



Issues Paper
Istanbul, 12-13 October 2006

Partner country selection: A different perspective of emerging donors?

Partner country selection in the overall aid context

The selection of recipient partner countries is a fundamental aspect of donors' development assistance efforts.¹ More than a simple choice on where to spend scarce ODA resources, it is a fundamental decision in relation to the implementation of an aid programme, and reveals implicit preferences and political choices at the heart of development co-operation efforts. At a minimum it is a test for a donors' consistency among policy, commitments, and practice. By definition, partner country selection is therefore a strategic factor of an aid programme.

In 1996, the 'Shaping the 21st Century' signaled a seminal move of the DAC towards an explicit focus on poverty reduction as the key objective of development co-operation. The DAC Poverty Reduction Guidelines of 2001 translated this into a policy context. Donors are expected to contribute to this broad international objective by identifying their areas of comparative advantage: In terms of partner country selection, the choice of aid recipients often reflects traditional historical and political ties or is influenced by the country's geographic proximity to the donor. Also, donors may look for 'win-win' situations, where primary criteria used in country selection reflect both recipient country need and demand, and the donor's national interest. Finally, international consensus on objectives such as poverty reduction, aid effectiveness, and the Millennium Development Goals have triggered a more strategic and focussed approach to partner country selection.

Regarding non-DAC OECD donors, two factors may make the issue of partner country selection a particularly prominent and pertinent one:

- Several non-DAC donors are seen to be at a stage where their ODA programmes are subject to key capacity constraints, while in a process of substantial evolution and related formative adjustments.
- As non-DAC donors integrate more consciously into an established aid architecture, they may have a particularly strong awareness of making choices against an externally given context – which in itself may be subject to considerable change.

Parameters for selection ...

Donors often look at a set of different parameters when assessing possible partner countries, notably: (1) Poverty criteria; (2) need – i.e. taking into account absorptive capacity, demand and current supply; (3) performance record of partner countries; (4) expected future impact; and, related, (5) allocation *by* results vs. *for* results. Several donors have developed quantitative models to derive a demand picture on the basis of these criteria. The dialogue on effective aid, and at the heart of it the country based development model, has highlighted the importance to refine these allocation models to take account of the specific partner country context and its strategy for development to ensure ownership and avoid supply driven and ineffective aid.

More generally, however, these criteria, or models, are not meant to determine, but to inform allocation decisions by donors – and donors do utilize them very differently. But they should help to bear out in the selection decisions the shared understanding of the central importance of demand driven development co-operation.

In trying to optimally match this demand, donors need to consider their individual supply parameters, taking into account aspects such as (1) the donor's comparative advantage (e.g. sectoral, geographical or cultural – or indeed the length of engagement, given increasing return on aid over time); (2) an adequate focus on main partner countries taking into account the overall volume of ODA; (3) the need for institutional coherence across government actors.

A last and essential aspect relates to aggregate donor efforts. There is increasing recognition that aggregate aid allocations for individual countries need to be more predictable and criterion-based. Scaling up of ODA, of which the increasing engagement of non-DAC donors is one aspect, will place additional pressure on an aid architecture characterized by longstanding structural problems. Selection – and allocation – needs to take place in a broader framework, to avoid a 'fallacy of composition' problem, where all donors use the same criteria, risking an extreme scenario of 'aid darlings' (with diminishing returns) and 'aid orphans' (with increasing risks of deeper poverty and instability).

Overall, country selection and allocation models have to balance between improved ODA predictability, and flexibility to adjust allocations to recipients most in need. A degree of stability is necessary, to reduce the destabilizing effects of volatile patterns of international assistance. Aid that is subject to rapid and strong variations is less effective and implies risks for the sustainability of development progress made.

Finally, donor positions on recipients' governance and corruption records need to be clear – and ideally uniform. Zero tolerance for corruption in aid funded programmes is a condition for effective and sustainable aid. To avoid any mixed signals in this regard, a collective position and action of donors on this issue vis-à-vis partners is highly desirable. This is not to be equated with an all-or-nothing approach to corruption, and specifically disproportionate reactions to isolated corruption instances should be avoided. Instead, graduated responses to signs of increased corruption risk hold more promise, and are more commensurate with long term development goals.

... and caveats in their application

Donors broadly agree that Least Developed and other Low Income Countries require particular focus and support, and they now receive two thirds of all ODA. Nevertheless, some DAC donors still spend much or the majority of their ODA in more developed partner countries. Moreover, designated main partner countries of DAC donors have in several instances been found to be the actual main ODA recipients. Assistance of Non-DAC OECD Members also often shows a focus on middle income, and geographically close partner countries.

First, it is important to understand the consistency with stated policy of DAC and non-DAC donors. Beyond this, there is a clear risk that the focus will remain on well-aided countries. Non-DAC donors tend to be more explicit in their concentration on partners that may not score highest on the need and poverty criteria. Is there a rationale specific to non-DAC donors for this? No work has yet been undertaken to assess whether non-DAC donors may place a greater comparative priority on past performance and future impact, or other criteria that might explain this outcome. However, there are indications that non-DAC donors have tended to perceive a stronger trade-off between focusing on (often distant) very poor partners, and a comparative advantage that is often seen in recent transformational political and economic development experience, and cultural and political proximity.

Similarly, donors - DAC and non-DAC - operating with comparatively smaller aid budgets are compelled to have a narrower focus to ensure effectiveness of their aid. The cost share of establishing capacity for a direct bilateral engagement programme in an unfamiliar partner country can be exorbitant. In time, however, the cost-benefit balance should change where aid is scheduled to be scaled up substantially and high start up costs come down.

A modality that avoids these concerns exists in the form of delegated co-operation. Delegated co-operation, which is also one aspect of the current aid effectiveness agenda, is very well adapted to channelling aid through country-based development models, and thereby supporting country ownership and mutual accountability. However, entrusting responsibility for management and implementation to other donors is a considerable challenge. Its feasibility for non-DAC donors is likely to depend on a degree of reciprocal delegation among donors. It is not likely to operate if the scope for delegation is perceived to be essentially uni-directional.

Generally, non-DAC donors entering more consciously and fully into the existing aid architecture usually aim to establish a distinctive donor profile based on their comparative advantage. Focusing on their comparative advantage should give each donor the critical mass to be more effective in the respective areas, and help in consultations with partner countries to match aid to sectoral priorities outlined in national Poverty Reduction Strategies. However, donors tend to refer to their comparative advantages in a way that often reveal little information on the basis on which these have been assessed and identified, or how other donors' comparative advantages are taken into consideration. This can lead to distorted supply and demand relationships. Beyond that, it highlights again the importance of country ownership of the development process in some reasonably operationalised manner.

Issues for discussion

- Donors aim to contribute to the international development effort on the basis of their comparative advantages, and in the context of a country-based development model:
 - How do donors apply a country-based approach in practice, and how do non-DAC donors envisage the evolution of their programmes in this regard?
 - How do donors define comparative advantage, including in relation to other donors?
 - If defined only in the respective donor context, what is the risk of overall supply side inefficiencies, with possible implications for partner country ownership?
 - Where can the comparative advantage as a donor be used most effectively, and where is there similarity of experience?
- When defining the range of partner countries:
 - Are there differences between the key parameters for selection used by DAC and non-DAC donors?
 - What is the experience in the selection of partner countries of balancing the core objective of effectively supporting recipients' development progress with the national interest of the donor?
 - How broad or narrow should the focus be, taking into consideration overall scope of a programme?
- Selection of partners and allocation of resources without a broader and forward-looking framework risks massive inefficiencies and misallocations of aid:
 - How can co-ordination be improved to avoid the problem of inefficient allocation and the proliferation of donor darlings and orphans?
 - To what extent can specific modalities, such as delegated co-operation, help address this problem?
 - What role might greater transparency on future planning have to play in avoiding these risks?

ⁱ The selection of partner country comprises in fact only one aspect of the allocation decision of donors, which extends also to a decision on the share of multilateral aid and contribution to global programmes. Moreover, the nature of humanitarian assistance implies that its allocation cannot follow a pre-determined strategy in many instances.