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What Determines the Choice of Aid Modalities?

– A framework for assessing incentive structures

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SADEV REPORT 2007:4
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SADEV Reports are available at www.sadev.se
Printed in Karlstad, Sweden 2007

ISSN 1653-9249
ISBN 978-91-85679-06-5

Preface

The Swedish Agency for Development Evaluation (SADEV) is a government-funded institute that conducts and disseminates evaluations of international development cooperation. SADEV's overall objective is to increase the efficiency of Swedish development cooperation.

SADEV has two main areas of work. The first is the organization of international development cooperation focusing on issues such as management and monitoring of executive organisations, donor coordination, and the internal efficiency of donor organisations. The second area is concerned with the short- and long-term impact of development assistance on the well being of partner country populations. SADEV evaluations are published as reports and studies. Interim or pre-studies are circulated as working papers.

This SADEV Report is part of the wider project theme: Aid modalities – relative effectiveness and complementarities, and is the first of a series of studies focusing on the composition of aid modalities. It proposes a framework for assessing incentive structures relevant for decisions on aid modalities. The main purpose of the paper is to serve as a basis for subsequent country case studies and to initiate discussion about implicit and explicit factors influencing aid modality patterns.

December, 2007
Lennart Wohlgemuth
Acting Director General

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List of abbreviations and acronyms

DAC	Development Assistance Committee
GBS	General Budget Support
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
MFA	(the Swedish) Ministry for Foreign Affairs
NGO	Non Governmental Organisation
ODA	Official Development Assistance
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
SADEV	Swedish Agency for Development Evaluation
Sida	Swedish International Development Cooperation Agency
SBS	Sector Budget Support
SPA	Strategic Partnership with Africa
SPS	Sector Programme Support
SWAP	Sector Wide Approach Programme
USTYR	Department for Management and Methods in Development Cooperation (at the MFA)

1. Introduction and study objectives

During the last decade, much attention has been given to the effectiveness of official development assistance (ODA). One central issue is that of aid modalities (aid instruments or aid forms are synonymous notions) i.e. the methods used to finance development activities. It is clear that the way ODA is delivered affects outcomes, and some aid modalities are argued to be more effective than others. However, it is unlikely (and perhaps undesirable) that donors should shift to the use of only these instruments. Most likely donors will continue to spread risks by using a range of aid forms. Therefore, we mean that it is more constructive and important to discuss complementarities between aid modalities as well as why they are chosen. Especially since donors rarely have a coherent approach to their ODA in a particular country, not to mention the lack of strategies in relation to other donors and the partner governments (cf. IDD and Associates 2006).

According to the Paris Declaration the partner country should stipulate its preferred aid forms: “In determining the most effective modalities of aid delivery, we [the donors] will be guided by development strategies and priorities established by partner countries” (High Level Forum 2005: 2). In reality, partner countries have rarely done so and the selection has been done by donors in other ways. These ‘other ways’ is the main focus of this SADEV Working Paper.

We emphasise one of the main hindrances for a coherent approach: that different actors have different objectives. It is often assumed that the many individuals and organisations involved with ODA share the same goal(s). In reality the objectives differ both regarding which areas to support (the identification of the main problems) and regarding how to support the development in these areas (how the problems are best tackled). Not to mention other interests such as individuals pursuing careers and incomes, politicians trying to fulfil political objectives, aid agencies wishing to expand their budget and consultants seeking the next contract etc. (cf. Martens 2005: 656). Obviously, the more preferences diverge the less coherent the composition of aid modalities. Asymmetric power relationships between the actors also prevent them from influencing decisions to the same extent; the ones controlling the funds have more discretion over decision-making. But all individuals and organisations involved are influenced by external and internal stimuli to some degree. They act within different incentive systems.

We know that factors such as international guidelines and principles for effective aid, for example the Paris and Rome Declarations and guidelines formulated by the OECD DAC affect donor actions. Other decisions are based on political motives in the donor countries or influenced by formal or informal institutions in the partner and donor societies. These factors can be explicit and commonly known, or implicit and embedded in the contextual structures. The choice of aid modalities is further often highly political as well as context- and path-dependant. Specific characteristics of the partner countries including their historical relationship with the donor are often decisive. For this reason a complete assessment can only be done on the country level.

Against this background the main purpose of the present paper is to propose a framework to facilitate an assessment of incentive systems on the country level. This framework is based on what we presently know about incentives facing decision makers and other actors within Swedish development cooperation.

Development assistance is delivered in various forms, but most of them may be classified as either projects or programmes. Programme support can further be divided into budget support and support targeted towards a sector or a policy area, which Sida refers to as sector programme support (Sida 2005a: 21, 22). These three main categories will be discussed.¹

The paper is structured as follows:

- Chapter two provides definitions of the relevant aid modalities and introduces the concept of an incentive. The chapter also brings aid modalities into the wider context within which they take place.
- In chapter three the framework for assessing incentive structures is developed: the point of departure is the decision-making procedures and the actors influencing decisions – either directly or indirectly.
- Chapter four uses this framework to take up factors potentially affecting choices within Swedish development cooperation, especially for 1999-2005.
- In chapter five we draw conclusions and suggest future studies.

¹ See Sida's annual reports for an overview of other aid modalities used by Sweden

2. Conceptual and contextual background

Before the description of the framework and the empirical discussion some important concepts need to be defined. The two main concepts dealt with here are aid modalities and incentives. These are discussed in the first part of the chapter followed by a section outlining the context within which aid modalities occur.

2.1 Aid modalities

Unfortunately, there are no agreed definitions of aid modalities and many exist in hybrid forms. We have tried to use the definitions developed by Sida and the Swedish Ministry for Foreign Affairs (MFA). Where these are missing, definitions general enough to be accepted by most donors have been used.

Project support

Sida does not have a clear definition for project support although the handbook for the financial reporting and planning system (PLUS) provides some guidance: “Support to, for example, teacher education in a country, often using consultants from the donor country, greater degree of donor control than sector programme support” (Sida 2006: 48). Other explicit definitions are hard to find. A general definition of project support, which could be adhered to by most donor agencies and partner countries, would be: funds provided to implement a specific and predefined set of development activities over a specified period of time. Project support is further characterised by the use of a separate management structure and detailed objectives, activities and expenditures (Foster and Fozzard 2000: 13). Two different project forms can be singled out: project aid using parallel systems and project aid using government systems (cf. Foster and Leavy 2001a).

In project aid using parallel systems the donor often takes the lead in design and appraisal, decides the inputs to be provided, and uses its own disbursement and accounting procedures: it is off-budget.² This form has received much criticism for being fragmented and donor-driven and for not taking into account the wider context (Foster and Leavy 2001b: 5). As a result project aid using government systems has emerged. This instrument is in general subject to the policy conditions related to the sector in which it is used and the resources could be disbursed through the government systems with government accountability (ibid). To date, most project aid makes limited use of government systems.³

In Sida’s financial reporting and planning system we find that project support as a budget item includes several sub-groups. The most important of them is simply referred to as ‘project support’. Other large sub-groups are capacity development, investments and

² The term off-budget usually refers to projects and programmes negotiated directly between a government ministry or an organisation/NGO in the partner country and the donor, and where the revenues not are recorded in central accounts.

³ The OECD/DAC survey on harmonisation and alignment finds that of the 14 partner countries assessed, on average only about 30% of all projects were managed according to national procedures (2005b: 19)

information activities.⁴ Capacity development refers to contributions/components aimed at strengthening the capacity of the partner. Investment projects aim at increasing or improving the partner's physical capital and goods and services related to this. Information activities refer to projects that use information to improve knowledge with the aim of influencing the behaviour of the target group (Sida 2006: 48, 49). Another form of project funding is support delivered through NGOs, which is either annual block grants to specific NGOs or direct support to projects implemented by the organisations (ibid: 51). When we discuss project support delivered through Sida in this paper we refer to these types of projects and, where relevant, support through NGOs.

Budget support

If in the aid modality spectrum project support is one extreme form, with little use of the partner country systems, budget support is the other, with total use of government systems (with government systems we refer to allocation, procurement, accounting and audit processes). In many countries present day budget support originates from the use of debt relief funds, specifically the Heavily Indebted Poor Country (HIPC) initiative. With the debt crisis experienced by many low income countries in the 1990s an international consensus emerged to form a comprehensive debt relief mechanism based on good policies in the partner country. The HIPC-initiative was born, and linked to Poverty Reduction Strategies (PRSs) in order to assure that the funds released were used for priority expenditures. A reduced need for debt relief in recent years has led to a shift towards the use of budget support⁵ (cf. IDD and Associates 2005).

Budget support is "Unearmarked contributions to the government budget with the purpose to implement poverty reduction strategies, macroeconomic or structural reforms" (Sida 2006: 50). The support is not linked to specific projects and includes a lump-sum transfer of foreign exchange. Budget support is divided into general budget support (GBS) and sector budget support (SBS). GBS and SBS are both non-earmarked support to the partner government budget; the difference is that assessments, dialogue and conditionalities are linked either to overall or to sector issues (MFA 2005: 35, 51, Sida 2005e: 7)

A sharp distinction between GBS and SBS is however not present in most donors' practice and there is much confusion about the concepts (especially that of SBS). Both types are used by Sida but not reported along different budget lines.⁶ Adding to the confusion is the fact that Sida has often used the term SBS to cover both sector budget support and sector programme support (see below for more information about sector programme support). Therefore we do not know the extent of SBS contributions, although, the instrument is probably not used extensively (Samuelsson 2006: 5, SPA 2005: 2, 3, Sida 2005e: 7). Both types of budget support aim to increase ownership and empower the partner government, reduce transaction costs by limiting fragmentation of ODA activities and increase effectiveness of public administration as government systems are

⁴ Included in the statistics on projects are also evaluations and audits, administration, strategies and studies and costs for sending election observers and seconded personnel (Sida 2006: 48, 49). In Sida's budget, the term project support therefore covers both pure 'projects' and activities that do not fit in elsewhere. For this reason statistics on projects may be exaggerated. When we look at statistics for 2005 however, funds delivered to additional activities (such as evaluations and administration) only amount to 235 M SEK. Compared to the total amount of project support (6 147 billion SEK), these activities represent less than 4% of total funds.

⁵ Sweden has not provided debt relief since 2001 (Sida statistics).

⁶ The difficulties experienced with SBS reporting are not restricted to Sida, also the DAC is debating how to classify GBS and SBS in the statistics.

strengthened. Budget support is further expected to provide incentives for improved harmonisation among donors and alignment with partner country systems, including improved policy dialogue on priority issues and the means to achieve them. At the same time there are potential risks - both for the partner government and for donors - if budget support modalities are introduced on a large scale. For the partner government budget support could lead to increased aid volatility since donors can easily withdraw or delay funds if targets and conditions are not met. Donors, on the other hand, risk decreased accountability for how their money is spent when attribution to single donor funds is made impossible (MFA 2005: 35, IDD and associates 2005: 8).

Sector programme support

Apart from budget support and project support, many donors assist the development of specific sectors in partner countries. Sida delivers sector support in many different forms, all covered by the umbrella term sector programme support (SPS). SPS is used by Sida to participate in and support SWAP processes (see box below) and is focused on policy dialogue and participation in policy framework assessments. The instrument further aims at reducing conditionalities, earmarking of funds and the use of projects. Within SPS different aid modalities could be used: projects within the overall sector programme framework, pooling of resources with other partners in so called basket arrangements or SBS (Sida 2000: 5 ff). The most common SPS financing is a basket arrangement where donors pool their resources using a special account either managed by one of the participating donors or by the respective line ministries. These funds are targeted towards the sector or a programme as a whole but are accounted for separately (Sida 2005e: 7).

The SWAP principle

Sector Wide Approaches (SWAPs) are generally defined as mechanisms “by which Government and donors can support the development of a sector in an integrated fashion through a single sector policy and expenditure programme, under Government leadership, using common management and reporting procedures and progressing towards the use of Government procedures to disburse and account for all funds.” SWAPs can include a wide range of aid instruments such as coordinated projects, SBS and sector basket arrangements. The defining characteristics, irrespective of how money is disbursed and accounted for, are that donors and the partner reach an agreement on sector policies and spending plans and that progress is assessed through joint reviews (Foster and Fozzard 2000: 55, Foster and Leavy 2001: 8).

The table illustrates the different characteristics of the aid modalities:

Aid modality	Conditionality ⁷	Earmarking ⁸	Accountability ⁹
GBS	Macro & budget	None or notional	Govt. systems
SBS	Sectoral	Notional ¹⁰	Govt. systems
Basket arrangements	Sectoral	Real within sector	Blend of govt. and donor systems
Projects using govt. systems	(Sector &) project	Real to project	Blend of govt. and donor systems
Projects using parallel systems	Limited (due to low govt. ownership)	Total (real)	Donor
Projects through NGO'S	Limited (due to low govt. ownership)	Total (real)	Donor/NGO

Table I: Defining characteristics of aid modalities

Source: Adapted from Foster and Leavy 2001

2.2 Incentives

The concept of an incentive is in most dictionaries defined as something that moves or influences the mind, incites or encourages to action or has a tendency to incite; a motive; spur or a stimulus (cf. Webster's New Twentieth Century Dictionary, Mac Millans Modern Dictionary, and the World Book Encyclopaedia Dictionary). Incentives thus refer both to an internal motivation and an external influence. In this paper we are mainly interested in the external stimuli that actors are facing.

There are no studies focusing specifically on incentives for choosing aid modalities although some have touched upon the issue. Elinor Ostrom and her team, analyse how the incentive system within Sida affects sustainability of the activities. The team lists a number of factors providing negative incentives for staff in creating development cooperation contributions that promote sustainability. Some incentives for choosing project aid, programme aid (in the study this is synonymous to debt relief and budget support) and SPS are discussed, as well as how the different aid modalities potentially affect sustainability. The focus is not specifically on incentives for choosing aid modalities but rather on the effects of the choices made (Ostrom et al 2002). The original study was revised in 2005 and renamed *The Samaritan's Dilemma – the Political Economy of Development Aid* (Gibson et al.).

⁷ Conditionalities apply to different levels of the government. Where the government is by-passed usually no conditions apply.

⁸ Earmarking is central to the discussion of aid modalities. If the control over the external resources is ex post, the term "virtual" or "notional" earmarking is often used. If they are ex ante, earmarking is referred to as "real". For virtual/notional earmarking the only requirement is that government expenditure exceeds the volume of the support provided. Resources can still be managed through the normal banking and financing systems of government. Usually the resources remain fungible and the costs imposed are purely administrative (IDD and associates 2006: 5). When real earmarking is used, the support is attributed as an input for a specific policy area. Special bank accounts need to be created and resources are not fully fungible in the short term (Aarnes 2004: 15).

⁹ Depending on the aid modality used the actors managing the funds are accountable either to the donor or to the partner government.

¹⁰ Sida defines SBS as notionally earmarked funds, but other organisations may only define funds with real earmarking to a sector as SBS.

Another initiative is *The Institutional Economics of Foreign Aid*, edited by Bertin Martens, which focuses on the role of incentives in the whole aid delivery chain. The book explores incentives within donor agencies, the interaction of sub contractors with partner country organisations, incentives inside partner country governments and organisations and biases in monitoring and evaluation systems. It particularly sheds light on how incentives facing diverse actors within the ODA delivery chain can constrain the success of the activities in different ways (Martens et al 2002).

A third study was conducted by a team led by Paolo Renzio assessing factors within aid agencies that work for or against harmonised practices, donor coordination and country ownership. They find that to some extent high level declarations and commitments to act in line with harmonised objectives are not adopted by lower levels of the studied organisations. The efforts made by the organisations are not enough to create internal incentive systems that are effective at increasing harmonised procedures. Sida is one of six organisations assessed (Renzio et al 2004). Results from the three studies are further discussed under various sections in chapter four.

2.3 Aid modalities and incentives in the wider context

Before we move on to a discussion about motives for choosing aid modalities it should be observed that the decisions often are part of a wider agenda and not always treated independently of this. The choice of aid modalities is linked to the broader debate on how to best adhere to the key principles of ownership, harmonisation and alignment (the emphasis of the Paris Declaration and the so called new aid architecture) and to support the implementation of the poverty reduction strategies. Ongoing efforts to harmonise donor practices and their alignment to partner country procedures provide the framework within which aid modalities are decided. For most donors this leads to a narrower room for manoeuvre and may reduce their ability to enforce own priorities, also with regard to aid modalities.

The choices are further restricted by the country or sector in which the aid form is to be implemented. Depending on the country and sector characteristics, different aid modalities are regarded as more or less suitable. Country characteristics (such as partner countries' public financial systems, their ability to fight corruption and their macro-economic development etc.) determine the appropriateness of GBS, and sector characteristics restrict or allow the use of different kinds of sector support. Without an in depth discussion on the subject we note that Sida provides much more SPS to the education and health sectors than to for example the agriculture and water sectors (Sida statistics 2006). And project support is more or less the only aid modality used to support infrastructure investments.¹¹ Nonetheless, donor practices still differ in many countries and it is not always clear why certain aid modalities are more frequently used in some countries and sectors than others. Here the discussion about incentives is relevant and can provide some added value to the ongoing debate.

¹¹ These decisions are to some extent supported by existing research such as Ohno and Niiya (2004) who mean that the project approach is appropriate for activities determining coordination between ministers and agencies when procuring goods, securing financing and examining technology etc., such as the development of infrastructure. Foster et al (2001) mean that SPS is less suitable in the agriculture sector since the government may not play a lead role and public expenditure may not be crucial for development in the sector.

3. A framework for assessing incentive structures

In order to assess incentives influencing the composition of an aid portfolio to a country we have developed a framework structuring the analysis.¹² The main actors of the framework have been identified by examining how decision-making within Swedish development cooperation takes place and how these decisions are implemented; i.e. who is responsible for approving the activities to be funded, for designing the aid form and at what stage in the process. Other actors than those formally involved have been included when they in any way, directly or indirectly, could affect the choices made.

3.1 Formal decision making procedures

The Swedish parliament annually allocates resources for development cooperation and specifies distributions to major regions (but not to single countries or sub-regions). Implementation is thereafter delegated to the Swedish government. The government in turn issues annual appropriation directives for Sida in which the goals and purposes of the allocations are specified. In the annual directives the Swedish government states, inter alia, the resources for research cooperation, grants to Swedish organisations that have framework agreements with Sida and the amounts to be channelled as credits. The government also develops specific instructions and commissions and approves cooperation strategies (Sida 2005a: 28). Cooperation strategies provide the framework for development cooperation with single countries and are the most important policy instrument. As such, they are central for the government to follow up of Swedish development assistance to the specific country. The strategies should be developed for the countries with which Sida has long-term cooperation and cover a period of five years. In some cases they may also be developed for other countries and for regional support (regional strategies) (MFA 2005a: 31, 41ff).

Cooperation strategies have from 2005 replaced country strategies and differ to some extent from these. One new feature is that they should state the channels and forms of cooperation, including the share of programme support to a country for the five-year period. Cooperation strategies should further include assessments of whether budget support could be a suitable aid form in the respective countries as well as a discussion about potential complementarities between budget support and other aid modalities. When developing new strategies, initiatives toward more harmonised processes, preferably aligned to the partner government methods and systems, should be considered. The most tangible example would be the current work in some African and Asian countries of developing Joint Assistance Strategies to increase harmonisation between donors and their alignment to the partner government systems (MFA 2005a: 31, 41 ff).

¹² The framework is partly based on the structures used by Renzio et al (2004) and Ostrom et al (2002).

The Swedish government decides about cooperation strategies but Sida headquarters and relevant field offices are highly involved in the analyses and elaborations of background documents. Sida is responsible for preparing the draft strategy for the relevant country, which is then developed and further elaborated by the MFA. Additional revisions could then be made by Sida and the MFA before the strategy is finally approved by the government. Usually the strategy is also commented on by other Swedish ministries, government agencies and other relevant organisations as well as by partner country actors (MFA 2005a: 36, 41, Sida 2005a: 48, 49).

Within the framework of cooperation strategies (and other strategic directives) the government delegates decision making to Sida's Director General. For GBS contributions however the government first needs to state, as part of a cooperation strategy that the necessary prerequisites exist (Sida 2005a: 28). Before 2005 a government decision was needed for each GBS contribution and Sida's decision making discretion was more limited than today.

At Sida, the regional departments¹³ receive the rights of disposal of most funds. These funds are thereafter delegated to Sida's sector departments¹⁴ and to field offices with extended ('full') delegation.¹⁵ As far as possible decision making should be decentralised to the field offices and integrated in the normal implementation procedures of Swedish development cooperation. Sector departments and fully delegated field offices have the authority to decide on contributions below 50 M SEK; more expensive activities need approval from Sida's Director General who is assisted by the project committee. In the project committee proposals are scrutinised more thoroughly by representatives from different departments of the organisation. Sector departments and field offices are however still responsible for initiating and preparing the support. At the country level this is in most cases done in collaboration with other donors – in particular this is so for GBS and SPS facilities (MFA 2005a: 36, 41, Sida 2005a: 48, 49).

Most Swedish development assistance disbursed through Sida is included in a country or a regional plan, which concretise the guidelines (of the cooperation strategies) into contribution portfolios¹⁶ (Sida 2005a: 26). A country/regional plan is prepared on a yearly basis and states the main goals, the size and the prioritised sectors of Swedish contributions as well as the division of responsibilities between departments at the headquarters and between headquarters and the field office. These plans also include the specific activities to be implemented in the country for the year to come, and the aid modalities to be used. The field offices initiate and draft the country plans in con-

¹³ Regional departments are: the Asian department, the African department, the Europe department and the Latin American department.

¹⁴ Sector departments are: the departments for Democracy and Social Development, Infrastructure and Economic Co-operation, Natural Resources and the Environment, Research Cooperation and Cooperation with NGOs, Humanitarian Assistance and Conflict Management

¹⁵ Field offices are either embassies or development co-operation sections, which belong to an embassy in another country. At present Sida has 43 offices abroad. Of these 14 have full delegation which means that they are responsible for the development programme and can take decisions on contributions below SEK 50 millions. The framework for their mandate is given in the cooperation (or country) strategy and the country plan. Some field offices are partially delegated embassies with responsibility for the implementation of contributions but where the sector departments are responsible for assessing and deciding on contribution. For some field offices Sida is responsible for the whole contribution cycle (Sida 2005: 5, 6).

¹⁶ Examples of funds generally not included are those delegated to multilateral agencies and humanitarian assistance; the latter due to difficulties to plan interventions in advance. Sometimes research programmes are also excluded when these are financed through direct agreements between Sida headquarters and a research institution in the partner country

sultation with Sida's departments at headquarters level. The formal decision of approving a country plan is taken by the head of the respective regional departments. Field offices with full delegation thereafter have the overall responsibilities for implementation of the whole country programme. (Sida 2005a: 48, 49).

3.2 Actors

Based on the decision-making procedures and the context in which Swedish development cooperation takes place a number of actors have been identified. The Swedish government and Sida are responsible for decision-making but they do not act in isolation. Decision making also takes place at various levels within the organisations resulting in a need for assessing actors with different positions and responsibilities. Depending on the context, some or all of the following are important:

- Swedish parliamentarians
- The Swedish government at different levels (here mainly the Swedish MFA)
- The partner government (including line ministries)
- Sida (at both headquarters and in the field)
- Other donor agencies (both at the international level and at partner country level)
- The Swedish civil society and the private sector
- The partner country civil society and the private sector

For a full analysis of incentives the framework has been complemented with the Swedish public (the citizens) that indirectly influences decisions through elections.

The listed actors naturally do not exert influence to the same extent or at the same time. Decision-makers have an *ex ante*, i.e. before implementation responsibility, others react to the decisions and exercise pressure *ex post*. In general *ex post* influences are triggered by the occurrence of conflicts, violation of human rights and democracy or corruption in the partner countries. A tangible example would be media reporting leading to protests about support to a government in a war-ridden country.

In the figure below the links between the described actors are shown schematically. The coloured boxes show actors responsible for decisions on Swedish aid modalities in one way or another. As illustrated, these are influenced by others – in the donor country, in international forums and in the partner country. Some arrows have two heads indicating close consultations between the actors even if only one of them is responsible for decisions. The arrows with dashed lines symbolise actors with a more indirect or *ex post* role in the process.

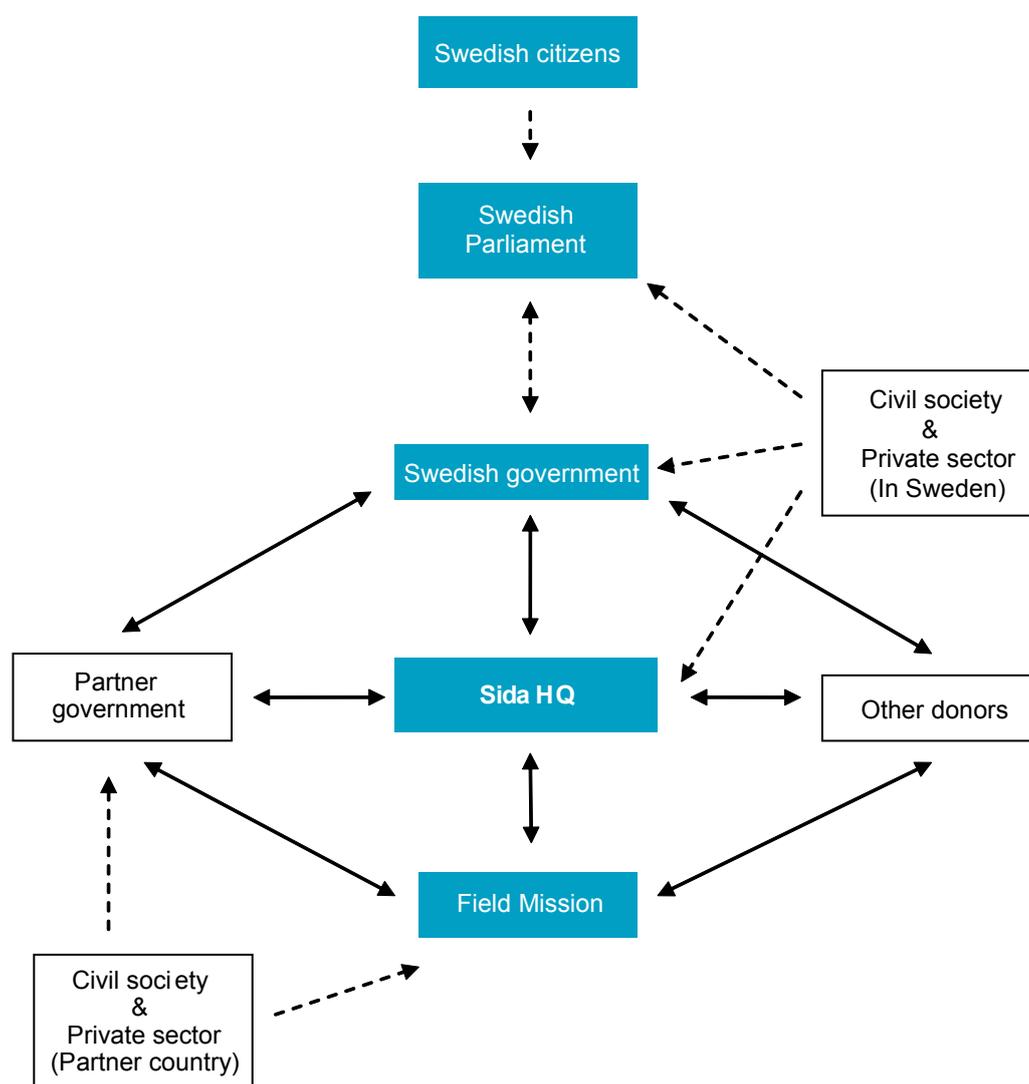


Fig. 1: The relationship between actors influencing decisions with possible implications for aid modalities

3.3 Principals and agents

To better understand how incentives work for the various actors it may be useful to divide them into principals and agents. In hierarchically structured organisations, such as aid agencies, one party (the principal) gives instructions to another party (the agent). This is called a principal-agent relationship. In the ODA setting there is a chain (or many chains) of these relationships. It usually begins with the taxpayers as principals who delegate the decisions of development assistance to their representative politicians, the parliamentarians, who are now the agents. These agents become the principals to the government or the official aid agency. Within the agency further hierarchical and sometimes complicated chains of principal-agent relationships exist (Martens 2002: 8, 18-19). In the figure below one example of a principal-agent relationship is outlined. It shows country-to-country cooperation where the formal partners are the donor and the partner governments. In the partner country the ministry of finance or equivalent (such as the ministry for planning) signs the overall agreements on development cooperation and specific agreements regarding e.g. GBS. The ministry of finance is also often the

dialogue partner to the donor on macro-economic issues, development strategies and overall resource utilisation. Thereafter, decisions are delegated to the implementing organisations/agencies in the partner and donor countries. For Sweden, while the formal agreement is signed by the government Sida is usually the implementing partner. The figure can be alternated depending on which situation we are observing and the principals and agents subsequently differ depending on the activities supported. The beneficiaries of the activities are always the end agent.¹⁷

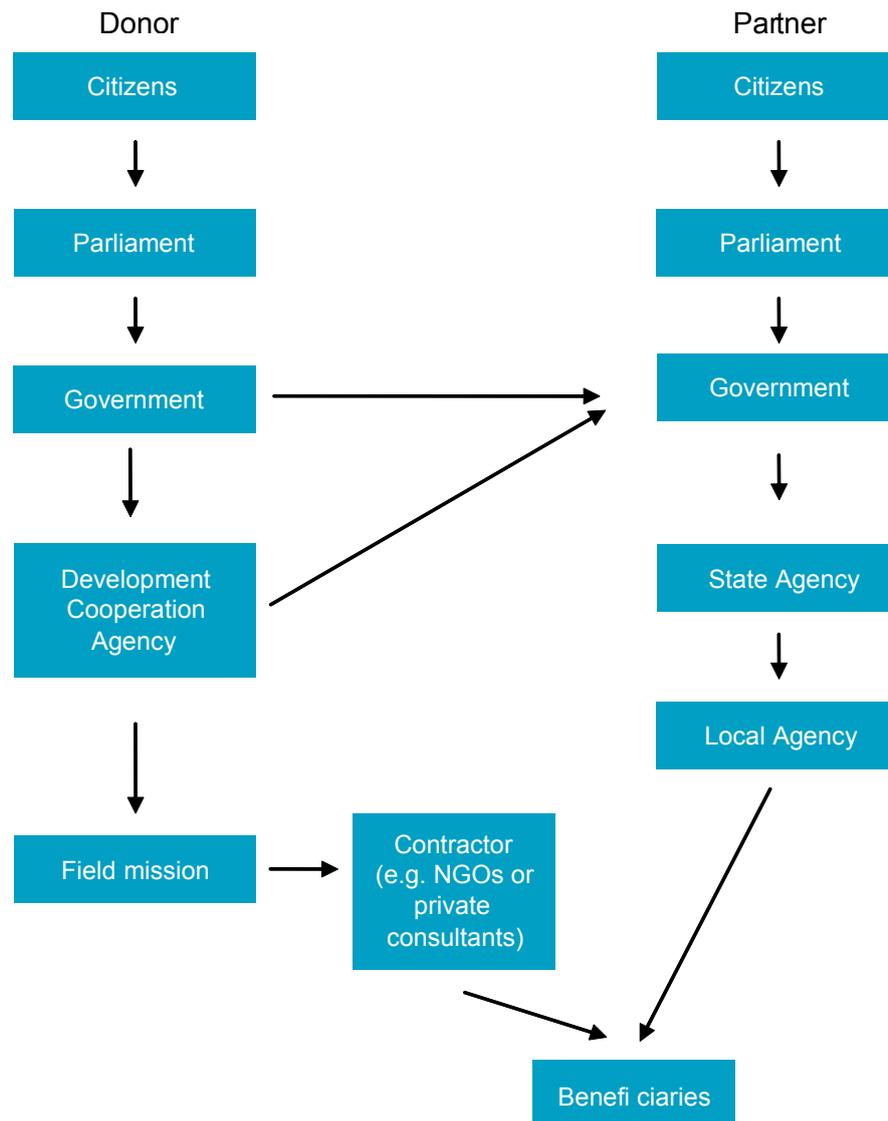


Fig. II: The principal – agent chain (Developed from Ostrom et al 2002: 61)

¹⁷ The principal-agent chain described below is not only relevant for aid modalities but shows delegation regarding aid in general

Development cooperation is inherently comprised of a number of problems. One of these, of specific relevance to the choice of aid modalities, is the presence of multiple objectives. The many principals have their own preferences for how the assistance should be carried out, which may result in a myriad of objectives facing the agents. The longer the principal-agent relationship, the more objectives may be added to the list. These can range from improving the environment and promoting gender equality to fostering growth and mitigating conflicts. Generally there are no clearly defined trade-offs and the conflicting interests of the many principals may lead to inconsistencies and inefficient resource allocation¹⁸ (Martens 2002: 14, 15).

The multiple objectives (of the multiple principals) are present at many levels: within donor countries, within partner countries and at levels where they meet. And with different views of which areas to support follows different priorities of aid modalities. Before providing GBS donors are interested in, inter alia, the formal institutions, the macro economic development in the country and the country's political will to reform. They are also interested in the actions of other donors. For SPS the development in the sector is of importance and the relationship between the donor and the line ministry officials etc. In general, the closer the priorities of the donor and the government in the country, the more likely are support through the government budget, attaching less conditionality and earmarking. Where priorities differ substantially, the donor is likely to exercise more control over its funds by using aid instruments not disbursed through the government systems (Martens 2004: 4).

Within organisations (both on the donor and the partner side) differing views may also provide motives for favouring one aid modality over another. Somebody who believes that increased health for people in a district in Tanzania is the overarching goal may prefer an aid modality that targets these beneficiaries directly such as SPS instead of GBS. Thus depending on the main problem to be tackled different aid modalities are preferred by the actors¹⁹ (Ohno and Niyya 2004: 13, 14). In the next section these (and other) different (and often conflicting) interests will be considered at three levels from the more general systematic level to the individual level.

3.4 Incentives at various levels

Based on the various contexts where incentives emerge and on the actors shaping the aid portfolio we mean that incentives basically occur at three levels: the systemic, the organisational and the individual. Incentives at the three levels are interlinked since organisations act within the wider system, and individuals are part of the organisations.

¹⁸ Sida has the ambition to structure its policies and has divided them into four levels. At the first level we find the fundamental principles and values, such as Sida's policy for poverty reduction. These have the entire organisation as target group and should be adhered to by all staff members and incorporated in their daily work. At the second level is overarching policies for the development cooperation process, which must relate clearly to the goal of poverty reduction, be of relevance to most of Sida's work and be linked to one or more of the central component elements. They also have the entire agency as target group and should be familiar to the staff. Often, these policy areas include the so called mainstreaming issues such as HIV/Aids and gender. The third level organises thematic and specific sector policies, which are developed for major areas of work but not intended for the whole organisation. At the lowest level Sida prepares position papers to explain how Sida regard important but more limited areas and to provide guidance on specific activities (Sida 2005a: 30).

¹⁹ The aid modalities also differ in how well they can solve the problem identified, but that is another issue not further discussed in this paper.

3.4.1 Systemic level

The systemic level refers to the overall framework within which development cooperation takes place. Incentives could be provided by political decisions regarding which countries to support and how much development assistance to provide, as well as influences from the international donor community. Since incentives often emerge within partner country specific processes, we have made a division, where possible, between the (partner and/or donor) country level and the international level. The following contexts should be taken into account when analysing incentives at the systemic level:

- *International trends.* Current (and previous) trends within the international ODA setting form new aid modalities and an understanding of how to implement development assistance. These trends occur at two different levels:
 - The incentives can be shaped at the international level in forums such as the DAC and be manifested in policy documents such as the Paris Declaration. These are often triggered by dominating aid agencies such as the World Bank or DFID.
 - Incentives are also created at the partner country level when donors interact with each other, with the government and with other actors such as civil society organisations and the private sector. Dominating donors could also affect the choices at this level.
- *The relationship between the partner government and the donor.* The relationship and the level of trust between the donor and the government in the country affect the choice of aid modalities. By assessing the development of the relationship and the extent of trust between the partners we could deepen our understanding of how decisions regarding aid modalities are made. This analysis could only be made at the partner country level.
- *The preferences of the partner country government.* According to the Paris Declaration the partner government preferences of aid modalities should guide donor decisions. When conducting country case studies, it is of great importance to include the partner government preferences (if any), and whether, and to what extent, donors follow these. Naturally this analysis is restricted to the partner country level. Partner country preferences are however not homogenous (as we show in the next chapter). A difference should be made between various levels of the government such as between finance and planning ministries on the one hand and line ministries on the other. A difference between local government and central government may also be needed.
- *Political interests.* In this section the analysis should include factors influencing political decisions as well as political decisions that impact upon the choice of aid modality. The analysis should also include the relationship between donor politicians and other actors within the donor country. This analysis is confined to the donor country context.
- *The role of the civil society and the private sector.* The civil society and the private sector, both in the donor and the partner countries, collaborate with aid agencies and are often dependant on their support. The analysis should primarily outline the way in which these actors may influence decisions and how they are affected by the choices made. The analysis should make a distinction between donor and partner country actors.

- *The role of the donor constituency.* Here we are primarily interested in assessing how preferences of the citizens can influence decisions. The assessments take place within the donor country context.

3.4.2 Organisational level

For Swedish development assistance, Sida is the main implementing organisation and the MFA develops instructions and helps operationalise government policies. With regard to aid modalities, both organisations are important. The organisational structure within each of them is important to assess since it "...determines how roles and responsibilities are defined and shared..., how reporting and accountability lines work, who has decision-making power over what, and so on" (Renzio et al 2004: 14). As part of this pre-study some organisational features were found both within Sida and the MFA to be relevant. Others may be added when the case studies are undertaken.

For Sida we believe that in particular the division of responsibilities between regional and sector departments and field missions could affect the choices. Depending on the tasks of the various departments and field missions their motives for choosing aid modalities differ. To gain a better understanding of the total composition of aid modalities for a specific country it is important that these various organisational features are taken into consideration.

Similarly, within the MFA the division of responsibilities between the geographical and functional departments could create incentives that affect the use of aid modalities. We have acknowledged that the geographical and functional departments may have different preferences for the choice of aid modalities. In particular, we focus on how the interests of the different departments affect the content of cooperation strategies.

We know that these various incentives are also to be found within partner country organisations. When judged to be influential they will be added to the country analyses.

3.4.3 Individual level

Individuals within the organisations also face various incentives. These can be created by the organisation itself by e.g. the encouragement of certain behaviour or the provision of training opportunities. But they can also be internal motivations of single officials, not always aligned with the objectives of the organisation. As already discussed in an earlier section, development assistance is characterised by a wide range of objectives. Individuals meeting all these objectives have to prioritise between them, sometimes leading to other results than those intended. Individuals may also act in line with their own priorities and deviate from the stated objectives of the organisation. Within the theory of principals and agents this is referred to as moral hazard or hidden action (Martens 2002: 8, 18-19, Ostrom 2002:39,40). Since preferences and actions of individuals are not always sanctioned by their superiors, these may be more difficult to reveal. When carrying out case studies special effort will be needed to find these.

Individual level incentives require in depth studies and more time than this work has allowed. Therefore we do not discuss them further in this paper. Some examples are however listed in the box below.

Examples of individual level influences

- *Recruitment policies and practices.* An assessment of recruitment procedures shows what kind of personnel is demanded. The skills and competences needed for the development of e.g. budget support are different from those needed for project support.
- *Skills and training opportunities.* The skills and training opportunities the organisation provides signals what is regarded as important competences.
- *Staff attachment to development activities.* In order to assess implicit interests we should include the attachment of individual staff members to specific development activities. Personal preferences, especially where the staff member has a relationship with beneficiaries of the activity, may affect the choices.
- *Career opportunities and rewards.* The kind of behaviour the organisation rewards by promotion, may reasonably be expected to affect individual motivations.

4. How to use the framework – general application

In this chapter we discuss potential influences for choosing aid modalities and show how the framework could be used when conducting country case studies. Where possible we exemplify with Swedish bilateral development assistance 1999-2005.²⁰

In the table below the percentage share of the aid modalities disbursed through Sida is outlined.²¹ As illustrated, project support has been and remains the most important aid modality during the whole period, reaching 36.6% to 44.5% of total bilateral assistance.²² If grants to NGOs are included, projects constitute more than 50% of total ODA. The two last columns show how much the aid forms have changed in absolute and relative terms respectively. At the same time as total ODA increased by 64% (5 418 M SEK), GBS increased by 400% (580 M SEK), SPS by 211% (582 M SEK) and project support by 84% (2 805 M SEK). Support through NGOs did also increase, but not as much (25% or 363 M SEK). At present GBS, project support and support to NGOs together with SPS make up approximately 70% of all bilateral assistance from Sweden.²³

Aid modality/ year	1999	2000	2001	2002	2003	2004	2005	%change 1999-2005	Absolute change (M SEK)
Project support	39.8%	36.6%	43.4%	44.4%	42.3%	41.4%	44.5%	84%	2 805
Grants to NGOs ^a	17.6%	15.8%	14%	14.3%	12.7%	14.2%	13.3%	25%	363
SPS ^b	3.3%	3.8%	4.4%	5.4%	6%	6.5%	6.2%	211%	582
GBS	1.7%	2%	3.6%	4.4%	5.2%	5%	5.2%	400%	580
Total bilateral ODA ^c	8,4	10,2	12,1	11,6	10,2	12,4	13,8	64%	5 418

Table II. Source: Sida Annual Reports, Sida statistics, OECD/DAC 2005

- Grants to NGOs include contributions both to Sida's frame organisations (about half of the funds) and budget support to other Swedish or international NGOs and to NGOs within Sida's partner countries. Support to projects implemented by NGOs is not included.
- SPS is reported separately in Sida's account, but mainly consist of basket funds and occasionally SBS (Sida 2005e: 7).
- Total ODA from Sida, billion of SEK

²⁰ Statistics obtained from Sida's planning system PLUS are not always classified correctly however, since programme officers themselves are responsible for recording the data (Sida 2004: 9).

²¹ The following have not been included: research cooperation, humanitarian assistance, credits, guarantees, international training programmes and technical assistance including contract financed support.

²² Based on data for 2005 approximately 95% of the activities included in the budget item "project support" could be regarded as project support as defined in this paper. The remaining 5% include various items such as evaluations, administration and information activities in Sweden.

²³ The remaining includes research cooperation, humanitarian assistance, credits, guarantees, international training programmes and technical assistance including contract financed support. ODA through three of the forms has been reduced during these years: international training programmes, credits and research cooperation. In addition, support to economic reforms such as debt relief has dramatically decreased since 1999 (Sida statistics).

4.1 Systemic level

In this section we show how variables within the broader context of the ODA setting could influence the use of aid modalities. In accordance with the framework developed in chapter three, international trends, the relationship between the partner government and Sweden, preferences of the partner government, political interests, influences from the civil society and the private sector and the role of the Swedish constituency are considered.

4.1.1 International trends

A number of international initiatives have contributed to increased cooperation between donors and between donors and partner governments and led to new ways of implementing development assistance. One starting point for these initiatives was the 1992 OECD/DAC Development Assistance Manual: *DAC Principles for Effective Aid*. The manual emphasised cooperation between donors to increase aid effectiveness, as well as more involvement of beneficiaries to increase ownership. Another OECD/ DAC document — *Shaping the 21st Century* was published in 1996 and outlines a framework for a partnership model focused on local ownership. A milestone in the donor cooperation strive was the globally agreed agenda set out when the Millennium Development Goals were established in 2000. Following these, several initiatives emphasising methods for reaching the Millennium Development Goals and to increase aid effectiveness emerged. The most important are the Monterrey Consensus on Financing for Development (2002), the Rome Declaration on Harmonisation (2003), and the Marrakesh Memorandum on Managing for Development Results (2004). In 2005 most of these ideas were synthesised into the Paris Declaration on Aid Effectiveness, which to date has been signed by 102 partner and donor countries, 26 international organisations and 14 civil society organisation (OECD/DAC 20061005). The aid effectiveness agenda as spelled out in the Paris Declaration provides a common ground for all partners and clearly outlines their different responsibilities.

The past years' trends, leading to an increased consensus among donors and between donors and partner countries, have also affected the use of aid modalities. In the mid 1990s SWAPS emerged to improve harmonisation between donors and to increase partner country ownership. In 1995 Sida developed its first policy for SPS and in the late 1990s the Swedish government instructed Sida to shift from project to programme support and to increase the use of SPS whenever possible (Sida 2000:4). Although SPS has been much advocated and in use for more than 10 years it still only amounts to about 6% of total funds.

One instrument that largely affected the changed pattern of aid modalities in the late 1990s was the development of Poverty Reduction Strategies (PRSs) or Poverty Reduction Strategy Papers (PRSPs) as part of the HIPC-initiative. From Sweden limited amounts of GBS had been given to some countries in the early 1990s.²⁴ But it was not until the formulation and the adoption of PRSP that larger amounts were allocated through this support form:

²⁴ In the early 1990s (and earlier) the portion of programme aid was much larger than in the late 1990s and today. These programme aid forms, mainly import support and debt relief, were not harmonised with other donors and were not intended for the government's own development spending - thus differing from present day GBS.

“The increase in the proportion of budget support is largely due to the current development of a number of international processes, including the Heavily Indebted Poor Countries Initiative (HIPC) and the Poverty Reduction Strategies (PRS) (Sida Annual Report 2003: 50).”

The table below shows the year for the first GBS from Sweden to the respective countries and the year of approval of a PRSP or an Interim PRSP. Only Mozambique and Uganda received GBS contributions before they had any of these instruments in place. Large fluctuations have however occurred in GBS allocations during these (few) years. In Vietnam, GBS was only given for the year 2002 and Malawi received a small amount of GBS in 1999 but no more until 2005. And for 2005 GBS to Uganda and Ethiopia was frozen or cancelled. Initially, PRSPs were linked to countries eligible for debt cancellation within the HIPC initiative and thus more closely connected to GBS. Today more than 50 countries have developed PRSPs but less than half of these receive GBS (IMF 20060712).

Year for PRSP and year for GBS from Sweden

Country	PRSP 1 (interim)	GBS from Sweden
Bolivia	2001 (2000)	2001
Burkina Faso	2000 ^a	2001
Ethiopia	2002 (2000)	2004
Honduras	2001 (2000)	2004
Cambodia	2002 (2000)	2001
Malawi	2002 (2000)	(1999) 2005
Mali	2002 (2000)	2001
Mozambique	2001 (2000)	1998
Nicaragua	2001 (2000)	2002
Rwanda	2002 (2000)	2001
Tanzania	2000 (2000)	2000
Uganda	2000 ^a	1999
Vietnam	2002 (2001)	2002
Zambia	2002 (2000)	2006

Table III. Source: Sida statistics and the IMF
a For Burkina Faso and Uganda no interim PRSP was prepared

The international decade-long trend of promoting programme based approaches has led to increases of GBS and SBS from Sweden, but perhaps not to the extent expected, neither has it led to a large reduction of project support. Explanations as to Sweden's choice of aid modalities must be sought elsewhere. Subsequent sections provide some answers.

4.1.3 The relationship between the partner government and Sweden

The level of trust between the donor and the partner government is decisive for the choice of aid modalities as was recently emphasised by the evaluation of GBS (commissioned by a consortium of donors and partner countries under the auspices of the OECD/DAC). The evaluation finds that the decision to provide GBS is primarily based on a good relationship between the donor and the partner government (IDD and associates 2006: 121). A good relationship entails, inter alia, that the partners agree on expenditures (mainly patterns and priorities for public expenditure), that the donor believes the partner government to have necessary competence at the finance ministry along with enough status to enforce the planned expenditures, and that the partner government has the ability to follow up its own strategy. Donors must also be prepared for a lengthy engagement and leave room for partner government manoeuvre. The higher the level of trust, the more likely is a decision to provide GBS (cf. IDD and associates 2006: 121, Odén and Tinnes 2003: 25). Consequently, low levels of trust between the partners are likely to lead to support bypassing the government systems such as most project support modalities. Although the overall relationship between the partners is regarded as insufficient for the provision of GBS the donor could still be willing to deliver funds through the government systems but with a sector specific focus. Either as basket funding within a SPS, where more control is left with the donor, or even as SBS (see section 4.1.5 for a discussion of GBS vs. SBS).

Trust between Sweden/Sida and the Tanzanian government

Following a period of difficult relations between Tanzania and its development partners in the mid 1990s a group led by professor Helleiner was formed to improve the situation. The analysis made by the group was presented in the Helleiner report, followed by a number of recommendations. Since then a range of initiatives emerged shaping the present day situation with a strong relationship between Sida (and other donors) and the Tanzanian government. Odén and Tinnes list three main factors that contributed to the present high level of trust and mutual accountability:

- Donors were confident that the Tanzanian government was committed to reforms and would take responsibility for the country's development.
- The existence of key change agents in Tanzania to lead the development process.
- The development of the Tanzanian Assistance Strategy (TAS) together with the first PRSP, which provided a basis for dialogue and facilitated the selection of aid modalities based on the preferences of the government (2003: 9, 14, 18).

The TAS provided a three year framework (2002-2005) for donor-Tanzanian government cooperation. At present a continuation of this process is being undertaken by the creation of the Joint Assistance Strategy for Tanzania (the JAST).

Trust and a good relationship between the donor and the partner government do not happen overnight but takes time to develop. By looking at the historical ties we can gain insightful explanations as to the overall aid portfolio (such as sector preferences) and to the use of aid modalities. In the individual country analyses the history of the relationship must be taken into consideration.

4.1.4 Preferences of the partner government

According to the Paris Declaration (and to anyone promoting ownership) the preferences of the partner government should guide donor decisions. Of the seven countries assessed by the OECD/DAC GBS evaluation however, only two had explicitly stated their preferred forms of aid and none clearly said how they wished to balance them; partner governments have not taken the lead and guided donors' behaviour. But this is also dependant on how we define the partner government. Do we only mean the central ministries such as the ministry of finance (or similar) or do we include line ministries and local government? The question is legitimate since the objectives and interests often differ between the actors within the government.

Aid instruments affect the work of the various ministries and agencies differently and their preferences vary accordingly. With GBS contributions for example the ministry of finance increases its discretion of funds at the same time as it is reduced for line ministries compared to support delivered directly to their sector. In terms of principals and agents (fig. III) the ministry of finance is an agent to the donor and a principal to other domestic actors. With sector support (mainly basket funding) the line ministry does not have to compete with other ministries for financing and has a stronger position in relation to the ministry of finance. The line ministry is a direct agent to the donor instead of only receiving donor funds indirectly and through the ministry of finance. It is also the main principal to local agencies and other implementing organisations.

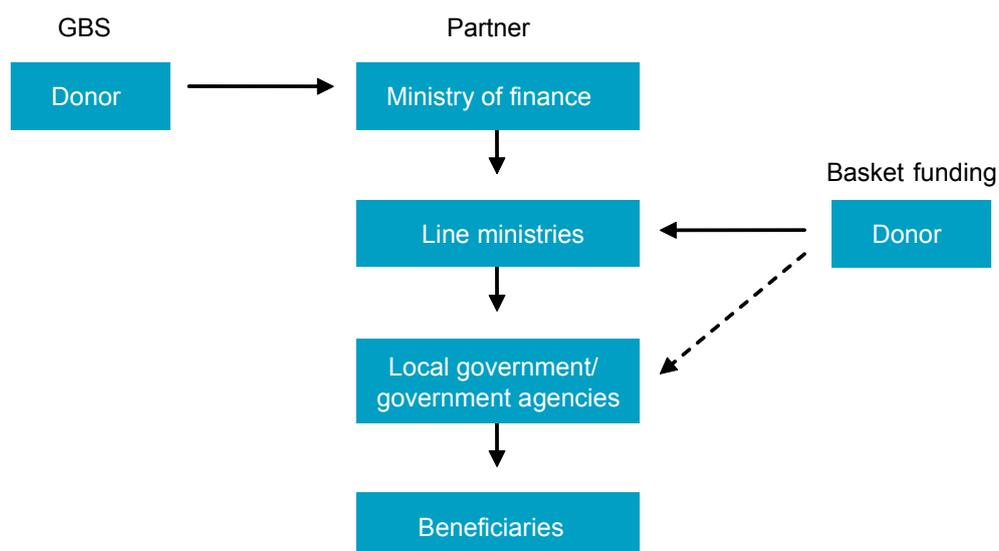


Fig. III: Simplified principal-agent chain of GBS and basket funds within a partner government

Line ministries could therefore regard GBS as a threat: they risk receiving less than before and the distribution of funds between sectors may be altered (donors and the central government do not necessarily have the same preferences).²⁵ The choice of aid modality may thus affect the internal incentive structure within partner governments. As a consequence, the envisaged GBS increases in some countries may lead to frustration among other stakeholders than the central government (cf Odén and Tinnes 2003: 26, GRIPS 2005: 12, Norad 2004: 5).

The health and water sectors in Mozambique

After the introduction of GBS in Mozambique the distribution of funds to sector ministries has changed. The health and water sectors have received less resources and the flow of funds from the Ministry of Finance has been slow and uneven. At the same time some other sectors have experienced over-spending. This situation is partly due to weak planning, budgeting and financial management systems at the Ministry of Finance and partly to the different priorities between the donor community and the central government (Harding and Gerster 2004: 30)

With support aimed specifically to a sector, line ministries also often have direct contact with donors' sector experts. This means, in the Swedish context, that sector departments at Sida could provide advice within their area of expertise and take part in the dialogue on the relevant sector issues. The specific sector interest often unites the sector departments at Sida with line ministries in partner countries and facilitates an exchange of ideas (see also section 4.2.1) (Odén 2006:908). With reduced sector funding many donors express concern that their influence in the sector dialogue will be limited. When channelling funds through GBS, dialogue primarily takes place between the ministry of finance and the donor – line ministries are left out (Norad 2004: 5). There is however some evidence that budget support facilities could be better at dealing with sector policy issues and cross-cutting actions than sector programmes (such as SPS) (Norad 2004: 13). An intermediary modality could be SBS where dialogue is still attached to the sector even when funds are channelled through partner government systems. Sida is currently debating how dialogue can take place effectively when decoupled from the specific funds (Holmryd 2006:1013).

4.1.5 Political interests in Sweden

In Sweden high volumes of international development cooperation is supported by a majority of the citizens. To sustain this support it is important for politicians to show their voters concrete examples what Swedish funds are used for. A move to more programme modalities means that fewer results can be attributed specifically to single contributions and politicians/Sida officials may be accused of not providing financial support to priority sectors such as education and health. With the expected increases of programme aid funds from Sweden, specifically to some countries in the years to come this may be a problem. Some donors with much larger portions of total ODA delivered through the partner government budget have experienced an increased need for visible

²⁵ In the long term GBS aims at improving to budget challenging function within partner governments thus improving the allocation of funds.

projects to counteract this ‘hidden support’. A study by ActionAid and Care International assessing support mainly from the UK Department for International Development (DFID) finds that “...the relative anonymity of budget support makes donors even more eager to put their individual stamp on other initiatives they fund...” The study notes in particular that support through NGOs have increased as an effect of more GBS (2006: 43). Since so much of Swedish ODA is delivered as projects it is difficult to see how it could increase alongside more programme aid. Neither is a large increase of NGO support envisaged. What is more likely is that some activities provided by NGOs will increase such as support to NGOs that have a ‘watchdog’ role (see also chapter 4.1.6).

Political interests may also influence the use of aid modalities in other ways such as being an instrument of foreign policy. In particular GBS, since the aid form is decided by the government. By adjusting GBS allocations Sweden can signal its pleasure or displeasure with the policies of the partner government. If something occurs in the countries contradictory to the goals set up by Sweden, GBS is more likely to be withdrawn or delayed than other aid modalities. IDD and associates have shown that donors underestimate the political risks and have “...over-optimistic assumptions about IP’s [International Partners] ability to influence matters that are deeply rooted in the partner countries’ political systems” (2006: 36), further increasing the risks for volatile funds. Uganda is an example where political instability in the country led to a cancellation of GBS for 2005 from Sweden (and other donors) and reduced amounts for 2006. In Sida’s guide to principles, procedures and working methods it is stated that:

“In most cases of differing views, Sweden endeavours to continue, but re-structure, cooperation with the aim of supporting developments that are likely to improve future conditions of cooperation. For example, Sweden could terminate its direct cooperation with a certain government and re-direct its support to civil society or other partners who are committed to poverty reduction, democracy, human rights and good governance (Sida 2005a: 17).”

Sida means that a political dimension comes to fore when working with budget support and sps, which is not mentioned for projects. GBS is regarded as the most political instrument since funds are channelled directly to partner government budgets (Sida 2005a: 22). sps does not generally lead to the same political controversies and may be easier to justify to the home constituency than GBS (see also the comparison between sector budget support (sbs) and GBS discussed in the box below).

One way of mitigating political risks with GBS is to introduce a graduated response system, such as disbursements for partial performance, to avoid the problems caused by a complete withholding or delaying. But if these graduated responses only apply to GBS instead of all aid modalities we risk even further politicising the aid form (Holmryd 20060526).

GBS vs. SBS

According to the Strategic Partnership with Africa (SPA) SBS is often politically easier to defend to taxpayers and politicians in the donors' home countries than GBS. With SBS donors can claim that their funds still are tied to priority areas such as health and education. At the same time the support is transferred through the treasury and is aligned to donor systems as is recommended. This political 'sellability' of SBS has sometimes led to less volatile aid flows and greater predictability than GBS. Donors also seem to be more willing to increase their delegated cooperation arrangements with SBS (SPA 2005: 4). Even where the funds are only notionally earmarked to a sector the concept appears to be more accepted than GBS.

Another political dimension relates to changes in aid volumes. Since 1999 development assistance from Sweden has increased from 0.7% of GNI to 0.92% in 2005 and is expected to reach 1% for 2006 and the years to come. It is often assumed that programme support modalities are more flexible than other aid forms and easier to increase/decrease as total funds change. Programme aid (mainly budget support) can therefore represent more efficient ways of meeting the Swedish commitment towards allocating one percent of GNI as official development assistance. ActionAid and Care International note that the shift towards budget support taking place recently among many donors partly is "the consequence of donor pragmatism and a drive for greater administrative efficiency in the context of increased aid budgets" (2006: 11).

Swedish bilateral assistance increased by 64 % from 1999 to 2005. At the same time SPS more than tripled and GBS quintupled. The growth in GBS and SPS contributions has thus been substantial, although starting from a very low level. Project support increases also outweigh that of total ODA, somewhat contradictory to the reasoning above. An increase of total budget support contributions could be an effect of new countries being eligible for GBS, but are more likely to occur when more funds are channelled to current GBS countries. One example is Tanzania where GBS is expected to more than double from 2005 to 2008. After 2007 over half of total funds are expected to be channelled as GBS.

GBS and SPS to Tanzania in numbers

Modality	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
SPS (M SEK)	2	0.7	58.9	106.6	109.5	118.9	129.3	0	0	0
GBS (M SEK)	0	80	80	120	110	120	200	300	400	500
SPS (% of total)	0,5	0,1	12,2	17,7	20,5	19.4	21.3	0	0	0
GBS (% of total)	0	13.8	16.6	19.9	20.6	19.5	32.9	42.9	53.5	59.5
Total all funds (M SEK)	364	580	482	604	535	614	608	700	750	840

Table II. Source: Sida statistics, Sweden Tanzania Cooperation strategy 2006-2010, Country plan for development cooperation with Tanzania 2006-2008

4.1.6 Civil society and the private sector

The civil society (here mainly NGOs and other non governmental associations) and the private sector (here mainly firms that are contracted by the donor) both in Sweden and in the partner countries may influence decisions since they have their own interests in how development assistance is delivered. Many NGOs depend on donor funding for implementing their projects. A move to more programme support through the government budget could be seen as a threat to their operations. The same applies to private firms that bid for contracts and prepare, implement or evaluate contributions. More programme support and open international bidding through the partner government's own systems may reduce their chances of winning contracts in the future (Renzio et al 2004:12). Thus many organisations and private firms lobby decision makers and programme officers to favour their activities. When conducting assessments at the country level the ability of these groups to exercise influence needs to be taken into account.

The need for channelling ODA through NGOs and the private sector will not disappear with the introduction of new aid modalities but other services may be demanded by donors and the partner country government. Consultancy firms with an advocacy function (in relevant fields) for instance may benefit from more programme support since the partner government will increase its need of foreign expertise when responsibilities and funds increase. These firms would thus stand a better chance of surviving than the ones implementing service delivery projects or similar. The same applies for NGOs. For both local and international NGOs new opportunities arise in the field of holding partner government to account in order to decrease the risk of corruption and financial mismanagement, i.e. to have a watchdog function (Renzio et al 2004: 12). When more authority is given to partner governments, donors will need more control mechanisms. According to the referred study by ActionAid and Care International, NGOs scrutinising public expenditures at present receive increased funds from donors. The report concludes that it is clear "...that the introduction of general budget support has given donors added impetus to provide resources for NGO advocacy activities..." (2006: 47, 48). Incentives are thus provided for NGOs to adapt to the new aid architecture. This is

not primarily impacting on how decisions are made but is an effect of changed aid modalities. All these factors should be taken into account when conducting country studies.

4.1.7 Swedish constituency

The Swedish general public is not directly involved in discussions of suitable aid modalities but may press their representative politicians to impose restrictions on the way ODA is delivered. And in general there is a gap between the international debate about future forms of development cooperation, and the views of the Swedish public on how ODA is and should be delivered. Many Swedish citizens are sceptical about granting funds directly to governments that are perceived to be corrupt or where democracy is not deeply rooted. For example, if the public believes that GBS is contributing to ongoing conflicts or to corrupt regimes in partner countries, politicians will certainly hear from their voters. As already discussed in section 4.1.4, some aid modalities are easier to justify to Swedish taxpayers than others (e.g. SBS as opposed to GBS). When (or maybe if) we move to more programme modalities, we also risk decreased support from the taxpayers, a risk which should be taken into account when deciding on aid modalities. Martens expresses this clearly:

“If effectiveness is measured solely in terms of recipient country objectives and preferences, and if aid agencies focus overwhelming on these, they will neglect donor preferences and thereby may reduce donor support for aid flows (2004: 5).”

One response to this gap between the views of officials working with development assistance and the Swedish public is the joint Sida and the MFA information project aimed at explaining how the new aid modalities work and why they are being put into effect (Hedenstrom 2006-05-26). For the time being though, some aid modalities, especially projects, are more acceptable to the public.

4.2 Organisational level

In the following sections some organisational structures of Sida and the MFA, relevant for the choice of aid modalities will be discussed.

4.2.1 Sida

When preparing the framework in chapter three two main organisational features within Sida became apparent: the division of tasks between regional and sector departments and the decentralisation of authority and staff to the field missions. Sida is divided into four regional departments,²⁶ five sector departments,²⁷ four intra-agency functions,²⁸ a secretariat for evaluation and internal audit and 43 field offices. Since the main responsibilities for implementing development assistance lie with the regional and sector departments and field offices with extended delegation, this discussion will be restricted to these. Sida's geographical departments receive the right of disposal from the Director General. They thereafter decide on the contributions to a country and delegate authority of funds to Sida's delegated field offices and to sector departments.

²⁶ The departments of Africa, Asia, Europe and Latin America

²⁷ The departments for Democracy and Social Development, Infrastructure and Economic Cooperation, Natural Resources and the Environment, Research Cooperation and Cooperation with NGOs, Humanitarian Assistance and Conflict Management

²⁸ The departments for Policy and methodology, Human resources, Information and Finance and Corporate Development

Regional departments' main responsibilities are to monitor and analyse development, and to plan, coordinate, implement and monitor Swedish bilateral assistance in the partner countries and sub-regions. Sector departments' main tasks are to monitor development, to develop policies, methods and competence, and to provide advice within their respective areas of operation. They also implement development assistance, where delegated authority to do so (Sida 2005a: 32).

During the last years Sida has granted several field missions extended, so called 'full', delegation. At present 14 field offices are fully delegated. A field office with full delegation is responsible for and coordinates the entire country programme including the contribution management cycle. Some exceptions are support to research cooperation (managed by the department for research cooperation, Sarec) and contributions where specific expertise is required, which can be delegated to sector departments. In addition, all contribution proposals amounting to 50 M SEK or more are re-delegated from the field to Sida's Director General. So, in effect only about half of the funds to a specific country are decided by a field mission with extended authority. The transferring of authority has thus not been as extensive as envisaged. With the present situation there is also some confusion about who has the formal rights of disposal, which in turn complicates accountability (Riksrevisionen 2004: 88).

Delegation of authority to some delegated field offices in 2005

For the year 2005 approximately half of all funds to Tanzania were decided at headquarter level: the support to the GBS facility (200 M SEK) and the SPS (120 M SEK) to support the SWAP in the education sector. Remaining funds, approximately 360.5 M SEK were distributed between activities below the threshold value. Tanzania is not unique in this matter. In e.g. Burkina Faso, Mali, Mozambique, Rwanda and Vietnam the same pattern appears; half of total country allocations are delegated to the field, the rest is decided by Sida's Director General, advised by the project committee (Sida statistics).

Regarding choice of aid modalities, views seem to differ somewhat between field offices and Sida headquarters. In general, the field offices (after having consulted other donors and the partner government) appear to be more positive towards increased programme funds (mainly GBS) than departments at Sida headquarters. A strengthened field representation has in many cases led to increased trust between the partner country government and the field mission, a contributing factor to the decision of moving towards programme aid modalities. It is therefore possible that the present order, where most GBS decisions are taken at the headquarter level may have led to less GBS. The differing views should however not be exaggerated although this aspect does need to be included in the case studies.

The increased delegation of authority to field offices has also affected Sida's sector departments. Earlier, the sector departments had a principal role in preparing (and also managing) SPS-contributions and projects within their area of responsibility. With more authority transferred to the field, sector departments' role in preparing and implementing the support has been reduced and "...resulted in a shift for sector departments away from direct control through decision making, to a focus on normative steering"

(Sida 2005b: 15). Together with more funds channelled as GBS, sector departments' role as a main actor in the preparations of a contribution has thus disappeared (Riksrevisionen 2004: 85).

At a Sida organised seminar on GBS in May 2006, one desk officer working at Sida's division for health indicated that more GBS would lead to a reduced focus on health issues. Sector funding such as SPS or even SBS, were preferred. In terms of choice of aid modality therefore, we expect sector departments to be more positive of sector funding or even projects than of GBS.

Also, with increased GBS contributions sector departments' exchange with line ministries in the partner countries is likely to be reduced. When funds are no longer tied directly to a sector (although a dialogue focus may be) or to a specific project within the sector, there will be less opportunity for dialogue and reduced transfer of know-how from experts at sector departments to line ministries in partner countries. We can illustrate the shift with the development in Tanzania. For 2004, three sector departments at Sida headquarters were responsible for projects: Sarec (the Department for Research Cooperation), INEC (the Department for Infrastructure and Economic Development) and DESO (the Department for Social Development). In 2006 only INEC was managing projects in the country (Sida statistics, 2006).

4.2.3 The Swedish government – the MFA

Apart from the annual appropriation directives, the main means for the Swedish government to implement its development policies is through cooperation strategies. Within cooperation strategies the government decides whether GBS is an appropriate aid form for the respective country and determines the balance between programme support and project support (MFA 2005b: 14). In this section therefore we explore further how the organisational structure of the MFA affects the contents of cooperation strategies.

The MFA is divided into geographical²⁹ and functional departments,³⁰ legal secretariats and departments responsible for administration (MFA 20061220). With regard to the development of cooperation strategies, the responsibilities are shared between the relevant geographical department and the Department for Management and Methods in Development Cooperation (USTYR). The latter, USTYR, is responsible for the overall coordination of Swedish development assistance including budgeting and management. In addition, USTYR is responsible for coordinating other departments in the process of drawing up cooperation strategies. The geographical departments are responsible for developing cooperation strategies and managing policy relations with the respective countries and for monitoring Swedish interest in the specific regions (MFA 20061215).

²⁹ Geographical departments are: Africa, Americas, Asia and the Pacific Region, Eastern Europe and Central Asia, European Security Policy, European Union and Middle East and North Africa.

³⁰ Functional departments are: Export Promotion and the Internal Market, Multilateral Development Cooperation, Disarmament and Non-proliferation, International Trade Policy, Consular Affairs and Civil Law, Global Security, Migration and Asylum Policy, Management and Methods in Development Cooperation, Press, Information and Cultural Affairs, Protocol, Migration Process resources and Development Policy.

Since the departments have different tasks and responsibilities there are reasons to believe that they also view forms for development cooperation differently. We have found indications that geographical departments seem to be more sceptical towards granting GBS contributions than USTYR. One recent example is the case of Moldova where USTYR and the department for Eastern Europe and Central Asia had different opinions. It should however be emphasised that geographical departments are not a homogenous group – their views naturally differ depending on the regions and countries they are responsible for. Not only could there be differences between the various departments within the MFA, but the views may also vary between the MFA and Sida. Since the environment surrounding the MFA is more political than that of Sida (not that Sida is ‘apolitical’) the MFA appears to be more cautious to advocate GBS.

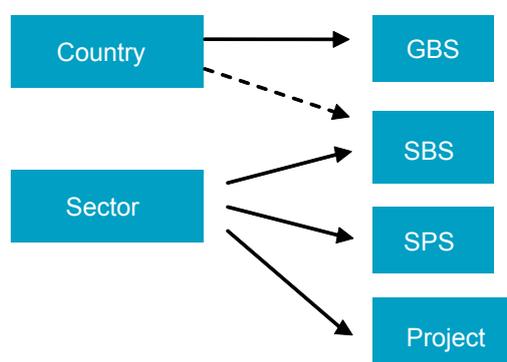
Possible disagreements between the departments within the MFA and between Sida and the MFA – and whether these affect the choice of aid modalities – will be assessed more thoroughly in the country studies.

5. Conclusions and suggestions for future studies

This paper has illustrated that the choice of aid modality is influenced by a number of factors, both explicit (e.g. partner country preferences) and implicit (e.g. structure of the organisations). It further shows the difficulties of analysing how the factors influence and to what extent -not least since the array of interests is broad and sometimes conflicting (e.g. political interests may differ from those expressed in international declarations).

Since aid modality decisions are highly contextual, the choice of country and/or sector often limits the choices. For GBS, partner countries' political and economical systems as well as the historical development matter. Although countries receiving GBS differ regarding the quality of their public financial systems, governance indicators and their level of democracy, they do to some extent match some kind of minimum criteria. Other countries clearly fall below these levels and will not be eligible for GBS in the foreseeable future. Some countries, however, fall in the grey area of what can be accepted and donors judge the 'readiness' of partner countries differently. Some countries receive GBS from a large number of donors (14 GBS donors in Tanzania) whereas others receive support from only a few (only two in Georgia).

There is also a general acceptance among donors that sector specific characteristics determine which aid modality to use. SPS is regarded as more suitable in the education and health sectors than for instance in the agricultural sector or for supporting the development of infrastructure. In effect, both the choice of country and of sectors within the country guides donor decisions on aid modalities as shown in the simplified figure below.



A discussion about factors influencing the choice of aid modalities on a general level, which was the focus of this paper, can therefore only be a conceptual one. Here we can never test how the motives and the incentive structures listed, affect the choices and to which extent. The paper does however provide a framework for in depth studies on the use of aid modalities to specific countries or sectors.

A natural continuation is that SADEV initiates further studies on the country level. The primary aim of such studies would be to deepen our understanding of how the specific aid portfolios are determined. In particular, the political nature of the choices made should be emphasised as well as the political context of the partnership. By assessing countries with different political structures and, importantly, with different historical relationships with Sweden, we can increase our understanding of how systemic, organisational and individual factors influence the choice of aid modalities. To assess how well the Swedish aid modalities fit into the broader framework, it is also important that the total portfolio of aid modalities to a country (i.e. that of all donors) be included. Moreover, as touched upon in the present paper, there seems to be a bureaucratic inertia and reluctance within Swedish organisations and politics to substantially increase programme support. At the same time, in international forums, these same organisations and politicians strongly argue for more programme aid. In depth studies might provide a fuller understanding of the underlying and perhaps hidden agendas of the actors, as well as which incentives apply and how.

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