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An operational framework for the EU to promote aid effectiveness

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1. INTRODUCTION

This Joint Paper has been jointly prepared by the Swedish Presidency and the European Commission.

1.1. An operational framework for the EU to promote aid effectiveness

The Fourth High Level Forum on Aid Effectiveness (HLF IV) will be held in Seoul, Korea, in 2011. At this conference, the European Commission and Member States will be held accountable for the commitments made in the Paris Declaration of 2005 and the Accra Agenda for Action (AAA) of 2008. The EU was a driving force behind much of the content of these agreements, and therefore has a special obligation to ensure that we deliver on our commitments. While, individually, the Member States and the Commission are making progress on their commitments, achieving the targets in the short time remaining before Seoul presents a formidable challenge. The purpose of this operational framework is to catalyse EU action to achieve the massive change necessary to meet this challenge.

While joint action by the EU can build on experience and best practice gathered at individual level by Member States, a joint EU approach will collectively leverage more progress than can be achieved individually. The added value of a common EU approach was demonstrated in the run-up to Paris and Accra and has been recognised by the Council, which called in its conclusions of May 2009 for concrete proposals for an ‘operational framework’ to be presented before the end of 2009 to accelerate implementation of the aid effectiveness agenda, in particular with a view to the High Level Forum (HLF IV) in Seoul in 2011. EU joint approaches should also facilitate cooperation on implementation at headquarters and field level and in turn provide EU input to discussions in the OECD-DAC Working Party on Aid Effectiveness.

This operational framework sets out three areas for joint EU approaches: division of labour, use of country systems, and technical cooperation for enhanced capacity development. All three areas are critical for improving the overall effectiveness of our joint aid programme, which accounts for around 60% of global development assistance. The operational framework is intended to find ways to rapidly advance implementation of our existing commitments in line with established principles. It aims to establish a set of practical joint measures and thereby capitalise on the added value of the EU working together.

Joint approaches aim to facilitate cooperation on implementation at headquarters level and field level alike. Mechanisms should be established to guarantee that communication on these topics is as simultaneous and uniform as possible. To this end, Member State and EU headquarters should instruct their embassies, delegations and field offices through joint letters, signed by Directors-General or their equivalent, once the operational framework has been approved. Heads of Mission and/or Cooperation are then invited to discuss the operational framework together and to examine how to implement the joint approaches at country level. Heads of Mission should then jointly supervise implementation. Simultaneously, discussion and agreement will be necessary on how to communicate the substance of these strategies to the general public.

In order to make the operational framework responsive and keep it up-to-date, the implementation of aid effectiveness should be a regular point on the Council agenda. This would give Member States and the Commission the opportunity to:

- (1) Share information on implementation within the Council, especially in situations where an EU donor is planning to considerably restructure its aid through a substantial increase, reduction, reallocation or freezing of funds.
- (2) Present the results of relevant in-country processes, prepared jointly by EU donors on the ground, with a view to sharing lessons learnt or obtaining guidance.

In both cases, coherence with ongoing political and policy dialogue and with work at committee level (comitology) should be ensured.

In order to have a maximum impact, aid effectiveness commitments should be pursued at three basic levels: as individual donors, members of the European Union, and participants in international debates and processes. The interlinkages and synergies between these levels are important. All EU donors should keep a keen eye on the preparations for the High Level Forum IV, and proposals for a strong joint contribution should be developed in good time, replicating the successful EU performance in Accra in 2008.

2. DIVISION OF LABOUR

2.1. Developments at various levels

The Paris Declaration and the Accra Agenda for Action recognise that excessive fragmentation of aid at global, country and sector levels is a major impediment to aid effectiveness and improved development results. Division of labour seeks to reduce that burden by rationalising aid flows and reducing transaction costs. Partner country leadership in this process is recognised as essential.

Unlike other areas of aid effectiveness, EU approaches to in-country division of labour are well established. The EU Code of Conduct on Complementarity and Division of Labour, adopted in 2007, has proved to be a powerful point of reference for work by the Commission and the Member States on division of labour whether individually, at EU level or at international level.

On the basis of the principles of the Code, the Commission has revised its internal arrangements for co-financing and introduced new legal instruments in order to allow for division of labour through delegated cooperation. Also, the principles of the Code have been incorporated in the instructions for the mid-term reviews of the Commission financial instruments (DCI, ENPI and EDF), and European Commission Delegations have been instructed to engage with Member States to deepen the joint programming process in order to achieve further division of labour through concentration and/or delegated cooperation.

At EU level, the Council called in May 2008 for a fast-track process for in-country division of labour in order to support implementation of the Code of Conduct. Spearheaded by Germany and the Commission, this fast-track process has resulted in an evolving list, currently consisting of 29 countries, under which an EU donor assumes responsibility for facilitating discussions on division of labour among donors and partner country authorities at both headquarters and country level. At the same time, the Commission launched an initiative on delegated cooperation which set out practical proposals for countries and sectors where the Commission could delegate responsibility to Member States, and vice versa. Delegated cooperation is increasingly used between the Commission and the Member States. To date, there are about 50 agreements in the pipeline: 38 delegation agreements (from the Commission to Member States) and 14 transfer agreements. Further actions include the development of the EU Donor Atlas as an information tool, completion of a compendium of experiences on implementing division of labour, and issuing an EU Toolkit for Division of Labour in 2009.

With regard to action at international level, the Code calls on Member States and the Commission to promote wide discussions with partner countries and other donors on complementarity and division of labour. International discussions on division of labour are, thanks in large part to a united European approach, reflected in the AAA and are continuing within the OECD/DAC Working Party on Aid Effectiveness.

Despite these efforts, progress on in-country division of labour has been slower than expected. In some countries, 10-20 donors still operate in the same sector, each with its own specific programming and reporting requirements and conditionalities. Transaction costs and fragmentation of aid still remain a major problem. In order to achieve more rapid progress, these issues must be addressed in a united way as a matter of priority. This also implies that

ownership by partner countries (demand) should be respected in developing political and policy priorities in donor countries/institutions (supply).

2.2. Results of monitoring in 2008: obstacles to implementation

In December 2008, a monitoring exercise was conducted, with responses for 22 fast-track countries. The exercise showed that some progress has been made in operationalising and implementing the Code. Donor mapping, lead donor arrangements, and delegated cooperation have become a reality in the majority of partner countries from which feedback was obtained. There is the strong perception that sector policy dialogue has improved due to division of labour processes. In addition, there is some indication of a decrease in transaction costs for partner countries due to division of labour.

However, challenges in operationalising and implementing the Code have proved to be significant as well. Several obstacles to progress have been identified in the monitoring process and also by in-country missions (Bangladesh, Ethiopia, Mali, Senegal and Tanzania), such as:

- Limited partner government ownership, often because of conflicting interests between central and line ministries or fear of donors ‘ganging up’ on partner countries and/or also reductions in current levels of aid.
- Limited political push from EU capitals. Other policy priorities seem to prevail, i.e. preference for staying involved in a wide variety of sectors and/or the need for visibility in certain sectors, as evidenced by input targets (for instance for social sectors) and so-called vertical funds or thematic programmes.
- Unclear decision-making process. Most local EU representations do not have mandates to decide on sector concentration, so approval from headquarters is required. At the same time, there is no mechanism for joint or coordinated EU decision-making by national/EU headquarters.
- Lack of reliable and updated information on donor presence in sectors. The most reliable data can be found through the OECD/DAC reporting system. However, due to a lengthy verification process there is always a time lag (the most recent data currently available are for 2007).
- Unclear donor roles, for instance lack of understanding of the terms ‘lead’, ‘active’ and ‘silent’ donors and/or reluctance by donors to fulfil their roles.
- The strategic planning (processes) of donors are not synchronised with each other or the planning cycles of the partner government.
- Transaction costs are perceived to increase in the initial phases of division of labour. This puts pressure on capacity in field offices. Pay-offs are expected only after division of labour has been implemented.
- Lack of involvement of other, non-EU, donors.
- Legal and administrative barriers on the donor side.

Despite the progress made, partner countries are apparently not (yet) leading the process and donor headquarters are not providing sufficient direction to their staff in local representations, individually or collectively.

2.3. Accelerating the Fast Track Initiative on Division of Labour

In order to overcome the aforementioned challenges, the enabling environment, instruments and incentives for division of labour need to be improved. A collective EU approach at headquarters level is required in order to reduce (EU) aid fragmentation at country level. Communication between headquarters and country level needs to be improved.

Operational measures:

The Commission and Member States will:

Reconfirm their political commitment and their roles as lead and supporting facilitators to promote division of labour as indicated in the table in the Annex.

By the end of November 2009 establish a network of EU Division of Labour focal points at HQ and country level in the fast-track countries in order to support decision making and continuous dialogue on division of labour between headquarters and country level and at headquarters, led by the Commission and Germany.

Agree that lead facilitators, with the assistance of the supporting facilitators, will, on behalf of the EU donors:

- (1) Actively engage the partner country government and other donors to ensure that division of labour is on the agenda of the local development community, and that action is taken to achieve real progress (within existing fora when possible).
- (2) Support partner country ownership in the definition of national priorities (in a Poverty Reduction Strategy and Medium Term Expenditure Framework or a similar development strategy and budget) and government leadership in determining priorities in terms of donor roles and sector involvement.
- (3) Work with partner countries and donors in gathering the necessary prerequisite information for division of labour, i.e. mapping of ‘who does what’, identifying which donors have comparative advantages in which sectors, and establishing what opportunities for action exist in terms of donor project cycles.
- (4) Organise joint meetings in EU capitals or joint in-country missions, at least at the level of regional or country directors from headquarters, in order to take decisions and reach agreement on the next steps for division of labour (with the partner government, local EU representatives and other donors). By the end of November 2009, headquarters lead facilitators will jointly develop and agree on a calendar for these events.
- (5) Facilitate an exchange of views on multi-annual programming by (1) facilitating implementation of the Common Framework for drafting Country Strategy Papers and Joint Multi-Annual Planning of March 2006, (2) seeking to develop Joint Assistance Strategies in all fast-track countries, (3) consulting other EU donors at country level on multi-annual programming documents and during the identification phase in order to increase synergies and limit stand-alone actions, (4) seeking to limit the use of vertical funds or

facilities outside multi-annual programming, and (5) respecting the priorities agreed in programming documents. Shifts in policy priorities should be accommodated through reprogramming, thus avoiding the proliferation of ad hoc interventions.

- (6) By 31 March 2010 develop a joint action plan and timeframe per country for the implementation of division of labour based on the EU Toolkit for Division of Labour.
- (7) Arrange regular EU meetings in Brussels, beginning in December 2009, where 1) lead facilitators will report on how they are progressing and 2) further steps will be discussed for three country cases with the involvement of representatives from the local EU Delegations/embassies.

2.4. Pursuing sector concentration through redeployment and joint programming

EU donors have already agreed to focus their involvement in a partner country on a maximum of three sectors in accordance with the EU Code of Conduct on Complementarity and Division of Labour in Development Policy. This commitment will be pursued and implemented by each EU donor within their respective country programming processes¹. Joint programming supports and simplifies division of labour and facilitates complementarity at country level. Although joint programming is under way in some countries, it needs to be further promoted by the EU. Joint assessments and joint programming, including donor-wide Joint Assistance Strategies, should be vigorously pursued, utilising inter alia the 2006 Common Framework for drafting Country Strategy Papers and Joint Multi-Annual Planning.

Operational measures:

The Commission and Member States will:

- (1) Develop and communicate responsible sector exit plans for enhanced sector concentration.
- (2) Identify, by July 2010, a number of countries where the EU will promote joint programming with a view to be fully operational by 2014, starting with the Fast Track Division of Labour countries.

2.5. Monitoring progress systematically at HQ and country level

Operational measure:

Building on all existing data, both the Monterrey reporting process (spring 2010 and 2011) and monitoring of fast-track division of labour will be used to assess:

- evidence of (increased) sector concentration of each EU donor at country level by including statistics on past, current and future aid flows
- progress on division of labour processes at country level including lessons learnt
- which activities are undertaken by lead facilitators at headquarters and country level to support division of labour
- the experience in delegated cooperation
- how EU donors have integrated division of labour in their strategic planning processes.
- The monitoring processes will be coordinated and assessments will be discussed at technical and Council levels.

¹ The specificities of the ENPI (European Neighbourhood and Partnership Instrument) managed by the Commission will be taken into account.

2.6. Cooperation on training activities for division of labour

Operational measure:

The Commission and Member States will:

- **Provide staff training and guidance, jointly where feasible**, to promote division of labour, at headquarters and in partner countries, using for example Train4Dev.

2.7. Beginning a process on cross-country division of labour

While efforts to implement in-country division of labour are up and running, discussion on how to implement EU and international commitments on cross-country division of labour has largely remained academic to date. In the context of an ever-expanding donor base and commitments to scale up aid, it is becoming increasingly more pressing to address fragmentation and imbalances of funding between countries. Some donors have been working to reduce the number of their priority countries. These voluntary and independent processes have been taking place through informal exchanges with other donors. Structured dialogue or exchanges within the EU, the wider donor community or partner countries should be strengthened. There are many complex technical issues in relation to the cross-country division of labour. Also, a sustained political will is necessary, as well as an adequate mix of ‘in the field’ and ‘headquarters’ decision-shaping and decision-taking. These issues need to be addressed urgently at EU and international level.

Operational measures:

The Commission and Member States will:

- (1) Based on available data in the OECD/DAC, EU Donor Atlas and other aid information systems, gather and disseminate information on cross-country complementarity and funding imbalances between countries. The resulting information will be discussed between Member States and the Commission with a view to further dialogue and action on cross-country division of labour in the first quarter of 2010.
- (2) On this basis, prepare a proposal on how to proceed on cross-country division of labour in 2010.

3. USE OF COUNTRY SYSTEMS

3.1. The need for an EU approach

The use of partner country systems is central to strengthening ownership, because it contributes to full alignment with partners' strategies, institutions and procedures — thus to securing effective development results. It makes the administration of aid less burdensome for partner country governments and improves their ability to transparently account to parliaments and citizens. The use of partner country systems provides powerful incentives for improvements in country systems. The development risks associated with not using country systems are real.

This aspect of aid effectiveness has been a priority for the EU since 2005, when we jointly committed 'to channel 50% of government-to-government assistance through country systems'². This goal was incorporated within the European Consensus for Development, and became a donor-wide target in the Accra Agenda for Action. Recently, the Council Conclusions of May 2009 called for an action-oriented EU initiative on issues such as the use of country systems, 'where implementation of aid effectiveness commitments would be better pursued through collective action of Member States and the Commission'.

The urgency of tackling this issue is highlighted by the fact that increasing the use of country systems is a serious challenge for the whole donor community³. According to the 2008 OECD/DAC Monitoring Survey of the Paris Declaration, 36% of partner countries have improved the quality of their public financial management (PFM) systems. However, this has not been matched by similar improvements in the use of those systems. This use has only progressed from 40% to 45% and that of procurement systems from 39% to 43%.⁴

Clearly, a radical effort is needed for EU donors to move forward. An EU approach will allow us to move faster and further in fulfilling our country system commitments. The results of our joint action will be greater than the sum of our individual efforts. To this end, the EU should take advantage of its unique structure and tradition of cooperation and coordination.

According to the Paris Declaration and the Accra Agenda for Action, country systems include, but are not limited to, public financial management (PFM), procurement, audit, monitoring, evaluation, and social and environmental assessments. Different aspects of the use of country systems are treated in different parts of the operational framework. In this chapter, priority is given to public financial management (PFM) and procurement systems.

² Statement by the EU Presidency on behalf of the European Union; Second High Level Forum on Aid Effectiveness; Paris, 28 Feb – 2 Mar 2005.

³ Use of country systems is measured by PD indicator 5a (percentage of donors and aid flows that use PFM systems) and PD indicator 5b (percentage of donors and of aid flows that use partner country procurement systems). PFM systems are monitored via three components: budget execution; national financial reporting; and national auditing requirements.

⁴ According to the 2008 DAC Monitoring Survey.

3.2. Use of country systems as the first option

(AAA, points 13, 15, 24, 26)

The commitment in the Accra Agenda for Action is to use country systems as the first option. This does not imply that all aid will always be channelled through all parts of systems. There are circumstances that can lead to only partial or even no alignment. In such cases, however, the Accra Agenda for Action requires donors to transparently state the reasons for not using country systems.

There are many challenges to transforming this commitment into practice. Different aid modalities pose different challenges regarding the use of country systems. In general, budget support makes full use of country systems. This is why the European Consensus encourages the use of budget support where circumstances permit⁵, and why it is important to deliver on the commitment to increase the proportion of aid using programme-based approaches.

However, projects (including technical assistance) are often channelled only through donor systems, involving separate regulation and tracking of financial flows according to the donor's own requirements. Thus, a key challenge is to adapt donors' internal rules, regulations and incentives to make possible increased use of country systems for project support. Since the majority of EU aid is still provided through project support, the use of country systems for project support would go a long way towards improving overall progress on this target⁶. Making use of country systems for project support, while ensuring adequate control and accountability for development assistance, should therefore be a priority.

In cases where partner country systems cannot be fully used, irrespective of aid modality, EU donors should avoid parallel solutions as far as possible and promote joint safeguards to this end.

Operational measures:

The Commission and Member States will, with immediate effect, individually and jointly:

- (1) **Regularly review aid portfolios** to facilitate the increased use of country systems and to respond to the Paris Declaration commitment on increased use of programme-based approaches.
- (2) **Conduct assessments to identify internal constraints** (i.e. legal, procedural, political, cultural, staff training, etc., including incentives for using partner country systems), to be available by the end of 2009, make an analysis of what action should be taken, and address the constraints so that the use of country systems by EU donors can be increased, where applicable, by the end of 2010.

⁵ Joint Statement by the Council and the representatives of the Governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy: 'The European Consensus', para. 26.

⁶ The 2008 Monitoring Survey of the Paris Declaration, p. 41.

- (3) When for some reason partial alignment to country systems is used, consider **on plan, on budget, on parliament and on report** as minimum level of use of systems for all country programmable aid.⁷
- (4) **Review the design of aid instruments**, irrespective of modality, so that the use of country systems is considered the first option, while ensuring adequate control of and accountability for development assistance, among other things by:
 - **Introducing a section in internal project and programme documents** outlining a) where a country system can be used and how this will be implemented and b) where country systems cannot be used, what measures have been put in place to overcome this constraint;
 - **Considering for each phase in the planning, programming and project cycle** the use of country systems as the first option, identifying opportunities to make use of all or parts of a country's system.
- (5) Promote a better understanding of the benefits of using country systems and the developmental risks of not using them, for example by assembling best practices, gathering data and evidence and conducting case studies. This work should be done in close coordination with the Working Party on Aid Effectiveness.
- (6) By the end of 2010, **collect good practice examples on the use of country systems in monitoring and evaluation** with a view to developing international guidelines.
- (7) **Provide staff training and guidance, jointly where feasible**, for increasing the use of country systems at headquarters and in partner countries, using for example Train4Dev.
- (8) **Support partner-country capacity development** for improving the quality of country systems. Where appropriate, consider using the expertise of former transition economies, South-South Cooperation and triangular cooperation.

3.3. Joint assessments to promote the use of country systems

(AAA, point 15)

Assessment of a country's public financial management (PFM) is often a prerequisite for using country systems. The PEFA (Public Expenditure and Financial Accountability) PFM Performance Measurement Framework assesses the performance of PFM systems against standardised, transparent and objective criteria. The PEFA framework provides a common pool of information, and its full potential should be exploited jointly and transparently in promoting the use of country systems. Other PFM diagnostic tools, such as the OECD/DAC procurement assessment indicators, with different objectives and scope, are to be used in a

⁷ i.e. all aid is integrated within the strategic planning of spending agencies, reported in the budget, approved by parliament, and included in ex post reports by government. (Report on the Use of Country Systems in Public Financial Management. Working Party on Aid Effectiveness, Joint Venture on Public Financial Management, 2008, p. 51 (annex 1).

complementary manner for a more holistic assessment of country systems. At the same time, the CPIA (Country Policy and Institutional Assessment) scale will continue to be used for the survey of the Paris Declaration indicators until HLF IV.

With regard to project support, several EU donors are making efforts to increase the use of country systems by reconciling internal legal, administrative and control requirements for project support with the systems used by partner countries. The services of the European Commission have for example recently established a diagnostic tool to measure compliance of certain aspects of country systems with key principles of the Financial Regulations governing the EC budget and the 10th EDF and their implementing rules. By harmonising methodologies and working towards increased common use of assessments of the use of country systems, the EU and the wider donor community would avoid duplication and unnecessary demands on partner countries.

Partner country leadership is of fundamental importance here. Partner countries should be supported in leading joint multi-year diagnostic work programmes in order to assess their own country systems and provide time-series data. This should reduce the burden of separate donor-led assessments of country systems.

Operational measures:

The Commission and Member States will, with immediate effect, individually and jointly:

- (1) **Support partner countries in leading joint multi-year diagnostic work programmes to assess PFM**, in coordination with the OECD/DAC taskforces on PFM and procurement.
- (2) **Adopt the PEFA Performance Measurement Framework (PMF) as the EU instrument of preference** in assessing the quality of PFM and encourage its further use and development by partner countries and donors in accordance with guidance from the PEFA secretariat.
- (3) Work towards **harmonisation of assessments with regard to project support by:**
 - Using existing tools to the fullest extent, with PEFA as the point of departure. Pending a fully harmonised EU approach, the European Commission's diagnostic tools, as well as those of Member States, are available for use by all EU donors.
 - Working together to further develop and harmonise methodologies for assessing country systems for the use of project support, based on the PEFA PMF and internationally accepted standards. To this end, the Commission is encouraged to address this issue in the context of the forthcoming review of the Financial Regulation applying to the EC general budget. Coordination with ongoing work at international level within the Working Party on Aid Effectiveness should be ensured. Other donors' approaches should also be taken into consideration, and further work could be carried out through joint evaluations, studies and reviews.
- (4) **Make available assessments made by one EU donor for use by other EU donors** in order to avoid duplication and unnecessary demands on partner countries. For instance, assessments made by the Commission in accordance with its financial regulations would be at the disposal of Member States for their decisions, and vice versa, subject to appropriate arrangements being established.

3.4. Supporting broad country ownership and domestic accountability

(AAA, points 13, 14)

The importance of involving parliaments and local authorities in development processes and of building the capacity of non-state actors to strengthen their voice in the development process is reaffirmed in the European Consensus. It is equally important to work with oversight agencies such as supreme audit institutions (SAI) and public procurement monitoring agencies.

In order for country systems to be sustainably strengthened, there needs to be a demand for strong systems from society through parliament, civil society and the media. Therefore, in addition to the public administration, non-governmental actors need to be involved and supported in their advocacy and watchdog role as well as key dialogue partners for governments.

Operational measures:

The Commission and Member States will, with immediate effect, individually and jointly:

- (1) Support the role of parliaments in the budget process in partner countries by strengthening their capacity, improving the accessibility and transparency of budget documentation, and supporting the engagement of parliaments in the discussion on development finance. This includes allowing aid from EU donors to be subject to democratic scrutiny within partner country processes.
- (2) Support the role of civil society, the media, supreme audit institutions, and public procurement monitoring agencies in holding governments accountable for public expenditure.

3.5. Monitoring progress, learning lessons and communicating results

(AAA, points 13, 15, 24)

In view of the forthcoming HLF IV in Seoul (2011), where donors and partner countries will be collectively judged on their performance, there is a need to follow-up and monitor closely the implementation of the commitments and EU approaches.

As we track our progress, there will be a need to share experiences of and approaches to the use of country systems. It is important to build a collective body of knowledge based on lessons learned in terms of what works, what doesn't and why. This will strengthen the common EU approach and allow for continuous fine-tuning of measures to ensure maximum impact.

Reputational risk is a real factor affecting donor decisions to use country systems, and is closely linked to perceptions within domestic constituencies. Reputational and fiduciary risk⁸ needs to be weighed against the longer-term benefits and developmental risks of not using country systems at the aggregate level and over the longer term. Communicating the content

⁸ Definitions of fiduciary risk vary, but in its broadest sense this refers to the risk that resources i) are not used for intended purposes, ii) are not providing value for money; iii) are not properly accounted for.

and purpose of EU approaches to the wider public is central to their success over the medium and long run.

Operational measures:

The Commission and Member States will, with immediate effect:

- (1) **Provide information in the context of the annual Monterrey Questionnaire** on progress regarding the use of country systems, including the use of country systems for project support, and a summary analysis of the reasons for not using country systems. The responses will be discussed in the beginning of 2010 at technical level and in the Council following the annual publication of the Monterrey follow-up report. This should result in **an EU dialogue on enhancing the use of country systems** and comparing practices following the elements presented in these guiding principles.
- (2) **Engage in dialogue with partner countries and other donors at country and international level** in established fora, notably the Working Party on Aid Effectiveness, to account for results and progress with the use of country systems. At country level, the EU will promote and support partner-led transparent annual reviews and discussions on the use of country systems. These discussions could take place within existing joint consultative mechanisms. Where fora do not exist for enhancing mutual accountability in the use of country systems, their establishment should be supported. Such dialogue should aim to specify good donor practices and standard government procedures for the use of country systems, including for project support. Relevant stakeholders, such as parliaments, local authorities, supreme audit institutions, public procurement monitoring agencies and civil society, should be included in the dialogue as appropriate.
- (3) **Initiate or continue dialogue with their respective parliaments and national audit offices** on the use of country systems and its implications and benefits.
- (4) **Identify and formulate joint communication messages** on the commitments to use country systems and the lessons learnt, and share experience **and make information accessible to the wider public** on individual performance in the use of country systems, e.g. from the Paris Declaration survey exercise.

In addition to regular reporting to the Council through the Monterrey report, and as part of the preparations for HLF IV, **stocktaking** to chart the progress in implementing the measures set out in this document and the individual donor plans for using country systems, as called for in the AAA, will be organised well in advance of HLF IV. This stocktaking should be appropriately coordinated and harmonised with other similar aid effectiveness follow-up events and actions.

4. TECHNICAL COOPERATION FOR ENHANCED CAPACITY DEVELOPMENT

4.1. Introduction

Substantial resources have been and continue to be invested in Technical Cooperation (TC). For many years, however, TC has been criticised for lack of effectiveness and efficiency. Too often, TC is uncoordinated, with a focus on filling short-term gaps, and not linked to what the partner country wants to focus on. Lack of ownership and coordination as well as lack of information and transparency about the nature of TC and how it is mobilised are subjects of serious criticism. Making changes to the way TC is handled in international cooperation is a big challenge for donors and partners alike. It carries political and practical implications that touch upon interests in both donor and partner countries.

The Paris Declaration (PD) on Aid Effectiveness, the Accra Agenda for Action (AAA)⁹, the European commitments on Technical Cooperation (TC) for Capacity Development (CD)¹⁰ and the Bonn Consensus on Capacity Development¹¹ constitute the framework for the EU approach to TC outlined here. The EU Member States and the Commission are committed to meeting the Paris Declaration target for TC and project implementation units (PIUs), as well as the more ambitious EU commitments made in Paris and reinforced in the European Consensus. Urgent action is required if these targets are to be met.

Several Member States have formulated policy notes and operational guidance on TC, which reflect the commitments and recommendations contained in the PD and the AAA¹². The

⁹ *'Without robust capacity—strong institutions, systems, and local expertise—developing countries cannot fully own and manage their development processes. We agreed in the Paris Declaration that capacity development is the responsibility of developing countries, with donors playing a supportive role, and that technical cooperation is one means among others to develop capacity.'* (AAA, point 14).

¹⁰ Joint Statement by the Council and the representatives of the Governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy: 'The European Consensus', para. 32; Statement by the EU Presidency on behalf of the European Union; Second High Level Forum on Aid Effectiveness; Paris, 28 Feb – 2 Mar 2005. The Council conclusions of May 2008 and May 2009 respectively called on the *'the Commission and the Member States to agree on and provide clear guidance on outstanding issues, in order to make capacity development support better coordinated, more need-driven and better integrated in the overall development programme framework, with special attention to country-led capacity development'* (Council Conclusions on 'The EU as a global partner for development: Speeding up progress towards the Millennium Development Goals (MDGs)' of 27 May 2008, point 67) and invited *'the Member States and the Commission to... identify[...] issues where the implementation of aid effectiveness commitments would be better pursued through collective action of Member States and the Commission. These could include e.g. joint approaches, codes of conduct and other action-oriented EU initiatives on issues such as... technical assistance'* ('Council Conclusions on Supporting developing countries in coping with the crisis' of 18 May 2009, point 31).

¹¹ The Bonn Consensus on Capacity Development (May 2008), formulated at a preparatory workshop for the Accra High Level Forum, outlined the critical elements that define the reform agenda for donors and partners in this area. It was formulated with a strong Southern involvement.

¹² For an overview of Member States, see: EuropeAid 2007. *Review of Donor Agencies' Policies and Guidelines on TC and PIUs*. (E 5 Working Document). Brussels: EuropeAid (presented at a meeting on 'EU aid effectiveness targets on Technical Cooperation and Project implementation units', Brussels, 6 December 2007). Explicit policy notes on TC/TA formulated by UK and DK can be found in <http://www.dfid.gov.uk/Documents/publications/tc-how-to-note.pdf>; <http://amg.um.dk/NR/rdonlyres/0976AE27-80A2-4EBC-B9E3-618D90A0078C/0/TAGuidelinespdf.pdf>.

Commission has finalised a ‘Backbone Strategy on Reforming Technical Cooperation and Project Implementation Units for External Aid provided by the European Commission’ and related guidelines. This has benefited from consultations with Member States.¹³ The following approach, building on the reforms by the European Commission and Member States, will guide the EU’s provision of TC to both partner countries and regional organisations.

4.2. A partner-owned, demand-driven and results-oriented approach for capacity development

(AAA, point 14(a))

The three key elements of the EU approach are:

- **Ownership and leadership:** Ownership and leadership by the partner, including the mobilisation of its own resources, is essential for the sustainable development of local capacity;
- **A demand-led approach where TC is not provided by default:** Donors may support endogenous capacity development through a demand-led approach where TC may be provided as a complement to the partner’s own capacity development efforts. Where the capacity of partner countries to articulate demand for TC is low, EU donors will encourage and support the partner in defining its needs and demands. Any influence that risks pushing the partner in particular directions or undermining ownership will be avoided.
- **Results orientation and focus on Capacity Development (CD):** The results that the partner wants to achieve should be the starting point. The second step in the process should be clarification if and how TC has a role to play in achieving the desired results (for an understanding of TC and CD, see Box). The primary aim of TC is to support capacity development, but it is recognised that TC may be requested for other purposes, for example, implementation in order to achieve results.¹⁴

Drawing on national strategies, capacity development plans and assessments led by partner country stakeholders, support will always be adapted to the context and capacity of the partner, particularly in situations of fragility, including post-conflict situations. Broad ownership and involvement of key stakeholders from government, civil society, the private sector or regional organisations is considered a basic condition for sustainability.

¹³ http://ec.europa.eu/europeaid/what/delivering-aid/aid-effectiveness/index_en.htm.

¹⁴ When deciding to mobilise TC for implementation, such as the provision of basic services or infrastructure, partners should address and monitor the risks for long-term sustainability and include TC for CD only to the extent required for sustainable development progress. The phasing out of TC will be clearly defined from the start.

A common understanding of Technical Cooperation and Capacity Development

Technical cooperation (TC) is the provision of know-how and skills in the form of short- and long-term personnel, training and research, twinning arrangements, peer support and associated costs.

Technical Assistance (TA) refers to the **personnel** involved (individuals as well as teams of consultants) in developing knowledge, skills, technical know-how or productive aptitudes.

TC and TA are means to **promote capacity development**, which refers to what outside partners — domestic or foreign — can do to support, facilitate or catalyse capacity development and related change processes. **Capacity development (CD)** is the process whereby people, organisations and society as a whole unlock, strengthen, create, adapt and maintain capacity over time. **Capacity** is the ability of people, organisations and society as a whole to manage their affairs successfully.

TC can serve different purposes: support for CD in partner countries is i) the primary purpose of TC, including short- and long-term policy/expert advice, dialogue and networking, but there are other important roles for TC in ii) the preparation or facilitation of donor-partner country programme cooperation or trilateral cooperation, and iii) implementation, e.g. when linked to classical investment projects or when the partner cannot manage the implementation process. The different purposes can overlap in practice.¹⁵

Making TC more effective also requires efforts to **harmonise donor action**. However, the harmonisation of TC approaches and the joint provision of resources to mobilise expertise is lagging.¹⁶ This can result in very high transaction costs as well as a loss of ownership by the partner. Harmonisation needs to address all aspects of cooperation. Complementarity and division of labour can be achieved through joint measures such as the identification of lead donors for the mobilisation of TC or delegated cooperation.

Donors also need to invest in **strengthening their own capacity** and skills to accompany the partner's capacity development process adequately. When the partner country administration cannot deliver on formulation or implementation activities, a reduction in technical assistance may lead to more pressure on donor country offices. Donor capacities at country level should receive particular attention, and can be reinforced by strengthening country offices, e.g. through the transfer of resources and responsibilities from headquarters, together with more careful selection and management of staff, and enhancing institutional knowledge in working with the partner country.

This EU approach to TC for enhanced CD is translated into three broad action areas, spelled out below. Follow-up and monitoring measures are listed in section 6.

¹⁵ TC might be highly relevant in certain situations for running a service delivery programme to help, for example, in setting up the infrastructure of a partner. The understanding is that this type of TC, where the involvement of the partner is limited or only formal, risks undermining the capacity to commit and exercise practical ownership, possibly leading to unsustainable results.

¹⁶ See 2008 Survey on Monitoring the Paris Declaration, pp. 44-46.

4.3. Promoting alignment, country-owned management of technical cooperation and the use of local and regional expertise

(AAA, points 14(b)(i), 14(b)(ii))

Donors will, as the first option, **use partner country systems** for TC and work through partner institutions.¹⁷ In countries where this is not yet possible, TC will, as a minimum, be aligned with national and sectoral development policies and plans, partner-led joint donor assistance strategies, CD and/or separate TA/TC strategies.

The selection and provision of TC will be demand-driven, and partner countries will be encouraged and supported to manage **the entire TC process**, including **procurement, contracting and evaluation**. If the partner can not fully take on this responsibility, donors will assist the partner to take charge of it on a step-by-step basis. The demand-led approach implies that the partner may opt to receive TC in kind. Where this is the case, management and accountability mechanisms will be established to ensure full ownership and leadership by the partner.

There are growing demands from developing countries to **use more national and regional expertise**. Among the potential advantages of using this kind of expertise are understanding local contexts and cultural sensitivities, language skills, peer legitimacy, familiarity with work environments and often lower costs. Some donors have started to support the mobilisation of local and regional sources. However, care must be taken to ensure that this does not lead to the diversion of valuable resources, expertise and capacity from national institutions to the benefit of donor-managed operations.

Operational measures:

The Commission and Member States will, individually and jointly:

- (1) Align TC support with partner country policy and plans and, as a first option, use partner country systems, including procurement and audit procedures and accountability structures, whereby:
 - (a) The partner country's regular accountability structures, financing channels, implementation systems and results monitoring and reporting systems will be used and TC will be linked to the regular plan and budget;
 - (b) Where the use of country systems for TC is not yet possible, donors will assist the partner in gradually building capacities to establish country-led systems and strengthen institutions with a view to fully managing TC.
- (2) Promote partner country leadership in making needs assessments and in developing terms of reference (TORs) for TC. Follow good practice for the preparation of TORs and specify the expected results. If requested, assist the partners in preparing TORs and undertake joint preparations under the partner country's leadership.

¹⁷ For an understanding of alignment and use of country systems, see chapter 3: 'Use of country systems'.

- (3) Make the costs associated with the provision of TC transparent (including the costs of providing TC in kind) and follow the principle of cost-sharing (including the provision of partner resources).
- (4) Adapt donor procedures and regulations to enable partners to use local and regional resources and expertise when these are considered adequate.

4.4. Avoiding donor-driven, parallel ‘project implementation units’ and parallel incentive systems

(AAA, point 15)

A criticism of TC is often that it is integrated within donor-run project implementation units (PIUs). To use TC for enhanced CD, **donor-driven parallel PIUs** need to be discontinued and replaced by partner-led and -owned implementation arrangements. These should in the long run be fully integrated within and accountable to national structures.

Existing **national remuneration and incentive systems** will be used as a first option. Where this is not possible, donors and partners will strive to reform existing practices and systems with a view to making interventions sustainable.

Operational measures:

The Commission and Member States will, individually and jointly:

- (1) Avoid setting up new parallel PIUs¹⁸. Map existing parallel PIUs with partners, analyse critically their rationale and formulate a road map, if one does not yet exist, with clear deadlines for their phasing-out or integration within the regular accountability structures.
- (2) Address incentive-related issues with partners as part of CD. Use existing national remuneration and incentive systems in a harmonised way; or, where this is not possible, assist in reforming existing systems (in particular by addressing civil sector reform) with a view to making the intervention sustainable. Avoid parallel remuneration systems and topping up unless these are part of the partner’s regular system.

4.5. Adapting the provision of TC to situations of fragility

(AAA, point 21)

The provision of TC needs to be adapted to situations of fragility, as well as to other environments where ownership or capacity is weak. This might require deviating from approaches followed in developing contexts, where, for example, TC for social service delivery programmes through state structures might be an appropriate choice, but might be inappropriate in situations with fragile institutions. TC for CD approaches may imply that long-term capacity development objectives such as the need to strengthen the basic effectiveness, legitimacy and resilience of state and civil society organisations have to be balanced against the need for short-term implementation.

¹⁸ The definition/criteria used by the OECD/DAC for Parallel PIU will be used.

In such situations, core country stakeholders (functioning within the remnants of government structures as well as those of civil society) need to be included in the design and management of TC as early and as far as possible. Support will be coordinated and tailored carefully to respond to their needs and demands. The good practice principles set out by the DAC for such situations will be followed.¹⁹ Where parallel PIUs are required, they will have a clear roadmap towards integration of such structures into (future) regular accountability and governance systems.

Operational measures:

The Commission and Member States will individually and jointly:

- (1) Take a pro-active role in analysing and designing TC responses where partners cannot sufficiently take the lead. The provision and management of TC will be interim in nature and sequenced in time. TC will be provided in a way that stimulates the partner to take ownership of the TC process.
- (2) Enhance the internal coherence of their TC provision from different national departments (e.g. security, foreign affairs, development). This support should be coordinated and harmonised with that of other donors.

4.6. Follow-up and monitoring

As the Paris, Accra and EU commitments concern the coordination of TC, their implementation will be pursued through joint action.

The Commission and Member States will:

- (1) Monitor and report on the implementation of international and EU commitments on TC in line with this EU approach. Every effort should be made to ensure partner country involvement in the monitoring. Actions taken should be reported on an annual basis through the Monterrey report.
- (2) Use existing EU mechanisms, including at country level, as well as aid effectiveness and capacity development networks to facilitate the implementation of this approach. This facilitation may include the formulation of guidelines or good practice principles.
- (3) Engage in overall joint learning on improving TC provision, including reducing PIUs, through joint evaluations, studies and knowledge management initiatives (e.g. electronic discussion fora).
- (4) Actively promote training within the different CD learning networks. Where appropriate, this will be done in partnership with existing initiatives of the OECD/DAC, LenCD, Train4Dev, as well as those organised by multilateral institutions.
- (5) Communicate this EU approach widely with a view to sensitising stakeholders and getting support for implementation of the EU measures.
- (6) Linking with the DAC and CD networks, in particular those with Southern representation, such as the CD Alliance, for implementing all actions mentioned

¹⁹ DAC 2007. Principles of Good International Engagement in Fragile States and Situations, April 2007 — www.oecd.org/dataoecd/61/45/38368714.pdf.

above, also with a view to a proper stocktaking of progress in the run-up to HLF IV in 2011.

5. ANNEX: THE FAST TRACK INITIATIVE ON DIVISION OF LABOUR

EU donor	Lead facilitator in:	Supporting facilitator in:
CZ		Mongolia and Moldova
DE	Cambodia, Burkina Faso, Ghana, and Zambia	Cameroon, Mozambique, Tanzania and Uganda
DK	Bolivia (co-lead), Benin and Kenya	Nicaragua, Bangladesh, Cambodia, Vietnam, Burkina Faso, Ghana, Mali, Mozambique, Tanzania, Uganda and Zambia
FR	Cameroon, Central African Republic and Mali (co-lead)	Vietnam, Burkina Faso, Ghana, Madagascar, Mozambique, and Senegal
IE		Vietnam, Ethiopia, Mozambique, Tanzania, Uganda and Sierra Leone
IT	Albania	Bolivia, Ethiopia, Kenya, Mozambique, Senegal, Uganda and Sierra Leone
NL	Bangladesh (co-lead), Burundi, and Mali (co-lead)	Nicaragua, Bangladesh, Benin, Burkina Faso, Ghana, Mozambique, Senegal, Tanzania, and Zambia
ES	Bolivia (co-lead), Nicaragua and Haiti	
SI	FYROM	
SE	Ukraine	Bangladesh
UK	Kyrgyz Republic and Rwanda	Bangladesh, Vietnam, Ethiopia, Kenya, Moldova and Sierra Leone
European Commission	Nicaragua, Bangladesh (co-lead), Vietnam, Ethiopia, Mozambique, and Tanzania	Bolivia, Cambodia, Benin, Burundi, Central African Republic, Ghana, Mali, Zambia, Haiti, Laos and Malawi

