

# A Conceptual Framework for the Choice of Aid Modalities

## Matching Aid with Country Needs and Ownership

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## About Aid Modality

- Why does aid modality matter? (also, just aid modality?)
- OECD-DAC:
  - *Rome Declaration on Harmonization (2003)*
    - Country-based approach
    - Country ownership and leadership, and
    - Diversity in aid modalities
  - *Paris Declaration on Aid Effectiveness (2005)*
    - Elements of "Good Donorship" and agreed monitoring indicators: ownership, alignment, harmonization, capacity development, etc.

## About Aid Modality

(para.5)

- Enhancing the effectiveness of aid across all aid modalities
- Choose and design appropriate and complementary modalities so as to maximize their combined effectiveness
- *How can we put the above principles into practice, in respective partner countries?*

## Discussion Topics

1. Review of aid modality debates
2. A proposed framework for deciding the choice of aid modalities
3. Case analyses
  - Aid mix and coordination mechanisms: Vietnam, Cambodia, Tanzania, Ghana
  - Examples of practicing "good donorship"
4. Conclusions and unresolved agenda

## 1. Aid Modality Debates (esp. mid-1990s ~ )

- New aid modalities: Budget Support (BS), pool funds under SWAp, etc.
- Emerging priorities:
  - Good policies & institutions, fungibility, core govt. functions, recurrent financing, etc.
- Criticism of the existing modalities:
  - Esp. aid relationship & ownership
- Modality shift becoming integral part of supporting the PRSP framework

## Emerging Priorities and Aid Modalities

| Development Priorities  | Aid Modalities  |
|---|---|
| <b>1950s- :</b><br>■ Capital shortages (domestic & foreign exchanges)<br>■ Knowledge & technology gaps.   | - <b>Projects</b> (infrastructure) & program aid (typically, <b>balance of payments (BoP) support</b> through commodity loans, aimed at financial transfer.<br>- <b>Technical assistance (TA)</b> projects. |
| <b>1970s:</b><br>■ Basic human needs  | - Project aid to support social services & rural development  |
| <b>1980s:</b><br>■ Macroeconomic stability<br>■ Structural reforms  | - <b>Structural Adjustment Lending (SAL) &amp; Sector Adjustment Lending (SECAL)</b> , in the form of program aid, adding policy conditionality to BoP support.   |
| <b>1990s:</b><br>■ External debt problems   | - Later, program aid became linked to debt relief (e.g., Enhanced HIPC Initiative)  |
| <b>Mid-1990s- : <i>Poverty reduction as the ultimate goal of development</i></b><br>■ Policy & institutional coherency.<br>■ Addressing fungibility issues.<br>■ Building of the core govt. systems.<br>■ Recurrent financing | - New types of program aid, including <b>budget support (general &amp; sector BS), pool funds under SWAp</b> arrangement, as well as <b>pooled TA</b> .   |

## Criticism of the Existing Modalities

- ❑ 'Stand-alone' projects (e.g., aid fragmentation, transaction costs, parallel systems)
  - *SWAp to (general) BS?*
  - *Sector-Wide Approach (SWAp)*
- ❑ Structural adjustment operations (e.g., failure of conditionality to induce reforms)
  - *BS, based on nationally-owned PRSP*

## Issues for Consideration

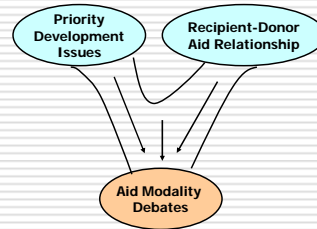
- ❑ Assessment of new modalities
  - Too early to be conclusive
  - Countries eligible for BS limited
- ❑ Country diversity
  - Development priorities, ownership & capacity, etc.
- ❑ Institutional challenges of the functioning of the PRSP framework
  - PRSP-MTEF-PAF link?, issues on patrimonial states, etc.

## Issues for Consideration

- Multi-dimensionality of capacities: not only fiduciary risk mgt., but also field implementation
- ❑ Treatment of the private sector
  - Role of aid in PSD & growth promotion?
  - *Need for a broader framework, based on the reality of partner countries*
- ❑ Case of fragile states? (not analyzed in our study)

## 2. Proposed Framework: Choice of Aid Modalities

*Origin of Aid Modality Debates:  
Two Streams of Thinking*



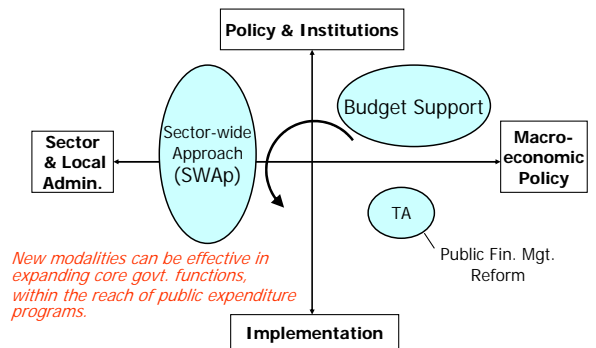
Aid mix should be decided, based on country-specific assessment on:

- ❑ Priority needs
- ❑ Ownership & capacity
- ❑ Aid dependency

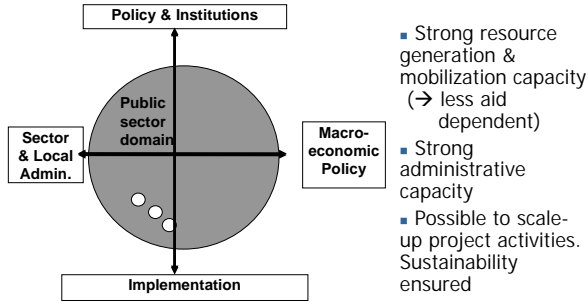
## 2-1. Priority Country Needs

- ❑ The extent of govt. functions
  - Need to build core govt. functions (e.g., expanding the coverage of service delivery)?
  - Need to strengthen specific functions?
- ❑ Relative importance of PSD (outside DPM), as compared to building of core govt. functions
- ❑ Features of priority sectors and activities
  - *Development Priority Matrix (DPM):*  
To assess priority needs in the public sector [handout#1]

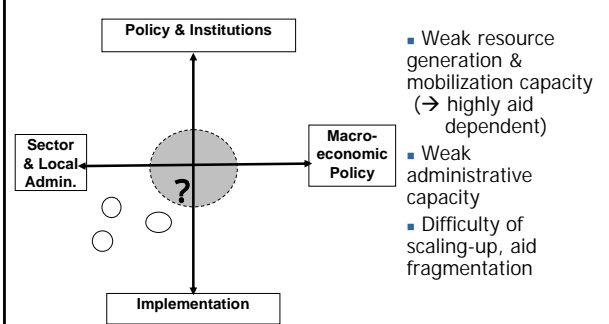
## Expected Role of New Modalities



## The Extent of Govt. Functions Case 1: Core Functions Complete



## The Extent of Govt. Functions Case 2: Core Functions Restricted



## Features of Priority Sectors and Activities

- Intensity of public-goods components and the role of recurrent expenditure
  - High (primary education), low (PSD), intermediate (agriculture - research & extension; infrastructure - construction vs. O&M)
- System-wide applicability of standardized, homogeneous approaches
  - High (school construction), low (classroom teaching, curative care)
- Role of NGOs & civil society

## 2-2. Assessing Real Ownership

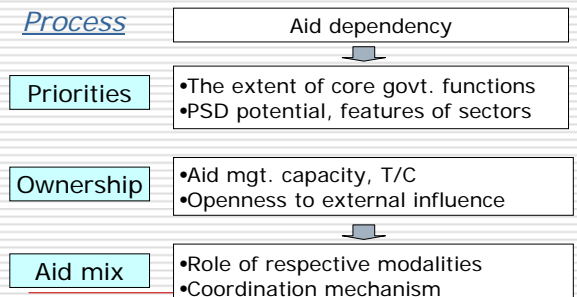
- Capacity for:
  - Aid management
  - Design and implementation of development programs
- Recipients' perception of ownership
  - Openness to external influence
  - Bargaining power vs. donors
- Aid dependency
  - *Typologies of Ownership & Capacity* [handout#2]

## Assessing Real Ownership (esp. Capacity)

- Case 1: Strong ownership
  - Capable of identifying specific aid needs
  - Low aid dependency, donor leverage limited?
  - *Collective donor action on policy & institutional agenda can be costly, creating "dual system"*
- Case 2: Weak ownership
  - Problems of aid fragmentation, transaction costs, weak sustainability, etc.
  - Often, high aid dependency: aid mgt. essential part of managing development programs
  - *Joint solution with donors may be necessary*

## 3. Matching Aid with Country Needs and Ownership

### Process



## Referential Indicators for Assessment

- Aid dependency [handout#3]
  - Ratio of ODA to GDP, govt. expenditure, etc.
- The extent of core govt. functions
  - Ratio of govt. revenues to GDP
  - Access to essential social services
- PSD potential
  - Ratio of ODA to investment, forex earnings, etc.
- Aid mgt. capacity
  - Centralized vs. fragmented aid mgt.
  - Transaction costs (T/C), associated with aid volume, number of projects & donors

## Matching Aid with Country Needs and Ownership (Examples)

|          | Aid dependency | Priority needs  | Ownership  | Aid mix & coordination   |
|----------|----------------|---|--|--|
| Vietnam  | Low            | -PSD & industrial competitiveness<br>-Service quality | -Closed, centralized aid mgt.<br>-T/C manageable       | -Projects as main modality: BS to address specific reforms<br>-Policy alignment<br>-Harmonization by donor groups with similar procedures. |
| Tanzania | High           | -Building core functions<br>-Service expansion        | -Open partnership<br>-High T/C                         | -BS & pool funds (under SWAp) as main modality.<br>-Projects to be fully aligned (policy & budget process).                                |
| Cambodia | High           | -Building core functions<br>-Service expansion        | -Fragmented aid mgt.<br>-Open partnership<br>-High T/C | -Sector level, policy alignment.<br>-Coordinated efforts to reduce T/C beginning.  |

## Country Examples: Role of Budget Support (BS)

- Vietnam:
  - PRSC serving as an entry point for policy reforms, with projects supporting implementation & providing policy inputs
  - Possibility of "targeted" BS being explored
- Tanzania:
  - PRBS/PRSC serving as resource transfer & priority sector support, supplemented by SWAp (mostly, sector BS & pool funds)
- Cambodia:
  - General BS yet to be introduced
  - Innovative, flexible SWAp (e.g., project-based, health SWiM, education SWAp with sector BS, pool funds & projects)

## Country Examples: Role of Project Aid

- Vietnam ("without" SWAp)
  - The existence of PHC network (province-district-commune)
  - Project aid for "context-specific" & "transaction-intensive" activities: strengthening field implementation to improve the existing functions (e.g., *Reproductive Health Project*)
- Ghana ("with" SWAp)
  - Project aid for "pilot innovation": scaled up within SWAp, contributing to the establishment of its institutional framework (e.g., *Health In-Service Training Project*)

## Country Examples: Practicing Good Donorship

### *Donor behavior also matters*

- Sharing the process of deciding aid mix & coordination mechanisms: *Tanzania, Vietnam*
- Promoting alignment & harmonization to reduce transaction costs: *Ghana (PRSC/MDBS), Vietnam (projects)*
- Designing SWAp, with realistic assessment of local capacity & needs: *Cambodia, Bangladesh*
- Integrating aid flows into recipient's budget process: *Tanzania (BS & projects)*

## 4. Conclusions

- Need for country-specific assessment of: priority needs, ownership & aid dependency
- Need for sharing views, among partners, on the role of respective aid modalities and desirable coordination mechanisms
- Efforts to pursue "good donorship" across all aid modalities
- Mutual learning among donors (e.g., UK & Japan) for their complementarities

## Conclusions: Implications for Japan's ODA

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- Enhancing the effectiveness of projects  
→ *Alignment & harmonization*
  - Contributing to the content of policy & institutional framework, building on the field-based experiences  
→ *Participating in policy dialogue*  
→ *Use of PHRD funds, as well as BS & pool funds where appropriate*
  - Strengthening country programming across all schemes (TA, grants, loans)  
→ *Key role of field-based, ODA Task Force*
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## Topics for Further Discussions and Studies

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- Is our framework appropriate to consider different country context? (e.g., Asia vs. Sub-Saharan Africa)
  - Need for more analyses at the sector level (e.g., PSD & growth agenda)
  - Need for deeper understanding of ownership and capacity development (incl. diverse country experiences with aid mgt.)
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