



Donor Coordination & Socio-Economic Development
Working paper

Objective:

Donor coordination is good but difficult to make work. Coordination should ensure the efficient and effective delivery of donors' assistance so as to maximise its impact. The principles of the 2005 Paris Declaration on Aid Effectiveness are widely accepted, but their application less so. The actual means of coordination are therefore a recurrent subject of discussion.

The aim of this paper is to summarize the situation as concerns donor coordination in Turkey and the countries of the Western Balkans, highlight problematic issues, and offer some pointers for improvement.

Donor coordination:

Donor coordination has been a topic of interest and action in Turkey and the Western Balkans for years. Coordination has mainly focused on specific sectors rather than on socio-economic development as such. In many countries, coordination has been organised at sector level by the beneficiary authorities (ministry or EU-integration office), by the Commission, or by a selected donor or group of donors. Coordination activities have consisted of regular or ad hoc meetings on the spot, with the frequency of meetings ranging from monthly to six-monthly. However, the focus of coordination has been ad hoc and short-term (avoidance of overlaps in projects and programmes) rather than strategic and forward looking.

Socio-economic development:

Socio-economic development is an objective rather than a sector. It is a diffuse framework of activity served by a variety of individual constituent sectors. The IPA Regulation does not mention it as such. Rather, it refers to 'economic reform' and 'social inclusion'. For candidate countries the regulation stipulates that IPA can finance 'support for... the Community's ... cohesion policies'. For potential candidates it can be used to assist 'social, economic ... development, including *inter alia*, infrastructure and investment related activities, in particular in the areas of regional, human resources and rural development'.

All five components¹ of a typical IPA programme include actions that touch upon socio-economic development. In an average IPA beneficiary country, socio-economic development includes at least five different sectors, but these can vary considerably from country to country. Whereas most socio-economic development components in IPA programmes would include SME support, education and employment, some also include trade, transport or energy and some even comprise economic and fiscal policy.

The sectors that make up socio-economic development are very often underpinned by individual sector strategies, each detailing the sector-specific priorities, activities, timelines, benchmarks, means and stakeholders. The number of sector strategies can vary considerably, and are sometimes split up in sub-sectoral documents. It is not unusual to find more than ten sub-sector-specific strategy papers providing the rationale for five or six different sectors, which in turn are all relevant to the financing of actions aimed to achieve socio-economic development.

Funding for socio-economic development comes from a wide variety of donors. Typically, the international financial institutions (IFIs) are represented by the World Bank, EBRD and EIB. The UN is also active in the area, notably through the UNDP. Bilateral donors include the EU

¹ TA and Institution Building, Cross-Border Cooperation, Regional Development, Human Resources Development, Rural Development. Potential candidate countries are only eligible for the former two components.

Member States and other donors such as the US, Canada, Norway and Japan. Whereas IFIs tend to concentrate on investment in infrastructure, private sector development or macro-economic assistance, bilateral donors focus on institution building and administrative capacity, mainly in sectors that reflect the priorities of their governments' development policy.

Most funding for socio-economic development is provided by the EU. The funding allocated to socio-economic development in IPA programmes is considerable. In 2007, some 45% of the total programme budget (€1.1 billion) was mobilised in aid of socio-economic development; 62% of the 2007 allocation for candidate countries, and 37% for potential candidate countries. Co-financing from beneficiaries and other donors, including IFIs, increases this still further.

A number of horizontal IPA programmes and projects are based on a strong partnership with IFIs (e.g. Infrastructure Projects Facility, Energy Efficiency Finance Facility). In addition to coordination and cooperation with IFIs at local level, the Commission has also set up a coordination platform, the IFI Advisory Group. The IFI Advisory Group gathers all key IFIs actively engaged in the region through their activities as well as in partnership with EC funded initiatives. It focuses specifically on infrastructure improvement and access to services in the field of transport, energy and the environment, and on human and social development.

Furthermore, in order to maximise coherence and synergy, the Commission, together with the EIB, EBRD and CEB and the EU Member States actively engaged in the region is preparing a Western Balkans Investment Framework, which should improve the link between all existing strands of support to socio-economic development in the region.

Donor coordination in Albania:

Donor coordination in Albania is channelled through two main mechanisms. The Donor Technical Secretariat (DTS) lead by EC, UNDP, OSCE and WB established in 2003 is the main coordination body on the side of the donor community. On the side of Albania, the Department of Strategy and Donor Coordination (DSDC) is responsible for strategy and donor coordination since 2005. The National Strategy for Development and Integration is the main strategic document of the Albanian Government, complemented by various sector strategies which together build the framework for donor action. The biggest share of external assistance is supporting socio-economic development in Albania. Therefore, the coordination within this area is of particular importance. Sector Working Groups within the DTS have been established in order to improve sector-specific donor coordination and to achieve more forward looking planning of donor activities, also in the area of socio-economic development.

Challenges:

Given the characteristics of socio-economic development, the number of donors involved and the volume of assistance allocated to it, the potential benefits of proper donor coordination should be obvious. And yet experience suggests turning theory into practice is tricky. The Paris Declaration identifies five indicators of progress². For lack of space and because the principles of Result Management and Mutual Accountability can only follow progress made on the first three key principles, this paper focuses on:

- **Ownership:** beneficiary countries should have in place coherent and comprehensive operational development strategies. These should allow for efficient and effective allocation of resources. However, the national development strategies proposed by the candidate countries and the strategic documents prepared by potential candidate countries are of varying quality, if they exist at all. Whereas the wider objective of EU

² Ownership, Alignment, Harmonisation, Managing for Results, and Mutual Accountability.

integration is clear enough, the prioritisation of actions to attain this objective is often lacking. Priorities are sometimes contradictory. The intermediary steps that need to be taken to reach the longer-term objective are not clear, turning many strategic documents into shopping lists. Ownership should imply the ability to make the difficult political choices required for prioritisation without resorting to direct donor intervention.

- Alignment: beneficiary countries should have in place policies geared towards the priorities identified in the strategies, have the capacity to ensure the coordination of money flows to actions that aim to address these priorities, and have public financial and procurement management systems to ensure money flows are managed properly. However, the Commission's annual progress reports confirm that the relevant administrative capacity in most IPA beneficiary countries does not (yet) allow for full alignment. Continued reform and institution building efforts (including the EDIS roadmaps), within the framework of preparations for the Structural Funds in particular, should remedy this, but will only do so over time.
- Harmonisation: aid flows should be the subject of common arrangements or procedures, and shared analysis should be encouraged. However, many donors, especially those providing grant finance on a project basis, do not have systems that would allow for the harmonisation of procedures. In addition, donors' development assistance programmes often focus on a few select policy priorities that would not necessarily fit with those of the beneficiary's development strategy, and have requirements (eg. visibility) that make them ill suited for integration or harmonisation with third party financing.

Possible solutions (medium- to long term):

There are no quick fixes to overcome these obstacles. Corrective action should target a limited number of achievable goals in a coherent manner.

- Ownership: Ownership cannot be imposed or achieved overnight. But some elements to facilitate objective strategy formulation and increase ownership can be put in place. One such element would be a model strategy matrix. Given the numerous sector documents, the drafting of a socio-economic development strategy bringing the relevant elements from the constituent sector strategies together in a logically coherent way is essential. The matrix would allow the summary definition of priorities, corresponding measures, resources, timetable and benchmarks. The strategy should be accompanied by an action plan, also in a matrix format, and be formally endorsed by all concerned.
- Alignment: Second, all donors active in this area should try and synchronise their 'programming' processes between them and with the process of the establishment of the national budget of the candidate country. This should create the necessary synergies between budgetary resources and pre-accession and other assistance. The above matrix would be the tool of choice to match priority, action, instrument and donor.
- Harmonisation: Crucially, given the number of donors involved in socio-economic development, their respective assistance programmes and facilities and the relevant rules and procedures governing access to their funding, the matrix model would allow for the efficient matching of priorities to be addressed and the action to be financed. This is especially relevant for socio-economic development, which often involves long-term investment, a combination of grants and loans, and requires careful sequencing of inter-dependent activities and outputs.

Possible concrete action (short-term):

Strengthening ownership, facilitating alignment and increasing harmonisation in the area of socio-economic development is a gradual process. However, initiatives that could help mark the path towards the drafting of a strategic socio-economic development matrix, which would be the basis for strategic donor coordination in the longer term, would include the following:

Action to be taken by beneficiaries:

- Agreement on the sectors to be included under socio-economic development, and the establishment of a coordination committee made up of relevant ministers and donors, which is to meet regularly (quarterly?) under the chairmanship of a strategic and authoritative government department.
- The organisation or continuation of regular (monthly, bi-monthly?) coordination meetings at 'constituent' sector level, under the chairmanship of the beneficiary ministry, which would report to the above committee.
- The creation of a comprehensive database with the aim of 'mapping' donor assistance, including details as regards programmes' financial management and procurement.

Action to be taken by the donor community:

- Agreement on the overall strategic objective of their assistance provided to the country concerned.
- The organisation of a donors' committee, which is to draft proposals to facilitate the harmonisation of programming and implementation mechanisms of individual assistance programmes and their delivery.
- The drafting of an action plan identifying the measures that beneficiaries should take so as to allow donors to transfer responsibilities associated with the management of donor assistance, including relevant benchmarks and timelines. The Paris Declaration principles of Managing for Results and Mutual Accountability would need to be reflected in this plan.