Good Donorship and the Choice of Aid Modalities
-- Matching Aid with Country Needs and Ownership --

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About Aid Modality

- Global concern for aid effectiveness.
- Why does aid modality matter?
  - A tool to transfer money, goods and knowledge from donors to recipient countries.
  - Affect how recipients and donors interact in the aid process and ways to address development problems.
- Debates on projects vs. program aid.
  - Emergence of new aid approaches, esp., budget support (BS), pooling funds under SWAp.
About Aid Modality

  - Country-based approach
  - Country ownership and leadership, and
  - Diversity in aid modalities.

- What do the above principles mean for each country?
  - How is the usefulness of projects vs. program aid viewed in Vietnam, and why?
  - What are specific factors to be considered in Vietnam for choosing aid modalities?
Today’s Agenda

1. Aid modality debates and emerging consensus on “good donorship.”
2. A conceptual framework for deciding the choice of aid modalities.
3. Case analyses: how to match aid with country needs and ownership? (e.g., Vietnam, Cambodia, Tanzania, Ghana)
4. Preliminary conclusions: how to practice “good donorship”? 
## 1. Aid Modality Debates: Evolution

<table>
<thead>
<tr>
<th>Development Priorities</th>
<th>Aid Modalities</th>
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| **1950s-** | - Projects and program aid (typically, balance-of-payments (BoP) support through commodity loans), aimed at financial transfer.  
- Technical assistance (TA) projects. |
| - Capital shortages (domestic and foreign exchanges)  
- Knowledge and technology gaps |
| **1980s:** | - Structural Adjustment Lending (SAL) and Sector Adjustment Lending (SECAL), in the form of program aid, adding policy conditionality to BoP support.  
- Later, program aid became linked to debt relief initiatives (e.g., Enhanced HIPC Initiative). |
| - Macroeconomic stability  
- Structural reforms |
| **1990s:** | - New types of program aid, including budget support (general and sector budget support), pooling funds under SWAp arrangement, as well as pooled TA. |
| - External debt problems |
| **Mid-1990s-** |  
- Building of the core government systems  
- Recurrent financing  
- Policy and institutional coherence  
- Addressing fungibility issues. |
Aid Modality Debates (esp. mid-1990s~)

Critical assessment of the existing modalities:

- ‘Stand-alone’ projects (e.g., aid fragmentation, transaction costs, PMU & parallel systems, under-budgeting of recurrent expenditures)

  → Sector-wide Approach (SWAp): clustering of projects, or pooling funds.

- Structural adjustment operations (e.g., undermining ownership, conditionality)

  → Budget Support (BS): from “ex-ante” to “ex-post” conditionality, based on nationally-owned PRSP.
Aid Modality Debates
(esp. mid-1990s~)

- Changing emphasis on the role of aid:
  - Institutions and policy coherency.
  - Direct-poverty reduction measures, i.e., social sector priorities.

- Modality shift becoming integral part of supporting the PRSP framework:
  - Linking PRSP priorities, budget mgt. (MTEF), and performance monitoring (PAF).
Good Donorship: Emerging Consensus

- Lessons learned for donor practices:
  - Respecting country-led ownership.
  - Aligning to government policies, programs and systems.
  - Simplifying and harmonizing aid procedures.
  - Identifying and responding to local needs.
  - Supporting capacity development at both institutional and individual levels; etc.

- Attempts to pursue these principles through new aid modalities...?
Issues for Consideration

- Early assessment of new modalities:
  - Limited application, yet to be proven.

- Institutional challenges of the functioning of the PRSP system:
  - PRSP-MTEF-PAF link?
  - Content and budget implications for “pro-poor growth” measures remain unresolved.

- Should we pursue “good donorship” by shifting to a particular aid modality?
- How about improving the existing ones?
2. Proposed Framework: Choice of Aid Modalities

Origin of Aid Modality Debates: Two Streams of Thinking

- Identifying priority country needs.
  - Development Priority Matrix (DPM)
- Assessing real ownership & capacity.
  - Prototype of ownership.

Priority Development Issues

Recipient-Donor Relationship in the Aid Process

Aid Modality Debates
2-1. Identifying Country Needs

- What are key development priorities in recipient countries?
- What is the nature of the development problem?
  - Simple or complex?
  - Policy and institutional reforms?
  - Fiscal and public expenditure mgt.?
  - Transfer of specific technology, search for solution and pilots?
  - Implementation on the ground?
Development Priority Matrix (DPM)

<Upstream> Policy & Institutions

- Establishment of (sector-specific) policy and institutional framework
- Macroeconomic stability
- Inter-sectoral budget allocation
- Establishment of core government functions & systems (e.g., budget mgmt, civil service systems)

Critical assessment of SAL conditionality
Fungibility issue

<Downstream> Implementation

- Improvement of public service delivery
- Strengthening of implementation capacity (managerial & technical aspects)
- Strengthening of implementation capacity (e.g., public financial mgmt., monitoring & evaluation)

Macroeconomic Policy

Sector & Local Administration

Critical assessment of parallel systems & transaction costs
Linking DPM and Modalities

- Importance of synergies among policy and institutional reforms, budget allocation and execution, and implementation (all quadrants).

- Program aid (e.g., BS, SWAp):
  - Intensive policy dialogue on fundamentals, higher-level aid relationship.
  - Address institutional and systemic problems.
  - Permit large resource transfer (esp. recurrent budget).
Expected Role of New Modalities (e.g., BS, SWAp)

- Policy & Institutions
  - Sector-wide Approach (SWAp)
  - Budget Support
  - Macro-economic Policy

- Implementation
  - Sector & Local Admin.
  - TA
    - Public Fin. Mgt. Reform
Linking DPM and Modalities (contd.)

- Project aid:
  - Solving specific problems, innovation and pilot projects.
  - Strategic and intensive coordination of different inputs (e.g., knowledge, goods, money).
Country-specific Context

Case 1: Govt. with complete functions

- Strong resource generation & mobilization capacity. (→ less aid dependent)
- Strong administrative capacity.
Case 2: Govt. with severely restricted functions.

- Weak resource generation & mobilization capacity. (→ highly aid dependent)
- Weak administrative capacity.
### Aid as a percent of Macroeconomic Aggregates (2001)

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP</th>
<th>Investment</th>
<th>Gov’t Exp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>4.6</td>
<td>14.8</td>
<td>17.9</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>3.3</td>
<td>13.1</td>
<td>22.8</td>
</tr>
<tr>
<td>Cambodia</td>
<td>12.4</td>
<td>69.1</td>
<td>64.4</td>
</tr>
<tr>
<td>Ghana</td>
<td>14.9</td>
<td>55.8</td>
<td>45.4</td>
</tr>
<tr>
<td>Tanzania</td>
<td>14.3</td>
<td>83.8</td>
<td>75.0</td>
</tr>
</tbody>
</table>

*Source: IMF Statistical Appendix (2003), OECD/DAC*
Indicators for Social Service Delivery

Vietnam

Bangladesh

Cambodia

Ghana

Tanzania

- Child Immunization Rate (% of children under age one, 2001)
- Primary Completion Rate (2001)
- Access to Improved Water (% of pop., 2000)

Sector-specific Context

- Different role of public expenditures by:
  - **Sector** (or sub-sector): intensity of the public-goods component and the role of recurrent expenditures.
  - **Type of services**: degree of the system-wide applicability of standardized, homogeneous approaches.

- BS assumption: public expenditure programs are effective and efficient in achieving development outcomes.
Intensity of Public-Goods Components

Case 1: Govt. as provider of service delivery and public goods -- e.g., primary education, primary health care.
- Public expenditures as the prime instrument for delivering essential social services.
- Non-tradable expenditures, recurrent-intensive.

Case 2: Govt. as regulator and/or coordinator -- e.g., private sector, both “for-profit” and “non-profit” actors.
- Not confined to public expenditures or single sector.
- Interventions at the multiple levels: macro, sector, firms.
System-wide Applicability of Homogeneous Services

- **Case 3: Homogeneous and standardized services** -- e.g., vaccination program, construction of primary schools, school lunches.
  - General consensus on technology and program design.
  - Replication, quantitative expansion; adaptation and application manageable by local capacity. [Foster 2004]

- **Case 4: Heterogeneous and context-specific services** -- e.g., classroom teaching, curative care.
  - More complex; simple replication unlikely to work.
System-wide Applicability of Homogeneous Services

- Carefully designed, targeted interventions, and/or activities requiring outreach & feedback mechanisms.
- “Highly-discretionary” and “transaction-intensive” activities. [Pritchett & Woolcock 2002]
Hybrid Case? (Example)

Large-scale infrastructure:

- Construction: capital-intensive (often complex) public works: intensive coordination of goods, finance, and technology during a limited period.

- Operations & maintenance: recurrent-intensive, requiring long-term financial and institutional arrangements.
2-2. Assessing Real Ownership and Capacity

- Three perspectives:
  - Capacity: (i) design and implementation of development programs; (ii) aid management.
  - Aid relationship: esp. aid dependency.
  - Recipients’ perception of ownership.

- Ownership and capacity:
  - Without sufficient *capacity*, recipient countries cannot exercise *ownership*.
Country Ownership and Capacity: Two Prototypes

**Strong**

- Development Scenario
- Development strategy
- Implementation
  - Aid money
  - Internal budget
- Development Effectiveness & Sustainability
- Achievement of Strategic Goals

**Weak**

- Absence of policies
- Policies with
  - Low quality
  - Ineffectiveness
  - Misalignment by donors

- Government’s resources (financial, institutional & human)
- Donor competition over govt. resources.
- Aid bypassing government system

- Macro environment
  - Fungibility
  - Macroeconomic instability

- Heavy burden on local government capacity
- Weak sustainability of individual projects.
- Development goals unfulfilled

Identification of aid needs

Formulation of aid strategy
Ownership and Aid Relationships

- Aid relationships:
  - High aid dependency → difficulty in exercising full ownership (weak negotiation power vis-à-vis donors) and high transaction costs of aid administration.

- Recipient perception of ownership?
  - Dilemma: aid dependence vs. national sovereignty.
  - Country difference: openness to external influence.
Selected Sources of Foreign Exchange Inflows (Average of 1999-2001)

Source: IMF Statistical Appendix (2003), OECD/DAC.
Ownership and Aid Relationships

- Duality of program aid (BS, SWAp):
  - Enhance local ownership by improving policy coherency and accountability incentives.
  - High degree of donor involvement in policy and budget, implying loss of sovereignty.

- Need to identify pragmatic entry points for aid interventions.

- Need for “aid exit” strategy to truly strengthen ownership.
3. Matching Aid with Country Needs and Ownership (Examples)

1. Different role of BS in supporting priority needs: Tanzania vs. Vietnam
2. Pragmatic and flexible arrangements for SWAp: Cambodia
3. Project aid under the SWAp policy framework: Ghana
4. Project aid integrated in government’s system: Vietnam
Tanzania: Budget Support and Primary Education SWAp

- Priority needs: Building govt. systems and supporting social sector reform.
  - PRSC & PRBS: macroeconomic policy and budget allocation (PRSP priority); and
  - PEDP: expansion of the coverage of primary education (recurrent-intensive).

- Ownership and capacity:
  - Govt. capacity low but rising, with aid better integrated into govt.
Tanzania: Budget Support and Primary Education SWAp

Country context:

- High aid dependency
- Shared understanding of problems of transaction costs, aid fragmentation.
- PRSP-MTEF-PAF link established.
- Open & extensive partnership.
Vietnam: Budget Support and Infrastructure Projects for PSD

Priority needs: Strengthening industrial competitiveness and private sector development (PSD).
- PRSC: policy and structural reforms for PSD, infrastructure planning; and
- Large-scale infrastructure projects: improving the investment climate.

Ownership and capacity:
- Govt. capacity higher, with aid integration into govt. less of a problem??
Vietnam: Budget Support and Infrastructure Projects for PSD

Country context:

- Low aid dependency.
- Problems of transaction costs, aid fragmentation?
- Weak link among PRSP, budget allocation performance monitoring.
- Broad, but restrained aid relationship.
Cambodia: Pragmatic and Flexible SWAps

- Priority needs: Improving aid relationships and enhancing ownership.

- Country context:
  - High aid dependency, capacity constraints.
  - High transaction costs, aid fragmentation (often, donor-driven).

- Govt. wishes to attract the assistance of interested donors in the sectors.
  - Decision to leave the choice of participation modality to donors, under the overall agreed policy framework.
Cambodia: Pragmatic and Flexible SWAps

Education SWAp:
- BS, pooling fund, projects.
- Education Strategic Plan and a rolling Education Sector Support Program. Joint sector review.

Health SWiM:
- Sector Wide Management: *BS and pooling fund not required*. Joint sector review.
- Health Sector Strategic Plan 2003-07 and MTEF.

→ *Initial signs of improvement in managerial aspects of aid coordination after SWAp & SWiM.*
Ghana:
- Moderately aid dependent.
- Health SWAp early “successful” example.
- Scaling up a pilot project within the SWAp policy framework.

Vietnam:
- Existence of RH policy framework.
- Existence of primary health care network with salaries self-financed.
- Strengthening implementation on the ground (i.e., service quality).
Ghana: Scaling up a Pilot Project within the SWAp Policy Framework

- Health SWAp:
  - BS, pooling fund (as a main modality), projects.
  - Medium-Term Health Strategy, 5-year Program of Work (POW).

- Health In-Service Training System Project (JICA):
  - Consistent with the SWAp policy framework.
  - Three pilot regions, later expanded to nationwide.
  - Classification & registration of training data, design, implementation & monitoring of system, incl. feedbacks for improvements. ("pilot-innovation" and "transaction-intensive")
Vietnam: Project Implementation within Govt. System

- Existence of Govt. policy framework and budgetization:
  - MOH Master Plan of Reproductive Health.
  - Primary health care network-- CHC in most communes; staff salaries self-financed.

- Reproductive Health Project in Nghe An (JICA):
  - Establishment of a skill transfer framework at the province-district-commune levels.
  - Follow-up, monitoring activities to assist CHC staff in the adaptation of acquired skills to local reality (“transaction-intensive” and “context-specific”).
4 Preliminary Conclusions

- Contextual differences matter for modality choice.
  - Need for realistic assessment of country needs and ownership.
- A single aid modality unlikely to be sufficient.
  - Need to ensure complementarities among modalities.
- Importance to pursue “Good Donorship” within each aid modality, as well.
How to Practice Good Donorship? (Examples)

- Integrating aid flows (including projects) into recipient’s budget process: Tanzania TAS.

- Harmonizing multilateral and bilateral budget support framework: Ghana MDBS and PRSC.

- Procedural harmonization of project aid: Vietnam 5 Banks Group, LMDG, EU, UN under Comprehensive Capacity Building Program for ODA Mgt.

- Promoting donor coordination and aid harmonization within SWAp: Bangladesh Program Liaison Unit for donor consortium of SWAp.
Suggested Topics for Discussions

- Is our framework appropriate to consider the choice of aid modalities in Vietnam?
- What are the main issues faced by Vietnam to improve aid effectiveness?
- What are the most critical elements of “good donorship” in Vietnam’s context?; and why?

[THE END]