

# Managing Aid Exit and Transformation

Lessons from Botswana, Eritrea,  
India, Malawi and South Africa

Synthesis Report





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India, Malawi and South Africa

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# Foreword

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This is a report from an evaluation of the management of donor exits from partner countries and related transformations of aid relationships, an important aspect of development cooperation that has so far not received much attention in evaluations. The evaluation was jointly undertaken by Denmark, the Netherlands, Norway, and Sweden. It contains case studies of completed and ongoing exits by one or several of these donors from government-to-government development cooperation with Botswana, Eritrea, India, Malawi, and South Africa.

While based on a limited number of case studies, many of the observations and conclusions presented in this report are likely to be relevant more widely. One overall conclusion stands out: planning for exit and handing over of donor-supported programmes that focuses on impact and sustainability of development results is the exception rather than the rule. In addition, systematic monitoring of exit processes is extremely rare. Despite the principles of partnership and mutuality enshrined in the Paris Declaration of 2005 and elsewhere, donor-induced exit processes tend to be overly one-sided and lack attention to the context in the partner country. The evaluation recommends that provisions for exits are made more explicit in aid agreements and that such agreements become more business-like.

The evaluation stresses the point that exit processes have unique characteristics and that planning for exit and aid transformation must be sensitive to context. What this means in practice is developed in detail in the five case study reports which provide a detailed assessment of 14 donor exits. While the evaluation synthesis report is published in print as well as electronically, the five country studies are available on the Internet (<http://www.sida.se/exitevaluation>) and on the CD-ROM included in the Synthesis Report.

The evaluation was guided by a Steering Group representing the evaluation departments of the concerned ministries and development agencies of the four donor countries. While Sweden - through Sida - was responsible for the overall management of the evaluation and chaired the Evaluation Steering Group, the representatives from Denmark, the Netherlands and Norway were closely involved in guiding the work and provided management support whenever required. The evaluation was jointly financed by the four countries.

The evaluation was conducted by an independent evaluation team fielded by ECORYS Netherlands BV, Rotterdam, and Christian Michelsen Institute (CMI), Bergen. The Evaluation Steering Group would like to express its appreciation to the team leaders Ms Anneke Slob (ECORYS) and Mr Alf Morten Jerve, (CMI) as well as to the other members of the team.

The Steering Group would also like to thank the authorities of Botswana, Eritrea, India, Malawi, and South Africa for their interest in the evaluation and their helpful collaboration with the evaluation team. Although not a joint donor-partner evaluation, this evaluation of exit management was intended to reflect partner country perspectives as well as those of the donors.

As the evaluation is now shared with the wider development community, it is expected that it will make a contribution towards the urgent task of formulating a shared international framework for the transformation and ending of development co-operation relationships.

*Stefan Molund*

*Evaluation Manager*

*Department for Evaluation (UTV)*

*Sida*



# Executive summary

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## **Background and methodology**

In 2005 four donor countries – Denmark, the Netherlands, Norway and Sweden – took the initiative for a joint donor evaluation of the management of country level exit processes in development cooperation. The evaluation was seen as an opportunity for donors, development organisations and their developing country partners to share experiences and learn from each other regarding country level aid exits and their management. The evaluation is based on country studies in Botswana, Eritrea, India, Malawi and South Africa and covers exit processes involving any one of the four donors – 14 processes in total.

Although this sample is not representative of country exits by the four donors nor does it cover all donor exits from the five case study countries, it represents sufficient variation in terms of contexts, political justifications and management processes to distil general lessons and recommendations for exit management guidelines that can be applied by development cooperation actors more broadly.

The evaluation was carried out in 2007/08 by a consortium of EC-ORYS (the Netherlands) and Chr. Michelsen Institute (Norway). It was guided by a Steering Group with representatives of the four commissioning donors. Sida acted as lead agency in the management of the evaluation. Active involvement of stakeholders in partner countries was sought in different stages of the evaluation: as respondents in interviews, as participants in workshops to validate the findings and conclusions of the country studies, and as peer reviewers of the country reports.

The evaluation relied on three main sources of information: 1) documents from donors' archives; 2) open-ended interviews with key persons both at donor headquarters level and donor representations in the

partner countries and from the partner countries; and 3) holding focus groups/workshops with key informants in the partner countries.

This evaluation is an analysis of complex sets of factors influencing exit decisions and strategies and actual exit management, for which indicators of success are not easily identified and agreed on. Hence, as the first of its kind, this evaluation of country level aid exit seeks to establish relevant concepts, typologies and indicators in order to address the two main evaluation questions outlined in the Terms of Reference:

1. What are the consequences in the partner countries when donor countries close down their bilateral aid programmes?
2. Are the exit management practices recorded in the case studies consistent with established principles of partnership and mutuality in development cooperation?

## **Definition and typology of aid exit**

Country level aid exits are understood as processes of phasing out and terminating ODA-funded government-to-government bilateral aid relationships. In some of the 14 cases reviewed by the evaluation, the phasing out of traditional forms of development assistance was accompanied by the phasing in of new forms of cooperation. In these cases the term aid transformation is also used.

The management of exits and their consequences in partner countries are conditioned by contextual factors within the partner country. Four different partner country contexts were identified:

- exit from a graduating country that remains an important bilateral partner for a donor (i.e. South Africa and India);
- exit from a graduating country that is a less important bilateral partner for a donor (i.e. Botswana);
- exit from a poor, aid-dependent country with a relatively limited number of donors (i.e. Malawi);
- exit from a fragile country or a country in conflict (i.e. Eritrea).

Furthermore, the actual management of an exit is conditioned by the political justification of the exit decision, which only partly mirrors the contexts above. By combining the contextual factors and the politics driving the exit decision, the following typology of exit management processes is suggested, focusing on main management objectives and challenges:

### *Type 1: Exit from a force majeure situation*

Characterised by strained diplomatic relations and/or insecure conditions the exit objective is to wind up orderly but as quickly as possible.

*Type 2: Exit from an aid-dependent country under conditions that allow for proper planning*

The main exit objective is to realise development cooperation goals within a given time period, especially with an eye on the sustainability of results, which in aid-dependent countries poses particular challenges.

*Type 3: Exit from a country no longer aid dependent*

The main objective with regard to phasing out is, again, to realise the development cooperation objectives with an eye on the sustainability of results, while further objectives related to phasing in might be to develop or expand new forms of non-ODA funded cooperation and to strengthen wider bilateral relations.

The table below classifies the 14 cases consistent with this typology:

	<b>Botswana</b>	<b>Eritrea</b>	<b>India</b>	<b>Malawi</b>	<b>South Africa</b>
Denmark	Type 3	Type 2	Type 3	Type 1	-
Netherlands	-	Type 2	Type 3	Type 2	Type 3 (aborted)*
Norway	Type 3	-	Type 3	-	-
Sweden	Type 3	Type 1	Type 3	-	Type 3

\* *The Dutch decision of 1999 to end the bilateral development cooperation relationship with South Africa was revoked in 2003.*

A summary of the key findings addressing the two main evaluation questions follows below.

## **Various justifications for exit decisions**

Exit decisions are always political. When the decision to exit was made by the donor unilaterally – which was the most common case – four different arguments could be distinguished:

- The graduation argument: the recipient can manage without the aid.
- The governance argument: the recipient is disqualified because of a perceived violation of good governance standards.
- The mismanagement argument: the recipient is accused of mismanagement of aid.
- Revised criteria for selecting partner countries.

Understandably, the cases of aid exits dictated by the recipient government are fewer, and only represented by India in this evaluation. The arguments used by India in 2003 were threefold:

- The donor is perceived to interfere with domestic affairs in unacceptable ways.
- The recipient seeks to reduce aid to boost an image of greater self-reliance.
- The recipient seeks to reduce the burden of aid coordination.

As shown by the evaluation, the various arguments underlying the decision to terminate the (bilateral) aid relationship between the donor and the partner country have influenced the ways in which the exit process has been handled by the two parties (see below).

## **Limited attention to exit planning**

In the 14 exits studied only few elaborate exit plans were found, in the sense of a comprehensive document with a clear timeframe, guidelines on communication, indication on monitoring, and a step-by-step approach. The Danish exit plan from India is a good example of such a comprehensive exit plan. ‘Natural phasing out’ was the most common model, which means that ongoing commitments are respected and donor-supported activities are ‘faded out’ at the end of the agreement period.

## **Critical factors for successful exit management**

The evaluation identified a number of key factors that influenced the ways in which exit processes were handled and whether these processes could be completed successfully.

First, the way the exit decision was conveyed to the partner country influenced the handling and outcome of the exit process. The level (political or administrative) used to deliver the message mattered. In some cases politicians took the responsibility to communicate exit decisions. Although the partner country did not welcome the decision, it welcomed this way of conveying the message – in contrast to the cases where it was left to civil servants of different ranks to convey the news. Early warnings of exit decisions were rare. Indeed, in several cases the exit decision came as a surprise to the recipients. Most exit decisions were communicated by the donor as a *fait accompli* and also perceived as such by the partner country.

Second, the degree of participation of stakeholders in the planning and implementation of exit processes was found to be a good indicator for their success.

Third, a realistic timeframe proved to be another critical factor. In short phase outs – i.e. less than two years – hardly any attention was paid to participation and consultation of stakeholders. *Force majeure*

situations in particular severely limited the scope for cooperation. When, on the other hand, a realistic timeframe was set and the exit was allowed to take time, attention was given to sustainability and mitigation of adverse consequences. This involved long-term planning, careful consultation of all stakeholders and good monitoring of results.

Fourth, the fulfilment of ongoing commitments is an important factor determining success, especially in aid-dependent countries. It was found that respecting legal obligations is not enough. The donors' renunciation of commitments made in extensive planning processes, not yet formally agreed, also affected recipient institutions negatively.

Fifth, flexibility on the side of the donor to adapt the budget for supported activities was shown to be another important factor in good exit management. This implies going beyond the 'natural phase out' approach to identify needs for adjustments in current agreements with view to sustainability concerns. As the example of Denmark's exit from India shows, the consequence may be a temporary increase in the volume of aid. There are examples of donors taking proactive steps to assist the recipient securing alternative funding, but in most circumstances other donors did not easily come forward.

Sixth, institutional capacity on the recipient side is a key factor determining success of exit processes. Lack of capacity posed challenges to both the partner country and the donor. It appears that donors tended to underestimate the capacities of the recipient, and, in most cases, did not carry out institutional assessments to identify needs for building capacities that would enable the partner country institutions to cope with the exit.

Last but not least, the evaluation also identified donor capacity as a weak point in many exit processes. This has three aspects: there has been scant attention to institutional learning on how to manage aid exit and transformation; aid exit is often perceived as a negative process in which there are few rewards for good management; and exit decisions are often accompanied by immediate downsizing of embassies or, in some instances, even closure.

## **Difficult transformation to post aid relations**

Three of the countries studied – India, Botswana and South Africa – have graduated or are graduating from a low-income country status. While this has justified reduction of ODA or a complete aid exit, the four donors were clearly interested to maintain or strengthen their 'post aid' relationships with India and South Africa. Apparently this has not been the case for Botswana, which, presumably, was considered to be of marginal geopolitical importance.

Donors' attempts to transform their bilateral relationships with India and South Africa have proved to be challenging for a variety of reasons.

Three dimensions have been identified: phasing out of 'traditional' development cooperation; phasing in of new forms of ODA-financed activities more apt to fostering bilateral relations based on mutual interests; and phasing in of new types of broader or broad-based non-ODA cooperation, be it political, commercial, scientific or cultural.

In general, phasing in of new activities tended to receive more attention than phasing out. This is *inter alia* reflected in the staffing of embassies. Although India and South Africa (as well as Botswana) were/are able to cope with aid exits at a state level in budgetary terms, sustainability at the institutional level is more challenging. This entails attention to the phase out of technical assistance and institutional cooperation arrangements, as well as the funding situation of individual organisations not directly funded through the state budget. In Botswana, until today, attempts to build self-financing institutional partnerships have had limited success.

Also, the issue of using ODA-funding for activities to promote broader bilateral cooperation has proven to be quite sensitive. The question is whether the use of ODA to promote bilateral relations based on mutual interests – e.g. through the involvement of institutions from the donor country – is in line with the principles of aid harmonisation and untying of aid.

## **Did recipient institutions and beneficiaries suffer from the exits?**

Successful exits were reported in India and Botswana, countries no longer dependent on aid. At the time when donors exited from Botswana, activities were already managed by government, though with some use of technical assistance. At the time of exit and in retrospect, the Government of Botswana argued that more time should have been allowed for phasing out of technical assistance. In India it proved to be relatively easy for the government to take over responsibilities for continued financing of activities previously funded by the donors and to integrate project or programme approaches at the community level into sector policies and strategies. It was difficult, however, to sustain the innovative character of aid funded programmes. In South Africa, the aid exit and transformation process is still in an early stage.

In poor, aid-dependent countries, like Malawi and Eritrea, the overall picture is less positive or even disastrous. The Danish exit from Malawi with a six months notice, for example, created a 40 percent shortfall in the agriculture sector budget, a major setback in agriculture sector programme development, and affected long-term agricultural research negatively.

The consequences of the exits at the level of beneficiaries have not been assessed through rigorous impact evaluation methods. Findings are based on interviews with selected representatives of sector/local government institutions or beneficiaries. In aid-dependent countries, where public institutions could no longer deliver services to the population initially provided by donor-funded activities, clear negative consequences for the beneficiaries were observed. This intensified with shorter phase out periods. In graduated countries, where aid is less important and the national authorities took over the financing of development activities initially funded by donors, major negative consequences were not reported. The aid exit sometimes had a positive consequence in enhancing local ownership and led to expansion of the activities started by the donor.

## **Overall conclusions**

According to the evaluation, planning for proper exit and handing over, and thus ensuring sustainability of activities previously funded by donors, is the exception rather than the rule. Likewise, good and careful monitoring of exits is extremely rare.

Despite the principles of partnership and mutuality, which were formulated in the Paris Declaration of 2005, all exit decisions studied proved to be unilateral decisions – mainly taken by donors and only in the case of India taken by the partner country. Country exit decisions were politically motivated. None of the cases studied involved a prior assessment of the sustainability of the activities supported, and there were only few examples of phasing out processes with a clear focus on ensuring sustainability. In the force majeure type of exits there was no scope to directly focus on sustainability.

Good examples of exit management were found mostly in countries that no longer depend on aid and have the capacity to take over. Successful exits typically involved a mix of realistic timeframes, careful and mutual planning, consultation, and flexibility to set up arrangements for handing over or find alternative ways of financing. Exits from aid-dependent countries were less successful, but in a few cases results at the level of recipient institutions and beneficiaries could be sustained.

Examples of bad exit management were more frequent, especially in countries still depending on aid. The consequences at the level of implementing organisations as well as at the level of individual beneficiaries were severe, in some cases even disastrous. The latter has been demonstrated by the problematic exits of some of the donors from Malawi and Eritrea. In those cases, the evaluation concludes that the exit decisions and practices were not consistent with agreed principles of partnership and mutuality in development cooperation.

## Increasing need for exit management guidelines

Exits can be considered a natural but neglected phenomenon in bilateral aid relations. The number of exit situations is increasing and likely to increase even further in the years to come. Several donors are in the process of concentrating their bilateral aid to fewer countries and sectors. This means that exits are increasingly taking place in countries still depending on aid. There is also a concomitant shift in priorities with regard to fragile states. Development cooperation policy is increasingly being coupled to foreign and security policy concerns, and development cooperation is increasingly being used as a foreign policy instrument. Politically unstable countries with weak and often corrupt administrations feature more prominently as aid recipients, and the likelihood of force majeure exits has increased.

Furthermore, the objective of broader cooperation with several developing countries based on mutual interests challenges not only established criteria for good ‘donorship’ but entails special challenges for aid transformation.

Therefore, there is a great need for aid exit and transformation guidelines to ensure better managed exit processes with clearly defined tasks for both donors and partner countries. This evaluation offers the following broad recommendations:

- Develop guidelines sensitive to exit processes in different contexts and reflecting different management challenges:<sup>1</sup>
  - exit from force majeure situations: exit as crisis management;
  - exit from aid-dependent countries: exiting in a way that takes care to allow externally funded activities to continue in a sustainable manner;
  - aid transformation in graduating countries: exit in the context of transforming bilateral relations.
- Conduct country specific pre-exit assessments based on a diagnosis of the country context and by making use of typologies for country contexts and exits.
- Adopt a more business-like attitude towards aid exit. One needs to establish firmer rules for the game – which, importantly, have to protect the interests of both parties. Guidelines for exits from aid-dependent countries should be based on the concept of mutual accountability in line with the Paris Declaration on Aid Effectiveness.
- Explore options for addressing exit at entry. Donors should more proactively treat exits as an integral element of country strategies.

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<sup>1</sup> See Chapter 4 of the Synthesis Report for detailed recommendations on aspects to be covered by these guidelines based on findings from the evaluation.





# Chapter 1

# Introduction

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## 1.1

### **Background of the evaluation**

In 2005 four donor countries – Denmark, the Netherlands, Norway and Sweden – took the initiative for “a joint evaluation of country level exit processes in development cooperation”. The Terms of Reference (ToR, Annex 1) were published in 2006.

The evaluation was contracted out to the consortium ECORYS (the Netherlands) and Chr. Michelsen Institute (Norway) and started in January 2007. It was conducted under the guidance of a Steering Group composed of representatives of the aid evaluation departments of the four commissioning donors.<sup>1</sup> Sida acted as lead agency in the management of the study. Five country studies were carried out: Botswana, Eritrea, India, Malawi and South Africa. These countries were selected by the Steering Group and presented in the ToR. The case study sample comprises a wide variety of exit experiences, and an important selection criterion was that all four donor countries had to have had a substantial bilateral development cooperation programme.

### **Objectives**

According to the ToR, the purpose of this evaluation study is to facilitate mutual learning on issues of exit from development cooperation partnerships at country level. Although primarily catering for the information needs of the four donors, it is also expected to be useful for the developing countries that participated in the case studies. Hopefully, this

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<sup>1</sup> Evaluation Department of the Ministry of Foreign Affairs of Denmark, Policy and Operations Evaluation Department (IOB) of the Dutch Ministry of Foreign Affairs, Evaluation Department of Norad, and Evaluation and Internal Audit Department (UTV) of Sida.

evaluation will also be found useful in the wider development cooperation community.

The evaluation is seen as an opportunity for donors, development organisations and their developing country partners to share experiences and learn from each other with regard to country exits and their management.

### **Joint donor evaluation**

It is a joint evaluation of the four commissioning donors. Active involvement of partner countries was sought in all different stages of the evaluation: preparation, implementation and follow-up, but there were no joint decision-making procedures involving partner country representatives. Therefore, the evaluation can be characterised as a joint donor evaluation.

This synthesis presents a full comparative analysis of the country case studies and provides recommendations for donors when considering guidelines for exit management. For enhanced comparability, summaries of the country reports have been produced, which are presented in Annexes 4 to 8. Full versions of the country reports are available on websites.

## **Key concepts, objectives and evaluation questions**

# 1.2

### **Concepts**

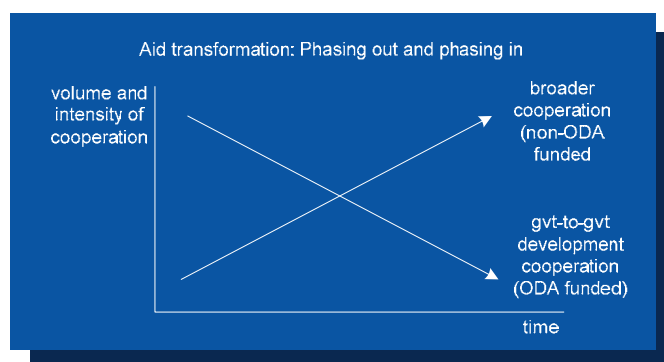
Donor exits from development cooperation (country, sector and project level) tend to be complicated and difficult for everyone involved. Yet, as a closing event in any development cooperation process it is not much studied. Hence, development organisations and recipient countries know relatively little about how exit issues are discussed and managed outside their own organisations and institutions. As a result, they have few opportunities to learn from each other.

The evaluation focuses on *country exits*, defined in the ToR as “exits from bilateral country level development co-operation”. Thus, this evaluation does not cover exits from multilateral programmes and partnerships with civil society organisations and the private sector. Therefore, such exits may not necessarily imply complete termination of ODA transfers, but in all cases they represent a major transformation of the development partnership and involve processes of phasing out government-to-government bilateral aid relationships. Sometimes, but not always, new forms of ODA-funded development assistance and non-ODA funding for cooperation are (temporarily) used in order to strengthen different forms of country-to-country relations or to promote regional cooperation. In this evaluation, the term country exit refers to a process that may or may not involve all of the following three sub-processes:

- i. *cessation or phase out* of ongoing bilateral development assistance;
- ii. *phase in* of development assistance through other channels (e.g. through the private sector, and regional or trilateral cooperation);
- iii. *phase in* of new forms of cooperation not necessarily development-related and including non-ODA funding (by some donors labelled broader cooperation).

Where the exit includes the second and third of the components above the term *aid transformation* is applicable. The simultaneous processes of phasing in and phasing out in aid transformation situations are illustrated in Figure 1.1.

**Figure 1.1 Phasing in and phasing out during aid transformation**



In some countries the term exit was considered quite sensitive, and therefore the country reports frequently use synonyms.

Of the four donors commissioning this study, Sida was the first to use the term *broader cooperation* in policy documents – e.g. the 2006 country strategy for the cooperation with South Africa outlines a process of “transformation of the relationship between Sweden and South Africa from traditional development cooperation into a *broader cooperation*”.<sup>2</sup> Recently, Sweden also used the term *actor-driven cooperation*. In general, the term is used both to signify a new form of relationship with countries graduating from aid dependency, as well as for new forms of aid to facilitate this transition, such as contract-financed technical cooperation, twinning, tripartite cooperation and partnership funds.

Conceptual issues are dealt with in more detail in the methodological annex (Annex 2).

<sup>2</sup> Sida 2006. Swedish-South African Cooperation. Partners for the Future. No. SIDA26903en.

## Limitations

As clearly elaborated in the ToR, the purpose of the evaluation was limited to evaluating the process of managing exits, primarily by the donors, and the consequences of these exits for recipient institutions and beneficiaries. To understand the political and administrative contexts within which exits were managed, the evaluation describes exit decisions, but does not attempt to evaluate the decisions as such.

## Evaluation questions

The ToR outline two main issues to be addressed:

- The understanding of “*the management of country level exit issues for development effectiveness and sustainability*. In each of the cases reviewed, it seeks to understand how the results of supported development activities – outputs, outcomes, and (as far as possible) impacts – have been affected by the exit.”;
- The understanding of “*management of development partnerships*. Here the main question is whether the exit practices recorded in the case studies are consistent with established principles of partnership and mutuality in development cooperation, and, if not, what the remedies might be.”

The idea is that the analysis should lead to a realistic understanding of the political ramifications that set the boundaries for exit processes in terms of time, available resources, partnerships and donor coordination.

In line with the above issues, the four main evaluation questions for the country case studies were the following:

- What factors influenced the exit decisions made?
- How was the phasing out of aid managed?
- What are the consequences of the exits at the various levels: bilateral relations, implementing organisations, and beneficiaries?
- What lessons can be learnt for the development of guidelines for exit management?

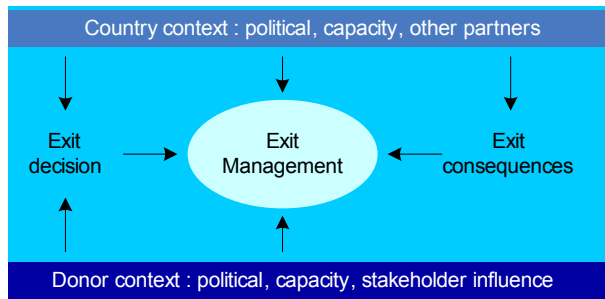
# 1.3 Methodology

## A focus on processes and consequences

This evaluation is not a traditional evaluation where standard OECD-DAC evaluation criteria – relevance, effectiveness, efficiency, impact and sustainability – can be used.<sup>3</sup> This is an evaluation of complex sets of factors embracing exit decisions and strategies and actual exit management, for which verifiable indicators of success are not easily identified.

This complexity is illustrated in Figure 1.2, where exit decisions and exit management processes are sandwiched between two levels of factors: at the country level and the donor level. It shows that these exit processes take place within and are conditioned by different political ramifications, capacity, stakeholder influences, other partners, etc. (in both donor and recipient country).

**Figure 1.2 Country and donor context exit processes**



The methodology of this evaluation is presented in more detail in Annex 2.

Data collection focused on all elements of Figure 1.2. An important starting point was the identification of exit cases. Exit decisions and planning, as well as exit management and implementation, have been studied in detail for the four donors who have taken decisions to fundamentally transform their aid relations. However, the evaluation did not assess exit decisions as such, but focused on the consequences of such decisions and the way exits or aid transformation processes were managed.

## Selection of cases

The case countries – Botswana, Eritrea, India, Malawi and South Africa – were selected by the commissioning donors, striking a compromise between variations in country context and exit processes and the need to include exit management cases of all four donors. One important

<sup>3</sup> The DAC Evaluation Quality Standards (EQS) have been adhered to where appropriate for this type of evaluation. ([www.oecd.org](http://www.oecd.org))

selection criterion was that all four donors sponsoring the evaluation have had a substantial bilateral development cooperation programme – and where one or several of them have exited from this programme.

It was found that these country cases included a larger number of exit decisions than actual exit processes, the reason being that such decisions in some instances were revoked. A total of 21 exit decisions for the five case study countries and the four commissioning donors have been identified, whereas 14 exit processes have been concluded or are in the process of being implemented. Data collection on exit management was limited to these 14 processes:

- Botswana: 3 cases: Denmark, Norway and Sweden;
- Eritrea: 3 cases: Denmark, the Netherlands and Sweden;
- Malawi: 2 cases: Denmark and the Netherlands;
- India: 4 cases: Denmark, the Netherlands, Norway and Sweden;
- South Africa<sup>4</sup>: 2 cases: the Netherlands and Sweden.

Exit consequences were studied in a number of selected sectors and related projects and programmes. These were identified by selecting cases where the donors' respective engagements were of relatively high importance. The consequences of the 14 exits were studied in more detail, often involving more than one sector.

## Typologies

A core element of the research methodology consisted of developing typologies that would help to structure the analysis and presentation of the many complex sets of factors in a meaningful way. Two basic typologies are developed below:

- *A typology of partner countries* based on macroeconomic and political factors conditioning the aid relationship. These are important factors to be considered in planning for exit. This typology was already developed at the inception stage to categorise the selected case countries;
- *A typology of exit management processes* based on differences in justifications for exit and main exit management objectives. Three broad categories have been distinguished:

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<sup>4</sup> For the case of South Africa there has been discussion whether this country qualifies to be included in the evaluation of exit management. If the broader definition of exit is applied, containing the three sub-processes mentioned, South Africa is a clear case of phasing out forms of government-to-government bilateral aid and phasing in of new forms of cooperation. Therefore, South Africa is selected as a typical example of aid transformation.



1. *Exit from a force majeure situation*: characterised by strained diplomatic relations and/or insecure conditions, the exit objective is to wind-up orderly but as quickly as possible;
2. *Exit from an aid-dependent country under conditions that allow for proper planning*: the main exit objective is to realise development cooperation goals within a given time period, with an eye especially on the sustainability of results;
3. *Exit from a country no longer aid dependent*: the main objective regarding phasing out is again to realise the development cooperation objectives with an eye on the sustainability of results, while a second objective related to phasing in might be to strengthen new forms of non-ODA funded cooperation and to strengthen bilateral relations.

These three types are not mutually exclusive but overlap to some extent. The typologies are used throughout the synthesis report.

### **Data collection**

The evaluation relied on three main sources of data:

- i. documents from donors' archives;
- ii. open-ended interviews;
- iii. holding focus groups/workshops with key informants.

In all countries, with the exception of Eritrea, the country teams in collaboration with the respective contact Embassy (of the commissioning donors) organised a seminar at the end of the field mission with participation of key informants. The main purpose of these debriefing seminars was to present preliminary findings and conclusions to the stakeholders in the country, and to validate the findings.

Statistical data on trends in aid commitments and disbursements were collected during the inception and field phases. This yielded valuable information on changes by donors in overall volumes of country programmes and composition by sector aid channels. For some donors, it was difficult to get reliable disbursement data for the full period studied (1990 to 2006) because of changes in coding and registration of ODA. For this reason, no attempt has been made to develop a comparable database comprising all donors.

The study included the following types of analyses:

- construction of timelines in exit processes: key events and outputs;
- actor analysis or multi-stakeholder analysis based on identification of key actors and their roles in the processes;
- analysis of trends in aid disbursement;

- identification of consequences using qualitative interviews and triangulation with secondary information;
- comparative analysis of exit management cases.

## Representativity

This evaluation does neither pretend to present a representative view of country exits by the four commissioning donors nor of exit processes in the five countries studied. The aim of this evaluation is rather to provide general lessons and guidelines for exit management to a variety of actors through the study of a selected number of country exits, as reflected in the overall purpose of this study.

## Organisation

# 1.4

The evaluation was carried out in the following three phases:

- *Phase 1: Inception.* The inception report was finalised in June 2007 and presented the main issues of this evaluation, the general guidelines for the country studies, and the organisation and planning of the evaluation. The inception phase involved interviews at HQ of the four commissioning donors and collection of relevant documents and statistics. The Inception Report<sup>5</sup> elaborates the methodological approach and gives a preliminary overview of the development co-operation histories of the four commissioning donors in the five case study countries selected;
- *Phase 2: Country studies.* Five country case studies were carried out during the period June to October 2007. The country case study reports were presented to key stakeholders as well as to the Steering Group in December 2007 for comments. Summaries of the country studies can be found in Annexes 4 to 8 of this report;
- *Phase 3: Synthesis.* Preparation of the main report. At the start of the synthesis phase, Sida asked for a presentation of preliminary findings and conclusions, and for advice on the Swedish guidelines for phasing out of development cooperation under preparation.<sup>6</sup> This proved to be a very helpful step in the synthesis.

The duration of the entire evaluation was from January 2007 to May 2008.

<sup>5</sup> See: <http://www.sida.se/exitevaluation>.

<sup>6</sup> The government of Sweden decided in August 2007 to phase out development cooperation in a large number of countries. Guidelines were developed for this phase out and the evaluation team was asked to provide comments on these guidelines and to present preliminary findings and conclusions in Stockholm on 10 October 2007.

The evaluation was led by a core team with a team leader and deputy team leader, and two assistants for file research, while the country case studies were carried out by five separate country teams with both national and international evaluators. Both the team leader and deputy team leader took part in at least one of the country case studies (India, Eritrea, and South Africa).

Interaction with stakeholders was by way of: (i) interviews with the staff of the donor agencies by both team leaders; (ii) regular meetings with the Steering Group on the inception report and the country case studies – also by the team leaders; and (iii) interviews with key staff of donors’ embassies and local key stakeholders in the case study countries; including a focus group/workshop session by the country teams (in Eritrea a focus group/workshop session was not found to be opportune by Eritrean officials)<sup>7</sup>.

The feedback mechanism used was twofold: (i) comments from the Steering Group members on all reports and studies received; and (ii) comments on the case studies from the (four donor) embassies and some key stakeholders in the case study countries. All comments were received by the team leaders who, in turn, directed these to the leaders of the country teams for finalisation of the case studies. In addition to these feedback mechanisms, which can be considered part of the quality assurance mechanism, two senior experts of ECORYS and CMI have also provided feedback at various stages of the evaluation, but especially in the inception and synthesis phases.

## 1.5 Outline of report

This report is organised in three main chapters. Changes in aid relationships represent complex and unique political processes, but certain typical patterns are discernable from the cases studied.

Chapter 2 analyses different contexts for exit processes: differences in country contexts (2.1) and justifications for exit decisions (2.2). The goals and main characteristics of the three types of exit processes are analysed in 2.3, followed by an analysis of the interactions between key stakeholders with regard to exit decisions and strategies (2.4) and later during exit management (2.5).

This forms the background for the analysis in Chapter 3, which focuses on various elements of exit management in more detail. Exit planning (3.2) is the first element discussed. In subsequent sections the quality of exit management processes is addressed (3.3), while the outcomes and consequences of exits are also analysed (3.4).

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<sup>7</sup> Two of the four commissioning donors (Denmark and Sweden) had fully terminated their bilateral aid relations with Eritrea and had left the country.

In the last chapter, Chapter 4, findings relevant to the formulation of exit management guidelines are summarised and key recommendations presented.

The report builds mainly on the synthesis of the five country cases studied, but additional findings and observations have been collected through interviews at HQ level in the four donor countries and review of the general literature available.



# Chapter 2

# Changing the aid relationship

## 2.1

### What kind of country cases? Key ramifications for exits

Bilateral aid relationships are conditioned by a number of key macro factors. In Table 2.1 the five case countries have been characterised according to the country's economic self-reliance (first three characteristics), political status (subsequent three), and finally, its popularity among donors at the time of exit (the 'donor darling' – 'aid orphan' syndrome).

**Table 2.1 Country characteristics<sup>8</sup>**

	<b>Botswana</b>	<b>Eritrea</b>	<b>India</b>	<b>Malawi</b>	<b>South Africa</b>
Macro-economic status	Upper-middle-income	Low-income (LDC)	Low-income	Low-income (LDC)	Upper-middle-income
Self-financing capability	High	Low	High	Low	High
Aid dependence	Low	High	Low	High	Low
Geopolitical significance	Low	Low	High	Low	High
Governance situation	Stable	Stable but unpredictable	Stable	Volatile	Stable
International relations	Peaceful	Tense	Peaceful	Peaceful	Peaceful
Donor presence	Many	Few	Many	Relatively few	Many

<sup>8</sup> The terms used are not based on absolute indicators (except for macro-economic status) and serve to reflect general perceptions.

Based on these characteristics one can differentiate between four exit contexts among the case countries:

1. Exit from countries graduating from, or not holding, low-income/LDC status<sup>9</sup>; and which are geopolitically significant and therefore remain important bilateral partners for donor countries (i.e. South Africa and India);
2. Exit from countries graduating from low-income status, and which are less important bilateral partners for donor countries (i.e. Botswana);
3. Exit from poor, aid-dependent countries with a relatively limited number of donors (i.e. Malawi);
4. Exit from so-called 'difficult partnerships' – e.g. fragile countries and/or countries in conflict (i.e. Eritrea).

In addition, a fifth type of context that is not represented in this evaluation needs to be mentioned:

5. Exit from poor aid-dependent countries with a large number of donors and established mechanisms for donor coordination (e.g. Mozambique, Tanzania).

Obviously, challenges and opportunities with respect to exit management will vary considerably with these contexts. They represent different opportunities for securing sustainability of aid-financed investments, and they represent differences in bilateral country relations with respect to the longer-term interests of the partners for retaining relations. These factors alone, however, could not explain variations in exit management processes and their outcomes. One other main determinant is related to the factors prompting the exit decisions. The exit decisions obviously reflected the contexts outlined above, but other political dimensions also mattered – both on the donor and the recipient side.

## What prompted exit decisions? Various justifications

## 2.2

The sample represents 14 exit processes that have been concluded or are in the process of being implemented. There are, however, a larger number of exit decisions. This is the case because in India and, to a lesser extent, South Africa exit decisions taken by donors were subsequently revised or revoked because of changing political circumstances – the main factor being changes in donor governments leading to new policies on how to build relations with these two strategically important

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<sup>9</sup> 'Low-income' is a World Bank country classification term, whereas 'least developed country' is UN terminology. India is not on the latter's list.



countries. In 1991, this happened in the case of Norway revising its decision to exit from India, which had been made the year before. In 2003, the Netherlands made a similar u-turn in South Africa, revoking the exit decision of 1999.

Looking at the total number of exit decisions identified (21), different kinds of justifications can be distinguished, sometimes used to reinforce each other. Some of the exit decisions came as a consequence of overall changes in development cooperation policy of a donor (see Table 2.2) involving revision of principles for selecting partner countries, the issue of overall number of partner countries, as well as overall budget cuts (e.g. Denmark 2002). It is also of interest that a recipient-induced exit decision is included, namely the announcement by India in 2003 that it no longer wanted government-to-government aid from, what was euphemistically called, 'small donors'. All exit decisions are presented in Table 2.2, identified by the main arguments used as the official political justification, which included the following:

When the decision to exit was made *by the donor unilaterally* – which is the most common case – four different arguments can be distinguished:

- *The graduation argument: The recipient can manage without the aid.* Justification for this mainly refers to the classification of country economies made by the World Bank. Botswana, no longer eligible for IDA loans because of its GDP per capita graduation to 'middle income' status in 1992, found it more difficult to attract aid funding. The assessment of what it means to 'graduate', however, is often influenced by political and other strategic concerns. South Africa, for one, became a major recipient of grant aid despite its middle-income country status; whereas in the case of India, the dramatic contrasts between a large fast growing economy and current account surplus on the one hand, and mass poverty and grave regional imbalances on the other, have made donors uncertain whether to 'graduate' India, still officially a 'low income' country;
- *The governance argument: The recipient is disqualified because of perceived violation of good governance standards.* After the cold war period, bilateral aid has increasingly been linked to the good governance agenda, in the form of 'carrots' as well as 'sticks'. Withdrawal of aid has been used to sanction poor performers, and as a means to, hopefully, influence the regime to change. This applies, for example, to the reactions to India's nuclear test. Aid from Denmark and Sweden to Eritrea was terminated with reference to human rights violations, and the same happened with Denmark in Malawi. The increased use of aid as a reward mechanism to bring conflicting parties to the negotiating table or to buttress certain regimes for strategic reasons,

by consequence, increases the likelihood of the reverse action due to a relapse of such political processes. This was observed in the Eritrea case study – most dramatically with the rapid exit of its biggest bilateral donor, the United States;

- *The mismanagement argument: The recipient is accused of mismanagement of aid.* Malawi, in the case of Denmark, was disqualified also because of alleged corruption in aid management. Denmark's exit from Botswana was also partly justified on account of Botswana's perceived lack of cooperation in clearing up matters in an ill-fated transport project;
- *Revised criteria for selecting partner countries.* In the name of aid effectiveness there has repeatedly been an argument for higher concentration and greater selectivity of aid, which calls for fewer partner countries and fewer sectors. This argument is also often rooted in a political wish to bring in new countries (and sectors), and hence a need to justify the build-up somewhere with a withdrawal from elsewhere, including the closure of embassies. The Dutch exit from Malawi was clearly prompted by a change in overall aid policy based on effectiveness considerations and not a negative assessment of Malawi per se. The decision of Denmark in 2002 to reduce the aid budget (see box below) also triggered a revision of the list of partner countries.

#### **2002: Change of Danish development cooperation policy**

The new government taking office after the November 2001 elections announced on 29 January 2002 the following main policy changes (excerpts from the preface to the official statement in Danish, unofficial translation):

“Denmark will also in 2002 rank highest concerning assistance to developing countries. This is the case even after the implementation of cuts in the appropriations for development and environmental assistance to developing countries to the tune of 1.5 billion Danish Kroner compared to the budget proposal of the previous government.

Countries receiving Danish development assistance must live up to basic principles of good governance. The review shows that some countries, but not all, live up to these principles. The Government will therefore:

Stop all development assistance to Eritrea (oppression of the opposition and the press), Malawi (systematic intimidation of the opposition, corruption) and Zimbabwe (a president greedy of power, economic chaos).”

Of the remaining Danish partner countries, six experienced no cuts in Danish bilateral assistance and nine had their country programmes reduced.

- *Absorption capacity argument.* A potential fifth argument is the over-supply of aid, though there is no such example in this evaluation. This problem is potentially connected to so-called ‘donor darlings’ and their associated low absorption capacity. In this situation, a particular donor could well exit without causing problems. Botswana, at the time, showed signs of over-supply of aid, which was mentioned by Norway as an argument for scaling down.

Understandably, the cases of aid exits dictated by the recipient government are fewer. The arguments used in the case of India are threefold:

- *The donor is perceived to interfere with domestic affairs in unacceptable ways.* Clearly, the Indian Government at the time (2003) felt that a number of western donors had attempted to exert political influence incommensurate with their aid budget, not to mention their geopolitical importance. India was said to have become ‘tired of the sermons’ of donors with outspoken reactions after India’s nuclear test in 1998 but also due to criticisms on human rights issues. India had, for instance, rejected Denmark’s attempt to negotiate terms for a new country programme (in 2000) in reversal of the 1998 exit decision. The draft strategy was unofficially called ‘Lex India’ in Denmark, hinting at its bent towards governance related conditionality, which turned out unacceptable to the Indian Government. Eritrea steadfastly refused to submit to donor pressures with the calculated risk of putting aid flows in jeopardy, as the relationship with Sweden illustrates;<sup>10</sup>
- *The recipient seeks to reduce aid to boost an image of greater self-reliance.* The self-confident rhetoric of “a new” or “shining” India promoted by the Indian Government was not seen as commensurate with dependency on aid from a wide range of donors. It is worth noting that South Africa has not taken a similar stance;
- *Reduce the burden of aid coordination.* The Indian federal Government apparently felt that the administrative costs of coordinating small bilateral government-to-government agreements exceeded their benefits;
- *Aid saturation.* As a corollary of the fifth point above – there are likewise no instances in the sample of a recipient government having said ‘no’ to a donor because it already had *enough aid*.

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<sup>10</sup> Kenya’s decision in 1990 to break diplomatic relations with Norway and the decision in 2007 by Ethiopia to expel Norwegian diplomats, both resulting in total or partial aid exits, also fall into this category.

**Table 2.2 Justifications of exit decisions**

	<b>Denmark</b>	<b>The Netherlands</b>	<b>Norway</b>	<b>Sweden</b>
<b>Botswana</b>	(1994) Graduation argument & mismanagement argument	–	(1991) Graduation argument	(1994) Graduation argument
<b>Eritrea</b>	(2002) Governance argument	(2007) Revised partner country criteria	–	(2002) Governance argument
<b>India</b>	(1992, revoked) By donor: graduation & governance argument  (1998) By donor: governance argument		(1990) By donor: revised partner country criteria	(1998) By donor: governance argument
	(2003) Recipient-induced  (2003, acceleration of exit) By donor: graduation argument	(2003) Recipient induced  (2003) By donor: graduation argument	(2003) Recipient induced	(2003) Recipient induced
<b>Malawi</b>	(2002) Governance argument & mismanagement argument	(1998) Revised partner country criteria	–	–
<b>South Africa</b>	(2007) Graduation argument	(1999) Revised partner country criteria & graduation argument	(2007) Graduation argument	(2004) Graduation argument

## Findings

Looking at these decisions and their justifications one will see that there is *not a complete congruence with the types of contexts identified* in Section 2.1, except for the obvious fact that the graduation argument is limited to contexts 1 and 2. Allegations of poor governance and mismanagement of aid surfaced in all country contexts, with the exception of South Africa. Likewise, changes in aid policy affected countries as different as Malawi and South Africa. India pursued policies of self-reliance towards donors, which directly induced aid exits. Eritrea, as well, has demonstrated self-reliance in bilateral aid relations but has not (yet) unilaterally initiated the exit of any donor (this is therefore not included in

Table 2.2), although Eritrea's lack of flexibility in aid negotiations contributed to exit decisions indirectly (e.g. Sweden and the Netherlands<sup>11</sup>).

Importantly, *all exit decisions were unilateral decisions*. On the one hand, this may be considered an unavoidable consequence of the political nature of bilateral country relations, further reinforced by the trend of making aid an integral element of foreign policy. On the other hand, this may seem to contradict the spirit of the current dominant aid discourse, as embraced by the Paris Declaration on Aid Effectiveness. In this discourse, the emphasis placed on partnership and mutual responsibilities can be interpreted as also embracing the aid exit process. There is no evidence in this evaluation that such principles were invoked at the stage of exit decision making. Although, there is no example of an exit decision jointly made by donor and recipient, it is conceivable that steps can be taken in this direction (see Chapter 4).

It is a valid hypothesis that donors will more readily exit from recipient countries that are economically weak and politically marginal for the simple reason that there will be less resistance from influential stakeholders. The justification might be either political sanctioning or aid concentration. Although one cannot generalise from a sample of five countries, a certain picture did emerge: the *weaker recipients* (Malawi and Eritrea) *were more prone to faster and irreversible exits*.

## 2.3

### Three types of exit management processes

The classification of the three types of exit processes as presented in the introduction – force majeure situations, exits from aid-dependent countries and exits from no longer aid-dependent countries – is important, not least because it supplies a more nuanced view of the sustainability criterion for successful aid exit. It is conventional aid logic that the phase out of aid should take place when the development partners are assured of the sustainability of the outcomes achieved through aid – i.e. that self-sustained development processes and institutions have been brought about. Evidently, this is far from the general pattern. Invariably exit decisions are made before sustainability is ensured. In a study entitled *The Sustainability Enigma* (1998), looking at the phasing out of Swedish aid projects in Tanzania, it is concluded:

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<sup>11</sup> The Dutch government has recently officially decided to terminate bilateral development cooperation with Eritrea, but the decision has not yet been effected.

Decisions on whether and when to continue or phase out should be based on knowledge about how the project/programme is developing and the requirements for success and sustainability. In the case of Swedish support to Tanzania, however, the linkage between project success and sustainability on the one hand and phase out decision-making on the other has been weak.<sup>12</sup>

The findings from this evaluation show that the attention to sustainability differed in the three types of exit management.

In the *force majeure* type, there was hardly any scope to focus on sustainability directly. Damage control is important, just as are legal and administrative correctness. Force majeure exit management may take place in any country context.

With exits from aid-dependent countries under conditions that allow for proper planning, i.e. the second type, sustainability concerns should take the highest priority in exit planning and management. There obviously is a critical need to replace the funding gap left by the outgoing donor, and institutional capacity on the recipient side to manage aid fluctuations is often found to be weak. However, as presented in Chapter 3, the cases studied show great variation with respect to actual means taken to address such problems. Sustainability assessments were not evident in the planning of several of the country exits.

The *third type* represents a situation where sustainability problems as a consequence of the exit are generally less pronounced, for the obvious reason that the financing gap may not be a problem, and recipient institutions are usually stronger. Nevertheless, sustainability issues in phasing out remain important. In aid transformation cases, the challenge of retaining or even strengthening bilateral relations becomes another important issue. Chapter 3 presents evidence of the dilemmas created by simultaneous phasing out of traditional ODA and phasing in of new forms of cooperation.

In Table 2.3 the 14 different exit processes covered by the evaluation are grouped according to the typology of exit processes.

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<sup>12</sup> Catterson, J. and C. Lindahl. The Sustainability Enigma – Aid Dependency and the Phasing Out of Projects. The Case of Swedish Aid to Tanzania.

**Table 2.3 Types of exit management processes by country**

	Types of exit management processes		
	1. Force majeure: how to get out quickly in an orderly manner?	2. From aid-dependent countries: how to ensure sustainability?	3. From countries no longer aid dependent: how to pursue transformation of relations?
<b>Denmark</b>	Malawi	Eritrea	Botswana India
<b>The Netherlands</b>		Eritrea Malawi	India South Africa
<b>Norway</b>			India Botswana
<b>Sweden</b>	Eritrea		Botswana India South Africa

Based on findings from the 14 exit management cases the evaluation identified the following characteristics:

**Type 1: Force majeure  
– How to wind-up orderly but as quickly as possible?**

A genuine example of a force majeure exit is the breakdown of diplomatic relations (e.g. Kenya-Norway in 1990). There is no clear example of this kind in the sample of this evaluation and the closest one gets is the Swedish exit from Eritrea. Bilateral political relations had been ailing over a long time, which resulted in Sweden reducing government-to-government aid first in 1996 (due to a dispute over the status of Eritrean asylum seekers in Sweden), and again in 2000 (on account of the border war with Ethiopia) and 2002 (the decision to discontinue bilateral aid). By the time the exit was becoming a political reality, after the aborted attempt to renegotiate a bilateral aid programme in 2002, the country programme was already on its way down. Hence, there was no particular phase out drama involved, but well-functioning university collaboration programmes came to a premature end.

The management of the Danish exit from Malawi took place under a very tight timetable (five months – e.g. all programmes were to cease operations by 30 June 2002), including the closure of the Embassy one month earlier. It was hotly debated in Denmark whether frictions in the bilateral relationship with Malawi at the time (involving a diplomatic incident when Denmark decided to recall its ambassador, and concerns over mismanagement of aid and poor governance) warranted such draconian measures. Critics argued that the Danish Government rather than cutting whole country programmes should have distributed budget cuts more equally across partner countries.

Although one may argue that this type of exit should be avoided, it still remains a political reality. It could be questioned, however, whether changes in a donor's aid policy can justify creating a force majeure situation (e.g. as in Denmark's exit from Malawi). This may run counter to basic principles of good donorship, emphasising predictability and concern for the rights of beneficiaries.

## **Type 2: From aid-dependent countries – How to ensure sustainability of results?**

During the 1990s several bilateral donors discussed and revised their aid policies, and the need for concentration on fewer countries became a main issue. This resulted, inter alia, in exits from countries still requesting continued development assistance. In these exit processes sustainability of investments becomes the main challenge. Common justifications for such exits are found in donors' changes in aid policy, cuts in overall aid budgets and/or alleged misconduct by the recipient. This type of exit is likely to become more common with the increased coupling of aid policy to foreign and security policy concerns, and further concentration of aid and division of labour among donors and agencies.

*The Dutch exit from Malawi* is a typical example. In the new aid policy of 1999, the Dutch Government reduced the number of priority countries to 22 (19 regular and three temporary partner countries), and Malawi was no longer on the list. As this decision was not accompanied by an imminent need to cut aid disbursements, the Dutch Embassy (in Zambia) was allowed to orchestrate a gradual phase out over five years. As further described below, the exit strategy had a focus on sustainability.

The *Danish exit from Eritrea* may serve as a contrasting example. Against the background of the overall cut in the aid budget in 2002, the exit from Eritrea was justified on grounds of human rights violations. There were no accounts of serious deterioration in bilateral relations in the period prior to this decision. Even though the political situation in Eritrea was tense, after the end of the border war with Ethiopia, Denmark had signalled its commitment to a long-term aid partnership. In fact, in 2000 the parties entered into a five-year general bilateral agreement and a five-year education sector programme. A new sector programme agreement in agriculture was ready for signatures when the exit decision was taken in early 2002. Since Denmark's approach in Eritrea was less dramatic than in Malawi – all existing agreements were allowed to run their course – it is included as an example here. However, the issue of sustainability was by and large neglected, which affected the agriculture sector in particular (see Chapter 3). Denmark withdrew from extensive commitments made in the preparation of a second phase of an agriculture sector programme. This also happened in Malawi.



The *Dutch exit from Eritrea* was officially declared only recently. Since 2002, the Netherlands' support to Eritrea has been scaled down substantially, but this was a consequence of difficult aid negotiations and disbursement constraints without a clear exit decision for a long time. There were attempts to move into new engagements (including a sector programme in education) but the partners could not reach a consensus on the approach. In the new Dutch policy of October 2007 regarding partner countries, the exit from Eritrea was announced, and Eritrea will lose its status as a partner country. An exit strategy is yet to be formulated.

### **Type 3: From graduation countries – How to transform bilateral relations?**

When exits are dictated by graduation and/or the decision of the recipient country to phase out the traditional aid relationship, sustainability issues still need to be addressed but may be less problematic than in the case of aid-dependent countries. If the aim is to strengthen and reshape bilateral relations, the need for new and temporary cooperation instruments arises. In these transformation cases both donors and recipients see the need for a transitional phase, where aid in new forms supports consolidating and broadening of relations. This type represents the desired end state of development cooperation and can, in principle, be jointly prepared well in advance. Therefore, the issue of sustainability will likely not be the main challenge, although there are questions of how to best tailor the phase out process to the needs of the different kinds of institutions involved.

With Botswana, India and South Africa in the sample, this type is well represented in the evaluation – but these countries also exhibit important differences. India and South Africa are regional and emerging global powers, while Botswana is far from achieving such a status. Botswana has few aid relationships remaining, whereas the other two still have many. In the case of South Africa, Sweden did take a clear decision in 2004 to set a closing date for most bilateral government-to-government aid (by 2008) and transform its relations with South Africa with view to broader cooperation. The three other donors have taken steps in the same direction (in 2007). Norway and Denmark have decided to phase out but without yet announcing a final closing date for their traditional development cooperation, awaiting further consultation with South Africa. The Netherlands decided in September 2007 to classify South Africa in the group of middle-income countries for a broad-based relationship, while the implications for the future development cooperation relationship with South Africa have not yet been spelled out in detail.

The Danish exit from India represents a convergence of aid policy discussions in Denmark (i.e. India is no longer in need of Danish aid) and a reaction to political developments in India (i.e. the 1998 nuclear test). Nevertheless, Denmark prepared for a very gradual phase out – over 10 years. The approach focused on sustainability concerns, and provides lessons of general validity in exit management. It should be mentioned that this process was cut short by three years with the Indian decision in 2003 to terminate bilateral aid partnerships with a number of smaller donors.

In this type of exit process there is an expressed concern from the donors to establish and/or strengthen non-aid relationships. As a means to achieve this, new types of institutional cooperation (e.g. including co-financing) are phased in. The Norwegian and Swedish transformation processes in Botswana fell short of objectives, despite a keen interest of the Government of Botswana to keep up relations. This is possibly best explained by Botswana's marginal position in economic and geopolitical terms.

In the cases of *South Africa and India*, the picture of aid transformation is blurred. In India, while government-to-government ODA from 'small' donors had to be terminated, aid through other channels was encouraged. Furthermore, Norway's recent phase in of a new large aid-financed health programme amply illustrates that aid remains an important means of forging bilateral relations. The drawn out exit processes in South Africa tell the same story.

The case studies indicate that greatest attention in forging new, broader relationships is paid to countries that are geopolitically important (South Africa and India versus Botswana). Another important finding on this type of exit process is that it has been difficult to establish time-bound plans for such aid transformations. The main challenge for the donor relates to formulating post-aid strategic goals, generally referring to strategic interests of the donor (as opposed to development needs of the recipient). It may well be, however, that donors' perceptions of 'mutual interests' as a basis for future relations, are not equally shared by the growing "southern" powers.

Sweden and Norway have a tradition of using their own government institutions for institutional cooperation programmes. This has been a prominent feature of their development cooperation with South Africa. As a consequence, the discussion of aid transformation has had a main focus on how to continue cooperation between public sector agencies in the wake of reduced or no ODA.

## 2.4

### Communication on exit decisions and strategies

Exit decisions are political decisions, as shown in Section 2.2. In some cases politicians took the responsibility to communicate exit decisions, but in other cases this was left to civil servants of different ranks. The way exit decisions were communicated and who was responsible for the communication influenced the outcome, as will be shown in Chapter 3. Nevertheless, recipient governments have generally treated exit decisions as an irreversible fact – *a fait accompli*. In Botswana it was commented that, as long as bilateral aid relations were not legally enshrined in some form of treaty, the recipient has no procedural or legal recourse. In some cases, clear guidelines for the exit process in terms of time horizon and allocation of resources were set at the political level, while in other cases this was left to the aid administration and its partners.

There are no examples in the sample of joint exit decisions of a number of donors, nor are there any examples of an exit decision being negotiated between donor and recipient. As mentioned above, all exit decisions were made unilaterally by one donor, with the exception of India's decision in 2003, which affected many donors. In several cases the partner was caught quite unawares. This is a difficult starting point for cooperation in exit planning and management. *Communication* has been observed to have been a problem in many of the cases studied.

Botswana realised what was coming, although it regretted the donors' exit moves. India took the 'small donors' by surprise; and similarly did the Netherlands and Denmark catch Malawi unawares. Sweden's exit decision and the Netherlands' declining involvement came as no surprise to Eritrea, but Denmark's decision came as a shock according to key Eritrean informants. South Africa is well informed of and participates in the current aid transformation discussions with each of the four donors.

The way the exit decision was communicated to the partner varied, from rather antagonistic (e.g. Denmark-Malawi) to engaging high-level political leaders (e.g. Netherlands-Malawi). In general terms, three variants of how exit management may be discussed and planned can be distinguished:

- i. Exit is discussed at the time of entry, and exit strategies are entered into aid agreements;
- ii. Exit is raised as an issue by either donor or recipient, and there is will and time to engage in mutual discussions and negotiate terms and conditions for exit management;
- iii. Exit is decided unilaterally, by either side, with major non-negotiable terms and conditions for the management of the exit.

## Discussing exit at entry

There are no clear-cut examples of this variant in the sample. All partnerships studied seem to have been rather open ended until the issue of exit, for different reasons, was put on the table. Although this is normal for partner country agreements, there are two interesting examples in the sample of the issue of exit having been implicitly raised at an early stage, although in neither case did this lead to a concrete strategy. The two examples are Denmark in Eritrea, and all commissioning donors in South Africa.

*Eritrea-Denmark.* Soon after independence, Eritrea developed its own aid policy, which was forcefully articulated in aid negotiations. Eritrea asked for long-term predictable programme based funding, while aiming at rapid graduation from aid dependency. Denmark was the one donor that was most forthcoming in supporting Eritrea's vision. The sector programme agreements developed in agriculture and education comprised a long-term commitment (with a 13-year horizon) based on three phases (three years, five years, five years), with the last phase being perceived as a phase out. The education programme agreement for Phase II (signed in 2000) does not elaborate on the subsequent phase, but the explicitly formulated immediate objective of the cooperation clearly envisaged a phasing out of aid:

The Ministry of Education and other key actors are able to expand access, increase equity and improve quality of basic education in a balanced, systematic and sustained manner, gradually decreasing the need for external assistance to the national efforts.<sup>13</sup>

*South Africa.* This example refers to the temporal character of what was labelled transitional aid during the mid- and late 1990s. Whereas the majority government coming to power in 1994 decided not to borrow from the international finance institutions, it did welcome bilateral and multilateral grant aid to assist the process of transition to non-racial democracy and economic equality as acts of political solidarity. Interestingly, when the Netherlands started its bilateral ODA relationship with South Africa after apartheid, the country became one of the so-called 19+3 countries. The 3 were Egypt, Indonesia and South Africa, and the differentiation between this group and the 19 was that aid was to be provided for a certain period of time to assist transformation. Thus, the aid was meant to be time bound, although no clear time horizon was set. While the transition in South Africa did not produce results as quickly as expected, donors' foci also shifted, and both these

<sup>13</sup> Ministry of Foreign Affairs, Denmark. Danida Support to the Education Sector in Eritrea 2000-2004. Sector programme support document. September 1999.

facts contributed to extending the time perspective of the aid engagements.

This analysis indicates that the planning of exit at entry, at best, is expressed only at a very general level, and, furthermore, that such expressions of intent can be undermined by political developments and strategic motives justifying either termination (e.g. Eritrea) or prolongation (e.g. South Africa). There is clearly need and scope for paying more attention to exit at entry. Two contexts deserve special attention. Firstly, in fragile states or difficult partnerships (type-4 countries – Section 2.1) donors need to strengthen the analysis of exit options and strategies in the preparation of new aid allocations. Secondly, in graduation countries there is an urgent need for concrete time-bound strategies for aid transformation and the ultimate cessation of all aid flows (see also Chapter 4).

### **Negotiating the exit strategy**

Either party may unilaterally decide to terminate aid relations, but clearly there are different ways of doing this, as shown in the following examples from the case studies.

*India-Denmark.* Although the exit decision in 1998 was a political reaction to the nuclear test, Denmark settled on a careful approach. The planned transition from project support to long-term sector programmes in two states was shelved and no new programmes or projects could start any longer. Existing projects, however, were to continue as planned with an emphasis on sustainability of outcomes and proper handing over to Indian institutions. This perspective, in fact, led to several projects being extended and additional funding being made available. Denmark proposed the following principles for the phase out of projects to India:<sup>14</sup>

- stay within agreed timeframes and minimise delays caused by administrative issues (a main issue is to ensure that India delivers on the agreed allocations of local manpower);
- joint project reviews to ensure concurrence on goals and funding necessary for the phase out;
- considerable flexibility in allocation and disbursement of financial resources;
- develop concrete plans two years prior to closure of projects for handing over to Indian authorities;
- in the phasing out period particular emphasis will be placed on poverty reduction, gender issues and popular participation.

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<sup>14</sup> Folke S. and J. Heldgaard (eds.). *Den rige mus og den fattige elefant. 45 års bistand til Indien.* 2006.

Comprehensive plans were made for all projects involving key stakeholders, and Danida conducted bi-annual meetings where problems were discussed. The federal government did not take an active part, but institutions at state level were integrated and at project level there was active participation. Indian advisors on the projects played an important role in this participatory planning process. There were, at times, tough negotiations on how to transfer knowledge, procedures and systems developed in pilot projects (e.g. in primary health and agriculture extension). Allowing time for a negotiated exit management process gave the opportunity to local stakeholders, at local government and village level, to play an active role.

*Malawi-Netherlands.* Proper communication of the decision to exit is important and can prepare the ground for adequate cooperation during the phasing out period. With the revised aid policy of 1999, the Netherlands attached great importance to limiting the damage to its image as a reliable partner. Not only did the policy itself outline a gradual and tailor-made approach, but a high level delegation was sent to Lilongwe to relay the message and discuss the approach, which was appreciated by the Malawian Government. Important was the active involvement of the Embassy to ensure the adoption of a careful exit process. It also mattered that the second phase of the health programme had barely started in determining a five-year horizon.

*Botswana-Norway.* Norway's exit decision in 1991 did not come as a surprise to Botswana. Since preparing the 7th National Development Plan (1991–1997), Botswana had not assumed that there would be any considerable support from donors. Norway took care to establish a gradual and consultative process. In 1993, the parties, in a meeting at ministerial level, discussed the approach, wherein Norway stressed that "Botswanan authorities shall be invited to investigate potential areas of cooperation, and present their own proposals". The idea was to establish new forms of cooperation not dependent on development aid.

*Botswana-Sweden.* Similarly, the Swedish exit was a gradual process initiated with the preparation of the new five-year country programme agreement for the period 1994–1998. The Swedes put forward their vision to change relations from being based on traditional grant aid to broader cooperation focusing on the private sector and NGO relations. This turned out to be rather difficult (see Chapter 3). When the Swedish Foreign Minister visited Gaborone in 1999 as an official punctuation mark to the conventional aid partnership, she influenced the decision to retain the Embassy, which underscored Sweden's political will to pursue the vision of a new partnership. This decision was greatly appreciated by Botswana, concerned about being politically marginalised, but it did not substantially strengthen the move towards broader cooperation.

*India's decision in 2003* to reorient its policy on bilateral development cooperation was taken at a very high political level with minimal internal consultation, neither between departments at the federal level nor between institutions at the federal and the state level. Both donors and most Indian stakeholders were taken by surprise, and reactions at donor HQ were mixed – from disappointment and a feeling of unfairness to acclamation of India's demonstration of ownership. It took time on the Indian side to work out practical guidelines, and these were also partly revised by the new government taking power in 2004. The basic approach taken by India was to allow existing agreements to run until completion, while simplifying procedures to encourage more direct assistance to NGOs and technical and institutional cooperation. There was considerable room for negotiating the exit approach.

The Indian decision triggered corresponding exit decisions by the four donors. Denmark decided to accelerate its phase out from a ten-year period from 1998 to a seven-year period, i.e. the final date was set to 2005 instead of 2008. Sweden had already reduced its government-to-government aid substantially since 1998; and Norway adopted a more 'natural' phase out – e.g. completing ongoing commitments without starting new ones. A substantial part of Norwegian aid at the time was channelled through NGOs, and it is worth noting that Norway decided on a phasing out of this support as well, despite India's invitation to the contrary.

*India-Netherlands.* The Dutch response to India's decision was to "phase out as quickly as possible". The Ministry in The Hague decided on two years, against the advice of the Embassy arguing for three years. Communication with Indian authorities was problematic at the beginning, but once the main principles for the exit were set in The Hague, a high-level delegation from the Ministry of Foreign Affairs in The Hague travelled to India to explain the decision and to consult the Indian authorities on detailed planning.

The exit strategy negotiated with Indian counterparts had the following underlying principles:

- Ongoing activities planned to end before mid 2004 would remain unaffected but completion dates needed to be respected;
- Activities with completion dates beyond mid 2004 would be completed in an accelerated way;
- Wherever possible, activities would be handed over to the Government of India, other donors or NGOs.

The Indian recipient-induced aid exit illustrates very well the ambivalence of aid relations; what is described as a partnership by donors, may be viewed as dependency and relinquishing of sovereignty by the recipient.

*South Africa* is an example of extensive consultations regarding aid transformation. In the Swedish case it has been extensive but not without problems. A key element in the 2007 decisions of Denmark and Norway to phase out was to start a process of consultation with South Africa on how to do it and how to shape post-aid relations, thus the “open-ended” timeline of the decisions.

These cases confirm that a consultative approach is appreciated and provides much needed breathing space for actors to adjust to a new situation.

### **Non-negotiable exit strategy**

There is one case where a unilateral exit decision was accompanied by rather strict, non-negotiable principles for how it should be implemented, namely Denmark’s exit from Malawi. The interviews indicated that the Danish announcement came as a shock to Malawian counterparts, although Denmark’s suspension of general budget support in 2001 could have been seen as a forewarning. The relationship between the two governments was further aggravated by the way Denmark communicated the message, only using the Embassy and not sending a high-level political representative. All ambassadors accredited to Denmark were informed about the change in policy on 28 January – i.e. the day before the change was made public. In response, Malawi sent both the Foreign Minister and the Minister of Education to Copenhagen in an attempt to plead for a reconsideration of the decision. They succeeded meeting only in the head of Danida, since relevant members of the Cabinet were not available. In interviews with Danish media they commented bitterly on the Danish decision.

Not surprisingly, the phase out was not an amicable affair, and the short timeframe left no scope for negotiations. The Ministry of Education, which had its programme agreement cancelled, was not readily forthcoming in submitting the end of project reports required by Denmark.

### **Interaction between stakeholders during exit processes**

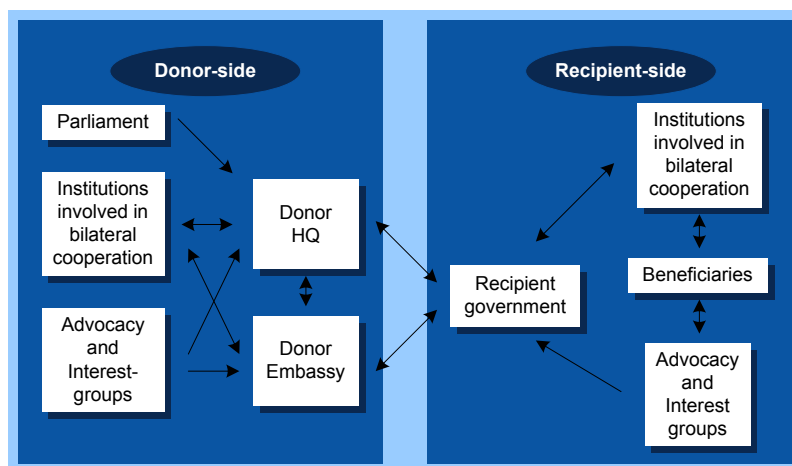
There are various actors on both sides who play a role in exit processes. The roles vary from involvement in formulation of concrete exit plans to implementation of these plans, but there can also be silent or open opposition to the implementation of exit decisions. On the donors’ side, besides the Ministry of Foreign Affairs, the embassies played a pivotal role in most of the exit processes studied. Advocacy groups and partner institutions in the donor countries were active in some of the exits and totally absent in others. On the recipient side, there are examples of

## **2.5**



recipient institutions (especially sector ministries) that were proactive in influencing the exit process, but the most common response was one of seeing the exit as a fait accompli.

**Figure 2.4 Actors in exit processes**



The following findings deserve to be mentioned:

*Donor headquarters.* The main role of headquarters has been the formulation of principles for the exit plans (see Section 2.4). These principles were worked out in more detail where decisions for quick phasing out were taken and where politicians wanted to avoid any debate on the implementation of these decisions (i.e. the Danish exits from Malawi and Eritrea and the Dutch exit from India). The embassies were, in all cases, responsible for drafting the actual exit plans, although exit plans were not always prepared. In general, aid administrators at donor headquarters have been responsible for implementation of exits from a distance. In most cases, civil servants planned and implemented the exit in line with the political directives of HQ, but sometimes aid administrators tried to plead in favour of longer time periods for phasing out or even reversal of the decision.

*Donor embassies.* In several cases, development cooperation staff at the Embassy tried to soften the exit process or even pleaded in favour of changing the exit decision. In Malawi, the Dutch Embassy located in Lusaka, Zambia, initially tried to persuade headquarters to revise the decision, and then later actively worked in favour of an extended phase out period. The Dutch Embassy in South Africa wanted to have the 1999 exit decision revoked. In 2001 it sent a memorandum to The Hague arguing the exit was premature. At the same time lobby groups in the Netherlands, including both business and NGOs, campaigned to maintain South Africa as partner country. This view was supported by

the new government in 2003, which soon granted South Africa full partner country status.

In Norway, there were clearly opposing views in the Ministry and Norad on how to exit from Botswana, with the former seeing it as a natural phase out while the latter – i.e. the development staff at the Embassy – wanted a transformation of aid, which implied phasing in new types of institutional cooperation. With the closure of the Embassy the headquarters' view prevailed.

There are examples of development cooperation staff at embassies who mobilised in favour of maintaining the development cooperation relationship, or at least smoothen the exit process. Embassy staff dealing with specific programmes and projects feel ownership for these activities and often maintain close relations with staff of implementing organisations and technical assistance. Exit decisions will also have consequences for jobs and careers that may not be welcome. Local Embassy staff are laid off, and expatriate staff are often transferred. In aid transformation situations, as found in the South Africa study, Embassy staff may face a new challenge in contributing to a transformed relationship. Interviews indicated that local Embassy staff often played a key role in managing the phasing out of development projects and programmes where this required difficult negotiations with recipient institutions.

*Advocacy and interest groups.* Two examples warrant mentioning. Pressure from lobby groups and the Parliament in Denmark led the government to reconsider its strategy for India and the 1998 exit decision. However, Denmark's revised strategy was turned down by the Indian Government. Similarly, lobbyism was active in the Netherlands in granting South Africa full partnership status. For most exit decisions there were one or more advocacy or lobby groups pleading in favour of continuation of the development cooperation relationship, independent of the argument used. The success of the lobby depends on its political connections and its possibilities to unite different organisations for the same purpose.

It can be concluded that exit decisions are prone to be challenged, but the absence of very prominent challenges is one of the more striking findings from this evaluation. Few of the aid relations studied were guarded by strong lobby groups, which made them vulnerable to one-sided political decisions. Where lobby groups prevailed are primarily in the cases of South Africa and, to a lesser extent, India.

*Interaction on the recipient side.* There are few cases in the country studies where actors on the recipient side have taken proactive steps to influence exit decisions or the early stages of exit planning. Recipient institutions participated in exit planning where they were invited and thus played an important role (e.g. India-Denmark). This passive or reactive attitude reflects both prevailing political and bureaucratic cultures and

that aid-dependent institutions have been used to the unpredictability of aid flows over the years. Only the most dramatic exits triggered particular countermeasures. Both Eritrea and Malawi sent ministers to Denmark to discuss the issue, and a Malawian institution started lobbying for additional government funding.

The decision by the Government of India to change its policy towards smaller bilateral donors was taken at the federal level and very few actors were involved. The Minister of Finance announced the policy change in his annual Budget Speech in 2003. According to stakeholders, line ministries and stakeholders at the level of the states were not at all involved. Some of these actors were directly involved in development cooperation with the respective bilateral donors and they were taken by surprise. They regretted the decision taken at federal level. However, no action was taken by them to revoke the decision at that time. The opposition at the time did not agree with the outspoken Budget Speech and its consequences. When the opposition won the election and formed a new government the policy towards smaller bilateral donors was changed again.

# Chapter 3

# Exit management and consequences

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## 3.1

### What is a successful exit or transformation?

When analysing and assessing exit and transformation processes it is important to clearly define the yardstick against which these processes should be judged. The analysis in Chapter 2 indicates that different factors, such as country context and political ramifications for exit, influence outcome. These factors have been described and systematised, but are not assessed in this evaluation. As the focus of this evaluation is on management issues, this chapter focuses on various elements of exit management: firstly on the planning of exits, secondly on factors influencing the quality of exit management, and thirdly on development outcomes and consequences of exits at different levels.

Two sets of indicators are required for this part of the evaluation:

- (1) *Process indicators*: indicators related to the quality of exit process management. These apply to factors that can be influenced or should be taken into account by decision makers and implementers involved. Based on process indicators presented in Annex 2, a distinction is made between factors mainly related to the phasing out component of the exit (Subsection 3.3.1), and factors primarily related to phasing in of new forms of cooperation, i.e. aid transformation (Subsection 3.3.2).
- (2) *Output and outcome indicators*: indicating the change in development outputs and outcomes caused by the exit. The main question is whether the country exit processes altered the development outcomes from what would have been expected had the exit decision

not been made, or had it been implemented differently. This presents difficult assessments of the counterfactual, and a main challenge is to disentangle the indicators for a successful development intervention (the traditional indicators for relevance, effectiveness, sustainability and impact) from indicators that specifically point to the consequences of exits on development results. As discussed in Annex 2, there are several methodological problems related to this analysis. What is summarised here are observations made by key informants, with respect to consequences of exits at different levels:

- the institutional level (i.e. recipient organisations);
- the level of beneficiaries;
- the level of bilateral relations.

It is not possible to define precise criteria of success related to the above indicators. Also, there is obviously no automatic instrumental link between good or successful management and positive outcomes or the absence of adverse consequences. Nevertheless, there are important findings from the case studies highlighting factors that influence success. Success is evaluated with regard to the typologies of partner countries and of exit management processes as presented in Chapter 1.

## How exits were planned and not planned

## 3.2

It was found that only eight of the 14 exit processes studied were accompanied by exit plans, and that the approach to planning of exit processes varied considerably. Referring to the typology introduced in Chapter 1 and further elaborated in this Chapter, it is important to emphasise that the quality of plans has to be evaluated taking the main purpose of the plan into consideration. The contrast between Denmark's exits from Malawi and India is a good illustration. Well-defined plans were developed for different situations, but with dramatically different goals – exit in five months versus ten years – and both plans served their respective purposes well.

From the cases studied, four different approaches to the phasing out of aid projects/programmes can be distinguished:

- *cancellation of contracts*: winding up administratively (e.g. Malawi-Denmark: education programme);
- *accelerated phase out*: attempts to advance the closing date and/or front-load disbursements (e.g. India-Netherlands: education programme in Gujarat; Eritrea-Denmark: education programme);
- *natural phase out*: adhering to agreed plans – which is the most common approach (various examples);

- *phase out with a focus on sustainability*: adjusting plans and budget to accommodate sustainability concerns (e.g. India-Denmark: several projects; Malawi-Netherlands).

*Cancellation.* Respecting legal agreements is a principle for exit management, which was applied in all exits. In March 2002, Denmark gave Malawi six months notice (in accordance with the agreement) before cancelling the agreement with effect from September. With 70 percent of funding remaining, the exit plan focused on proper liquidation of assets and bookkeeping. Denmark also cancelled the agreement on support to legal reforms in Eritrea – although not immediately following the exit decision – arguing that Eritrea defaulted on its obligations.

*Accelerated.* The Netherlands embarked on extensive re-negotiations with the Federal Government of India and the State of Gujarat to advance completion dates and reduce the level of financial commitments. This was a very demanding process, which worked out differently for the two sectors involved: good negotiations and planning for the water sector and very complicated for the education sector. In the water sector it worked well because of the interest on the Indian side to take over and continue the activities, and the Dutch being sufficiently flexible to make the necessary changes in the programme required for a good handing over. In the education sector, however, negotiations were very complicated from the start because the education support programme was not a typical bilateral but rather a multilateral programme. Denmark's support to education in Eritrea continued much as planned but, through the process of annual reviews, attempts were made to frontload expenditures. The Eritreans welcomed this, so as not to experience a sudden drop in budgets when the programme expired.

*Natural.* This has been the most common approach and was typical of the exits from Botswana. There was no specific exit planning beyond the regular monitoring of ongoing projects. Both Norway and Sweden had multi-year country programme agreements with Botswana, and the 1993–1996 agreement in the case of Norway, and the 1994–1998 agreement in the case of Sweden constituted the timeframes for the phase out. Despite these extended periods, informants reported inconsistency in the approach and unclear messages, caused by simultaneous phasing out and phasing in. In the graduation countries – Botswana and South Africa – it was found that aid transformation strategies generally involved greater attention to phasing in of new forms of cooperation than the phasing out of ongoing projects.

*Phase out with a focus on sustainability.* Although this is a much-touted concern there are very few examples of it having been translated into a well-articulated approach. The only cases found are related to Denmark's exit strategy from India (1998) and the Netherlands' exit strategy

from Malawi (2000). One specific element of exit planning in these cases was that there was no rush in setting completion dates, ongoing commitments were respected and time was taken to negotiate programme or sector-specific elements of phasing out with a focus on sustainability. In graduated countries, such as Botswana, India and South Africa, the efforts to find new mechanisms for continuing institutional cooperation between public organisations in these countries and in the donor country, in the wake of diminishing ODA funding, also embrace a sustainability perspective.

### **Findings on exit planning**

In the 14 exit processes studied, few elaborate exit plans were found, in the sense of preparation of a comprehensive document covering a clear timeframe, guidelines on communications, indication on monitoring, phasing out approach, and any aid transformation initiatives. The best examples are Denmark from India (from 1998), the Netherlands from India (from 2003) and from Malawi (from 2000), and Sweden from South Africa (from 2004). Less comprehensive plans were developed by Norway and Sweden for Botswana. Denmark made plans for Malawi and Eritrea but these were mainly crisis management oriented. In total, eight exit plans were prepared for the 14 exits studied (see Annex 9).

So-called ‘natural phasing out’ was the most common model in those cases where no exit plans were developed, but it was also used as an approach in some of the exit plans. In practice, this meant that ongoing agreements were respected and activities were ‘faded out’ at the end of the contract period without paying specific attention to the phasing out. Some of the exit plans basically consist of planning for a natural phasing out and are based on respect for ongoing agreements.

The closest one gets to a ‘best practice’ example is the plan for Denmark’s exit from India, but it should be noted that it was influenced by a very generous time perspective of 10 years.

### **Quality of exit management: process indicators**

## **3.3**

The factors presented in the subsequent sections have been identified in the five country studies as being of major importance for the quality of the exit processes. Firstly, the main factors influencing the phase out process are presented, followed by a presentation of the main factors influencing broader cooperation, i.e. phasing in processes in parallel to phasing out.



## Quality of management of phase outs

### *The time factor*

Time was only an issue in the eight exit processes that were planned for, while in the six exits without plans ongoing agreements were respected and no final completion dates were set for a long period. The eight exit plans show a large variety in terms of timing:

- Three processes had to be completed in (less than) two years when the exit plans were prepared (Denmark from Malawi; the Netherlands from India in 2003 as well as South Africa in 2003, although this decision was reversed);
- Four processes had to be completed in the medium term and about two to five years were indicated (the Netherlands from Malawi in 1999; Denmark from Eritrea; Sweden from South Africa, and Norway and Sweden from Botswana in the mid-1990s);
- For one process more time was set: initially 10 years, which was later reduced by three years (Denmark from India 1998–2005).

The country studies show that a very *short time period* puts high pressure not only on management of the exit process but also on the possibilities for communication and interaction with authorities and stakeholders in the partner country. The Danish exit from Malawi was put under enormous time pressure because it had to be completed in less than half a year, and represents an exit from a force majeure situation (in this case caused by a change in Danish development policy). The negative consequences of this short time period will be discussed later in this chapter. The Swedish exit from Eritrea was also a clear force majeure situation, but the exit management was less challenging since the aid volume had already dropped prior to the exit decision.

The Netherlands also planned for *short- to medium-term exit periods*. In the case of South Africa the phase out plan was not implemented because the development cooperation relationship was continued. Nevertheless, despite the fact that the country exit decision was revoked, the exit from some specific sectors was implemented (youth, local governance and justice), while aid was expanded in other sectors (education) and new (regional) areas of attention were added (HIV/AIDS). For India, the time period for phasing out was limited to two years. This increased the pressure on exit management, and the laying off of development cooperation staff at the Embassy at the same time added to the pressure.

One exit process stands out in terms of *long-term planning*: the Danish exit from India, for which 10 years were planned originally in 1998, but

which was shortened in 2003 to seven years. This long-term planning allowed for careful consultation of all stakeholders and good monitoring of results.

### **Participatory vs. top-down planning and implementation**

The degree of participation in the detailed planning and implementation of phase out processes varies considerably. In extremely short phase outs (i.e. less than two years) – but also in exit processes that were not planned in detail – hardly any attention was paid to participation and consultation of stakeholders. This is not surprising for extremely tight exit processes where there is simply no time for participation, as is often the case in force majeure situations.

The country studies also revealed that there is a *clear relation between planning of exits and the degree of participation*. It is evident that the attention to exit planning in itself may stimulate consultation of key stakeholders. In the so-called natural phase outs no specific attention is paid to participation issues beyond that already integrated in the interventions. However, the comprehensive exit plans give due attention to proper consultation and participation of various groups of stakeholders at different levels.

Regarding participation in exit planning and implementation, a distinction can be made between various levels. The communication of exit decisions and interactions between various groups of stakeholders has already been discussed in Chapter 2, and the conclusion was that the climate for cooperation with development partner governments on exits differs considerably. Some countries saw donors' exit decisions as a natural and unavoidable process linked to their own graduation process, while others viewed it as a negative political statement on the part of the donor country. Some partner governments took little interest in the exit because the aid was seen as marginal, while others mobilised to reverse the decision or at least soften the consequences. Donors also reacted differently to recipient induced exit decisions – as the case of India illustrates. In this chapter the focus is on the participation of stakeholders at the sub-national level, but this is nevertheless influenced by interactions at the national level.

A main finding from the country studies is that at programme, project and sector level the degree of participation of stakeholders is a good indicator for a successful exit process. Of course, meaningful participation requires that initial plans may be adapted according to needs and that some flexibility in implementation is allowed. This is especially relevant to shifts in budget lines of projects, increased attention to capacity building, prolongation of technical assistance for some time, etc. All these needs were mentioned by different stakeholders in the various

programmes. In well-managed exits these needs were taken into account and integrated in the planning. It is observed that this may lead to a short extension of the project or programme. Good examples of participation were found in the Danish exit from India, the Dutch exit from Malawi and the Norwegian exit from Botswana.

#### **Participation in the Danish exit from India**

In 1998, Denmark drafted general principles for a phase out within 10 years and formulated specific sector/programme action plans for the period up to the end of June 2008. The Embassy started a broad consultative process of exit planning with all stakeholders involved. In this process, Denmark and the Government of India agreed on important principles for aid cooperation in the intermediate future, such as joint project reviews and considerable flexibility in the allocation of resources and the transfer of funds, in order to achieve a sustainable withdrawal and to transfer ownership of project activities to Indian partners (see Annex 6).

In the case of the Danish-supported Madhya Pradesh Women in Agriculture Project (MAPWA), Phase II started in February 2002 and was to continue until 31 January 2007. In Phase II MAPWA was rolled out to six new districts. This phase paid strong attention to, among others, strengthening the capacity of the General Extension Service (GES) to facilitate and secure the integration of MAPWA's training and extension approach into GES. The joint planning process of the second phase was followed up by a Joint Review Mission in 2004, at which point it had already been decided to shorten the Danish exit period to the end of 2005. The recommendations of this joint review mission consisted of clear guidelines for the shortened exit. On this basis, the original plan for Phase II was adjusted and implemented accordingly.

#### **Respect for ongoing agreements**

In force majeure type situations, ongoing agreements were found to have been cancelled by invoking the exit clause built into all bilateral aid agreements (normally allowing cancellation with a minimum of six months notice) – e.g. Denmark's exit from Malawi, but also the political decision of Sweden to end the bilateral agreement with India after the nuclear test in 1998. These two exits were the only examples where the exit clause was used to terminate ongoing legal agreements.

To avoid premature termination of ongoing agreements appears to be a good indicator for a successful exit based on principles of partnership, and that is why donors often opt for it. In the Swedish phasing out from traditional development cooperation in South Africa, respect for formal requirements by both parties was a key principle.

**Respect for ongoing agreements and flexibility: Norway's exit from Botswana**

Norway's basic strategy for its exit from Botswana in the 1990s was to gradually reduce traditional development assistance over a period of three years. Therefore, ongoing programmes had to be phased out without undue disruption during the period 1994–1996. In the same period, new projects for institutional cooperation in a new form could be phased in four selected sectors. Each of the sectors was handled differently, depending on Botswanan interests and the capacity of the Norwegians to find suitable cooperating institutions. In the health and road sectors, new types of institution-based agreements were developed. It seems that for all sectors the phase out period was gradually extended for much longer than initially envisaged.

**Respect for ongoing agreements: Dutch exit from Malawi**

The Royal Netherlands Embassy in Lusaka designed a careful exit process in 1999: activities were not cut short, though it was made clear that no new (follow-up) commitments would be made. It was decided that the new health programme (MHPN) would be allowed to run its course to completion over a period of five years. Likewise, another health programme (support to the CHAM) was planned to run its course and be phased out in 2001. The follow-up support to the College of Medicine was planned to be strongly focused on the transfer of skills and training of Malawian physicians, clinical officers, postgraduates and students. This programme even got an extension in 2003. The 30 other (small) projects and activities which the Embassy had been overseeing were completed within a three-year period.

However, respecting agreements involves not only what has been legally contracted but also commitments made during planning. In other words, how can one assess situations where extensive sector programmes, set to be signed, have been negotiated between donor and recipient country and the recipient country has included the support in its budget calculations, when the exit decision is taken? Denmark had well-prepared and extensive plans to continue support for the agricultural sectors both in Malawi and in Eritrea at the time of the exit decision. The consequences of the exit decision were far-reaching in both cases (see the next section).

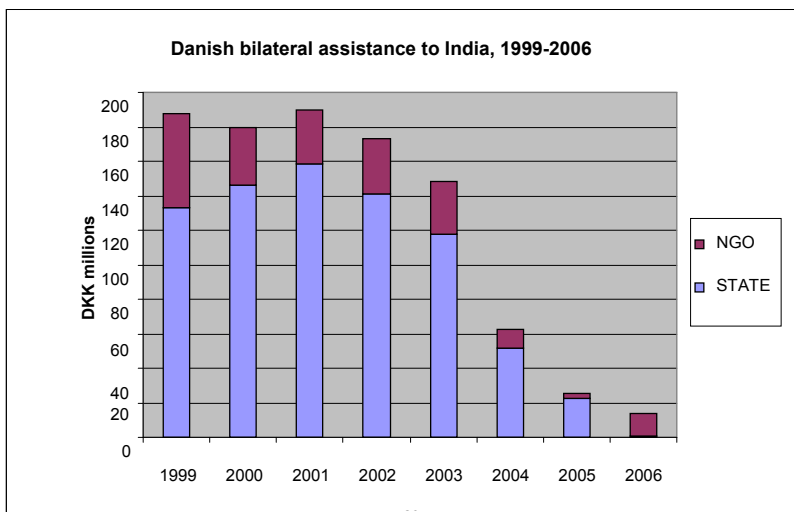
**Gradual or rapid reduction of financial assistance**

In line with the previous issues on timing and respect for ongoing agreements, donors may opt for a gradual or rapid reduction of the aid budget. In force majeure situations the aid budgets decline very rapidly. Otherwise, different disbursement patterns during exit processes were observed. This is displayed in revoked exit decisions (Denmark and Norway in the 1990s in the case of India), re-entry with new ODA-funded

forms of development cooperation (recently Norway in India and South Africa), and open-ended exits without clear timeframes. In fact, the country reports indicate that there is not always a clear relation between the timetables set and the reduction of financial assistance, especially in the case of South Africa. In Botswana long delays in reduction of aid budgets could also be noticed until the mid 1990s, despite donors' intentions to reduce aid, just as was the case for Denmark and Norway in India in the early 1990s. Moreover, the opposition and lobby against exit decisions (see Chapter 2) may explain why the reduction of aid budgets sometimes took longer than expected.

Another pattern is exemplified by the Danish exit from India. It is an important feature of this case that annual disbursements increased during the first years of the phase out (cf. Figure 3.1). Financial resources were not a constraint to Danida, and the objective of "phasing out in a sustainable manner" combined with a participatory planning approach resulted in both extensions of projects and the addition of new components. Only from the moment that an accelerated exit decision was taken in 2003, aid volumes declined rapidly. A similar trend was observed with the Netherlands in Malawi. After the exit decision in 1999, disbursements increased remarkably for two years. This happened because several agreements were in the launching phase at the time of the decision and were allowed to continue as planned.

**Figure 3.1 Trends in danish bilateral assistance to India**



### **Role of technical assistance**

The country reports indicate that in good exit plans a clear distinction is made between software (capacity building) and hardware (physical investments). For instance, in the Dutch exit from the water sector in

Gujarat, India, the extension of the contract for technical assistance beyond the project duration played a critical role in the proper management of the exit from this sector. Financial handing over was not really a problem but technical assistance required more time. In contrast, the more problematic Dutch exit from the education sector in Gujarat, neglected particularly the software components relating to innovation and capacity building during the exit. In the large majority of exits, insufficient attention is paid to the distinction between software and hardware because this would require pro-active management, which is often not carried through.

#### **Crucial role of technical assistance in the Dutch phase out of the water sector in Gujarat, India**

The Dutch decision in June 2003 to phase out its development assistance to India as quickly as possible was taken less than a year after the start of its SWAP programme for the water sector in Gujarat. The Government of India took over the responsibility for funding the financial assistance to the Water and Sanitation Management Organisation (WASMO) from April 2004 onwards. Dutch TA support to WASMO was not transferred to the Government of India and agreed to be continued until 31 December 2005 (original completion date 28 February 2007). WASMO, together with the Dutch consultant, prepared a revised work plan to facilitate the premature exit, and the Dutch re-negotiated the contract with the consultant accordingly. The adjusted work plan included a few additional training and capacity building activities to guarantee a smooth transfer. Both WASMO and the RNE assessed the role of the TA component within this project as extremely useful (“training of core team through TA”) and indicated that it was a core factor for the sustainability of WASMO after the early exit.

#### **Assessment of recipient capacity**

An important element of exit management is the assessment of capacity on the recipient side and, consequently, how to best tailor exits to the existing situation. The case studies show that this factor was extremely important in all situations. In India it was definitely the most important factor determining success. In India, government at federal and/or state level was willing and able to take over funding and management of development activities from the donors. In fact, in two other graduated countries, Botswana and South Africa, the recipients’ capacity also was the key to success. Despite these positive examples, it may be questioned whether this was always the result of good management. In some exits from graduated countries no clear assessment took place and capacity on the recipient side was taken for granted. In other exits (Norwegian exit from Botswana, Danish exit from India, Dutch exit from the water sector in Gujarat) proper assessment of recipient capacity took place

and was an important element in exit planning and implementation. The case studies in the graduated countries showed that a clear distinction should be made between financial capacity and technical capacity on the recipient side. The problem in graduated countries is often not the financial capacity but institutional capacity. All case studies in graduated countries pointed to institutional capacity problems, such as the high turnover of key staff in South Africa, the need for technical assistance in Botswana, and the need for training and capacity building in India. In those cases where a clear assessment of institutional capacity was made in the exit planning process, this led to convincing results. However, this aspect was frequently ignored.

The other side of the coin is shown in Malawi and Eritrea, where capacity on the recipient side was problematic. In these cases, proper assessment of recipient capacity would have been even more important. The Dutch exit from the health sector in Malawi shows that carefully planned exit processes with due attention to capacity issues at different levels allows satisfactory handing over to the government and to other donors.

### **Assessment of prospects for compensatory funding**

At the start of the evaluation it was expected that handing over to other donors would be an important element of exit management – but there is little evidence of this in the exit processes studied. Handing over to other donors played a minor role in graduated countries, although in India some of the Dutch projects that were prematurely exited were handed over to NGOs or to multilateral donors. Possible handovers to other donors were part of the Dutch exit plan but proved to be quite difficult in practice, mainly because donors work on the basis of multi-annual plans, which do not allow responding rapidly to exits of other donors. The majority of Dutch funded projects were handed over to the Indian authorities.

In poor, aid-dependent countries, Denmark had some limited success in mobilising other donors in Malawi. In the Dutch exit from the health sector in Malawi due attention was given to the handing over to other donors during the exit period of almost five years. The Eritrean Ministry of Education was successful in enlisting support of donors in the later phase of the Danish exit period, but the process did not involve Denmark.

It is rather remarkable that, despite the rhetoric around principles of donor harmonisation and alignment, most donors were not forthcoming or able to take over activities from other donors. One explanation offered relates to the issue of ownership, and that donors require a very explicit request from the recipient country to be willing to take over

activities from an exiting donor. However, this would not only require full ownership and agreement on priority setting but also very good interaction on exit planning and strategies. In practice, donors have to implement their own country strategies, which do not allow for flexible take over of activities initially funded by other donors. An interesting example is that of the Netherlands who opted for a silent partnership with DFID in the education sector during the exit from Malawi, which came as a surprise to the Malawian authorities because they understood that all Dutch aid would end. Malawi asked the Netherlands to continue support to the health sector through this silent partnership, but this was not possible as the support to the education sector was given in order to increase the share of education sector support in the Dutch aid budget.

### **Monitoring**

Good and careful monitoring of exits is extremely rare. In force majeure situations all attention is paid to rapid winding down of activities, often in conjunction with closure of the Embassy. In these situations, at least close monitoring of inputs does take place (the Danish exit from Malawi is a clear example). In most natural phase outs little explicit attention is given to monitoring of outputs and outcome – i.e. phase out with a focus on sustainability. Many interventions have relatively good monitoring systems including end-of-mission reports. However, despite the existence of these reports it is often not clear how they have been used in exit management practice, i.e. whether the reports were used to make changes in budget lines, give more attention to capacity building, extend technical assistance if necessary, etc. The best-documented exit in the evaluation was the Danish exit from India.

### **Role of the Embassy**

In force majeure situations the Embassy often has to be closed at short notice, which increases problems in exit management because Embassy staff is expected to play a key role in the exit process. In other types of exits closure of the Embassy also was a complicating factor in exit management, such as the Norwegian exit from Botswana. The closing of an Embassy is particularly problematic when the aim is to establish broader cooperation relations. In these situations the presence of an Embassy seems to be sine qua non for such relations. In six of the 14 exits studied the closure of the Embassy was a negative factor in exit management.<sup>15</sup> In most cases departure of development cooperation staff preceded completion of the exit process.

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<sup>15</sup> The fact that the Netherlands did not have an Embassy in Malawi was said to be an important factor in the exit decision.



But also in situations where embassies are kept open, which is the case for most graduated countries – with the exception of Botswana where Norway closed its Embassy and Denmark and the Netherlands never had one – Embassy staff is facing important challenges regarding exit management. The interviews made clear that the skills mix at the Embassy (e.g. science and technology attachés in India, cultural attachés in South Africa, etc.), the number of Embassy staff, and motivation of staff after exit decisions are important and are sensitive management issues that should not be ignored.

Several informants confirmed, informally, signs of tensions within embassies having to deal with phasing out and phasing in at the same time. The phasing in of new activities may proceed at the expense of sufficient attention to phasing out. In general, HQ tend to give more attention to new activities than to old ones. Moreover, development cooperation staff at embassies is often de-motivated by the exit decision and starts looking for other functions. This reflects the forward-looking nature of development cooperation. In those situations where new aid-related or broader cooperation activities are being phased in, Embassy staff is often more motivated to work on these activities.

### **Decisive attitude and clear leadership**

An analysis of the 14 exits shows that the best-managed exits have benefited from consistent and decisive leadership both at the level of HQ and of embassies. This implies that exit decisions are clearly communicated to different stakeholders in an appropriate way (see Chapter 2), and that sufficient room for participation and consultation is allowed without jeopardizing the exit decisions (unless there are clear reasons to do so).

### **Specific broader cooperation and transformation issues**

Within all 14 exits studied, nine took place in graduating countries that show characteristics of aid transformation cases. A specific characteristic of aid transformation is that it involves the phasing in of new types of broader or broad-based cooperation based on mutual interests, or the explicit promotion of the donor's own strategic interests (economic or political). For South Africa this also includes phasing in of new forms of development cooperation, especially regional and trilateral cooperation.

### **Phasing in while phasing out**

The case studies of India and South Africa indicated that the phasing out aspects of aid are not easily combined with phasing in. In general, phasing in easily gets more attention than phasing out. This was the case in the Dutch process in South Africa where aid in three sectors was phased out while the support to one sector was continued and a new

regional HIV/AIDS programme was started; but also for the Norwegian exit from India where an important new initiative started to reduce child mortality. In Botswana, on the other hand, the planned phasing in of new forms of institutional cooperation by Norway suffered because the Embassy was lacking capacity, while sufficient backing from headquarters was also missing.

Combining good management of phasing in and phasing out processes was also problematic in situations where the main aim was to transform relations from development cooperation to broader cooperation based on mutual interest (especially Swedish aid transformation processes in India and South Africa). In fact, in all nine aid transformation cases these difficulties were noticed to some extent. New activities tend to get more attention than activities that will soon be finished. Denmark and the Netherlands are somewhat confronted to a lesser extent with these aid transformation management problems, because, in principle, different staff are dealing with different types of cooperation.

### **Clarity of strategies and instruments**

Sweden developed a Policy for Global Development, in which the principles for broader cooperation involving various forms of institutional cooperation based on mutual interests were elaborated. Swedish stakeholders – both staff at HQ and at embassies in India and South Africa – state that the concept of broader cooperation has not yet been formally defined by the government. Therefore, there are many different views and definitions. Embassy staff in South Africa have been part and parcel of the debate on and policy development of the concept of broader cooperation. Part of the further development of the policy concept and its operationalisation is the development of the right mix of instruments.

Norway is also in a process of defining ‘broader cooperation’. The Netherlands seems to be ahead of the other donors in operationalising broad-based cooperation, as it is called by the Ministry of Foreign Affairs, because since 1996, the Netherlands has worked with the concept of an integrated foreign policy framework for all embassies, an integral part of which is development cooperation. The Netherlands also has developed specific non-ODA instruments for broader cooperation, which are available to India and South Africa. Sometimes these instruments need to be further adapted to the context of graduated countries. Denmark is working with a similar concept of broader cooperation, for example in the Denmark-South Africa strategy.

### **Funding: ODA or non-ODA?**

Another important issue is the funding of broader cooperation and whether ODA funding can be used. In general, Sweden and Norway still tend to use ODA funding for broader cooperation with graduated countries, while the Netherlands uses non-ODA funding. The issue of using ODA funding for activities in which donor countries also have a self-interest is quite sensitive. There are uncertainties regarding the use of some broader cooperation instruments in relation to both the principles of aid harmonisation and untying of aid. The requirement that ODA-financed institutional cooperation should involve institutions from donor countries creates the image of tied aid. Although OECD-DAC allows exemptions for middle-income countries where institutional cooperation with the donor is justified, this is problematic in practice. Therefore, the model of non-ODA funding for institutional cooperation with the Baltic countries is now being assessed to see whether this is applicable to other broader cooperation countries.

In Sweden and Norway joint funding is seen as an opportunity to gradually reduce ODA funding, while looking for opportunities to replace ODA funding with other sources of funding for important elements of broader cooperation to be pursued in the near future.

## **3.4 Consequences of exits**

Consequences of exit management proved difficult to study. Consequences of six country exits were studied in more detail at different levels and for different sectors. The main criteria for selection of the sectors in the five case study countries were: a limited number of sectors per country to allow for an in-depth analysis, interventions where donors – individually or as a group – have made a significant contribution, and illustrations of different types of exit processes<sup>16</sup>. The consequences of exits from the following sectors were analysed:

1. Danish exit from India: women in agriculture - Madhya Pradesh;
2. Danish exit from Eritrea: agricultural and education sector;
3. Danish exit from Malawi: agricultural and education sector;
4. Dutch exit from India: water and education sector in Gujarat;
5. Dutch exit from Malawi: health sector;
6. Norwegian exit from Botswana: roads and health sector.

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<sup>16</sup> The selection criteria were defined during the inception phase and are presented in the inception report.

## **Consequences at the level of implementing organisations**

The detailed studies of exit consequences at sector level indicated that there is a distinct difference in both positive and negative consequences for implementing organisations between graduated countries and poor, aid-dependent countries. In the three detailed case studies of exit consequences in graduated countries, no severe overall negative consequences were reported. On the contrary, in most cases a number of positive outcomes were observed: activities were already managed by government (e.g. Botswana) or taken over by government (e.g. India), budget allocations were made, project or programme approaches at community level were integrated into sector policies and strategies, etc. The Botswana case study reports a sustainable system of district primary health care of good quality and a well functioning Roads Department at the time Norway phased out its support, although problems in getting sufficient qualified manpower later surfaced (inter alia as a consequence of HIV/AIDS). Whether these positive outcomes were the result of exit processes is another complicated issue related to the counterfactual discussion, but in India as well as in Botswana there are clear indications that exit planning and management positively influenced the outcomes (e.g. water sector in Gujarat; roads and health in Botswana).

If negative consequences occurred in graduated countries they were related to problematic handing over (e.g. Dutch education support in Gujarat, India) or lack of bridging finance between end of project and start of funding through national budgets (e.g. Danish female farmers programme in Madhya Pradesh, India). Another perceived negative consequence is the discontinuity in the development of innovative approaches, which are considered a key element of development cooperation. This was pointed out in all case studies in graduated countries, but is rather difficult to substantiate. This is related to the concern, raised by Botswanan stakeholders in particular, that the phasing out of technical assistance should have been carried out in a more gradual manner.

In the three case studies in poor aid-dependent countries, the overall picture of consequences for implementing organisations is less positive. In the Danish 'force majeure' type situation in Malawi, the consequences at institutional level were disastrous, and the same applies to the Danish exit from the agricultural sector in Eritrea. In the latter case the Danish exit created a 40 percent shortfall in the agriculture sector budget, a major setback in agriculture sector programme development, and affected long-term agricultural research negatively. For Malawi, the Danish exit had the following negative consequences for implementing organisations: major setbacks in agricultural reform and secondary education reform. Nevertheless, the Danish shock treatment eventually also led to some positive spin-off, as the Natural Resource College, which

had received substantial Danish funding for quite some time, launched new initiatives to overcome the crisis.

However, not all exits from poor aid-dependent countries led to serious negative consequences. The Dutch exit from the health sector in Malawi and the Danish exit from the education sector in Eritrea are positive examples. In Malawi, a sustainable Health Management Information System was functioning when aid was terminated, while the College of Medicine, which had been supported, could also stand on its own after it succeeded in getting an extension of the initial five-year period.

### **Consequences at the level of beneficiaries**

Consequences at the level of beneficiaries are more or less similar to the consequences for implementing organisations. In Malawi, Denmark supported a nationwide umbrella organisation of local smallholders, which was let down completely. The pullout was very abrupt and created major frustration among farmers. The same applied to the Danish exit from the agricultural sector in Eritrea, for which it is concluded that food security was negatively affected by the exit.

In graduated countries, where aid is less important, some positive consequences were reported when the national authorities took over or even expanded the activities started by the donors. This was especially the case in India, where the extension approach towards female farmers was taken over, as was the community approach developed in the water sector.

### **Consequences at the level of bilateral relations**

It is evident that very abrupt, ill-communicated exits negatively affected bilateral relations, at least for some time. This was definitely the case for the Danish exits from Eritrea and Malawi. However, exits where expectations were raised for broader cooperation that were subsequently not fulfilled also negatively affected bilateral relations. Botswana is a case in point. Botswana was dismayed by the closure of the Norwegian Embassy. Botswana has been one of the few success cases in Africa but feels to some extent that it is punished for its success. All donors paid more attention to South Africa after the change of regime.

The Norwegian and Swedish transformation processes in Botswana fell short of objectives to broaden the cooperation relationship, despite a keen interest by the Government of Botswana to keep up relations. This is possibly best explained by Botswana's marginal position in economic and geopolitical terms. Apparently, there was no strong interest among Swedish and Norwegian companies and NGOs, but also a passive attitude on the Botswanan side. It is furthermore reported from the

Norwegian side that their Botswanan counterparts, although given the opportunity to influence the process, acted rather passively. Moreover, the Norwegian strategy, challenging as it was, was severely affected by the decision to close the Embassy in 1997.

**Danish exit from the agricultural sector in Eritrea: negative institutional effects result in negative effects at the level of beneficiaries**

In 1995, Denmark assisted with the development of a comprehensive sector support programme, the Agricultural Sector Support Programme (ASSP), implemented by the Eritrean Ministry of Agriculture. The Danish contribution to the total national budget for agricultural development was between 35 and 50 percent for the period 1996-2000. In 1999, Phase II of the ASSP was formulated for another five years of Danish support to the agricultural sector and received Danida Board approval in September 2001. As the contract for this new programme was not yet officially signed, Denmark chose to withdraw its support to the agricultural sector in line with its exit decision, despite the ASSP having been described as one of the more successful of Denmark's sector support programme partnerships. No allowance was made for phasing out of the programme, leaving the agricultural sector in Eritrea with a 40 percent shortfall in its national budget and no programme funding alternatives to this day. Under the ASSP, a comprehensive reorganisation process was initiated for the MoA to improve public service delivery to the agricultural sector. After the Danish withdrawal from the sector this initiative also came to a standstill. According to the researchers at the National Research Institute there were many negative consequences of the Danish withdrawal from agricultural research, such as the lack of production of improved seeds for small farmers and severe disruption of the plant breeding programmes. There are some other reported examples of the negative effects the cessation of the ASSP has had on poverty reduction and food security. Under the ASSP, a back yard poultry production programme was started for 10,000 war widows to support poultry value chains. With the demise of the ASSP, it is reported that these value chains have collapsed, and with this an important source of income for a very vulnerable target group. Also, as part of the national soil and water conservation effort, the ASSP financed one million person days of cash-for-work each year. This important source of income for the rural population also disappeared.

## Conclusions

## 3.5

### 1. No two exits are similar

From the study of 14 exit processes and their consequences one very important conclusion stands out: no two exits are similar. Exit processes are conditioned by political ramifications surrounding the decision to exit. Exits are conditioned by the context of the partner countries as well as the justifications and goals formulated by the donors for the

phase out process. The analysis of exit processes showed that a number of important factors that determine success can be distinguished.

The cases studied clearly reveal the asymmetry of power in aid exit situations for aid-dependent countries. The main response of recipients was one of accepting the decision as a *fait accompli*.

## **2. Limited attention for exit planning**

In the 14 exit processes studied only few elaborate exit plans were found, in the sense of a comprehensive document with a clear timeframe, guidelines on communication, indication on monitoring, step-by-step approach etc. ‘Natural phasing out’ was the most common model, which means that ongoing commitments are respected and activities are ‘faded out’ at the end of the contract period.

## **3. Critical factors of exit management**

From the cases studied, it is not possible to draw a firm conclusion that there is a correlation between the length of phase out and its success – beyond the obvious observation that time is critical and overly short timeframes have led to problems. The case studies suggest that in aid-dependent countries more time is required than in graduated countries.

Moreover, country exits demand time from already constrained aid coordination units on the recipient side, and there are weak incentives within such units to give priority to exits. This also applies to aid transformation agendas.

There is clear evidence that participation and involvement of the various groups of stakeholders, in particular on the recipient side, are key factors in a successful exit.

Respect for ongoing commitments is a common feature in most exit processes studied. In force majeure situations this is not always the case. There is a need to distinguish between cancellation of legal agreements and withdrawal from commitments made in the planning process. Although both actions are legally impeccable they clearly affect the recipient side negatively (e.g. the Danish exit from Malawi) when the exit process is short. In general, respect for ongoing agreements is an important factor determining success, especially in aid-dependent countries. This includes, as well, that attention is paid to commitments made in planning processes, even if not yet legally enshrined.

It was also found that flexibility to adapt the budget is another important factor in good exit management. This implies going beyond the ‘natural phase out’ approach to identify needs for adjustments in current agreements.

Institutional capacity on the recipient side is also a key factor determining success. This posed challenges to both sides. Donors sometimes tended to underestimate the capacities of the recipient, and in most cases did not carry out institutional assessments to identify any needs for capacity building to cope with the exit. On the side of the recipients, it was found in several cases that institutions underestimated or did not prioritise the need for good leadership in the management of exit processes.

The dependency on technical assistance varied greatly among recipient countries, but a general finding is that special attention should be given to this component of development partnerships in exit management. Furthermore, technical assistance played a vital role in strengthening institutional capacity and preparation for handing over in some successful exits.

The evaluation identifies donor capacity as a weak point in many exit processes and points to the critical role of the Embassy. A formal exit decision was often accompanied by pressure to reduce staffing at or even close embassies. Where this happened, the exit process was greatly frustrated. Even where the Embassy was not closed, there was a reduction in capacity relevant to exit management – i.e. staff with development experience was transferred (expatriates) or laid off (local staff). The simultaneous phasing in and phasing out in aid transformation cases created specific management challenges, especially at the level of embassies, that were often not given due attention.

#### **4. Critical factors of aid transformation**

In graduating countries, where aid transformation is on the agenda, the concept of broader or broad-based cooperation as used by Sweden, Norway and the Netherlands is not always well defined. Objectives are not clear. Moreover, the concept does not clearly indicate whether traditional forms of development cooperation can be part of this new approach. Instruments for broader cooperation are not well defined.

#### **5. Positive and negative consequences of exits**

Of the six exits of which the consequences were studied in detail, two exits caused substantial negative consequences. Both exits took place in poor aid-dependent countries (Danish exits from Eritrea and Malawi). Poor exit planning and management were evident factors influencing the negative outcome as planning was poor, exits were rushed, and no time was available for proper consultation and implementation.

Three of the four more successful exits took place in graduated countries and only one in a poor country. Good management of the Dutch exit from Malawi contributed to the success in terms of prepar-



ing recipient institutions for sustainable operation after the exit. The positive outcomes in graduated countries can only be partially attributed to good exit management. Obviously, the country context and the capacity on the recipient side were key factors determining success.

## **6. Different types of exits lead to different outcomes**

In summary, the case studies indicate that successful exits from force majeure type situations are extremely difficult to realise. Exits from aid-dependent countries may also be problematic, but may still be successful if the following conditions are met: a realistic timeframe, participation of stakeholders on the recipient side in planning and implementation, assessment of recipient capacity, flexibility to adjust existing agreements, and adequate skills and capacity on both sides to manage the process. The third type of exit process, the aid transformation situation, requires specific management skills in handling a combination of phasing in and phasing out. In Botswana the case study points to limited success, but for India and South Africa no clear assessment could be made, since the aid transformation processes in these countries are very much in progress.

# Chapter 4

# Towards guidelines for aid exit and transformation

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## 4.1 Different guidelines for different processes

This chapter builds on the typologies presented in Chapters 1 and 2 and on the findings with respect to exit management and exit consequences presented in Chapter 3. The purpose is to distil lessons that provide pointers to donors considering formulating guidelines for exit management. Apparently, there is increased recognition that the issue of exit has been overshadowed for too long by the constant search for new entry points for aid. Various factors have contributed to this, of which the quest for greater concentration of aid and division of labour among donors deserve to be mentioned.

## 4.2 Recommendation: need for country specific pre-exit assessment

An important starting point for exit planning is a diagnosis of the country context. Bilateral donors do this all time but with the lens mainly focusing on qualifications for receiving aid and attaining partner country status. Turning the lens to aid exit and transformation, distinguishing between the following types of contexts, would be useful:

1. exit from countries graduating from, or not having, LDC status but remaining important bilateral partners for donor countries (e.g. South Africa, China, India);

2. exit from countries graduating from LDC status who are less important bilateral partners for donor countries (e.g. Botswana, countries in Latin America);
3. exit from poor aid-dependent countries with a relatively limited number of donors (e.g. Malawi, Niger);
4. exit from so-called ‘difficult partnerships’ – e.g. fragile countries and/or countries in conflict (e.g. Eritrea, Democratic Republic of Congo);
5. exit from poor aid-dependent countries with a large number of donors and established mechanisms for donor coordination (e.g. Mozambique, Tanzania).

### **Factors to consider in pre-exit assessment**

Assessing the country context for exit management may include the following elements:

- What type of country is it (with reference to the categories above)?
- What type of exit management process is it (with reference to the three types: (i) exit from a force majeure situation, (ii) exit from a poor, aid-dependent country under conditions that allow for proper planning, and (iii) exit from a country no longer aid dependent involving a transition to broader non-ODA relations)?
- What is the likely climate of cooperation during (and after) the phase out?
- What are the main characteristics of the current country programme?

The purpose of this assessment is to sensitise decision makers to the specific ramifications of each aid relationship. Simple blue prints for exit management have to be avoided. As this evaluation shows, there is a tendency that changes in overall aid policies (e.g. aid concentration) translate into uniform approaches with little sensitivity to country contexts. Furthermore, the climate for cooperation with development partner governments on exits differed considerably. A pre-exit assessment should try to gauge the likely response of key stakeholders in the partnership.

### **Recommendation: Make exit management guidelines sensitive to three types of exit processes**

From the evaluation, one very important conclusion stands out: no two exits are similar and thus there cannot be one simplistic set of guidelines for all situations. Besides different contexts for exit management, as in-

## 4.3

licated above, guidelines need to be sensitive to the fact that exit processes also represent different goals (or sets of goals). Based on the cases studied in this evaluation, a generic distinction between three types of exit processes was found useful, as they represent distinctly different management challenges. Donors may opt for separate guidelines for:

- Exit due to a force majeure situation. The main management objective is *to exit quickly but orderly*. Political imperatives will dictate the timeframe available for an orderly phase out, and one may be talking about a few months only. When relations between development partners break down, the primary goal is to minimise damage to ongoing activities and beneficiaries involved. Exit management is likely to be hampered by communication constraints. Exit from aid-dependent countries. The main management objective relates to ensuring, as far as possible, *post-exit sustainability of activities and institutions supported*. Evidently, aid-dependent countries represent specific challenges in this respect. Not least, there is a need to find alternative financing in most cases. The cases studied show that exits from aid-dependent countries can take place at a point in the development partnership where the development targets defined for different aid interventions have not been met and sustainability of investments cannot be ensured;
- Exit from graduating countries. The main management objective is the *transformation of relations*. Sustainability of investments is obviously an issue, but the evaluation shows that in this category recipient countries are quite prepared for the phasing out of aid, although there are issues to be considered (see below). The main issue from a donor management perspective is how to handle the process towards a ‘broad-based relationship’, which comprises the broadening of the ‘assistance’ dimension to include areas flanking conventional development cooperation (e.g. access to global markets), and this involves an explicit recognition of strategic interests of the donor, e.g. in economic, political and cultural relations as well as climate policy and security. New ways of using ODA funds makes this an aid transformation process as well, combined with finding non-ODA instruments applicable to the goals for broader cooperation – political, commercial or cultural. There are special challenges associated with the combined management of phasing out of some forms of aid and phasing in of new ones.

## 4.4

### **Recommendation: adopt a more ‘business like’ attitude towards aid exit**

The *realpolitik* of country exits calls for a more ‘business like’ attitude towards aid exit. Rather than pleading to notions of partnership, one

needs to establish firmer rules for the game – which, importantly, have to protect the interests of both parties. A reasonable but firm framework is a good basis for negotiations of concrete action plans for phasing out.

This resonates with the ongoing debate in the wake of the Paris Declaration on Aid Effectiveness of the concept of ‘mutual accountability’. This evaluation points to the need to also include exit management in this equation. The cases studied clearly reveal the asymmetry of power in aid exit situations for aid-dependent countries. Mutual accountability implies addressing some of this imbalance by formulating guidelines for good donorship in exit management.

## **Recommendations for exits from force majeure situations**

## **4.5**

The evaluation points to a principal issue: can changes in a donor’s aid policy justify creating a force majeure exit? There are many examples of development partnerships being sacrificed for other strategic political reasons – on both sides. In view of the increased coupling of development policy with other foreign policy objectives, a type of recommendation from this evaluation emerges:

- There is the need for raising a debate in donor circles on how to prevent force majeure type exits in particularly vulnerable countries (i.e. type 3, 4 and 5 above).

When quick exits are unavoidable the following should be considered:

- exit decision to be communicated at the highest political level possible;
- verify all standing legal obligations; this applies to bilateral agreements as well as contracts entered into with suppliers, contractors and participating organisations;
- if the situation necessitates breaking existing agreements, the justification should be carefully elaborated and made public, and the legal recourse explained;
- identify programmes/projects/activities where the need for alternative funding is particularly critical;
- develop detailed phase out and disbursement plans for each activity/agreement;
- inform other donors of the situation with a request to look into the possibility of replacing the exiting donor;
- investigate available options for providing aid through non-governmental or multilateral channels – this is particularly important where a humanitarian crisis prevails;

- mobilise consultancy/auditing companies and/or NGOs to tie up loose ends in the phasing out;
- establish a mechanism for monitoring consequences of the phase out and the coping strategies adopted by recipient institutions; this is probably best done by research institutions or competent NGOs able to operate independently.

General guidelines for force majeure situations can be further elaborated by studying other relevant cases. It is evident that the likelihood of this type of exit is the highest in countries representing what OECD-DAC has labelled ‘difficult partnerships’. It is illustrative of the lack of attention to the exit perspective that the work plan of the OECD-DAC working group on this issue does not mention exit or phase out at all. The entire focus is on aid allocation and aid coordination.<sup>17</sup>

## 4.6 Recommendations for exits from aid-dependent countries

The following recommendations are relevant for donors contemplating exits from aid-dependent countries.

Improve on communication:

- *Give early warning.* What appears to be a missing dimension in most of the exit cases studied is an early warning. Because of the politicised nature of exit decisions they often come as a surprise to the partner. The emphasis placed on predictability and long-term commitment as key features of good donorship should translate into a closer dialogue on and joint preparation for forthcoming exits. The time taken helps all parties involved to adjust gradually;
- *Ensure high level involvement.* Exit decisions are politically sensitive. Therefore, at critical stages in the process, efforts should be made to involve high level government representatives – preferably at the level of cabinet ministers. Sometimes it is essential that high level visits to the partner country are made to explain the exit decision itself. Even though it is a unilateral decision by a donor, it is important that the exit decision is not communicated as a *fait accompli* with no room for negotiations. High level delegations may also get involved in negotiating the exit strategy;
- *Avoid confusing messages.* Objectives and targets for the exit process have to be spelled out clearly. The attention to proper phasing out can easily be diverted by other policy agendas of the donor country.

<sup>17</sup> OECD-DAC. Joint Learning and Advisory Process on Difficult Partnerships. Workplan. 2003. [http://www.oecd.org/searchResult/0,3400,en\\_2649\\_33721\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/searchResult/0,3400,en_2649_33721_1_1_1_1_1,00.html).

Keeping the door open to various alternative types of aid and modes of cooperation may send confusing signals to recipient institutions;

- *Provide time for participation.* A transparent and participatory process involving key stakeholders – on the recipient and the donor side – is essential. The case studies point to the importance of good communication and consultation after the political decision to exit is made known. Time has to be set aside for joint planning, and the evaluation shows that this can be both time consuming and involve difficult negotiations;
- *Make a communication plan.* It is recommended to develop a communication plan at an early stage in the process. This means identifying stages and actors in a process that allows for negotiations on terms and conditions for the phase out, timing and finance as well as mode of support. The communication of the exit decision to Embassy staff is also important and their role in the exit process should be clearly defined. They play a central role in the management of the exit process.

Set country specific timeframes:

- *Avoid setting a standard timeframe.* Aid policy makers would obviously prefer a rule of thumb figure in line with what is suggested by Sweden in its draft guidelines for country exits, namely phasing out within a period of two to four, preferably three years. In this study, no justification for explicit figures was found. It is not possible to conclude from the cases studied that there is a correlation between the duration of a phase out and its success, beyond the obvious observation that time is critical and short timeframes have to be avoided. The appropriate length of the period depends first and foremost on the institutional capacity of the recipient and prospects for mustering alternative funding;
- *Develop time bound exit plans.* There is the concern that long exit periods may create ample space for delayed rather than gradual phase outs, given that key stakeholders are often keen to prolong the aid relationship unabated, and the cases studied show examples of such lobbying. It is recommended to develop clear time-bound plans, taking into account the need for variable speed of exit at activity level.

Assess capacity constraints of recipient:

- *Be realistic about the recipient's capacity for dialogue with donors.* Country exits demand time from already constrained aid coordination units on the recipient side, and there are weak incentives within such units to give priority to exits. This also applies to aid transformation agendas. The implication for donors is to be realistic about time;



- *Support capacity building for coping with aid exit.* Exiting donors have to take account of weak response capacity in partner institutions. Donors have made institution building an important aspect of most aid interventions. It has been acknowledged that this is a gradual and inherently time consuming process. The phasing out of such engagements requires similar sensitivity to the capacity requirements for managing donor exits. One important issue is to prevent a sudden exodus of skilled personnel from recipient institutions, either because they were aid funded or they leave for ‘greener pastures’.

Mobilise required capacity for exit management:

- *Postpone closing of Embassy.* It is recommended to wait closing an Embassy, if needed, until the later stages of the exit process. This study confirms the critical role of the Embassy in exit management;
- *Retain experienced Embassy staff.* Good exit management includes proper staffing. There is a need to retain experienced staff, both international and local, at the Embassy. Since exit decisions are often linked to general aid policy, alterations of staffing tend to follow. While this may be justified in the long term, it is critical in the short term to ensure continuity in inter-personal relations with key partner institutions for exit management;
- *Special skills required.* It needs to be acknowledged that phasing out in a ‘responsible manner’ is no less demanding on the donor than regular management of an ongoing partnership, at least in the early stages. In addition, there is a need for accessing a new type of knowledge. Therefore, it is recommended that donors consider *forming ‘exit task forces’*. They would be HQ-based ‘fire brigades’ that can assist embassies/partners faced with this new challenge. In this way one may also better facilitate transfer of lessons between exit processes.

Develop both legal and ethical standards for termination of aid partnership:

- *Respect for principal legal obligations.* If this principle is negated one is within the realms of a force majeure situation. Still, it may be in the interest of both parties to renegotiate some of the existing agreements to better adjust to a phase out scenario, which was not contemplated at the planning stage. Current standards for country partnership agreements, as well as project/programme agreements, can be improved to better cover the issue of planned exit;
- *Respecting legal obligations is not always enough.* The donor carries a special responsibility for carefully assessing the consequences of withdrawing from commitments signalled in joint planning processes,

even if not yet legally binding. The recipient will need to adjust expectations of forthcoming financing that will not be fulfilled. This is particularly difficult if planned renewed phases of cooperation are aborted.

Differentiate between types and extent of involvement:

- *High volume involvement implies added responsibility.* The volume aspect should be considered not only in absolute terms but also relative to the total resource flow. Exiting from a position as major donor to a sector or institution carries a special responsibility. This may translate into a longer phase out process and assistance to the recipient in soliciting replacement financing;
- *Engagement in sector and policy reform implies added responsibility.* Exiting from an engagement promoting major policy reforms also carries a special responsibility, and is likely to require a longer time horizon to ensure that the process does not collapse. Ensuring continued support to key drivers of the reform process is vital;
- *Distinguish between hardware and software.* There is a need to make a distinction for phasing out at programme and project level between physical investments (infrastructure and equipment) and human and institutional development. The latter often involves extensive use of technical assistance personnel and long-term training programmes. Hence, phasing out requires more time and cannot be replaced by other donors as easily as, for instance, supply of equipment or financing of construction.

Ensure some flexibility in implementation of exit strategies:

- *Also allow for learning in exit processes.* To phase out in a ‘sustainable manner’ implies that the process is dictated by monitoring of outcome indicators rather than a pre-set timetable, which calls for flexibility in management and implementation of the phase out. This puts an obligation on the donor to adjust to the feedback from *monitoring of output and outcome indicators*;
- *Develop a ‘tool kit’ for aid exit instruments.* This should include examples of remedial actions taken in previous exit processes – such as adjustment of work plans, revision of output targets, introduction of other channels of aid and new aid modalities – without losing sight of the objective of terminating government-to-government aid;
- *Identify ‘best practices’ for securing replacement funding.* This is a critical element in aid-dependent countries, and special efforts are needed by the exiting donor to assist local counterparts in mobilising alternative funding. The exiting donor may assist local institutions in negotia-

tions with its own government, and it may assist government in approaching other donors. The donor may also venture into so-called silent partnerships with other donors or support international fund raising efforts. The bottom line is that this requires commitment and the right capacity at the Embassy;

- *Be aware of conflicting interests of different stakeholders.* The analysis indicates that a broad range of stakeholders have interests in exit processes. Good exit management should be accompanied by a proper stakeholder analysis.

## 4.7

### **Recommendations for aid transformation in graduation countries**

Be realistic about the scope for broader relations:

- *Mutual interests may not exist.* It arises clearly from this study that transformation of relations towards something more 'broad-based' has to be rooted in genuine mutual interests. Hence, donors are advised to carefully assess the prospects and potential for such interests if the receipt of aid is removed as a motivating factor. This equally applies to northern stakeholders;
- *Clarify what is meant by broader cooperation.* There is a need to elaborate the concept of broader or broad-based cooperation as used by Sweden, Norway and the Netherlands. Objectives are not clear. Moreover, the concept does not indicate whether traditional forms of development cooperation can be part of this new concept.

Ensure capacity for managing aid transformation:

- *Simultaneous phase out and phase in should be carefully planned.* While new types of cooperation are obviously part of a process of aid transformation, there has to be a staggered approach coordinated with clear phase out plans for traditional forms of development cooperation to avoid an overload of management task;
- *Need for specialised competencies.* Transforming aid relations and broadening bilateral relations in countries requires specialised Embassy staff with different competencies than are needed for phasing out traditional development cooperation. One should consider developing a roster of personnel in the development agency with extensive experience in aid transformation.

Need for new ODA and non-ODA instruments:

- *Synthesis lessons learnt from extending institutional partnership into a post-aid setting.* Mechanisms for stimulating such processes are not yet well developed. Experiences show that some partnerships are unsustainable, while others require special efforts and commitment by Embassy staff and ‘champions’ in the partner organisations to make the transition. It is evident that publicly funded institutions have problems securing funds from their regular budget to engage in north-south cooperation. There is a need to develop forms of non-ODA funding that can be used to stimulate cooperation in former aid recipient countries in the south. The Netherlands has different forms of non-ODA funding available for various forms of institutional cooperation (economic, political, scientific and cultural);
- *Scope models for co-financing.* Instruments for broader cooperation are not well defined. Current discussions on co-financing involve more or less equal contributions from partner institutions on both sides, and some good examples have been reported. But, difficulties in the governance of such funds have also occurred, especially with how to execute joint decision making. There is a need to look more globally for workable models for co-financing.

## Explore options for addressing exit at entry

## 4.8

For several decades partner countries were mainly selected on the basis of political stability and affinity. Partnerships were conceived of as long-lasting cooperation based on project funding. The risk of deterioration of relations was considered small. It was an indefinite process of phasing in and phasing out projects. With recent trends of closer linkages between aid and foreign policies (the ‘coherence’ argument), emphasis on fragile and post-conflict countries, governance assessments, and involvement in reform processes – and related use of conditionality – the frequency of country exits is likely to increase.

Many bilateral donors argue the need for concentration on fewer partner countries. Recently (2007), political statements to that effect were made by the governments of Sweden and the Netherlands. Sweden decided to reduce the number of partner countries with bilateral government-to-government aid from 67 to about 30, and guidelines have been formulated.<sup>18</sup> The Netherlands has announced phasing out from seven partner countries, and continued attention to concentration

<sup>18</sup> Ministry of Foreign Affairs. ‘Et fokuserat bilateralt utvecklingssamarbete’. 27.08.2007, Stockholm. See also Ministry of Foreign Affairs. ‘Guidelines for Phase-out Strategies/Plans’. 18.10.2007.

of aid as a means of enhancing effectiveness.<sup>19</sup> It should be acknowledged that Dutch attention to aid concentration is not new, and the first important aid concentration decision was taken in 1999 when 19+3 partner countries were selected. Since that time, new governments have continuously made changes to the list of partner countries. The Danish Government stated its commitment to further concentration of aid and division of labour among donors and two exit countries where mentioned (Vietnam and Bhutan).<sup>20</sup> The Norwegian Government, in its budget proposal to the Parliament (October 2007), confirmed the need to promote division of labour among donors and underscored a focus on special areas where Norway has comparative advantages. The implications in terms of exits from current partner countries or sectors were not made explicit.

The recommendations of the Paris Declaration on Aid Effectiveness on concentration and division of labour will further exacerbate the trend towards more frequent exits. Hence, a general recommendation arising from this evaluation is for *donors to treat exits as an integral element of country strategies more proactively*.

Knowing that aid exits from aid-dependent countries can have major consequences, donors have a responsibility not only to exit in a 'responsible' way but also to *minimise the likelihood of difficult exits*. As a kind of meta-conclusion from this evaluation, aid policy makers are encouraged to address the following three issues more forcefully:

- How far should donors go *in coupling aid and foreign policy concerns* in their choice of partner countries? Many donor countries in the past (and some still today – e.g. Japan) had restrictions preventing the use of aid as a foreign policy instrument. Donor agencies were also more independent of the Ministry of Foreign Affairs. When politically unstable countries with weak and often corrupt administrations are topping the lists of aid recipients, the likelihood of difficult exits becomes much higher. There is the concern that politicisation of aid, resulting in a higher level of aid volatility, may result in punishing only the weakest;
- Do donors *disregard the issue of exit in the choice of aid modalities*? It is evident from the evaluation that the sector approach, which is meant to increase ownership and reduce transaction costs, can make a recipient more vulnerable to aid exit, at least when a major donor pulls out. Aid provided 'on budget' – through sector budget support or general budget support – has obvious advantages for development

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<sup>19</sup> Ministry of Foreign Affairs. 'Our Common Concern. 'Investing in development in a changing world'. 16.10.2007, The Hague.

<sup>20</sup> Ministry of Foreign Affairs, 'A World for All, Priorities of the Danish Government for Danish Development Assistance 2008–2012'. August 2007, Copenhagen.

planning but increases the vulnerability of partner countries in the event of exits. Therefore, donors should realise that the choice of aid modalities has consequences for their exit strategies;

- Do donors *overlook the trade off between influence and responsible exit?* This raises the issue of relative size of contribution. Donors are often too eager to spend, and aid becomes supply rather than demand driven. Donors often seek influence through the power of the purse. This enhances the prospect for difficult exits. A lesson from this study is for donors to avoid getting into a position as financier of last resort. Hence, this concern may run counter to strategies for further concentration of aid.

# Annex 1

## Terms of reference

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### **1. Introduction**

The following are the terms of reference for a joint evaluation of country level exit processes in development co-operation. In each of the cases under review it seeks to understand how partner country development activities and partner country development more broadly have been affected by the withdrawal of donor support. The evaluation assesses results in relation to the timing and management of exits and looks at the conduct of exit processes in relation to established models for development co-operation partnership.

The evaluation is sponsored by four countries: Denmark (through the Ministry of Foreign Affairs), the Netherlands (through the Ministry of Foreign Affairs), Norway (through Norad), and Sweden (through Sida). Based on case studies, it looks at wholesale or partial exits by these countries from bilateral government-to-government development co-operation programmes with a number of countries in Africa and Asia - Botswana, Eritrea, India, Malawi, South Africa and another country still to be identified. While some of the exits to be reviewed have been completed, others are ongoing. The evaluation is undertaken for the purpose of mutual learning on an important but largely unexplored set of development issues.

The evaluation is conducted under the guidance of the evaluation departments of the four sponsoring agencies. Sida acts as lead agency in the management of the study.

## 2. Background

Exits from development co-operation, whether at country, sector, or project level, tend to be complicated and difficult for everyone involved.<sup>21</sup> A standard recipe for minimising exit problems is that the partners should formulate an explicit exit strategy as early as possible in the co-operation process, preferably at the initial stages of planning and design.<sup>22</sup> It is at this point that mutual expectations are established and the basis for a working relationship created. By clearly spelling out criteria and mechanisms for disengagement, and designing the co-operation with the ending clearly in view, partners can avoid difficulties later on, or so it is argued. Neglect of key questions about when and how the support should be phased out can lead to misunderstandings and is likely to impact adversely on development results.

While often sound in principle this approach to exit may not be easy to apply in practice. Development co-operation initiatives take place under constantly changing conditions and are rarely implemented exactly as intended. As a result the exit strategy formulated at the beginning may have to be revised. At country level the blueprint model may often seem altogether inappropriate. While time limits are sometimes fixed at entry point, they are often deliberately left undefined. In many cases blueprinting the co-operation process would be regarded as outright counterproductive, technically or politically.

In practice, the exit issue is usually managed through a mixture of contractual agreements and additional understandings negotiated on the way. At project and programme levels formal agreements rarely cover more than three to five years, which is often less than the expected life time of an intervention, and at country level there are usually also no binding provisions for a long-term engagement. From a formal point

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<sup>21</sup> In the context of this evaluation the term exit refers to the partial or wholesale cessation of development assistance (funds, material goods, human resources, technical assistance, etc.) provided by an external donor to a country or programme or project within a country. One or both of the development co-operation partners may initiate an exit. Note that by this definition an exit is by no means the same as the ending of all relationships between the development partners. As in the case of South Africa's relationship with Sweden or Norway, the termination of traditional development assistance may go hand in hand with efforts to establish a new type of relationship based on more symmetrical forms of interchange.

<sup>22</sup> Following Rogers and Macias, an exit strategy is an explicit plan comprising the following:

- specific criteria for graduation of the supported entity and the termination of support;
- specific and measurable benchmarks for assessing progress towards meeting those criteria;
- identification of actions to be taken to reach the benchmarks and a clear division of responsibilities with regard to those actions;
- a time frame for the intervention, with necessary provisions for flexibility, and
- established mechanisms for periodic assessment of progress towards the criteria for exit and for possible modification of the exit plan.

Rogers, Beatrice L., and Kathy E., Macias. 2004. Program Graduation and Exit Strategies: Title II Program Experiences and Related Research. Food and Nutrition Technical Assistance Project (FANTA). [www.fantaproject.org](http://www.fantaproject.org).



of view the exit option appears to be the default option. At the end of an agreement period the question before the partners is not so much whether they should disengage from the relationship as whether they should formally extend the relationship and enter into a new phase of co-operation.

This arrangement can be seen to contain within itself a strategy for exit whereby the partners agree to proceed in a step-by-step fashion, periodically giving themselves an opportunity to reassess their options. Such a strategy is particularly useful to the donor. While allowing the donor to withdraw from the relationship – or let it lapse - at fairly short notice, it makes the recipient's situation less predictable and more vulnerable than under a long-term agreement. There are barriers to donor exit other than those formalised in contracts, no doubt, but even so the relationship between donor and recipient is an unequal one requiring a great deal of circumspection and trust on both sides.

There are several types of reasons why a donor may exit from a partnership or intervention. At country level the following would seem to be the main ones<sup>23</sup>:

- Mission accomplished. The recipient country has developed to a point where it is no longer considered eligible for development assistance. It has 'graduated'. This does not necessarily mean that the projects or programmes supported by a particular donor have all achieved their goals. As the criteria for eligibility to development assistance are set with reference to country level indicators, projects and programme may still have some way to go
- Lack of progress: There is a perceived lack of progress toward final or intermediary objectives, or a failure to demonstrate results. The donor decides unilaterally or in consultation with the recipient that prospects for improvement are not good enough.
- Better use of funds: The donor decides that support to a particular country should be discontinued in favour of an alternative use of resources that promises to bring higher rates of return. The donor may or may not be dissatisfied with the country programme selected for exit, although the question of phasing out and exit is of course more likely to be raised with regard to a poorly performing country programme than one that performs better.
- Change of donor priorities or modes of operation: a country may become ineligible for support as the donor organisation revises its policies or changes its modus operandi. For example, the concentration of Dutch development assistance in recent years has resulted

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<sup>23</sup> For an in-depth review of donor motivations for exit see the preparatory study Review of Donor Principles and Practices for Exit by Claes Lindahl and Lars Ekengren. ([www.sida.se/exitevaluation](http://www.sida.se/exitevaluation))

in numerous exits from countries as well as projects and programmes within countries.

- Breach of agreement: A donor may decide to exit as a result of its partner failing to honour contractual obligations or mutual commitments, as when a donor country withdraws from co-operation with a government that fails to respect human rights. In cases like this the exit is often not intended to be irrevocable, but is rather a temporary means of influencing partner country behaviour when dialogue does not seem to work.
- The recipient has asked the donor to exit wholly or in part. A prominent recent example is India's request to smaller donors that they direct their support to civil society organisations. There are also cases of governments breaking the relationship with donor countries that are felt to be interfering in domestic affairs.

Regardless of the reasons for exit, disengaging from a county level development co-operation partnership is rarely simple. Even in the case of graduation it can be difficult. For example, there is likely to be a question about the social capital and the local know-how that have been built up over years of co-operation and that may not be transferable to any other country. Should those assets be allowed to rust and disintegrate? Would it not be better to put them to further productive use? After all, in many cases graduation is not quite the same thing as the end of poverty. A country that has graduated may still benefit from support.

Other scenarios are more complex still. For instance, what are the practical implications of unsatisfactory performance? Should the donor withdraw or should he redouble his efforts? In some cases exiting would be the best option, in other cases staying on might be better. Similarly, a lack of respect for human rights on the part of the partner country government may not be a good reason for exit in each and every case. What if maintaining the relationship might better serve the purpose of development? And what about the citizens who would be deprived of support if the donor decided to leave?

The actual phasing out of the engagement is also a challenge, especially where many separate programmes and projects are affected. For each intervention the phasing out may involve the disengagement of staff, the closing down of physical structures, the sale or handing over of vehicles and other assets, the closing of accounts, auditing, transfer of records and so on. Normally there would be both winners and losers, some happy with the outcome, others not. Organisational skill, communicative competence, and goodwill are required on all sides. Ineptly managed the phasing out may undermine what has already been achieved, well managed it may ensure that those results endure. Although exit is the closing event in any development co-operation

process it is not much studied. Every development organisation and, no doubt, every country receiving development assistance has had its own internal debates on exits and exit policy. Yet the conclusions from those debates are rarely put on paper and properly analysed for a wider audience. Development agencies and other actors know relatively little about how exit issues are discussed and managed outside their own organisations. As a result they have few opportunities to learn from each other.

The present evaluation aims to provide a remedy to this unsatisfactory state of affairs. It is an opportunity for the sponsoring agencies and their developing country partners to share experiences and learn from each other. Hopefully it will also be found useful in the wider development co-operation community.

Further details on the background of the evaluation, including the preparatory Concept Note and the Review of Donor Principles and Practices for Exit, can be found in the documents posted at the evaluation web site: [www.sida.se/exitevaluation](http://www.sida.se/exitevaluation)

### 3. Purpose

As stated above, the purpose of this evaluation is to facilitate mutual learning on issues of exit from development co-operation partnerships at country level. Although primarily catering for the information needs of its four sponsors, it is also expected to be useful for the developing countries participating in the case studies.

The evaluation deals with two broad issues. One is the importance of the management of country level exit issues for *development effectiveness* and *sustainability*.<sup>24</sup> In each of the cases reviewed, it seeks to understand how the results of supported development activities – outputs, outcomes, and (as far as possible) impacts – have been affected by the exit. As the activities supported by any particular donor belong to a larger programme of the host country government, it also considers how the exit may influence partner country development more broadly.

The second main issue to be considered by the evaluation is about country level exit and the *management of development partnerships*. Here the main question is whether the exit practices recorded in the case studies are consistent with established principles of partnership and mutuality in development co-operation, and, if not, what the remedies might be. As it is generally assumed that a well-functioning partnership with rights and obligations clearly defined on both sides is conducive to good devel-

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<sup>24</sup> Exit management is an inclusive term that refers to all kinds of measures taken to ensure a successful ending of a development co-operation programme. Looking at the exit management process as it unfolds over the entire programme cycle we may distinguish between four principal phases: 1) preparations for exit at the design stage; 2) updating of exit plans during implementation; 3) decision on date and timing of the exit; and 4) the eventual phasing out of the support.

opment results, the two issues are clearly interconnected. However they are not identical. The issue of adherence to partnership agreements and values goes well beyond the development effectiveness issue. Similarly, the issue of the influence of exit practices on development results is in its own way broader than the partnership issue. In the one case we look at partnership as a principle to be honoured in its own right, in the other case we look at it as a means of making development co-operation more effective and more relevant to partner country needs.

#### **4. Scope and limitations**

The evaluation will be based on case studies of country level exits in countries where all the four donors sponsoring the evaluation have had a substantial bilateral development co-operation programme and where one or several of them have exited from this programme, entirely or in part. To facilitate mutual learning, countries where only one or two of the four sponsoring countries have had such a programme have not been included in the study. Had the sponsoring countries been free to select cases solely on the basis of their own particular interests, all of them might well have preferred a slightly different country sample.

The case study sample is not based on any particular model, typology, or theory of exit. However, although it is not likely to be statistically or theoretically representative of a larger universe of exits, it comprises a wide variety of exit experiences and seems well suited for the assessments required by the evaluation. As described below, the sample includes 14 country program exits (complete or partial) and 6 contrasting ‘non-exits’ in five different countries. Note that the number of exits may increase with the possible addition of still another case study country later on in the evaluation process.

The sample units are exits from bilateral country-level development co-operation programmes. As a country level programme consists of support to a number of projects and programmes in different sectors, however, exits from such interventions are also covered by the study. Indeed assessing the impact of exit and exit management on the development results of projects and programmes is an important element of the evaluation.

The evaluation does not cover exits from multilateral programmes and partnerships with civil society organisations. Donors disengaging from a bilateral partnership may reallocate their support to NGOs or to programmes managed by international development banks or other multilateral institutions. Similarly, as in the case of India, a recipient partner country government may request donors to direct their support to NGOs or to channel it through multilateral programmes. Such moves can be important elements of exit strategies and should be examined as

such. The evaluation should consider their consequences for the effectiveness of co-operation programmes. However, the evaluation is not concerned with exits from civil society partnerships or multilateral programmes per se.

The evaluation will assess the consequences of country level exit decisions for the results of interventions supported through development co-operation and partner country development more broadly. Recognising that an exit decision can be made for reasons that are extraneous to the development activities affected by the exit, however, it will not pass judgement on the exit decisions themselves. Thus, while the evaluation may well come to the conclusion that a particular exit had unfortunate consequences with regard to local development, it would not attempt to answer the larger question whether it was still justified, all things considered.

Note, finally, that the evaluation covers the period 1996–2006. If required in order to answer the evaluation questions, however, specific management issues might be traced further back in time.

## 5. Case study countries

It has been agreed that the evaluation should be based on case studies of a limited sample of country level exits. The choice of countries has been much discussed between the partners and representatives of some of the cases study countries have participated in the discussions. The evaluation is intended to cover six case study countries, one of which remains to be identified.<sup>25</sup> The following five countries have been selected for case study.

- *Botswana.* All the four donors phased out ODA in the late 1990s as a result of Botswana's graduation to the status of a Middle Income Country. In a couple of cases the exits occurred was after thirty years of bilateral assistance. Declining needs for development assistance was main reason for exit in all the four cases. At the present time ODA has been completely phased out by all the four donors, but local efforts to deal with the HIV/AIDS crisis are supported by Sweden and Norway.
- *Eritrea.* A country supported by all the four donors after its independence in 1991. Eritrea is today classified as a 'Fragile State' by the OECD/DAC and by the World Bank as a so-called Low Income Country under Stress (LICUS). The Netherlands and Norway are currently providing bilateral support to Eritrea, while Sweden and Denmark have phased out their assistance, in both the cases largely because of differences with the Eritrean government about issues of governance.

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<sup>25</sup> Note 2007-03-20: It has now been decided that there will be only five country case studies.

- *India.* The first country to receive bilateral development assistance by the four donors -for some of them development co-operation with India goes back to the 1950s. Due to India's rapid economic development and overall high capacity level, exit discussions have been going on among all the four donors since the late 1990s. In 1998 Denmark decided to phase out its bilateral development assistance over a 10-year period. In 2003, however, India decided on its own accord that it would not receive ODA support from 'smaller countries', a group including the four donors sponsoring this evaluation. The government-to-government ODA is currently being phased out by all the four. India is an important case of a developing country taking the lead in the phasing out of development co-operations partnerships.
- *Malawi.* A low-income country where the four donors have taken different approaches over the last decades. Thus, Denmark and the Netherlands have both exited from co-operation, the Netherlands in 1999, because of dissatisfaction with governance and the implementation of a wider concentration policy, and Denmark in 2002 for similar reasons. Norway regards Malawi as one of its seven major partner countries. With Norway as its representative, Sweden has recently entered bilateral co-operation with Malawi.
- *South Africa.* After the fall of the apartheid regime in 1994 South Africa has received government-to-government ODA from several countries. Classified as a Middle Income Country, it is considered by donors as a transitional country, and the ODA has explicitly been intended to facilitate the establishment of democracy. While both Sweden and Norway are in the process of replacing conventional ODA with new forms of co-operation with South Africa, Denmark and the Netherlands stick to the original modality.

**Figure – Details of co-operation and exits from five case countries**

	<b>Country characteristics</b>	<b>Denmark</b>	<b>Netherlands</b>	<b>Norway</b>	<b>Sweden</b>
<b>Botswana</b>	Upper Middle Income Country	Co-operation began in 1970s. Exit in 1990s with scaling-down over a decade.	Exit in 1999 due to concentration policy.	Co-operation began in 1972. Exit in early 2000s At the present time some HIV/AIDS support.	Co-operation began in 1966. Exit in 1998. Certain on-going programmes in HIV/AIDS.
<b>Eritrea</b>	Low Income Country	Co-operation began in 1993. Exit decision in 2002 due to concentration/poor governance: Phase out over 3 years until 2005.	Co-operation began in 1993. Ongoing co-operation. One of the current 36 partner countries.	Co-operation began in 1992. Ongoing co-operation. One of Norway's 18 'other partner countries'.	Co-operation began in 1992-1993. Phase out since late 1990s. Minor projects still on-going.
<b>India</b>	Low Income Country	Partner country since 1960s. Denmark decided to exit in 1998, while India triggered exit 2003. Denmark decided to start a 10-year phase out in 1998, while India triggered exit in 2003. Co-operation phase-out completed in 2005.	Co-operation since 1962-. Partner country also included in 2003. India triggered exit in 2003 Ongoing phase out.	Partner country since 1950s. India triggered exit in 2003 – ongoing phase out.	Partner country since 1950s. India triggered exit 2003 – ongoing phase out and transformation.
<b>Malawi</b>	Low Income Country	Co-operation since 1960. Assistance reduced in 1991. Partner country status from 1996 until exit in 2002 due to concentration policy and donor dissatisfaction about governance. Phase-out in 4 months.	Exit in 1999 due to concentration Some on-going assistance through partnership with DFID.	One of 7 current main partner countries.  No exit considered.	A new major partner country through a delegated partnership' to Norway.  No exit considered.
<b>South Africa</b>	Upper Middle Income Country, Transitional country since 1994 after the fall of the apartheid regime.	Major transitional programme country support since 1994. On-going co-operation.	One of 36 partner countries in 2003 Exit not yet considered.	One of 18 'other partner countries'. Exit ongoing through phase out from transitional assistance.	Major support since 1994. And before that, since the 1960's, support to ANC. Exit ongoing with phasing over to new forms of co-operation.

## 6. The assignment

The evaluation comprises the following main elements:

- An in-depth analysis of exit processes: how actors in the case study countries and their external development co-operation partners have dealt with exit issues; their policies, strategies, and decision-making processes with regard to exit and partnership; the application of these models in actual cases of planning for exit and management of exit processes; and contextual factors, such as stakeholder interests, that seem to influence exit decisions and behaviour. An assessment of the consistency of practice with policy would be included in this analysis.
  - An assessment of the consequences of exits for development results: how the exit has influenced or is likely to influence the results of the affected activities – outputs, outcomes, impacts – as well as more indirect effects. Starting with the real or likely post-exit results of the activities previously supported by the donor or in the process of being phased out, the evaluation seeks to understand how the exit and the way in which it was managed has made a difference to those results.<sup>26</sup> Where relevant for a better understanding of the impact of the exit process the evaluation should trace the management of the exit issue further back in time. This is further explained below.
  - A set of evidence-based *lessons* that would be useful for the sponsoring donors and other evaluation stakeholders in their efforts to enhance their ability to deal with exit issues. As stated above, one of the main objectives of the evaluation is to increase our understanding of the many ways in which exit planning and management can support or undermine the intended results of external development support. The lessons will also cover the partnership issue.
  - A set of *recommendations* to the organisations sponsoring the evaluation regarding future work on exit policies, exit strategies and exit management practices.
1. Note that the first of the components above covers several layers of policy-making and guidelines. At the highest, most inclusive, level the evaluation should consider the established or emerging ‘best practices’ with regard to exit management in the development co-operation community at large, including the directives embedded in the Paris Declaration and MDG agenda. At the lowest level it should examine the views expressed in country strategies and other key country level documents of the donors sponsoring the evaluation. There is also a middle level consisting of more general policies on

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<sup>6</sup> In some of the cases the exit was completed long ago, in other cases it is still ongoing.



exit among these donors.<sup>27</sup> Questions of consistency and coherence between levels shall be addressed. To what extent are the general policies and principles of each one of the donors well in tune with established international agendas and practices? To what extent are donors' country exit strategies consistent with their own general thinking and policies on exit and issues closely related to exit, such as partnership, participation, and accountability?

In each of the cases to be reviewed, the evaluation should describe the deliberations leading up to the exit decision. It should explain the motives for the exit and assess how and to what extent the partner country government and other stakeholders were able to participate in the decision-making or make their interests heard. Recognizing the importance of predictability for all stakeholders in development co-operation, the evaluation should assess the extent to which provisions for exit had been made earlier in the co-operation process and, consequently, the extent to which stakeholders had been able to make preparations for the exit when it finally occurred.

Turning to the actual phasing out of the support, the evaluation should tell us both how the planning for that process was done and how established plans were implemented. Was there a clear and mutually accepted scheme for the phasing out and what did it contain? To what extent were partner country stakeholders able to voice their concerns and influence the design of the process?<sup>28</sup> To what extent were the different stakeholder groups satisfied with the outcomes of the process? It is important that the exit process is assessed from a variety of perspectives. What might appear as a successful ending from the point of view of one stakeholder group might look quite different in another perspective.

2. The criteria for assessing the quality of exits can be divided into two groups, one referring to process issues, the other to development results.

The process criteria are derived from the values underpinning the concept of development partnership and other widely accepted principles for the conduct of partners in development co-operation. The following are the criteria to be considered:

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<sup>27</sup> The pre-evaluation study by Ekengren and Lindahl mentioned in footnote 3 above contains a useful analysis of the donor views at this level.

<sup>28</sup> According to the Review of Donor Principles and Practices for Exit by Ekengren and Lindahl stakeholders, not least staff of the donor agencies, have often played a major role in the interpretation of exit policies and decisions, sometimes to the extent that management decisions have been diluted, delayed and counteracted.

- *Legality and respect for contracts.* Was the exit made with due regard to prior contracts and other formal agreements between the partners?
- *Transparency and predictability.* Was the exit conducted in an open well organised manner so that affected actors had a chance to plan and adjust to new the contingencies, and were not taken by surprise. Consistency of policy and action would normally be an important prerequisite for donor predictability
- *Dialogue and mutuality.* Was the exit decision preceded by open discussion between the partners and were the lines of communication kept open during the subsequent phasing out? In case of disagreement and dispute, were opportunities for dialogue exhausted before one of the parties unilaterally decided to withdraw?
- *Due concern for prior investments.* Exits should be planned and conducted in such a way that waste and loss of invested capital is minimized. Donors should consider benefits and costs to partners and beneficiaries as well as benefits and costs to themselves.
- *Due concern for partners' needs for adjustment to post-exit conditions.* Donors should assist partners in making the transition to the post-exit situation. This may affect the timing of the exit decision as well as the exit time-frame. Depending on the circumstances, it may also require technical and financial support of various kinds. Assisting partners in finding new sources of finance and support might be an appropriate action.

With regard to the influence of exits on results a preliminary task is to try and find out what has actually happened in terms of development outcomes and impacts following the exit. The following are the main fact-finding questions with regard to results:

- *Sustainability of continuous activities.* What has happened to organisations that lost donor support as a result of the exit? To what extent have such organisations been able to maintain the production of services and other benefits for target groups in the post-exit situation? How did they compensate for the loss of donor support? These questions are obviously not applicable where the activities supported by the exiting donor were completed before or at the same time as the exit.
- *Effects on project activities still in progress.* Here the question is whether projects and time-bound programme activities still in progress at the time of the exit have been brought to a successful conclusion despite the exit, or whether they have been scaled down or prematurely aborted. As in the previous case this is a question that does not apply to activities completed along with the exit.

- *Indirect effects on partner country governance and development management.* While some of the effects of a country level exit are visible in the performance of interventions that previously enjoyed the support of the exiting donor, there may also be effects that are more indirect and remote. The occurrence of such effects should be considered case by case. The general assumption is that the withdrawal of resources will affect budget allocations which in turn may have a more or less significant impact on governance, institutional quality, service delivery, etc.
- *Development impact where the exit is an expression of concern over partner country governance or policy.* Exactly what appears to have been the development effects of a donor country exiting fully or in part from a bilateral government-to-government relationship, perhaps redirecting its support to civil society? Have donor expectations regarding the policy impact of exit proved to be correct?
- *Impact on long-term bilateral exchange.* A donor country may wish to build a new kind of relationship with the recipient country built on commerce, cultural exchange, etc. at the same time as traditional development co-operation is brought to an end. The success or likely success of such efforts should be carefully assessed by the evaluation.

In the fact-finding phase the first thing to be considered is simply whether the disengagement of the donor has prevented the activities covered by the development co-operation programme from running their full course or whether they were in fact completed as originally planned and agreed. In the latter case, the exit would obviously have made no difference to the outcome, except by ruling out the possibility of renewed co-operation. In the former case, however, the exit could well have had an important influence on the results. What the evaluation shall seek to assess is how the recorded results – outputs, outcomes, impacts - are likely to differ from the results that would or might have occurred had the support from the donor not been phased out before the project or programme was completed.

It should obviously not be assumed that every time outcomes are unsatisfactory this is because of the phasing out of donor support or the way that the phasing out was managed. In many cases the main explanation for disappointing results may well lie further back in time. As noted in the Concept Note preceding these terms of reference, if mistakes regarding sustainability and exit are made in the planning of a development co-operation process there may not be much that can be done to correct them later on, except to close down operations and ac-

cept the losses.<sup>29</sup> Elements of path dependency are only to be expected. This should be carefully considered when assessing the development effects of the disengagement.

However, establishing how an exit process has impacted on development results is not yet assessing the quality of that process. A quality assessment must also address the evaluative question whether the identified results should be considered satisfactory in view of available alternative ways of managing the exit process.

The final clause in the sentence above is important. If we cannot think of an alternative exit approach that would have produced better results than those actually recorded we must conclude that the exit was well done, at least in so far as the development results are concerned. If the results would have been better with a different approach, including a different timing, by contrast, we ought to conclude that the exit was not entirely successful.

3. The criteria above are intended to encompass the donor-specific criteria formulated in policy documents and guidelines issued by the four countries sponsoring the evaluation. In the case of the Netherlands the following have been the main exit instructions:

- Exits should be orderly.
- Exits should fulfil legal commitments.
- Wherever possible the Netherlands should assist its partners in finding substitute support from their local government or other donors.
- Exits should not lead to ‘destruction of capital’.
- Exits should be carried out within a period of 2–3 years.

Regarded as criteria for evaluation these guidelines are for the most part contained within the list in above. The last one – that exits should be carried out over a period of 2-3 years – is the exception. As it has been adopted as an explicit instruction for Dutch exits in recent years, the evaluation can obviously not ignore it. However, it should not be regarded as an assessment criterion for all the country exits figuring in the study.

None of the remaining donor countries sponsoring the evaluation has formulated a similar set of uniform exit instructions. Exit criteria are often defined ad hoc in relation to the exigencies of a particular situation. Thus, in the context of a series of country exits triggered by a reduction of its aid budget in 2002, Denmark made it a primary exit criterion that on-going contracts should be honoured. In phasing out support to India and Bhutan, however, Denmark also put considerable

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<sup>29</sup> Exit Strategies – A Concept Note for a Joint Evaluation. Sida. Department for Evaluation and Internal Audit. 2005-04-22. [www.sida.se/exitevaluation](http://www.sida.se/exitevaluation)

emphasis on partnership principles and the sustainability of supported organisations and programmes. Sweden in its ongoing exit from development co-operation with South Africa intends to replace traditional development assistance with new forms of co-operation and exchange 'based on mutual interest and joint financing.'

The pre-evaluation Review of Donor Principles and Practices by Ekengren and Lindahl referred to above contains further information on exit guidelines among the four donors behind the evaluation.

## **7. Methodology**

The task of designing an appropriate methodology for the evaluation rests with the consultants. However, the methodology proposed by the consultants must be presented to the evaluation steering group for approval before it is adopted. A preliminary methodology proposal should be included in the tender documents, and a more considered proposal should be presented in the inception report to be delivered to the evaluation steering group two months after the contract for the study has been signed. This procedure will enable the consultants to take a closer look at opportunities and constraints before deciding how they think that the evaluation research process can and should be designed.

The following few points provide further guidance:

- The four donors sponsoring the evaluation have no methodological preferences other than that the chosen approach should be the best possible one under the circumstances. It would be helpful if the consultants were to explain why the approach favoured by them would produce better answers to the evaluation questions than alternative approaches.
- As in every evaluation, the selected approach will be a compromise between the consultants' desire to produce as solid a study as possible and the constraints of limited resources. To make it possible for the evaluation steering group to assess the proposed methodology the consultants should explain why they believe that the recommended approach represents an optimal use of the resources set aside for the evaluation.
- As noted above, the evaluation should be responsive to the interests and experiences of all the major stakeholder groups involved in the exits under review. The consultants should explain how this requirement would be satisfied by their favoured approach and how a multiplicity of perspectives would be reflected in the evaluation reports. The consultants should also explain how they propose to deal with problems of counterfactual analysis.

- As the evaluation covers a large number of separate exit processes, options for sampling must be considered. While each case of country level disengagement must be covered by the evaluation, a selective approach is required at the level of the projects and programmes included in country level programmes. Consultants are invited to make suggestions for possible selection models in the tender documents. A more elaborate proposal will be included in the inception report.
- The issue of comparability between cases must be addressed. Will it be possible to streamline the evaluation process in such a way that standardised indicators can be applied in data collection across and analysis the board? What would the indicators look like? A discussion about indicators should be included in the tender documents.
- It is one of the advantages of joint evaluations that they allow for comparisons, benchmarking and mutual learning between organisations. In the present evaluation different ways of managing exit processes will be compared. In some of the case study countries it will also be possible to make comparisons between the results of exiting and the results of not exiting. Designing a methodology for this evaluation, the consultant should not ignore this possibility. Given the purpose of the evaluation, what might be the pros and cons of contrasting exits to non-exits?
- To facilitate mutual understanding the evaluation should adhere to the conceptual conventions laid down in the OECD/DAC Evaluation Glossary as far as possible.<sup>30</sup> Readers of the evaluation reports should be explicitly warned of any departure from these conventions.

Tender documents will be assessed against these points.

## 8. Organisation

The evaluation will abide by the quality standards for evaluation currently tested by the OECD/DAC Network for Development Co-operation Evaluation, and it will be organised in such a way that the integrity of the evaluation process and the independence of the evaluators are secured.<sup>31</sup> The following is a brief description of roles and responsibilities.

*Steering group.* The evaluation will be governed by a steering group composed of representatives of the evaluation departments of the four donor organisations sponsoring the evaluation. The steering group will oversee the evaluation process, and do the following:

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<sup>30</sup> [www.oecd.org](http://www.oecd.org)

<sup>31</sup> [www.oecd.org](http://www.oecd.org)

- Confirm the terms of reference for the evaluation
- Establish a committee for the evaluation of tenders and confirm a model for the evaluation tender proposed by the committee.
- Confirm the selection of an evaluation team by the tender evaluation committee
- Comment on successive draft reports in relation to the terms of reference for the evaluation and ensure that the reports meet the quality standards set for the evaluation.
- Advise their own agencies and staff on the evaluation as well as help co-ordinate agency contributions.
- Assist the evaluation manager and the evaluation team leader in organising visits of evaluation team members to donor headquarters.
- Assist the evaluation manager in ensuring that local offices and embassies are adequately informed about the evaluation and requested to assist it as required.
- In collaboration with the evaluation manager organise presentations of the evaluation results, and assist with necessary follow-up of the evaluation.

*Evaluation manager.* As the evaluation lead agency, Sida shall appoint an evaluation manager to take care of the day-to-day management of the evaluation on behalf of the steering group. The evaluation manager will be responsible for maintaining a continuous dialogue with the evaluation team leader on matters pertaining to the interpretation of the terms of reference and the conduct of the study. The evaluation manager will assist the evaluation team as requested by the team leader and facilitate communication between the evaluation team and evaluation stakeholders. Aided by the steering group the evaluation manager will support the evaluation team in its preparations for field visits.

*Reference groups.* For each of the case study countries there will be a reference group including partner country representatives as well as members of the donor organisations covered by the study. Acting as advisors, the members of these groups will assist the steering group in ensuring that the country studies are implemented in accordance with the terms of reference and that relevant stakeholder groups are properly consulted.

*Evaluation team.* The responsibility for conducting the evaluation research and produce an evaluation report that satisfies these terms of reference will rest with a team of externally recruited evaluators. The views and opinions expressed in the evaluation report will be those of the evaluators. They need not coincide with the views of the donor organisations sponsoring the evaluation or other affected persons or organisations.

The following are the main tasks of the evaluation team:

- Carry out the evaluation as per the terms of reference. A work plan should be specified and explained in the tender documents.
- Accept full responsibility for the findings, conclusions and recommendations of the evaluation.
- Report to the steering group as agreed, keep the evaluation manager continuously informed of the progress of the evaluation, co-ordinate the timing of field visits and other key events with the evaluation manager, and seek advice from the evaluation manager when required.
- Provide feedback to local stakeholders at the end of field visits.
- Ensure that stakeholders who have contributed substantially to the evaluation get an opportunity to check the report for accuracy before it is finalised.
- Participate in the dissemination of evaluation results as agreed with the evaluation manager and the steering group.

## **9. Work plan**

It is envisaged that the evaluation will have the following elements and produce the following reports and dissemination activities:

1. Preparation of an inception report. The inception report should include:
  - A preliminary desk review of the policy context of the case study country exits to be covered by the evaluation as per section 5 above.
  - A further detailed methodological proposal along with an assessment of the technical evaluability of the principal evaluation issues. This proposal will have to be accepted by the steering group before it is adopted.
  - A work-plan for the fieldwork of the evaluation, likewise to be agreed with the steering group.
2. The inception report should be submitted to the steering group (through the evaluation manager) within two months after the award of the evaluation contract. The steering group will require two weeks to consider the report. After that they will meet with the evaluation team leader and other representatives of the team to discuss it.
3. Brief visits to donor headquarters would probably be required for the preparation of the inception report. The evaluators might need to get a deeper understanding of general head quarter thinking on exit issues, and they might also have to collect information on the



country exits selected for case study. During the inception period the sponsoring donors will assist the evaluators in identifying the projects and programmes phased out or about to be phased out as a result of each one of the case study exits.

4. Field visits to case study countries. Follow-up of the status of projects and programmes in ended country programmes, or programmes in the process of losing support. Further analysis of exit strategies and thinking at Embassy level and relevant government entity. Assessment of effects and impact of the exit based on the methodology suggested. Site visits. Interviews with representatives of a wide variety of stakeholder groups. This is the main part of the evaluation, and with several country teams working in parallel it is expected to require at least two months. As underlined above, however, the responsibility for designing this phase of the work rests with the evaluation team.
5. Country workshops for each of the case study countries in conclusion of fieldwork. The purpose of the workshops is to discuss findings and tentative conclusions with relevant partner country representatives and donor field representatives. In each country, the workshop would be hosted by one of the donor embassies.
6. Drafting of country reports. These reports should be submitted to the steering group, the country study reference groups, and other relevant stakeholders for checking their accuracy. As suggested above (section 7) in some of the countries the exit strategies of some of the donors might usefully be contrasted with the non-exit strategies of the remaining ones. As noted, however, the pros and cons of this approach need be further discussed before it is adopted.
7. Drafting of a synthesis report based on a full comparative analysis of the reviewed cases. The synthesis report shall contain lessons learned and recommendations.
8. Workshop at the headquarters of one of the evaluation sponsors for review and discussion of the draft synthesis report.
9. Finalisation of the full set of reports – synthesis report and country studies - and acceptance of the now completed evaluation by the steering group. Discussion between the steering group and the evaluation team about further dissemination activities.
10. Throughout of the evaluation, updating the web page for the exit evaluation ([www.sida.se/exitevaluation](http://www.sida.se/exitevaluation)) and invitations of comments to the various draft reports through the web. It is envisaged that all persons consulted shall have access to the web-site. Sida is responsible for keeping web site updated.

## 10. Composition and qualifications of the evaluation team

The evaluation team should include both international and local consultants. The evaluation should rely on local evaluation capacity whenever feasible, and it should be adequately balanced in terms of gender.

The following are requirements regarding the team leader:

- Extensive experience of managing development co-operation evaluations.
- Advanced knowledge of the substantive issues covered by the evaluation.
- Familiarity with development issues in South Asia and Sub-Saharan Africa
- Advanced skills in writing and communication

The following is required by the team as whole:

- All the members of the team should have previous experience from evaluations of development assistance, as well as a good general understanding of evaluation.
- All the members of the team should be familiar with broader issues of development policies, strategies and aid management.
- One or more of the team members should have a good understanding of the mechanisms of policy making and strategy formulation among the four donor agencies represented in the evaluation.
- One or more of the team members should have expert knowledge of aid modalities, including technical assistance.
- One or more of the team members should have expert knowledge in the areas of public sector management and public sector capacity development.
- The team should be able to address issues related to the cross-cutting issues of gender equity, human rights, democratisation, environment, and HIV/AIDS.
- The team should have an advanced understanding of development issues at national and local levels in the countries involved in case studies.
- All team members must be fluent speakers and writers of English.
- As the evaluation must consult documents written in Swedish, Danish, Norwegian and Dutch, the team must include persons familiar with these languages.<sup>32</sup>

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<sup>32</sup> It should be recognised that a person fully fluent in any one of the three Nordic languages would to be able to read documents in the other Nordic languages as well.

Proposals will be assessed against these requirements.

## **11. Inputs**

While the evaluators will have significant latitude in the design and organisation of their work, it is estimated that the evaluation in its totality will require in the order of 70 person weeks. As already noted, the evaluation will necessitate fairly extensive fieldwork in the case study countries. The need for stakeholder workshops, seminars, feedback meetings, etc. should be considered when planning and budgeting for fieldwork. However, possible dissemination activities after the completion of the study will be covered by a separate budget.

The evaluation will also require consultations and reviews of documents at the four donors' headquarters, i.e. in Copenhagen, the Haag, Oslo and Stockholm. It suggested here that the proposal should be based on one or, perhaps, two such visits per donor country, the first in connection with the writing the inception study, the second after the field visits for the purpose of checking the accuracy findings and seek answers to follow-up questions.

The overall budget for the evaluation shall not exceed EUR 400,000, including reimbursables. Note that this amount is intended cover six country studies, five in the countries mentioned above, and one in a country still to be identified. The cost of the latter study has been provisionally estimated as the average of the costs of the others.

## **12. Time table**

It is anticipated that the evaluation would be put out for Tenders in October 2006 and that the Evaluation Consultant Team to undertake the evaluation will be selected in December 2006 or early January 2008.

It is expected that the evaluation process from the inception will to be completed within ten months period to a draft report. After a process of dissemination of the results through workshops, comments by donors and other parties, etc. it is expected that the final full report be ready by the end of March 2008.

The tentative time schedule of the evaluation is as follows<sup>33</sup>:

- Closure of contract: March 2007, week 9-10.
- March 2007, week 10. Notification of partner country officials and sponsoring agencies' embassies and other staff.
- Collection of data and documentation: starting following contract closure.

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<sup>33</sup> This time table is a revised version of the original. It was inserted in this document 2007-03-20-

- April 2007. Interviews at donor head quarters. Dates to be provided by consultants as soon as possible.
- May 21, 2007. Presentation of Inception Report at meeting of the Evaluation Steering Group in Copenhagen. The report submitted by the consultant no less than seven working days in advance of the meeting.
- July – September 2007: field visits. Dates for fieldwork and dates for concluding fieldwork workshops to be provided with as little delay as possible.
- October 19, 2007. Delivery of draft country case study reports.
- November 5, 2007. Steering Committee and team leaders meet to discuss the case study reports.
- October-December, 2007. Drafting of synthesis report.
- December 10, 2007. Informal briefing on emerging conclusions with Steering Group in Copenhagen.
- January 20, 2008. Delivery of First Draft Synthesis Report.
- February 5, 2008. Steering Committee meets with team leaders to assess the contents and quality of the First Draft Synthesis Report.
- February 22, 2008. Joint workshop in Stockholm with key stakeholders from the four sponsoring agencies.
- March 10, 2008. Delivery of Second Draft Synthesis Report with final draft country case study reports attached.
- End of March, 2008. Delivery of Final Synthesis Report with final country case study reports attached, all edited for publishing.

### **13. Appendices**

1. Claes Lindahl, Lars Ekengren. Review of Donor Principles and Practices for Exit. ([www.sida.se/exitevaluation](http://www.sida.se/exitevaluation))
2. OECD/DAC Development Evaluation Network. Trial Evaluation Quality Standards. (<http://www.oecd.org>.)

# Annex 2

## Methodology

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### 2.1 Introduction

The main background and methodological issues for this evaluation have been addressed in the introduction of this synthesis report. As the introduction chapter of a synthesis report should be necessarily short, all elements of the methodology cannot be explained in detail. That is the reason why this annex on methodology is added to the synthesis report. Main issues on background, objectives and evaluation questions will not be repeated in this annex.

### 2.2 Analytical framework

#### **In-depth analysis of exit processes: process indicators**

In line with Figure 1.1 presented in the introduction of the synthesis report, there are two levels of in-depth analysis of exit processes: at the donor policy level and at country level. At both levels the evaluation distinguishes between factors related to context, setting ramifications for the aid relationship that are not easily changed by the actors involved in the exit process, and factors that can be influenced in the process of exit management.

At the *donor policy level*, the political ramifications of the exit decisions by each of the four donor countries need to be analysed. These were placed within the international context going back well into the 1990s. This means that exit decisions in the context of the international discourse (e.g. Paris Declaration, MDGs, etc.) and particularly donor agen-

cy policies, were taken into consideration. However, no judgment on exit decisions is passed, although the consistency of exit decisions (and non-exit decisions) for the countries concerned – in relation to the general policies and strategies of each of the four donors involved in the evaluation – was analysed. Moreover, the justifications for exit decisions were also analysed.

The analysis of exit management starts with the way exit decisions were communicated. Thereafter, the next step in the exit process is analysed: the key elements of exit strategies and factors influencing the approach. In this context, special attention is paid to formal (and informal) guidelines or instructions on decisions to exit, and how these have been put in motion by the donors. To assess the consistency at this stage, the following process indicators are used:

- communication of exit decisions: letters, meetings (level of persons involved) and reactions;
- maintenance or closure of embassies (including the Embassy of the recipient country in the donor countries);
- changes in country strategy;
- changes in number and qualifications of Embassy staff;
- interest of new actors in donor countries to start (joint) activities with actors from ‘recipient’ countries;
- interest of new actors in southern countries in cooperation with organisations in ‘donor’ countries.

The donor’s exit strategy is the basis for its exit management. Assessment of exit management in the country case studies is based on the following range of (process) indicators:

- clarity of exit plans;
- time allocated;
- participation;
- respect for ongoing agreements;
- speed of scaling down disbursement;
- distinction between types of aid;
- assessment of recipient capacity;
- assessment of compensatory funding;
- monitoring;
- capacity of donor’s organisation/Embassy;
- flexibility versus decisiveness;
- role of the Embassy.

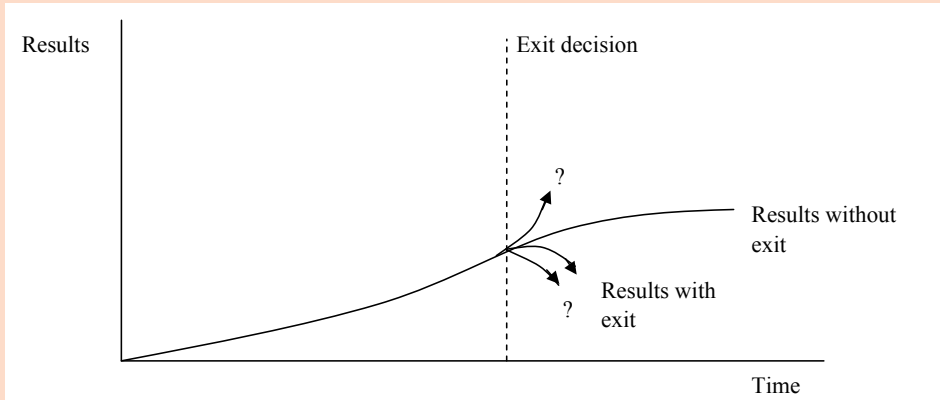
At the *country level*, the analysis outlines different country contexts influencing bilateral relations. The study covers three main levels:

- i. Interaction between the donor – who decided to exit – and the government of the partner country. The following principal (process) indicators are used:
  - communication of the exit decision (how, by whom, level of detail, etc.); the stakeholder that took the initiative will be the starting point for the analysis; reactions to exit decisions from the partner country are identified;
  - dialogue on development of a (joint) exit strategy;
  - interaction of stakeholders at different levels during implementation of the exit, including assessment of transparency, predictability and mutuality of the exit.
- ii. Interaction with the implementing organisations. Issues addressed at this level are:
  - communication of the exit decision;
  - transparency and predictability;
  - legality and respect for contracts;
  - due concern for prior investments;
  - due concern for partner’s need for adjustment to post-exit decisions;
  - due attention to involve new partners;
  - development of specific exit strategies for the development interventions in dialogue with the implementing partners (in line with overall exit strategy?);
  - possibilities of implementing organisations to influence the exit process.
- iii. Interaction with the donor community. Aspects studied include:
  - Was it a unilateral decision or are more donors concerned?
  - How was/were the exit(s) discussed in the donor coordination fora?
  - Has joint action been taken with the government of the partner country?
  - Were exit strategies discussed among donors in order not to do harm to the beneficiaries?

### **Consequences of exits for development results**

A proper assessment of the consequences of exits for development results is not an easy matter. This is visualised in the following figure, which was presented in the inception report:

**Figure 2.1 Consequences of exits on developments**



This figure makes it clear that at best a two-step-approach should be followed, for example:

1. assess the results (output and outcome indicators) of the development intervention if no exit had taken place;
2. assess the changes on the results brought about by the exit.

This is a very complex methodological task and requires sufficient data on the following aspects:

- good monitoring, progress and/or evaluation reports on the selected development interventions prior to the exit decision, which give a good indication of realised results and expected results (verifiable indicators);
- precise information on the reaction to the exit decision;
- basic information on the present situation and results.

During the team workshop, at the end of the inception phase and prior to the country studies, it was agreed that pending the depth, scope and quality of data provided, the approach would comprise of the following five main tasks:

- Establishing the changes in the development intervention (management structure, planning, budget, etc.) as a result of the exit decision, such as:
  - scaling-down of activities;
  - scaling-down of TA;
  - budget changes;
  - shortening of project duration or complete abortion;
  - handing-over to other organisations;
  - development of a specific planned exit strategy.



- Assessing the potential results (with output and outcome indicators)<sup>34</sup> if no exit would have taken place on the basis of the documentation prior to the exit decision;
- Assessing the actual results of the development intervention, which include the results of the exit decision;
- Analysing endogenous factors related to the exit decision and exogenous factors that have influenced the potential and actual development results;
- Analysing the previous steps to assess the specific consequences of the exit on the development results (outputs, outcomes and impact), on effectiveness and sustainability.

It was also realised in the team workshop that probably not all these tasks could be carried out, because it was likely that in the limited time period not all data could be collected. In fact, data problems were even more important than expected when carrying out the country studies, and it became clear that insufficient data were available to make this kind of analysis. Therefore, adaptations of this assessment approach were frequently required and were based on: (i) the type and quality of data provided; (ii) specific circumstances prevailing in the country; (iii) the nature of the exit decisions; and (iv) the availability and strength of the output and outcome indicators at project level.

Given all these possible restrictions, the assessment of the consequences of exits was done at three different levels:

1. at the *level of implementing organisations* (possible output/outcome indicators: changes in organisational capacity and/or structure, changes in management, changes in approach, changes in scope of activities, changes in funding, changes in number and type of services delivered, changes in quality of services delivered);
2. at the *level of beneficiaries* (possible output/outcome indicators: changes in access to services, changes in service delivery, changes in perception of quality of services delivered, changes in socio-economic indicators related to service delivery);
3. at the *level of bilateral relations* (possible output/outcome indicators: changes in set-up and/or agenda of bilateral consultations, changes in frequency of meetings and bilateral visits, cooperation in new areas [not financed by development cooperation funds]).

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<sup>34</sup> We consequently use the definition of the key terms in evaluation, as presented in the OECD-DAC Glossary.

## **Evidence-based lessons learnt, conclusions and recommendations**

This mainly formative evaluation concentrates on the lessons learnt, conclusions and recommendations. Evidence-based lessons are only drawn when most of the data collection has been carried out and when the analysis has been completed. Lessons learnt at the country level are presented in each country case study. During the synthesis phase more lessons are presented, as the comparative analysis of the findings of the country studies allows the evaluators to draw more relevant conclusions.

Various aspects are important while formulating lessons learnt, conclusions and recommendations. First, the analysis of explanatory factors for performance is a crucial element of the overall analysis. A distinction will be made between exogenous and endogenous factors explaining performance. It is assumed that actors involved will not be able to change exogenous factors. Therefore, the lessons learnt, conclusions and recommendations will concentrate on the endogenous factors.

### **2.3 Scope of the assignment**

The selection of the five (case study) countries is based on a number of criteria, such as a good mix of different types and reasons for exits, and, also, the presence of all four donor countries in these countries. Another element in the selection was the mix of different speeds of donor exits there.

Based on several discussions with the Steering Group, the following was agreed regarding the criteria for selecting project-level activities:

- An in-depth analysis of a few sectors and interventions is better than a more shallow analysis of a larger number of sectors and interventions;
- The evaluation should focus on interventions where (individually or as a group) the four donors have made a significant contribution;
- While representativity with regard to the four commissioning donors is not essential, activities should be selected in such a way that each donor is substantially represented in the sample.

The final selection (countries and projects) was presented and agreed on by the Steering Group and the leaders of the country teams after several meetings and a team workshop. Table 2.1 presents an overview of the selected sectors in the five countries.

**Table 2.1 Selection of sectors for analysis of exit processes and consequences**

	<b>Denmark</b>	<b>Netherlands</b>	<b>Norway</b>	<b>Sweden</b>
Botswana		-	Health/HIV/AIDS Roads	-
Eritrea	<b>Agriculture</b> <b>Education</b>		-	
India	<b>Madhya Pradesh: farm women</b>	<b>Gujarat: water</b> <b>Gujarat: education</b>	-	-
Malawi	<b>Education</b> <b>Agriculture</b>	<b>Health</b>		
South Africa	- Tripartite cooperation  Research Education	Culture Tripartite cooperation  Research Education	- Tripartite cooperation (police)  Research Education	Culture Tripartite cooperation (police)  Research Education

*In bold those sectors in which both exit processes and consequences have been analysed. While in South Africa aid transformation processes especially have been analysed in a large number of sectors, exit consequences could not be analysed in detail.*

This selection of sectors provides a good illustration of exits of the different donor countries. It is also a good cross-section of various sectors, both productive and non-productive.

## **2.4 Organisation and planning of the country case studies**

Each country team was composed of an international consultant (a staff member of the Chr. Michelsen Institute or ECORYS) and local advisors. The team leader and deputy team leader accompanied three country teams (India, South Africa and Eritrea) in the last week of their stay. They also attended the in-country workshops.

In each of the five countries, the Embassy representing one of the four donor countries was responsible for the management of the evaluation in that country and acted as a contact point. The Embassy was also responsible for informing and making appointments with the contact persons of the country government.

In each of the countries one or more local advisors should have been appointed by the country-level lead donor. The role of these advisors was to comment on the draft country reports, to participate in workshops and to provide advice and general assistance to the international consultants. In practice, this was only done in India where two local advisors were appointed, but they could not attend the workshop at the

end of the mission. One of the advisors provided comments on the draft country report.

The composition of the evaluation team and steering committee was as follows:

**Table 2.2 Composition of the evaluation team**

<b>Expert</b>	<b>Position</b>
Anneke Slob	Team leader
Alf Morten Jerve	Dep. team leader
Albert de Groot	India evaluator
C.K. Ramachandran	India evaluator
Jan Isaksen	Botswana evaluator
Charity Kerapeletswe	Botswana evaluator
Arne Tostensen	Malawi evaluator
Esther van der Meer	Malawi evaluator
Maxton Tsoka	Malawi evaluator
Rudy Ooijen	Eritrea evaluator
Michael Teferi	Eritrea evaluator
Elling Njål Tjønneland	South Africa evaluator
Pundy Pillay	South Africa evaluator
Anja Willemsen	Junior expert/India evaluator
Vibeke Wang	Junior expert
Gunnar Sorbo	Quality Assurance
Nick van der Lijn	Quality Assurance

**Table 2.3 Composition of the steering committee**

Steering Committee	
Stefan Molund/ Lars Johansson	Sida, lead agency
Agnete Eriksen	Norad
Ted Kliest	MoFa, The Netherlands
Henrik Nielsen/ Lars Elle	MoFa, Danida, Denmark

## 2.5 Data collection methods

Data collection started already during the inception phase with desk research and a round of interviews in the commissioning (donor) countries. In the field phase, the main data sources were: donor archives, open-ended interviews and organising focus groups/workshops with key informants.

### **a) Desk research**

This consisted of the collection of statistical data, collection of country background information, collection of information on donor policies, strategies and exits for each of the donors, file research on country exits, literature study, etc. Methods used were mainly qualitative. Triangulation of different data and actor analysis were important tools during desk research. The respective evaluation departments assisted the team in identifying and retrieving archival material.

### **b) Statistical data analysis**

Statistical data on trends in aid commitments and disbursements were collected during the inception and field phases. This applies both to the project/programme cases selected, as well as to the country programmes for each donor. However, because of collection problems (changes in donor information systems, bilateral cooperation definitions, etc.), no cross-donor database for comparative analysis could be developed. The statistical analysis remained limited to trends in aid disbursement by individual donors.

### **c) Interviews**

Open-ended interviews were held with staff at the headquarters of the four donors, Embassy staff, representatives of partner countries, representatives of implementing organisations, other donors and civil society representatives. As some of the exits took place some time ago, adequate time was devoted to trace the right persons. Face-to-face interviews were organised, and, if necessary, also telephone interviews (e.g. with the development councillor of a specific Embassy who was in charge during the exit and who is now working in another country).

Checklists for interviews with the different groups of actors were elaborated during the inception phase.

### **d) Focus groups/workshops**

The organisation of workshops at the end of each of the country case studies provided an opportunity not only to validate preliminary findings and recommendations, but also to confront the perspectives of the various stakeholders with each other.

## **2.6 Limitations of the evaluation approach**

The evaluation approach encountered several limitations. These concerned limitations in data collection and analysis (donor archives and interviews), as well as some conceptual problems.

## **Archival material**

The country strategies and annual plans formulated by the embassies are, in most cases, a good point of departure for the analysis of specific aid policies. Although written documentation on the different exits varies to a great extent, it was generally possible to reconstruct the main events in the political processes leading up to the country exits under study. Sources of information on the strategic elements of exit strategies are generally good, but become more uncertain when it comes to documentation pertaining to the management of the exit process. The formal process of phasing out is generally well documented at donor level, but sometimes less precise on how it was actually done in practice. Also to be noted is that files have been shifted due to the closure of embassies in some case study countries and have been difficult to retrieve.

Another specific problem was the collection of comparable statistical data regarding trends in aid volume. Each donor has its own management information system, which in some cases (e.g. the Netherlands) was changed during the evaluation period. Although basic statistical data could be collected, major problems existed with regard to comparability. The four commissioning donors all have slightly different definitions of what they consider bilateral cooperation or government-to-government cooperation. There are also clear differences among the four donors in how they keep track of country-specific central allocations. Furthermore, the recording of data on multilateral and NGO funding for exit countries was also different from one donor to another. For all these reasons, the statistical analysis intended to be carried out during the inception phase is necessarily quite limited. In fact, only very general trends in aid volumes are indicated, and no changes in aid channels as a result of exit decisions could be analysed.

## **Interviews**

For this information, despite the availability of archival material that allowed for parts of the analysis, the evaluators relied to a great extent on people's recollections of the past. It is acknowledged that perceptions of key stakeholders in the exit processes are likely to be biased towards their interests and personal experiences.

This is why the frames approach was suggested initially, as it would have provided guidance to the country evaluation teams to analyse these perceptions in a structured way. This approach allows for analysing the perceptions of the various groups of stakeholders, on both donor and recipient side. They were likely to act in different ways in country exit processes, not only based on the different roles they play, but also based on their beliefs, norms and values, for example:

- the political decision-maker motivated by certain political outcomes is often distantly related to the concrete exit (can be found both on the donor and recipient side);
- the loyal civil servant trying his/her best to implement an exit plan (also on both sides);
- the development activist trying to influence the exit process using aid policy and sustainability arguments.<sup>35</sup>

In the inception phase such a frames analysis was proposed, but in practice there were too many limitations to implement this approach. The main problem was that five different country teams were responsible for the five country case studies, and all five teams dealt with the frames analysis in a different way. For pragmatic reasons the frames approach was replaced by a simpler actor analysis describing the perceptions of exit processes of the various groups of stakeholders.

### **Conceptual problems**

Country exits were defined in the ToR as “exits from bilateral country level development co-operation”. In practice, both terms used in this definition proved open to different interpretations:

- The term exit: Exit had some negative connotations in some of the case study countries. Therefore, in the country case study reports different, partly synonymous, terms have been used, such as phasing out, scaling down and/or aid transformation processes. In the synthesis report the term ‘exit’ is used generically and includes all of the three processes above (see also Introduction);
- The term ‘bilateral country level development cooperation’: During the inception phase it became clear that donors use different definitions for bilateral cooperation. Since the end of the 1990s donors increasingly use the word partner country (or in some cases programme country), which implies the selection of a limited number of countries eligible for certain types of cooperation based on clear criteria. For these countries specific country strategies are developed. Country exit, according to this concept, would mean the loss of status as a partner country. The implications of this varied among donors. Another related term is government-to-government cooperation, but for this concept there also is no uniform definition used by all four commissioning donors. A pragmatic approach was applied in the country studies, and the most commonly used terminology for the specific development cooperation relationship used.

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<sup>35</sup> The latter category (development activist) can be found both inside and outside the administration (e.g. among lobby groups).

# Annex 3

## Abbreviations

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AfDB	African Development Bank
ANC	African National Congress
ASSP	Agricultural Sector Support Programme
BJP	Bharatiya Janata Party
CHAM	Christian Health Association of Malawi
CoM	College of Medicine (University of Malawi)
Danida	Danish International Development Assistance
DANCED	Danish Cooperation for Environment and Development
DFID	Department for International Development (UK)
DKK	Danish Krone (currency)
DPEP	District Primary Education Project
EPLF	Eritrean People's Liberation Front
ESDP	Education Sector Development Programme
GDP	Gross Domestic Product
GoE	Government of Eritrea
GoG	Government of Gujarat
GoI	Government of India
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HMIS	Health Management Information System
IDA	International Development Association
IMF	International Monetary Fund
KTS	Contract-Financed Technical Assistance
MAPWA	Madhya Pradesh Women in Agriculture
MASIP	Malawi Agricultural Sector Investment Programme



MDG	Millennium Development Goal
MFA	Ministry of Foreign Affairs
MFDP	Ministry of Finance and Development Planning
MHPN	Malawi Health Population and Nutrition Programme
MoA	Ministry of Agriculture
MoE	Ministry of Education
MoU	Memorandum of Understanding
NARI	National Agricultural Research Institute
NDP	National Development Plan
NGO	Non Governmental Organisation
Norad	Norwegian Agency for Development Cooperation
NASFAM	National Agricultural Smallholders Association of Malawi
NEPAD	New Partnership for Africa's Development
NOK	Norwegian Krone (currency)
NPRA	Norwegian Public Roads Administration
NRC	Natural Resources College (Malawi)
ODA	Official Development Aid
OECD-DAC	Organisation for Economic Cooperation and Development - Development Assistance Committee
PRSP	Poverty Reduction Strategy Paper
RD	Roads Department (Botswana)
RNE	Royal Netherlands Embassy
SADC	Southern African Development Community
Sida	Swedish International Development Cooperation Agency
SEK	Swedish Krona (currency)
SNV	Stichting Nederlandse Vrijwilligers (Dutch Development NGO)
SSA	Sarva Shiksha Abhiyan
SWAP	Sector Wide Approach
TA	Technical Assistance
ToR	Terms of Reference
UN	United Nations
UNHCR	United Nations High Commission for Refugees
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USD	United States Dollar (currency)
UPA	United Progressive Alliance
WASMO	Water and Sanitation Management Organisation
WFP	World Food Programme
WHO	World Health Organisation

**Key exchange rates:**

<b>Year</b>	<b>1 EUR = US\$</b>	<b>1 NOK = US\$</b>	<b>1 SEK = US\$</b>	<b>1 DKK = US\$</b>	<b>1 INR = US\$</b>
<b>1985</b>					0.08085
<b>1986</b>					0.07930
<b>1990</b>		0.1598	0.1689	0.16102	0.05516
<b>1991</b>		0.1543	0.1654	0.15633	0.03882
<b>1992</b>		0.1609	0.1717	0.16567	0.03448
<b>1993</b>		0.1410	0.1285	0.15423	0.03188
<b>1994</b>		0.1417	0.1296	0.15722	0.03188
<b>1995</b>		0.1578	0.1402	0.17849	0.02844
<b>1996</b>		0.1550	0.1491	0.16824	0.02784
<b>1997</b>		0.1414	0.1310	0.14647	0.02548
<b>1998</b>		0.1325	0.1258	0.15645	0.02354
<b>1999</b>		0.1282	0.1210	0.13499	0.02298
<b>2000</b>	0.94210	0.1136	0.1091	0.12621	0.02143
<b>2001</b>	0.88600	0.1112	0.0968	0.11862	0.02076
<b>2002</b>	1.04830	0.1253	0.1027	0.14116	0.02089
<b>2003</b>	1.25570	0.1412	0.1237	0.16864	0.02200
<b>2004</b>	1.36440	0.1484	0.1361	0.18345	0.02289
<b>2005</b>	1.18445	0.1552	0.1338	0.15846	0.02220
<b>2006</b>	1.32027	0.1645	0.1355	0.17696	0.02267

# Annex 4

## Country summary report

### Botswana

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#### 4.1 What country case is it?

##### **Classification – graduated but with little strategic importance**

The combination of the following characteristics make the Botswana country case different from Eritrea, India, Malawi and South Africa:

- Botswana graduated to middle-income level status in 1992 (and upper middle-income country in 1998);
- at the same time its *geo-political significance diminished* after the end of apartheid in South Africa (1994), while the economy and population remain marginal compared to the big brother in the south;
- the disappearance of aid funding was no problem to Botswana due to a *high level of domestic revenue* generation combined with good public financial management;
- the aid exits from Botswana serve to illustrate the original aid paradigm: aid is phased out when it is no longer needed, and how this was understood and implemented by the two sides – recipient and donor – in a context that was *largely free of political overtones*.

The study of Botswana<sup>36</sup> (reference + weblink) looks at the processes of phasing out bilateral aid – by Denmark, the Netherlands, Norway and Sweden – during the 1990s. This is arguably the first case of an African country ‘graduating’ from aid. Similar transitions took place for several donors at the same time and, in most cases, with the stated strategy of developing a new ‘post-aid’ relationship based on trade, private sector development and self-financed institutional cooperation.

The problems that arose in the implementation of such strategies had little to do with the way aid exits were managed – by and large successfully – but more with the attempted phase in of the ‘post aid’ relationship and the unrealistic expectations such a relationship was based on. Still, there are important lessons to learn from these exit management processes, and the study looks in particular at the consequences of Norway’s and Sweden’s exits as major donors.

### **Governance – a success story**

According to the 2007 World Governance Indicators Report, Botswana is among a small group of developing countries that score higher on key dimensions of governance than a number of leading industrialised countries, and it is often hailed as one of Africa’s success stories. Botswana has political stability within a multiparty system and a constitution that allows everyone equal rights and freedom of expression. The country has been ranked as the least corrupt country in Africa since 1998. An important facet of Botswana’s governance success is its planning system, which has regularly produced five- or six-year National Development Plans articulating government policies and development priorities since its independence. These formed the basis of the country’s aid management.

### **Economic development – sustained high growth but not for all**

On independence in 1966, Botswana was one of the poorest countries in the world but has achieved a real GDP growth rate averaging six percent per annum since the 1970s, with diamond rents the main engine of growth. Despite a decline in poverty over the last 20 years, poverty is still widespread, particularly in rural areas, with 30 percent of the population still below the official poverty line (2005).

Botswana has made remarkable achievements in education, with a literacy rate of about 80 percent. Similar achievements were made in health, but the HIV/AIDS pandemic has dramatically reduced life expectancy. Overall, HIV/AIDS is likely to affect Botswana’s economy in

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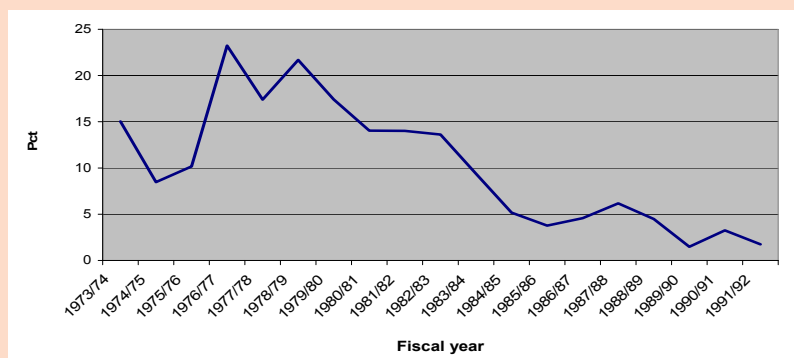
<sup>36</sup> This summary contains edited excerpts from the Country Report. The authors of the Synthesis Report have added new information in some instances. For the purpose of comparability between the five country case studies particular findings and lessons have been highlighted.

terms of declines in the labour force, productivity and overall GDP growth.

### Level of aid dependence – from high to zero

In the 1970s and 1980s Botswana was a “donor darling”. The country was known for its low corruption, financial aid was largely ‘on-budget’, and aid projects were integrated into a well functioning national planning system. On independence, the UK was the major donor. As other donors came to Botswana total aid inflow rose and averaged 15 percent of GDP between 1975 and 1979. Aid reached its peak in 1988, and by 1990 Botswana was the fourth largest per capita aid recipient. State revenue had, however, grown to leave the fraction of aid inflows at two to three percent only. This rapid and successful graduation is seen in Figure 4.1 below.

**Figure 4.1 Grants as percent of state revenue 1973/74 to 1991/2**



The Ministry of Finance and Development Planning (MFDP) effectively coordinated donor involvement. Duplication among donors was minimised by encouraging donors to specialise in specific sectors. The National Development Plan’s list of projects gave donors the opportunity to choose projects that addressed government priorities.

### Overview of donors included in the study

The following table presents some of the main characteristics and trends of the involvement of the four donors in Botswana:

**Table 4.1 Overview of the involvement of the four donors**

	<b>Denmark</b>	<b>Netherlands</b>	<b>Norway</b>	<b>Sweden</b>
Embassy	No	No	Closed in 1997	Yes
Trends in bilateral aid volume	See Figure 4.2 Rapid phase out from 1995. Phase in of environment projects from end of 1990s	No substantial bilateral assistance programme	See Figure 4.3 Major scaling-down from 1993, some disbursement until today	See Figure 4.4 Major scaling-down from 1993 and phase out starting from 1998
Main sectors	Electricity, transport and environment	Environment, land use planning, health and gender	Health, roads, agriculture and rural development	Education and culture, rural water supply, small industries and local governance
Main aid modalities	Project support	Project support	Project support	Project support
Non-aid relations	No indication or wish for further cooperation outside official bilateral framework	No policy regarding Botswana	1993 strategy for broader cooperation based on joint financing of institutional cooperation	1999 new strategy for broader economic cooperation with a focus on private sector relations

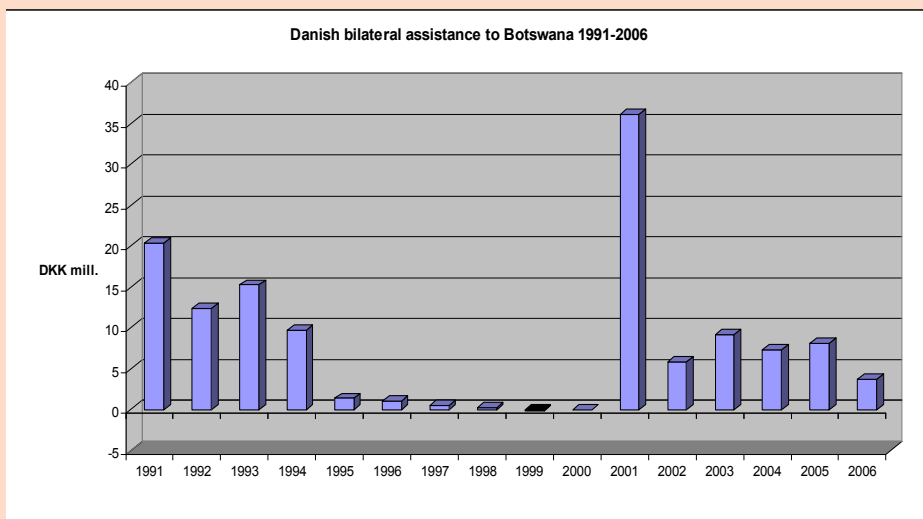
### **Denmark – going out and coming back**

Botswana and Denmark started their development cooperation in the early 1970s, but Denmark never opened an Embassy. Danish assistance was primarily focused on the electricity and transport sectors and was equipment oriented. Later, in the mid-1980s, conventional grant aid was introduced. By 1987, Denmark was the fourth largest contributor of development aid to Botswana.

A decision to scale down aid was communicated to Botswana in 1994 and aid was soon phased out. From 1995 to 2001 there were virtually no aid disbursements. At the end of the 1990s, however, aid was revived with the start of three relatively large projects financed through the former special facility for environmental projects (DANCED<sup>37</sup>), the last of which was completed in 2006/2007. By October 2007 only some NGO activity remained, related to work on human rights and indigenous people (the San or Bushmen).

<sup>37</sup> DANCED (Danish Co-operation for Environment and Development), managed by the Ministry of Environment, lasted from 1993 to 2002 when it was merged with the regular Danish aid programme (Danida). A decision by the Danish Parliament resulted in the reopening of bilateral aid to Botswana through DANCED.

**Figure 4.2 Danish bilateral assistance to Botswana 1991–2006**



### **The Netherlands – no major bilateral involvement**

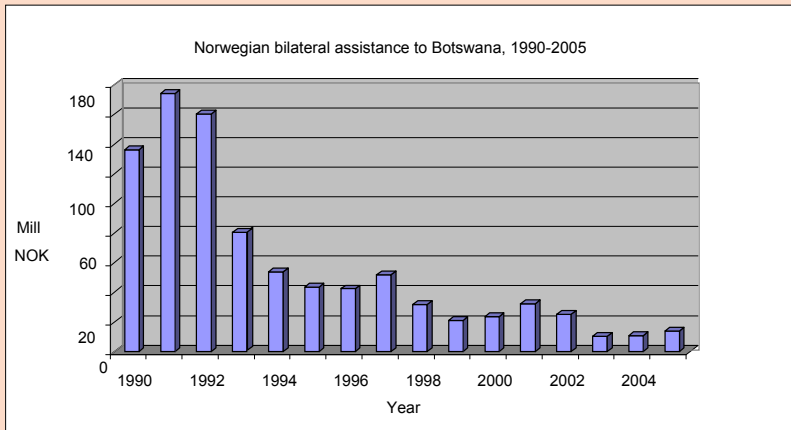
The Netherlands never had either an Embassy or a substantial bilateral development assistance programme in Botswana. Some Dutch technical assistance was administered from Zimbabwe. Since 1973, Dutch activities in Botswana had been implemented mostly by SNV – a Dutch development NGO. Funding amounted to Euro 123,000 in 1999 and Euro 64,000 in 2000, after which it was phased out. The SNV activities at that time related to Bushmen, HIV/AIDS and the environment and water sectors.

### **Norway – major donor in health and transport**

Bilateral agreements between Norway and Botswana have existed since 1972 and Norad established an office in 1974, which was turned into an Embassy from 1990 to 1997, when it was closed.

Soon health and roads became the two most prominent cooperation sectors, but Norwegian support also went to other sectors, such as agriculture, rural programmes (Bushmen and general rural development) and environment. Bilateral development assistance through the country programme was reduced from 1992. Before that there had been a sharp increase, primarily due to support schemes for business and industry (mixed credits). From 1994, Botswana's status as a medium-income country precluded benefits from the mixed credits scheme due to OECD regulations.

**Figure 4.3 Norwegian bilateral assistance to Botswana 1990–2005**



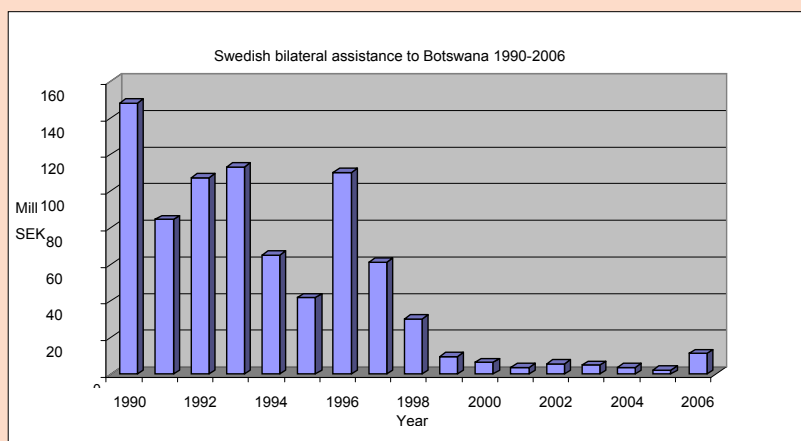
### **Sweden – involvement more fragmented**

Botswana became a recipient of Swedish aid right from its independence in 1966. An Embassy was opened in 1969, and the first government-to-government agreement was signed in 1971, when Sida also opened a development cooperation office in Gaborone. During the years 1966–1970, development cooperation mainly consisted of granting scholarships to students and building and equipping secondary schools and vocational training centres. From the middle of the 1970s, aid was concentrated on three major sectors: education and culture, rural water supply, and small industries. During the 1980s the “Small Industries” sector was replaced by support to “District Development”. In addition, Sweden offered a very flexible arrangement for development services through its “Personnel and Consultancy Fund”.

Restructuring and a phasing out of aid were affected during the 1994–1998 programme, although the period initially started with an increase in the level of disbursements. From 1999, after the exit of bilateral aid, Swedish support through contract-financed technical cooperation remained, as well as international training programmes. Botswana also participated in regional projects, and Sweden supported Botswana through a number of multilateral channels. The fight against HIV/AIDS was high up on Sweden’s priority list for support to Botswana.



**Figure 4.4 Swedish bilateral assistance to Botswana 1990–2006**



## 4.2 Exit and aid transformation decisions and planning

The following table presents an overview of the various exit decisions:

**Table 4.2 Overview of the different exit decisions by the four donors**

	Denmark	Netherlands	Norway	Sweden
Period 1990–1993 1992 classification of middle-income country		–	1991: aid transformation decision; formally not an exit but a change in the aid approach	–
Period 1994–1998 1998 classification of upper-middle-income country	1994: official communication of exit decision based on graduation but also due to alleged misuse	–	1994–1996: country programme tool for restructuring aid 1997: snap decision to close Norwegian Embassy	1994: decision to phase out programme aid by 1998 to be replaced by broader cooperation
1999–2006	2001: reintroduction of aid through the DANCED facility	1999: decision by SNV to phase out	–	–

## Denmark – no exit strategy

### *Communication of the decision*

In 1989 Danida already argued internally that Botswana no longer qualified as a programme country. When the Danish exit decision was officially communicated in 1994, it did not contain any indication or wish for further cooperation outside the official bilateral framework, except for a reference to the Southern African Development Community (SADC) and a hope that Denmark's close ties with SADC would continue and contribute to "stability and economic progress in Southern Africa".

Botswana's government received the message with understanding and acceptance, and made no attempt to persuade Denmark to keep Botswana as a programme country. In 1997, however, a Danish representative reports from a meeting with the Minister of Foreign Affairs, who "undiplomatically" complained about the Danish exit. The Minister had argued that poverty and unemployment remained high, and that Botswana should not be penalised for good financial management. Besides, Danish technical assistance was very much needed.<sup>38</sup>

### *Why exiting?*

In the early 1990s, a number of changes took place within the Danish aid system, including a decision to reduce the number of programme countries. This was corroborated by a need to cut administrative costs. In 1992, the Danish Parliament also decided on a new additional budget framework outside the aid appropriations to mobilise additional resources for environmentally sustainable development (DANCED), and to respond to the rapidly increasing demands for emergency assistance. At the end of the 1990s, the DANCED facility, not restricted to low-income countries, was in fact used to reintroduce aid to Botswana through the support of several natural resource management projects.

The decision to exit from Botswana was not only justified by these changes and Botswana's economic graduation. There were, at the time, frictions in the cooperation due to alleged misuse of some refrigerated railway wagons supplied by Denmark. Not being satisfied with the way the Botswanan government handled the matter, Denmark decided to cut short a project for building a container terminal and withdrew commitments to an electricity supply project. In internal documents of the (Danish) Ministry of Foreign Affairs, Botswana's decision to build a new (expensive) military airport was also criticised. This was, however, not included in the official communication of the exit decision to Botswana.

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<sup>38</sup> Notits, 13.11.1997, Ministry of Foreign Affairs, Denmark.

### *Planning of the phase out*

Apparently there was no overall long-term exit planning. When the intention to exit was communicated in 1992, Botswana proposed a ministerial meeting, among other things, to discuss cooperation after the era of bilateral aid. The phasing-out plans that might have been agreed were, however, overtaken by events (i.e. disagreements over the transport project) that led to the Danish decision in 1994 not to make further funding available to Botswana for official bilateral assistance. The exit was managed project by project, based on agreements still in force, in a way that did not damage ongoing work.

## **Norway – aid transformation frustrated by closing of Embassy**

### *Communication of the decision*

By 1990, a change in the aid relationship between Norway and Botswana had long been under discussion. In Oslo, Botswana's graduation had been discussed for some time. It served to reinforce the argument that a large amount of unspent Norwegian aid funds had accumulated because of slow implementation. A decision was made in 1991 and in mid-1991 Botswana was informed about Norway's intentions.

### *Why exiting?*

Norway's decision did not come without internal resistance. A number of former aid workers and administrators who had worked in Botswana and claimed a deeper understanding of Botswana's situation felt that there were good reasons why Norway should stay in Botswana for some time to come. The two sides did, however, appear to find common ground in the idea of changing the character of aid to Botswana.

### *Planning of aid transformation*

In 1993, the Norwegian Minister for Development Cooperation and the Botswanan Assistant Minister for Finance and Development Planning discussed a blueprint for change in a meeting. Important aspects of the Norwegian strategy for withdrawal were to safeguard the results already achieved and, at the same time, to lay the foundation for future institutional cooperation not based on conventional development cooperation. Formally, the situation was still not one of 'exit' but of a change in the aid approach.

The strategy discussed bilaterally in 1993 contained the following principles for transforming development cooperation:

- gradually reduce traditional development assistance over a period of three years, and lay the foundation for long-term cooperation not dependent on development aid;

- base plans on the assumption that Botswana's status as a programme country would be maintained up to 1997, although development assistance funding could also be made available after 1997 "taking into account the conditions at the time";
- concentrate development cooperation on capacity building;
- facilitate the establishment of new forms of cooperation not dependent on development assistance funding;
- stress recipient responsibility: "The Botswanan authorities shall be invited to investigate potential areas of cooperation, and present their own proposals".

It was realised by both parties that promoting lasting cooperation not dependent on development assistance was a formidable challenge. Botswana expressed the need to proceed slowly all along, arguing for the need to retain TA for a longer period. Optimistic plans were announced for Norwegian NGOs, which would be invited to examine the possibilities for more target-oriented cooperation with Botswanan NGOs with a view to strengthening them and developing their expertise. Support mechanisms for industrial and commercial cooperation, scholarships and SADC programmes and projects were also mentioned as useful channels.

The snap decision to close the Norwegian Embassy in Gaborone in 1997, however, made it difficult to implement the strategy and accelerated the end of Norwegian aid.

## **Sweden – broadening cooperation but lacking instruments**

### *Communication of the decision*

The decision to phase out programme aid was communicated to Botswana in 1994 in connection with the negotiations for the country programme for 1994–1998. The Swedish strategy was based on the principle that by the end of 1998 Swedish aid should change from traditional grant aid to broader cooperation with a focus on commercial and private sector relations.

The decision taken, there was no audible protest from either side. While not welcoming the change, Botswana's response was passive; the feeling clearly being that the recipient just would have to accept the actions of the donor.

### *Why exiting?*

It is worth noting that in an evaluation of the 27 years of development cooperation with Botswana, carried out in 1993, it is argued that Botswana, despite its graduation in financial terms, still has a long way to

go in capacity development and diversification of the economy, and it was concluded that:

“Sida support should focus primarily on capacity building, training and institution building. It would be premature for Sweden to expect to be able to broaden its development cooperation significantly with Botswana from support through Sida towards more commercial contacts and joint venture formation <sup>39</sup>”

This quote illustrates the ambivalence at the time towards how to treat Botswana. The graduation argument got the upper hand, but it also mattered that on the Swedish side there was neither any strong interest from non-governmental organisations nor from the private sector in maintaining the relationship. However, the Swedish Government wanted to indicate that there was “a future together”.

#### *Planning of aid transformation*

At the mid-term review of the country programme, in 1996, a strategy for aid transformation was discussed between the parties. The Swedish head of delegation communicated a modest vision for future cooperation: “Trade between our countries, both in terms of commodities and services, has been limited. We do not anticipate any substantial increase in trade in the future. However, we believe that cooperation between institutions in Sweden and Botswana may be maintained and increased.”<sup>40</sup> After the exit, Sweden anticipated that cooperation would continue based on joint financing, especially in areas where Swedish institutions financed by Sida had been involved for many years.

#### *Botswana’s aid policy – ‘graduated’ but still unprepared*

Botswana became a ‘donor darling’, but during the 1980s, with the state budget showing major surpluses year after year, it became evident that financial aid was not really needed. When Botswana was reclassified as a middle-income country in 1992, the major donors had already started considering restructuring their assistance or exiting, but not without consternation in the Botswanan camp. Several of the larger donors made their moves roughly at the same time and not just for one or two sectors but across the entire range of cooperation. From the Botswanan perspective, the decisions to pull out appeared, in many cases, too hur-

<sup>39</sup> Support for Independence. An Evaluation of 27 Years of Development Cooperation with Botswana. Steffan Dahlgren, Tyrrel Duncan, Allan Gustafsson and Patrick Molutsi. Sida Evaluation Report 1994/2.

<sup>40</sup> Agreed Minutes: Botswana/Sweden Development Cooperation Consultations, 3rd to 5th June, 1996. Annex 1 Introductory. Speech by Mr Jan Bjerninger, Sida.

ried and took the authorities by surprise. The Government had come to consider the aid inflows an integral part of public finances, partly due to its own ownership of aid management, and still felt that aid was needed. In particular, Botswana reacted by saying that “we still need your expertise”.

In interviews, donor representatives noted the passive reaction by the Botswanan Government to donors exit decisions. Although Botswana was clearly against an end to donor aid at the time, it did not engage actively in influencing exit strategies. As the early signals from the two bigger donors – Norway and Sweden – were about restructuring, not exit, the reaction was, however, one of understanding.

Botswana would, in principle, like to see “a soft landing” where aid could be reduced and reshaped but where increasing trade and other cooperation took over as aid was phased out. Ever since the National Development Plan (NDP) 7 (1991–1997), Botswana had not assumed that there would be any considerable financial support from donors. When NDP 8 (1997–2003) was being prepared, however, it was considered necessary to re-engage previous donors, among other things, by setting up an office for donor coordination, which Botswana did not have before. The attempt, however, did not succeed to any significant degree.

To some extent, Botswana also expressed sentiments that perhaps were more emotional than official. Some felt that donors should have stayed in Botswana to make sure the country became a development success in order to highlight it as a role model for other developing countries. Another sentiment often expressed at various levels was that the real message coming from the way donors left was “you have to mismanage to benefit from our development cooperation”. Summing up the Botswanan reaction to donor exit is perhaps best done in the words of former President Masire: “We did not feel that it was terribly fair, but we cannot thank them enough for what they did!”

### **4.3 Implementation of exit and consequences**

This section looks at Norwegian and Swedish aid only for which elaborate exit strategies were developed.

#### **Norway's aid transformation process**

##### *Norway closing the Embassy*

Surprisingly, the closure decision was not made with an exit purpose in mind. It is difficult to interpret the closure as anything other than a breakdown of communication between Norad and the ‘mother’ ministry, the Ministry of Foreign Affairs. Norad had supported a restructuring of aid and wanted representation in Botswana as long as Norwegian aid personnel were there, noting that the new aid approach would in-

volve a lot of personnel exchange. The reasons for closure, it seems, were political and economic, in the sense that the incoming coalition government in Norway led by the Christian Peoples Party wanted Norwegian representation in new countries, which required closing somewhere else.

The Embassy closed down only six to eight months after the official announcement. The problem of combining the closure with the running of several multi-year contracts was, for a while, solved by placing a Norad representative at the remaining consulate to follow up projects. Later, project responsibility was transferred to the Zimbabwean Embassy. The reaction from Botswana was one of regret and was characterised by some as “painful”. Botswana tended to see the closure as an end of direct contact, which they stressed they appreciated and needed more than the money.

#### *Promoting new-type institutional cooperation*

The programme period 1994–1996 was thus a period for phasing out the old projects and phasing in new. Each of the sectors was handled differently, depending on Botswana’s interests and the capacity of the Norwegians to find suitable cooperating institutions. In the health and road sectors new types of institutionally based agreements were developed. It seems that for all sectors the phase out period was gradually extended much longer than initially envisaged.

Experiences show that outcomes were highly dependent on a few individuals, and that cooperation therefore may be vulnerable in the longer term. The phase out of Norwegian aid to the roads sector in Botswana clearly illustrates this. Institutional cooperation between the Roads Department and the Norwegian Public Roads Administration (NPRA) did not come easy. Although NPRA had been involved in Botswana for many years, it seemed unprepared for a different relationship at the time of closing the traditional aid programme in 1997. The active involvement of certain individuals at the Embassy and in NPRA set the stage for an institutional partnership running until today. In the current phase, the Botswanan Government covers 80 percent of the costs. On the Botswanan side there is great satisfaction with the way the exit was carried out. According to centrally placed interviewees, the cooperation with NPRA helped Botswana to stand on its own two feet, and, in the future, it is likely that the bonds to Norway will wither.

### *Not a consistent approach*

It appears that communication was a problem during the exit process. While the blueprint appeared to be pretty adequate, there is little evidence that Botswana took it to heart or even focused on it. In some cases there may have been good reasons for recipient confusion about the exact message:

- After the strategy was launched there was a brief scale-up of the volunteer service, which was later seen not to be a good idea and had to be scaled back;
- In the middle of the process of communicating and agreeing on the restructuring, the Minister of Foreign Affairs visited Botswana and apparently made new promises to Botswana;
- The 2002 agreement on a new anti-HIV/AIDS project also seemed, although for perfectly laudable reasons, to negate the exit.

The assessment of the exit by aid professionals seems to deviate from that of Ministry of Foreign Affairs officials. While the aid professionals were implementing a change in the aid relationship, the view from the Ministry seems to have been that Norad was implementing an exit. The success rating depends on which position is taken: seen as an exit, it may well be said to have been successful, apart perhaps from the sudden and unexpected closure of the Embassy; if the aim was the proclaimed '*change in the aid relationship*' it is hard to conclude that it was successful.

### *Outcome today*

What remains of cooperation today is not much. In roads, the Roads Department (RD) finished its Cooperation Agreement with the NPRA in 2007, and it is uncertain what will happen next. The feeling is that if aid funding does not come into the picture, nothing will happen. In the health sector, the final phasing out will happen in 2012 and it does not seem that anybody has ambitions for joint activities after that. The private sector cooperation and focus on economic diversification never got going. What may be seen as trade and private sector links at the present time has little or nothing to do with the aid 'restructuring' link.

## **Sweden's aid transformation process**

### *Retaining the Embassy*

In 1999, Botswana ceased to be a Swedish programme country. An official final punctuation mark for the orthodox development cooperation programme was made by the visit of the Swedish Foreign Affairs Minister, Anna Lindh, in February 1999. She apparently influenced the decision not to close the Embassy at the same time, but Sida decided to terminate its two remaining positions.



### *Promoting 'broader' cooperation*

A new strategy called "broader economic cooperation between Botswana and Sweden" was prepared taking effect from 1999.<sup>41</sup> The priority areas were labelled as "Promotion of Increased Economic Co-operation", "Regional Programmes and Co-operation", and "Intensified Political Dialogue on Issues of Mutual Concern". The new strategy reflected available funding channels on the Swedish side. A key channel for assisting private sector cooperation was Contract-Financed Technical Assistance (known by the Swedish acronym – KTS). This is a cost-sharing mechanism ideally responding to applications for Swedish technical assistance developed by the southern partner. An evaluation of KTS in 2002 reported that Sida and the Embassy played an active role in promoting KTS projects in Botswana, which indicates a limited demand. Furthermore, Botswana was especially prioritised for funding of HIV/AIDS projects under regional programmes.

### *Unrealistic expectations and lack of instruments*

Comments and actions from various stakeholders, both Swedish and Botswanan, indicate that the realism of the planned post-1998 programme was in considerable doubt:

*On institutional cooperation.* The Gaborone Embassy argued repeatedly in favour of using a certain level of development cooperation funding to support activities creating links between Swedish and Botswanan institutions and enterprises. In a number of instances the Embassy asked to be allowed to use some development cooperation funding on "catalytic" measures or projects, but the home administration kept a very restrictive line. It was pointed out that there was a capacity shortage among NGOs in Sweden, which would make it very difficult to build broader cooperation.

*On private sector cooperation.* There had been agreement all along on the fact that the scope for private sector cooperation was very limited. The semi-annual meeting in December 1995 discussed private sector cooperation, and the Botswanan chairman noted that this had been elusive over the years. The Ministry of Foreign Affairs in Stockholm was also sceptical as to the use of aid to stimulate private sector cooperation. An HQ comment on the Embassy's plea for more catalytic resources for this purpose was that it was supposed to work without the 'oiling' of development funding, but that the prospects for this were poor indeed since it had never been made to work even with such funding! Attempts to use cooperation funds "catalytically" to start new self-propelling activity were declined by the Swedish MFA on the grounds that they were

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<sup>41</sup> Swedish Embassy, 17.06.1999, Promemoria – "Breddat ekonomiskt samarbete mellan Botswana och Sverige".

not self-propelling or based on cost-sharing, or did not fit into the sectors and categories for which broadened cooperation had been planned.

### *Outcome today*

Looking at the picture in 2007, the Embassy was still playing a role in managing a small aid programme in Botswana, but there was a feeling that Botswana was not really a priority with Sida. The Embassy expressed its longstanding general concern about limited access to funds for worthwhile projects. The present HIV/AIDS programme is run through UNDP and UNICEF but with Sida funding. In November 2007, a decision was made to close the Embassy by mid-2008.

In retrospect, the mere existence of an Embassy did not appear to have had a very noticeable effect on the extent of broader development cooperation compared to the Norwegian case where the Embassy was closed. Botswana, however, appreciated the maintenance of the Swedish Embassy wanting to maintain bilateral relations at a political level.

### *Consequences*

The phase out of traditional development cooperation, by and large, is reported as flawless. There are no reports of failures that can be attributed to the way exits were managed. The final results analysis of the Swedish programme from 1966 to 1998 gives a rather flattering picture of the way and time during which the exit was implemented.<sup>42</sup> The main conclusions of the analysis were that:

“... basic capacity now exists in the areas addressed by Sida over the period of cooperation. All the programmes/projects that were originally run by Swedish experts have now been handed over to Botswana, who has produced this report.”

“... the GOB is committed to continue funding the programmes started with Sida funds, as evidenced by their inclusion in National Development Plan 8 which runs up to 2003.”

Both donors and Botswanans interviewed felt that the withdrawal was good for the country. Although Botswana reacted by saying that “we still need your expertise”, the government appreciated the medium-term exit planning that the major donors put into effect. Some Botswanans also had the feeling that the pullout created a higher degree of ownership: “It’s good to be regarded as grown up”. There are, however, some issues worth mentioning.

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<sup>42</sup> Government of Botswana (1999). Final Results Analysis Report, Swedish Development Co-Operation with Botswana, 1966–1998. Government of Botswana, Gaborone.

## **For implementing organisations**

### *Handling the loss of technical assistance (TA)*

Interviews of officials in post at the time of the exits confirmed that if there was any effect of the exit that was regretted it would be the loss of TA. The exit of TA was seen to be a blow to development efforts. “If we could have extended the TA input it would have been helpful.”

There still is a clear imbalance between available human and financial resources in Botswana even today. Hospitals are not operational because of a lack of human resources. Lack of quality control over buildings and road construction render them cracked and unusable. The private sector, according to some, is not able to implement even half of the NDP projects. That this has much to do with what happened in the 1990s is unlikely, but the exit of TA could have been handled better.

A, perhaps interesting, comparison between TA and financial support can be made. Since financial support was mostly delivered through the budget, and thus managed by Botswana’s excellent planning system, it was relatively easy to plan for a withdrawal and fill the gap with local financial resources that were available. TA, however, was not fully integrated into the personnel system, and it was therefore not easy to foresee the results of donor exits and take measures in good time.

In interviews, the “role model” effect of former TA was also mentioned. Overall, the argument is not one of lack of training and ability of Botswanan human resources but rather about the need for “excellent people or institutions to benchmark against”. The young volunteers and experts who worked very hard in the early days and had Botswana’s best interests at heart had a positive influence on the young Botswanans with whom they worked side by side. It was also mentioned that donor-recruited TA could not easily be replaced through the international labour market. One issue was the cap on salaries government could offer. It is also widely considered that consultants and professionals recruited directly are often second rate and do not have many other interests apart from earning money, whereas donor-recruited TA personnel were generally interested in “development”.

### *Retaining quality of manpower in primary public services*

The primary health care system is heralded as one of the successes of the Botswana-Norway cooperation. A linchpin in this system is the development of highly qualified district health teams, including medical doctors. These positions were initially filled by expatriates, while the number of trained Botswanan medical doctors was built up. Problems arose, however, with medical personnel educated for Botswana preferring to stay in urban areas. There was a lack of personnel willing to work in rural areas. It was also unpopular for students to specialise in

public health because clinical work was thought to be more interesting. In general, the shortage of qualified manpower is acute. The problem in the health sector has, to some extent, been solved by the crisis in Zimbabwe, which has made it possible for Botswana to recruit health personnel on a scale beyond their expectations.

#### *A funding squeeze for local NGOs*

Although the Government of Botswana has always had certain difficulties, formal or informal, with cooperation with NGOs, parts of government saw the NGO role clearly and encouraged continued donor involvement. Most donors found this more difficult, however, under the funding arrangements in place after the exit. During the donor exits in the 1990s the NGO sector was hit considerably harder than the government. The majority of NGOs in Botswana have seen a dramatic decrease in bilateral external funding without any offsetting increase in other funding (domestic or multilateral).

However, the Norwegian and Swedish ambitions to phase in long-lasting non-aid relationships with Botswana have borne modest results. Although some would characterise it as a success that any links exist at all, most would agree that the present level of contact and cooperation is much below what was expected or hoped for. The lack of potential for mutual economic interests, the geographical distance of Botswana from the European donors and the size of the Botswanan economy are clearly key reasons for this situation.

## **4.4 Lessons for exit and transformation management**

### *Successful exits*

What donors and recipients can learn from the Botswanan exit cases in terms of management is limited. Botswana is a special case, particularly in that it had, at the time of withdrawal, a fairly comfortable financial position and a system of aid management that was centralised and better integrated within the domestic planning system than in probably any other developing country. This system and the way major donors were integrated into it helped to ensure a smooth phasing out of conventional development aid. The following lessons have some general validity:

### *Setting the timeline for exit*

With programmes the size of Botswana's in the early 1990s, it is hard to believe that a smooth exit could be achieved in a period of less than three years. Experience in Botswana shows cut-off points can be set in terms of project completion rather than by date or period. Particularly

the Norwegian and Swedish experiences indicate that simply allowing projects to run until ‘completion’ did not lead to undue prolongation, and ensured sustainability of end results.

#### *Handling of technical assistance*

Unless a wholesale exit is deemed necessary, there is a case for differentiating between TA and project/programme-based cooperation to a larger degree than has been the case in Botswana. It is possible to use imaginative ways of supplying TA in the absence of financial/project aid.

#### *Support to local NGOs*

Donors conducting official aid exits should be aware of the, mostly unintended, tendency to curtail NGO funding at the same time.

#### *Problems with the goal of aid transformation*

The phasing in of post-aid ‘restructured’ or ‘widened’ cooperation was much more problematic.

#### *Communication of the intention to exit*

A better-conducted communication process might have helped Botswana in handling the ‘new aid’ phase slightly better. Communication with the recipient on management issues was not always clear, and some political and uncoordinated policy statements appear to have clouded issues. Politicians making statements while the administrative process was proceeding seems, in some cases, to have interrupted the stability of the process and confused both donor and recipient about end targets and processes. This was particularly the case with Norwegian and Swedish aid to Botswana, where the recipients at first did not understand the new cooperation style as an exit but rather as a restructuring of the cooperation relationship. Moving from orthodox to new and untested fields of cooperation requires both a clear understanding and clear will to be demonstrated by both parties.

#### *Stimulating sustainable private sector partnerships*

For Sweden and Norway to form private sector relations on the basis of a long history of aid proved nearly impossible in a small and far-away country like Botswana. It is possible that such relations can be formed, but it is hard to see that it can be done without access to ‘catalytic’ aid funding and, even so, it is likely that such funds will have very low returns.

#### *Stimulating institutional cooperation in the public sector*

To form inter-institutional cooperation within the public sector also requires aid funding in the short term (the start-up phase). The mainte-

nance and further development of institutional cooperation in the longer term is likely to require both aid funding and the presence of aid personnel.

*The need for an Embassy*

The phase out of activities can be managed from a distance but not the initiation of new projects. Despite some examples of difficulties in the Norwegian health programme, which could have been caused by moving the Embassy to Zimbabwe, most projects, once set up, can in all likelihood be run from a distance. The problem is rather that it is more difficult to initiate new forms of cooperation from afar. Both Norway, no longer with an Embassy in Gaborone, and Sweden, with an Embassy with only feeble links to Sida, faced problems in the follow-up of their new strategies.

# Annex 5

## Country summary report

### Eritrea

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#### 5.1 What country case is it?

##### **Classification – foreign policy dictates aid relationships**

Eritrea differs from the other four case countries – Botswana, India, Malawi and South Africa – in the combination of the following factors:

- Eritrea has exercised strong political ownership in the dialogue with donors despite its dependency on aid and fragile geopolitical situation;
- Eritrea's aid relationships with western donors have, to a major extent, been subordinated to foreign policy concerns and determined by factors not related to aid effectiveness or development policy per se;
- Despite its effective use by Eritrean institutions, aid could not be sustained in an environment of political posturing on both sides of the relationship. Three of the four commissioning donors, Norway being the exception, have de facto phased out bilateral aid.

Eritrea is by no means a unique case in foreign policy concerns overriding aid policy objectives, but it is fair to say that Eritrea has been particularly vulnerable. It is indeed remarkable how aid relations have turned from warm to cold over a short time span. Praise for Eritrea as a

development partner runs very high in donor reports at times, while only shortly after the country was discredited as a legitimate partner for aid.

The Eritrea case study<sup>43</sup> (reference + weblink) firstly looks at how the four donors – Denmark, the Netherlands, Norway and Sweden – have handled their aid relations with Eritrea after the country gained independence in 1993. Despite the declared like-mindedness of the four donors in terms of aid policies and similarly enthusiastic acclamations of the new Eritrean regime and its developmental ambitions, the trajectories of the four aid relationships turned out quite differently. This serves to illustrate the difficult and uneasy relationship between foreign policy and development aid. Denmark and Sweden terminated bilateral aid in 2002, the Netherlands placed aid on the backburner, while Norway attempted to increase its aid portfolio in the same period.

Secondly, this study looks at the consequences of the Danish exit in more detail. The Danish phase out of two large programmes in the agriculture and education sectors was clearly the most dramatic – from an Eritrean perspective. It represented not only a major financial challenge to the sector ministries concerned (especially agriculture), but was seen as a fundamental breach of trust and disregard for principles of development partnerships.

#### *Governance – tightening the control*

Eritrea gained independence in 1993, after 30 years of armed struggle against Ethiopia, when the Ethiopian ally of the Eritrean People's Liberation Front (EPLF) – a coalition of Ethiopian resistance movements – overpowered the Mengistu regime. However, relations with Ethiopia soon deteriorated again leading to the border war in 1998–2000, which left tens of thousands dead. Following the internationally brokered ceasefire, internal discontent with President Isaias Afewerki and the one-party government came to the fore. This triggered a clamp down on the opposition and the media and a reversal of previous commitments to democratisation and economic liberalisation.

Political and diplomatic relations with the West have since worsened. From having called the country “a beacon of hope”, the US government in 2007 sent warnings that it could add Eritrea to its list of rogue states, alongside countries like Iran, North Korea and Cuba. The reason for this turnaround was only partly due to the regime's violations of human rights. Eritrea is accused of providing a safe heaven for leaders of alleged terrorist organisations in the region. What matters for this study is that the image of Eritrea among western donors has shifted

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<sup>43</sup> This summary contains edited excerpts from the Country Report. The authors of the Synthesis Report in some instances have added new information. For the purpose of comparability between the five country case studies particular findings and lessons have been highlighted.



from one of a promising new development partner to a fragile state playing a risky geopolitical game.

Eritrea has been praised for its committed and corruption free civil service, which largely remains true until today, but the worsening economy and the exodus of educated people severely hamper development cooperation; as do the tightening of internal security, increasing centralisation of power and lack of transparency in public finance.

*Economic development – poverty and lack of growth prevails*

The combined effects of the border war with Ethiopia, a series of droughts, and the reversal of political and economic liberalisation have had a severe effect on the country's economic growth. Current economic activity is characterised by increasing domination of the economy by state- and party-owned enterprises. Eritrea remains among the poorest countries of the world. One third of its people live below the food poverty line, and in 2003 food aid covered most of its food needs – in terms of proportion, more than in any other country in the world.

*Level of aid dependence – high but fragile*

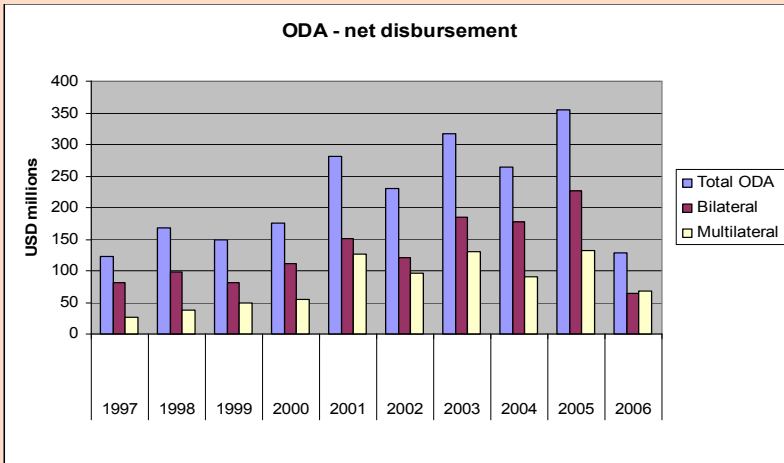
The average ODA per capita for Sub-Saharan Africa in 2005 was about USD 42, while for Eritrea it amounted to about USD 81<sup>44</sup>; as much as 40 percent of ODA committed from 1993 to 2003 was humanitarian assistance. As seen in Figure 5.1 there was a steady build-up of aid disbursements until 2005, when a drastic reduction is recorded in the OECD-DAC database. Total aid commitments (grants and loans) also plummeted in 2006 – to almost half the level of the previous year. There was a peak of commitments in response to the humanitarian crisis after the border war.

New commitments in recent years mainly come from multilateral sources – World Bank, European Union and African Development Bank – with bilateral partners reducing their involvement. Following the World Bank, the United States was the major donor since independence, followed by Italy; Norway ranks fifth followed by the Netherlands and Denmark. However, aid relations with the US have now almost ceased, confirming the highly politicised context of development partnerships in the region.

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<sup>44</sup> Human Development Report 2007/2008, UNDP.

**Figure 5.1 Net ODA disbursements for Eritrea 1997–2006**



Source: OECD – DAC database [www.oecd.org](http://www.oecd.org)

*Main features of aid from the four donors*

The following table presents some of the main characteristics and trends of the involvement of the four donors in Eritrea:

**Table 5.1 Overview of the involvement of the four donors**

	<b>Denmark</b>	<b>Netherlands</b>	<b>Norway</b>	<b>Sweden</b>
Embassy	Closed in 2002	Yes	Yes	Ambassador Stockholm-based
Trends in bilateral aid volume	See Figure 5.2 Rapid increase, until dramatic fall since 2002	See Figure 5.3 Increasing flows until major drop in disbursement in 2002	See Figure 5.4 Reduced flows during border war, higher and consistent level after 2002	See Figure 5.5 Ups and downs – first in 1995/96 and second since 2002
Main sectors	Agriculture, education and legal sector	Governance, agriculture, fisheries and education	Good governance, humanitarian aid and rehabilitation	Energy, education, research and public administration
Main aid modalities	Project and sector programme support	Project support and preparation of sector support	Project support	Project support
Non-aid relations	Denmark totally phased out bilateral relations	Retaining Embassy despite scaling down of aid; decision to close Embassy made in late 2007	Playing a role in peace processes on the Horn of Africa	Effort to develop new areas of cooperation with a mission in 2002

### *Denmark – up and out*

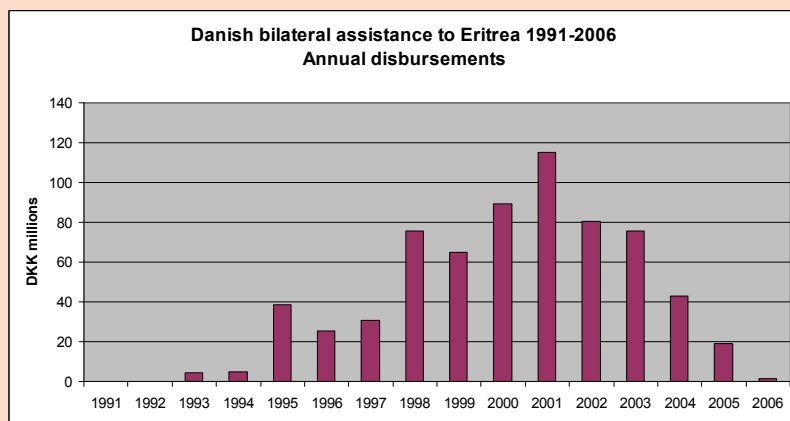
Eritrea was granted the status of programme country in 1993. In 1996, the agriculture and education sectors were selected as priority sectors for Danish development cooperation, and in 2001 an agreement to develop the legal sector was signed.

Denmark became the main donor in the education sector. The agreement in 1996 outlined a 13-year programme consisting of a three-year pilot phase to be followed by two five-year phases. The last phase never materialised because of Denmark's exit decision. Danish cooperation focused on the development of human capital resources in Eritrea with a major part of the budget going to capacity building, technical and vocational education, and training and curriculum development (over 60 percent in total).

In 1996, a similar agreement for the agriculture sector was signed, envisaging two five-year phases. Only the first phase was completed. The cooperation focused on strengthening Eritrea's internal capacity to administer a sector programme, in which the Ministry of Agriculture (MoA) would be responsible for the planning and implementation of the agricultural development activities.

The agreement for support to the legal sector covered the period 2002-2005. It was abruptly terminated in October 2003 with 70 percent of funds remaining unspent. Figure 5.2 below describes the dramatic rise and fall of the Danish-Eritrean partnership.

**Figure 5.2 Danish bilateral assistance to Eritrea 1991–2006**



*Source: Ministry of Foreign Affairs, Statistical Office*

### **Netherlands – fizzling out**

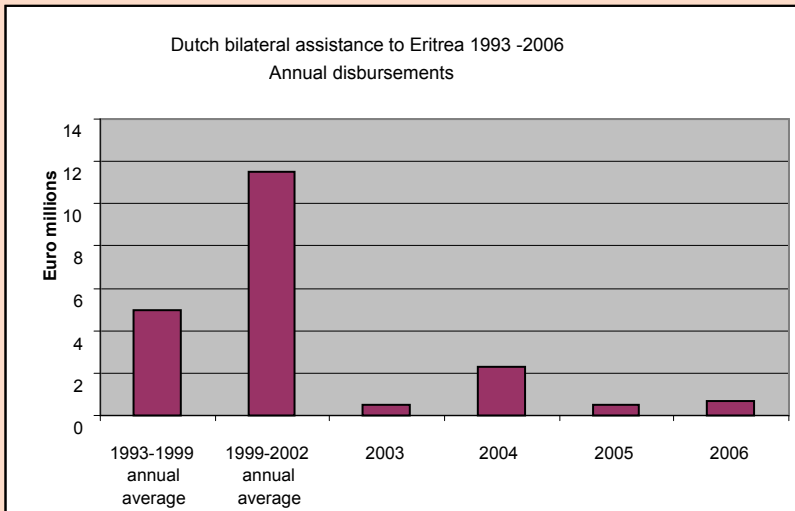
Dutch bilateral development cooperation with Eritrea started in 1993 with a wide variety of rehabilitation and reconstruction projects in demobilisation and training (police), agriculture, fisheries and emergency

food aid. Eritrea was granted partnership country status in 1999, making it eligible for sector support. Preliminary talks were held on the scope and manner of sector support but financial commitments were put on hold, mainly because of the border war. Subsequently, the Netherlands largely continued with the bilateral projects initiated during the period 1993–1999.

In 2001, with the ceasefire agreement in place, discussions on a sector-wide approach were resumed, and the Eritrean government requested Dutch involvement in the education sector and good governance. Actual disbursements then doubled for a few years, in large part (almost 60 percent) due to emergency aid through UN organisations (WFP, UNHCR, UNDP/UNICEF).

Further discussions were put on hold again in 2002/2003, as there was no improvement in Eritrea’s political situation as perceived by the international community. In 2003, the Dutch budget stood at Euro 8 million, but actual disbursements dropped dramatically and have not picked up since.

**Figure 5.3 Dutch bilateral assistance to Eritrea 1993–2006**



Source: Various reports, Ministry of Foreign Affairs

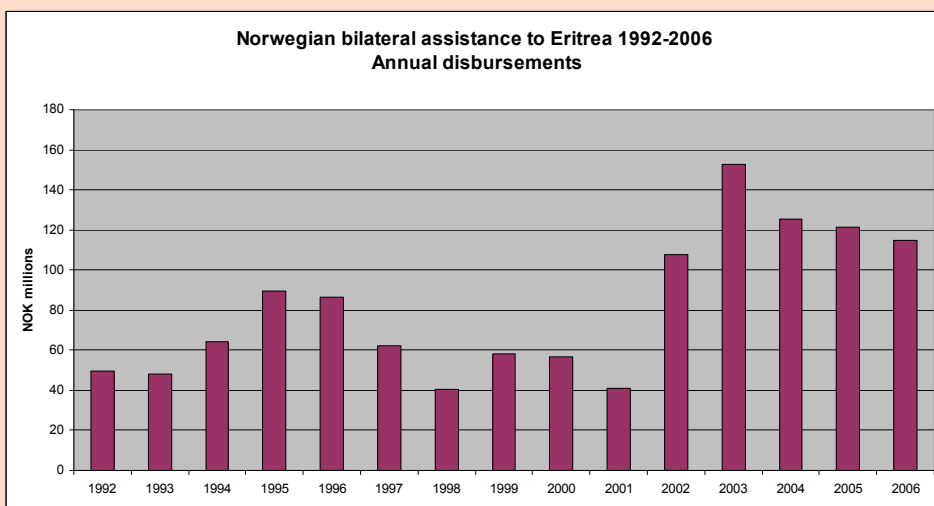
**Norway – staying in**

Norwegian NGOs (especially missionary organisations and Norwegian Church Aid) have had a long relationship with Eritrea that had already started before the country’s independence. In the 1990s, Norwegian bilateral development assistance to Eritrea covered a broad array of smaller projects dealing with social and economic development, democratic development and natural resource management. In 1999, with

the border war, Norway reduced disbursements on all regular government-to-government agreements, and funds were transferred to humanitarian aid. From 2000 onwards, Norwegian aid to Eritrea has particularly focused on humanitarian aid and support for rehabilitation, and good governance.

Figure 5.3 shows that Norway reacted to the ceasefire agreement by raising its level of aid. This reflected Norway's ambition to play a leading role in resolving the security issues in the Horn of Africa. Norway was a member of the UN Security Council at the time (2001-2002). Since then Norway has emphasised the need to keep aid commitments at a stable level. From 2004 onwards, Norwegian aid to Eritrea has been relatively steady at some NOK 120 million annually (or about USD 18 million), about half of which is humanitarian aid, but disbursements have shown a slightly downward trend. The reason for this is an increase in operational problems in aid partnerships in Eritrea generally due to less transparency and freedom of interaction.

**Figure 5.4 Norwegian bilateral assistance to Eritrea 1992–2006**



*Source: Norad, Statistical Office*

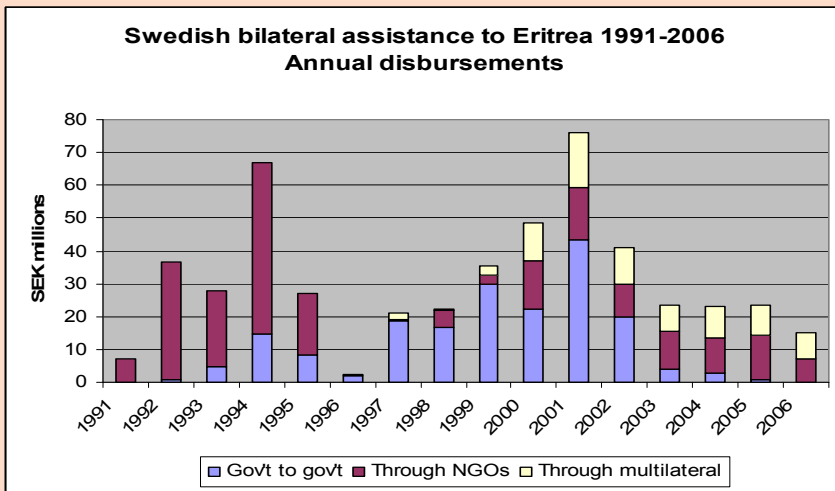
### **Sweden – ups and downs**

The relationship with Sweden has gone through frequent ups and downs, standing at an all time low today. Relations between Eritreans and Swedes go back to the independence struggle, and the Eritrean diaspora in Sweden is among the largest in Europe. However, soon after Sweden started its bilateral relations with Eritrea in 1993, aid (mostly disaster relief grants) was frozen in 1994 because of disagreements over an asylum question concerning Eritrean refugees in Sweden.

With a new Swedish government in power in 1996, the parties agreed to resume cooperation and started to establish a fully-fledged country programme. Sweden entered into negotiations on a Memorandum of Understanding, largely guided by Eritrea’s lack of political plurality. The process was arduous and resulted in “an agreement of mistrust”, as one Swedish official involved commented. The MoU signed in September 1997 was made valid only until the end of 1998, when it was extended for another year.

From 1997 until 2001, Swedish aid to Eritrea steadily increased from SEK 20 million to about SEK 75 million with a focus on energy, education, research and public administration. Overall, the implementation of Swedish bilateral development projects was slow except for in the research sector. Starting in 2002, however, Swedish aid dropped considerably to an average of SEK 20 million per annum, with bilateral aid phasing out and most of the funds now being channelled through an NGO, Norwegian Church Aid, mainly for humanitarian assistance.

**Figure 5.5 Swedish bilateral assistance to Eritrea 1991–2006**



## 5.2 Exit decisions and planning – different responses to political challenges

In fact, only Denmark and Sweden took clear exit decisions. The main characteristics are summarised in the following table:

**Table 5.1 Overview of the various exit decisions**

	<b>Denmark</b>	<b>Netherlands</b>	<b>Sweden</b>
1993 (independence period 1993–1998)			1994–1996: Freeze of aid due to disagreement about an asylum question
1999–2003	2002: Exit decision (induced by aid budget cuts and governance reasons)	1999–2001 and 2001–2003: Partial freeze of aid for governance reasons	2002: Decision to exit due to issue of imprisonment of a Swedish journalist – never officially announced
2003–2007		2005–2007: Decision to channel support through multilaterals and NGOs 2007: Exit decision by new Government	

### **Denmark – sudden exit from a genuine partnership**

#### *Why exiting?*

Danish bilateral cooperation from 1993 until 2002 with Eritrea was considered outstanding by the Government of Eritrea (GoE) and an example of a true partnership. With its support to the agricultural sector, Denmark provided a sort of “mini” budget support to the Ministry of Agriculture (over 40 percent of the Ministry’s budget) which was responsible for the programme’s implementation. Likewise, the long-term Danish support to the education sector (1996–2005) was considered to be one of true partnership, with the Ministry of Education (MoE) being largely responsible for programme implementation, and with minimal intervention from foreign technical advisors.

It is evident that the prime driver of the exit decision was the announced cut in the overall aid budget, but the justification for selecting Eritrea was clearly political (as for Malawi and Zimbabwe). The official proclamation of the exit decision (in Danish) mentioned the lack of democratisation and economic liberalisation as the main reasons for terminating the aid partnership. Notwithstanding this, it was acknowledged that the development cooperation had been satisfactory.<sup>45</sup>

#### *Communication of the decision*

Denmark’s exit decision came with the change of its government in November 2001. The decision was sudden and caught the Government

<sup>45</sup> ‘Redegørelse for Regeringens Gennemgang af Danmarks Udviklings- og Miljøsamarbejde med Udviklingslandene’, Ministry of Foreign Affairs, Copenhagen 29 January 2002.

of Eritrea totally unawares, as no signals had been given by Denmark as to the termination of bilateral relations. Reasons given to GoE were cuts in development budgets and, hence, a reduction in partner countries. Why the Danish Embassy had to be closed as a consequence was unclear to the GoE and signalled a political decision, although this was never formally communicated to Eritrea. The GoE did not contest the exit decision of the Danish government and merely considered it a “fait accompli”, especially with the closure of the Embassy.

The Ministry of Education did become quite concerned, and the Minister of Education travelled to Denmark for clarification in 2002. Phase 1 of the programme was well on its way since 2000, and several large contracts had been agreed with construction companies (building of schools) and local and foreign printing companies (educational materials). Cancellation of these contracts would have caused legal ramifications for both Denmark and Eritrea. Also, several scholarships and consultancy services were granted under the agreement, making an early termination quite difficult and costly.

#### *Planning of the exit*

The Danish decision was not to start any new programmes while allowing existing agreements to run their course, which was articulated as respecting existing legal obligations (contrary to Malawi, where Denmark cancelled one sector programme agreement). In this way, a total budgetary saving of DKK 40 millions was made possible. Hence, support to the education sector was allowed to continue until 2005 – the end of the contract period – and then terminated.

Support to the legal sector also continued but was terminated in 2003, almost two years before planned. According to official Danish documents Eritrea did not deliver on its commitment to prepare a national strategy for the justice sector and was not prepared to implement recommendations for reform that had been developed.

The sector suffering most from the Danish exit was agriculture. Since the second phase agreement for support to the agricultural sector had not been signed, the programme was discontinued in 2002, creating most of the budgetary savings. The agreement was ready and waiting for the right signatories when the Danish election results changed the course of events. Technical assistance personnel engaged in the Danish agricultural sector support programme pleaded with the Danish authorities for a structured withdrawal of Denmark’s engagement, but to no avail.



## **Netherlands – phasing out without exit decision**

### *No formal exit decision – yet*

To date, the Dutch have not made an exit decision. On 16 October 2007, with the incoming new Minister for Development Cooperation, the Netherlands Ministry of Foreign Affairs sent a policy document regarding future assistance to developing countries to the Dutch parliament for deliberations. In the document it is proposed to phase out assistance to Eritrea within four years, as it is considered one of the exit countries in the new Dutch bilateral aid policy.

### *Why phasing out?*

The Netherlands has not been successful in creating a true partnership with Eritrea and several factors have played a role in this. Some are political (the lack of political and economic governance), while others reflect Dutch concerns about the lack of capacity of government and other national stakeholders to formulate and implement policies like the PRSP and sector programmes, with the subsequent risk of non-compliance by the GoE.

### *The scaling down process*

Since 2002, the Dutch have scaled down their support to Eritrea, but this is considered to be more circumstantial than part of a planned exit strategy consistent with the established principles for development partnerships. This is underscored by the plans drawn up by the Dutch every year formulating objectives, (planned) activities and results but without any clear indication of an exit strategy.

The multi-annual strategic plan of 2005 confirms a policy shift from sector support to good governance. The Netherlands had not been successful in its attempt to move into education sector support by linking with the large Education Sector Development Programme (ESDP) prepared by the GoE. The support was delayed, as the Dutch felt that the quality of the programme design could be improved. Furthermore, the policy shift was thought necessary due to the lack of economic and political reform in Eritrea. It is worth noting that there was no involvement of GoE authorities in formulating this strategic plan.

To this day, the Dutch have not managed to set up good governance projects and have again shifted their approach. This time the motto is “*not less development cooperation but different development cooperation*”, with support to be provided through multilateral organisations and NGOs for programmes and projects with large financial needs and absorption capacity, such as water and sanitation, environment, reconstruction, and those linking with regional initiatives. This second shift in policy was also not communicated to or agreed on by the partner country. During

the period 2005–2007, the Netherlands’ new approach has not been successful. Dutch support through multilateral organisations and NGOs has been minimal or come to a complete standstill.

### **Sweden – an unofficial exit**

#### *Communication of the decision*

The termination of government-to-government aid came in 2002, when no progress was made in solving the issue of the imprisonment of a Swedish journalist. This has, however, never been officially announced and there has been no planning of the exit.

#### *Why exiting?*

Since 1993, Sweden’s bilateral relationship with Eritrea has been troubled by many ups and downs. Sweden never had a true long-term partnership agreement with Eritrea. The relationship remained limited to the one-year “renewable lease” on bilateral development support based on an annual extension of the MoU. Consequently, government-to-government cooperation remained limited and most Swedish support came through NGOs.

The fact that a Swedish journalist (of Eritrean origin) was imprisoned in Eritrea led to a quick deterioration of bilateral relations. Sweden made an attempt to shore up its bilateral relations with Eritrea with a special (nine-month) mission in 2002 by a newly appointed Stockholm-based ambassador to Eritrea. The two governments could not reach an agreement on the imprisoned journalist, and Sweden decided to wind-up bilateral aid cooperation, including the funding of the very active cooperation between Asmara University and Swedish universities. A final observation is that Sweden has retained its ambassador to Eritrea (in Stockholm) and Eritrea has an Embassy in Stockholm, but political relations are far from cordial, with Eritrea considering Sweden a long-term friend of Ethiopia.

### **Norway – no exit but weak bilateral aid cooperation**

#### *Bilateral aid continues*

Norway differs from the other three donors commissioning this evaluation in that it has made no decision to exit from Eritrea. A policy document prepared by the Norwegian Ministry of Foreign Affairs in 2001 remains in force, and lays down the principles for Norwegian aid involvement in the Horn of Africa. Thus, the overarching goals of Norwegian bilateral assistance have been to contribute to “Peace, reconciliation and stability” and “democracy, human rights and good governance”. Aid is still seen as an instrument for facilitating a close political dialogue with both Eritrea and Ethiopia, although relations with Ethiopia were severed during 2007.

### *The aid relationship*

It is worth noting that Norway has not listed Eritrea as a partnership country. Cooperation is not based on a sector approach but rather on direct project support. Since 2003, only a minor part of the total Norwegian assistance is in the form of government-to-government cooperation. Most of the Norwegian aid is channelled through (UN) multilateral organisations, and the remaining part through NGOs.

One reason why Norway opted to adopt such an approach is attributed to the perceived difficult behaviour of the GoE when it comes to political and economic governance –although Norway claims to have a very open political dialogue with Eritrea – making government-to-government cooperation difficult. By working mainly through UN organisations, the risk of non-compliance by the GoE in programme implementation is believed to be minimized.

### *Eritrea's aid policy – a vision for rapid graduation*

Eritrea's entry into the aid system was characterized by an almost unprecedented expression of national ownership and sovereignty, often articulated by Eritreans who had returned home after years of service in international organizations. As early as 1994 the Eritrean government formulated a policy governing bilateral cooperation in the field of development, emphasising long-term bilateral relations on a partnership basis, where the donors would work as catalysts with financial and technical support and be supportive of the country's development process. The language of the policy is similar to the rhetoric that formed the basis of international declarations a decade later (e.g. the Paris Declaration on Aid Effectiveness in 2005).

According to a Swedish country study in 1996, Eritrea clearly distinguishes between “interference and influence”, and the study gives examples of Eritrea's ‘no’ to donors not accepting its models and priorities.<sup>46</sup> The Eritrean sentiment is clearly expressed in the following quote from the 1995 Agreed Minutes from consultations between Eritrea and Denmark:

“... the Head of the Eritrean delegation ... gave an outline of the policies governing Eritrea's cooperation in the field of development. He stressed that Eritrea did not believe in the traditional donor-recipient relationship. Both sides had something to gain. There is no free meal. If donors were to operate in Eritrea it should be on a partnership basis. “We cannot impose a relationship upon others and we do not want others to impose a certain relationship upon us”, the Head of the Eritrean delegation said. Relationships should be two-sided as is the one with Denmark.”

<sup>46</sup> Thunström, Gunnar, ‘Analys av katastrofläget och biståndet till Eritrea’, 1996.

The focus of *the Eritrean policy* is on sector support, with the GoE being fully responsible for the development of sector policies and strategies as well as programme implementation. Hence, a strong involvement of long-term expatriate technical experts is not favoured – in part because of reasons of sustainability of development efforts. The long-term objective of Eritrea, within a period not exceeding 10 years, was to move from dependency on grant assistance to normal economic cooperation, including trade and investment. This was Eritrea’s vision of aid exit.

In January 1998, Eritrea expressed concern over aid dependency and requested that grants be replaced by loan facilities, together with the reduction of external consultancies in favour of equipment and supplies.

#### *Findings seen from the perspective of the GoE*

- i. Since 1994 Eritrea has maintained a clear aid policy seeking long-term bilateral relations on a partnership basis, with the long-term objective to move from dependency on grant assistance to normal economic cooperation by way of loan facilities. There has been no evidence of a revision of this aid policy to date. Of the four donors, only Denmark responded to this policy by developing a clear partnership agreement with Eritrea providing broad-based support to its agriculture and education sectors;
- ii. Eritrea found the exit processes of the three donors – Sweden, the Netherlands and Denmark – highly unsatisfactory. Especially Denmark’s exit was considered a breach of trust and regarded as unethical by Eritrea, since both parties had established a true partnership since 1996;
- iii. Important lessons learnt by the GoE are that it is necessary to have clear and binding agreements, to involve more than one donor in large sector support programmes (spread the risk), and to have better communication with donors contemplating exits;
- iv. Finally, a major issue with the GoE is that donor exits should be mainly based on development merits and not political ones. Even if a politically-motivated exit is contemplated by a donor, it should be guided by the financial and technical (development) implications of such an exit.

#### *Findings seen from the donors’ perspective*

- i. During the period 1993–2001, no donor exit decisions were triggered by factors induced by Eritrea. Serious scaling down started in 2001 and was triggered by factors mainly induced by the donors’ perception of Eritrea. The war with Ethiopia not only reversed many of

- the macro-economic gains that had been achieved by Eritrea, it also created a serious setback in maintaining bilateral relations with the four donors;
- ii. Serious scaling down of bilateral development cooperation started in 2001, with the exception of Norway. Both Denmark and Sweden pulled out altogether, though Denmark honored its agreement with Eritrea on support to the education sector. The Netherlands drastically scaled down its bilateral development cooperation from ambitious plans for sector and good governance support to simple co-funding of UN and NGO programmes on a small scale;
  - iii. Donors find it increasingly difficult to conduct an effective dialogue with the Eritrean Government on a variety of political and technical issues. Together with the decision by the Eritrean Government to limit the activities of foreign (and national) NGOs, this has contributed much to the scaling down or outright discontinuation of overall bilateral aid by the four donors;
  - iv. None of the four donors have developed clear exit strategies, nor held any formal consultations with the GoE on the matter.

### **5.3 Implementation of exit and consequences**

#### *The exit process*

The strength of Danish sector support was that all its components dealt directly or indirectly with food security and agricultural productivity. Agricultural and livestock research and extension, as well as land and water management, are considered key to achieve food security, and were important components (almost 50 percent of the total budget). Technical assistance to the Ministry of Agriculture was also a central component, including assistance in preparing a new agricultural development strategy. Contrary to the common pattern in sovereignty-conscious Eritrea, the Danish-paid advisors were invited inside the Eritrean bureaucracy: “we even shared the same office” – a senior Eritrean officer commented.

The support was comprehensive – from 1995 labelled the Agricultural Sector Support Programme (ASSP) – contributing between 35 and 50 percent of the total national budget for agricultural development in the period 1996–2000. With a 15-20 years planning horizon Denmark had indicated that it would be in for the long haul. The ASSP was described as one of the more successful of Denmark’s sector support programme partnerships. When Denmark chose to withdraw in January 2002, no allowance was made for a gradual retreat from the sector. Hence, Eritrea was suddenly left with a 40 percent shortfall in its agriculture sector budget.

As mentioned above, the education sector support programme was allowed to continue until 2005 based on the agreement signed prior to the exit decision. Modifications were made to the timetable and expenditure patterns (i.e. frontloading of expenditures) to accommodate the new situation that this was to be the last phase, not the one before last as originally expected.

### *Consequences in agriculture*

Notwithstanding the rather small contribution of only 12–15 percent to the GDP, agriculture is still the most vital sector in Eritrea. The crop and livestock components together employ the vast majority of the population and provide the basis for food security. Eritrea's crop productivity, however, continues to be low because of the country's erratic rainfall regime, the use of outdated cultivation methods and limited use of agricultural inputs. The sudden withdrawal of Danish involvement in the sector had major consequences.

## **For implementing organisations**

### *A major setback in sector programme development*

According to MoA authorities, not much has happened during the period 2002–2007. At the institutional level, the MoA has not made any progress at all, and now largely operates in a vacuum because of lack of funding and shortages of staff. There is little hope that it will ever be able to complete a comprehensive sector support programme such as the ASSP. There has been no or hardly any continuation of programmes by other donors.

An appropriate phasing out within the agricultural sector could have been achieved if Denmark had decided to continue with the second phase of agricultural sector support, even with a reduced budget, by allowing the MoA adequate time to attract other funding for the programme.

### *Affecting long-term agricultural research*

The support to the National Agricultural Research Institute (NARI) in Hal Hale aimed at bringing agricultural research to a higher level in Eritrea. According to the researchers at the NARI, the lacunae left by the Danish exit resulted in severe disruption of the plant breeding programmes and lack of production of improved seeds for small farmers, and hardly any dissemination of research result through Farmers' Advisory Services has been conducted. The institute lost international professional contacts and training programmes suffered. It is a major concern that the Institute's genebank is now in peril.

The developments in Eritrea's agricultural research and extension service described above do not bode well for the country's ability to at-

tain food security and reduce poverty. Agricultural research requires long-term and stable funding and should be shielded from rapid aid exits.

### **For beneficiaries**

#### *Farmers the main losers*

The Danish withdrawal has had significant consequences for Eritrea in implementing its agricultural development activities intended to achieve food security and poverty reduction. As a vast majority of the Eritrean population depend on agricultural and livestock production for food and income, they can be considered the main losers of the Danish withdrawal from the agriculture sector. International experience shows that agricultural and livestock research in combination with proper extension systems can have a huge impact on improving food security and incomes of small farm households.

Hence, the potential impacts on food security and poverty reduction were severely underestimated by the Danish government when it chose to end its support to the agricultural sector. The Danish Agricultural Sector Support Programme, including the proposed second phase, had just the right ingredients to achieve considerable positive impacts.

#### *Consequences in education*

In 1993, Eritrea started to rebuild basic education as a key element of its national reconstruction and development. Priority was given to basic education with a particular focus on disadvantaged areas, but problems remain both on the demand and supply side. Demand-side problems include the inability of parents to afford the direct costs of schooling as well as the loss of children's labour, with girls being additionally affected by early marriage and undervaluing the benefits of education for girls. Supply-side problems include physical inaccessibility of schools, inequitable distribution of schools, gender inequities in access, lack of teachers and school management competencies, problems with the curriculum and overcrowding.

#### *For implementing organizations – minor*

Denmark was the main donor in the education sector of Eritrea for almost ten years, since 1996, with major parts of the budget allocated to teacher education (38 percent) and the building of schools (23 percent). Although Ministry of Education officials still strongly feel that Denmark should have made good its promise to continue with a second phase (2006–2010), Denmark's intervention likely provided leverage for funding from the World Bank and AfDB for the next generation of education sector support, the Education Sector Development Programme

(ESDP). At the time of the Danish pullout the process of starting up the ESDP was well on its way, most of the financing was secured and most of the components that had been covered by Danish support were now covered by the ESDP.

This case amply illustrates that the duration and predictability of funding are critical factors in ensuring a proper transition to new funding modalities. It was reported by the Ministry of Education that Denmark exercised flexibility in phasing out of education to better tailor the process to the phasing in of new initiatives.

## **5.4 Lessons for exit management**

The Eritrea case study, first and foremost, illustrates how political ramifications affected development partnerships in different ways. Actions, or lack of actions, by both the GoE and donor countries in response to events in Eritrea and the region resulted in development cooperation suffering, in all cases without any formulated strategy for mitigating the negative effects of phasing out. Hence, there are few lessons to be learnt with respect to the practicalities of exit management, but there are lessons as to how to handle the volatility of aid relations in politically fragile contexts.

### **Positive lessons from successful exits**

*Exit from sector support programmes has to be gradual*

The consequences of discontinuation of any support to a sector programme where the level of financing is high and the involvement comprehensive can be substantial and should be avoided wherever possible. The biggest losers are the poor. Hence, any donor providing support to a sector programme should be in for the long haul. Denmark's exit from the education sector was gradual and gave the GoE time to re-plan and mobilise alternative donors.

The Danish decision not to stand by its long-term commitments to the Ministry of Agriculture, although not legally binding, had major adverse consequences and serves to underscore the point above. Related to this is the lesson, particularly for large sector support programmes, that more than one donor should be involved, preferably with an equal share in support. This lesson is highlighted by the case of the support to the agricultural sector where too much depended on one single donor (Denmark).



## **General lessons for aid relations in fragile political contexts**

### *Better communication to prevent sudden exits*

The case of Eritrea shows that sudden discontinuation of an aid partnership has far-reaching consequences. The situation is particularly difficult for aid-dependent countries with volatile political relations. This notwithstanding, the lesson from the Eritrean case is that communication with donors has to be improved, including the sensitive issue of exit. The self-reliance ethos of Eritrean leaders would probably make this dialogue easier.

As early as 1994, Eritrea outlined its vision for how to graduate from aid dependency. It is a disappointing conclusion from this study that both recipient and donors failed to build on this by establishing a predictable and time-bound platform for development cooperation. This is a genuine general problem in aid, but in Eritrea it is amplified by the subordination of aid to foreign policy strategies.

### *A particular need for exit preparedness*

Long-term commitment by donors and predictability of aid flows are seen as essential factors in achieving aid effectiveness. In stable development partnerships it is understandable that incentives to prepare for exits are few, but in fragile political environments it ought to be different. It is therefore remarkable that none of the four donors developed a clear exit strategy at any time in their partnership with Eritrea, neither when they entered into and scaled up their bilateral aid relationships nor when they decided to scale down or discontinue their aid.

Denmark's commitments were indeed long term. In its 1996 country strategy paper, several five-year phases of sector support programmes for agriculture and education were envisaged. No mention, however, is made of exit strategies in this paper. The exit of Denmark was sudden and totally unplanned. Swedish and Dutch bilateral relations can best be described as fizzling out by default; and there is also no evidence for exit preparedness in the case of Norway.

### *Using aid to influence political decision is counterproductive*

Perhaps a final lesson is related to the effectiveness of aid as an instrument for influencing political decisions in recipient countries. If the donors wanted to influence political decisions by withdrawing aid, the outcome has been a miserable failure. The only likely result is that the GoE will prove less cooperative. A major issue for the GoE is that aid exits should be based mainly on development merits (of continuing a programme or not) and not on political ones. But as the saying goes – it takes two to tango.

# Annex 6

## Country summary report

### India

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#### 6.1 What country case is it?

##### **Classification**

The exit from government-to-government bilateral assistance of the four commissioning donors to India has the following characteristics:

- India is a graduating country;
- There were multiple exit decisions since 1990 by all commissioning donors with the exception of the Netherlands (often followed by phase in decisions);
- In 2003 India induced the exit from government-to-government aid of all four commissioning donors;
- All four European countries currently aim to maintain and strengthen bilateral relations with India.

##### *Economic development – graduation*

India presents two very different faces of development. During the evaluated period from the early 1990s to 2007, both the presentation of India in international fora and the perception of India by the outside world have undergone important changes. In the early 1990s the dominant image of India was that of a very large poor country with a democratic government, but with major socio-economic problems. Today India is recognized as a global player, although poverty is still widespread.

India is now the world's fourth largest economy measured by Gross Domestic Product (GDP) with an average annual growth rate of six percent during the last seven years. India has made rapid progress in the last decade, most notably in information technology. In 2000, the proportion of the Indian population living below the poverty line was still 28.6 percent and the percentage of people living on less than USD 2 per day was 79.9 percent (2006, World Development Indicators, World Bank).

### *Governance*

Since its independence in 1947, India has been the world's most populated democratic state. However, standards of governance in India vary widely from one state to another, across sectors, and between different levels of political, economic and administrative structures. On the one hand, India compares favourably with most other Asian countries on indicators of governance. Compared to China, for instance, India was consistently ahead on 'voice and accountability'.<sup>47</sup> On the other hand, India has persistent and powerful cultural barriers to empowering women and persons from specific castes and tribes, particularly in the northern and eastern states.

Donors' criticisms of governance-related issues, such as the nuclear test in 1998 and the riots in Gujarat, have played a role in the relations between India and critical bilateral donors, including the four commissioning donors.

### *Geopolitical importance*

With the world's fourth largest economy, India is a super power on the Asian continent next to China. India is also a stable country on a continent characterised by many conflicts. India is increasingly playing a central role in Asia.

### *Level of aid dependence – aid policy*

India was one of the earliest recipients of assistance from external donors. Total external aid as percentage of GDP fell from 1.4 percent in 1991/1992 to 0.5 percent in 2001/2002, amounting to USD 3.57 billion.

With the growth of the Indian economy the need for development assistance from foreign countries gradually decreased. From 2003 onwards, the nationalist BJP Government made clear in the annual Budget Speech that India should be a non-aid-dependent country. In 2004,

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<sup>47</sup> Nevertheless, India is still lagging behind China but catching up on 'government effectiveness'. See Daniel Kauffmann, Aart Kraay, Massimo Mastruzzi, 'Governance Matters IV: Governance Indicators for 1996–2004', World Bank Policy Research Working Papers, No. 3630, June 2005.

the new UPA Government made some changes to India's policy towards donors, but continued the basic approach to present India as an economy, which was not 'aid dependent'. A clear manifestation of this approach was the decision of the UPA Government in the aftermath of the tsunami, which hit the Indian coast on 26 December 2004. India, while gratefully acknowledging the offer of aid from foreign countries, did not accept it, as the Government considered that it had the necessary resources to cope with the situation.

*Overview of donors included in the study*

The following table presents some main characteristics and trends of the involvement of the four donors in India:

**Table 6.1 Overview of the involvement of the four donors**

	<b>Denmark</b>	<b>Netherlands</b>	<b>Norway</b>	<b>Sweden</b>
Embassy	Yes	Yes	Yes	Yes
Trends in bilateral aid volume	Approx. USD 35 million per year during the period 1991–1998; approx. USD 25 million during the period 1999–2003; rapid phasing out in the period 2004–2006 Total aid volume 1996–2006: USD 255 million	Approx. USD 45 million per year during the period 1996–2002; peak in 2003 with USD 80 million; rapid phasing out in the period 2004–2006 Total aid volume 1996–2006: USD 500 million	Approx. USD 25 million per year during the period 1990–1993; approx. USD 10 million during the period 1993–2006 Total aid volume 1996–2006: USD 90 million	Approx. USD 60 million per year during the period 1991–1996; rapid phasing out from 1998 with less than USD 10 million per year Total aid volume 1996–2006: USD 150 million
Main sectors	Health, water and sanitation, agriculture and industry	Water supply and sanitation, agriculture and education	Environment, social sectors, research, transfer of technology, institutional cooperation	Natural resource management, primary health care, primary education, and research cooperation

	<b>Denmark</b>	<b>Netherlands</b>	<b>Norway</b>	<b>Sweden</b>
Main aid modalities	Project and programme support	Project and programme support; preparation of sector and general budget support in three focal states in 2002-2003 but this was not implemented	Mainly project support (main attention also to NGO support)	Project support
Non-aid relations	Denmark and India are working on the establishment of a joint commission 'to give more focus to political, security and economic aspects of the bilateral relations'	2006: Policy note on future Dutch-Indian bilateral relationship: economic, cultural, scientific/technical cooperation	June 2004: Joint Commission of Cooperation; 2005 new 'Plan of Action for India' to strengthen partnership on the basis of common interests	2004 new strategy to aim for broader cooperation with India: twinning and institutional cooperation

Traditional bilateral development cooperation with India has recently come to a standstill for all four donors. Despite this common characteristic, the trends in aid volume to India from the four donors show a rather diverse picture. Denmark, Norway and Sweden already reduced bilateral aid in the 1990s, while the Netherlands kept its bilateral aid at a high level until 2003. Swedish and Norwegian aid was reduced to less than USD 10 million per year since 1998.

All four countries are interested in intensifying the broader bilateral relations with India, and this interest has been expressed more clearly since 2003.

## **6.2 Exit decisions and planning**

### *When and why?*

In 2003 the Government of India (GoI) induced the exit of the four donors, but three of the four donors had taken earlier exit decisions. Table 6.2 presents an overview of the various exit decisions.

**Table 6.2 Overview of the exit decisions of Denmark, Netherlands, Norway and Sweden**

	<b>Denmark</b>	<b>Netherlands</b>	<b>Norway</b>	<b>Sweden</b>
1990–1993	1992: exit decision, based on continuous economic growth, but also discontent with human rights violations	–	1990: exit decision for India (and Pakistan); revised by a new government in 1991	–
1994–1997	1995: reversal of exit decision by new government and appraisal completed on phasing in sector programme support	–	–	–
1998 nuclear test	Exit decision, period of 10 years	–	Partial freeze of assistance (social sectors not affected)	Official withdrawal from the bilateral agreement on bilateral cooperation
1999–2002	Attempts to reverse exit decision; preparation of new country strategy	–	Partial freeze discontinued in 2001	2000: lift of sanctions on assistance and gradual scaling-up through different channels; Preparation of new country strategy
2003 Budget Speech; Recipient-induced exit decision of the four donors	Acceleration of exit decision; all projects to be closed by end 2005 (instead of 2008)	Exit decision in reaction to the budget speech: decision to phase out within two years	Natural phase out of remaining bilateral assistance, which was already at a minimum	Decision to phase out assistance to NGOs

The history of three of the four donors (with the exception of the Netherlands) regarding their development cooperation relationship with India is characterised by multiple exit decisions. Denmark and Norway decided on an exit for the first time in the early 1990s, but these decisions were reversed by new governments. India's nuclear test in 1998 led

to strong reactions of the three Nordic countries to freeze or phase out their development assistance. Sweden decided unilaterally to withdraw from its bilateral agreement with India that had been signed in 1997. The Netherlands did not change its aid policy in response to the nuclear tests.

The revision of India's aid policy by the BJP Government in 2003 has already been mentioned. In February 2003, India's Minister of Finance announced in his annual Budget Speech the following:

"A stage has come in our development where we should now, firstly, review our dependence on external donors. While being grateful to all our development partners of the past, I wish to announce that the Government of India would now prefer to provide relief to certain bilateral partners."

India clearly wanted to present itself as a non-aid-dependent country. The Budget Speech suggested that resources of 'certain bilateral partners with smaller assistance packages' could be transferred to NGOs in greater need of development assistance. It was also explicitly mentioned that 'current agreed programmes will continue and reach completion'. In the same speech, the launch of the 'India Development Initiative' was announced, indicating the intention of the GoI to provide grants or project assistance to other developing countries. Moreover, the Speech stressed the end of the era of 'tied aid'.

The policy reorientation focused in particular on smaller bilateral donors who were requested to revise their aid packages. In fact, this is a very unique example of recipient-induced phase out processes. It was clearly a political decision prepared at a very high level in the Treasury. It took the Federal Government quite some time to work out precise guidelines, which indicates that the practical implications were initially not considered properly.

After a G-8 meeting in Evian (France), India made clear that not the financial volume of assistance was the main criterion for being considered a small donor, but that only G-8 members were considered important bilateral donors who could continue providing assistance. Donors reacted in different ways. Norway was quite happy with India's evident self-confidence. The bulk of Norwegian aid was, at the time, channelled to NGOs, and it is worth noting that Norway decided to phase out this support as well, despite the GoI's invitation to the contrary. Sweden tried to act as a mediator and organised a workshop. The reaction of the Netherlands was most outspoken, and led to a rapid decision to phase out all Dutch bilateral assistance within two years. Denmark decided to shorten its ten-year phase out process, which had been decided on in 1998, to a seven-year period.

All phase out decisions in the 1990s (and the reversal of these decisions) were clear unilateral political donor decisions. The decision of the GoI to revise its aid policy vis-à-vis the smaller donors was also a unilateral political decision.

*How were decisions communicated?*

There is limited information on the communication of the phase out decisions in the early 1990s. The first Danish phase out decision of 1992 was communicated and discussed in the annual consultations. India expressed its wish to continue the development cooperation relationship with Denmark. Within Denmark both NGOs and business lobbied in favour of continuation of development cooperation, which led to the reversal of the decision by the new government.

The 1998 nuclear test led to outspoken reactions of the three Nordic donors, which affected bilateral relations in general and development cooperation in particular (see Table 4.1). Very little is known about communication of the Norwegian and Swedish decisions to (partially) withdraw from the development cooperation relationship with the Government of India. The Danish exit decision on a long phase out in 1998 was based on broad political consensus. This was communicated to the Government of India, who was invited to be part of a joint broad consultation process on detailed exit planning for all activities. Denmark and the GoI agreed on common principles for the exit process (see next section). However, Denmark started preparing a new country programme, in reversal of the 1998 exit decision, in 2000. The draft strategy was unofficially called ‘Lex India’ in Denmark because of its emphasis on governance and human rights issues. India rejected this strategy with its bent towards governance related conditionality.

An important reason for the policy change in India’s approach to bilateral external assistance, as expressed in the 2003 Budget Speech, was the discontent with the outspoken donor responses on the nuclear testing, and human rights and governance issues. India became ‘tired of the sermons’ of donors, as one interviewee phrased it. Internationally, the GoI wanted to be on an equal footing with the G-8 countries. By accepting bilateral aid, India exposed itself to interference and criticism from other countries. In the end, the limited consideration of small donors for the changing political dimensions (‘mouse and elephant’) played an important role.

The Budget Speech of 2003 came not only as a surprise to many donors but also to many Indian stakeholders. Many actors on the Indian side, such as the opposition, did not agree with the outspoken Budget Speech and its consequences. Actors in federal line ministries and at state level were also taken by surprise. For some states development aid



from these smaller donors was relatively important and they had to face the consequences.

### **Communication of the Dutch exit decision**

The Indian announcement in June 2003 that they considered the Netherlands one of the smaller donors came largely as a surprise to the Dutch Government. The general feeling at the time was that the GoI would be keen to continue Dutch cooperation because of its large and successful programme in India. However, when it became clear that the Netherlands was affected by the Budget Speech and considered to be one of the smaller bilateral donors, an emotional reaction followed. The Dutch Government decided to phase out its complete bilateral portfolio within two years<sup>48</sup> (“phase out as quickly as possible”). The exit was discussed with the RNE staff, who would have preferred a three-year phase out period, while other Dutch aid experts also objected to the decision. They referred to negative implications for poverty reduction in a country with so many poor people. One of the direct consequences of this decision was that Indian experts and other TA paid out of the development cooperation budget would lose their jobs. As one interviewee phrased it “reactions were quite emotional to the toys being snatched away”. The fact that the overall Dutch ODA budget was limited at that time in combination with the Dutch frustration of being ‘thrown out’, explains, to a large extent, the decision to opt for a relatively quick phase out.

Communication was quite problematic for some time because of emotional reactions and lack of clarity on both sides. However, once the Dutch Government took its exit decision, a high-level delegation from the Ministry of Foreign Affairs in The Hague travelled to India in July 2003 to discuss the Dutch exit strategy with the GoI, and to present it to the staff of the RNE. This contributed to improved communication and facilitated exit implementation and management. The strategy for a rapid phase out was formally approved in August 2003, and served as a point of departure for more detailed discussions with the GoI, relevant donors and other stakeholders (consultants, NGOs, etc.)

#### *How was exit planned for?*

Most exit decisions from the four donor countries did not result in clear phase out plans. The most common model was to respect ongoing commitments and not to start new activities, in this evaluation referred to as ‘natural phase out’. This model could easily be adapted when a phase in decision was decided upon.

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<sup>48</sup> The Dutch Government formally responded that it welcomed the Indian policy changes on bilateral assistance as a positive step and announced its intention to reallocate its scarce resources at the shortest possible notice to countries in acute need of additional funding.

In terms of exit planning in India, two plans stand out:

1. *The Danish plan* prepared in 1998–1999 for a ten-year phase out period, and adjusted in 2004 after the decision to accelerate the phase out. Denmark and the GoI agreed, at the start of the exit planning process, on the following principles for aid cooperation in the intermediate future, in order to achieve a sustainable withdrawal and to transfer ownership of project activities to Indian partners:
  - minimisation of delays with respect to administrative procedures and compliance with agreed timeframes;
  - joint project reviews to ensure agreement concerning goals and funding necessary for phase out of Danish assistance and securing full Indian ownership;
  - considerable flexibility in the allocation of resources and transfer of funds;
  - preparation of concrete and operational action plans for transfer to Indian authorities two years before project completion; and
  - emphasis during the phase out period on the reduction of poverty, questions of gender and public participation.

Specific guidelines were drawn up for documenting experiences and results for future use. In this plan, a distinction was made between so-called hardware and software components. The hardware components included infrastructure elements (buildings, such as schools, equipment, etc.), and software was related to capacity building, training and knowledge transfer. The software should be phased out at a slower pace than the hardware in order to achieve sustainable results.

2. *The Dutch plan* for a two-year phase out. The outline of this strategy for an accelerated exit was agreed within the Dutch Government on 17 July 2003 and formally approved by the end of August 2003. This strategy stated that the exit should, as far as possible, respect existing contractual obligations and should not be detrimental to existing Dutch-Indian bilateral relationships. It also stressed that a successful phase out should not be exclusively measured in terms of deadlines met and commitments achieved, but also pay attention to agreed development objectives of the activities concerned. A revision of objectives may be required for those activities that needed to be accelerated or interrupted.

The exit strategy included a Plan of Action for the phase out of its complete bilateral portfolio and for the closedown of the Development Cooperation Section within the Embassy by December 2005. The Plan of

Action provided a roadmap dealing mainly with ‘how, who and when’ issues. The underlying principles of this plan were:

- ongoing activities to end before mid-2004 (39 in total) would remain unaffected, but completion dates needed to be respected;
- activities with completion dates beyond mid-2004 (21 in total) would be completed in an accelerated way (by the end of 2005 at the latest) and in conformity with the approved detailed phase out proposal; and
- wherever possible, activities would be handed over to the GoI, other donors or NGOs (e.g. the Government of India was requested to take over seven projects).
- The Plan of Action distinguished three partly overlapping phases:
  - I – Preparation of phase out (August–December 2003). In this phase the RNE focused on possible project transfers to the GoI or third parties (donors and NGOs), and on reformulation of project work plans and budgets in line with agreed transfer dates or accelerated completion dates;
  - II – Implementation of phase out (2004–2005); and
  - III – Administrative closure of last remaining projects (2006).

The Plan contained an annex with a detailed phase out plan for all directed activities, which also served as a monitoring tool throughout the phase out process.

### **6.3 Implementation of exit and consequences**

Three exits of specific interventions of two donors, the Netherlands and Denmark, in two states have been analysed in detail:

1. the Dutch supported water programme in Gujarat;
2. the Dutch supported education programme in Gujarat; and
3. the Danish supported agricultural training programme for women in Madhya Pradesh.

#### *The exit process*

In this section specific characteristics of exit processes at different levels are analysed (for more details see the Country Report India).

#### **Participatory exit planning vs. top-down planning**

*Danida* aimed for a successful and lasting phase out and started a wide participatory process in 1998. While the exit decision was taken in Denmark, from the planning stage onwards the Danish phase out process can be characterised as a participatory process. This is also reflected in

the Madhya Pradesh Women in Agriculture project that still entered into its second phase in 2002. This second phase was to last until 2007, the end of the originally planned ten-year phase. In response to the Budget Speech, Denmark decided to shorten the second phase and the new completion date was set to 31 December 2005. A Joint Project Review Mission in 2004 set the final contours for the exit plan. The recommendations of this mission consisted of clear guidelines for the exit, focusing on consolidation of results. Based on the Joint Project Review the original plan for Phase II was adjusted and implemented accordingly.

The *Netherlands*, on the other hand, did not have time for extensive participation of all stakeholders because the phase out was to be concluded in two years. The Netherlands requested the Government of India to take over seven projects in July 2003, which included two water projects and the District Primary Education Programme (DPEP) in Gujarat. The Government of India indeed took over the responsibility for funding of the two water projects in April 2004. Because of the willingness on the Indian side to take over the activities, the phase out process in the water sector was relatively smooth. This was, however, not the result of a carefully planned participatory process. The education programme DPEP was funded by the Dutch Government under a World Bank Trust Arrangement. Despite the fact that this was not a pure bilateral programme, it was included in the list of seven projects presented to the Government of India for takeover in July 2003. In January 2004, the Government of India expressed its willingness to take over DPEP but the World Bank objected to this agreement. After long discussions, which were characterised by an indecisive attitude of the Dutch Government, the stakeholders agreed on an early phase out. Only in December 2004 was the re-negotiation completed and the Bank and the Dutch Government signed an amendment to the arrangement with an earlier completion date and a downward adjustment of the programme budget.

The case studies confirm that the Dutch exit process was essentially a top-down process, with relatively limited room for participation by the various stakeholders, while the Danish process showed more characteristics of a bottom-up participatory process.

### **Role of technical assistance**

What came out clearly in the interviews at the state level was that, even more than the volume of ODA, it was the TA that accompanied the ODA that was considered valuable. Because of the fact that ODA is received by the Government of India and passed on as part loan and part grant, it cannot be a very critical resource for any state government.

Technical assistance to one water project – institutional support to the Water and Sanitation Management Organisation (WASMO) – was not transferred and was allowed to continue some time after the handover. WASMO and the consultant prepared a revised work plan to facilitate the premature exit. In this and other projects technical assistance played an important role in facilitating the phase out process.

### **Respect for ongoing agreements**

For Denmark the point of departure was to respect ongoing agreements. Initially, at the start of the ten-year phase out, new project phases could be initiated as long as the termination date was before the end of 2007. Even with the decision to accelerate the phase out, ongoing agreements were basically respected and project budgets were not necessarily reduced.

The Netherlands aimed to hand over projects with a completion date beyond 2005 to the Government of India, NGOs or other donors. This automatically meant that not all ongoing agreements were respected. In total, twelve activities were handed over to other organisations, seven of which to the Government of India.

### **Gradual or rapid reduction in aid budget**

During the first years of the phase out, from 1998 to 2003, *Danida's aid budgets* were quite stable, and only after the decision to accelerate the phase out aid budgets rapidly declined. In the case of the Madhya Women in Agriculture project the decision for an accelerated phase out initially led to more pressure on project management. In March 2004, when it became clear that project implementation needed to be accelerated, the project was seriously behind schedule, and less than 22 percent of the budget had been spent. After the Joint Review Mission, clear measures were taken and more flexible funding became possible. At the closure of the project about 78 percent (USD 2 million) of the total budget for Phase II had been spent, while 71 percent of the budget for staff development and training had been used. Therefore, it is concluded that the decision to accelerate the phase out increased the pressure on project management.

The *Dutch expenditures* showed a peak in 2003 (USD 80 million compared to USD 50 million in the previous years), while declining very rapidly from 2004 onwards. This was in line with the very strict planning that was more or less dictated by the Ministry in The Hague. This pattern of fairly rapid reduction of disbursements can be seen in the water projects in Gujarat. The budget of one project – reconstruction of water supply and sanitation facilities after the earthquake – was severely affected by the exit decision, and only one-fifth of the committed

reconstruction costs had been disbursed by the Netherlands when the project was handed over in April 2004. For two other water projects the budgets were also revised downwards, but the most essential activities were implemented.

The budget for the Gujarat Primary Education Programme was also scaled down from USD 26.5 million (until 30 April 2006) to USD 20.4 million (until 30 June 2005). At the end of the project the expenditures on hardware (civil works and goods) exceeded the commitments, while substantially less was spent on the software, such as training, consultants and books. The under spending on software was caused by the shortened project duration period and the lengthy re-negotiation process.

### **Monitoring of inputs or outputs and outcome**

The *Danish exit strategy* included a detailed and close monitoring of the phase out, which makes the Danish exit process relatively well documented. Monitoring focused on input, but especially on output and some outcome indicators. The Danish Women in Agriculture project in Madhya Pradesh is therefore relatively well documented.

The *Dutch exit strategy* was really focused on a rapid reduction of inputs. At the country level there was hardly any time and possibility for the monitoring of outputs. In practice, for most Dutch projects external monitoring remained limited to the monitoring of the planned reduction of inputs. Moreover, in most projects end of project reports were produced but did not always contain clear information on outputs and outcome. In a few specific cases, such as the institutional support to the water sector in Gujarat where technical assistance stayed on for some time, more attention was paid to monitoring of outputs and outcome.

### **Reduction in staff**

*Denmark gradually reduced the development cooperation staff* in the Embassy and in the field, in line with the phase out strategy. Given Denmark's decentralised approach, most lay offs took place in the field. The development and implementation of this exit strategy had an important positive side effect: it enhanced awareness of all stakeholders involved of the core issues of development cooperation, such as sustainability and participation. The situation forced managers and advisors to realistically assess which role they and numerous participants could play in the activities to be continued.

*For the Netherlands the complete staff of the development cooperation section* of the Embassy in New Delhi (11 expatriate and eight local staff) had to be transferred or *dismissed* by 31 December 2005 at the latest. A social plan was prepared for the local staff. In 2007, only one local senior programme officer is still employed at the RNE New Delhi. During the last

two years, he mainly dealt with all kinds of phase out activities, but he has recently received a new function. The rapid departure of 18 staff members of the development cooperation section, and the related insecurity, was considered a human drama, especially for the dedicated local staff. These people started to look around for other jobs and some of them left earlier than planned. This put a higher burden on remaining staff during the labour intensive phase out process.

#### *Difficulty to combine phase out and phase in processes*

The difficulty to combine phase out and phase in processes at the same time is one factor that stands out from the overall analysis of exit management processes. As multiple exit decisions were taken in India, frequently the phasing out of old activities took place at the same time as the phasing in of new activities. New activities always tend to get more attention than activities that will soon be completed; hence, the start of new development interventions by donors goes at the expense of consistent exit management.

#### *Consequences for implementing organizations*

The case studies indicated the following consequences for the implementing organisations:

*Gujarat Water Programme.* For the water sector in Gujarat the results at institutional level are:

- The community based approach developed in the Dutch (and Danish) interventions in the water sector has been rolled out to the rest of the state;
- The community based approach is also used in other sectors in Gujarat, such as urban development, education and health;
- WASMO continued its activities as an autonomous institution in the water sector in Gujarat and is now managing several federal and state supported projects;
- WASMO is now an institution owned by its own staff and supported by the Government of Gujarat (GoG);
- At national level the GoI's policy on rural water supply and sanitation, as described in the Tenth and Eleventh Five Year Plans, reflects the community based approach developed in Dutch (and Danish) interventions in the water sector.

These results have to be understood against the background of the priority given to water by the Government of Gujarat. The investments by the federal and state government far exceed the financial support of the Netherlands. Thus, the Dutch exit apparently did not affect the funding

of water projects, but it is still an open question whether more innovation would have taken place without an exit.

*Gujarat Education Programme.* The Government of Gujarat continued to provide funding to DPEP in a fairly timely fashion even when project continuation was uncertain. DPEP was succeeded by the Sarva Shiksha Abhiyan (SSA, Movement for Education for All), which is a country wide type of SWAP that gradually replaced DPEP. It started in 2003 and aims at universal primary education (eight years) and gender equality by 2010. Gujarat DPEP and SSA are being implemented by the same project office. Hence, there was continuity in staff and design, and duplication of certain state-level activities could be prevented. This follow-up guarantees sustainability of results. Without the premature Dutch exit, it is most likely that the Gujarat DPEP would have ended in 2006 and would also have been succeeded by SSA. Nevertheless, the premature exit and the long re-negotiation affected the spacing and pace with which certain components of the project were implemented. Some stakeholders argue that the 'fresh perspectives' and innovative ideas of DPEP have disappeared as a result of the exit, but these arguments could not be substantiated.

The World Bank rated the achievements of project objectives and the output by all components for the Gujarat DPEP at least satisfactory.<sup>49</sup> The RNE also provided satisfactory ratings to inputs, outputs, outcome and sustainability of this project. Furthermore, the RNE gave ratings for the contributions of the different stakeholders. It rated the contribution of the GoI and the World Bank as satisfactory and the contribution of the GoG as highly satisfactory, due to its pro-active management and provision of own funding. It rated its own contribution at less than satisfactory due to external circumstances (early withdrawal and need to restrict the scope of the project). This indicates that despite the relatively bad exit management from the Dutch side, very negative effects were avoided because of the positive response of other stakeholders, especially the Government of Gujarat.

*Madhya Pradesh Women in Agriculture.* The immediate result of the accelerated exit was a more effective implementation of the MAPWA project. The main institutional result is that the MAPWA approach will be adopted state wide, albeit in a less intensive way. However, the accelerated exit did not allow for immediate continuation of the activities and an interruption of the programme was inevitable. The institutionalisation of the programme in the extension system is still only partial, and at director level ownership is limited. At federal level the Government has set up a national programme to mainstream women's activi-

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<sup>49</sup> See Implementation Completion Report (ICR), May 2007. The ratings were on a 4-point scale from highly satisfactory, satisfactory, and unsatisfactory to highly unsatisfactory.



ties in agriculture. Successful elements of the four Danish projects in this area (including MAPWA) have been integrated in the pilot approach at district level.

The overall replicability of the approach cannot yet be assessed. The initial design was quite expensive. The system has been adapted for reasons of cost effectiveness, but its sustainability at state level still has to be proven. The issue of replicability and sustainability at institutional level is related to the overall project design and not directly to the phase out of Danish support.

#### *Consequences for beneficiaries*

The focus of this evaluation was necessarily on the consequences at institutional level, but some results for beneficiaries can be reported:

*Gujarat Water Programme.* The beneficiaries in Gujarat were actively involved through the community approach developed in the various water projects. This community approach was adopted state wide and was not negatively affected by the exit decision. Moreover, the GoG and the GoI gave high priority to the water sector and increased funding to this sector to construct more facilities. This evaluation did not find any direct negative results of the phase out decision at the level of the beneficiaries.

*Gujarat Education Programme.* The fundamental goals of DPEP – to provide universal primary school access to children aged five to eleven years and reduce dropout rates – were not affected by the exit decision, as all basic activities continued to be funded by the Government of Gujarat. Hence, no direct negative (or positive) effects at the level of the beneficiaries could be determined.

*Madhya Pradesh Women in Agriculture.* The MAPWA groups at village level are very active and feel ownership of the approach. Positive results in terms of increase of income, income diversification and growing self-esteem have been reported.

#### *Consequences at the level of bilateral relations*

For all four donors it was clear that giving up the development cooperation relationship did not mean giving up their bilateral relations with India. On the contrary, all four countries would like to strengthen their bilateral relations with India and have developed different strategies to do so. The following mechanisms can be mentioned:

### **New strategies for broader cooperation or integrated policies**

In 2004, both Sweden and Norway started to prepare a new country strategy based on the concept of broader cooperation. These new strategies presented India as a world power, while past strategies portrayed

India as a country with severe poverty challenges. Sweden's and Norway's own interests take a more prominent place in these new strategies

### **New forms of bilateral consultations**

The Netherlands have already worked with the concept of integrated country strategies since 1997. Given the large size of the Dutch aid programme in India, development cooperation took a central place in bilateral relations between the Netherlands and India. This changed rapidly after the exit decision. To prevent any possible negative fall-out in the bilateral relationships caused by Dutch frustrations over the Indian decision, frequent deliberations were held between the Dutch Embassy and the GoI. Although the concept of an integrated Netherlands-India strategy was not new as such, a new impulse was deemed necessary. In response, the Dutch Government held an inter-departmental brainstorming session on a new integrated Netherlands-India policy on 3 December 2003. The outcome of this session was a policy note, which was approved by the Dutch Cabinet in 2006. This note states that the future Dutch-Indian bilateral relationships will be particularly based on economic, cultural and scientific/technical cooperation. The fact that it took the Dutch Government three years to come up with a new strategy for India indicates that the previous relationship was based, to an important extent, on development cooperation and no easy alternatives were available.

In June 2004, Norway and India established a bilateral Joint Commission of Cooperation "to identify and review areas for closer cooperation between Norway and India in the political, economic, commercial, energy, environmental, scientific, technological, educational and culture fields and in such other fields as the parties may consider appropriate". The Joint Commission is co-chaired by the Minister of Foreign Affairs of Norway and the Minister of External Affairs of India, or their nominees, with the assistance of experts from the public and private sectors as appropriate. Four joint working groups have been set up: hydrocarbons, environment, science and technology and culture. These working groups are mainly run by line ministries in Norway.

Denmark and India are working on the establishment of a Joint Commission "to give more focus to political, security and economic aspects of the bilateral relations". Sweden has apparently not established broader consultations with India.

### **Change of number and composition of Embassy staff**

A clear consequence of the exit is the considerable change in composition of Embassy staff. The reduction in development cooperation staff went together with a slight increase of staff in other sections. In some

cases, the political or economic sections of the embassies were reinforced, while elsewhere attachés in new areas have been appointed, for example an Attaché Science and Technology at the Netherlands Embassy.

### **New areas of cooperation**

All four countries have been looking for new areas where they could offer added value to India and where India might be interested in their expertise. Research and technology, and climate change are new areas debated very much in New Delhi<sup>50</sup>. Norway has had a fairly intensive institutional cooperation within research and technology for more than 15 years and wants to continue, with an increased emphasis on energy

### **Elaboration of new instruments**

All four countries are trying to elaborate new instruments to strengthen bilateral relations. Norway and Sweden use ODA money to stimulate collaboration in new areas of cooperation. In some cases, this has created confusion both on the Nordic and on the Indian side. As the cooperation between Norwegian/Swedish institutes and Indian institutes is a pre-condition for broader cooperation, this is sometimes perceived as tied aid. Moreover, the mechanisms for broader cooperation are not always well understood, as some instruments are still in an infant stage.

### **Funding of new instruments**

Especially in Sweden the use of aid money for broader cooperation is heavily discussed, as is the institutional set-up of this cooperation. In 2007, Sweden, represented by Sida, and India, represented by the Ministry of Finance - Department of Economic Affairs (DEA), entered into an Agreement on Technical Cooperation in mutually selected areas, primarily the areas of environment protection, and sustainable and social development. Any programme, project and activity under the agreement shall be based on the principle of shared cost partnership. Prior to the signing there were extensive discussions on the Swedish side on who should sign this agreement for Sweden, Sida or the Ministry of Foreign Affairs. The funding provided by Sida for these new forms of technical cooperation still qualify as ODA. There is, however, an ongoing internal discussion whether the resources provided for this exclusive cooperation between Swedish and Indian institutions can indeed be earmarked as ODA.

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<sup>50</sup> The same is true for other European countries. Some countries such as Germany really invest in climate change and have six people working on this subject.

The Netherlands has not used ODA money for strengthening of its bilateral relations. In principle, other budget lines have been or will be made available to finance the strengthening of bilateral relations.<sup>51</sup>

### **Comprehensiveness of bilateral relationship**

The question is raised whether it is possible to maintain useful bilateral relations with India without development cooperation because of the large number of people living below the poverty line. With this in mind, Norway agreed to establish a new programme related to the Millennium Development Goal four – to reduce child mortality – in December 2005. Some actors consider this new programme as a re-entry into development cooperation, while others assess it as a component of broader cooperation. On the Dutch side some actors are of the opinion that good bilateral relations with India should necessarily include a development cooperation relationship because the two facets of India – the global player and the widespread poverty – merit equal attention.

## **6.4 Lessons for exit and transformation management**

### *Successful exits*

In this evaluation a satisfactory and smooth exit has been defined as the creation of a sustainable situation in which local institutions are capable to take over and continue without interruption the activities that were carried out by the project or programme. The following elements played a role in India:

- Most exit processes in India were relatively satisfactory with sustainable end results;
- The capacity and willingness of the GoI to take over and continue activities was a key factor contributing to success;
- A decisive attitude on the donors' side and good communication with all stakeholders was another important factor determining success;
- The distinction between phasing out hardware and software was very useful in order to achieve sustainable results. In the context of India, the phase out of software (TA, capacity building, etc.) took more time than the phase out of hardware (infrastructure, equipment, etc.) because the transfer of knowledge is valued very highly, often higher than the transfer of financial resources;
- A good project design is also a prerequisite for a successful exit;

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<sup>51</sup> Some of the existing Dutch instruments, which are available to other transition and graduated countries, are in the process of being made available to India.

- The exits created some limitations to the development of new innovative approaches, which is one of the important elements of project interventions in India, but these negative consequences are difficult to substantiate;
- Long exit processes are not necessarily better (or worse) than short ones in the Indian context where the government at federal and state level has sufficient capacity to take over.

# Annex 7

## Country summary report

### Malawi

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#### 7.1 What country case is it?

##### **Classification**

As stated in the introduction, the management of phasing out of country aid programmes and the consequences and outcomes registered on the recipients side have to be analysed both in view of the politics of the aid relationships at the time, as well as the recipient's capacity to cope with the change. The five countries included in this study – Botswana, Eritrea, India, Malawi and South Africa – represent different combinations of characteristics with respect to these two dimensions. Malawi stands out as particularly vulnerable:

- Its aid relationships tend to be volatile in the sense that few bilateral donors have strong strategic interests and domestic lobby groups protecting the relationship;
- The country is highly aid dependent, while, at the same time, has not achieved a 'donor darling' status. Hence, the lacuna left by one exiting donor is not easily filled by domestic resources or other sources of foreign aid;
- Malawi has a weak public sector suffering from severe shortages of qualified manpower.

In the case of Malawi, the study focuses on the aid exit processes of the Netherlands and Denmark. In both instances changes in overall aid policies, in 1999 and 2002 respectively, prompted decisions to terminate the status of Malawi as a partner country. The Country Study Report <sup>52</sup> (reference + weblink) contrasts the two processes of exit management, arguing that the Danish exit “stands out as an example not to be emulated”, while the Dutch exit “comes very close to a ‘model exit’, with minor qualifications only”. The following is a summary of the main findings and conclusions substantiating this overall assessment.

#### *Governance – erratic politics and weak public administration*

After independence in 1964, for 30 years Malawi was ruled by a repressive, authoritarian regime under Kamuzu Banda. Domestic and international pressures for democratic change began to mount in the early 1990s, and in 1994 the first multi-party election was held. A period of euphoria ensued but it gradually became apparent that economic mismanagement and repressive practices lingered. Both the 1994 and 1999 elections displayed a regional voting pattern largely coterminous with ethnic boundaries. The 2004 elections, however, saw a partial break-up of this pattern in that new coalitions were formed, but Malawi’s party structure is unstable. The shifting party constellations and the lack of party loyalty by members have become governance problems for Malawi.

Malawi’s public sector is weak and erratic at the top level for political reasons, despite a cadre of well-qualified professionals. However, down the ranks of the civil service shortages of skilled staff seriously impede policy implementation. The HIV/AIDS pandemic has severely worsened the manpower crisis, and corruption in the public sector remains a serious problem.

#### *Economic development – dependent on agriculture*

Malawi is a small country with little geopolitical importance. It is one of the poorest countries in the world – ranking 12th from the bottom in terms of the HDI and second from the bottom in terms of GDP per capita (2004 figures). In 2005, 54 percent of the population was considered poor. The economy is predominantly agrarian, mainly based on smallholdings. The manufacturing sector is small and dwindling (down from 17 percent in 1994 to 10 percent in 2006).

The health of the economy depends largely on the performance of rain-fed agriculture, and the vagaries of weather – droughts and floods – have contributed to fluctuating growth rates, at times leading to severe

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<sup>52</sup> This summary contains edited excerpts from the Draft Country Report. The authors of the Synthesis Report in some instances have added new information. For the purpose of comparability between the five country case studies particular findings and lessons have been highlighted.

food security crises. GDP growth rates have picked up since 2001, but a reduction in poverty is not yet recorded.

*Level of aid dependence – highly dependent and with few and volatile relations*

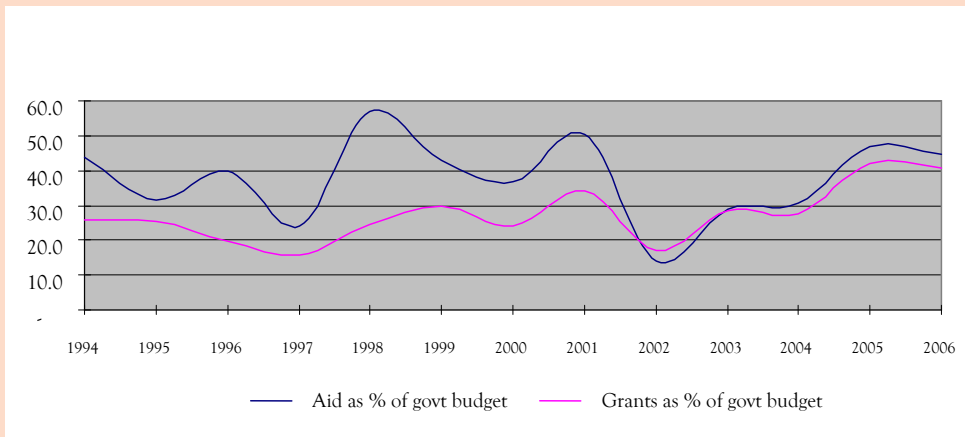
Foreign aid as proportion of the government budget averaged 38 per cent over the period 1994–2006, the bulk of which were grants (averaging 72 percent of all foreign aid). This high aid dependency has posed a number of challenges.

The government taking power after the first election embarked on a campaign to attract donors to the country. Most of the previously suspended foreign aid was resumed and new donors came in. However, cases of fiscal malpractice and resource mismanagement soon surfaced and allegations of corruption mounted over time. Foreign aid gradually declined and only went up in response to the 1999 elections funding requirements. The Dutch exit came at the end of this period.

With no improvement in economic management in the second term of the United Democratic Front Government (1999–2004), non-emergency foreign aid declined, and in 2002 IMF decided to suspend its programme. This move was followed by likeminded donors, who also suspended aid disbursements. The Danish exit came in this period.

In May 2004, the UDF candidate Bingu wa Mutharika, later forming his own party, was elected president, and with his much-publicised zero tolerance policy on corruption and evident good economic management donors have slowly but steadily started to increase their aid, most of which is in the form of grants (see trends in Figure 7.1).

**Figure 7.1 Share of foreign aid in government budget**

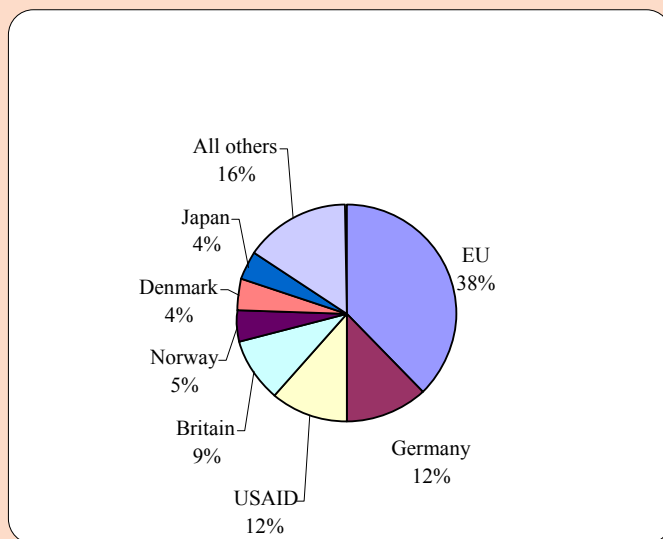




It is worth noting that, despite its high levels of poverty, Malawi does not have a large number of donors compared to the neighbouring countries Mozambique, Tanzania and Zambia, and few of them can be termed ‘trusted partners’ in terms of levels and consistency (see Figure 7.2 for the shares of the grant donors).

The volatility of aid relationships is illustrated by the resurgence of UK grants after 2002 – now amounting to 32 percent of total grants (2006/2007). Likewise, Norway’s grants increased from one percent in 2002/2003 to 22 percent in 2006/2007, whereas Denmark exemplifies the opposite trend. At the time of exit, Denmark’s contribution stood at 15 percent of total grants.

**Figure 7.1 Average donor grant shares 1996/7–2006/7**



Sources: Ministry of Finance: *Financial Statements since 1996/1997*; Ministry of Economic Planning and Development: *Economic Report 1997 to 2004*; and *Annual Economic Report 2005 to 2007*.

*Main features of aid from the Netherlands and Denmark*

The following table presents some main characteristics and trends of the involvement of the Netherlands and Denmark in Malawi.

**Table 7.1 Overview of the involvement of Denmark and the Netherlands**

	<b>Denmark</b>	<b>Netherlands</b>
Embassy	Closed in 2002	No
Trends in bilateral aid volume	See Figure 7.3. Substantial growth of annual disbursements from 1996 to 2000, with decline from 2002	Almost doubled disbursements from 1999 to 2001, with gradual phasing out from 2001
Main sectors	Education and agriculture	Health, environment and good governance
Main aid modalities	Project and programme support, and general budget support	Project and programme support (forerunner of SWAP)
Non-aid relations	Bilateral relations were based on aid, other bilateral relations are minimal	No policy for bilateral relations

*The Netherlands – a focus on health*

During the Banda era, Dutch bilateral development aid had been gradually reduced. Support was shifted from bilateral state-to-state relations to civil society as an alternative channel. The Netherlands decided to resume bilateral development assistance on a modest scale with the democratic opening after the 1993 referendum. From 1996 onwards, Dutch bilateral development assistance to Malawi was resumed with activities in the sectors of health, environment and good governance.

Despite the exit decision in 1999, bilateral development assistance more than doubled from 1999 to 2001 (from almost Euro 2 million to Euro 5.1 million annually). The newly developed portfolio contained a large programme in the health sector. A significant five-year support to the Malawi Health Population and Nutrition Programme (MHPN) started at the beginning of 1999 after thorough preparation. This health programme was intended as a forerunner to a sector-wide approach (SWAP) in health.

The support to the MHPN had two main components: development of a health management information system (HMIS) and support to district level health facilities. The two other main components were support to the Christian Health Association of Malawi (CHAM) and the College of Medicine in Blantyre (CoM). The former was already underway at the time of the exit decision, while the latter had just started. Effective phasing out took time, with the CHAM completed in 2002, the MHPN-support in 2004 and, remarkably, in the case of CoM support in the phasing out period lasted as long as eight years until June 2007.

*Denmark – focus on education and agriculture*

Danish assistance, which had commenced in the early 1960s, was suspended during the last phase of Banda's regime. Aid resumed and Malawi was selected main partner country in 1995, which was followed by the opening of an Embassy in 1996. Danish aid grew rapidly, and within five years it stood at 15 percent of total grants emphasising a sector-wide approach linked to reforms. The country strategy identified education, agriculture and telecommunications as priority areas. Denmark initiated planning of sector programmes, including pilot projects, in education and agriculture. Other sectors included environment and good governance (including decentralisation).

In education, a five-year programme amounting to DKK 246 million was approved in 2000, emphasising secondary education, which was not the priority of other donors. Significantly, by the end of 2001, Denmark contributed close to one quarter (23 percent) of the capital budget in education, representing more than half (57 percent) of Denmark's total aid to the country.

Preparation of an agriculture sector programme was nearing completion when the exit decision came. Support to the preparation of the Malawi Agricultural Sector Investment Programme (MASIP), including capacity building in the planning department of the ministry where technical advisers were placed, consumed the bulk of Danish aid. This included several pilot projects in irrigation.

According to the 2001–2005 country strategy, drafted by the beginning of 2001 but not yet approved by the Danish Minister for Development, support to the telecommunications area would be phased out and replaced by roads. The support for secondary education and agriculture was set to continue. Although 2000 and 2001 were turbulent years in Malawi, the strategy did not indicate any need for changing the course:

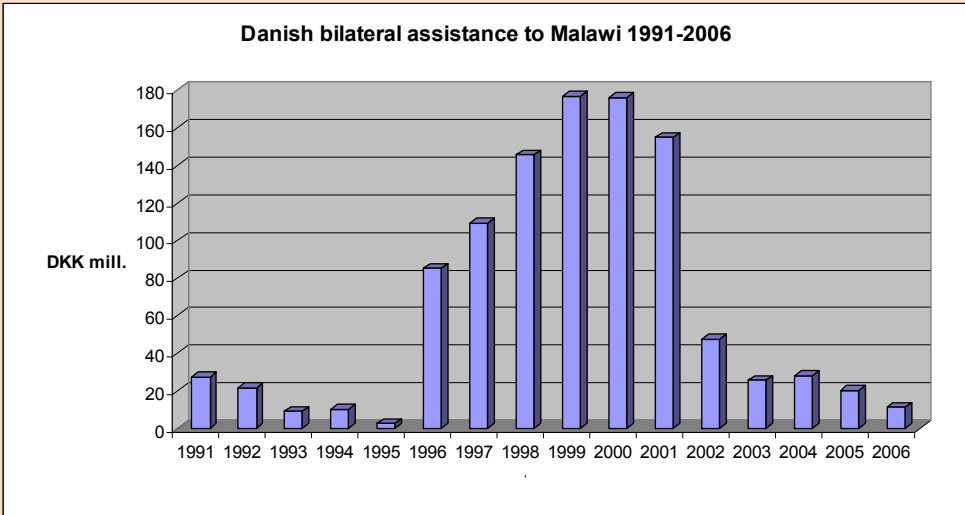
“Denmark intends to strengthen the cooperation with Malawi established during the first strategy period and build a solid, long-term partnership based on dialogue and mutual understanding with Malawi partners”, and “the core element of the development cooperation between Denmark and Malawi will be broad-based sector programme support<sup>53</sup>”.

The annual report of Danish development assistance of 2001, written after the exit decision, expressed a different view. Now it is stated in no uncertain terms “experience to date shows that the sector programme approach hardly can be implemented in Malawi due to the country's

<sup>53</sup> Strategy for the Danish – Malawian Development Cooperation 2001 - 2005, 3rd Revised Draft, Royal Danish Ministry of Foreign Affairs.

weak administrative structures”.<sup>54</sup> Thus, looking at disbursement figures, the legacy of Danish aid to Malawi takes the shape of a roller coaster (Figure 7.3).

**Figure 7.3 Danish bilateral assistance to Malawi**



## 7.2 Exit decisions and planning

*When and why?*

The main characteristics of the exit decisions are reflected in the following table:

**Table 7.2 Overview of the exit decisions**

Denmark	Netherlands
2002: Unilateral exit decision by the Danish Government (primarily driven by aid budget cuts) based on governance reasons	1999: Unilateral exit decision by the Dutch Government (concentration policy) based on more pragmatic reasons, such as the absence of a Dutch Embassy
	2001: Efforts by lobby groups to reverse decision, Malawi did not make it back due to governance reasons
	2002: Silent partnership with DFID in support of the education sector

<sup>54</sup> Årsrapport 2001, p. 44 (our translation).

### *The Netherlands – reforming overall aid policy*

In 1998, a decision was made to reorient bilateral aid reflecting the current international debate on aid effectiveness. The new Dutch Minister of Development Cooperation, Evelien Herfkens, was a strong advocate of reforming the aid system, and two key arguments put forward were the need of donors to concentrate on fewer partner countries and to apply good governance criteria when selecting partners. This was meant to pave the way for a strong move towards sector support in terms of aid modality.

Accordingly, the Dutch Government initiated work to expedite the new aid policy principles, and a list of 22 ‘priority countries’ was presented to the Parliament in February 1999 reflecting (i) the degree of poverty and need for aid, (ii) the socio-economic policy of the country, and (iii) the governance situation. Malawi was not on the list. Formal criteria were presumably used to inform this decision, but other, pragmatic, considerations, such as the absence of a Dutch Embassy in Malawi, seem to have played a role. Mention was also made of Malawi’s limited aid absorption capacity as a factor. With the expansion of other donors’ activities in Malawi at the time (Norway, Sweden, Canada), the added value of Dutch presence was perceived to be limited. The latter argument is remarkable in view of the fact that today Malawi is a very aid-dependent country with few donors.

Efforts were later made by lobby groups to get Malawi back onto the list. Owing to questions raised in the Dutch Parliament in 2001, a new review of Malawi was carried out in 2002 to check its eligibility as a partner country for the Netherlands again. Pakistan and Zimbabwe had been removed in 1999 and Benin and Rwanda added in 2001, but the status of Malawi remained unchanged. The review was generally positive, but Malawi did not make it back as a partner country because of perceived new non-democratic developments.

In summary, the Dutch exit decision was prompted by changes in overall aid policy principles, to which Malawi became a casualty. But there were no corresponding pressures to quickly reallocate aid in favour of other recipients, which gave scope for a longer-term phasing out approach.

### *Denmark – reducing the aid budget*

The new Danish Government, which took office after the November 2001 elections, was formed by parties that had been campaigning for substantial cuts in the aid budget. The Ministry of Foreign Affairs was soon instructed to prepare a revised budget for 2002 reflecting a 10 percent cut, including a reduction of the number of partner countries. On 29 January 2002, the official announcement came to drop Malawi

(along with Eritrea and Zimbabwe) as a bilateral programme partner country (see Box Chapter 2).

The January statement says that the Government will pursue “a more consistent aid policy”, in that “systematic and persistent violations of human rights and democratic rules of the game no longer will be acceptable”.<sup>55</sup> In the case of Malawi, there is reference to intimidation of political opposition, increasing problems of corruption including possible misuse of Danish aid, and that the Malawian Government had not been forthcoming in responding to donors’ pressure for improved public financial management.

Critiques of the Danish decision noted that these are problems found in many aid recipient countries, but that they are rarely used as a reason by donors for exiting. Other Danish partner countries at the time could be subject to the same criticisms. When the eyes finally fell on Malawi, the diplomatic episode in late 2001, which led to the withdrawal of the Danish ambassador, played a role. The ambassador was accused of having made a derogatory remark about the then President Muluzi at an internal meeting in the Embassy. This was reported by an Embassy employee – a Malawian national – after which the Malawi Government requested that the ambassador be replaced. In the January statement from MFA it is suspected that the reaction from Malawi might have been caused by the ambassador’s probing into possible misuse of Danish election support by high level politicians.

It also warrants mention that there was no strong pro-Malawi lobby in Denmark that could have exerted pressure on the government to spare that country. It was only after the decision had been taken and when it was being implemented that a public debate emerged, following a newspaper article that poor women previously supported by Danish aid had been left in the lurch and landed in indebtedness through a disrupted micro credit scheme for poultry production.

In short, the driving issue in the case of Denmark was the need to identify cuts in the 2002 budget. The exit from Malawi represented a saving of about DKK 150 million (or 10 percent of the total cut). The Embassy was instructed to prepare a plan for phasing out existing projects and programmes within five months, i.e. by 30 June 2002. The Danish Embassy was to be closed one month earlier. As a result, the phase out period was very short.

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<sup>55</sup> Redegørelse for Regeringens Gennemgang af Danmarks Udviklings- og Miljø Samarbejde med Udviklingslandene. 29. January 2002, Ministry of Foreign Affairs (our translation).

## **How were decisions communicated?**

### *The Netherlands – scope for negotiating a soft approach*

The Dutch exit decision was officially communicated to the Malawian Ministry of Foreign Affairs by the Dutch ambassador on 22 July 1999. The Dutch exit decision was met with incomprehension in Malawi. Malawi certainly qualified as a country greatly in need of aid, and actually scored better on the good governance criterion than Zambia. The Embassy in Lusaka informally inquired with the Ministry of Foreign Affairs in The Hague whether the decision could be reversed, but was given to understand that efforts to that end would be wasted.

The Dutch Embassy staff in Lusaka were disappointed with the exit decision, since they had spent years building up a cooperation programme with Malawi. The Embassy emphasised the importance of the new programmes for Malawi, especially in the health sector, and advocated normal completion of the programmes.

Hence, an exit strategy was formulated with a five-year phase out period. The Dutch Government indicated that all existing commitments would be honoured and that support for activities to counter the HIV/AIDS pandemic would still be possible through regional programmes and multilateral channels.

### *Denmark – no room for negotiation*

There had been a forewarning to the Malawian Government with the suspension of Danish general budget support in the last quarter of 2001 due to concerns about economic management, but the decision to discontinue the aid programme came as a total surprise. Only in June 2001 had the Embassy completed the final draft of a new country strategy for a period up to 2005, with indicative disbursements building up from DKK 155 to 185 million annually. In addition, about DKK 50 million annually was envisaged as environmental aid. Denmark was poised to continue playing a major role especially in the education and agriculture sectors.

There is a perception in Malawi, even among senior civil servants, that the ‘misunderstanding’ as it is often referred to, between the ambassador and the President, was the real reason why Denmark called it quits in Malawi. Ironically perhaps, the draft new country strategy contained the following articulation of donor responsibility: “An essential part of the partnership strategy is to ensure that the long-term support programmes are phased out properly”. A press statement issued by the Embassy contained a reassurance that all ongoing activities would be completed ‘in an appropriate manner’.

The Malawian Government was very upset about the decision, to the extent that both the Minister of Foreign Affairs and the Minister of Education were sent to Copenhagen in February 2002 to plead with the Danish Government to reconsider its decision. However, they were only able to meet with the head of Danida. The two Malawian ministers conceded that there were governance problems, but denied that corruption was a problem and that the opposition was intimidated. Furthermore, the Minister of Education claimed that the abrupt cessation of Danish support might cause the entire educational system to collapse. When returning to Malawi he claimed to have been promised a gradual phase out over two to three years, which the Embassy later disavowed.

Correspondence from the Embassy during the spring of 2002 is evidence of a worsening climate of cooperation. Denmark had severe problems distilling all required progress and accounting reports from the Malawian bureaucracy, and the Ministry of Education was particularly difficult, to the extent that the Embassy requested some extra resources (to no avail) to smoothen the process.

### **How was exit planned for?**

#### *The Netherlands – five years and fulfilment of agreements*

The Ministry of Foreign Affairs discussed different phase out options with the Embassy in Lusaka in 1999. As the second phase of the Dutch-funded programme in the health sector had barely started, one option was to spend the MHPN funds on debt relief instead.

On the insistence of the Embassy, a careful exit process was designed: activities were not cut short though it was made clear that no new (follow-up) commitments would be made. The annual report 1999 and plan for 2000 by the Embassy mentioned that the exit decision was expected to have little consequence for the Embassy's activities in the short run, since activities would continue for another five years. It was decided that the MHPN programme would be allowed to run its course to completion over a period of five years. Likewise, support to the CHAM was planned to run its course and be phased out in 2001.

The follow-up support to the CoM was planned to be strongly focused on the transfer of skills and training of Malawian physicians, clinical officers, postgraduates and students. It was recognised from the beginning, therefore, that this second phase of Dutch support was of great importance to the Malawian authorities, and that it would be disastrous from a human resources perspective to withdraw too quickly from this component when the CoM activities of the previous phase were just starting to bear fruit.



The 30 other (small) projects and activities that the Embassy had been overseeing were completed within a three-year period.

Notwithstanding the general exit decision, it should be noted that Dutch involvement continues through a silent partnership with DFID in support of Malawi's primary education sub-sector. Activities are defined and carried out by DFID. A five-year agreement was entered into in 2002 with a budget of Euro 29 million. The first phase ran until 2006, with a subsequent budget neutral extension until March 2008. The silent partnership will be evaluated in the near future with a view to informing policy in a possible follow up. Silent partnerships were seen as an innovative mechanism for reaching the target of allocating 15 per cent of the total development budget to the educational sector.

#### *Denmark – five months and termination of major agreement*

The unilateral nature of the Danish decision, its abruptness and its hurried implementation left little scope for consultation and dialogue in the spirit of partnership. Arguably, it also led to more acrimonious relations in some sectors, where friction had been encountered prior to the exit decision. At the political level on the Malawian side complaints were made that no dialogue had taken place.

The phase out plan prepared by the Embassy shows that the education sector was the most severely affected.<sup>56</sup> The sector programme agreement, which was to run until 2004, was terminated with reference to several accounts of failure on Malawi's part to fulfil its obligations, with two thirds of funds remaining. Denmark decided to invoke the exit clause built into the agreement, allowing any of the parties to terminate the agreement with six months notice.

Most of the other Danida-funded projects and programmes were, at the time, nearing the end of their respective phases, and the phase out by mid-2002 could be managed within existing agreements. However, the early closure of the Embassy caused the Embassy in Lilongwe to hire a commercial audit firm – Graham Carr & Co. – to tie up a number of loose ends and to perform audits of smaller projects once they had run to completion, even until 2003 in a few cases.

## **7.3 Implementation of exit and consequences**

### **The exit process**

#### *The Netherlands – adjustment of plans and securing alternative funding*

The Netherlands attached great importance to limiting the damage to its image as a reliable partner, to meeting commitments made, and to

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<sup>56</sup> Final version dated 24 April 2002.

tailoring each exit to the programme concerned. This stance was expressed by the Minister at the start of the exit process and was adhered to in practice.

In the MHPN, the development of the Health Management Information System (HMIS) was originally planned to be based on two pilot districts in order to be scaled up later to cover the rest of the country. The approach was modified by going to less depth but covering the whole country from the start. This was deemed feasible within the five-year phase out period and based on hopes that other donors could gradually be brought in to strengthen the nationwide HMIS. Only in 2002 did the responsible unit in the Ministry of Health realise fully that Dutch support would not be forthcoming beyond 2004. Hopes that the political exit decision might be overturned also persisted in the Dutch Embassy in Lusaka, as well as in other (Dutch) organisations and among persons involved in the health sector in Malawi. By 2002/2003, however, the prospects of continued support to the HMIS from the new SWAP under preparation had become firmer. The other MHPN component, support to district level health care, was less flexible and less able to adapt to the exit decision. The support provided at the district level consisted principally of the rehabilitation and construction of health facilities as well as the provision of equipment, and just had to be implemented within the timeframe.

In the case of support to the CoM, the exit decision coincided with the launch of the programme. Consequently, the focus of the programme was reviewed leading to the reinforcement of training (transfer of skills) by Dutch doctors. This programme even got an extension in 2003.

The cessation of Dutch support to CHAM was not abrupt. After the exit had been communicated, an exit strategy was charted in the sense that the future was known. The hospital boards were informed that the Dutch TA would not be extended and that Malawian doctors had to be recruited to replace expatriates. Dutch Embassy staff from Lusaka assisted CHAM in negotiating with the government for compensatory funding. CHAM also managed to draw on its network of other donors (including core support), mainly church-affiliated NGOs, which made it easier for CHAM to develop a 'coping strategy'.

Mid-term evaluations or reviews were held for the MHPN in 2001 and for the CoM in January 2003 and March 2006. Each of these reviews discussed the future perspectives of the programmes, defined priorities, assessed minimum needs for sustainability, and suggested alternatives where possible.

Discussion with other donors also took place, in particular with Norway who was interested in joining the new SWAP. The extension of the support to CoM from 2005 was channelled through and managed by

the Norwegian Embassy. Thus, the administrative burden on the Dutch Embassy was eased, in line with the exit process.

*Denmark – focus on orderly bookkeeping*

In the circumstances, after the exit decision was taken the ambition was just to make the exit management as orderly as possible. Several respondents – Danish as well as Malawian – have depicted the four months from early February through May 2002, when the Embassy closed, as very hectic. Besides endeavouring to make the exit orderly there was much time pressure to complete the necessary tasks involved in winding up activities.

As seen from the Danish side, most Malawian civil servants seemed to appreciate the predicament in which the Embassy staff had been landed and even understood the justification of the exit decision as a political one made in Copenhagen, even though they regretted and deplored the developments. As a result, the winding up process generally occurred in a cordial and professional atmosphere, much to the surprise of Embassy staff. In cases where money could not be accounted for – such as in the decentralisation programme – the relevant amount was repaid. On reflection, this attitude on the part of the Malawians was perhaps not so surprising. Almost without exception the Malawian respondents praised the practices of Danida as a donor: alignment with Malawian priorities; hands-off procedure without meddling once agreements had been reached; flexibility but firm requirements of accountability down the line. The exception to the cordial atmosphere was the educational sector.

The unexpected withdrawal of Danish development cooperation caught other donors unawares in the sense that they were ill prepared for filling the shortfall left by Denmark. None of the donor respondents could confirm that such eventualities were ever discussed in meetings of the donor group in Lilongwe. It was evidently never raised for discussion what measures to take should a donor choose to pull out altogether, for whatever reason. Donor coordination did not extend that far.

However, Denmark tried to encourage other donors to replace their outflow of resources on a bilateral basis. The resource gap was principally in the educational sector with regard to the construction of schools. DFID took over some of that responsibility and was able to do so because there had been delays in DFID's own disbursement, and the unspent funds could, therefore, be diverted to complete Danida's school-building programme. Similarly, there was a clear understanding with Norway to take over some responsibility in the decentralisation programme, and with the World Bank, the European Union and DFID in the environment sector, and the land reform programme.

In areas where legal agreements had been met by and large, Denmark was not successful in mobilising other donors to pick up from where it left off. This posed a severe problem in the agriculture sector where Denmark had generated great expectations through the intensive preparations for a new phase of sector support, the consequences of which will be elaborated below.

### **Exit consequences: The Netherlands**

#### *Sustainability of output*

The HMIS was intended to lay the foundation for a sector-wide approach in the health sector. This intention has largely been realised. The HMIS today is at the core of the evolving health SWAP in Malawi.

#### *Maintenance lingers*

The Dutch exit from the district level, however, was less successful. The construction and rehabilitation work on district hospitals and health centres were not fully completed or not completed satisfactorily. There are sustainability concerns as the maintenance budget for the equipment is grossly inadequate. To date, operating theatres are either not used or underused. Laboratory equipment is also inadequate. Furthermore, the budget constraints are even more severe with regard to human resources development.

#### *Institutional sustainability ensured*

The exit from the CoM can be seen as a ‘model’ in the sense that the sustainability of the programme was fully taken into account. The Dutch support to the CoM was very successful. The highly relevant functions of the College in educating medical personnel, and to some extent medical research, were not significantly disrupted during the prolonged exit process.

### **Exit consequences: Denmark**

#### *A major set-back to agriculture sector reform*

In agrarian economies, like that of Malawi, the development of the agricultural sector is critical both in terms of its growth potential and its ability to reduce poverty. This was the rationale for Danish support to the sector. The consequences of the Danish exit relate primarily to the failure of not delivering on the great expectations that had been created in preparing MASIP. Within the donor community Danida was the lead donor in the agricultural sector. The planned Danish support was described as ‘massive’ by one respondent, in relative monetary terms ac

counting for two thirds of the total programme input at the time of pull-out. Other donors included the World Bank, DFID and Norway.

The sudden withdrawal by Denmark as a lead donor in the agricultural sector sent misguided signals to the donor community. Owing to Danida's exit, including technical assistance personnel, the planned MASIP never really took off and the negative consequences were devastating in terms of missed opportunities on a large scale, and are felt to date. The Ministry of Agriculture effectively had to start from scratch, and only now – five years later – is the sector recovering from the blow dealt by Denmark's exit. It should be underlined that the negative consequences of the Danish pullout were not only material. The psychological effect was also significant in that it produced despondency and demoralised staff.

#### *Problem of single-donor dependency*

As an unforeseen side effect of the shock that Denmark's departure represented, however, new institutional thinking emerged. Hence, the Agricultural Development Programme (ADP) was born as an integral structure of the Ministry, which currently forms the basis of broad agricultural development in the country and might be dubbed a mini SWAP. It is a counterfactual question whether the situation would have been more donor-dominated had Danida continued as originally planned, as opposed to the current situation in which the process is driven by the Government of Malawi. At any rate, a bitter lesson learned by Malawi is to avoid dependency on one donor.

#### *Crisis spurs innovation*

The Natural Resources College (NRC) had been moribund for some time when its resuscitation and transformation were embarked upon jointly by the governments of Malawi and Denmark. The NRC is another example of need being the mother of invention. The shock resulting from Denmark's withdrawal spurred new thinking and initiatives. A new diploma programme with 100 students was launched in agriculture and natural resource management, sponsored by the Ministry of Agriculture, because there was a dire need for this type of middle management cadre in the country. The NRC has 1200 students today and operates on market rates. The new programmes would probably not have been established had Danida not pulled out. The NRC has not yet been successful in soliciting the assistance of new donors, mainly because most donors are reluctant to finance infrastructure.

### *Letting down farmers*

Irrigation was one of the agricultural sub-sectors in which Danida was set to become heavily involved. In pilot projects, smallholders had shown keen interest and the expectations of farmers had been raised, perhaps to unrealistic levels. With the sudden Danish exit the positive spirit of mobilisation was thus reversed and resulted in despondency. Extension workers lost credibility in the eyes of the farmers and have not managed to regain it yet.

Denmark had supported NASFAM, a nationwide umbrella organisation of local smallholder associations with more than 100,000 individual members, and prepared for a second phase. In a variety of ways NASFAM promotes the interests of smallholders in crop production and marketing of produce. The pullout was simply too abrupt because it disrupted plans and necessitated major adjustments. NASFAM's loss of credibility with the smallholders, who had great expectations, is still being felt in some areas, particularly with respect to marketing.

### *Secondary education reform came to a halt*

Unlike most other donors, Denmark concentrated on secondary education. Apart from the volume of support, the programme involved a major policy shift, which entailed reorganising the sub-sector. Serious concern had been expressed about the low quality of secondary education, largely due to lack of textbooks and appropriate teaching materials, resulting in very low pass rates. The policy shift was intended to redress the quality problem. An entirely new concept was launched: clusters of secondary schools comprising of a mix of national schools, district boarding schools and day secondary schools. Through generous funding, the basic idea was to induce the 'better' schools to assist the worse off by sharing staff, experience and teaching materials. The Danish exit was felt as a big blow at the cluster level, i.e. at the grassroots. Most school clusters were up against serious problems that have remained unresolved.

## **7.4 Lessons for exit management**

### *Factors determining successful exits*

The two contrasting donor-initiated exit processes serve to illustrate several factors that are important for successful phasing out of aid, and in this case from the perspective of an aid dependent country with relatively few donor partnerships.

### *Variable speed is needed*

Evidently, time itself is a critical factor. The Danish exit allowed no time for Malawi to adjust – either by soliciting assistance from other donors or by generating additional resources from domestic sources to meet the shortfall. Although five months is obviously too short a phase out period, it is a moot point whether as much as five years (as in the case of the Netherlands) is appropriate. The five-year time horizon for the Dutch exit was not set because it seemed an ideal duration but because commitments had been entered into for that period, and because the exit decision included that commitments would be honoured. The fact that the Dutch programmes in the health sector were just about to start at that time must be seen as exceptional.

A long time horizon may induce stakeholders, who were opposed to the exit decision in the first place, to use the ample time to undermine it by seeking out allies – at the donor end as well as in the recipient country – to slow down the exit process or to reverse it. In the Dutch case, both the Embassy (in Lusaka) and stakeholders in the Netherlands successfully advocated extending the phase out period. The extension of support to the College of Medicine facilitated the phasing in of funding through other donors (Norway, WHO) and much needed expatriate specialists:

- A general time horizon for country exits cannot be determined. Variable speed is required reflecting differences in nature and scope of programmes;
- A measure of flexibility is needed, especially when this facilitates mobilisation of replacement funding.

### *Content of programmes matters*

There are at least four good reasons why a longer time horizon should be considered for certain interventions and not for others:

- *Volume.* The volume aspect should be considered not only in an absolute sense but also relative to the resource flow to the sector, sub-sector or programme in question. Denmark exited from a position of major involvement in both the education and agricultural sectors. It is necessary to consider each recipient unit or intervention separately rather than at the aggregate level. In the case of Malawi, having relatively few donors, even an institution such as the CoM needed a long phase out period to be able to fill the resource gap from other sources, whereas CHAM managed to mobilise its support network within a shorter time span;
- *Institution building.* Today, most aid interventions have institution-building aspects. Some have institution building as a main objective, including the restructuring or complete overhaul of institutions.

This is a type of intervention that is inherently time-consuming. As the CoM example shows, depending on where in the process or programme cycle a donor finds itself when phasing out, institution-building efforts may warrant a longer time horizon;

- *Policy change.* If a donor is involved in major policy change in a sector or substantive field there is definitely a case for a longer time horizon. Engaging in activities which support or promote systemic or major policy reform (such as the Danish involvement in the education and agriculture sectors or Dutch support to health sector reform through the HMIS) must, by necessity and design, have a much longer time horizon than less reform oriented projects (such as support to CHAM). A donor supporting such policy change objectives (and even more so a donor promoting such objectives) bears a fair share of responsibility for the results and hence for the consequences of an exit.

#### *Respecting legal obligations is not enough*

Both the Dutch and the Danish exit decisions were sudden and ran counter to existing country strategies and perceptions about the partnership among key stakeholders. Existing plans did not contain phase out strategies. Neither of the two exiting donors made sufficiently thorough investigations as a basis for the decision. Hence, sustainability of outcomes was at stake.

The Netherlands and Denmark took different positions with respect to existing bilateral agreements. Denmark justified terminating the education sector programme agreement. Although legally unimpeachable, the consequences of the rapid winding up in the education sector were devastating. The Netherlands committed itself to honouring all existing legal obligations.

Moreover, disruption was also caused by the abrupt Danish withdrawal from planned, though not yet legally agreed, interventions in the agriculture sector. Preparation of a sector reform programme was set back by several years, and the exit of Denmark, being the lead donor at the time, sent negative signals to other donors. The foregone benefits of the investments in irrigation and other badly needed productivity-enhancing activities were very serious as long as other donors were unable to fill the resource gap:

- The rhetoric about partnership and good donorship has an important ethical dimension relevant to politically motivated exit decisions. The donor carries a responsibility for carefully assessing the consequences of withdrawing from commitments signalled in joint planning processes, even if not yet legally binding.

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*Commitment to exit management is critical – on both sides*

Commitment starts with communication. This applies to all stages of the exit process, right from the time when an exit option is contemplated to the definitive decision and onwards throughout the various stages of implementation. Following the shock of both exit decisions to Malawi, cooperation in exit management was dramatically different:

- The way of *communicating the exit decision* is critical. Denmark was in an extreme hurry to get out of Malawi for reasons of saving money. As a result, the exit management process was a contingency measure that hardly qualifies as more than crisis management. Little serious regard was given to the effects on the recipient partner. Denmark's way of communicating its decision produced resentment and resistance in Malawi. It is difficult to see the justification, even under the political circumstances prevailing, for not taking the time to inform the Malawian Government through a high level delegation;
- The *role of the donor Embassy* is an important determinant of a successful exit. The diplomatic and communicative skills and the professionalism of the Embassy staff in aid matters are crucial in the exit planning and implementation process. The Dutch Embassy, despite its location in Lusaka, played an important role; the Danish Embassy was denied the opportunity. Thus, the immediate closure of an Embassy following an exit decision will severely hamper the process;
- The *response capacity of aid-dependent and institutionally weak countries* to donor exits is as limited as their capacity for change. The underestimation of the consequences of exit is a phenomenon comparable to the overestimation of possible pace of change. Whereas adequate time and assistance from the exiting donor may ease the transition, it is also found in this study that exits may have positive institutional effects through reinforcing ownership (e.g. the case of the new agriculture sector programme) and innovation (e.g. market based training fees at the Natural Resource College). The challenge is to draw lessons from such experiences for planning exit at entry.

*Mobilising alternative funding requires special efforts*

In both exit cases there are examples of other donors stepping in. However, the overall finding is that the potential for filling the gap by other donors in the short and medium term was limited. The number of donors to Malawi is limited, which reduces the gap-filling candidates to but a few. Generally, any donor is likely to already have committed the bulk of its available resources to a portfolio, and may not have the required expertise and experience to step into any specific sectors an exiting donor is leaving. It is even likely that there may be some sort of

‘perverse’ solidarity within the donor community to the effect that other donors are disinclined to fill a gap when it could be construed as criticism of the exiting donor:

- Notwithstanding the difficulties of soliciting support from alternative sources, it is incumbent upon an exiting donor to make efforts towards that end, even to the point of assisting in negotiations with potential new donors as well as with government, as the Netherlands did when helping CHAM to negotiate additional public funding.

# Annex 8

## Country summary report

### South Africa

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#### 8.1 What country case is it?

##### Classification

The classification of South Africa<sup>57</sup> in this evaluation on exit management is not an easy one. The following characteristics apply to this country case:

- South Africa is a middle-income country;
- All four commissioning donors started in 1994–1995 with programmes to support transition in South Africa;
- In the case of South Africa it is very difficult to determine whether clear exit decisions, fitting into the definition used in this study, have been taken so far. Sweden made a decision in 2004 to close most aid programmes by 2008, and to go from development cooperation to broader cooperation. The Netherlands decided in 1999 on the status of South Africa as a temporary partner country, but this decision was reversed in 2003. In 2007, however, the partner country status was changed again and South Africa was put into a new category of countries for broader cooperation. The implications of this decision for the future development cooperation relationship are not yet

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<sup>57</sup> This summary contains edited excerpts from the Draft Country Report. The authors of the Synthesis Report in some instances have added new information. For the purpose of comparability between the five country case studies particular findings and lessons have been highlighted.

clear. Denmark and Norway also announced recently that they want to end in the future the traditional development cooperation, but no time horizons have been set;

- All four commissioning donor countries are keen to maintain intensive bilateral relations with South Africa and consider South Africa to be a strategically important country. Phasing in of new forms of cooperation is central to all of them. They also expect that some aid-funded support will continue to be provided to facilitate such cooperation.

South Africa would fit the category of countries that are graduating but will remain important bilateral partners. South Africa is a complicated case from another perspective because it cannot be classified as a clear exit country but should rather be characterised as an aid transformation country. For the purpose of this evaluation, three main characteristics of aid transformation or exits have been defined:

1. phasing out of traditional forms of development cooperation;
2. phasing in of new forms of development cooperation, such as regional and trilateral cooperation;
3. phasing in of new forms of institutional cooperation, also referred to as 'broader cooperation' (potentially non-aid related, including economic, cultural and political cooperation). This also includes efforts to ensure that institutional partnerships in past aid programmes could be sustained after the end of aid programmes.

As only the Netherlands and Sweden took decisions regarding the phasing out of development cooperation that allowed studying exit processes and consequences in more detail, this summary report mainly focuses on the exit/aid transformation processes of the Netherlands and Sweden in South Africa. The recent exit/phasing out decisions by Denmark and Norway are mentioned, but these decisions are too recent to be studied in detail, and particulars of the decision and the planning of exit management still has to be concluded in the case of the Netherlands.

#### *Level of aid dependence – aid policy*

According to the South African Treasury's database, South African government institutions received a total of ZAR 33 billion in Official Development Assistance (ODA) in the 1994–2006 period. The volume, however, is small compared to the South African national budget – less than 1.3 percent in 2006 or about 0.3 percent of GNP. The UN system is generally playing a peripheral role, and South Africa does not borrow from the World Bank or the African Development Bank.

The small size of aid inflow compared to the size of the economy, in combination with the particular development challenges in the country, has significant implications for the national strategic prioritisation of ODA. For the South African Government the value of ODA is realised when it is able to provide solutions and tools that enable the country to use its own resources more effectively.

South Africa's management of ODA is based on a number of principles, which reflect the internationally agreed concepts of the Paris Declaration. The most important of these principles is government ownership of ODA – a strong and non-negotiable priority. The issue of how to apply this in practice is more nuanced, and it is acknowledged that ownership may take many forms. Moreover, it is recognised that South Africa's management and coordination of ODA is not functioning optimally, but a number of steps have been initiated to enhance donor coordination.

#### *Economic development – graduation*

South Africa is regarded as a middle-income country with a per capita income of around USD 3,600, and is in the same category as Argentina, Brazil, Russia, Turkey and Venezuela.<sup>58</sup> The South African economy displays elements of both development and underdevelopment, sometimes characterised as the 'first' and 'second' economies respectively. In the former a small but growing proportion of the population enjoys a standard of living comparable to that in the industrialised world, while in the latter there are significantly high levels of poverty.

Vast inequalities in the distribution of income and wealth represent a formidable challenge, and remain an important constraint to growth and an important factor in addressing problems of social cohesion. Underlying the poverty and inequality challenges is a high level of unemployment. The unemployment rate varies between 25 and 40 percent depending on the measure used.

Coinciding with these high levels of unemployment, poverty and inequality is an economy regarded as a model of macroeconomic stability.

#### *Governance*

The Republic of South Africa is a constitutional democracy with a separation of powers between executive, legislature and judiciary. The ANC has an absolute majority in parliament. The first democratic elections were considered a major festive event, and data on attitudes towards government point at consolidation of democracy. Recently, some concerns have been raised regarding corruption cases and leadership issues, e.g. in donor assessments of governance and corruption.

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<sup>58</sup> World Bank: World Development Report 2006, Washington, D.C., Oxford University Press 2006.

### *Geopolitical importance*

It is generally accepted that South Africa is an economic giant, in the region in particular and on the continent in general. South Africa constitutes 40 percent of Sub-Saharan Africa's GDP. South Africa is also a political power of importance, and has become increasingly active as an intermediate in peace negotiations and in the African Union. The New Partnership for Africa's Development (NEPAD) was co-launched by South Africa.

### *Overview of donors included in the study*

Table 8.1 presents some main characteristics and trends of the involvement of the four donors in South Africa.

**Table 8.1 Overview of the involvement of the four donors**

	<b>Denmark</b>	<b>Netherlands</b>	<b>Norway</b>	<b>Sweden</b>
Embassy	Yes	Yes	Yes	Yes
Trends in bilateral aid volume	Approx. DKK 150 million per year during the period 1995-2001; country allocation of DKK 50 million during the period 2002-2006 but additional central annual allocations of approx. DKK 125 million; gradual reduction foreseen in the coming years to approx. DKK 100 million and further down to DKK 25 million	Approx. 20 million Euro per year in the period 1995-1998, increasing to approx. 30 million in the period 1999-2004; gradually increasing further to 55-60 million Euro in 2007 (incl. regional portfolio) and decrease foreseen from 2008 onwards (central allocations excluded)	Annual allocation of NOK 100 million during the period 1995-1999; reduced to NOK 80 million during the period 2000-2004; and further reduced to NOK 50 million till 2009, though additional funds through central allocations will still be made available	Gradual reduction of annual allocation of SEK 330 million in 1999 to approx. SEK 180 million in 2003; further reduction in the period 2004-2008 from SEK 140 million in 2004, and coming to an end in 2009 with the exception of HIV/AIDS (some additional funding from other central sources)
Main sectors	Education and skills development, democracy and good governance, urban environment, gender and HIV/AIDS	Many changes in sectors since 1996, current focus on education, culture and HIV/AIDS (national & regional)	Energy, environment and fisheries, higher education and research, regional activities, human rights and culture	Democratic governance, education, urban development, culture, research cooperation
Main aid modalities	Project and programme support	Project and programme support, sector budget support	Project and programme support	Project and programme support
Non-aid relations	Broad engagement with a good record of cooperation with the government, political parties and civil society as well as the corporate sector	Broad bilateral relations in a large number of different sectors based on an integrated foreign policy framework; bilateral treaty signed in 2007	Broad relations in a large number of sectors	Broad relations in a large number of sectors based on regular meetings of a high-level binational commission with three sub-committees

Denmark announced in 1993 its intention to launch a Transitional Development Assistance Programme to South Africa. Denmark was followed by many other countries, including the three other commissioning donors. It should be noted that it is problematic to draw up a good overview of trends in bilateral development cooperation for South Africa. Each commissioning country uses different definitions and centrally managed funds meant for South Africa are often not included in the bilateral country allocations. Despite these problems some general trends can be noted: Sweden has gradually and consistently reduced the volume of its support since 1999, and the same applies, to a lesser extent, to Norway. Denmark kept its aid volume from different sources more or less at the same level, while the Netherlands, remarkably, increased its aid since 2004.

Another important observation is that there have been frequent changes in the focal sectors, notably for the Netherlands for whom a certain trend towards sector concentration may be noticed. There is also an increasing emphasis on support to implementation and delivery. It is likely that the sector concentration and other changes in the aid programmes have resulted in recurrent phasing out processes at the project, programme and sector level.

Bilateral development cooperation can only be understood in the context of broader bilateral relations. All four commissioning donors attach great importance to these bilateral relations, although the degree of emphasis differs. The Netherlands, Norway and Sweden have set up formal mechanisms together with South Africa to strengthen bilateral relations. In particular, the Sweden-South Africa Bi-National Commission is established at a high political level with sub-committees at senior civil service level. Norway has entered into a flexible mechanism for political consultations as the ministers of foreign affairs from the two countries are expected to meet annually in connection with meetings at the UN, and the directors general in the departments of foreign affairs (or their deputies) are also expected to meet annually. In this context, the emphasis on regional dimensions and support to strengthen South Africa's role on the continent also deserve to be mentioned. The Netherlands has a similar consultation mechanism to Norway in the context of the Bilateral Treaty.

## **8.2 Aid transformation decisions and planning**

*When and why?*

In fact, only the Netherlands and Sweden took clear decisions to fundamentally change the aid relationship that fit into the definition developed for this specific evaluation and that could thus be included. The Dutch decision of 1999 was revoked in 2003, and a new decision was



taken in 2007 to go in the direction of broad-based cooperation. In 2007, Denmark and Norway also took similar decisions to change the cooperation relationship by reducing development cooperation and going towards broad-based cooperation. The main characteristics of the Dutch and Swedish decisions are reflected in the following table:

**Table 8.2 Overview of the aid transformation decisions of the Netherlands and Sweden**

The Netherlands	Sweden
1999: Classification of South Africa as a temporary partner country for a period of 5 years (2000–2004), implying a phase out of bilateral development cooperation by the end of 2004	2004: decision to bring government-to-government development assistance to an end during the period 2004–2008 (except HIV/AIDS & regional); broader cooperation to be funded by both countries should be developed including regional/trilateral projects
2003: Revision of the phase out decision by a new government; continuation of the development cooperation relationship with South Africa and rapid increase of aid commitments to South Africa	
2007: Classification of South Africa in the group of countries for a broad-based relationship, who will only receive targeted development assistance for a limited period of time; no implementation and management planning yet	

It is remarkable that most exit decisions for South Africa – i.e. the ones mentioned in Table 8.2 with the exception of the Swedish decision, but also the recent decisions of Denmark and Norway – are not completely clear on the phasing out component. They are mostly clear in the sense that all programmes with government will end when current programmes expires, while they are not necessarily clear on the role of aid after that. They state that aid will be significantly reduced, but in most cases either clear timeframes are lacking or various exceptions to the phasing out are allowed. The Swedish exit decision is elaborated in more detail, and the strategy does not only contain a clear timetable for phasing out but also a plan to develop “institutional, co-financed partnerships from 2009 onwards”.

After the original transition programme, *the Netherlands* decided in 1999 to select a limited number of partner countries, and in this selection process South Africa was classified as a temporary partner country for a period of five years (2000–2004). This automatically meant that bilateral development assistance was to be phased out. The main reason for this classification of South Africa was its middle-income country status.

However, after a lobby from business and NGOs in Dutch Parliament, the new Dutch Government decided in 2003 to revise the decision of the previous government and to continue the development cooperation relationship with South Africa. New strategic choices were made in the new multi-annual strategic plan for South Africa for the period 2005–2008. With the new country planning, more money became available to South Africa.

In September 2007, prior to the preparation of new multi-annual strategic plans by the Dutch embassies, the new Minister of Development Cooperation classified South Africa again in the group of middle-income countries for a broad-based relationship. The implications for the future development cooperation relationship with South Africa have not yet been spelled out in detail.

*Sweden* decided in its new country support strategy for the period 2004–2008 to replace direct government-to-government ODA by broader cooperation and partnerships between institutions in the two countries, while regional support and funding of HIV/AIDS related activities would remain.

*Denmark* is reducing its direct bilateral assistance to South Africa and has made a recent decision on continued aid transformation, including phasing out of most development cooperation activities. However, no clear end date has been set as consultations with South Africa are still going on. In these consultations details will be further defined.

*Norway* also took an exit decision in 2007 that included elements of phasing out and of new forms of broader and regional cooperation. The proposed transformation strategy essentially calls for an end to all existing programmes with the South African Government. It also proposes an increase in support for working with South Africa on regional activities, including trilateral cooperation, as well as support for broadening cooperation between the two countries. In the Government's budget proposal for 2008 it is stated that Norway seeks to transform its development cooperation relations with South Africa, and will focus future aid-funded relations on working with South Africa in Africa, and on providing technical assistance in areas where Norway has skills and knowledge that are in demand in South Africa.

It can be *concluded* that the Netherlands and Sweden took a relatively early decision to fundamentally change the bilateral development cooperation relationship with South Africa, a decision that was initially reversed by the Netherlands who even increased its aid budget to South Africa. In 2007, Denmark, the Netherlands and Norway decided to transform aid relations with South Africa, but these decisions were mainly beyond the scope of this study. Despite the decisions to phase out government-to-government cooperation, all four donor countries

intend to continue their cooperation in other ways. Therefore, all four donors show characteristics of aid transformation processes.

*How were decisions communicated?*

In 1999, *the Netherlands* informed South Africa of its status as temporary partner country. According to the 1999 annual report of the Dutch Embassy, this decision did not lead to much debate, and most communication took place on the development of the new sectoral approach and provision of sector budget support to the four selected sectors.

At the end of 2001, the Embassy of the Netherlands started to prepare its new annual plan and realised that planning for phase out should start. However, Embassy staff were of the opinion that it was too soon to phase out bilateral development cooperation. A memorandum was sent to the Ministry of Foreign Affairs in The Hague. In the Netherlands a lobby started to advocate maintaining the partner country status of South Africa. The issue was debated in Dutch Parliament and the new government revised the previous decision in 2003, so that South Africa was granted full partner country status. This decision, which included the continuation of the development cooperation relationship, was formally communicated in a letter to the Treasury, International Development Cooperation Section, in December 2003.

The Dutch decision of September 2007, which was sent to the Dutch Parliament on October 16th 2007, to again change the partner country status of South Africa was taken after the field visit of the evaluation team to South Africa, and the communication of this last decision is beyond the scope of this evaluation.

Consultation with South Africa and South African stakeholders on the *Swedish decision* to transform its aid relationship has been significant and extensive. Major efforts have been made by the Swedish Embassy to consult and communicate with partners. A first workshop to discuss the new country strategy with South African stakeholders was held in 2004. Embassy staff experienced the problem that the Swedish Government's decision to transform traditional development cooperation was not very clear on the new forms of broader cooperation i.e. on the phasing in component. This issue was raised by the Embassy several times with Sida HQ and the Ministry of Foreign Affairs. Regarding phasing out the Embassy started a dialogue with South African partners on how results could be sustained and if institutional links could be further developed beyond 2008. Moreover, a major workshop on broader cooperation took place in 2007.

The Swedish Embassy feels that it has a good dialogue with programme partners, line ministries and with the Department of Foreign Affairs. The dialogue with the Treasury has, at times, been more diffi-

cult because the parties involved sometimes have different approaches and different thoughts on how transformation should be implemented. The Swedish Embassy initially perceived a certain unwillingness in the South African Treasury to engage in a dialogue on how the current development aid programme could be transformed into a new phase of development cooperation. The Treasury, from its perspective, feels that the Swedish decision was a unilateral one. They emphasise strongly that aid transformation has to be a jointly managed process, and that future arrangements must be financially sustainable on both sides.

*How was phase out planned for?*

The Netherlands started preparing phase out strategies in 2002. These strategies had to be prepared for each of the four sectors that had been selected for the five-year strategy 2000–2004: education, youth, local governance, and justice. The idea was, that for each of these sectors a sector wide approach would be developed. However, the development of a sector wide approach requires, in general, more than five years. From 2000 onwards, the Embassy staff, which included thematic specialists for each of these sectors, devoted their time to the development of comprehensive sector programmes, which proved to be quite problematic in the South African context. For example, it was realised that in South Africa the Netherlands (like other donors) had relatively little influence on the policy framework and implementation of government programmes, which is one of the elements of a sector wide approach. In principle, the 1999 decision on the temporary partner country status could be regarded as a case of ‘exit at entry’. However, as the development of sector programmes was quite complicated – and often requires a longer time horizon – this principle was not given due attention at the start. Therefore, when it became clear in 2002 that emphasis had to be given to the development of phase out strategies, this took some of the staff by surprise.

Nevertheless, in 2003 phase out strategies, so-called ‘sustainability strategies’, were completed for each of the four sectors. The term ‘sustainability strategies’ indicates that the main aim was to assure sustainability of outcomes at various levels, i.e. at the level of institutions and of beneficiaries. Possibilities for handing over of activities to national and local governments, NGOs and other donors had to be explored. According to the annual plans of the Embassy, implementation of phasing out should be closely monitored.

When, in 2003, the new government decided to continue its bilateral development cooperation relationship things rapidly changed. Main attention was given to the development of the new country strategy, in which only education remained as a focal sector. HIV/AIDS

became a new (regional) area for attention. Some parts of the 'old' portfolio in youth and local governance could be included in the new HIV/AIDS activities. In fact, the initial careful planning of the phase out with a view to sustainable outcomes seems to have been replaced, in practice, by a model of natural phasing out of those activities that could not be included in the new country programme. This model of natural phasing out meant that ongoing activities were completed and projects were administratively closed after completion.

For *Sweden*, phasing out traditional government-to-government assistance was one component in the 2004–2008 country support strategy. The other component – specified as “the main thrust of development co-operation during the forthcoming strategy period” – was to pave the way for direct institutional, co-financed partnerships from 2009.

The Swedish strategy is clear that “all implementation agreements will expire. Ongoing programmes may only be extended and new introduced if they are deemed to result in sustainable, co-financed institutional partnerships, or if they address HIV/AIDS or facilitate/result in cooperation between Sweden and South Africa in other African countries.” Therefore, in practice, Sweden’s approach to phasing out the aid programmes has essentially been to ensure that activities are completed in accordance with the agreed business plans. The Embassy has allowed extensions and amendments if required, but generally without additional funding.

In general, the evaluation (synthesis) team concludes that there is a tendency to pay more attention to phasing in of new activities than to detailed planning of the phase out of development cooperation activities in South Africa. Starting with the transition programmes in 1994 and 1995, quite a lot of projects and programmes in different sectors have been phased out. Natural phasing out has been the most common form of planning, i.e. respecting ongoing commitments. The Netherlands started with detailed exit planning by preparing sustainability strategies for each of the sectors in 2003, but in the next section it will be shown that implementation and monitoring of these strategies did not receive much attention. Sweden, however, prepared an exit plan after its 2004 decision with a clear timeframe, guidelines on communication and indications on monitoring.

## **8.3 Implementation of aid transformation**

### *Phase out management*

The first section concentrates on the management of phasing out, while in the second section phasing in of new forms of development and non-development cooperation issues will be discussed. In the South Africa

study, aid transformation processes in the following sectors have been studied in more detail:

- education and research;
- arts and culture;
- trilateral cooperation.

Management of aid transformation will be discussed at the level of individual donors, but also at sector, programme and project level.

### **Timing and flexibility**

For Swedish-funded interventions there have been some delays – estimated mid-2007 at about twelve months in relation to the country strategy – in phasing out projects. This has been caused by slow implementation capacity and extensions of ongoing projects, but also by the delayed start-up caused by Stockholm’s late approval of the country support strategy. A challenge in several projects has been the high turnover in key staff positions with South African partners. The Embassy expects a delay of about six months (mid-2009 rather than end 2008) in closing the embassies management responsibility. By then projects are expected to be either closed or management transferred from the Embassy to Stockholm.

### **Respect for ongoing agreements**

None of the four commissioning donors opted for an accelerated phase out. All ongoing agreements have been respected and extensions due to slow implementation have been granted regularly.

### **Financing**

The previous overview of trends in aid volume showed that Sweden and Norway have gradually reduced their aid volumes and Denmark is also slowly decreasing its bilateral aid to South Africa. The Netherlands, in contrast, has increased their bilateral aid since 2004.

The Swedish country support strategy expected that there would be increased cost sharing in all their programmes. The strategy specifies that Sweden, as a matter of urgency, enters into a dialogue with South Africa and arrives at an agreement on a suitable timetable for increased co-financing during the strategy period. This has so far not materialised (with the exception of research and culture).

### **Human resources**

Lack of capacity and human resources on the South African side, in part due to high turnover of key staff, is putting constraints on the ability to manage the transition in some projects.

Embassy staff play an important role in phasing out. The Swedish Embassy has strong competence and skills in managing the diverse tasks associated with phasing out and phasing in, but they are struggling with limited capacity. Sida posts at the Embassy are, following a 2006-decision- gradually withdrawn with the last two expected to leave in mid-2009. This has made management of the aid transformation particularly demanding. Some of the technical constraints have been offset by shifting management of individual projects to Sida head office and by hiring local staff and consultants to assist with the administrative tasks of closing programmes. For the Netherlands, phasing out was limited to three of the four specific sectors for which sustainability strategies were developed, but due to the departure of the thematic specialists for these sectors attention to the phasing out necessarily suffered.

### **Monitoring**

The Netherlands aimed at detailed monitoring not only of inputs, but also of outputs and outcome, as indicated in the sustainability strategies. However, due to the decision to continue development cooperation and because of phasing in of new programmes, less attention was paid to monitoring of outputs and outcome. Therefore, it seems that monitoring of phasing out remained mainly limited to inputs and the administrative closure of projects.

For Sweden, some monitoring results on outputs and outcome of the phasing out are available. Moreover, this monitoring was linked to a number of quality assurance activities. It is not clear to what extent these monitoring data were used and if changes in budget lines were agreed in order to sustain the outcome. Nevertheless, in some cases considerable efforts have gone into using such reports and workshops around them to explore possibilities for continued institutional partnerships

### **Difficulty to combine phase in and phase out**

The country case South Africa clearly shows that phasing in of new activities, such as regional activities and trilateral cooperation but also new forms of cooperation, and for Sweden and Norway the transformation towards institutional partnerships gets more attention than phasing out of ongoing activities. For the Dutch phasing out of three sectors the impression exists, from interviews with Dutch Embassy staff, that phasing in went at the expense of phasing out. For example, when the Netherlands decided to continue the development cooperation relationship, parts of the sector programmes to be phased out were brought under the new heading of the HIV/AIDS programme, and this took considerable time and effort., while less attention could be given to the activities that were ‘naturally’ phased out. The evaluation team was not

able to determine to what extent the carefully planned phase out, or sustainability strategies, for each of the four sectors were actually implemented and monitored.

*Phasing in of new forms of development cooperation: regional and trilateral cooperation*

Regional and trilateral cooperation represent rapidly growing forms of development cooperation in the context of South Africa. The Nordic countries – through their embassies in Pretoria – developed a draft policy framework on trilateral cooperation in close dialogue with South Africa’s national Treasury and the DFA. How to work with South Africa in Africa is an important matter for nearly all the important donor countries active in South Africa. It is also a key dimension for those donor agencies seeking to transform their aid relations with South Africa. However, this is not a new issue. South Africa’s role in Africa has been a major issue for all four countries examined in this study for many years, but it has received an added urgency with efforts to phase out traditional development aid to South Africa, and with South Africa’s own evolving thinking around how to work with northern development partners in Africa.

The four donor countries are strong supporters of programmes and projects aiming at advancing regional cooperation in southern Africa. There is participation by private and/or public South African institutions in nearly all of the donor-supported regional projects. The South African institutions may not necessarily be the contract partner or implementing agency, but there tends to be a South African involvement in most regional projects supported by the four donor countries. There is a certain logic to these efforts to make use of South African resources in the region and beyond. South Africa is a major economic power in southern Africa and on the continent; it is an assertive political player; and South Africa has technical skills, institutions and resources in high demand in poorer neighbouring countries and on the continent. This has led to the notion of trilateral cooperation – the donor agency should not only seek to involve and make use of South African resources in the region and beyond, but also to make South Africa a partner in supporting development in third countries, and in strengthening pan-African and sub-regional organisations.

The current extent of trilateral cooperation between South Africa and the four donor countries is, however, still limited, although the Treasury, in cooperation with the Department of Foreign Affairs, has developed a draft policy framework for trilateral cooperation in Africa between South Africa and their development partners. Some observations on challenges emerging from this new emphasis can be made:



1. Although South Africa has strong commitments and resources, its ability to deliver is still lower than expected. Some of the strongest contributions have been in areas such as financial management, where South Africa can rely on strong institutions and training facilities (like the South African Revenue Services), and in development of physical infrastructure (e.g. through the Development Bank of Southern Africa). South Africa is struggling much more in areas involving institutions focusing on service delivery, decentralisation, poverty reduction, or security sector reform and post-conflict reconstruction;
2. South Africa is still in the early stages of defining how it should deliver development support and assistance to other African countries. As an aid-receiving country South Africa was very vocal on the Paris Declaration on Aid Effectiveness, but has not yet developed procedures and mechanisms to ensure that it adheres to the same principles in its own relations with other African countries;
3. South Africa may be classified as an “emerging donor”, but it has, first and foremost, an identity as a developing country wanting to engage with other African countries as a partner engaging on a broad front, where development assistance may be just one component. There also appears to be a growing recognition within some of the donor agencies that South Africa’s role as a regional power cannot always be reconciled with development aid interests. As donors they are concerned that support to South Africa should not reinforce regional imbalances;
4. There is a strong trend – evident for all four countries – to subcontract South African NGOs to implement projects in Africa. This is particularly evident in the peace and security area, and has been reinforced by the poor absorption capacity of regional organisations. The role of NGOs is important and will continue to be so in the years to come. However, they are no substitute for public institutions and intergovernmental organisations. Putting too much emphasis on NGOs as an alternative to working with African intergovernmental organisations may also lead to tensions between NGOs and these institutions.

*Phasing in of broader cooperation*

The *current country programme of Sweden* contains several components that fall under the category of ‘broader cooperation’ or institutional cooperation with institutions of Sweden and South Africa working together:

- democratic governance, including police services, tax authorities, statistics and municipal twinning;
- arts and culture;
- research;
- health; and
- economic cooperation.

The joint mid-term review of the Swedish country strategy, carried out in mid-2006, concluded with regard to broader cooperation that the mutuality aspect is more strongly emphasised on the Swedish side than on the South African side. Moreover, virtually all of the new envisaged instruments for South Africa are aid funded. This creates some problems and challenges:

- A major challenge for Sweden is to ensure that Swedish government institutions also make use of normal budget lines for international cooperation to fund institutional cooperation with South Africa;
- What should be Sida's role in broader cooperation with the main aim of Sida being poverty reduction? It should, however, be mentioned that Sida is managing a non-aid funded facility for broader cooperation between Sweden and the Baltic countries, and such a facility could also be created for South Africa;
- There are uncertainties regarding the use of some broader cooperation instruments in relation to the principles of both aid harmonisation and untying of aid. Likewise, on the South African side, there are procurement rules that may put some constraints on the use of certain types of instruments. The Paris Declaration on Aid Effectiveness does not directly address the issues of aid transformation and broadening of cooperation, but the view expressed in the recent Sida report to the government in June 2007 is that it is possible to make use of these instruments, and other facilities that may be developed to fund institutional cooperation, without violating the principles and mechanisms in place to strengthen aid effectiveness.<sup>59</sup> However, interviews in Sweden during the inception phase, including interviews with Sida staff, made clear that not all staff share this view and some feel that there is tension between the use of ODA money for types of cooperation that automatically involve Swedish institutions. Some staff consider this tied aid. In principle, according to OECD's recommendations regarding untying of aid, an exemption may be made for middle-income countries with low aid dependency and strong

<sup>59</sup> See the Sida report to the government: Återrapportering avseende Sidas bredare samarbete, 12 June 2007: [www.Sida.se/Sida/jsp/Sida.jsp?d=519&a=32749&searchWords=bredare%20samarbete](http://www.Sida.se/Sida/jsp/Sida.jsp?d=519&a=32749&searchWords=bredare%20samarbete) etc.

leadership for free-standing technical assistance where institutional cooperation with the donor country may be justified;

- It is interesting to compare the Swedish experience with the Dutch experience. Until the recent 2007 policy paper, in which the status of partner countries was redefined, the *Netherlands* did not use the concept broader cooperation but has applied an *integrated foreign policy and strategy framework* since 1996. Institutional cooperation can either be funded by ODA funds or non-ODA funds.

Compared to the Scandinavian countries, the Netherlands has used a broader mix of ODA and non-ODA instruments in South Africa since 1996, but the Dutch Embassy has always pleaded in favour of further development of non-ODA instruments and an even more appropriate mix. The Netherlands aim to involve other line departments in the cooperation with South Africa through these funding mechanisms. Although the three other countries also have foreign policy strategies and possibilities for non-ODA funding, the interviews indicated that the use of non-ODA instruments proved to be very problematic for graduated countries such as South Africa.

### **Clarity of strategies and instruments**

Swedish aid transformation has suffered from insufficient guidelines. The lack of proper operationalisation of the Swedish Policy for Global Development has led to a situation where South African partners still have uncertainties about the concept of broader cooperation.

The Joint Mid-term Review on cooperation between Sweden and South Africa in 2006 concluded:

- There is insufficient understanding of broader cooperation and the concept is not sufficiently rooted among the two countries' main stakeholders;
- Time is a limited resource in the current transformation with a rapidly shrinking timeframe;
- The human resource allocation to manage this transformation may not be sufficient;
- There is a need to further clarify Swedish instruments available to facilitate and fund broader cooperation;
- There is a substantial delay in implementation of the country strategy.

The problem for the Netherlands is not the lack of instruments as such to facilitate new forms of cooperation but the availability of these instruments in the South African context. However, quite a large number of instruments are already available for South Africa. For example, in

1998, when the Netherlands selected thirteen priority countries as part of its revised international cultural policy, South Africa was immediately selected as one of these priority countries. Only two developing countries (South Africa and Indonesia) were part of this list because cultural cooperation focuses mainly on North America (USA and Canada), Europe (seven EU countries), Russia and Japan. It is interesting that the Netherlands makes use of ODA funding (to support the arts and culture sector in South Africa) and non-ODA funding for institutional cultural cooperation. Nevertheless, it is remarkable that the mix of instruments for cultural cooperation agreed in 1998 has not changed for the past ten years.

A challenge on the South African side is how to fund and establish institutional partnerships on their side. Probably the money is available, but instruments are missing.

### **Role of the Embassy**

An internal Quality Assurance mission in late 2007 noted that the *Swedish Embassy* and its staff are driving the aid transformation process with dedication and great commitment. However, the Swedish Embassy has suffered from an unclear division of roles and responsibilities in Stockholm. This has been aggravated by capacity constraints at the Swedish Embassy – a shortage of staff and insufficient technical support from Sida. Sida posts at the Embassy are gradually being withdrawn, with the last two expected to leave in mid-2009. Some of the technical constraints have been offset by shifting management of individual projects to Sida head office, but this has not been sufficient. From mid-2009 Sida staff at the Embassy will basically be reduced to a programme officer in HIV/AIDS (reporting to the Swedish HIV/AIDS team in Lusaka).

The recent establishment of a division responsible for broader cooperation within Sida will create a new focal point in Stockholm. In 2006, Sida's Director General decided that all development cooperation staff (i.e. from Sida) posted at the Embassy should be phased out until August 2009, and that a new post will be installed from mid-2009. This post will be responsible for the coordination and follow-up of broader cooperation in southern Africa (incl. South Africa, Namibia and Botswana). This is considered very important, since the success of cooperation very much depends on the ability to facilitate partnerships and exploit synergies between different instruments. In addition, the Embassy has proposed that it be allocated one position to assist support to peace and security initiatives in Africa (similar to the role of the Swedish HIV/AIDS team in Lusaka).

For quite some time the *Netherlands Embassy* did have a separate development cooperation section. In 2004, when the new cooperation programme started, the internal organisation of the Embassy was

changed. With this reorganisation, the separate development cooperation section disappeared and the responsibility for implementation of ODA activities was spread over the different sections of the Embassy, i.e. the political section, the economic section, press and cultural affairs, etc. This reorganisation was partly meant to facilitate the implementation of a really integrated foreign policy and strategy framework and to further develop an appropriate instrument mix.

#### *Consequences for implementing organisations*

Generally, the phasing out of external financial resources appears not to have been a major problem in relation to government institutions. South Africa has the required financial resources to carry on. Lack of capacity and human resources on the South African side, in part also due to high turnover of key staff, is putting constraints on the ability to manage the transition and ensure sustainability.

It should, however, be noted that because of the attention to new forms of cooperation, there is a risk that less attention is paid to the consequences of activities that are phased out as part of the aid transformation processes. This requires careful management of the various aspects of aid transformation. In this country study, information on consequences of phase out is limited.

#### *Consequences at the level of bilateral relations*

It has already been mentioned that all four countries aim to strengthen their bilateral relations with South Africa. In Table 8.1 various mechanisms, such as bilateral treaties and consultation mechanisms, have been mentioned. Especially the Bi-national Commission between Sweden and South Africa, established in 1999 and chaired at the highest level (currently the Deputy Prime Minister and Deputy President), deserves to be mentioned. This is a political forum for discussion of ongoing and future bilateral relations. The objective of the Commission is to broaden and deepen the relations between the two countries. The work is shared between three committees dealing with political issues, economic cooperation, and social affairs and cooperation (including development assistance), with each committee having subcommittees. The challenge is to establish effective linkages between the work of the Bi-National Commission and the operationalisation and implementation of broader or institutional cooperation.

Other bilateral consultation mechanisms have already been mentioned in Table 8.1, but another important mechanism to maintain and strengthen bilateral relations is 'political visits'. For example, in the period 1995–2002, each year a number of Dutch ministers (including the Prime Minister) visited South Africa, while some South African Minis-

ters – albeit a more limited number – visited the Netherlands. The direct political contacts became less frequent for some time, but since 2005 frequent political visits have been reported.

The broadening of bilateral relations is an issue of concern in all four countries and it is not always easy to maintain the interest of line ministries in cooperation with South Africa. Clear win-win situations are necessary to keep up interest. At present, government agencies on both sides are heavily involved in the different forms of cooperation.

## **8.4 Conclusions and lessons for transformation management**

Sweden is the only donor country to have formally decided to phase out government-to-government development aid to South Africa, and to implement a strategy to achieve this. Most donor countries are in the early stages of initiating and preparing closures and phasing out country programmes. All four donors are involved in a process of aid transformation. Nevertheless, only the Swedish case provides any insights into the management of a planned aid transition process with all its sub-processes.

The following main lessons regarding phasing out are formulated:

The *first* important lesson is that phasing out is demanding and time consuming and requires dedicated staff at the Embassy. It is therefore important to maintain sufficient staff levels at the Embassy through-out the phasing out.

*Secondly*, South Africa may have financial resources, skills and political commitment but unless the phase out is carefully prepared and managed achievements may be lost and sustainability weakened. A main bottleneck in some, but far from all, aid interventions in South Africa, is insufficient capacity in government institutions. This is due to staff shortages in key positions and high staff turn-over in many government departments. It is important that this issue is addressed when closing aid programmes.

*Thirdly*, the team has observed that the process of phasing out has followed a “normal” closure – or a ‘natural phase out’. Adjustment to time frames and budgets have been allowed if required, but a main principle has been to avoid additional funding.

*Fourthly*, phasing out of the support programme tends to be implemented more or less in accordance with a time bound plan. In the Swedish case there is five year plan with a clear deadline. Denmark and Norway are developing similar time frames, but appears to be less focused on a cut-off date. In practice the difference between the three Scandinavian countries should not be overestimated. More open-ended phase outs, however, may run the risk of becoming delayed phase outs.

*Fifthly*, the issue of continued aid funding to South Africa for some types of activities such as regional and trilateral cooperation, and NGO funding needs to be addressed.

Regarding phasing in it is concluded that phasing in new forms of co-operation is generally given far more attention than phasing out in the South African case. This does not necessarily imply that management of aid programmes is suffering. However, this may lead to tensions at the level of the Embassy. Major challenges for the management of the Swedish phase in are linked to uncertainties of future Swedish funding and efforts needed to be in place to ensure quality assurance and support to institutional co-operation. Swedish institutions have a mandate through the Swedish Policy for Global Development to engage in such co-operation, but these institutions do not have dedicated funds for this. The institutional responsibility in Stockholm and the role of Sida is also unclear. Lack of policy guidelines and clarity on these issues has weakened the ambitious Swedish efforts to transform the implications for the Paris agenda and SA's aid harmonisation efforts.

# Annex 9

## Overview of exits

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	Denmark			Netherlands			Norway			Sweden		
	Exit type	Exit plan	success	Exit type	Exit plan	success	Exit type	Exit plan	success	Exit type	Exit plan	success
Botswana	3	no	-	-	-	-	3	yes	yes	3	no	-
Eritrea	2	yes	no	2	no	-	-	-	-	1	no	-
India	3	yes	yes	3	yes	yes	3	no	-	3	no	-
Malawi	1	yes	no	2	yes	yes	-	-	-	-	-	-
South Africa	-	yes	-	3	yes	aborted-	-	yes	-	3	yes	-

In total, 14 country exits:

- two type 1, three type 2, and nine type 3;
- eight with exit plans and six without clear planning;
- consequences studied of six exit processes of which four were considered to be successful and two were not successful.









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Synthesis Report

