs, harmonization, and policy coherence**.

## Introduction

In the early to mid-1990s, budget cuts and a new focus on reporting results forced USAID to change its manner of doing business. The changes also focused attention on coordination with other donors. Field missions called on PPC/DCO to help them devise coordination strategies that would facilitate improved program implementation. However, in the course of working with missions it became apparent to PPC/DCO that it was no longer sufficient for donor coordination strategies to focus solely on improving the implementation of missions' strategic objectives, which had been the original focus of this analysis. In the late 1990s, fundamental changes in development thinking generated new principles and new actors that affected the entire development enterprise.

### 1. Purpose

This paper shares with readers the perspectives and expertise that the Office has acquired from working with USAID missions on donor coordination strategies in the context of internal organizational changes as well as a shifting international development landscape. By presenting diverse case studies, conceptual frameworks, and different perspectives on donor coordination, the paper is offered as a guide to help missions and others formulate donor coordination strategies that will advance the in-country development process.

### 2. Background

During the period that the case studies were conducted (1999–2002), significant changes were underway within USAID and across the international development landscape. The emerging issues associated with these important transformations not only made donor coordination more relevant but also shaped perspectives on what constitutes effective donor coordination.<sup>2</sup>

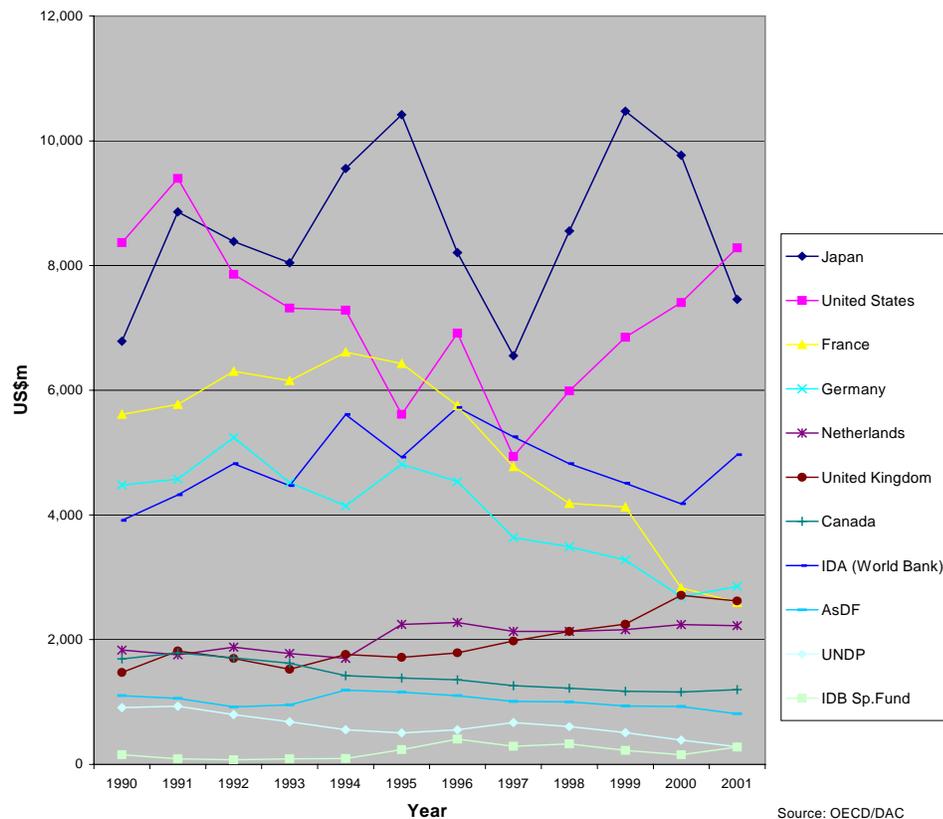
#### *Reorganization, Results Frameworks, and Budget Reductions*

USAID faced a number of significant challenges in the early to mid-1990s. There were very few countries where U.S. aid levels topped those of the World Bank Group and increasingly fewer where the United States stood first in volume of giving among bilateral donors. The steady decline in aid (see Figure 1) was influenced to a large degree by the perception among many public opinion leaders' that aid was ineffective and lacked "raison d'être" in the post-Cold War period. At the same time, the Clinton administration's call for "re-inventing" government forced USAID to commit more of its diminishing pool of resources towards "re-engineering" its management practices to

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<sup>2</sup> Some of these issues were covered as part of addendum to ADS201.3.9. September 22, 2000. [<http://www.usaid.gov/pubs/ads/200/200sad.pdf>] This paper covers current issues more comprehensively.

Figure 1. Net ODA Trend: 1990–2001



improve accountability to taxpayers.<sup>3</sup>

Missions asked for help from PPC because they needed both operational and strategic support from individuals more familiar with the broader methodologies and objectives of the other major donors. Increasing pressure to demonstrate results accompanied by reductions in program budgets meant that USAID field missions had to be more innovative in how they implemented their programs. On the other hand, while the imperative of producing measurable results provided some incentive for greater donor coordination, with fewer people—especially in the field—coordination on anything other than short term implementation issues seemed increasingly unaffordable. While donor coordination was not new, it suddenly became very relevant to success in the field. Through donor coordination, missions hoped to leverage other aid sources, ensure that the programs of other donors complemented or at least did not undermine their programs, and have their innovative programs picked up and enlarged by other donors or partners.

### *Changes in the International Development Landscape*

While USAID faced significant challenges internally, changes in the international development landscape made evident the increased importance of donor coordination. Globalization called for more concerted efforts by donors both to address new development concerns and to resolve old issues that had become more complex and transnational. It became clear that no one donor could counter these problems alone. Furthermore, new actors on the development scene, such as large foundations, were

<sup>3</sup> 1993 Government Performance and Results Act (GPRA).

bringing their own formidable resources as well as their own priorities into play.

Most importantly, shared concern among donors about declining aid budgets prompted donors to assess the development enterprise and forge new common organizing frameworks. In 1996, the DAC's "Shaping the 21st Century" report announced members' commitment to a series of priority development goals, the International Development Goals (IDGs), by 2015. Like their current evolvment, the Millennium Development Goals (MDGs), the IDGs influenced the direction of donor resources towards specific, shared objectives. They also served to identify gaps and constraints that donors needed to address in meeting the goals.

The 21<sup>st</sup> Century report was also significant because it helped to reassert the relevance of aid. It reflected on the development record in the last 50 years and concluded that development still mattered because "all people are made less secure by the poverty and misery that exist in the world."<sup>4</sup> However, the report, similar to the 1998 World Bank study, "Assessing Aid," acknowledged that there were lessons in partnership, ownership, and proper country conditions that development in the 21<sup>st</sup> century should take into account. At the World Bank, President Wolfensohn heeded these lessons and introduced the Comprehensive Development Framework (CDF) and its principles: development as a holistic and long-term process, country ownership of the development process, development results, and partnership. The subsequent Bank and IMF unveiling in 1999 of country-owned poverty reduction strategy papers (PRSPs) as part of the Enhanced HIPC Initiative built on the momentum of DFID's 1997 White Paper, which brought poverty reduction to center stage.<sup>5</sup>

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<sup>4</sup> "Shaping the 21<sup>st</sup> Century: the Contribution of Development Cooperation." OECD/DAC. May 1996. pg. 1.

<sup>5</sup> PRSPs were initially required just for candidate countries under the enhanced Heavily Indebted Poor Countries initiative (HIPC II) but were later expanded to include all countries receiving assistance from the concessional lending arm of the Bank, the International Development Association (IDA). "Eliminating World Poverty: A Challenge for the 21<sup>st</sup> Century," White Paper on International Development. DFID. 1997.

## Part One: Concepts in Donor Coordination

Part One addresses the question, what is “donor coordination”? While this paper draws on selected literature on the subject (see Resources section), the experience of several PPC/DCO documented studies serves as the principal source for the concepts presented.

### 1. Defining Donor Coordination

#### *Key Characteristics*

Recognizing that donor coordination is **a means to an end** forms the basis for understanding the concept. No one engages in donor coordination for its own sake. Instead, it is used to advance development objectives by addressing relational issues, circumstances and intangibles that technical design and implementation alone cannot resolve. Secondly, as a means, donor coordination is **intensely process-oriented** and puts a priority on **relations and linkages**. It is *participatory* and requires establishing a rapport with other actors, learning about their strategic and programmatic objectives, dialoguing about ideas and problems, etc. It is also crucial to forge linkages to other political processes and development issues to ensure that coordination efforts effect changes that are consistent with the desired changes to the larger development picture (see section 3, Types of Donors). Given its complex nature, donor coordination is **difficult to quantify**, as success is often cumulative, long-term and highly qualitative.

#### *Objectives*

If donor coordination is a means to an end what is the “end”? The case studies help identify some objectives that missions thought were important:

- addressing the foreign policy context (e.g. conflict prevention)
- reducing redundancies
- encouraging collaboration on activities
- forging consensus on issues, processes, and frameworks
- supporting country leadership
- compensating for weak host country capacity
- advancing best practices
- making use of comparative advantages
- knowledge sharing
- forging macro-micro linkages

The list is not comprehensive but illustrates that the objectives of donor coordination can be various. However, it is clear that the objectives all point towards the ultimate end of donor coordination: **aid effectiveness**.<sup>6</sup>

### *A Working Definition*

Much of the literature surveyed (Ericksson, Miyoshi and Phillip, Stockton) discussed the problems of defining donor or aid coordination. While it would be interesting to delve deeper into definitions, the practical nature of this paper calls for a working definition. Based on the key characteristics and objectives we identified and drawing on existing definitions, we refer to donor coordination in this paper as simply: *development partners working together to maximize aid effectiveness*.

## **2. Vertical vs. Horizontal Dimension**

Viewing donor coordination in terms of its vertical or horizontal dimensions may be a useful conceptual tool for understanding the key relations or linkages in the donor coordination process. The **vertical dimension** refers to **the hierarchical layers or relations that make up the coordination process**. Four subcategories of this dimension are apparent:

- 1) *The relationship between a donor's field operations and its headquarters.* Weak communication/coordination between field and headquarters can sometimes hinder decision-making on important donor issues, and make it difficult to adjust policy to country-specific conditions.
- 2) *Common foreign policy perspectives.* A donor is sensitive to the foreign policy priorities of its government in designing its aid program. This is especially important in conflict and post-conflict settings where the over-riding foreign policy objective may be security.
- 3) *Cooperation between donors on a specific global issue.* Donors devise a common organization to coordinate on issues that extend across borders (see Part Four for "Cross-Border Issues"). Donor coordination on HIV/AIDS, for instance, through the Global HIV/AIDS Trust Fund, organizes decision-making through a single, vertical hierarchy, and streamlines operation and the allocation of resources. While the potential benefits are apparent, organizing this vertical hierarchy in the context of multiple donors with varying priorities is difficult.

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<sup>6</sup> Extensive discussions on aid effectiveness and associated issues have been underway at the DAC and other international fora and will continue to shape the future of development (see Resources section).

- 4) *Global standards, lessons learned, and commitments.* This refers to the organizing framework for donor activity introduced by global standards, best practices, and donor commitments made in international donor fora. The MDGs and the DAC Poverty Guidelines are some examples. This vertical dimension may explain systematic differences in coordination among sectors. Global consensus on health priorities, intervention strategies, and donor capacities can greatly strengthen cooperation in the field. Other sectors evince less global consensus, and often less cooperation in the field.

The **horizontal dimension** refers to the idea that **proper donor coordination on a particular issue requires working on a range of inter-linked issues.** Linkages can be at the macro level, including foreign policy, economic policy, administrative reform, decentralization, etc. Macro-micro and inter-sectoral linkages are other forms. For instance, tackling issues in the health sector may also involve water and sanitation, agriculture, education, governance, and other issues. Viewing donor coordination from the horizontal dimension may help overcome some of the inherent problems associated with highly results-focused management systems.

### 3. Types of Donor Coordination

The donor coordination objectives presented above suggest that donor coordination may vary in approach, level of engagement, and mechanisms. Indeed, a spectrum of donor coordination types is observable. Originally outlined by the DAC in 1996<sup>7</sup> and further refined using the key characteristics of donor coordination we have identified, the four major types of donor coordination are: **1) Information Exchange, 2) Division of Labor, 3) Common Framework, and 4) Harmonization.**

**Information Exchange** – The most basic type of coordination, usually involving regular meetings of donor representatives working in a particular sector. Types of information exchanged include programmatic information, economic and political analyses or forecasting, or evaluation findings. It may include representatives of the host government. Policy differences often persist with this type.

**Division of Labor** – Coordination moves beyond talking about programs already in place to some sense of shared planning, however ad hoc. Donors benefit from comparative advantage and specialization. The host government may or may not be engaged. This type of coordination is essentially static and preventive. The purpose is to avoid duplication of efforts.

**Common Framework** – The host government and donors agree on development policy and program objectives and specific activities are planned to improve aid

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<sup>7</sup> DCD/DAC/STAT(96)6, pg. 3.

effectiveness, not just to avoid duplication. Furthermore, the host government is working to actively manage aid resources and coordination (perhaps in a limited number of sectors), by selecting and working with a lead donor or leading the effort itself. The move to a common framework is enhanced by strong country leadership of its development process and sufficient capacity. A common framework allows donors to identify key constraints and gaps. Examples of common frameworks include country sectoral strategies (e.g., in SWAs) and PRSPs. It is not uncommon for donors to devise a framework amongst themselves but this is second-best to a host country-led framework.

**Is a common framework necessary before you have real division of labor?** Some argue that dividing up tasks may not always be efficient if dividing actually results in fragmentation of efforts. For example, donors divided up agricultural activities in Nepal but as a sum of parts, their efforts were not producing sustainable results on the national level.

**Harmonization** - Donors align their practices and procedures to reduce transaction costs and strengthen host country capacity. Harmonization theoretically occurs at the implementation phase although it is always possible for donors to harmonize amongst themselves, independent of a framework. Activities include donor alignment around a common framework, harmonizing procurement practices (e.g., aid “untying”), financial management, joint monitoring and evaluation, etc. The Millennium Development Goals, for example, call for standardized monitoring of progress. Obviously, not all of these procedures will be harmonized in every case.

Pooling of resources and general budget support are viewed by some donors as a logical means of harmonization. Some donors (Nordic countries, CIDA, and DFID) have experimented with “**delegated cooperation.**” In this model, a donor has effectively granted decision-making authority to another donor with the appropriate resources. A possible outcome of delegated cooperation is greater specialization among donors in technical sectors or perhaps countries. The OECD/DAC has recently established a working party on aid effectiveness to focus on these implementation issues.

It should be emphasized that **the types are not naturally successive.** Engagement in each type is highly dependent on the proper country conditions, political will, and the efforts of all relevant actors. Thus, it may be the case that only information exchange or a division of labor is possible in a certain country. However, in a donor coordination strategy, the types are all ideally components of the strategy. That is, if all the proper country conditions are in place, all types would be utilized (See “Components of a Strategy” in Part 3, Section 2).



**Figure 2: The Donor Coordination Spectrum**

Most Basic  Most Complex

<i>Information Exchange</i>	<i>Division of Labor</i>	<i>Common Framework</i>	<i>Harmonization</i>
<ul style="list-style-type: none"> <li>• Informational</li> <li>• Ad hoc</li> <li>• Static</li> <li>• May or may not involve host government</li> </ul>	<ul style="list-style-type: none"> <li>• Some shared planning</li> <li>• Static and preventive</li> <li>• May or may not involve host government</li> </ul>	<ul style="list-style-type: none"> <li>• Strategy based on agreed objectives and action</li> <li>• Can be at sector level</li> <li>• Dynamic</li> <li>• Usually involves host country</li> <li>• Aligned to country conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Common strategy, implementation, and assessment</li> <li>• Harmonized donor policies and processes</li> <li>• Host country fully engaged</li> <li>• Dependent on proper country conditions</li> <li>• Can include “delegated cooperation”</li> </ul>

The spectrum refers to the intensity of coordination. Information exchange is the easiest while harmonization is the most complex. The spectrum does not depict an automatic progression. Indeed, it should be emphasized that the types are **not naturally successive**. Engagement in each type is highly dependent on the proper country conditions, political will, and the efforts of all relevant actors.

## Part Two: Major Actors and Issues

A significant part of PPC/DCO's work in the field was to help understand how the achievements of mission SOs were constrained by the activities of other donors. The resulting donor coordination strategies helped identify gaps, conflicts, opportunities, and resource requirements. While the issues are presented individually below, in connection with the case studies mentioned previously, it should be noted that the *problems often do not occur in isolation but are frequently in complex interplay.*

### 1. Host Country Leadership

A host government's capacity and attitude towards donors are major factors in shaping the form and quality of coordination.

#### *Strong Country Leadership*

Country ownership of the development process is now widely understood as an important factor for development effectiveness. Strong country leadership in the coordination process is an exercise of ownership. In this environment, donor coordination can move to the most coordinated approaches, via common frameworks and/or harmonization. As the primary actor in guiding its development process, the government in Mozambique (GRM) exerts its leadership in the agriculture sector via a framework it has developed, ProAgri. This Sector Wide Approach (SWAp) channels donor funds through the GRM in support of common objectives in the sector. The Ministry of Agriculture and Rural Development (MADER) co-chairs weekly working group meetings and recently completed a joint evaluation of ProAgri with donor members. Although ProAgri has not produced the successes desired in terms of agricultural productivity, it has succeeded in developing the institutional capacity required for MADER to fulfill its operational priorities.

**Sectoral Differences.** It may be more accurate to gauge donor coordination quality at a sub-country level such as by specific sector.

- Quality may depend on the institutional capacity of the correspondent ministry. For instance, while the GRM is a strong leader in agriculture, it lacks institutional capacity to effectively coordinate the HIV/AIDS response.
- Some sectors, such as health, may be easier to coordinate, as global standards allow for easier implementation and cooperation in the field.

In the Philippines, the Government of the Philippines (GOP) takes a proactive role in facilitating donor coordination. Through its Department of Finance, the GOP works with the World Bank to chair the Consultative Group (CG), facilitating vertical coordination between donors in-country and their headquarters. This was extremely important since Japan was a top donor in the Philippines and has a very centralized bureaucracy. The GOP also used a framework—the Medium Term Philippine Development Plan (MTPDP)—to set the priorities by which the donors planned their

activities. Other government entities, such as the National Economic and Development Authority (NEDA) coordinate with donors on the sectoral level.

*Weak Institutional Capacity.* Just as strong government leadership is a factor for successful development, the absence of such guidance due to weak institutional capacity severely restricts progress. Poor capacity to facilitate donor coordination can, in fact, reduce or even reverse development achievements. In Nepal, the consensus was that the Government of Nepal (GON) lacked coherent frameworks in most sectors and the capacity to create them. Where there was a plan, as in the GON's Agriculture Perspective Plan (APP), budget realities prevented the GON from imposing any discipline therein. Partly as a result of the uncontrolled fragmentation of donor activities, the APP was not producing the development gains Nepal had hoped for.

Additionally, without a central authority for coordination, donor programs run the risk of duplicating efforts or neglecting macro issues that may not be so evident when communication is limited to a specific sector. Donors in Haiti, for example, reported that issues involving several ministries were exceedingly difficult to resolve when there was no mechanism for settling disputes between ministries or donors. Such uncertainty also creates an opportunity for sector ministries to solicit resources from donors to augment program budgets while keeping the donors apart, such as in the case of Colombia where the Ministry of Justice discouraged inter-donor communications. When this type of interference occurs it is important to examine disincentives for coordination within host country institutions.

Countries in crisis or emerging from crisis are especially vulnerable to weak institutional capacity (see Part Four). Previous coordination in the health and education sectors in Haiti ceased due to a lack of capacity (and perhaps willingness) on the part of the government to convene the necessary meetings. As a result, resources continued to flow into sectors with critical public management weaknesses and maintenance costs and needs that rapidly exceeded capacity. Inevitably linkages between the overall reform process and donor investment programs suffered.

When country capacity does not exist, it is not unusual for a lead donor to fill the vacuum. Donors in Nepal acknowledged this and called for a lead donor to provide a secretariat to help organize donor cooperation with the GON. However, donor-led coordination cannot substitute for a country shaping its own development priorities. This is one of the reasons why donor support for the PRSPs is so strong.

*Adversarial Government.* Governments may appear adversarial when they are pursuing policies with which the bulk of the donor community disagrees. In Rwanda, the government perceived that donors applied a double standard by preaching country ownership but circumscribing it in reality by imposing strict conditions, providing

insufficient budget support and subordinating Rwanda's priorities to donors' own national priorities.

Adversarial attitudes can also stem from political and cultural sensitivities. In Mexico, it is important for the government to be viewed as a partner in development rather than a recipient of donor aid. This sensitivity partly stems from the political and socioeconomic connotations associated with "Third World" or "developing" country status – especially as Mexico has been accorded developed country status by the OECD. Thus, instead of encouraging donors to work together, the government chooses to deal with donors individually and in its own timeframe.

Few host governments are adversarial across the full range of sectors, however. Disagreement on the direction of macroeconomic policy between the Jamaican government and donors led to some donors choosing to exit or scale back considerably. But, the U.S. response was to keep an open dialogue on this issue as the government proved a good partner on other issues, especially those important to the region, such as counter-narcotics. Furthermore, if coordination can be shown to result in better aid and fewer demands on administrative capacity, then the host government may become a believer in coordination and this could lead to a less adversarial stance in other sectors. However, achieving dynamic coordination in an adversarial situation is very difficult and may be costly in time and resources.

## **2. In-Country Donors**

The quality of coordination with other in-country donors varies by country. Information exchange is a fairly common type of coordination, since it is relatively easy to do. But there may be significant obstacles to moving beyond information sharing, because to some extent, all donors have mandated priorities, strategies, and processes. Donor missions may also have vertical problems or differences with their headquarters.

### ***Lead Donors Setting Priorities***

A reality on the ground is that donors will likely carry out activities that fit into their own priorities, especially if they are lead donors. The more varied the principal donor's program, the more of a factor they will be in overall coordination. For example, in countries where a donor has large grant or loan programs, participation in coordination groups is vital to effective cooperation. However, a large donor may not be important to overall coordination if all of its activities are in a single sector, though that donor would be very important to coordination in the sector.

With few exceptions, the World Bank group and the regional development banks are the dominant donors in the countries in which they operate. If they do not cooperate, the donor coordination effort is unlikely to move beyond information exchange. Even in

the Philippines, where donor coordination is very advanced, bilaterals tend to focus their coordination efforts on the large multilaterals (WB and AsDB). This may be to the detriment of their relationships with other bilateral agencies, as opportunities are missed or foregone. On the other hand, they could view their focus on the large multilaterals as a cost-effective means of coordination. The host government however will not always turn first to the MDBs. This is because the large multilaterals are slow disbursers in most cases. Also, governments prefer not to borrow to finance activities in non-productive sectors if there is grant money available (see “Aid Instruments” below). However, the expansion of grant financing under IDA13 may make this less of a problem for the World Bank.

Donor coordination is sometimes needed to persuade lead donors that they may be slowing the advancement of country ownership. As the lead donor in the country, the UN Mission in Kosovo (UNMIK) was instrumental in reviving the judicial system in Kosovo. However, many donors thought the UNMIK’s lack of an exit strategy was impeding Kosovar ownership of the justice sector and creating sustainability problems. USAID was challenged to work with Kosovar judicial professionals and other donors to devise a strategy by which leadership over the development of the judicial sector could be devolved from UNMIK. Donor coordination was necessary for preparing for a ‘gearing down’ period to avoid gaps and guarantee a smooth transition to host government ownership.

### ***Motivations Other than Development***

Some donors may be motivated to provide aid for reasons other than development objectives. PPC/DCO found that these incentives fall into recognizable categories. The stance of any given donor will vary, of course, by the developing country and sector in which they are acting.

Ideological. A donor’s program may be dictated by headquarters considerations to fit the interests of key electoral constituencies in the donor country. The impact is similar to that of U.S. earmarks, except that most other donors are more centrally controlled and give less (if any) programming discretion to field staff. This may be an intractable issue with regard to headquarters coordination, except at the highest levels.

Commercial. This will hamper partners’ flexibility but not rule out effective coordination, even to the common framework. USAID’s expertise in institution building and governance, as well as its experience with civil society groups, may be the push needed to turn the tide from unsustainable commercially motivated aid toward commercially motivated aid that fills a development gap.

Foreign Policy. A combination of foreign policy, trade, and other commercially oriented aid to their former colonies or spheres of influence makes some donors difficult cases for true collaboration, or even for exchange of information.

## ***Organizational Differences***

Aid Instruments. Differences between *lending* and *grant* institutions may also create an impetus for coordination, given that the focus of the former on loan conditionality versus program impact has led to problems in the past. While both focused on alternative development in Colombia, IDB funds for infrastructure had the potential to undermine USAID's program because if the funds were used for unsustainable development, a loss of confidence in alternative development among rural beneficiaries could result.

Taxonomy. Failure to understand the taxonomy (classification schemes) of other donors can lead to missed opportunities. In Jamaica and the Philippines, what European donors categorized as agriculture programs fit into what AID classified as water programs. This problem underscores the importance of taking a horizontal view and perhaps broadening sector working groups, (e.g., working on a topic such as "youth") or asking working groups occasionally to link up to examine overlapping or crosscutting issues.

In-Country Representation. Donors' in-country representation facilitates donor coordination because it provides easier access for field staff to work together. However, this may only be a small advantage in working with donors from highly centralized bureaucracies. This is true of both the World Bank and the European Commission. However, as part of its Strategic Compact, the World Bank has been placing more staff in the field.

### **3. NGOs, Civil Society, and the Private Sector**

As previously noted, non-traditional actors have emerged as significant players in the development landscape. A number of large foundations, such as the Gates Foundation, bring considerable resources to the table. Their emergence has prompted the U.S. to intensify its work on partnerships via efforts such as USAID's Global Development Alliance (GDA). In the coordination process, partners such as civil society organizations, NGOs, and the private sector can serve as coordinating entities between other donors and their partners during implementation.

- NGOs were key players in coordination at both the policy and operational level in Nepal. The Safe Motherhood Network, a USAID-supported network of seventy NGOs, was well regarded by donors and played an important coordination role by effectively facilitating information exchange among practitioners.
- Partners become even more important in countries where the host government lacks capacity. USAID missions in Colombia and Haiti made it a priority to work with other donors to find ways to rapidly integrate new political forces (e.g., advocacy groups and mayors) into the countries' political processes because they understood the important role these groups played in mitigating ongoing and disabling conflicts.

- Partners can bring resources to the table that could amplify or extend a donor's programs, as USAID/Morocco experienced. Working with local partners also enabled the mission to help build local capacity.

While inclusive development is now widely agreed upon as a guiding principle, including partners in the donor coordination process is still in its formative stages due to attitudinal and organizational lags. Although it is believed to be changing, the Mexican government has traditionally resisted the role of NGOs in development assistance. Also, the private sector remains a largely untapped resource because of a lack of culture of philanthropy in the country. In Mozambique, the GRM is skeptical of the benefits of involving NGOs in the health sector and mistrusts their motives and activities. As a result, many NGOs do not actively participate in the current coordination structure. This attitudinal obstacle may diminish with the Ministry of Health's development of a code of conduct with NGOs.

## **Part Three: Strategies**

PPC/DCO's work with USAID missions to develop donor coordination strategies provides some lessons learned and practical advice that may help others begin developing their own strategies. However, it should be kept in mind that what is presented here is on a general level and may not offer the focus, depth and comprehensiveness that individualized diagnosis, as PPC/DCO has also undertaken, can provide.

### **1. General Lessons**

#### ***Country Leadership Is Key***

In a majority of the case studies, host country leadership was identified as a key element for successful donor coordination. This finding conforms to the prevailing sentiment in the donor community, and it is confirmed by Dollar's study that concluded country commitment matters in the development process. Countries that lay out their development strategy, such as the Philippines, Mozambique, and Mexico, or that developed PRSPs, have a logical incentive to coordinate aid so that it helps them achieve their development objectives. Near universal recognition of the importance of country ownership also makes it politically and organizationally easier for donors to coordinate at the country level, instead of coordinating general policies just amongst themselves. While issues of capacity, political will, etc. can prevent full country leadership, at a minimum, country leadership can be effective at a sector level. In short, donor activities that encourage country capacity will promote a sustainable long-term solution.

#### ***Partners Can Contribute to Effective Donor Coordination***

As discussed earlier, partners are increasingly important actors in the development scene. NGOs can play an essential role in bridging donor coordination gaps on the project level, replicating pilot projects, linking civil society with larger donors, and helping to represent the interests of the private sector. Mission staff should proactively seek regular discussions with NGOs across sectors, as well as representatives of the private sector, in order to establish an ongoing dialogue on issues pertinent to the client country/region/sector.

#### ***Ad Hoc is Not Strategic: A Common Framework Is Strategic***

A common framework can bring strategic direction because the host government articulates priorities and provides a structure by which it coordinates donor resources and programs. This type of coordination also enables donors to identify constraints and gaps. In Colombia where long-term development objectives are challenged by the entrenched internal conflict, "Plan Colombia" provided the much-needed guidance and direction for

donors as it set the policy priorities and structure of the Colombian government's development strategy. Today, the most frequent examples of common frameworks are SWAps (sector level) and PRSPs (national level).

Division of labor, absent a common framework, is considered a less coordinated approach than a common framework approach because dividing up tasks between donors does not necessarily translate into strategic impact. Although donors in Kosovo worked in different sub-sectors of the judicial sector (OSCE training judges on human rights, the World Bank in commercial law, USAID in court administration, etc.), an OSCE assessment found that the cumulative impact of the activities was not shaping the rule of law in a strategic direction.<sup>8</sup> Similarly in Haiti, USAID focused on health service delivery through the private sector while other donors supported delivery through the central Ministry or regional offices, but the programs did not enhance the general impact of investments in health or avoid duplication.

A common framework will not lead to better coordination if it does not account for the capacity of the host government and if donors do not honor the framework in implementation. Donors in Nepal in theory shared an informal common framework and structured divisions of labor in a number of sub-sectors. Operationally, however, at the District level diverse practices seemed to be the rule. As a result, donors' activities had little "return to scale" and little impact on the national health system – raising questions of sustainability. Similarly in agriculture, while the GON's common framework for the agriculture sector specified giving programming priority to higher potential areas, the activities of many European donors actually occurred in marginal areas, fitting in with their own poverty-reduction priorities.

### ***Linkages Tie Efforts to the "Big Picture"***

Linkages help ensure that donor efforts contribute to the larger development picture. It follows that AID missions should understand that they are jointly responsible for the total effectiveness of aid in their countries, not just for their own programs. However, multiple donor coordination mechanisms are not necessarily useful unless they somehow refer to each other and/or a broader framework, such as a Consultative Group. Such coordination linkages ensure that development efforts do not nullify each other but instead promote larger development goals.

**The "Big Picture"**  
Linkages help ensure that donor efforts contribute to the larger development picture. It follows that AID missions should understand that they are jointly responsible for the total effectiveness of aid in their countries, not just for their own programs.

<sup>8</sup> OSCE/Mission in Kosovo, Department of Human Rights and Rule of Law, "Kosovo Review of the Criminal Justice System." September 2001 – February 2002, Themes: Independence of the Judiciary, Detention, and Mental Health Issues."

- ◆ Mozambique suffers from a plethora of donor coordination mechanisms that, due in part to their non-linkage to major coordination mechanisms and the variable capacity of the GRM to manage them, do not help the country's development move in a strategic direction.
- ◆ In Haiti, the IMF financial stabilization program made significant progress in its fiscal and monetary goals (if not its structural goals). However, donors did not establish linkages between these reforms and their sectoral investment programs, which were running ahead of the reform package. The results, as identified by a World Bank Public Investment Program (PIP) report, were unsustainable or ill-advised projects, unresolved structural issues, and burgeoning recurrent costs. There were also examples of design teams making recommendations at odds with elements of the stabilization program - e.g., topping off ministry salaries or providing assistance to public-sector firms slated for privatization.

Horizontal Dimension. Viewing donor coordination via its horizontal dimension helps to see the possible inadequacy of taking a sector-by-sector approach. Issues in a related sector or macroeconomic issues may significantly affect the success of a particular sector program. In the example of the Integrated Watershed Management Project (IWM) in the Philippines, the national government undertook the difficult task of coordinating between different donor agencies and line ministries (agriculture, agrarian reform, environment, natural resources, etc.) because it was essential to the success of the program.

Vertical Dimension. Because of the significant role they can play in donor coordination, NGOs can offer the strongest vertical link between grassroots and in-country donors. Additionally, improved coordination may well depend on negotiations in donor capitals. In the Philippines, the Mission was able to coordinate well with a lead donor, Japan, because in addition to coordination in the field, USAID/Washington had established strong mechanisms (ex: Common Agenda, Honolulu consultations, etc.) to dialogue with the Japanese at a headquarters-to-headquarters level. Vertical coordination can also take the form of global dialogue on best practices in a sector or region. Using the DAC Partnership Strategy, for instance, can encourage other donors to improve cooperation, because the strategy obliges all DAC donors in principle to move towards common frameworks and indicators, and to support country leadership.

## **2. Operationalizing Donor Coordination**

How does a mission begin engaging in donor coordination? The following guidance will assist missions that are ready to operationalize donor coordination.

*Diagnostics and Mapping.* A good start would be to diagnose the current state of coordination (see sample diagnostic questions in Annex 1). It is also helpful to map out

the donors that are active within a specific country, as well as the sectors in which they operate. Knowledge of how these groups have interacted in the past can be beneficial to planning future coordination.

*Components of a Strategy.* Ideally all four types of donor coordination at some level should be used as components of a strategy. Even with a common framework, donors still need to divide up work within the framework. To successfully harmonize, a common framework is needed to set out the agreed goals for implementation. Information exchange is always a necessary part of any coordination effort.

However, priorities may depend on country conditions. While a common framework is desirable, country leadership may just not be sufficient at the time. Diagnostics and mapping can help determine if the proper conditions are in place.

*Use Incentives.* Formulate institutional and policy frameworks around an *incentive system* (to promote sense of ownership, accountability, transparency) to extend credit to those who deserve it).

*Allocation of Scarce Resources.* Donor coordination is very staff-intensive, so it is best to choose which tables to be at, which issues have priority, where intensive collaboration is needed, and which niches can make a difference with limited resources.

*Focus to maximize impact.* Missions have proven repeatedly that they can have a major positive impact on the programs of other donors, even when their resources are modest. With modest resources, a successful strategy seems to be focusing on host country capacity and/or technical innovations that meet host country needs and desires.

*Winding Down.* In winding down mode, missions may want to leverage other donor resources to sustain good programs and not lose previous gains. Taking advantage of the information exchange networks and other informal coordination mechanisms, USAID/Morocco has had a number of successful pilots in different sectors, including health and privatization, adopted and replicated by other donors and government entities.

### **3. Indicators of Effective Mechanisms**

No matter what mix of coordination types is used, the following observations may help in assessing the effectiveness of the chosen mechanism.

*Frequency of meetings.* Effective information exchange is characterized by regular meetings, and absence of a meeting for six months to a year is an indication that the process is breaking down. On the other hand, routine monthly meetings are not an indication that coordination will ever progress beyond information-exchange.

*Rank of participants.* A drop in the rank level of participants is a sign that coordination

is static and that donor personnel may be stretched too thin. If so, there may be a need to consolidate and refocus the group, or a consideration as to whether the group has outlived its usefulness.

*Coverage of donors.* Major players need to be present; however, some donors do not have an ongoing country presence, and should not be expected at every group meeting.

*Dependence upon personalities versus institutions.* Local coordination mechanisms are vulnerable to the influences of individual personalities and prejudices. Strong exchange of information tends to depend on institutionalized systems that do not end with the departure of individuals.

*Relationship to major coordination mechanisms.* As discussed earlier, it is possible for there to be too many mechanisms. It is important to limit activities to those that link to the larger in-country mechanisms such as the CG. Additionally, local to headquarters coordination give field units a place to resolve policy differences and the opportunity to make country issues important to their headquarters. This is especially important for highly centralized donors.

## Part Four: Special Issues

### 1. Crisis Situations

Crisis situations such as disaster, post-conflict, and humanitarian needs, require special consideration for donor coordination. On the one hand, coordination can occur more easily given that the immediate needs of the situation dictate the priorities. On the other hand, crises can limit coordination on development because of the extraordinary pressure they put on already vulnerable societies and finite resources.

#### *Natural Disasters*

Unavailability of reliable information, incapacitated ministries, and particularly intense pressure to respond quickly and visibly work against donor coordination in natural disaster situations. However, even under such pressing conditions donor coordination is still needed for short and long-term reasons. In the short-term, it can actually mitigate the information, administration, and political problems as well as prevent overlap and waste. In the long-term, coordination can prevent haphazard donor interventions and country actions that can lead to regression on long-term development progress (e.g., price controls).

The responses to earthquakes, floods, and other natural disasters often rely on ad hoc coordination that may be adequate for meeting immediate needs. Information exchange can be very valuable for finding the gaps and targeting resources, but where increased cooperation among donors arises out of necessity, there is an opportunity to build long-term alliances for coordination. The key is to make this cooperation permanent, sustainable, and institutionalized. USAID/Mexico, for instance, launched a trilateral initiative (USAID, IMEXCI, and CIDA) to coordinate information and program-level cooperation on post-Hurricane Mitch activities in Central America.

#### *Post-Conflict Countries*

Countries emerging out of conflict present unique challenges to coordination. Among the factors that make these situations so fragile and fluid are: the large number of actors from different fields (political, human rights, humanitarian, security, etc.) with their many agendas, very low levels of trust due to damaged social relations, and extremely low capacity. Such was the experience in Haiti and Rwanda. The proliferation of small projects and credit lines engendered by the relief effort, instead of coordinated donor assistance, threatened to overburden the GOH's implementation capacity. In Rwanda, the government insisted on the primacy of security, exercising tight political control of its population and allowing for only very limited democratization. Donor partners understood the legitimate security priority, but were uneasy about high

military expenditures and Rwanda's involvement in the Congo. Donors also continued to stress that long-term stability would only come through equitable economic assistance.

There is no single correct donor coordination model to follow in post-conflict countries. But in these situations, acknowledging the role of local players and local knowledge becomes even more important as well as the awareness of any possible unintended consequences from assistance in the long-term, such as aid dependency. Donors in Colombia understood the importance of working together to support the government's peace efforts. Prior to "Plan Colombia," it was well accepted among all donors in Colombia that if the peace process failed then all other programs would be in jeopardy. Using a variety of mechanisms, including UNDP meetings, information exchange sessions, and ad hoc sector meetings, donors coordinated their programs in support of the peace process.

## 2. Cross-Border Issues

Global integration has introduced new development challenges, and donor coordination has a significant role to play in response. Many developing countries have realized that cross-border issues, such as disease, conflict, environmental degradation, and financial instability, cannot be adequately addressed at the country-level, but must be dealt with in cooperation with their neighboring countries to maximize economies of scale, scope and capacity. Donors have responded to cross-border issues in the form of support for regional integration or international public goods (IPGs).<sup>9</sup> Cross-border issues bring additional complexity to donor coordination at the country-level and underline the costs of unharmonious donor actions. USAID experience with regional coordination strategies for West Africa and the Caribbean, helps expose three major issues as discussed below, although more work is needed in this area.

First, **donor constraints**, organizationally and operationally, can hamper true regional integration. In the Caribbean, where USAID had a regional focus, most other donors still had programs designed and implemented at the country level. However, supporting countries in aggregate is not the same as a regional approach. In the case of the IPGs, differences in donor funding instruments can be an impediment. Multilateral donors typically provide aid through loans.<sup>10</sup> However, it is very difficult to convince a country to accept a loan that partially finances benefits that accrue to a neighboring country. As one solution, bilaterals could provide core financing of IPGs, since they generally give grants, while multilaterals could provide the complementary financing that allows recipient countries to access the benefits of IPGs. Yet, the problem of political incentives continues to keep this a notional division of labor.<sup>11</sup>

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<sup>9</sup> For an introductory overview of the issues and literature written on international public goods, see "Improving Aid Effectiveness: The Role of Regional Public Goods." USAID/PPC/DCO.

<sup>10</sup> The World Bank is now authorized under IDA 13 to give more grant aid to the poorest countries.

<sup>11</sup> Bilateral aid programs are an expression of the relationship between two countries—the donor and the recipient—so the pressure to "plant the flag" is significant. However, multilaterals, from a political standpoint, could more easily finance IPGs because they are not under the same pressure. Thus, donors that

Second, donors must also coordinate the **institutional arrangements** that will do the best job of addressing cross-border issues. Should a new regional organization be established or should donors build the capacity of an existing regional organization? Should donors draw on the resources and expertise of an existing global organization or simply push to encourage countries within a region to coordinate policies and activities? The Global Fund for HIV/AIDS, Malaria, and Tuberculosis is an example of how agreement on a common institution can bring civil society, businesses, governments, NGOs, bilaterals and multilaterals together to fight the HIV/AIDS pandemic. In both West Africa and the Caribbean, however, fragmented donor support for diverse regional institutions did little to build the institutional capacity for regional integration.

Finally, the added complexity of cross-border issues increases the importance of **donor coordination fora or other mechanisms** that allow donors to forge a coordinated approach. Classic problems of public goods addressed via the principle of subsidiarity, institutional choices, funding instruments and other questions require more than ad hoc coordination and information exchange. In the economic sector in West Africa, lack of a framework meant that it was more difficult to get donor consensus on investment priorities, institutional choices, and coordination of policy agendas at the country level. Such a framework could have clarified key donor issues left unresolved by existing institutional patterns, such as the relationship between anglophone and francophone countries, the relationship of the Sahel to the coastal states, and the economic axis defined by Côte d'Ivoire and Nigeria.

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should be more willing to finance cross-border activities do not have the appropriate instruments to do so, while the donors that are less willing generally do have the right instruments. New thinking is emerging on how to make the right instruments available to the multilaterals. But this will require creativity because MDB loans have always required a sovereign guarantee.

## Conclusion

### 1. Summary of Findings

What began as a response to diminished aid resources has proven increasingly relevant as the development community moves closer towards cooperative action. USAID missions can use the four types of donor coordination identified in this paper, 1) Information Exchange, 2) Division of Labor, 3) Common Framework, and 4) Harmonization, as a conceptual exercise. Depending on country conditions and other donors' efforts, missions will be able to use this typology to enhance their coordination strategy and increase the effectiveness of coordination efforts. The case studies in this paper support, for the most part, what most donors and the Comprehensive Development Framework advance as best principles for development:

- Country leadership is key
- Ad hoc is not strategic; a common framework is strategic
- Partnership matters
- Vertical and horizontal linkages promote total effectiveness of aid

These lessons are even more important in crisis situations and cross-border issues.

### 2. Issues for Further Exploration

The case studies presented in this paper allow for a broad discussion of many different issues. However, some issues warrant further exploration or revisiting given their increasing importance to AID and the still evolving international development landscape.

*Stovepiping.* Coordination is often most conveniently done sectorally by individual host government ministries. How can broader coordination that integrates all sectors be accomplished when a country does not have a central coordinating authority? On the other hand, while a central coordinating authority has its benefits, the importance of decentralization for effective local service delivery and an unfolding reality in many countries is worth supporting. Can donor coordination work successfully in this more complicated governance model? Inter-sectoral differences in effective coordination also deserve more attention.

*Role of NGOs, Foundations, and the Private Sector.* Given the significant contributions that NGOs, foundations, and the private sector will likely continue to make in future development, it is important to establish how they can be better integrated in the donor coordination process.

*Special Issues.* More assessments of coordination during crises, especially natural disasters, would be useful given that humanitarian response comprises a large portion of AID's work. An emerging issue is the complementary role bilaterals can play when multilaterals cannot lend to post-conflict countries due to arrears or the absence of a sovereign authority. Coordination of cross-border issues also warrants further research as most of the experience used in this study was from regional integration cases, which is only one type of response to cross-border issues.

### 3. The Future of Donor Coordination

A number of major policy issues being decided in the donor community will likely affect the role and relevance of donor coordination in the future.

#### ◆ **Aid Effectiveness**

Constituency pressures and declining aid levels initially accounted for the focus on improving aid effectiveness. The shift away from inputs and conditionality to results will likely call for stronger partnerships, ramping up country capacity, common financing mechanisms, joint monitoring and evaluation, etc.

#### ◆ **Poverty Reduction and the PRSPs**

More countries are developing PRSPs to articulate their development priorities. AID missions are likely to engage at some level in helping countries prepare their PRSPs. Although poverty reduction is not an explicit USAID goal, the PRSPs are becoming the de facto coordinating strategy in countries. As a result, some donors are promoting general budget support as a logical outgrowth to commitments to country ownership.

#### ◆ **The Millennium Challenge Account (MCA)**

The significant resources that the MCA may bring raises the question of whether the current push toward improved coordination among donors will retain its vitality given the fact that budget shortfalls helped facilitate the shift in the first place. Also, the MCA model will place great emphasis on country performance, thus further testing the hypothesis that country leadership is essential.

#### ◆ **The Millennium Development Goals (MDGs)**

The responsible monitors of progress on the MDGs- the World Bank and UN- advocate for substantial increases in aid and more common funding. Greater financing, however, may not resolve issues such as capacity and efficiency that other approaches (e.g., partnership) may better address. Moreover, some donors, including the U.S., feel that while the MDGs are good to aspire to, country-specific goals and timeframes should not be abandoned.

#### ◆ **Harmonization**

Calls to harmonize donor procedures to reduce transaction costs and free up host government capacity intensified after the Rome High Level Forum on

Harmonization. Some missions report progress on harmonization but that most countries are still engaging in donor coordination at lower levels.<sup>12</sup> The main areas of harmonization pushed by the DAC are-financial management and accountability, the pre-implementation phase of the project cycle, reporting and monitoring, evaluation, procurement, and technical assistance.<sup>13</sup>

◆ **Policy Coherence**

Development assistance has traditionally been carried out by aid agencies. However, many domestic government agencies now have an international component to their programs. Trade and agriculture, for instance, substantially shape the international economy. Calls for donor governments' international policies to be coherent with development objectives require aid agencies to dialogue vertically and horizontally within their governments and between departments.

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<sup>12</sup> "Harmonization: Views from the Field," USAID/PPC/DCO, March 2003.

<sup>13</sup> See <http://webnet1.oecd.org/oecd/pages/home/displaygeneral/0,3380,EN-home-731-2-no-no--no,00.html>

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