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WORKING PAPER 28

POLITICAL CONSTRAINTS ON DIVISION OF LABOR IN DEVELOPMENT POLICY ACROSS COUNTRIES

A proposal for a more viable coordination procedure at the EU level

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AUGUST 2011

financed by
Austrian Development Cooperation

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Abstract

This paper discusses integral implementation problems of the aid harmonization process within the European Union (EU) which has pretty much failed to show up with convincing results yet. Therefore this paper looks on the origins of the problems EU donors struggle with. It has turned out that in the past, comparative advantage assessment has been avoided by most donors. Hence, it is argued here that it is more a barrier rather than viable approach to an effective implementation of Division of Labor (DoL) in development policy. Incentives from the arena of international politics are underlying constraints for this procedure and thus crucial to understanding the problems of implementation. It is also argued that the regulations currently in place obscure the real problems of too much aid proliferation and too little aid harmonization. Therefore it is important to bring back political dialogue to allow a widening of the discussion about the effectiveness of aid, which is has yet been dominated by a very narrow, technical approach. Understanding the political constraints is of major importance to understanding the problems of aid harmonization. As the technical challenges of the DoL have already been convincingly analyzed by the OECD, this paper analyzes the politics of aid harmonization and their contributions to the problems of the current EU approach, and finally suggests an alternative route. This paper argues that a more viable procedure must take the political conditions of aid into account and should therefore rather focus on the specialization rather than comparative advantage as an organizing principle for aid harmonization.

Zusammenfassung

Harmonisierung von Entwicklungspolitik ist eines der Hauptanliegen der Wirksamkeits-agenda der OECD. Dem stehen derzeit in erster Linie zwei fundamentale Probleme gegenüber: donor proliferation (eine ausufernde Anzahl an Geber pro Empfängerland) und aid fragmentation (eine große Anzahl von geringfügigen EZA-Engagements). Diese haben nachteilige Auswirkungen für die Entwicklungspolitik und deren Zielsetzungen. Eine Veränderung der aktuellen Praxis wollte die EU-Kommission durch einen „Verhaltenskodex für Komplementarität und Arbeitsteilung in der Entwicklungspolitik“ im Jahr 2007 erwirken, dessen Ziel die Abstimmung der entwicklungspolitischen Strategien war. Später folgte der Operational Framework on Aid Effectiveness (operativer Rahmen zur Wirksamkeit der Entwicklungspolitik), der die Umsetzung der Harmonisierungsvorhaben regelte. Die Koordinationsprozedur für Harmonisierung vollzieht sich demnach entlang zweier Fragen:

1) Welche Geber verbleiben in einem Empfängerland und

2) wie können die verbliebenden Geber in den Empfängerländern und Sektoren ihre Aktivitäten besser abstimmen?

Der bisherige Fortschritt auf EU-Ebene wurde in bislang drei Untersuchungen der Fast-Track-Initiative (FTI) analysiert. Die Ergebnisse sind ziemlich ernüchternd, wobei besonders ins Auge stach, dass die Komponente der Ermittlung des komparativen Vorteils einzelner Geber bislang ein besonders herausforderndes und zum Teil konfliktträchtiges Element der FTI-Prozedur zu sein scheint.

Im vorliegenden Working Paper wird deshalb argumentiert, dass die Umsetzbarkeit der Harmonisierungsbestrebungen mittels der aktuellen Prozedur (insbesondere die Ermittlung des komparativen Vorteils) schwierig realisierbar ist, da sie offensichtlich gegen politische Interessen vieler Geber spielt und somit eine Hürde für eine wirksamere Koordinierung ist. Die Gründe dafür sind die direkten und indirekten Kosten des Prozesses für die Geber. Die direkten Kosten sind der Aufwand der Koordination der Geber, die indirekten Kosten sind Einflußeinbußen und der Verlust von Politikzugeständnissen (policy concessions) der Geber

in Empfängerländern. Gerade diese indirekten Kosten der Harmonisierung werden in der Wirksamkeitsdiskussion der Geber häufig vernachlässigt bzw. in ihrer Funktion als Hindernisse unterschätzt oder ignoriert. Die folgende Analyse zeigt die Mankos des derzeitigen FTI-DoL Ansatzes auf. Darauf aufbauend wird argumentiert, dass die aktuelle Prozedur nicht dazu geeignet ist, die (politischen) Hindernisse einer Harmonisierung der Entwicklungspolitiken zu überwinden. Zu diesem Zweck müßte die derzeitige Praxis in eine dafür geeignete, besser praktikable Prozedur überführt werden.

Auf dieser Kritik aufbauend wird in der vorliegenden Arbeit eine alternative Prozedur zur FTI-DoL der EU vorgeschlagen. Es geht dabei in erster Linie darum, die Praktikabilität des Prozesses zu verbessern, indem die Koordination der Geber nicht mehr über den komparativen Vorteil sondern über das einfachere Prinzip der Spezialisierung geregelt wird. Letzteres eignet sich besser dazu, ein produktives Umfeld zur Umsetzung von Harmonisierung der europäischen Entwicklungspolitiken zu schaffen. Dadurch sollten die Hindernisse für eine politische Umsetzung der notwendigen Schritte eher überwindbar werden um letztlich eine bessere Koordination der Politiken für mehr Wirksamkeit für Entwicklung zu erreichen.

Our aim should be to help the free peoples of the world, through their own efforts, to produce more food, more clothing, more materials for housing, and more mechanical power to lighten their burdens. We invite other countries to pool their technological resources in this undertaking. Their contributions will be warmly welcomed. This should be a cooperative enterprise in which all nations work together through the United Nations and its specialized agencies wherever practicable. It must be a worldwide effort for the achievement of peace, plenty, and freedom.

US president Harry Truman in his Inaugural Address in the year 1949.

1. The Arena of Relevance

The number of aid ties between aid donors and recipients across countries has reached more than 3,000.[1] The OECD (2009, 2010) has recently considered many of them to be insignificant and therefore suggests greater efficiency and effectiveness by enhancing the harmonization of aid. Therefore, Division of Labor (DoL) is an important pillar towards a more effective aid policy. The need for DoL action is based on the need to combat two major problems in aid allocation, the problem of aid or donor proliferation (too many actors involved), and the problem of fragmented aid (little aid from too many donors). For several years there have been recurrent commitments at the Organisation for Economic Co-operation and Development (OECD 2005) or European Union (EU) levels (2005; 2007), which stressed the importance of coping with the problems of aid harmonization and intended to make the donors faceing the aid system's current ineffectiveness. The EU took measures at policy level by establishing an Operational Framework on Aid Effectiveness (OFAE), which is meant to guide and coordinate the implementation of DoL and complementarity activities carried out by EU donors. According to the EU concept, DoL shall be addressed on three levels: cross-country, cross-sector and in-country. There is some evidence that debates on in-country levels have already proceeded, although obviously not with overwhelming success. So far, three monitoring surveys have been published in 2011. In general terms, the three surveys provide evidence of little progress in DoL. The authors discerned that within the existing FTI, the coordination procedure for comparative advantage assessment – selecting and agreeing on countries and sectors in which donors claim to do things better than others – is the most sluggish part of the EU DoL procedure. In short, it showed the lowest amount of progress of all the areas surveyed in the FTI-monitorings (EU 2009a; 2010a; 2011). Anyway it has always been stated commitment to CoC-DoL and it has been widely agreed that this was an important procedure in bringing forward the commitment to aid effectiveness.[2]

According to the Code of Conduct on Complementarity and the Division of Labor in Development (CoC-DoL, EU 2007), comparative advantage should be identified for sectors in order to provide a basis for decision making in DoL. It is about the question of who steps in, who leads a program or project in countries and who fades out and concentrates on other sectors or other partner-countries. The authors of the second monitoring report reemphasize the importance of comparative advantage: "[…] the whole issue of comparative advantages and clear communication of partner country preferences in division of labour seems to be an important area of renewed and deepened attention" (EU 2010a: 9). Similarly Nils-Sjard Schulz (2007) argues that "[…] a realistic study of comparative advantages [as] necessary to

[1] The OECD concentrates on the Official Development Assistance (ODA) and counts relations between governments and between governments and International Organizations such as the IMF, World Bank or UN agencies.

[2] In 2008 the EU Fast-Track-Initiative (FTI) was launched to monitor progress in the operationalization of the Code of Conduct on Complementarity and the Division of Labor in Development

reinforce the commitment to division of labour" (Schulz 2007: 8). This paper partly challenges these claims by arguing that "comparative advantage," as defined in the EU development policy, is not a viable procedure for coordinating DoL in the highly political environment of international relations.

The core of EU aid harmonization entails two steps of coordination: first coordinating who is participating in which countries and sectors (DoL)[3], and second coordinating the activities of the donors that remain in a certain recipient country and sector (donor coordination). DoL is intended to reallocate donor commitments with the objective of dismantling donor proliferation. When implemented, it is meant to shift the thematic and geographic orientation of donors by concentrating aid resources to fewer countries and sectors and thus leading to a reallocation of aid flows. The Commission was figured out to play a key role in coordinating development policies.[4] As all the sector and country decision affect the overall outcome of aid harmonization and all both steps on all three levels (in-country, cross-country and cross-sector) must be considered as mutually influential. Therefore it is important to find a coherent solution in the long-run. However, there has to be a place to start and there are convincing arguments that the starting point should be at the macro level of cross-country DoL, as this is where decisions about the underlying collective choices all add up and shape donor-recipient relations. Looking at it from another side, it seems important for solving problems caused by donor proliferation as well, and is obviously best addressed at the beginning of the harmonization process. Getting the macro level correct after the implementation of reforms at the country level is likely to be too late, especially because it is the most precarious from a political standpoint.

This paper argues that avoiding comparative advantage assessments produces permanent hindrance, or at the very least a delay in implementing aid harmonization. Although coordinating DoL by figuring out the comparative advantage for all actors would lead to opportunities to reduce costs and produce gains (everyone does the programs and projects in countries and sectors in which they are best), it is argued here that this will not happen due to the procedure the EU has chosen. This situation occurs because of the underlying barriers that make the costs of determining the comparative advantage higher than the reduction of costs the donors could expect from implementing DoL; this explains the dissatisfying record of DoL. Hence, this paper concludes that future progress depends largely on a more practical DoL procedure (subsequently outlined in section IV). From the view of an agenda for greater aid effectiveness, the analysis argues for taking political logic into account when talking about DoL, as the current approach is too technical and too narrow to provide better results. The main question is therefore how to overcome this dissatisfying deadlock in DoL. At first it is about understanding the constraints of DoL at the EU level, and secondly about how we can overcome them.

[3] This is about the decision of who leaves recipient countries and sectors.
[4] It is formally outlined in the Treaty and is regularly reemphasized in official EU documents.

2. The EU Approach to Division of Labor

Having said that Division of Labor (DoL) across countries is a priority, the Council specifies in the conclusions of the OFAE that harmonization measures must not forget to take partnership and ownership into account. Both – like harmonization – are major principles of the OECD aid effectiveness agenda. The heads of the EU member states pointed to the need for further improvements in common donor decision-making structures, communication between donor headquarters and the country, and building a better information base by collecting information systematically. Further development of the existing Fast Track Initiative-Division of Labor (FTI-DoL) monitoring system shall therefore be a priority area (EU 2009b: 6). In addition to this, an update on the operational framework in 2010 suggested DoL between member states and the Commission. The bilateral policies are basically meant to contribute to better geographic concentration and clear priorities, "while the Commission – present in almost all countries in the world[5] – shall act on the problem of 'aid orphan' countries[6]" (EU Council 2010). In general, DoL aims to reduce transaction costs in foreign aid in order to improve the efficiency of the aid system as well as to build more effective partnerships with developing countries by reducing the number of donors for which they are accountable. Hence, in the medium term the EU expects diminishing costs of coordination from a smaller number of actors. The Development Centre (DAC) currently points to the importance of reducing fragmentation by concentrating aid flows in order to cope with inefficient aid allocation. In the next step, the cost savings would be channeled to underfunded recipient countries. Nevertheless, as of now there is not much convincing evidence that EU donors have effectively implemented this plan (EU 2009a; EU 2009b; EU 2011; OECD 2009; OECD 2010).

As EU aid engagement involves aid agencies in the member states and the Commission in Brussels, they decided to divide labor on a collective level as follows: each should concentrate on specific sectors and priority areas in which they have a comparative advantage. In this respect, the EU donors commit to progress in the following areas: they "[…] should make full use of their respective comparative advantages to (i) enhance division of labour, (ii) deepen concentration of activities, and (iii) develop delegated cooperation" (EU 2007: 7). The EC tries to overlook progress in its FTI-DoL. It is accompanied by a monitoring survey which looks at yes-or-no answers to six questions which define important mutually overlapping sectors for progress. They asked a sample of donors and recipients[7] what they think about the progress their work has achieved. It is meant to encourage donors to think about their development portfolio, which shall provide a basis for deciding in which recipient countries they shall enter, remain or exit. The FTI-DoL aims to coordinate efforts in DoL. Currently, the process is meant to proceed in three stages. First, an assessment concerning the status quo is made through donor mapping. Secondly, donors elaborate on their respective comparative advantages and partner governments are asked to articulate their preferences. Finally, donors and partner countries shall implement an improved DoL regime by reprogramming aid or using delegated cooperation (EU 2010a). According to the CoC, Annex II donors shall self-assess the comparative advantage, discuss results with the partner governments and recognize other donors (EUa 2007: Annex II).

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5 Therefore, the EU donors committed to "reinforcing their geographical focus" by talking to each other and considering the "broader donor engagement." The community pillar of EU aid shall "remain universal," as has been already stated in the EU Consensus on Development Policy (EU 2007: Guiding Principle 5).

6 The definition of aid orphan countries has not been unambiguously accepted by donors. They can be seen as countries that do not receive enough aid money in proportion to a certain benchmark. The choice of a benchmark of the donors is the key problem as to why there is no single list of aid orphan countries. Nevertheless, familiar benchmarks often considered for applying the attribute "underfunded" involve "the needs" (poverty) or "government performance" (good governance) of the recipients (Dollar/Levin 2005: 3).

7 In the case of the 2nd monitoring it was 24 Fast-Track Countries and 11 countries that had nothing to do with the FTI. In the report, responses from facilitating donors in 26 countries were analyzed. The largest share of replies came from the donors themselves (see EU 2010a: 2).

The unconvincing track record of comparative advantage exemplifies that the challenges to DoL far exceed the technical challenges of development and show that it has much more to do with the room to maneuver in the political environment. Considering that DoL is more than just a technical challenge, the analysis considers donor interests and connects this area with a debate on the direct and indirect costs of DoL. While direct costs are the cost of coordination, it is argued here that indirect costs involve policy concession or – generally said – the loss of influence in the recipient country due to donor exit. Therefore, it is very important to ask about the (political) stakes a donor expects from acting in a recipient country. Thus, the next section will concentrate on how donor interests relate to uneven aid allocation and where the main barrier for progress in DoL is found in the case of the EU. Finally, the analysis elaborates on pathways and a more viable approach to overcome political constraints.

3. Identifying the Constraints and Framing Challenges

One problem of aid harmonization is donor proliferation, which has been nothing new in foreign aid and has increasingly become a problem in recent decades, at least since 1975 (Acharya et al. 2006). Between 1960 and 2006, the number of donors disbursing money to one recipient (2 out of 25 donors, Frot/Santiso 2008: 43) and the number of recipients per donor (20 out of more than 100 donors, Frot/Santiso 2008: 32) have both increased dramatically. Proliferation of aid brings about major disadvantages for effectiveness (and probably efficiency of the aid system too). William Easterly et al. (2008) summarized this as follows: "[E]ach recipient must contend with many small projects from many different donors, which breeds duplication, takes up much of the time of government ministers in aid-intensive countries, forfeits the opportunity to scale up successes or gains from specialization, and creates high overhead costs for both donors and recipients" (Easterly/Pfutze 2008: 12). The authors attach numbers to the problem by calculating the Herfindahl Index.[8] This assesses the concentration of DAC donors in recipient countries and sectors. According to their calculations, only 1 out of every 2.658 dollars is allocated by the same donor to the same country and the same sector (Easterly/Pfutze 2008: 11), which indicates that there exists a high fragmentation of aid. Findings of OECD reports from 2009 and 2010, both of which are based on other indicators, support the Easterly/Pfutze (2008) results. Emmanuel Frot and Javier Santiso (2010) provide evidence by looking at the sectors. They recognized a huge variation of challenges to overcome fragmentation in different recipient country sectors, which range from some countries' sectors having to cope with more than 2.000 projects to a median of 19 projects and an average of 44 projects per sector for all OECD-DAC donors (Frot/Santiso 2010). The trend shows that donors expanded their portfolios without spending considerably more money on new recipients (Frot/Santioso 2008: 11). Hence proliferation obviously causes a couple of problems: the loss of potential benefits due to uncoordinated efforts and a lack of strategy,[9] increased transaction costs in varying rules and procedures, high overhead costs for donors who broadly distribute their money to many countries and sectors, and finally an overload on the financial and administrative capacities of the recipients[10] (Svensson 2006: 129). Moreover, the presence of a large number of donors shall

[8] This is an index often used by economist. It helps them express the degree of market power relative to competition.

[9] In economics this is called "unexploited" returns of scale (Svensson 2006: 129) because donors work only on their own projects.

[10] Projects started by donors have frequently been discontinued by the recipients. In addition to cases in which they were outright ignored, there are several situations in which they were not able to maintain them. Hence, supporting only the start-up of projects and thereafter passing ownership usually worsens the situations of developing countries that have major capacity problems in terms of their administration. The consequences are – among others – "roads […] built but not repaired" and "schools and clinics […] constructed but not staffed" (Svensson 2006: 129-30). In the cases of many donors with small aid budgets, the bureaucratic capacity of recipient governments are the most threatened areas (Knack/Rahman 2004 quoted in: Svensson 2006: 131).

encourage fungibility of aid flows[11] (Jones 2005) and undermine the capacity of recipients to implement their own development strategies; not at least because they are trapped by answering to a huge number of donors.

According to the FTI, an assessment was initially the most important task for EU donors. First and foremost, it expresses perceptions of aid fragmentation by development policy actors and thus the figures presented here shall be seen more as an orientation rather than an objective empirical survey.[12] According to the 3rd Fast Track Monitoring (2011), comparative advantage assessment (11 of 29), other than for example donor mapping (24 of 27), lead donor arrangements (22 of 28) or agreed sector definitions (18 of 29), showed very little progress. As DoL has now been on the agenda for a couple of years, the results of the 2011 monitoring indicate comparative advantage assessment not to be a notably viable procedure because they have shown that donors in most of the Fast-Track Countries have avoided it in the past. Finding out more about comparative advantage was meant to learn more about the potential room to maneuver in "donor programme cycles" and start implementation of "lead donor arrangements" (EU 2009b: 5). Both FTI-monitoring from the year 2009 and 2010 (EU 2009a; 2010a) raised suspicion that the comparative advantage assessment procedure is hardly practical and is problematic for progress in DoL. By now, it is mostly an evaluation of the donors by the donors. The involvement of the recipients is still the exception rather than the rule (38%), although the coordination of answers with other donors has now improved (up to 69%, EU 2011b: 4). The EU as a collective donor still fails to find convincing mechanisms to implement the comparative advantage, as argued in EU (2011b):

> Central concepts of the DoL approach like "comparative advantages" and "transaction costs" are attractive for policy makers since they seem to convey "common sense principles." However, they continue to escape clear definition and measurement, making it difficult for partner countries and donor field staff to apply them in DoL processes. And while sector definitions are in the process of being agreed-upon at country level, tracing progress on the global level will need further efforts to map these definitions to those used by OECD DAC (EU 2011b: 15-6).

Moreover, the FTI procedure itself does not favor fast implementation of the DoL. The results of the FTI Monitoring allow one to conclude that the package of self-assessment plus discussion with other donors about the comparative advantage they attribute to themselves and to the recipients will rather endless discussions than fundamental progress in DoL. It is not fallacious to doubt that this will ever happen with this procedure. The results and the current work going on at the EU level embody a bit of the unfavorable implications of the EU approach to DoL. This explains why progress in cross-country DoL has so far notably lagged behind expectation as it largely neglects the high tension, challenging environment of international politics. Evidence shows that a major constraint in implementing DoL – besides limited partner country ownership (66% of responses) – is due to "the reluctance of donors to leave attractive sectors" (accounts for 55% of all responses, EU 2011b: 14).This insight is of major importance to understanding the history of the EU DoL process so far. It tends to favor changing donor behavior into a more harmonized approach and as this is not the case with the current procedure, it will probably not provide a satisfying solution to the current problems of cross country DoL. The FTI-DoL procedure leaves too much room for conflict by blaming others for the lack of progress due to their uncooperative behavior. Ordering development engagement along comparative advantage of donors, although principally desirable, is therefore a pathway to stalemate rather than progress. The latter would need a new DoL procedure. A new approach must aim at figuring out more viable ways to improve the

[11] This means that aid flows can be transferred to purposes not originally intended by the development policy. This strategy is often closely tied to rent-seeking and corruption.

[12] Further analysis is needed and should be crosschecked with the results of the FTI-DoL (EU 2011: 16).

harmonization of aid. To answer this question one has to look deeper into the underlying problems of the EU aid harmonization process?

Barriers are situated on the individual and collective choice level within the donor community. These make reforms rather unlikely. Jakob Svensson (2006) stated that there is an "[…] underlying difficulty in giving aid when objectives are not fully aligned […]" and he adds that, "[…] even when objectives are aligned, strategic considerations may severely limit the impact of aid" (Svensson 2006: 134). William Easterly and Claudia Williamson (2011) argued similarly: "[D]onors are responding to political economy incentives in fragmenting aid" (Easterly/Williamson 2011: 27). The FTI Monitoring (2011) confirms this argument, as EU donors refuse to leave attractive sectors[13] (EU 2011b: 15). In addition to this, the success of overall aid harmonization will always be endangered as development policy as a whole is about interrelated and mutually influential decisions and actions of donors. In short, their work has usually consequences for the recipients and other donors[14] (Svensson 2006: 128; Ostrom et al. 2005; Murell 2002: 75).

The problem of varying donor strategies within the EU can best be discussed by looking at the donor countries' varying aid allocation patterns. The EU commits to the reduction and eradication of poverty as a prior objective of its development policy. Poverty oriented aid allocation should therefore be the most important benchmark for providing aid money. But the actions of member states show a different and rather inconsistent picture[15]. There will be hardly any substantial progress in aid effectiveness if only a small number of countries align with their own commitments and the rest are carrying on in various directions. As there is strong evidence that aid strategies do not converge (Berthélemy 2006b), talking about "the donor community" is probably more a myth than an appropriate description of reality. Aid flows are allocated for a multitude of reasons and thus often diverge from the EU development policy aims (poverty eradication) and important principles (such as policy performance of the recipients[16], Dollar/Levin 2005; Berthélemy et al. 2004; Berthélemy 2006a). Donor interest in developing countries – apart from development goals – origin from historical ties (in the cases of former colonial powers, Berthélemy et al. 2004; Berthélemy 2006b), the expected impact a donors may have on a recipient (Schraeder et. al 1998), geopolitical or trade interests (Berthélemy 2006b), policy concessions[17] (such as alignment or closer trade relations with the donor, Bueno de Mesquita/Smith 2007) and/or self-interest (re-election, own careers, etc. Martens 2002: 178). Market access in favor of businesses and companies in their own country (lobbyism) entail other incentives that make participation in developing countries appealing. One predictor for self-interested behavior by the donor is the ratio of budget support to the rest of the aid. From the standpoint of aid harmonization a lack

[13] Apart from this, the many parallel aid effectiveness activities donors shall implement are also a big challenge for 1/5 of the donors that responded to the FTI 2011 (EU 2011b: 15).

[14] As actions of the recipients clearly do as well. There is a big difference depending on whether the political elite choose poverty reducing strategies or self-interested behavior (rent-seeking, pork-barrel politics).

[15] In recent years, the discussion of poverty oriented aid has been an ongoing one and thus challenges have obviously shifted. There is significant evidence that the absolute amounts of the poor (up to three thirds) are living in Middle Income Countries (MIC, Sumner 2010). This has also major implications for aid allocation strategies. Is poverty oriented allocation giving aid to fragile and conflict ridden states in sub-Sahara Africa or those who are in need in MICs Development strategies shall focus more on poor people worldwide and global inequality (see for ex. Milanovic 2011: chapter 3 "Unequal World. Inequality Among Citizens in the World") rather than poor countries. This has implications for aid money allocation.

[16] There is considerable evidence that the political environment in the countries did not matter too much to donors. This is shown by the fact that there is still a lot of aid money going to autocratic regimes. William Easterly and Williamson (2011) conclude that there has been no improvement towards more selectivity in aid allocation going to less corrupt or democratic recipients although there are donor commitments that have been recurrently emphasized on the OECD-DAC level since at least the Paris Declaration on Aid Effectiveness of 2005 (Easterly/Williamson 2011: 8).

[17] William Easterly and Claudia Williamson (2011) argue that donor agencies are influenced by sector and country lobbies and that according to their interests, donors tend to "plant their flags" in a larger variety of countries rather than reduce countries and sectors (Easterly/Williamson 2011: 26-8). Therefore, they probably also continue with very small project worth only 10, 20 or 30 thousand Dollars (Easterly/Pfutze 2008: 13).

of budget support might indicate aid proliferation (Arimoto/Kono 2009).[18] Donor strategies diverge not only where they have already entered a recipient country but also in the case of intended exits (Hyde/Boulding 2004). In cases where donors signal an exit from countries and sectors, the effective fade out of a recipient usually requires a couple of years (EU 2011: 93). It is argued that this is necessary for the orderly completion of projects, but this long period of transition is also clearly a problem in making transparency and incentives for harmonization clear. During the long transition periods there is much room for progress, but also diversions for individual donors. Principally, thinking about procedures to harmonize aid allocation would be an essential process to better align with other principles of development policy.

The requirement of common objectives within the EU is indeed written down in the treaties, but evidence shows that it clearly lacks practical implementation among all EU donors. Jakob Svensson (2006) provides the likely reasons in the second part of the argument quoted above: strategic behavior. The problem is to some degree due to political considerations within the process of reforming aid allocation. If donors really strive to overcome weaknesses in development policy, they will have to agree on a more viable DoL procedure. For a more successful strategy, the feasibility of political processes is crucial. A lack of progress is due to several reasons, which frame a couple of challenges still lying ahead. The process of donors stepping in and out of countries and sectors, and the work of the remaining donors within countries and sectors both need coordination. Therefore, the EU has an important role because it could provide a framework for coordinating at least 28 donors[19] and thereby provide a role model for DoL in development policy on a global scale. Unfortunately, the current procedure does not do much to motivate donors to progress with DoL because donors who hesitate do not face any substantial negative political consequences. On the contrary, if they failed to internalize DoL they would avoid the full costs of aid harmonization and concentrate on “short-run benefits,” while others internalize costs but are not able to achieve “social benefits.” Specifically, the costs are first the costs of identifying and dismantling the incentives of donors. Changing them obviously requires more effort than simply rearranging old principles to a new and euphonic set of words (free-rider problem). This is due to the more general challenge which is due to the fact that there are hardly any convincing enforcement mechanisms in international development policy. Second, it neglects the cost coordination efforts in the environment of international politics (policy concessions, historical ties, etc.). Both are severe problems and principally embedded in the international relations political environment.

Strategic behavior, such as the free-rider problem and other constraints from the international arena, produce a rather complex situation of how donors deal with recipient countries. It is argued here that the loss from exiting recipient countries will mostly likely outweigh the benefits donors could expect from the proper harmonization of aid. The current FTI-DoL procedure offers no approaches to overcoming these constraints. FTI-monitoring and OECD results suggest that avoiding reform is obviously the most beneficial strategy. Besides the difficulties in implementation, the lack of progress has another negative implication for the effectiveness of development policies. Fragmented aid means having donors most likely being engaged in multiple topics and geographic areas. Coping with these tasks would involve a lot of expert knowledge on a wide range of tasks, which makes it difficult to specialize and thus profit from the benefits that specialization could potentially produce. Furthermore, it not only limits progress, but also causes higher-than-necessary overhead costs for both donors and recipients (Easterly/Pfutze 2008: 10). Based on these arguments, the final section suggests an alternative procedure to the current FTI approach. It

[18] This argument is somewhat problematic because not every development context is capable of having preconditions for effective budget support.

[19] The EU as a collective donor consists of 27 member states policies and one commission policy.

suggests picking out the advantages of specialization by widening the space to improve the effectiveness of aid. Development policy needs an acceptable procedure that produces a balance between aid concentration and fragmentation to avoid unfavorable situations, proliferation on the one, or even a monopoly on the other side.[20]

4. Overcoming Deadlock: A Proposal for a More Viable Procedure

Given the evidence above, a shift in the current approach is necessary. Hence it is suggested to abandon comparative advantage-assessment in favor of specialization as organizing principle for aid harmonization. For more than two centuries, specialization combined with division of labor brought significant innovation, productivity surpluses and other advantages to a wide variety of economic, political and social activities. In industrial countries, bureaucracies tend to choose specialization in order to handle coordination problems as well as to reduce overhead and transaction costs, shift incentives and improve accountability in favor of intended beneficiaries (Easterly/Williamson 2011: 23). Specialization[21] is likely to outmatch comparative advantage as an approach to DoL because it is a more straightforward mechanism and thus lowers at least the direct costs of coordination compared with the costs of comparative advantage assessment. In short, it is easier to implement. Why?

Starting with specialization avoids the need for all the discussion about who does what better than (most of) the rest. Each donor can voluntarily select its interests which is more likely to happen rather than accepting others blaming or persuading them about their comparative advantage in any given sector. It simply starts with the need to specialize, which implies the need to be or become an expert in a far smaller number of development sectors and contexts. Specialization alone will boil down transaction costs for engagement in international development policy because specialization alone is a mean for gains, as James M. Buchanan and Yong J. Yoon (2005) stated from the perspective of individuals: “Persons specialize (including specialization in the organization of institutions) because specialization as such produces gains. As Adam Smith noted, the differences between the philosopher and the street porter may be small prior to their commitments to a specialty” (Buchanan/Yoon 2002: 404-5). DoL works with specialization within organizations and societies.[22] In the case of development policy, this could mean that donors act in fewer countries and fewer sectors than now, which (after some time) is likely to decrease overhead costs.[23] If each donor tries to do everything, there is not much space for getting better in single development policy areas. It is only about who is better at doing everything. Some will do better, some will do worse, but in the end there is barely any difference between the actors engaging in too many areas of development cooperation, and everybody goes on trying to complete a flood of tasks. From the overall perspective it seems that everyone feels free to randomly do plenty of things. The dissatisfying track record of many donors would probably not be that poor if they specialized and thus avoided dealing with too many countries and tasks, something they are not really capable of handling.

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[20] Although confessing that aid needs beside less fragmentation and more specialization – as William Easterly and Claudia Williamson (2011) indicated – more transparency, selectivity (towards less corrupt and more free and accountable countries) and effective channels (Easterly/Williamson 2011: 5).

[21] In economic terms, the debate dates back at least to the 18 century, first and foremost to the work of Adam Smith.

[22] This claim does not neglect that the global division of labor has produced very unfavorable conditions for workers in many developing countries (for this debate, see for ex. Wallerstein 2004).

[23] Even if the costs of coordination temporarily rose due to a time-consuming coordination process and the apparent danger that some countries will be worse off because donors will withdraw from some countries and sectors, while others fail to adequately step in (see the problem of donor orphans). Hence, specialization brings efficiency gains although temporarily raises other costs.

Incentives in the public sector are not the same as in the private sectors and hence competition does not automatically cause specialization of development actors. As specialization obviously does not happen by incentive, the EU requires an effective procedure to enforce specialization procedure which put development policy in this direction. The goal is reallocation which shall translate into more concentrated donor engagement. For the proper implementation of harmonization as a whole, specialization is clearly not the end of reform. Needless to say, there will be underfunded countries and sectors. Anyway, as donor evidence from aid allocation shows that donor interests gradually diverge, there is a chance that the number of underfunded countries and sectors is not too large or, to put it another way, the gap will probably not widen much compared to the current allocation patterns. This would help reduce the high direct costs of coordination, but it is questionable whether the reallocation process leaves enough policy space to solve the problem of underfunded recipient countries.. Hence, after specialization, development policy needs a second coordination step.

Multilateral agencies are important in addressing the problems of underfunded countries. An incremental share of bilateral budgets of EU member states has to be distributed from their budgets to the Commission.[24] This is necessary in order to put the Commission in the position to compensate underfunded countries for insufficient bilateral funds. Assuming that donors could implement their projects and programs more efficiently, they could use the efficiency gains from increased specialization[25] to invest in the work of the Commission. This means that member states transfer a higher share of their funds to the Commission.[26] Although it may sound a bit theoretical, but the role for the Commission, as argued here, has already been suggested by the Council in 2010 (EU 2010: § 11). The value of this approach could even more increase if other international organizations such as IMF, World Bank and UNDP decided to join in and align with the Commission in the role of specializing in underfunded countries and sectors. As a whole, this integrated coordination mechanism could make the harmonization of development policies more of a success. The sequence suggested here is for specialization to be a mechanism to reduce insignificant aid relations and then to make the multilateral agencies step in for underfunded countries. This could make DoL a far less lavish exercise in terms of coordination, as compared to the current procedure. Specialization could break the dam of donor proliferation and thus be an adequate stimulus to initiate the implementation of DoL.

The decrease in the number of actors involved in a given recipient could bring out about even more advantages. For example, specialization aims at a reduction of donor proliferation and thus addresses the problem of overstraining the bureaucratic capacity of recipient countries. Furthermore, improvement immediately comes with further advantages, such as better opportunities for a more effective fight against corruption in development policy. A smaller number of actors makes it easier to improve transparency. Although they emphasized the importance of aid effectiveness, donors often ignored the positive implications for transparency and accountability which could be gained from the involvement of fewer actors (Cooksey 1999). Success stories such as Taiwan, Botswana and Korea support this argument as their development path has always been attributed to the presence of one single dominant donor (Bräutigam 2000). Looking back in history, the most extreme counter-model to the current fragmented approach probably was the Marshall Plan which involved only a single donor (Knack and Rahman 2004 in: Svensson 2006: 128).[27] Finally, it

[24] These days, the Commission commands slightly more than 10 percent of the EU development budget, seen from the perspective as a collective donor (27 member states plus the Commission).

[25] Implementing an EU approach to country, cross-country DoL and joint programming, etc. could potentially save 3 to 6 billion Euros per year (EU 2011: 88).

[26] The money comes from efficiency gains due to specialization.

[27] But in this case it is important to acknowledge that making too many analogies on aid to developing countries today and the Marshall plan to Europe does not make much sense because the institutional preconditions as well as the context are very

is important to understand that just as a fragmented approach to international development policy has negative implications, as monopolization of aid[28] implies serious dangers as well. Uncoordinated actions by plenty of donors do not favor aid effectiveness because the total absence of competition is a problem as well.[29] Finally, it is important to announce that – besides coordination by competition – joint actions (joint indicative programs, joint cooperative strategies and annual action programs) are also promising instruments for aid harmonization among donors, although there has been little progress as of yet.[30] Hence, a balance of some competition combined with cooperation is probably a more realistic and therefore a more valuable approach for development policy.

As for many donors it is important that their development engagement be as visible as their very own work or impact, specialization could be a strategy for them because it will provide opportunities to make their development engagement accomplish just this. Specialization provides greater clarity about who does what and thus makes it easier arguing about the achievements of their programs and projects. It makes it easier to communicate positive results more convincingly to their constituencies.

There are of course arguments against specialization as well. First, there is a need for interdisciplinary approaches in development. Interdisciplinary work depends on overlapping areas of interest and expertise and therefore some duplication could be a fruitful stimulus in this area. Second, a larger number of donors in the recipient countries provide them with more bargaining power because more actors imply that they can choose between alternatives. Therefore the rise of new actors in development such as China, India and other countries of south-south cooperation are important in the strategic consideration of the recipients beside the traditional DAC donors and thus increase the bargaining power of recipients. Third, there are a lot of practitioners and scholars that plead for more competition in development cooperation. This clearly makes sense when development actors specialize in specific areas of the wide field of development cooperation. Although there is a consensus on the need for competition, many policy makers obviously forgot that competition is only an advantage when the actors involved in competition are previously specialized (Easterly/Pfutze 2008: 10). Therefore it is important for specialization to get along with competition. Fourth, donors tend to concentrate more on policies and immediate goals rather than on development processes. They favor policy concession over the effective and efficient poverty-oriented use of scarce foreign aid resources. This is easily observable in the real world (see the allocation of aid discussion in chapter III). Self-interest in donor policies exists and thus reducing proliferation must cope with the indirect costs of aid reallocation. They might have to draw back from countries and sectors where they have some interests. From the perspective of businesses and companies in donor countries, a broader portfolio of development policy relations would be advantageous because they offer a greater variety of countries in which business actors would clearly have not got anything against. Hence, from their perspective the harmonization of aid could also have negative implications. If these costs exceed the benefits they could expect from specialization, DoL would probably not be

different compared to the world today. The examples are used to refer to cases which involved only very few donors and nothing more. Douglass North (1999) outlines this problem in arguing that we live in a world that is "continually changing" and therefore "we cannot develop theory that can be used over and over again and over time." North is convinced that "[t]here may be lessons in history, but we have to be careful about them" (North 1999: II.).

[28] Donor ambitions to become a monopolist in a recipient country could be observed by disbursements of large amounts to various sectors in one country.

[29] Competition is simply not easy to adapt to a traditional OECD approach to development policy as it does not function like a market, but rather more like central planning. In planning, donors do their work while adjusting relatively little to other donors. But this adjustment does not compare to competition as could result in the market. Owen Barder (2009) proposed in his paper "Beyond Planning" a combination of market mechanisms, networked collaboration and collective regulation that provides some promising ideas for improvements in favor of more competition in foreign aid.

[30] As of late, there are only 13 joint programming cases and only 5 of them are based on joint analysis according to the EU standard (Common Format for Country Strategy Papers), and due to a desk review carried out in 2010, implementation of joint programming showed barely any progress (EU 2011a: 93).

implemented in most cases. In doing so, they ignore the tradeoff that could potentially arise from concentration in a smaller number of countries and sectors rather than spreading their money across dozens of recipients. Doing a little everywhere sacrifices benefits that could be gained from specialization (Williamson 2010: 7, 24). It also leaves out the benefits of social cooperation, which are closely related to specialization and DoL in societies. In sum, by failing to implement DoL donors ignore opportunities to implement a more efficient and effective development policy.

Another problem also intimately tied to the problem of specialization is that donors are not sufficiently interested in what their fellow donors do when working on similar problems or even when working on the same project in the same development context. They apparently neither take the opportunity to learn from each other nor compete for providing better policies. Evidence from international aid relationships shows that poorly performing donors usually do not leave due to ineffectiveness or inefficiency, nor do good performers get additional money to encourage the continuation of successful programs and projects (Herminas/Kharas 2008). Similar critiques can be made on the role NGOs play in the process of aid harmonization. If donors try to concentrate on a narrow set of tasks and set other important development challenges aside, they should expect severe critique from NGOs and the media for acting irresponsibly. For this problem it is important to note that "justifications based on efficiency benefits of donor harmonization and comparative advantage are unlikely to be an effective public-relations response" (Knack 2008: 14-5), and hence are probably not the best way to address the problem of donor proliferation.

Looking at the rules and the environment of foreign aid is of major importance to advancing aid reform. In the last couple of years DoL measures have not been implemented sufficiently. Much remains to be done. Fading out from proliferation currently occurs much too slowly and adequate progress cannot be shown. The need for reform is commonly violated by OECD/DAC donors. Indicators such as the high proportion of overhead costs to aid disbursements provide evidence that support this critique. Balancing the advantages and disadvantages, there is overwhelmingly evidence in favor of the argument for specialization rather than comparative advantage as a viable procedure for the EU DoL as – seen from an overall perspective – there are not as many convincing arguments against specialization which would make to point against it, but there clearly remains much to discuss. As an underlying principle it could lead to greater success in terms of implementing DoL in development. These arguments are aligned with the assumption that politics in development has to be about seeking more efficient ways for implementation of development policies. Donors have resisted specialization for political considerations.

5. Final Remarks: How to Implement Specialization

In sum, harmonization aims at overcoming aid fragmentation and reducing donor proliferation by coordinating DoL through specialization. Beyond this, coordination between the remaining donors in countries and sectors and harnessing some kind of competition (rather than monopolization) in providing the best development policies are important areas to consider. The argument laid out here is to step away from the idea of comparative advantage and concentrate instead on specialization because the latter is more likely to be a more viable strategy for the implementation of harmonization in an area in which progress has been long overdue. The major advantage of specialization is that it is easier to overcome political constraints (policy concessions, free-rider and enforcement problem, other interests) to aid harmonization. This is due to the fact that a more practical approach for coordinating the DoL procedure is needed and specialization in many other areas has already brought considerable advantages (for example in economics). Hence, specialization could be a viable

approach for improvements in international development as well. As alternatives such as public assessment by independent organization would indeed be very important but highly unlikely, the rather simple principle of specialization could be a valuable alternative for improvements in harmonization and aid effectiveness as a whole. In the simplest of terms, it is a procedure that policy makers are probably more likely to adopt. Hence this analysis argues for specialization.

However, it is likely that even a random choice of geographic areas and sectors could bring considerable progress in the medium term.[31] Even a more effective central decision of who is doing what best is rather unlikely to be very accurate; it is better if everyone chooses for themselves where to specialize. If concentration is implemented (for ex. with a minimum of 250,000 Dollars, as suggested by the OECD) donor engagement comes closer to the dynamic of competition than mere proliferation because there will be fewer (but still more than one) donors in countries and sectors. Finally, specialization does not contradict other concepts of the EU DoL agenda. One example would be joint programming, as mentioned above. The Commission and the European External Action Service in particular are organizations that have to encourage member states to step in with joint actions on EU level. The important difference is that they are more specialized in fewer tasks, which improves their role as experts while also allowing them to reduce the overhead costs, which previously originated from the claim of being an expert on everything.

[31] Cost of coordination and disproportionately high overhead costs, costs of swamping recipients' administrations and coping with the costs of free-riders and relinquish policy concessions.

Abbreviations

CoC-DoL	Code of Conduct on Complementarity and the Division of Labor in Development Policy
DoL	Division of Labor
EC	European Commission
EU	European Union
EZA	Entwicklungszusammenarbeit
FTI	Fast-Track-Initiative
IMF	International Monetary Fund
ODA	Official Development Assistance+
OECD	Organisation for Economic Co-operation and Development
OFAE	Operational Framework on Aid Effectiveness

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