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# SYNERGIES BETWEEN BILATERAL AND MULTILATERAL ACTIVITIES



EVALUATION STUDY 2008/2

# **Synergies between Bilateral and Multilateral Activities**

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*Disclaimer:* The views presented in this paper are those of the authors and do not necessarily represent the views of Danida

## Acronyms

CSP	Country Strategy Paper
DAC	Development Assistance Committee (of OECD)
DANIDA	Danish International Development Agency
DFID	UK Department for International Development
EC	European Commission
ECOSOC	Economic and Social Council (of UN)
EU	European Union
GBS	General Budget Support
GFATM	Global Fund to fight AIDS, Tuberculosis and Malaria
GRPP	Global or Regional Partnership Programme
IDA	International Development Association (of World Bank)
IEG	Independent Evaluation Group (of World Bank)
IFI	International Financial Institution
MDGs	Millennium Development Goals
MDTF	Multi-Donor Trust Fund
MEFF	Multilateral Effectiveness Financing Framework
MOPAN	Multilateral Organisations Performance Assessment Network
NGO	Non-governmental Organisation
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PAPs	Programme Aid Partners
PGBS	Partnership General Budget Support
SBS	Sector Budget Support
UN	United Nations
UNDG	United Nations Development Group
UNEP	United Nations Environment Programme

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## 1 Executive Summary

### Key Points

- The term synergy is poorly defined in the literature and in donor discussions leading to a complex set of issues and trade-offs which are misunderstood or ignored.
- Synergy has two elements: that donors, initiatives, programmes or projects interact, that they influence the behaviour of one another; and the combined effect of this interaction is greater than the sum of the individual effects.
- There are different types of synergy including, *organisational, operational and policy*.
- Ensuring interactivity requires control over the relevant entities, programmes or projects. For a bilateral donor pursuing operational synergies on the ground this could undermine the ownership dimension of the Paris Declaration.
- Any attempt to evaluate synergy should focus on its two elements.
- Lessons from attempts to evaluate partnerships and other types of donor collaboration help to set the boundaries for a framework to evaluate synergy.

The Paris Declaration represents the closest the international community comes to a consensus on how to move towards greater aid effectiveness. The Declaration defines five high-level operational goals for achieving greater effectiveness, specifically: ownership; alignment; harmonisation; managing for results; and mutual accountability. Below these goals are a number of related aid management terms that are being used (and debated) as donors attempt to find ways to work more closely together in order to increase the impact of their work. These terms include complementarity, comparative advantage, division of labour, coordination, economies of scale, coherence, and synergy. They are often ill-defined and used inconsistently or inappropriately.

The term synergy in particular is poorly defined. It is increasingly used in donor policies and in discussions relating to aid management and aid effectiveness, but is often assumed to be a generically positive concept. A precise definition is critical to understanding both the increased impact which could be achieved by promoting synergy and any potential trade-offs that this may entail.

In this paper, we focus on the term synergy. We explore the various definitions of synergy and related aid management terms in order to understand the conditions in which donors pursuing synergy will achieve added value. We define synergy in relation to other aid management terms used in Paris Declaration discussions and explore what it might mean for a bilateral donor interested in increasing aid

effectiveness through its funding and work with multilateral donors. While these two types of organisation are not the only ones that can interact to produce synergies, bilateral donors are in a strong position to change the way they operate in the aid system.

The term synergy is used by donors to cover a broad range of sometimes conflicting concepts. We define the term synergy more narrowly than this by identifying two critical elements which are required if it is to be achieved. These are that:

- Interactivity between the relevant entities occurs; and
- The combined effect is greater than the sum of individual effects ( $1+1>2$ ).

The notion of interactivity means that the two or more entities involved in creating the synergy influence, or act upon, each other. This interactivity element of synergy requires that donors interested in planning for synergy must start from the basis of understanding what it is they control. Without control, a donor will be unable to ensure interactivity with others, and while synergy might occur, it cannot be said to be planned.

We identify more than one type of synergy. *Organisational synergy* can occur where two different organisations employ their assets and skills to influence each other in order to produce stronger institutional effects. *Policy synergy* can occur where two organisations articulate their policy positions and implement their influencing strategies in an interactive way. *Operational synergy* can occur when separate programmes, projects or initiatives interact in order to achieve greater effect than their individual actions would achieve. This is distinct from the pooling of finances to fund one programme.

We also note that synergy can occur at a large number of different sites. We discuss a range of sites which can be classified into three different groups. There are sites *on the ground* where donors implement the programme or project; sites *in-country policy and planning forums* where, for example, donors meet either separately or together with government to develop national policies; and sites such as *global forums* where donors meet to develop global policy.

Bilateral donors are not (normally) implementing agencies. This means that they have limitations in relation to the extent to which they can directly control the interactivity of activities on-the-ground. We conclude therefore that bilateral donors which try to achieve *operational synergies* are in danger of taking decisions which increase their own control and so undermine the implementation of the Paris Declaration, as well as the strengths of the multilateral system. This is not to say that operational synergies are not possible, but rather that bilateral donors would be better leaving this to other actors, particularly recipient governments, to manage.

We conclude therefore that bilateral donors seeking to promote interaction between their bilateral and multilateral aid should instead focus on achieving policy synergies.

This focus can be at both the national and global level, and aim for both strengthened policy impact and improved operational outcomes.

In the last section of the paper we explore how donors might begin to think about evaluating their attempts to develop synergies between specific activities. Drawing on various international attempts to evaluate different kinds of collaboration and engagement between donors, we establish the boundaries for any attempt to evaluate synergy. The main problem in relation to defining these boundaries is to balance the need for an approach which is comprehensive and accounts for the complex nature of the potential interactions, with the need to provide a specific focus for the evaluation in order to ensure that it is usable.

Any evaluation of synergy should focus on its two specific elements, interactivity and its outcomes (whether the sum of its parts is greater than if the donors acted independently). We focus primarily on the evaluation of interactivity because it is a necessary condition to achieve synergy. In addition, the question about how much additional effect is specific to the purposes and context of individual synergies and thus cannot be generalised. Reviews of joint evaluations help identify the difficulties which will be faced by donors wishing to evaluate the interactivity element of synergy, including the challenges in agreeing on the framework within which the evaluation will be carried out.

In relation to measuring the outcomes of synergy, we highlight a number of issues that should be addressed by any evaluation framework. These include: what difference it would make if the donors were acting independently; what the link is between interactivity and the increased outcome; what the outcomes are from different types of synergy; and what unintended outcomes, for example the undermining of the Paris Declaration, might be.

## 2 Introduction

### *2.1 Background to Study and Paper Structure*

In November 2007, the Evaluation Department of the Danish International Development Agency (DANIDA) contracted Overseas Development Institute (ODI) to conduct a desk study with the following objectives, to:

- a. elaborate, based on conceptual and methodological considerations, an analytical framework which can be used in the analysis and evaluation of synergies between bilateral and multilateral activities; and
- b. consider, based on (a), different approaches to the evaluation of synergies between bilateral and multilateral activities.

DANIDA's expressed aim in commissioning the paper is to inform its policy commitment to strengthening the interaction between its multilateral and bilateral aid; and to contribute to ongoing debates between member states on the nature of the international aid architecture, aid effectiveness, and aid quality. As the ToRs (Annex 1) acknowledge, despite widespread usage of the term 'synergy' in these debates, the concept lacks operational clarity. Its relationship to other common terms such as 'comparative advantage', 'division of labour', and 'economies of scale' also needs elaboration. In the scope of work outlined, ODI was to consider the above terms, and whether and how they inter-relate. In particular, ODI was to explore different interpretations of synergy, and different kinds of synergy. Finally, ODI was to consider whether synergy could be used in a meaningful way at the general level, or whether specific groups of bilateral and multilateral activities needed to be disaggregated for synergies to be identified.

This discussion paper is the result of a wide literature review of current aid management guidance, and academic literature from the aid, trade, political science, economics and business arenas. Extrapolating from the ToRs, and taking the standpoint of someone working within a government aid agency, the paper seeks to answer the following key questions:

- How should 'synergy' be defined and how does it differ from other key principles/terms such as complementarity, economies of scale etc?
- What are the different types and sites of synergy, and how does this impact on its achievability and value?
- What does planning for synergy mean in practice? Is it a useful and beneficial driver (or influencing factor) of programming and policy decisions?
- Can synergies be measured, and what types of approaches would enable the evaluation of synergy?

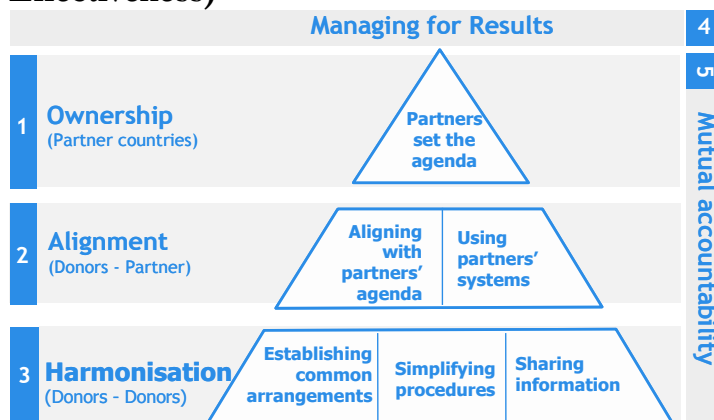


Section 0 will consider the definition of key terms, before a discussion of the types, sites, value, and potential trade-offs of pursuing synergy in Section 4. Section 5 will explore issues relating to the evaluation of synergy. The paper will focus on aid and aid effectiveness. While always being mindful that the ultimate objective is development impact, the paper will focus on effectiveness in terms of the quality of processes and approaches rather than the measurement of impact on the ground. Given its focus on the interaction between multilateral and bilateral aid, it is important to note that the scope of this study privileges certain sites of potential synergy due to its focus on donor-funded activities. It does not address the potential for synergies between bilateral or multilateral actors and national actors in country contexts.

## 2.2 Developing Consensus on Aid Management Terms at Country Level

This study comes at a time of significant consensus on a range of aid effectiveness concepts – albeit with continuing conceptual gaps. The 2005 High Level Forum that resulted in the Paris Declaration played a valuable role in clarifying key high level concepts and obtaining wider agreement on the language used to describe high-value operational goals relating to aid effectiveness (Booth & Evans, 2006). The key terms of country ownership, alignment, harmonisation, managing for results and mutual accountability have been defined and disseminated. Monitorable indicators provide clear guidance on some of the actions required.<sup>1</sup>

**Figure 1: Paris Declaration framework (OECD Working Party on Aid Effectiveness)**



Below the level of these high-order concepts there is increased debate about the meaning and practical application of a number of related aid management terms at country level (though the terms are also useful for describing other aspects of the relationships between donors). These are terms that require changed behaviours from both partner countries and donors. Under the heading of ‘harmonisation’ for instance, a number of significant aid management approaches are prioritised and

<sup>1</sup> This is not to imply that there is complete agreement on how the variables of these key concepts relate to each other, or all actions required for the goals to be achieved.

presented as contributing to the achievement of harmonisation goals. These include: division of labour, complementarity, coordination, comparative advantage and reduced transaction costs. In addition, the goal of harmonisation includes *more collectively effective* actions by donors - implying an increased focus on economies of scale and potential synergies between different development initiatives, including between multilateral assistance and bilateral assistance (Organisation for Economic Co-operation and Development (OECD), 2005).

From a review of these debates, a number of issues emerge:

- a. *There is strong pressure on donors to become more selective or focused in their aid efforts, and to work more closely together.* The OECD's Development Assistance Committee (DAC) has been at the forefront of the drive to increase the concentration of donors' aid efforts in financial, human, informational terms (Munro, 2005). Growing bodies of evidence based on examinations of the effects of projectised or ill-coordinated aid, also suggest that donors should plan, coordinate and harmonise their efforts with other donors in order to produce maximum benefit from their aid resources and reduce the burden of transaction costs. This 'best practice' has been reinforced by European donors in the European Union (EU) Code of Conduct on Complementarity and Division of Labour in Development Policy (Council of the European Union, 2007).
- b. *These terms are often ill-defined, used inconsistently or inappropriately.*
- c. *There is little to guide evaluators in assessing these concepts in relation to bilateral and multilateral aid activities' interaction.*

### **2.3 Questions of Global Aid Architecture**

In addition to the issues highlighted above, the Paris Declaration leaves several big picture global issues untouched, like imbalances in aid allocations between countries, flexible and predictable financing, credible arrangements for 'scaling up'; and effective sanctions mechanisms for non-compliance in the mutual accountability commitments (Rogerson, 2005). In addressing these issues, donors are faced with a complex array of pressures and a number of features of the international system influence donor decision-making:

- *It is a highly competitive and increasingly crowded arena.* Proliferation of donors and interests continues to define the aid world. There are over 230 multilateral agencies, including the United Nations (UN) system agencies and International Financial Institutions (IFIs) (International Development Association (IDA), 2007), thousands of non-governmental organisations (NGOs), and a growing number of vertical global funds competing for limited dollars. Amongst the donor group, there are 33 OECD DAC donors vying for reputation and influence (Rogerson, 2005) and at least 10 non- DAC governments providing significant sums of Official Development Assistance (ODA) to developing countries, often on competing terms. Bilateral aid dominates in aggregate (70% of ODA) (Burall et al., 2006).

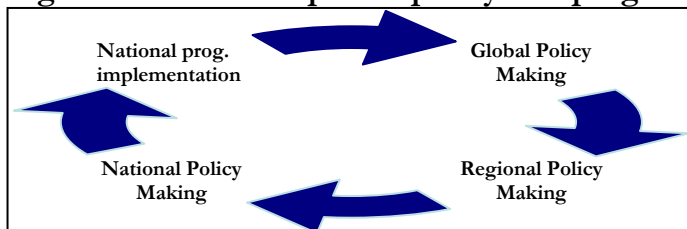
- In reaction to proliferation and growing evidence surrounding aid effectiveness, there are concerted efforts to reform the multilateral system and improve multilateral performance. This particularly applies to the UN system and Bretton Woods Institutions, but is also of current interest to the EU in the wake of expansion.

DAC donors are thus faced with myriad and proliferating choices about where to place their financial, policy and operational efforts. In doing so, commitments to poverty reduction, aid effectiveness principles, and considerations of the ‘ideal’ international aid architecture all play a part. As Rogerson (2005) argues, however, these are often not at the forefront of donor considerations in making resource allocations. Rather, they must compete with considerations of foreign policy goals, domestic constituency concerns, commitments to global public goods, and structural considerations; some or all of which might pull a donor in competing directions.

Bilateral donors employ a range of direct and indirect levers to influence aid outcomes. These are further split between aid and non-aid portfolios. The way in which development ministers channel funds, to whom, and on what terms, gives the most direct effect to government donors’ ambitions. Additionally, membership positions on governing boards and financing of multilateral institutions, such as the DAC, IFIs and United Nations Development Group (UNDG), are also important avenues for policy influence, particularly given these donors’ role as standard setters and peer reviewers. Policy influence and financing are thus interrelated for a bilateral donor. Less directly, bilateral aid agencies also engage with their other government and domestic civil society partners to influence the aid agenda, for instance, by seeking agreement around terms of trade, immigration and security, for example, that benefit developing country partners.<sup>2</sup>

In thinking about managing bilateral aid and its interaction with multilateral aid, it is useful to consider that interaction on programme and policy issues can come at a number of different points throughout the development policy and programme implementation cycle (see Figure 2). Such interaction can take place at global, regional and country levels, and across the policy, programme implementation and evaluation spectrum.

**Figure 2: The development policy and programme implementation cycle**



<sup>2</sup> While these latter policy areas also include national self-interest objectives, this paper is concerned only with direct aid relationships and considerations of international development.

### 3 Working Definitions

#### 3.1 Multilateral and Bilateral Aid

For consistency's sake, we will define what we refer to as multilateral and bilateral.

**Table 1: What is multilateral and what is bilateral?**

	<b>Multilateral</b>	<b>Bilateral</b>
<b>Global</b>	Core contributions to UN, IFIs, EU Global multi-donor trust funds Global Funds/Vertical Funds	Vertical Funds/Global Funds (e.g. Global Alliance for Vaccines and Immunisation (GAVI))*
<b>Country</b>	Balance of Payment Support (e.g. International Monetary Fund) Projects and other activities supported through core contributions/unearmarked funds	General Budget Support Projects* SWAPs* Sector Budget Support Debt relief Balance of Payment support Vertical Funds* Basket Funds* Multi-donor trust funds*
*Can be managed by multilateral agencies (Source: (OECD/DAC, 2007))		

The classifications above, based on the *DAC Statistical Directives*, give a useful, if narrow, starting point. The distinction between multilateral and bilateral contributions hinges on the level of control and identity of donor funds. Core funds to UN and IFIs, for instance, are multilateral, and trust funds that are directed by a multilateral agency at the global level are also multilateral (e.g. Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM)). If, however, donors are able to direct where the funds go, whether this be to a specific sector or country, it should be counted as bilateral. The Afghanistan Reconstruction Trust Fund, for instance, is an example of this; while it is a multi-donor fund administered by the World Bank, it is designated for one country. Other examples include earmarking, or the establishment of certain vertical funds. Table 1 classifies various aid channels facing a bilateral donor.

ODA which is classified as 'bilateral', however, can include a significant amount of funding that is actually *channelled* through a multilateral institution or fund. This funding is called multi-bilateral assistance or 'multi-bi' and it includes contributions

to thematic trust funds and earmarked voluntary contributions to a multilateral agency. In this way a focus purely on the DAC categorisation of allocations provides only a partial picture of how much ODA is passing through the multilateral system (OECD, 2005, p.102) and therefore masks the range of potential interactions between bilateral and multilateral agencies. When we refer to multilateral aid, it is this wider definition that we take, because considering the sites of interaction is necessary to conceive of ways to promote synergy.

### ***3.2 Clarifying the Aid Management Concepts which Contribute to Aid Effectiveness***

The aim of this sub-section is to propose a glossary with conceptual clarity, rigour and operational application that is useful for the development of a subsequent evaluative framework. Clarifying terms emanating from aid policy and aid effectiveness discussions is important. As Booth and Evans point out, signatories to the Paris Declaration have agreed that ‘aid will be more effective if the actions and behavioural changes listed as commitments under the five headings are undertaken and less if they are not’ (2006, p4). Clarifying the meaning and operational application of key terms can therefore be seen as an important step toward improved aid effectiveness. Moreover, stronger collaboration between donors, and between donors and partners, is at the core of many of the Paris Declaration commitments. Common interpretations and definitions relating to aid management are therefore likely to be particularly important for effective negotiation and joint approaches.

A precise understanding of aid management concepts is also important in order to identify potential trade-offs or tensions between different goals and practices - tensions and trade-offs that must be managed by development ministers. This issue has already emerged in relation to the high-value operational goals of ownership, alignment, and harmonisation. Booth and Evans refer to these tensions as ‘negative feedback loops’ and highlight the example of policy ownership ‘being undermined by ‘over-zealous pursuit of harmonised working which calls for the generation of additional “conditions”’ (2006, p6).

As the primary focus of this study is the meaning and operational content of ‘synergy’, we begin with a definition of this key concept. Following this we discuss the meaning and most appropriate usage of other related terms and the ways in which they are distinct from the concept of ‘synergy’. There are, inevitably with related terms, some overlaps in definition. However, our efforts are directed to identifying what is distinctive about ‘synergy’.

#### ***3.2.1 Synergy***

Synergy is a concept with unique meaning. Coming from the Greek *sunergos* ‘working together’, synergy describes the outcome of two or more distinct organisations, substances or other agents interacting to produce a combined effect greater than the sum of their separate effects. Mathematically, synergy could be represented as  $1+1 > 2$ . In our view synergy therefore has two distinctive aspects:

- a. It requires interactivity between agents, resources or activities to occur; and
- b. The sum is greater than the value of its individual parts ( $1+1>2$ )

These two distinctive elements of synergy are inter-related. *Interactivity* means that the two or more separate entities influence or act upon each other. This could happen through informal meetings between individuals or teams from different entities seeking synergy, through to much more formal institutional and governance arrangements, or through activities intersecting and having an effect on the planned outcomes. It is through the change which occurs as actors, entities or activities interact that the second distinctive element, what we will refer to as the ‘greater than 2’ value, is achieved. The ‘greater than 2’ value can either be an increase in volume, or the creation of a separate substance, or by-product. There are different variables and types of ‘synergy’ in a development context. These will be discussed in more detail in Section 3.

### **Box 1: Misuses of ‘synergy’ in aid policies**

*‘Synergy is always good’*  
 The concept of ‘synergy’ is not explicitly referred to in the Paris Declaration. ‘Synergy’, however, is increasingly cited by donors, the DAC and other analysts as a generically positive outcome and/or desirable goal of aid management, yet as we discuss below this is not always so. Donor documents also give the perception that it is of relevance to discussions of aid effectiveness – particularly the harmonisation goal of more collectively effective aid (OECD/DAC, 2005). For instance, the DAC Peer Reviews of Japan (2003) and France (2004) urge these governments to focus (*inter alia*) on the pursuit of ‘synergies’; the Swiss Development Cooperation Strategy 2010 also commits the Swiss Agency for Development and Cooperation to promote synergies between multilateral and bilateral programmes and public and private agencies (OECD, 2005b).

*‘Synergy means efficient, harmonious and complementary’*  
 At other times, synergy is taken to be synonymous with ‘complementary’, ‘coordinated’, ‘efficient’ or ‘harmonised’. For instance, a United Nations Environment Programme (UNEP) (2004) report on synergies in its cooperation concludes that UNEP needs to ‘coordinate further activities aimed at increasing synergies, with a view to avoid duplication and to become more efficient and effective’.

*‘Synergy is obvious’*  
 Donor policies urge greater synergy between multilateral and bilateral programmes most often without specifying how and at which points (DANIDA, 2004a, DANIDA, 2004b, OECD, 2005b). Some lessons are provided, however, by the World Bank, DAC and European Commission (EC), which assume synergies are most likely to occur when programmes are joint and delegated or otherwise integrated within one management framework (EC 2006; OECD, 2003; OECD 2004; World Bank, 2007). Yet without having been defined, and no baseline established, it is difficult to see how these conclusions are reached.

There are other related terms.

### 3.2.2 *Complementarity*

Complementarity is specifically identified in the Paris Declaration as contributing to harmonisation and donors' actions being more 'collectively effective'. In common usage, complementarity relates to two (or more) things that together complete the whole (Fowler and Fowler, 1964). In the aid context, complementarity is most often used to refer to activities that build on their individual strengths and compensate for the limitations (or lacks) in each other in relation to a defined goal. In EU debates, the term is used broadly in relation to organisational efficiency, coherence and combining strengths, as seen in the Maastricht Treaty 'Ensuring that Community Development policy shall be complementary to the policies pursued by Member states' (Article 177).

Complementarity is distinct from synergy in that it does not require interaction between the two entities or processes, nor does it require the outcome of this interaction to be greater than the value of their individual effects. Complementarity assumes distinct operations or spheres of responsibility, non-contradiction of outcomes, and also a common goal to which all efforts are directed. In mathematical terms complementarity could be represented by  $1+1=2$ .

### 3.2.3 *Comparative Advantage*

In the Paris Declaration, donors have committed to 'making full use of their respective comparative advantage at sector or country level' (OECD, 2005). Theories of comparative advantage come from 19<sup>th</sup> century theories of trade (Ricardo, 1817). They hold that all countries would benefit, and world production would be maximised, if every country specialised in that line of production where it had an efficiency advantage compared to its competitors. Assessing a country's comparative advantage, in economic theory, would assess its *endowments* (e.g. natural resources, human resources), *technology* (ie that which turns endowments into utilities or commodities at a cost) and *trade* (the terms by which the goods and services are traded – or price) (Davis, 1997) in comparison to that of other countries.

Applied to the aid domain, we might imagine a market where there are multiple providers of aid 'commodities'. To assess a donor's advantage, we might consider their *endowments* to be human and financial resources, including aid allocations, culture, skills base and intellectual property; their *technology* to be the ways in which these are delivered (via which modalities and at which cost); and *trade* to be the nature of the donors' policy frameworks, conditionality (if any), depth of relationship with recipients and nature of dialogue and evaluation.

*Comparative* advantage however, should not be confused with *absolute* advantage. An organisation's *absolute* advantage is based on the sectors (or thematic areas) where its impact on poverty would be greatest if operating independently. This may well depend on its unique combination of resources, expertise in delivery, policy frameworks and relationships. However, to determine an organisation's comparative advantage requires knowledge of the opportunity cost of each donor focusing on

certain issues. Comparative advantage therefore depends on strengths *relative* to those of other actors and on what each organisation could achieve if it used its resources somewhere else.

The commitment to playing to comparative advantage and to more effective division of labour (discussed below) has led to an increased focus on specialisation or niche thinking in some quarters. Derived from biological theory, specialisation or niche thinking implies that donors should develop specialties (e.g. particular sectoral capabilities or geographic foci, financing or project implementation methods, or particular areas of technical assistance) and stick to them, rather than trying to be all things to all people. There are two important considerations when considering the concept of comparative advantage and how it relates to specialisation. First, as Munro points out neither niche nor advantage is static. Inherent in niche thinking is the need to constantly review and adapt, as others learn from you, follow you and crowd into your niche (Munro, 2005). Similarly comparative advantage requires constant review or 'comparison'. Secondly, specialising in a certain sector or issue area does not necessarily result in comparative advantage. Specialisation may build an organisation's own strengths – its *absolute* advantage - but its *comparative* advantage will always be influenced by the relative strengths and weaknesses of other actors.

#### 3.2.4 *Division of Labour*

Division of labour refers to both the process and an outcome of decisions between donors as to where to focus their efforts in relation to each other. It is a concept explicitly referred to in the Paris Declaration. A pragmatic approach to the division of labour and burden sharing is assumed to increase complementarity and potentially reduce transaction costs (OECD, 2005). According to the Paris Declaration effective divisions of labour are based on comparative advantage.

Deriving from Greek philosophy (Plato and Xenophon), political economists through the ages have appropriated the concept of division of labour to argue that a system that promotes specialisation and divisions of labour functions better than another that does not. The argument being that efficiency and quality of outputs, and human resource skills, are increased if people specialise in particular trades in the service of communally defined goals (Hume, 1739, Du Monceau, 1761). The downside is potential inflexibility and narrow focus in those who specialise (Adam Smith, 1776; Marx, 1867).

Division of labour in the aid world depends on there being commonly defined goals (this may be achieved through development of a common framework and poverty indicators for policy development or aid delivery or, at the more micro level, agreement between donors on agreed goals and comparative advantage). In relation to this, each donor's responsibilities are clearly defined and divisible between them. Responsibilities may be defined in terms of donors' respective strengths or by consensus based on areas of interest. For instance, at the country level, bilateral donors might implement social development projects, whereas the World Bank might provide loans for financial restructuring. Such division of labour might be the outcome of developing a Joint Assistance Strategy, or a recipient country-led



Poverty Reduction Strategy Process, the nature of each determining who leads and supports the division of labour. At the global level, informal consensus holds that Australia focuses primarily on East Asia-Pacific, whereas EU focuses primarily on Africa, Middle East and South Asia.<sup>3</sup>

### 3.2.5 *Coordination*

The World Bank defines coordination as ‘activities of two or more development partners that are intended to mobilise aid resources or to harmonise their policies, programmes, procedures and practices so as to maximise the development effectiveness of aid resources’ (World Bank, 1999). In fact, this definition is closer to coherence, complementarity or synergy. Coordination by itself is more value neutral than the World Bank suggests; it is a mechanism or process by which donors share information about or identify their respective resources, goals, processes and timelines to each other, with the goal that in the very least their efforts should not undermine or duplicate each other. Coordination is a long standing concept in development (Gill and Maxwell, 2004). It is mentioned in the Pearson Commission (1969), the Brandt Commission (1980) and in many global commissions, treaties, Declarations and guidelines since.<sup>4</sup> Each exhorts governments to better coordinate so as not to promote waste, inefficiency and duplication, and to promote developing country ownership of programmes.

Coordination is a process. It can occur at global (e.g. DAC, UN, IFIs), regional (EU, African Union), country, or sectoral levels, and across policy and programming and can have a range of different goals. While coordination is rarely mentioned explicitly in the Paris Declaration, it is the process through which a number of other prioritised aid management outcomes will be achieved (for instance, division of labour and complementarity). Synergy, complementarity, division of labour and economies of scale can all be perceived as potential goals of coordination processes, as can harmonisation more broadly. To implement the commitments to eliminating duplication effectively, rationalising donor activities and encouraging collaborative behaviour in both the Rome and Paris Declaration will be dependent on effective coordination processes and mechanisms.

### 3.2.6 *Economies of Scale*

The concept of economies of scale has also received increased attention in relation to harmonised approaches and aid management. While not explicitly referred to in the Paris Declaration it can be seen as one of the ways in which donors’ actions can be ‘more collectively effective’. Economies of scale are often associated with pooled funding mechanisms and programme-based approaches, which themselves are

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<sup>3</sup> The EU Code of Conduct on Complementarity and Division of Labour in Development Policy is the most significant effort to date to clarify how division of labour should be determined at the country level between EU members. While this is currently voluntary, it proposes that member states reduce both the number of sectors and countries they are currently engaged in (Council of the European Union, 2007)

<sup>4</sup> For example, Maastricht, Monterrey, MDGs, Millennium Summit, Rome, Paris, DAC Best Practice guidelines

assumed to reduce transaction costs for recipient governments. In addition, the Paris Declaration calls for increased efforts to reduce duplication and increase cost-effectiveness. This has also led to an increased attention on the economies of scale apparent in different aid modalities.

Economies of scale are ‘savings achieved in the cost of production by larger enterprises because the cost of initial investment can be defrayed across a number of different producing units’ (Reynolds, 1983). In aid terms, the cost of aid outputs per aid dollar invested in a programme is reduced beyond a certain threshold of investment. It is commonly held that multilateral agencies (particularly the IFIs) can achieve great economies of scale, given their size, reach, financial leverage and capital infrastructure. Pooled funding at country level is another useful example. Defining at what point economies of scale are achieved is the challenge.

### 3.2.7 *Coherence*

Coherence in aid effectiveness literature is often taken to be synonymous with synergy. Yet it is quite distinct. In physics, the term refers to the force by which molecules are held together; in philosophy, coherence theory holds that ‘the truth of a proposition consists in the coherence of that proposition with all other true propositions. Overall, it is the quality of being logically integrated, consistent and intelligible’ (Picciotto, 2005, p.323). As such, it implies clear goals, and consistency in applying multiple policy or programme efforts towards achieving that goal in non-contradictory fashion. Coherence can be pursued within individual donor policies and programmes, between donors within countries, across countries, or between aid and non-aid policies (ibid). There is not necessarily interactivity between coherent policy or programme activities, merely that the outcomes must not undermine the efforts from other spheres. Where there is conflict between policy objectives (for instance security versus poverty reduction) the result is the concession of one set of goals to another.

**Table 2: Summary Definitions**

<b>Term</b>	<b>Summary Definition</b>
Synergy	The interaction of two or more agents, resources or activities such that the product is worth greater than the sum of the component parts (1+1>2).
Complementarity	Activities or policy efforts that build on the strengths and account for the limitations in each other.
Economies of Scale	The reduced cost of aid inputs achievable by established or comparatively large institutions (or funds) the cost of whose capital and human resources can be spread across a range of aid activities.
Division of Labour	The process or outcome of deciding particular spheres of responsibility for aid efforts through a common process in the service of mutually understood goals.

Comparative Advantage	The quality of strength or expertise that is greater than those of counterparts or competitors within a particular system.
Coordination	A process by which donors share information about or identify their respective resources, goals, processes and timelines to each other in order to reduce duplication and increase complementarity.
Coherence	Where two or more distinct policies or programmes are logically consistent and do not counteract each other.

As highlighted above, there is considerable overlap between these different terms. For example, donors wishing to carry-out an effective division of labour will need to make a clear assessment of the comparative advantage of the relevant actors. Donors seeking economies of scale will need to coordinate on some level to achieve this. In writing this paper we have tried to keep to narrow definitions of these terms in order to understand their implications more clearly.

#### 4 Exploring the Concept of ‘Synergy’

Synergy, as a concept, is content-free. It indicates a stronger effect (or outcome) resulting from the interaction of different entities (or inputs) than could be achieved by the entities individually. But, it does not indicate what either the outcome or inputs should be. There are therefore a range of different variables of synergy including:

- Synergy can involve the interaction of a wide range of different inputs. That is, there are different types of synergy; and
- Both the site of interaction and the site at which the synergistic outcome is realised can be highly varied.

Synergies can be accidental or planned. Accidental synergies may well be identifiable in retrospect but, by definition, they have not been managed or orchestrated. For example, two separate projects may be ignorant of each other but may interact at the household level and produce a ‘greater than 2’ effect. Some commentators argue that synergy cannot be planned for at all (Munro, 2005; Harrison, 1991). We argue, though, that the interaction of initiatives can be orchestrated. However, given the unpredictability of development programming, and the unforeseen circumstances that impact on many projects’ paths, predicting the exact value of the synergistic outcome is highly complicated. How much greater than ‘2’ should the outcome be, and does the ‘greater than 2’ value relate to increased volume or the creation of a different by-product altogether? Who determines this value? Assessing this value in retrospect may be possible, but is likely to depend on improvements in the quantification of baselines and development results.

In this paper we focus on ‘planned’ synergies or, at least, planning and actions aimed at promoting synergy or increasing the potential for its achievement. Managing aid engagement to promote synergy means planning for interactivity between initiatives or entities. As outlined above, interactivity means that the two or more activities influence and affect each other. Planning for synergy therefore raises the issue of who has control over the entities/initiatives which need to interact.<sup>5</sup> For this reason it is important to distinguish between different *types* of synergy and *sites* of interaction. The role and influence of the actor pursuing synergy is also critical. It is only through this disaggregation of the concept of synergy that we can better understand its precise operational content, its value in different contexts, and the potential trade-offs associated with its pursuit.

#### ***4.1 Types of Synergy***

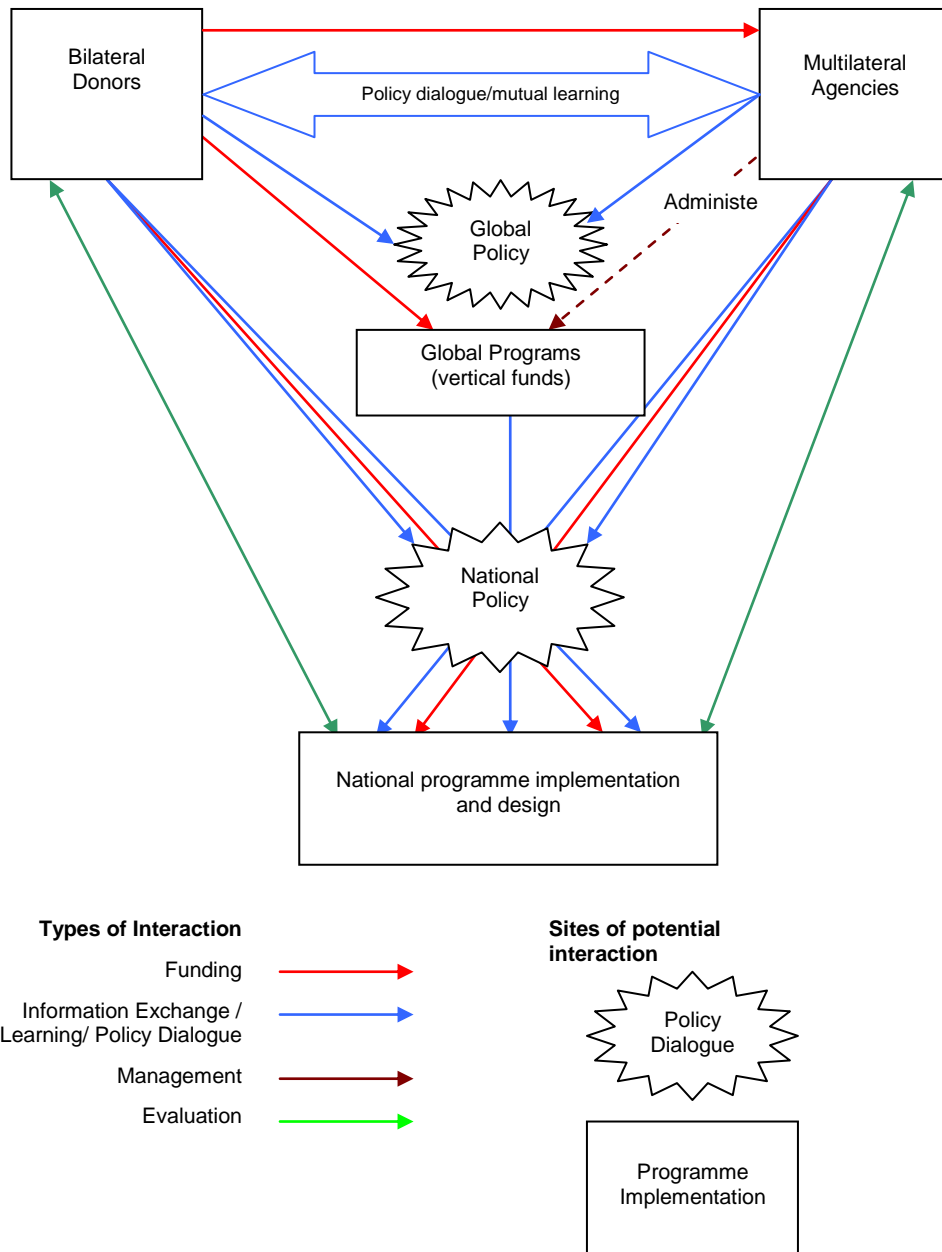
Drawing on discussions of synergy in other domains (Chatterjee, 1986; Harrison, 1991; Munro, 2005) we have identified some key types of synergies relevant to the aid context. Brief definitions are outlined below before a more detailed discussion of each synergy type:

- a. **Organisational synergy:** two different organisations combine their assets and skills to influence each other and produce stronger institutional effects;
- b. **Policy synergy:** achieving greater than expected impact by combining policy positions and influencing strategies in an interactive way;
- c. **Operational synergy:** combining programmes or initiatives in an interactive manner to achieve greater effect than individual projects/programmes or their sums.

It is important to note that the *type* of synergy does not relate to the synergistic outcomes which might be achieved; for instance, the outcome, or ‘greater than 2’ value, of interacting policies may well be enhanced operational outcomes.

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<sup>5</sup> Synergy differs from a number of other aid management concepts in this important way. For instance, an individual donor can shape their programming *around* that of other donors and achieve complementarity, similarly an individual donor can analyse the strengths and weaknesses of other actors and determine its comparative advantage and shape its programming and policy engagement around that. While pursuing complementarity and comparative advantage in collaboration with other donors is far preferable than not doing so, interactivity is not inherent to either of these aid management concepts.



#### 4.1.1 Organisational Synergies

Much of the discussion of different types of synergy emerges from the corporate domain and focuses on the synergy which may occur when businesses merge. One key area where synergies are seen to be achievable is through interaction of the capital assets of two or more businesses (Chatterjee, 1986).

Development agencies have ‘capital’ beyond just financial resources, including human or intellectual capital. Organisational synergies thereby could result from

combining development actors' non-financial assets.<sup>6</sup> For example, two organisations (with different intellectual capital) could pursue joint research and disseminate it in both organisations and to the development community as a whole. Joint training programmes and staff development initiatives are other potential examples. Organisational synergies are achieved through interaction with other entities when the practices, knowledge or intellectual capital of one organisation is affected, or augmented, by another.

#### *4.1.2 Policy Synergies*

Policy synergies might be seen in the interaction of a variety of donors (both bilateral and multilateral) to promote particular global or country level goals. This can be likened to what Chatterjee (1986) calls 'collusive synergy' in the corporate domain. Collusive synergies can be achieved when two or more merged organisations can determine price more powerfully than the two separate, competitive organisations. Examples from development include the success of the Nordic+5 group in promoting and securing the agreement amongst the wider donor group to effectiveness principles. A further example might be the collaboration between IDA and a bilateral donor (or group of donors) to promote best development practice in low income countries based on the evidence and experience of all.

#### *4.1.3 Operational Synergies*

As outlined above, the Paris Declaration calls for donors' action to be more collectively effective. It is through the achievement of 'operational synergies' that greater impact on the ground is likely to be achieved. Operational synergies relate more directly to the interaction between programmes and other activities and the potential for strengthened programme outcomes (greater than 2). Munro argues that operational synergies can come from the innovations of one project being applied in another and through backward and forward linkages between different projects/programmes (Munro, 2005, p.442).

The potential for backward and forward linkages between projects highlights the importance of sequencing in relation to achieving maximum effectiveness. Box 2 provides an example of such linkages that have the potential of resulting in a 'greater than 2' value.

While Munro (2005) has emphasised directional linkages (forward and backward) operational synergies can also arise through activities being conducted in tandem if they interact positively. Examples of 'sideways' linkages would include the provision of public expenditure management technical assistance at the same time as general

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<sup>6</sup> Using the precise definition of 'synergy' we have outlined in Section 0 the two combined components need to be able to influence each other (or interact) for synergies to occur. It is for this reasons that we emphasis non-financial assets rather than financial assets here. While financial assets can be merged or pooled, thereby increasing overall volume, two lots of funding do not 'act upon' each other. The increased volume achieved as a result of pooling may well result in economies of scale but, by our definition, would not represent 'synergy'.

budget support (GBS) is being provided or institutional strengthening of a national statistical office in tandem with general budget support to improve evidence based planning. If these separate but complementary initiatives were to act upon each other (interact) there would be the potential for operational synergies to be realised.

### **Box 2: Operational synergy through forward and backward linkages**

Activity A is a rural electrification programme that results in the provision of reliable electricity services to sub-district health clinics within the project area. Activity B involves the procurement of refrigerators for the health clinics in key locations. Activity C is an immunisation programme that focuses on the provision of polio vaccines and the immunisation of infants in the project area. Each of these activities has value in its own right. However, the sequencing of these initiatives will have a direct effect on their likely impact. Without appropriate storage facilities at the sub-district health clinic level, health outcomes would be compromised and the impact of Activity C would be minimised. Either potency levels of the vaccines being administered at the sub-district level would decline or communities could only have their children immunised at the district level which would decrease coverage rates. Either of these eventualities would impact negatively on health outcomes. Activities A, B and C thereby have forward and backward linkages that enhance the developmental impact of Activity C. In order to ensure the correct sequencing of these activities, there will need to be joint planning and interaction between the staff of the organisations implementing the projects.

### **4.2 Sites of Interaction and Outcomes**

Another key variable of synergy is the site of interaction. The range of different potential sites is extensive and cannot be discussed in full here. This study is focused on the synergies between donor funded activities and, in particular, the interaction of multilateral and bilateral aid. However even this sub-set of potential synergies includes a wide range of possible sites of interaction. In this section we have adopted a broader interpretation of ‘multilateral aid’ than the DAC definition used for statistical reporting and have focused instead on the varied ways in which multilateral agencies and bilateral donors interact at different levels. Broadly speaking these can be categorised into three different groups, which we summarise below and discuss in more detail in section 4.3 below:

- *‘On the ground’*: In other words the site of implementation – for example the household or community level or within a government ministry.
- *In-country policy and planning forums*: for example, joint donor working groups, policy discussions between donors and government. For example, the development of national policy, or the development of donor policy.
- *Global forums*: In other words, sites where international policy is developed and debated – for example donor support groups of multilateral institutions, the European Union, governance bodies of multilateral development banks.

Clearly the site of interaction is closely related to the type of synergy; operational synergies are more likely to involve interaction at the implementation ('on the ground') level, for example, and policy synergies are more likely through planning and policy forums. These categories can be usefully disaggregated even further (see Table 4, Annex 2). Also, the synergistic outcome may well be realised at a different site to that where the interaction occurred. Policy synergies achieved in policy and planning forums at the country level may well result in operational outcomes in particular provinces or villages. Similarly organisational synergies orchestrated at the global forum level may well result in strengthened operational outcomes also (for example, learning achieved through a jointly organised international conference which is applied to training programmes within an individual donor and applied in a particular country context).

### ***4.3 The Value, Achievability and Trade-offs of Different Synergies***

To increase the potential for synergistic outcomes requires management of interactivity. In considering the value of synergy and its achievability it is therefore important to consider who has authority over the entities involved in different types of synergies and at different sites. Any analysis of the relative value of pursuing synergy will need to ask:

- What is the actual synergistic outcome being pursued?
- What entities need to interact to achieve that effect, and what inputs will be required?
- Who has control or authority over those inputs?
- What is the value of the outcome? Does it warrant the inputs required?
- What trade-offs does the pursuit of certain types of synergy in different contexts involve?

This sub-section will continue the focus on interaction between multilateral and bilateral aid and explore these issues from the perspective of a bilateral donor. This identification of the actor pursuing synergy is critical as it is only through adopting a given perspective that it is possible to consider the scope of the actor's authority, the inputs it controls, its subsequent capacity to manage for interactivity, and the trade-offs that might arise as a result of pursuing interactivity.

In the next section, this paper explores how the different types of synergy highlighted in section 4.1 above could be pursued at national and at global level. Organisational synergy, as defined, is relatively straight-forward, at least in conceptual terms and appears to require few trade-offs. The paper therefore focuses on how bilateral donors might pursue operational and policy synergies at the two levels.

#### ***4.3.1 Pursuing Operational Synergies at the National Level as a Bilateral Donor***

As outlined earlier the most critical contributions of a bilateral donor are likely to be funding and policy engagement. While bilateral donors may often manage projects and activities, they rarely play a direct implementation role. This raises a number of



critical issues with regard to bilateral donors' pursuit of operational synergies for operational outcomes.

#### The trade-offs from pursuing operational synergies as a bilateral donor

Operational synergies require the interaction of projects or activities. The degree of control over project implementation is a key factor in determining the likelihood of interactivity for an individual actor planning for operational synergy. That is, there is a positive correlation between the degree of management control and the likelihood of being able to bring about interactivity. Bilateral donors can channel funds in a range of different ways each of which represents differing degrees of control over the activities being funded. However, unless the bilateral donor has taken on a direct implementation role it will never have complete management control. If it were to prioritise the pursuit of operational synergies between its multilateral and bilateral aid, the bilateral donor would have to maximise its control over project implementation. Table 4 (Annex 2) outlines a number of different ways in which a bilateral donor could pursue operational synergy between its bilateral and multilateral aid. It also indicates how the specific site of interaction determines whether interactivity is possible, and what trade-offs it would involve. As this table indicates, there are a number of opportunity costs for a bilateral donor. These are associated with pursuing operational synergies at this level in relation to important aid principles, good donorship and best practice.

The Paris Declaration commitments prioritise bilateral donors ceding control in favour of national governments in order to achieve greater ownership and alignment. Even if country ownership is not perceived as possible, bilateral donors are encouraged to cede control to multilateral agencies and/or managers of pooled funding to promote harmonisation and reduce duplication. If a bilateral donor were to actively prioritise the promotion of synergy it would need to take on a more active management role in relation to its programmes and activities. This would run counter to its commitments to ownership, alignment and harmonisation.<sup>7</sup>

For example, donors have committed to improving alignment by increasing their use of country systems. Use of national systems gives government control over implementation and reduces the bilateral donor's capacity to manage for interactivity. Similarly, efforts to improve harmonisation have involved a significant push towards programme-based approaches and the pooling of funds (through basket funds for example). These modalities offer significant potential to reduce duplication, rationalise donor activities and improve cost-effectiveness (key Paris Declaration commitments). However, their value lies in reducing the number of bilateral donors managing separate activities. They therefore involve bilateral donors ceding management authority to the manager of the common fund.

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<sup>7</sup> It is also important to note that many bilateral donors are under increasing resource constraints. This impacts on their capacity to take on a more active management role in implementation, even if it were considered valuable.

The positive correlation between level of management control and operational synergies means that bilateral donors prioritising operational synergy may be pulled towards more projectised approaches. The limitations of the project approach are well chronicled elsewhere and were a significant driver behind the High Level Forums on aid effectiveness. While recognising the value of projects in specific contexts, aid management practices that require, encourage or incentivise a move in that direction are in danger of undermining the progress made in recent years.

#### How can bilateral donors contribute to operational synergies?

The limited direct role in implementation, and the significant trade-offs involved in seeking to increase management control, raise the question as to what, if anything, a bilateral donor can do to promote operational synergies and interactivity ‘on the ground’? We would argue that the only valuable role that bilateral donors can only play is a *facilitative* one in relation to this type of synergy through their engagement with their implementing partners. Two key examples include:

- Bilateral donors can encourage implementing partners to seek out synergies with other implementers (government, multilaterals, NGOs) through the nature of their partnership agreements. However, it is important to recognise that the partner is unlikely to have full management control over the two separate projects that need to interact to achieve synergy. Partners may therefore also be confronted with potential trade-offs if instructed to prioritise the pursuit of synergy; and
- Bilateral donors can also play a facilitative role through bringing together the range of actors involved in related and potentially synergistic activities at the country level. Workshops, consultations and planning meetings can increase information exchange and assist in identifying possible sites of beneficial interaction.

#### *4.3.2 Pursuing Policy Synergies at the National Level for Operational Outcomes*

Recognising the limitations confronting bilateral donors in the pursuit of operational synergies does not mean that such actors cannot contribute to the achievement of synergistic operational outcomes. Bilateral donors have a unique role to play in planning and policy development at the country level. This represents an opportunity to pursue policy synergies which could contribute to a ‘greater than 2’ effect on operational outcomes.

Pooled funding provides a useful example of this opportunity. As outlined earlier, the term ‘synergies’ is used synonymously with ‘harmonisation’ or improved ‘efficiency’ by some commentators and therefore pooling of funds is assumed to be ‘synergistic’. However, using the precise definition proposed here the merging of funds is not synergistic *per se* as the funds provided by different donors do not have the capacity to influence each other; they are just more of the same thing in the one pot. Pooled funds are merged into one entity and may achieve economies of scale, but not synergies. However, in almost all instances a pooled fund would have governance arrangements that bring together the relevant bilateral (and possibly

multilateral) donors. In many instances the fund is administered by a multilateral agency which brings its own strengths (e.g. standing, legitimacy, technical capacity, reach) to that particular role and which interacts with the donor group on policy and planning issues and so potentially could achieve synergistic outcomes.

The governance arrangements associated with pooled funds therefore represent a valuable opportunity for donors' policies to interact and for bilateral donors to interact with the work of multilaterals. To explore these issues further we will focus on a few key examples: post-crisis multi-donor trust funds; and policy conditionality related to budget support provision.

#### Post-crisis multi-donor trust funds

A recent review of post-crisis multi-donor trust funds (MDTFs) (Scanteam, 2007) highlights some of the key ways in which pooled funding can create an opportunity for positive interaction and potential synergies between bilateral and multilateral engagement, and how policy synergies between contributing donors can contribute to synergistic operational outcomes.

Eighteen MDTFs were reviewed as part of the Scanteam study, some of which were administered by the World Bank (13) and others by the United Nations (5). The review found that, while the governance structures differed, Bank-administered MDTFs usually consisted of '(i) a deliberative body that sets policy, generally with participation by national stakeholders, (ii) a funding decision body made up of contributing donors and usually national authorities' (ibid). These governance structures indicate the potential for donors' planning and policies to interact and to influence donor funded activities. While the focus of this study is on donor activities, these governance structures also demonstrate the potential for the interaction of bilateral donor, national government and multilateral agency initiatives in the planning and policy forums established to manage pooled funding. In fact, in the absence of other national policy processes MDTFs have at times taken on this role and can provide a forum for donor and donor-government policy dialogue.

The MDTF review highlights the opportunity provided for positive interaction between multilateral and bilateral aid. In many contexts where either the World Bank or the UN acts as the administrator of pooled funds they are also playing other roles in-country (such as implementing their own programmes funded by global level core or non-core resources). World Bank administered trust funds also provide the opportunity for donors' policy engagement and influence to combine with the comparative strengths of the World Bank, such as experience in providing budget support, building core public systems and capacities in the process, capacity to manage larger-scale projects, and ensure a high standard of quality at entry (ibid).

In this example, MDTFs provide an effective forum for interaction of donors and other actors' policy and planning processes. In particular, they provide 'a way to support fragile and failing states in a joined-up manner and to reduce fiduciary and political risk (for donors) when interaction involves possibly corrupt and/or abusive parties to a post-conflict process' (ibid). A bilateral donor can make use of these

forums to combine policy positions and influencing strategies with other actors in order to try and achieve greater impact than it could individually (that is policy synergies). The bilateral donor has control over its policy inputs and, through the governance structures established, is provided with a site for interactivity. Beyond the impact on the programmes supported through the MDTF, the Review highlights two other areas of potential policy synergies which it refers to as ‘positive externalities’:

- MDTFs represent a harmonised approach and are well placed to improve alignment and ownership. A bilateral donor’s engagement in the MDTF can therefore potentially contribute to improved performance against Paris Declaration principles. That is, ownership and alignment can in themselves represent synergistic outcomes of certain aid management practices.
- There is the potential for the interactivity achieved through the governance structures of the MDTF to have spill-over coordination effects on other donor-funded activities.

A bilateral donor could also seek to pursue operational synergies between the activities it is funding indirectly through a multilaterally administered pooled fund and its own bilaterally managed activities. However, as outlined above the potential for achieving operational synergies is limited without having management responsibility for all inputs. The likelihood of achieving operational synergies could be increased through tight earmarking by the bilateral donor. However, this would be inconsistent with the ‘core principles of an MDTF, undermines MDTF flexibility, and limits government roles in decision making’ (Scanteam, 2007).

#### General Budget Support as a framework for policy dialogue

The Joint Evaluation of General Budget Support identifies some ways in which policy engagement by multilateral and bilateral donors can interact to produce policy synergies which can result in strengthened operational outcomes (IDD and Associates, 2006). This evaluation examined the impact of Partnership General Budget Support (PGBS) in seven countries. One of the countries evaluated was Mozambique (one of Africa’s most aid-dependent states) which is working with donors and funding agencies through a joint programme designed to ensure transparent and coordinated support. Eighteen countries and agencies are involved, known as the “Programme Aid Partners” (PAPs)<sup>8</sup>, and they provide financing directly into the state budget.

The current programme was formulated after some donors withheld budget support funds temporarily in response to violations of human rights and a banking crisis in 2001. The government asked that the conditions for disbursement should be set out

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<sup>8</sup> African Development Bank, Belgium, Denmark, Canada, the European Commission, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the World Bank. Austria joined the PAPs during the 2007 Joint Review. Observers include: Japan, the United States, UNDP and the International Monetary Fund.

more transparently in order to reduce the negative effects of the unpredictability on the economy.

A Memorandum of Understanding (MOU) has been signed which sets-out the objectives, basic principles and commitments of the government and donors, the processes for reporting, monitoring and dialogue, dispute resolution as well as the disbursement processes. The Performance Assessment Framework was established as the mechanism for dialogue and the basis for assessing government's performance and therefore for deciding donor funding commitments for the next year. It committed the PAPs to align with government systems, to make their funding predictable, to strengthen domestic accountability, and to expose their own performance to a donor accountability framework – the Programme Aid Partners' Performance Review. An elaborate system of joint reviews timed to coincide with the government's budgetary cycle has been created. This is backed by an organisational structure of thematic and working groups (Batley et al, 2006). The structures that have been established demonstrate the potential for donor (and government) planning and policies to interact and influence donor and government activities.

The evaluation of the programme showed that the framework contributed to interactivity among donors, between donors and government and between different parts of the government systems. PGBS has promoted policy dialogue that is more focused on policy priorities and includes more stakeholders than before. More donors are involved, including non-GBS donors, as are sector ministries. In addition, there are many strong processes of shared learning between government and donors. The dialogue also has a relatively high level of integration with other aid modalities. Sector support and sector policies are increasingly being brought into PGBS forums and subjected to a common assessment framework (ibid). The framework has also been critical in raising the importance of the Ministry of Finance and Planning as the central focus for national planning. It has also been an important role for developing common instruments of planning and prioritisation both within government and between government and donors, and in working through the government's own systems of cash management, procurement and audit. It has thus strengthened governmental systems and leadership. The same kind of partnership could not have emerged through project aid, and did not develop under former World Bank structural adjustment programmes (ibid). The promotion of dialogue and shared conditionality has, in reality, been more important than the funds; though the former could not have occurred without the latter. The dialogue has supported changes in the relationship and reporting lines between core government and line ministries, and between line ministries and donors. By promoting planning by the government departments working together, rather than by specific sectors working separately, it has helped to increase core governmental ownership. However, the joint evaluation noted that there are trade-offs; donors have also become more involved in the processes and policies of government, possibly damaging national ownership (ibid).

### *4.3.3 Pursuing Operational Synergies at the Global Level*

Bilateral donors are also confronted with a wide range of choices regarding their policy engagement and financial contributions at the global level, in particular regarding how they channel funds to multilateral agencies, programmes and funds and how they seek to influence the programming of such agencies through policy engagement. In relation to funds allocation at the global level a number of the issues outlined earlier in this sub-section are also relevant. The OECD/DAC defines 'multilateral contributions' as those made to an international development institution which pools contributions so that they lose their identity and control (OECD, 2007). Under this definition it is clear therefore that bilateral donors do not have management authority over how their multilateral contributions are allocated and implemented. Bilateral donors also channel funds (categorised as 'bilateral' by the OECD) through multilateral agencies. This is referred to as multi-bilateral assistance and can include non-core contributions to multilateral agencies, thematic trust funds and many of the vertical funds (see Table 4, Annex 2).

Funding through these multilateral channels (ie multi-bi contributions) can provide opportunities for bilateral donors to seek to increase their level of control over programming and allocations in order to enhance the potential for interaction with other bilateral aid and therefore operational synergies. Vertical funds and the provision of non-core funding to multilateral agencies (eg through thematic trust funds) can often be earmarked by sector, theme, country or a combination of all three. However, just like at the country level, this increased control will come at a cost. In fact, it could be argued that the cost of seeking to direct (or earmark) global level funding is two-fold, relating both to the impact on country level aid effectiveness and the broader aid architecture.

#### Costs in relation to the Paris Declaration principles

There is growing concern that increased earmarking [at the global level] can lead to a misalignment between donors' and recipient countries' priorities (IDA, 2007). In recent years there has been a significant increase in the number of funding channels at the global level. Many of these have been established as vertical funds aimed at increasing the attention and funding available for a specific theme or issue. While vertical funds such as GFATM respond to proposals from recipients, they are perceived to be poorly aligned to government planning and public finance management systems (UK Department for International Development (DFID), 2007) The weaknesses of both vertical and thematic funds can be seen as the disconnection between funding decisions and national level priority setting and systems, and the implications this has for ownership and alignment at the national level. Much of the ODA provided through vertical funds uses different financing and procurement cycles, is off-budget, is not under the control of government authorities, and therefore has the potential to undermine systems in the recipient country.

### Broader aid architecture concerns

The second potential opportunity cost of prioritising greater influence through earmarking is the weakening of the multilateral system. The UN system as a whole has become increasingly dependent on supplementary funding over time as core resources have declined as a percentage of overall funding. That is, an increasing percentage of contributions are earmarked. This practice runs counter to evidence that suggests that for multilateral institutions to play to their strengths, they need increased flexibility in their budgets and thereby greater autonomy. It has also raised concerns about the predictability, sustainability and reliability of UN funding in particular. Lindores (2007) has highlighted a number of consequences of increased reliance on non-core resources which have implications for other development cooperation objectives:

- Reliance on supplementary funding can distort programmes with agencies, funds and programmes feeling the need to ‘chase aid funding’;
- Normative functions can be sacrificed in favour of projects that are more likely to attract funding;
- Increased reliance on supplementary funding can increase transaction costs and constrain improvements in efficiency; and
- Given supplementary funding is not subject to full cost recovery, programme costs may need to be subsidised from core resources which can in turn decrease the core resources available for high priority work (ibid).

The potential for economies of scale and the unique normative role the UN system can play are two of the key strengths of the multilateral system. An over-reliance on non-core resources, and increased earmarking, potentially undermines both these strengths. UN agencies are more likely to undertake a wide range of smaller projects due to the unpredictability of funding (thereby limiting economies of scale and increasing transaction costs) and advisory and advocacy roles are likely to be under-resourced. There is also the risk that the longer-term research, monitoring and surveillance roles of some specialised agencies will be compromised.

This discussion does not seek to suggest that bilateral donors’ funding through multilateral channels should ignore other elements of the donor’s development cooperation portfolio or other multilateral agency’s broader engagement. Rather it indicates the risk associated with pursuing synergies between entities beyond your management control. In considering funding choices at the global level as a bilateral donor, it is likely that issues of coherence, complementarity and economies of scale are more valuable guides than the pursuit of operational synergy. The opportunity for policy synergies with potential operational outcomes is also an important consideration, as it is at the country level.

#### *4.3.4 Policy Synergies at the Global Level*

Through its multilateral policy engagement a bilateral donor can seek to influence the quality and performance and priorities of multilateral institutions. Bilateral donors play a significant role in the governance of multilateral institutions. For

example, they are members of the World Bank Board, active in IDA replenishment negotiations, and participate in regular Annual and Spring meetings. They also engage in donor committees and support groups, and can act (along with other member states) as board members of UN funds and programmes, as well as participating in meetings of the Economic and Social Council (ECOSOC)<sup>9</sup>.

However, an individual donor's capacity to wield influence in each of these forums is often dependent on its financial contributions, its status as a key partner in a particular area or sector, its technical competence and, importantly, its alliances and collaboration with other donors. A bilateral donor's capacity to impact on the policies and programmes of a multilateral agency may therefore be enhanced through working jointly ('colluding') with other donors (policy synergies).

One example of this is the current drive for UN reform. A number of bilateral donors have sought to achieve policy synergies through the delivery of consistent messages at the global level and by ensuring that their financing decisions are *coherent* with their policy positions. As the strength of this collaboration increases, and if positive outcomes are demonstrated at the operational level, it is likely to interact with and influence the policy positions of a broader group of donors in multilateral policy forums. This in turn could impact on the funding patterns of individual donors and reduce the funding to non-joint UN agency projects which currently undermines the aims and objectives of UN reform.

Similarly many bilateral donors currently consult their in-country representatives regarding the performance of multilateral agencies in the field. Each individual donor's experience of working with multilateral agencies is likely to be somewhat different due to their systems and processes, partnership arrangements, and possibly the particular country or thematic areas in which they collaborate. On this basis the bilateral donor can seek to comment on and influence a multilateral agency's performance. However, the understanding of an individual bilateral donor of the strengths and weaknesses of a multilateral agency, and the breadth of their perspective, will be enhanced through interaction with other bilateral donors whose in-country representatives concerns may differ. If each donor only represented their own concerns their potential for influence would be limited. However, if the two (or more) donors interact and work collaboratively the evidence or experience collected by each individual donor can affect or inform the policy position of other donors. A number of donors could thereby present common (and more informed) policy positions and achieve a greater effect on the multilateral institution than would be if they had acted individually. The Multilateral Organisations Performance Assessment Network (MOPAN) group of donors, which undertakes an annual assessment of a selected number of multilateral organisations, is one example of this type of interaction for policy synergies.

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<sup>9</sup> It worth noting that it is not just donor agencies that engage with multilateral organisations; different government departments are mandated to engage with different agencies.



#### ***4.4 Inside the ‘Bilateral Donor’: A Note on Institutional Issues***

In this study we have used a generic notion of what a bilateral donor is, as if they were homogenous group. In order to better explore the concept of synergies we have focused on a number of characteristics common to the majority of bilateral donors and the role of this group of actors in relation to other types of actors in the international development system. However, there is significant diversity between bilateral donors, each with their individual systems and processes, policy frameworks, resources, funding patterns, staffing capacities, partnerships and institutional strengths. These individual characteristics will be equally as important in any donor’s consideration of how the concept of synergy can be operationalised.

While a detailed discussion of how different institutional variables can impact on the pursuit of synergies is beyond the scope of this paper it is important to highlight two key issues. First, achieving different types of synergies at different levels will require different skills and expertise within the bilateral donor. Secondly, the aid management commitments can incentivise different practices and changed behaviours. A bilateral donor will therefore need to give careful consideration to the implications of any political or corporate commitment to the pursuit of interactivity or synergy.

##### ***4.4.1 What Type of Aid Agency?***

Maxwell (2005) identifies four possible models for bilateral aid agencies:

- ***the spyglass***: whereby most aid is channelled through multilaterals and the bilateral donor’s job is to make quality allocation decisions and ensure effective multilateral performance. Staff therefore need competencies in aid policy, the governance of the international system, international negotiations, and the evaluation of organisational effectiveness;
- ***the spigot***: where bilateral aid is still important but is dominated by budget support and bilateral donor staff are collaborating closely with other donors on issues like North-South accountability, auditing of government systems, budget formulation and results-based management;
- ***the spoon***: bilateral donors are primarily focused on meeting the Millennium Development Goals (MDGs) through a mix of bilateral projects and sector-programme support; and
- ***the spanner***: where bilateral donors return to a focus on large scale infrastructure programmes and therefore require engineering and programme management expertise.

While recognising that each aid agency is likely to have some degree of each of these the value of this typology lies in its implications for a bilateral donor’s strategic planning, staffing and training. It also highlights the importance of bilateral donors considering their strengths and weaknesses and planning for the role they plan to take in the changing aid environment.

Considering aid management practices and priorities, and synergy in particular, a bilateral donor requires a similar analytical and strategic planning process. A few key examples include:

- Policy synergies will require particular skills (e.g. negotiation, facilitation, technical expertise) in donor's country offices and not every bilateral donor will be equally capable of planning for policy synergies for the achievement of strengthened operational outcomes;
- The pursuit of policy synergies at the global level clearly has the potential to better guide and influence multilateral agencies' performance improvement. However, as highlighted in Maxwell's (2005) spyglass model, effective engagement at the multilateral level requires staff to have different competencies to those in other aid agency models; and
- In considering the promotion of synergies, bilateral donors should not only be aware of their own institutional strengths and competencies but also those of other bilateral donors. A donor with less expertise in multilateral engagement, or less technically skilled in-country representation for example, could look to 'interact' or 'collude' with bilateral donors with complementary strengths in order to better promote policy synergies.

#### *4.4.2 Incentivising the Pursuit of Synergy*

The second important institutional issue to note in considering the operationalisation of synergy is the importance of incentives and disincentives to changed behaviour within aid agencies (de Renzio et al, 2005; Graves and Wheeler, 2006). Incentives have to be right to ensure the implementation of aspirational policy goals. De Renzio et al. (2005) discuss the necessary levels, political, institutional and individual, at which incentives need to work. Focusing on the aid effectiveness goals of harmonisation and alignment, their study assesses the steps that various donors took in order to implement the commitments they endorsed under the Rome Declaration, and the effectiveness of these.

At the political level, Ministerial and Senior Executive commitment to a particular goal is necessary; as is peer pressure from other donors and the public. At the institutional level, de Renzio et al. (2005) reveal that decentralisation, increasing flexibility in budgeting and openness to flexible aid modalities, as well as action plans, procedural reviews and dedicated units can promote the uptake of changed ways of working. At the individual or staff level, people need to be rewarded for pursuing particular goals or acquiring skill sets that support them in achieving particular goals, so for instance, promotions should take goals into consideration in assessing candidates, awards can be motivating, and peer groups can support implementation.

This discussion of political, institutional and individual level incentives is relevant to our exploration of the concept of synergy in two important ways. First, it demonstrates that if the pursuit of synergy, or interaction between multilateral and bilateral aid, is to be prioritised by bilateral donors then it will require more than a

corporate level commitment. Donors will need to consider the ways in which their systems, processes and practices enable or constrain the pursuit of synergies and ensure any disincentive to relevant changed behaviours are removed and approaches likely to promote synergy incentivised.

Secondly, the discussion of incentives demonstrates the importance of a precise definition of synergy and a consideration of its different variables and sites. As argued above, 'synergy' is not a generically positive term but has a precise meaning and therefore specific operational implications. The pursuit of certain types of synergy at specific sites could well be highly costly in regard to other higher order aid effectiveness goals such as harmonisation and alignment. If bilateral donors commit to strengthened interaction or the pursuit of synergy in a broad sense, this could result in practices which undermine the Paris Declaration commitments being incentivised in certain contexts. Commitments to synergy or interaction will therefore need to be based on a far more nuanced understanding of the concept and the specific synergistic outcome being pursued.

Commitments to synergy and/or interaction will also need to consider how performance against such commitments will be measured. This will require some progress in the valuing of different development outcomes. While Collier and Dollar (1999, 2002) have made strong headway in modelling the marginal efficiency of aid dollars gained by bilateral as opposed to multilateral donors (that is the number of people lifted from poverty per \$1m allocated, with multilaterals being found to be marginally more efficient), their model has been criticised for being insufficiently sensitive to a range of important dynamics affecting aid outcomes (Beynon, 2003). Beyond this, were appropriate metrics set, analysis of absorptive capacity at the global architectural level, and at country levels, would need to be developed and taken into account in decisions to prioritise synergy between various activities. If the relationship between programme inputs and outcomes were exponential, limits to absorption may be more quickly reached than with conventional programming.

The following section will explore approaches to evaluating synergies in more detail.

## 5 Evaluating Synergies

### 5.1 A General Approach for Evaluating Synergy?

As demonstrated above, the debates on the concept of synergy, its definition and its application in bilateral-multilateral donor relationships are complex, not least because ‘real life decisions’ about if and how to establish synergies with multilaterals in the planning and delivery of development interventions are likely to depend on specific contexts, sectors and actors. Furthermore, these choices are likely to depend on different types of aid modalities available to donors as well as their internal incentive structures which are not always conducive to establish ‘real’ positive synergies between bilateral and multilaterals. There are trade-offs involved in operationalising synergies between different donors and at different levels, and sometimes tensions can arise, for example in relation to country ownership (see Section 4).

Nonetheless, whilst the way agencies might pursue synergy will be very context and incentive driven, there appears to be potential benefit from considering them while planning aid programme and allocation decisions. The challenge facing agencies therefore is how to assess the potential benefits prior to making decisions to engage and finance multilaterals, and how to evaluate whether or not synergistic benefits, or gains from some of its components, have been achieved.

A number of bilateral donors have developed frameworks and methodologies for assessing multilateral effectiveness and performance to inform their decision making with regard to financing and aid allocation<sup>10</sup>. These include:

- **Multilateral Effectiveness Financing Framework (MEFF)** – developed by DFID in 2004, this looks at whether an organisation incorporates a results focus into all its business processes and continually uses results to improve its performance (Scott, 2006).
- **Performance Assessment Framework** – Developed by DANIDA in 2003, based on an assessment by a Desk Officer using a number of different sources of information including that generated by the organisations themselves as well as a survey of embassy staff (Meier, 2007)
- **Multilateral Organisations Performance Assessment Network (MOPAN)** – this looks at multilateral performance at country level as assessed by a group of eight bilateral donors and is expected to be revised on the basis of the Balanced Scorecard Approach (Meier, 2007)

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<sup>10</sup> A separate paper, *Approaches to Assessing Multilateral Effectiveness*, Scott et al, prepared by ODI for DANIDA will explore these assessment methods in more detail.

The main aim of these frameworks is to measure multilateral effectiveness, mostly related to their performance, with a view to informing bilateral decision making for their engagement with multilaterals. As such these framework do not focus on the specific features of synergy, namely the interactivity between agencies or the capacity of such engagements to achieve ‘a whole greater than the sum of its parts’ (i.e.  $1+1>2$ ). However, they could be useful for informing the development of an evaluation framework for assessing synergies between bilateral and multilaterals, with particular reference to their methodologies and specific measures proposed (e.g. indicators of effectiveness).

Generic frameworks for evaluating the outcomes of different kinds of engagement/collaboration between bilateral and multilaterals are difficult to come across, probably for very good reasons. First, it is important to recognise that despite the common features identified by our general definition of synergy, its applications are likely to differ considerably depending on the agencies involved and the context in which the synergies operate. Furthermore, each synergy between bilateral and multilateral agencies is likely to be applied to specific projects, programmes or policy, at different levels (see section 4). Hence the specific object of the evaluation is also likely to vary. Therefore in this section, rather than proposing a fully fledged general evaluation framework for evaluating synergies between bilateral and multilaterals, we consider ideas and options based on what can be learnt from existing initiatives to evaluate different kinds of relationships (and their outcomes) among development agencies, which share some similarities with these synergies and could therefore be relevant for evaluating them.

In considering the evaluation of synergies, in particular between donor funded activities, it is important to note that the evaluation *process* itself is likely to require interactivity between donors and therefore presents the opportunity for *organisational* synergies to be realised – for instance through joint evaluations. This site and type of synergy, however, is not the primary focus of this section. Instead, the discussion of evaluating synergies is largely focused on the interaction between donor-funded *activities* 'on the ground' or operational synergies. Given the role of donors discussed earlier, the evaluation of operational synergies is likely to include donors evaluating the work of their implementing partners. While recognising that the evaluation of policy implementation is also of great value, this focus on outcomes on the ground is in line with the primary focus of the majority of donor evaluations currently conducted.

## ***5.2 Boundaries of Evaluating Synergy***

One of the main challenges for evaluating synergies between bilateral and multilateral donors is to establish the ‘boundaries’ of the evaluative exercise, i.e. what could be included in an evaluation of synergy and what excluded. Although never straightforward, establishing the boundaries of a ‘traditional’ development intervention, such as a project funded by a single donor with clearly defined objectives, stakeholders groups and recipients, has become a relatively well established practice in development evaluation over the years. A variety of methods,

guidelines, principles and standards have been developed in support of more harmonised and rigorous approaches to project and programme evaluation (e.g. the DAC principles, logframes, etc.). Whilst some of these can be successfully adapted for complex development interventions, such as multi-donors or multi level interventions, the complexity of these types of initiatives often implies that their evaluation requires ‘special treatment’ (Independent Evaluation Group (IEG), 2007), i.e. specific approaches and methodologies, rather than a generic evaluation framework.

The recently published ‘Sourcebook for Evaluating Global and Regional Partnership <sup>11</sup> Programmes’ (IEG, 2007) offers some useful insights which are potentially relevant for the evaluation of synergies between bilateral and multilateral agencies and programmes. Some of the key features of a Global or Regional Partnership Programme (GRPP) which are potentially (but not necessarily) shared by synergies are:

- The partners contribute and pool resources (financial, technical, staff, and reputational) toward achieving agreed-upon objectives over time;
- The activities of the programme are global, regional, or multi-country (not single-country) in scope;
- The partners establish a new organisation with a governance structure and management unit to deliver these activities.

Like synergies, GRPPs can be very diverse and yet many are likely to share features that distinguish them from other subjects of evaluation. Some of these features, which are also relevant for synergies, and their implications for evaluation are summarised in Table 3 below.

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<sup>11</sup> The concept of partnership was not considered as part of the analysis of relevant terms/concepts (in section 4). This is because it refers to collaborations between different kinds of actors, including recipient governments or NGOs, whereas the focus of this paper is on donors’ synergies only.

**Table 3: Indicative Features of GRPPs, implications for evaluation and relevance for synergy**

<b>GRPP feature</b>	<b>Implications for evaluation</b>	<b>Relevance for synergy</b>
<p><b>GRPPs are programmatic partnerships</b> with multiple donors, partners, and other stakeholders, whose interests do not always coincide.</p>	<ul style="list-style-type: none"> <li>- Identifying the various categories of stakeholders early in the planning for a GRPP evaluation, and taking account of their diverse interests, is very important in order to determine the appropriate degree of participation and consultation during the evaluation process.</li> <li>- Assessing the legitimacy and effectiveness of the governance and management arrangements is essential. Communications with and the flow of information to the various stakeholders are important determinants of legitimacy and effectiveness.</li> </ul>	<p>High – Applies to most synergies</p>
<p><b>The results of GRPPs are the joint product of global / regional and country-level</b> activities and of parallel activities</p>	<ul style="list-style-type: none"> <li>- Assessing the effectiveness of a GRPP requires consideration of the programme’s inputs, outputs, outcomes, and impacts at all levels — global, regional, and national — ideally based on measurable indicators and a representative sample of activities at all levels.</li> <li>- Attribution is often particularly difficult to discern in the case of a GRPP.</li> </ul>	<p>High – Applies to most synergies</p>
<p><b>The program usually evolves over time</b>, based on the availability of financing, and does not usually have a fixed end-point.</p>	<ul style="list-style-type: none"> <li>-The purpose, objectives, scope, and design of an evaluation need to take into account the maturity of the program.</li> <li>- GRPP evaluations should include an assessment of sources and uses of funds and the resource mobilization strategy.</li> <li>- In a mature program, it may be necessary to assess strategies for devolution, exit, or alternative organizational and financing arrangements.</li> </ul>	<p>Medium – Can apply to some synergies</p>
<p><b>Governance and management are multi-layered and decision making is complex.</b></p>	<ul style="list-style-type: none"> <li>- Assessment of the legitimacy and effectiveness of governance and management should analyze the respective roles of the governing body and management in various decision-making processes.</li> </ul>	<p>Medium – Can apply to some synergies</p>

<p><b>The decisions on activities to support are made through a programmatic process,</b> rather than fixed in advance as in a discrete project</p>	<p>- The criteria and processes for allocating resources and choosing activities to support are important ingredients of both relevance and effectiveness, and need to be assessed.</p>	<p>High – Applies to most synergies</p>
<p><b>GRPPs are diverse</b> in size, age, sectoral focus and objectives, and in the types of activities supported</p>	<p>- While some variation in evaluation approach and design is to be expected, some standards for evaluation of GRPPs are necessary to ensure credibility and to meet accountability objectives.</p> <p>- The evaluation design, scope, coverage, and methodology may also differ according to the governing body’s purpose in conducting an evaluation at a particular point in time, the maturity of the program, the portfolio size, and the type of activities supported.</p>	<p>Medium – Can apply to some synergies</p>

The main challenge for defining the boundaries of a framework to evaluate synergy is to balance the need for a comprehensive approach that takes into account the complexity of multiple actors, (potentially) multi-level, multi-country initiatives with multiple objectives (as shown in Table 3) with a realistic approach which provides sufficient focus for an evaluation to be realistically achievable and, most importantly, usable to improve future practice. The checklist below highlights the key elements of an evaluation framework which will need to be considered and agreed upon by all actors involved in the synergy:

- **Key purposes and scope of the evaluation:** Bilateral and multilateral donors involved in the synergy, as well as other key stakeholders, may have different views on this which will need to be reconciled and agreed upon. For example, it may not be possible or timely to focus the evaluation on measuring the impact of a ‘synergistic’ programme: yet individual agencies might have strong internal incentives/pressure to increasingly focus all evaluations on programmatic impact. Or the bilateral donors may be under greater pressure to demonstrate ‘value for money’ given their investment in the programme and the accountability to domestic stakeholders. Finally, the emphasis on learning and/or accountability purposes might vary among stakeholders.
- **Specific objectives and questions to be addressed:** these should be based on the agreed purposes and scope. Critically, it might be necessary to develop specific objectives and evaluation questions for different levels of operationalisation of the synergy (e.g. global and national) and for different programmes/initiatives supported by the synergy between bilateral and multilateral.



- **The object(s) of the evaluation.** This again is related to purposes and objectives. Even if the evaluation has a fairly broad purpose and a number of articulated objectives, it might still be desirable (because of time and resource constraints) to focus the evaluation on a selective number of ‘objects’ (i.e. projects, a programme, policy dialogue etc.) arising out of the interaction between multilaterals and bilaterals, as opposed to the totality of the initiatives. Alternatively, the evaluation can be carried out in stages, focusing on specific objects, e.g. a comprehensive desk review of all initiatives resulting from the bilateral/ multilateral interaction, individual in depth case studies of a selection of projects or countries etc.
- **Who is it for?** This is particularly important as bilateral and multilateral agencies tend to have different audiences as well as different accountabilities to a range of stakeholders. In the case of the bilateral the focus is on domestic political actors (e.g. the minister and parliaments) and the public, to whom they are accountable. In the case of multilaterals, the focus is on their governing boards and members states. For both, there might be a need to produce useful knowledge for management, so that future practice can be improved, as well as to strengthen the accountability to stakeholders in recipient/partner countries.
- **How it will be used, by whom?** The focus here is on the specific kinds of use that each donor will make of the findings of the evaluation, which are likely to be linked to internal decision making processes, planning cycles etc. It is of paramount importance that organisation is fully committed to follow up, use and sharing of the evaluation findings and that specific opportunities for such use are identified (e.g. planning processes, an internal review, the development of a new policy etc.).

### ***5.3 Evaluating Specific Features of Synergy***

In the previous section we outlined some of the more general features that should be considered for developing an evaluation framework of synergies between bilateral and multilateral agencies. We now turn to some of the more specific features of a synergistic relationship between entities, as outlined in the previous sections of this paper.

In section 4 we defined synergy as having two distinctive aspects:

- a. It requires *interactivity* between agents, resources or activities to occur; and
- b. The *sum* is greater than its individual parts ( $1+1>2$ )

These two distinctive elements of synergy are inter-related. Interactivity means that the two or more entities influence or act upon each other. It is through this change that the second distinctive element, what we refer to as the ‘greater than 2’ component, is potentially achieved.

An evaluation of synergy should therefore focus on these two specific features. In particular, it should assess the extent which the active influencing between actors

(e.g. interactivity) contributes to achieving results which, on the whole, are greater than what would be achieved if each donor was to act independently (i.e. that  $1+1>2$ ). In this section we focus our attention on options for evaluating the first of these two features, i.e. interactivity, for two main reasons:

- Because according to our definition of synergy interactivity is necessary to achieve results which reflect  $1+1>2$  (i.e. the whole is greater than the sum of its parts)
- Because ‘what is 2’ (i.e. what outcomes will look like) and how much ‘more than 2’ can a synergy achieve are both specific to the purposes, objectives and context of each individual synergy and cannot be generalised.

### 5.3.1 *Evaluating Interactivity*

One of the key features of interactivity, which would also be central for evaluating it, is that it can be either formally planned with specific governance or planning structures developed, more *ad hoc* in nature, or accidental (see section 4). What is common to all forms of interactivity is that the interaction between entities should produce/lead to changes which, to some extent, should be different from ‘business as usual’. These changes can either be a change in *practice* (i.e. a chosen delivery mechanism, the management of the funding structure, a new/different policy being adopted by an donor involved in the synergy etc.), or a change in *behaviour* (i.e. the rules for engaging in policy dialogue with national governments, common statements between agents involved in the synergy, roles and responsibilities of different actors involved in the synergy). In the case of a planned synergy, one of the focus of the evaluation is likely to be on the formal or new arrangements put in place as part of the synergy process (e.g. dedicated management structures, boards, accountability mechanisms) to assess the extent to which these ‘efforts’ or investments are worth it in view of the value attained, and the opportunity cost of not doing something else (or business as usual, i.e. separate programmes with no interaction with other activities).

As donors and other stakeholders increasingly pursue complementarity and seek to enhance interactivity, in-line with recent trends in development effectiveness, evaluation initiatives are also focusing on these issues. Below we provide some examples which are relevant to evaluating synergies. While some refer to evaluating terms that are related to the term synergy, as in the first example below, they offer insights into carrying out such evaluations.

#### Complementarity and coordination of EU country strategies

In 2006, the EU carried out an assessment of the effect of the EC and EU Member States Country Strategy Papers (CSPs) and related mechanisms aimed at improving alignment and complementarity in development cooperation. Since the 1990s the CSPs have been the main focus/instrument of donors’ co-ordination and complementarity at country level. The evaluation found that the contribution made by CSPs to effective coordination has been limited, in that the focus was on the preparation and drafting of the document itself rather than on the implementation.

Furthermore, they are seen as inflexible tools which can undermine rather than enhance co-operation among donors. On the other hand, ad-hoc ‘similar processes and initiatives’ (such as the Nordic+ approach, performance assessment frameworks supported by the World Bank and MoUs between government and donors) have proven more successful in certain countries. This is explained by two main factors: (i) these mechanisms are more adaptable/ suitable to specific circumstances and (ii) they tend to provide more practical opportunities for dialogue and engagement. These findings seem to suggest that ‘planned’ or highly coordinated interactivity is not always the most useful approach, and that ad-hoc flexible solutions are often more desirable (EU, 2006).

#### Paris Declaration indicators

Out of the twelve indicators developed to monitor the progress of the Paris Declaration, only two are specifically dedicated to donor harmonisation.<sup>12</sup>

- Use of common arrangements or procedures — Percent of aid provided as programme-based approaches. Target by 2010: 66% of aid flows are provided in the context of programme based approaches.
- Encourage shared analysis — Percent of (a) field missions and/or (b) country analytic work, including diagnostic reviews that are joint. Target by 2010: 40% of donor missions to the field are joint (b) 66% of country analytic work is joint.

The Paris Declaration indicators for donor harmonisation suggest a narrow approach to interactivity which focuses on formal arrangements (procedures) and specific actions/change only related to donors’ analytical work/efforts. Furthermore, they seem to focus on operational or organisational synergy (i.e. combining programmes) rather than on policy synergy. One key question for an evaluation of synergy (and of the Paris Declaration for that matter) is to what extent the former is desirable without the latter: how realistic and useful is it for donors to agree on common programmatic procedures and standards with no commitment to engage in policy synergies (including influencing each other policies or aligning them to country priorities)?

#### *5.3.2 Evaluating 1+1>2*

As mentioned above, in order to evaluate the outcomes of a synergy, and specifically whether they constitute better results than what could be achieved by an individual agency, or activity or policy, it is necessary to consider the specific objectives, nature and contexts of the synergy itself. In other words, it is not possible, nor desirable, to develop generic measures or indicators to evaluate synergistic outcomes. Instead, we have identified a number of key evaluation questions and issues that would need to be addressed by an evaluation framework of synergies between bilateral and multilateral donors or projects etc.

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<sup>12</sup> See <http://www.oecd.org/dataoecd/57/60/36080258.pdf>

First, the evaluation should consider *what difference it would make if the donors were acting independently*. This is clearly a complex question to address in practice and there are no easy methodologies to apply. However, if one of the key features is for synergy to deliver results which are greater than the sum of its parts, this question is an important one and needs to be addressed. One option would be to collect systematic evidence on the views and experiences of the different stakeholders involved or affected by the synergy and who are likely to have had direct experience or knowledge of the individual donors' work.

Another key question is related to the *link between interactivity* and  $1+1>2$ , i.e. to what extent, if at all, has the interactivity between donors contributed to achieving the expected outcomes of the synergy? What kinds/forms of interactivity are more or less conducive to achieving such outcomes?

Thirdly, the evaluation needs to consider the outcomes of *different types of synergy*. For example, an evaluation of an operational synergy is more likely to focus on outcomes at programme level, whereas organisational synergies are more concerned with internal arrangements which have occurred as a result of the synergy (e.g. new joint training initiatives, different arrangements for financial planning etc.). There are also differences between planned and ad hoc synergies: the former are likely to create dedicated mechanisms and processes to operationalise the synergy (e.g. joint systems and procedures, joint management arrangements, a dedicated governance structure etc.). These processes and mechanisms need to be considered by the evaluation.

Finally, particular attention should be paid to the question of *unintended outcomes*. As discussed in previous sections, a number of factors can militate against an interaction delivering its intended synergies, mostly because of the complexity underpinning the relationship between the different actors involved and the difficulty in predicting the outcomes on the mutual influencing between them. However these very same factors could be underpinning a variety of unintended – positive and negative – outcomes which it was not possible to predict when the interaction began.

The 'Sourcebook for Evaluating Global and Regional Partnership Programmes' (IEG, 2007) suggests that these kinds of programmes – which as discussed share some similarities with synergies- require a number of special considerations for assessing their effectiveness, including:

- The *scale* of the programmes, which is often larger than traditional single donor initiatives; issues related to sampling and diversity of country conditions become very important;
- The *different levels of interventions*, which are likely to create complexities in relation to objectives (different at different levels) and multiple actors involved. These could create conflict and tensions which should be taken into account by the evaluation. This requires special attention to be paid to the different perspectives from which results and outcomes are being assessed; and

- The *long timeframe* of synergies, which makes it harder to identify the ‘end point’ of a programme or policy initiative. It may be possible that only over time (and beyond the evaluation exercise) will it become apparent that the outcomes achieved as a result of interactivity between entities or initiatives are greater than the sum of each part.

Finally, a good evaluation should be interested in the “how” and “why” questions, as well as the “what” questions. Therefore, it must concern itself with the underlying logic and assumptions which underpin the notion/model of a synergy between bilateral and multilateral donors, in order to be able to question them. In other words, the evaluation should assess the ‘theories of change’ (Weiss, 1998) which could help to explain how the potential for synergy was identified in the first place, how it developed over time, the ways in which it was operationalised and the extent to which the results it achieved reflected the original rationale/model behind it. In particular, a number of assumptions and hypothesis should be questioned by an evaluation of synergy, including:

- That it is the interactivity and mutual influencing occurring between entities or initiatives that will contribute to outcomes ‘greater than 2’. If not, why not?;
- That the synergistic outcomes (greater than 2) do not undermine other important or desirable outcomes such as country ownership and the accountability of individual donors; and
- What are the specific conditions under which interactions are more likely to lead to synergies and why?

## 6 Conclusion

This study explored the concept of synergy in order to understand better its precise operational content, particularly in relation to the interaction of donor funded activities. ‘Synergy’ is increasingly used in discussions relating to aid management and aid effectiveness, and is often assumed to be a generically positive concept. This assumption fails to consider the precise meaning of ‘synergy’.

Drawing on a review of literature from international development and other contexts, we have defined synergy as being the outcome of two or more distinct entities, or initiatives, interacting to produce a combined effect greater than the sum of their separate effects. Synergy therefore has two distinctive elements which are inter-related. Interactivity means that the two or more separate entities influence or act upon each other. It is through this change that the second distinctive element, what we refer to as the ‘greater than 2’ component, is achieved.

Synergy however, as a concept is content-free and has many different variables. We have outlined here three different types of synergy: policy, operational and organisational. Synergy can also vary in relation to the site of interaction as well as the site that the synergistic outcome is realised. These different aspects of synergy point to the importance of considering the relative value of synergy in relation to the specific context and other aid goals. They also highlight the importance of developing a more nuanced understanding of the concept if it is to be a useful guide to aid management practices.

In planning for synergy we have argued that it is important to understand the degree to which the actor promoting synergy has control or authority over the inputs which would need to interact. This study has adopted the perspective of a bilateral donor and has emphasised the valuable role donors play in the provision of development financing and policy engagement. Our understanding of the role of a bilateral donor can also usefully inform our assessment of its capacity to achieve different types of synergy and the value in it adopting synergy as an aid management objective in certain contexts. We have argued that there can be significant trade-offs associated with bilateral donors pursuing operational synergies on-the-ground as they are not in themselves implementing agencies. Therefore, giving priority to operational synergies is likely to encourage donors to seek greater control over implementation. This is in direct contradiction to many of the aid effectiveness goals of the Paris Declaration which requires donors to cede control to national governments (to improve ownership and alignment), or to administer joint initiatives (to strengthen harmonisation). Seeking greater control over implementation in pursuit of operational synergies can also lead to increased earmarking of global level funding which has significant opportunity costs with regard to the capacity of the multilateral system to fulfil its unique role and play to its greatest strengths.

Instead we argue that donors can contribute to strengthened operational outcomes through the pursuit of policy synergies at both the global and the country level. Bilateral donors play a critical role in governance of multilateral institutions and of multi-donor initiatives at the country level. These forums provide a valuable opportunity for donors to interact and influence each others' policy engagement in such a way as to achieve greater impact on the fund or donor. These forums also provide a valuable opportunity for bilateral donors to interact with multilateral agencies, each bringing their respective strengths and advantages.

In the final section of the paper we highlight a number of issues that donors will have to consider as they begin to think about evaluating the value of their attempts to interact together for synergistic reasons. We established some questions that donors will have to consider as they develop such a framework and note that a number of current methods for evaluating donor interaction offer some useful ideas and lessons. Considerably more work needs to be done before any such framework can be used in the field.

In this paper we have considered the conceptual and theoretical implications for donors wishing to identify possible synergistic outcomes. There are many practical aspects which have not been touched on; in this last section of the conclusion we identify a number of other areas of potential further study.

As we highlight in the evaluation section, one key question is related to the extent to which the interactivity between donors has contributed to achieving the expected outcomes of the synergy? What kinds/forms of interactivity are more or less conducive to achieving such outcomes? The recent review of post-crisis MDTFs highlights the way in which pooled funding can increase the potential for interaction between donors, and therefore the potential for policy synergies, between those donors contributing to the fund, to contribute to enhanced operational outcomes. This raises a series of questions about the nature of the relationships which are more likely to lead to positive interactions of this kind. How formal or informal can these relationships be? What is the effect of different governance relationships on the nature of the interactions and the outcomes that result?

This study focused on how an individual bilateral donor might promote synergies with multilateral agencies. To progress the consideration of the terms synergies, complementarity, coherence and economies of scale further, thought needs to be given to the implications of working with other donors, focused on a particular country context. DANIDA (or another donor) could select a case study and review its country strategy from the perspective of these principles. This is not to say that these principles should always be paramount or applied equally. But, such a contextual analysis would raise specific issues that enabled a further discussion on when synergies should be given priority over the other objectives, and why and how policy and programming decisions should weigh up these respective merits.

In identifying that bilateral donors are not best placed to pursue operational synergies on-the-ground, we touched on the importance of partner governments managing the interaction needed. We did not explore this idea in any great detail and

a number of serious questions are raised by it. First and foremost donors will need to consider whether they have any role in building the capacity of partners to identify potential sites of synergy, as well as to manage the complex interactions required to achieve the >2 outcomes. Donors will need to seriously explore the extent to which developing and prioritising such activities might require a different set of trade-offs as well as the extent to which they could undermine the principles of the Paris Declaration.

We highlighted, in section 5, the challenges of evaluating the >2 aspect of synergy. In particular, noting the complexity of developing an understanding of the difference it would make if donors acted independently versus acting, and interacting, together. It would be useful in this context for donors to consider studying whether or not it would be feasible to compare the ex-ante rather than ex-post value, in terms of aid effectiveness and development effectiveness, of an aid dollar contributed to a multilateral channel vs an aid dollar contributed via a bilateral channel.

Finally, in considering the value of aid management concepts such as synergy and their operational implications, it is important to remember the higher-value goals of aid effectiveness: ownership, alignment, harmonisation, managing for results and mutual accountability. The focus on donor-funded activities in this study limited the opportunity to consider synergies between donors and national actors, or between different actors at the national level in any detail. While improved harmonisation is a critical component of aid effectiveness it can sometimes involve negative implications for the goals of ownership and alignment. Any consideration of different types of synergy and the value in their pursuit must therefore consider how this relates to, and impacts, on these other goals.



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## **Annex 1 – Terms of Reference**

### Synergies between bi- and multilateral activities

#### Background

In recent years the international aid architecture has increasingly been debated. This debate has been strengthened by the Paris Declaration with its focus on ownership, alignment and harmonization. A key challenge in this debate, including the Paris Declaration, is how to approach issues like division of labour, complementarity, economies of scale and synergies between donor funded activities. The debate is, however, often characterized by a lack of clarity as several concepts are not clearly defined and do not have a precise operational content.

Although the Paris Declaration covers both bilateral and multilateral donors, the debate tends in particular to focus on relations between bilateral donors, while discussions related to multilateral donors often concentrate on internal reforms or reforms between the multilateral agencies. When the relationship between bilateral and multilateral assistance is discussed it is often done in terms of relative shares of total development assistance.

It is part of Danish development policy to strengthen the interaction between Danish bilateral assistance and multilateral aid. This is clearly indicated in the recently published Priority Plan for 2008-2012:

“And through increased emphasis on interaction between the bilateral and the multilateral development cooperation, we can further enhance the effect of the overall Danish development assistance. The Government will regularly review this interaction with the aim of optimizing coherence between the bilateral and multilateral development assistance.” (p. 18).

It is envisaged that the debate on aid architecture and potential synergies will be intensified in the future, and that future evaluations to an increasing extent will have to deal with synergies between different donor funded activities.

The main aim of the present evaluation study is to try to establish an analytical framework, which can be used in future analyses and evaluations of synergies between bilateral and multilateral activities. As indicated above the area is under-researched, and it is also realized that these Terms of Reference do only cover a subset of a number of complex issues.

#### Objective

The objectives of this evaluation study are

a)

- to elaborate, based on conceptual and methodological considerations, an analytical framework which can be used in analyses and evaluations of synergies between bilateral and multilateral activities
- b)
- based on the above-mentioned framework to consider different approaches to evaluations of synergies between bilateral and multilateral activities

### Outputs

The output will be a report which will not exceed 30 pages, annexes excluded. The report will be published by the Evaluation Department as a Danida Evaluation Study. The Evaluation Study will also be made available on the Internet ([www.evaluation.dk](http://www.evaluation.dk)).

### Scope of work

The Evaluation Study will be carried out as a desk study and based on available literature, reports etc. The team will not try to identify specific synergies or the experience of individual donors or donor policies. The team is not expected to carry out interviews with donors or representatives from partner countries.

Considering that the area has not been explored systematically before, the team will develop the structure and content of the report in consultation with the Evaluation Department of Danida.

The scope of work will at least cover the following issues:

#### Ad a

- As no universally accepted definition of “synergies” in relation to development assistance seems to exist an important task will be to identify and discuss different interpretations of the concept “synergies”, but also different kinds of “synergies”. In addition, the attempt to establish more clarity as to what should be meant by “synergies” will probably imply that the meaning is discussed in relation to related concepts like comparative advantage, division of labour, economies of scale etc.
- The team will also consider whether the concept “synergies” can be used in a meaningful way at a general level or whether both bilateral and multilateral activities have to be disaggregated into specific groups of activities in order more precisely to identify different kinds of synergies.

#### Ad b

- The team will provide some ideas for how future evaluations of synergies could be approached. This part will be short and will only set out main principles and issues based on (a) above.

[... Practical Information included ...]

Ole Winckler Andersen/EVAL

## Annex 2 – Sites of Interactivity between Multilateral and Bilateral Donors

<b>Table 4: Sites of interactivity between multilateral and bilateral aid and action required of a bilateral donor (donor x) to increase potential for operational synergies</b>			
<b>Site interaction</b>		<b>Actions donor X would need to take to increase potential for operational synergy</b>	<b>Likely trade-offs</b>
<b>Multilateral role</b>	<b>Bilateral role</b>		
Implementing agency funded at country level by Donor X (bilateral project)	Bilaterally managed projects	Controls both inputs to ensure high potential for managing interaction	Harmonisation Systems Alignment
	Pooled fund	Seek to influence pooled funding to interact with its own other activities through policy engagement	Undermines value of pooled funding Harmonisation Ownership (if national government has input into funding decisions)
	Budget support (GBS or sector budget support (SBS))	Heavy conditionality, earmarking of effort to influence government	Ownership Alignment Harmonisation of conditionality (Policy synergies)
Manager of pooled fund specific to Country A	Bilaterally managed projects	Seek to influence pooled funding to interact with its own other activities through policy engagement	Undermines value of pooled funding Harmonisation Ownership (if national government has input into fund decisions)



	Pooled fund	Seek to influence both pooled funds through policy engagement to achieve interaction	Undermines value of pooled funding Harmonisation Ownership (if national government has input into fund decisions)
	Budget support (GBS or SBS)	Heavy conditionality, earmarking of effort to influence government	Ownership Alignment Harmonisation of conditionality (Policy synergies)

Channel for Donor X's global level funding	Bilaterally managed projects	Would lead it to heavily earmark at the global level eg UNDP HIV Thematic Trust Fund	Ownership (at country level) Alignment (at country level) Harmonisation Quality of multilateral system
	Pooled fund	Seek to influence pooled funding to interact with its own other activities through policy engagement	Undermines value of pooled funding Harmonisation Ownership (if national government has input into fund decisions)
	Budget support (GBS or SBS)	Heavy conditionality, earmarking of effort to influence government	Ownership Alignment Harmonisation of conditionality (Policy synergies)
Managing unearmarked funding which it has allocated to Country A	Bilaterally managed projects	High level of earmarking at the global level	Ownership (at country level) Alignment (at country level) Harmonisation Quality of multilateral system

	Pooled fund	Seek to influence both pooled funds through policy engagement to achieve interaction	Undermines value of pooled funding Harmonisation Ownership (if national government has input into fund decisions)
	Budget support (GBS or SBS)	Heavy conditionality, earmarking of effort to influence government	Ownership Alignment Harmonisation of conditionality (Policy synergies)

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