

Aid Management

**STRATEGIES FOR EFFECTIVENESS,
CONCENTRATION AND GRADUATION**

AID MANAGEMENT

**Strategies for Effectiveness,
Concentration and Graduation**



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PREFACE

Project 2015 is a series of studies and seminars to review trends, problems and opinions which will have a bearing on the environment within which Sida will work 5-20 years from now. The main idea is not to make projections but to initiate discussions which may give us a more consistent vision of the requirements and development problems that will face aid agencies in the future.

One important aspect in this work is to assess how aid should best be managed in a changing world. With limited financial and administrative resources the organisation must carefully prioritise between the various development activities in which it is involved. What should be the performance criteria for Swedish aid? How should results and costs be measured? And finally, how could incentives for stakeholders in aid be geared towards promoting Swedish development cooperation objectives?

As experts on management, SPM Consultants were engaged to analyse the causes behind the proliferation of Swedish aid into new countries and sectors and the ever increasing number of projects. In their report, "Concentration Through Portfolio Management", they introduced a new management tool, Strategic Portfolio Management, to facilitate Sida's monitoring of the administrative burden and the performance of its programme. Interconsult Sweden (ICS) was contracted to look into three specific aspects of aid management: the influence of stakeholders, application of time limits and criteria for graduation of countries from aid. Their report provides some useful insights on difficulties and possibilities in the art of "Countering the Conveyor Belt".

The studies have been discussed in Sida seminars, with participation from within and outside the agency. A number of useful comments have been made. Dag Ehrenpreis and Lars Johansson, at Sida's Economic Analysis Unit, have written a commentary paper, entitled "Strategic Aid Management", based on the two reports, seminars and the discussions at Sida. This paper introduces the present volume.

Stockholm in April 1997.

Bo Göransson, Director General of Sida

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TOWARDS EFFECTIVE AID MANAGEMENT

Summary and Recommendations

by

Dag Ehrenpreis & Lars Johansson

Sida, April 1997

This paper deals with the overall management problem of a donor agency, i.e. how to increase aid effectiveness in a period of stagnating or even diminishing resources for development cooperation. The analysis below points to some key issues for improving aid management in the new Swedish International Development Cooperation Agency, Sida.

1. The issue of aid management should not be isolated from the overall issue of aid effectiveness, i.e. the desired outcome of aid programmes. How to best manage the administrative, human, material and financial resources available to the donor agency depends on what is to be accomplished. It is the results achieved with available resources that is the yardstick of effectiveness. The results should be measured or estimated, as it were, in terms of the overall, sustainable development impact as defined by the established official objectives for development cooperation.

Management by Objectives in the form of Logical Framework Analysis should lead the way towards increased efficiency in aid management, provided that the overriding aim of raising the level of living of poor peoples is at the top of the hierarchy of objectives. The management problem in development cooperation is not just to improve administrative efficiency by doing things right. At least as important is doing the right things to increase the sustainable development impact.

2. Aid management should take fully into account the interests of the major stakeholders in development cooperation at various levels, both in the donor and the recipient country. Aid effectiveness will to a large extent depend on the real system of incentives which motivate the stakeholders' efforts and actions towards or against fulfilment of the established objectives. A crucial factor for successful aid management is therefore to master the challenge of designing incentives so that stakeholders will act for, rather than against effectiveness in aid.

3. Concentration is a rational management method to improve efficiency in aid by taking advantage of economies of scale especially in administrative arrangements and accumulating knowledge of recipients at country, sub-region, sector and project levels. However, politics and stakeholder interests are stronger forces than management rationality. Many attempts over the years to limit the number of recipient countries, sectors and projects have failed.

4. An alternative approach to aid management is portfolio management based on a system of information regarding impact, costs and risk in country or sector programmes. With such an information system together with active strategic management, Sida would be in a better position to relate the impact of its support activities to the available administrative and operational resources.

5. The form of support is an important factor for improving the efficiency of aid management. Programme support to sectors, to the state budget and to balance-of-payments is a more concentrated modality of assistance which can have superior development impact by promoting a supportive macro-economic and/or sector policy environment. This has proven to be a crucial factor for the sustainable development impact of projects and all other development activities.

Thus, programme support with realistic and flexible policy conditionality taking into account the incentive effects may have important development impact, while requiring relatively moderate administrative resources in relation to financial resources. It does require, however, analytical and negotiating capacity at the macro-economic and sector policy levels as well as effective donor coordination. It also requires a political will to carry out economic policy reforms in the recipient country. However, without such a will and such reforms, neither programme nor project support will have a sustainable economic development impact.

6. The present paper develops a schematic management technique for choosing optimal projects and programmes to support in a recipient country by analysing their development impact and relevance, as defined by Sida's Country strategy document, and relating these to their cost-effectiveness. This method implies a requirement of capacity for development analysis at the country level as well as at programme and project level. Such analysis is necessary for a management system aiming at aid efficiency with respect to sustainable development impact.

The conclusion is, that if aid management efficiency is to improve such capacity should be given priority in Sida's allocation of administrative resources.

7. Concerning the relation between strategic planning at the regional and country levels and at the sector level, the paper finds that there is a need for clarification as to the relation between these two dimensions of strategic planning. It is necessary to take a strategic decision on a methodology for prioritizing between support for different development activities in any recipient country. Since the development impact of such activities is largely determined by the policy and institutional environment in the country and region where they are located, that dimension is the logical starting point for strategic planning.

Thus, the paper concludes that the issue of doing the right things should be determined by the country strategy based on analysis of the socio-economic, institutional and political preconditions for achieving Swedish development cooperation objectives in each country. The issue of how to do things right within the priority areas thus defined is the equally important task of sectoral strategies and policy guidelines.

8. The organizational implication of the conclusion on choosing the country dimension for overriding strategic management planning is that there should be a clear division of responsibilities between the regional and thematic departments. The regional departments focus on the task of elaborating country strategy documents as a basis for operational planning. The thematic departments concentrate on developing general sector policies and elaborating projects and programmes within the country strategies.

Stakeholder interests must be kept tightly within terms of reference emanating from the country strategy. Management should ensure that the regional departments have enough organizational strength to balance any risks of stakeholder collusion between thematic departments, consultants and institutions.

One way to strengthen the capacity of the regional departments may be a form of team work for a group of countries instead of a desk officer for each country. This would ensure better continuity as well as flexibility, and make it possible to efficiently utilise specialist competence, and would be suitable for the portfolio management approach. Another way is to strengthen the links between the regional departments and the field staff in the embassies.

9. The longer cooperation has been going on in a particular sector in a recipient country, the greater the risk for stakeholder interests to become entrenched and take control of the country strategy¹. Thus, the issue of time limits is central to an efficient aid management strategy. The problem has been lax enforcement of agreed time-tables for project implementation. The recommendation is for stricter enforcement.

To improve efficiency it is important to systematically introduce incentive-based rules for adherence to project and programme agreements. Non-fulfilment of project implementation agreements should not be accepted without penalty, unless it can be proved that only circumstances beyond the control of the non-implementing party were the cause of the problem.

The project agreements should be developed in such a way as to serve as efficient management tools. This means i.a. that the implementation plans must be both precise, detailed and realistic, allowing for normal delays due to unforeseen circumstances. There should be control stations at intermediate stages of the project allowing for revision of plans as well as sanctions for non-fulfilment.

10. Country graduation is another method of attaining concentration. Various criteria of graduation, i.e. phasing out a country cooperation programme, are discussed on the basis of a consultancy report. This concept also conflicts with the rationale for concentration, i.e. economies-of-scale. In this case the argument for continuing support is stronger than at the sector or project level. As long as both the need and the economic and political preconditions are such that Swedish aid fulfills its objectives, the country programme should continue and benefit from the accumulated experience and deeper knowledge of conditions in the country.

Concentration and thus management efficiency should be improved by focussing more clearly on the least developed countries, where the poverty problem is most serious. Among those, Sida should concentrate on countries where political commitment is such that Swedish aid could have an impact on poverty reduction.

The graduation process should be considered at a more disaggregated level than the country level. Countries do not develop evenly and there may be reason to terminate cooperation in some sectors while not in others.

Furthermore, for certain cooperation instruments for example concessional credits, some aspect of the recipient economy is of special importance. These should be related to the recipient's debt and balance of payment situation. Another example would be programme support, which must be related to transparency and accountability of the recipient's government and public administration.

¹ Note that there is a certain contradiction between the strict enforcement of time limits and the economies-of-scale argument for concentration, since the latter implies that longer cooperation in a sector goes on, the better becomes the accumulated sector/country/person knowledge. However, the longer the time is, clearly the stakeholder problem increases and the economies-of-scale diminish.

1. THE MANAGEMENT PROBLEM

Does it make sense to discuss *how* to do things right, without discussing *which* are the right things to do? Not really. Still, that is to some extent what this and other papers on aid management do.

The analysis of aid management must not be isolated from the question of what should be accomplished. The optimal management model is different for different aid objectives. However, trying to deal with everything at the same time is not practical.

This paper is mainly about aid management by objectives, which are derived from the official aim of Swedish development cooperation, i.e. improving the living conditions of poor people by promoting resource growth, social and economic equity, economic and political autonomy, democratic governance, sustainable use of natural resources and gender equality.

This paper takes advantage of accumulated experience and deals with many of the management problems Sida is already facing. One such problem is how stakeholders' incentives could be made to work for and not against aid efficiency. Another issue is the choice of selection criteria for the use of different development cooperation instruments in different countries.

The management task is to promote development objectives in an efficient way by choosing the right development cooperation activities and maximizing cost-effectiveness for each given activity, at the right time. This means maximizing sustainable net development impact within available resources. These are now being reduced more severely than ever since Swedish official development assistance (ODA) began.

Why is it important for Sida to study aid management? For mainly four reasons. Firstly, the world is constantly changing. Hence the preconditions for aid are changing. This requires new modes of cooperation and flexibility in aid administration. Secondly, research and experience constantly provide increased knowledge of aid management and how aid effectiveness could be improved with respect to the development objectives. Thirdly, the reorganization of the Swedish aid administration means that the new unified aid agency Sida needs to elaborate a comprehensive management model. Finally, cuts in the aid budget will make further change in the development cooperation program necessary. Strategic and efficient management will facilitate this adjustment.

2. CONCENTRATION

One aspect of improved aid efficiency that has been discussed for decades is concentration with respect to both recipient countries and sectors. The rationale is that there are certain economies of scale. There is a minimum cost for a development cooperation office; there is minimum amount of time and effort that has to be spent to learn about economic, political and social conditions in a country and its different regions and about sectoral policies and capacity; to establish new contacts, to elaborate and negotiate agreements etc. When concentrating, accumulation of knowledge will increase the confidence and competence of both donors and recipients and make them more productive in the sectors selected.

SPM Consultants (see article below) who analysed the issue of concentration found that while concentration has been an important issue at the policy level, Swedish development cooperation has continuously proliferated with new countries and regions, sectors and forms of support. Three driving forces behind this proliferation were identified: an active foreign policy in a changing world, the development of new policies in response to the global debate of new issues, and the creation of new agencies for international cooperation. Furthermore, as emphasised by ICS (see article below), influencing all these dimensions are the interests of lobbyists and stakeholders.

There are stakeholders at all levels from the country to the project level. They are individuals or groups, public or private, commercial or non-commercial. There are stakeholders on both the donor and the recipient side. ICS found the strongest case of stakeholders' influence where the interests of the recipient and donor stakeholders coincide.

At the same time it is important not to forget that stakeholders' interest may also constitute a strength in terms of resource base and commitment. But how could stakeholders' interest be controlled when they impede aid effectiveness and counteract development objectives?

All significant impact of stakeholders is relevant and should be considered in the management of development cooperation. However, from a management point of view it is the interests and influence of people within the agency that are of most interest. Stakeholders on the recipient side are part of the institutional environment for development activities. To pay attention to these interest and incentive effects of development cooperation is part of the work in designing development projects and programmes. Some of these aspects are dealt with in the 2015 volume on Aid Dependency (Sobhan, 1996).

Stakeholders within the aid organisation is a somewhat different problem because they influence the design and the delivery of aid activities. The challenge is to find ways to organise the development cooperation so that the interests of stakeholders to the largest extent possible coincide with the overall aim of Swedish aid. In cases where this is not possible there must be a system of accountability that enhances the rule of policy and guidelines over stakeholders' interests.

Concentration is rational and has a potential of making aid more efficient. At the same time all historical attempts at concentration have failed owing to stakeholders' interests and other driving forces (see above). So what can be done? SPM suggest that we forget about concentration and instead search for other means to achieve what concentration was supposed to foster, that is, an effective aid programme. They propose that development activities should be assessed, not one by one, but in appropriate sets of activities (portfolios). Such a set could be all projects to a specific country or all projects within a specific sector.

The focus of interest is not the performance of individual projects but how the set of activities taken together contribute to development, and what the financial and administrative cost for these activities are. The profile of the activities is governed by *strategic management*. That is, the development objectives should, in relation to countries and sectors, be interpreted in terms of country and sector strategies that clearly outline the strategy for the cooperation programme.

To make strategic management possible, good information is essential. A system is needed from which information on impact, cost and risk of a country or sector programme can be extracted. With the support of such an information system each department should regularly (once or twice a year) review their portfolios. Impact, cost and risks of the different programmes should be related to the strategy, and necessary alterations of the programme should be considered (or if the strategy has proved not to be viable it should be revised).

With limited administrative resources it is important to look at time spent on administrating the portfolio and how altering the mix of development activities will influence these costs and the development impact of the portfolio. With a system of better information together with active strategic management, Sida will be better equipped to relate development activities to administrative and financial resources. This may lead to concentration, but not necessarily. However, SPM Consultants claim that a strategic management approach would more likely lead to an efficiently administrated aid than would concentration.

Another angle from which one could approach the concentration problem is whether assistance is given as project or programme support. In the conclusions from the work on aid dependency it is reckoned that Sida should move towards a more genuine programme support (Edgren, 1996). Compared with project aid, programme support is a more flexible form of support. It includes financial support to specific sectors, to the overall government budget, and balance of payment support.

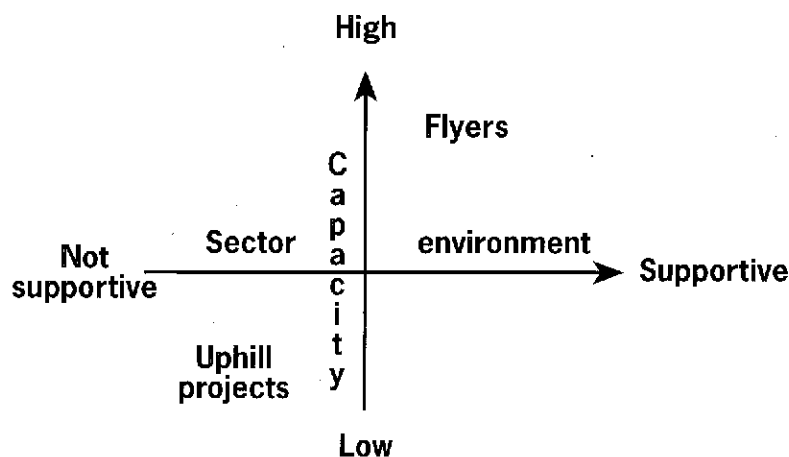
Programme support focuses on policy and capacity. Hence, it addresses the most important constraints to development. The counterproductive micro-management of projects is avoided. Project implementation is handed over to the recipient. Programme support will demand less administrative resources, though the capacity needed will be of a certain profile. Analytical and negotiating capacity at the macro-economic and sector policy levels will be important. The recipient's commitment to policy reforms is also crucial for a successful programme support.

So, just as changed forms for delivering aid in the past have been one of the driving forces behind the proliferation of aid, could changed forms also have the opposite effect. A third aspect, which may, "by default", lead to concentration would be a better donor coordination with an agreed division of labour to avoid overlappings.

The proposed approach by SPM Consultants is interesting. They have developed a model for assessment of the potential workload of a set of development activities. For each activity in the portfolio one tries to determine to what extent the sector environment is supportive² and to what extent there exists sufficient capacity for implementation.

Projects which benefit from a supportive sector environment and a high local capacity for implementation are denoted as "flyers", while projects for which the opposite holds true are called "uphill projects". The "flyers" could be managed without much input of administrative resources from the donor. Others will demand more.

Fig. 1.



However, the model focuses on the administrative cost side and may be broadened to include in programme input as well. First, to give a true picture of the administrative burden one also has to bring in the channels through which we work. Sida may contribute to "uphill" activities through proxies (e.g. multilateral donors, other bilateral donors and NGOs) that take care of the policy dialogue and the capacity

² That is, the existence of a credible national policy for the sector's development, a comprehensive strategy and a demonstrated commitment to implement it.

building. The administrative burden for Sida may not necessarily be higher than for a “flyer” nor need the impact be less³. Secondly, and more important, the model may result in a biased assessment of the portfolio focusing too much on cost minimization (i.e. how to achieve a certain result to lowest possible cost) and not on overall effectiveness (i.e. on net impact with reference to the development objective).

No one would disagree with the necessity to consider the value of the achieved results, and not only look at the cost for a given output. But if the assessment of output, or objective fulfilment, is not an integrated and formalised part of the routine assessment of development activities its impact on the country portfolio will be less. There is a risk that the contents of the country portfolio is determined by an analysis emphasising the (administrative) cost side of the development activities. **Both cost and objective fulfilment should be an integrated and formalised part of the assessment of the portfolio performance.**

To summarise, the cost and the objective fulfilment are the two components that should be assessed in a portfolio performance analysis. The cost side could be split into administrative costs and operational costs. This distinction of cost is important in the overall assessment of effectiveness of aid since resources are not fungible between the two types of expenditure.

Applications of the SPM Consultants’ model have been made in a couple of cases. Task managers have been asked to assess the activities they are responsible for. They have scored the activities on six different aspects of the sector environment and the capacity for implementation. The result has then been compiled into a figure representing the supportiveness of the sector environment and another figure representing the capacity for implementation.

Mapping of the development activities could then be done in the two dimension matrix above. The matrix could then give some support when determining the appropriate profile of the country portfolio with reference to the administrative resources constraint.

When conducting an analysis such as the one just described the purpose must be clear. What is it one really wants to grasp? Is it the administrative burden of the projects and programmes or is it actually the conditions in the recipient country concerning the sector environment and the capacity? If this is not clear when the assessment is made one risks getting a blurred answer.

If it is the administrative burden that is of interest, which seems to be the case in the application of the model, the question is whether this is an efficient way to make the analysis. The application made shows that the correlation between the need for administrative resources and the supportiveness of the domestic sector environment and capacity of implementation, is far from perfect. Would one get a less accurate answer if one just asked the desk officers for their direct perception of the administrative need for a specific activity, instead of going via the assessment of the sector environment and capacity of the recipient country?

It should also be considered whether the quota between administrative need and *volume* of the activity should be calculated instead of the administrative need per activity. Otherwise one risks judging a half a million dollar project that demands two months of administrative input as more efficient than the fifty million dollar programme that demands six month of work. However, calculating quotas would even then only give us comparable information if the value of development impact is the same for each dollar spent on operations regardless of which program or project we look at.

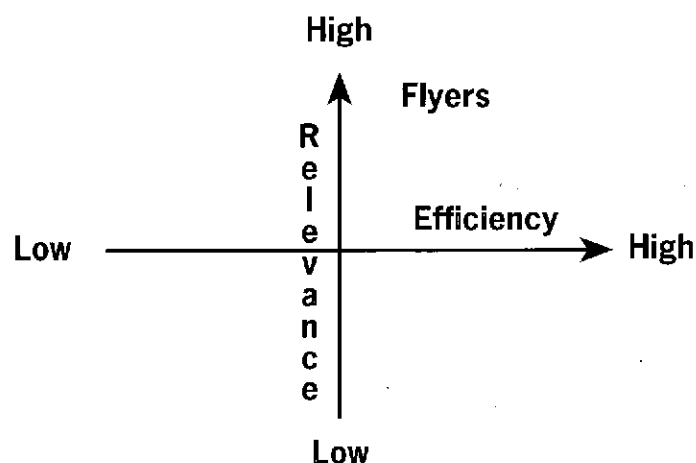
³ However, the total administrative cost may still be high and should be assessed when analysing the overall cost effectiveness.

But, development impact per dollar is not the same across projects and programmes. Hence, one needs to move yet another step further in the analysis. To get comparable measures one should try to calculate impact (not volume) per administrative resource. Since impact cannot be measured in simple quantitative terms it will be necessary to make hypothetical comparisons between different combinations of administrative resource input and possible levels of development impact.

Administrative resources, however, should not be regarded as a fixed constraint in the long run. Impact should be maximized with regard to the total budget and resources should be reallocated within the budget so as to achieve this. Consequently, development impact per dollar is the measure to look for when prioritising between potential development activities.

SPM Consultants' model could be adapted and used for an assessment of net impact. So far the analysis has focused on the cost side, as discussed above. The adjusted model below tries to show to what extent development activities have the potential of fulfilling development objectives. Prioritised projects will end up in the north east corner, projects with low priority in the south west. Starting from the most prioritised activities the portfolio must be matched with available resources.

Fig. 2.



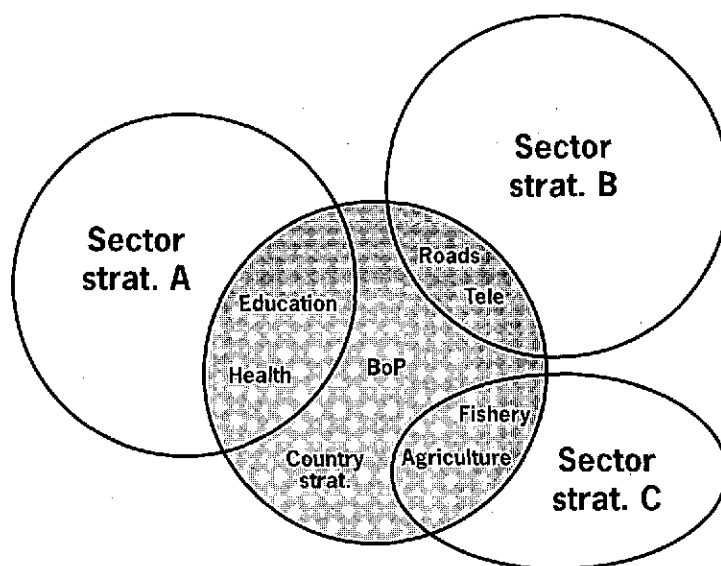
The *relevance* is determined with reference to the country strategy. In LFA terms this should be an assessment of how well the output is related to objectives as defined in the country strategy. *Efficiency* measures how output relates to cost. Projects to the north west are relevant but costly and/or bear a large risk of being failures with a meagre output.

In the south east quadrant we find cost efficient projects/programmes but with an output that hardly contributes to fulfilling the Swedish development objectives. The relation between cost and output will to a large extent depend on the sector environment and capacity for implementation. Hence, the most important aspects of the original model (see fig 1) are embedded in this latter model.

Another important issue is how development activities should best be grouped. The structure of portfolios will have an influence over priorities and the form of cooperation. It is also important that the objective for each portfolio is clear. The portfolios could be grouped in different dimensions, but to have activities that belong to different portfolios with competing objectives must be avoided.

One clear objective is essential. All responsible managers on both sides of the aid relationship should have the same basic understanding of the development goals, as well as the operational goal, of the portfolio. Hence, it is necessary to apply qualitatively different management techniques to the country and regional portfolios as compared to the sector portfolios and portfolios for specific instruments (e.g. soft loans).

Fig. 3.

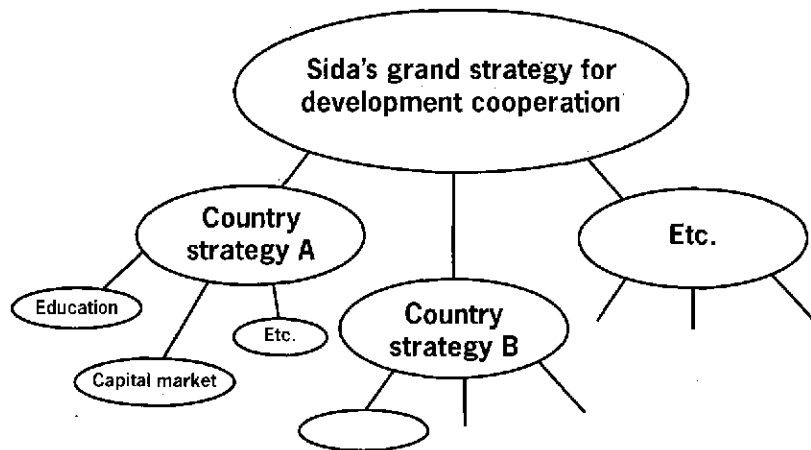


Most Sida activities will belong to at least two different portfolios – the country portfolio and a sector or an instrument portfolio. Strategic management from both sector and regional departments will imply that the country programme is not strategically managed at all. The character of the country programme (shaded area, fig 3) will be the outcome of the relative strength and influence of Sida's various departments rather than the outcome of a conscious strategy based on an assessment in which the overall development impact is focused.

The guiding objective and performance criteria for each activity must be clear and therefore related to *one* portfolio management strategy. **The strategic management of Sida's activities shall be implemented on the country and regional portfolios.**

Different costs should of course also be monitored in other dimensions (i.e. sectors and instruments) for administrative purpose, but the strategic management of the portfolio should not apply to the sector dimension. That is not to say that sector strategies are not important, they are. However, the purpose of the sector strategy is somewhat different from a portfolio management strategy. The sector strategy should more apply to the methodological issues in relation to activities in specific sectors. Hence the content and size of the portfolio, the set of activities, will be managed by the portfolio (i.e. country) strategy, while the design of the specific activities within the portfolio will be governed by different sector strategies. In other words the country strategies are about doing the right things answering the question: *what?* Sector strategies are about doing the things the right way answering the question: *how?*

Fig. 4.



The relation between portfolio strategies at different levels should be clear. Regional and country strategies are subordinate to the overall Sida strategy (including the programme of action for poverty reduction, sustainable development, equality between women and men and democracy). Strategies for certain programmes within a country must be harmonised with the country strategy.

Box 1: A top-down or bottom-up approach

In the strategic management of Sida's country portfolios it is necessary to have a macro perspective. This includes the monitoring of macro-economic, institutional and socio-economic preconditions. Of special importance are the character and distribution of poverty and how it relates to different dimensions of social and economic policy. Another important aspect that must be part of the macro-monitoring is conditionality and its relation to development, coordination, effectiveness and ownership. Furthermore, different dimensions of sustainability should be assessed at macro level. It concerns for example natural resource management, fiscal and monetary management, financial institutions and policies (subsidies, counter value, interest rates etc).

The macro-monitoring will serve the strategic management by:

- identifying the most serious constraints to development and providing insight on how to best remedy these needs (i.e. answering what the character should be of the country portfolio).
- providing the basis for a policy dialogue which may lead to a more supportive environment for development activities and hence improve the performance of the country portfolio.
- providing necessary information for a more hands off and selective management style. The squeezed aid budget and the incentive effect of saying no are the key arguments for a management model based on selectivity. However, to be able to make the right choices and picking policy environments that are developmental it is necessary to have a thorough understanding of the social and economic policy implementation.
- providing the most important (only) monitoring tool when moving towards a more genuine sector programme support, or budget support.

Within this framework strategic management could "combine a bottom-up approach, on support to projects and components that perform well – on their own or under a sector umbrella- and a macro-analysis as part of a country strategy process regarding which sector or areas to support" (SPM Consultants, p. 39).

Field representation should be seen as the third corner of an organizational triangle. Field offices, sector departments and regional departments all play important roles in Sida's aid management today. Roles and responsibilities need to be further clarified. They tend to vary over time depending to a large extent on which persons run the different departments and their relative strength and influence. Such tendencies will hopefully be curbed by Sida's new administrative manual which outline the division of work and responsibilities.

Different forms of short term assignments at the embassies may be considered. It is important that the field representation is designed to fit the programme and not the other way around. With new possibilities for fast and cheap communications the need to have desk officers on long term assignments is less urgent.

Sida should also consider organising its work more in teams. Instead of having one desk officer being responsible for a country or programme a group of desk officers could administer a number of countries or programmes jointly. This would have several advantages. First, it would make it possible to draw more on specialist competence through a division of labour between the desk officers, which will contribute to a more efficient aid.⁴ Secondly, it will automatically change the incentives for the individual desk officer.

A common problem is that desk officers identify themselves and their success with a specific project, program or country. They will be inclined to defend a continued support to their "baby". However, if the work is organised so that each desk officer is responsible for a number of projects, programmes or countries this tendency may be avoided. The desk officer will take part in the process of making appropriate priorities and not be a stakeholder trying to gear the decision in favour of his or her "baby". Thirdly, an additional advantages would be that change of staff will not have such a disruptive effect as may otherwise be the case when only one person is responsible for a specific country.

Working in groups fits well with the portfolio management approach. Each group is responsible for a portfolio, which could be divided into a number of sub-portfolios (i.e. country portfolios). The work should be highly decentralised and the group made accountable for the performance of their portfolio in relation to the strategies. A decentralised portfolio management can not be successfully implemented without a clear accountability at each level. Someone must (be made responsible to) ask: did you work according to your strategy? How did it go? Why? And what are you going to do about it?⁵

To work with accountability and follow up is nothing new. We must just take advantage of experience and try to improve. One should also be aware that it is a process. Sida is a young organisation and it will take time and a lot of trial and error before a management structure is developed that suits the purpose of the organisation and all its different *modis operandi*.

3. GRADUATION

Concentration may be achieved by excluding certain categories of countries from development cooperation. One has to work out which countries should, and which should not, belong to those eligible for aid and why. Maybe the general answer would be that the most developed countries should be the ones that are phased out first. This model of graduation was launched by the Swedish Government in the late

⁴ For example the development cooperation with 3-4 countries could be jointly administered by an macro-economist, an anthropologist, a physical planner, a health specialist and an educational specialist. Each one will cover a specific field in all the countries which the group is responsible for.

⁵ To achieve this one should preferably start from the top. If the heads of division are made accountable they will be forced to think about how to make their heads of units accountable etc. One suggestion would be to put a controller directly under Sida's Director General head of Sida with a high status commissioned to follow up performance in relation to strategies and plans.

1970's as one of the foundations for the programme of mixed credit (H-Ds 1980:3). However, the problem is to define the level of development that could justify a phase out, or graduation, and to design the phase out process itself in such a way as to avoid disruptive effects on the recipient economy.

As part of the background work Interconsult Sweden (ICS) was commissioned to look into the broader issues of eligibility criteria and graduation. When reaching a certain development level, a country is in less need of foreign assistance and could be said to have graduated from aid. But graduation could also refer to a country reaching intermediate levels of development, not motivating final graduation. At these different levels different modes of cooperation may be motivated, adopted to the specific constraints a country may face at different stages of the development process.

As ICS observes little research has been done on how to terminate aid once the development objectives of the cooperation has been met. The World Bank has the most developed approach towards graduation where per capita income thresholds is the central eligibility criterion, for highly concessional IDA credits and normal IBRD terms.

ICS argues that a graduation policy should apply to both countries and sectors. The different sectors of a country do not develop evenly and to graduate the different sectors as the development objectives are reached would give a smooth stepwise graduation of the country as a whole. Principles for sector graduation could hence facilitate a shift towards a more genuine sector programme support. The consultant also notes the importance of coherency between Sida's SPS and graduation policy.⁶

Another question is whether all forms of support should be embraced by the graduation policy. For example, ICS shows that Sida is today channelling aid through NGOs to countries with quite high per capita income (e.g. Hong Kong). However, we would argue that NGO support is exempted from Sida's graduation policy. Within richer countries the NGOs tend to work directly with the poor, with democracy and human rights – areas that are well in line with Swedish development objectives. The NGOs also have special historical role. Support from the NGO community was one of the most important factors behind the establishment of Swedish ODA in the 60s and its increase over the next two decades. The political role played by NGOs must be acknowledged in relation to the question of graduation.

If a policy for final graduation is to be applied to the support channelled through Sida, what should the criterion for graduation then be? Per capita income could be used, although this is a quite unsatisfactory measure of development. One could also consider some other indicator or a combination of social indicators (e.g. HDI). Every indicator has its own weaknesses.

When ICS apply their model, USD 3000 per capita income is used as threshold level for final graduation (which is close to the World Bank dividing line between lower-middle and upper-middle economies (USD 2800)). Ten countries that currently receive support from Sida (incl. NGO-support) would then be disqualified from aid. A threshold level of USD 800 is used for half-way graduation, which is approximately the cut off level for IDA credits and the dividing line between low and middle income countries.

The choice of income per capita as a threshold level for graduation seems to harmonise with the Swedish development objectives – countries ought to be poor to qualify for aid and Swedish aid must be believed to decrease poverty directly or indirectly. Hence countries with a relatively high per capita income should be excluded. They have graduated. Poorer countries may also be excluded if Swedish aid for some reason

⁶ Sector Program Support – Background Document to Sida Policy, Sida, July 1995.

does not have any prospect of contributing to reducing poverty. For example, if government policies make development activities fruitless.

However, one could discuss whether the average income level of the recipient country should be a strict selection criterion. Since the Swedish development objective is to support poor people an average income measure at the national level could be questioned. In all countries that ICS suggests should graduate from Swedish aid there are people living in absolute poverty.

The rationale for only helping the poor people in poor countries is that countries *should* be able to redistribute resources and so support their own citizens. But this is of meagre comfort if they in actual practice are not able, or willing, to do so. So why not help the poor in whichever developing country they live (through the NGO support this is to some extent what Sida is doing today)? But to continue this line of thought, why stop at developing countries? People are living in absolute poverty in USA, France and other OECD countries. Should we support the poor also in those countries? Most would say no, and with a limited aid budget we need to concentrate.

To facilitate this concentration there is a need for some criterion to base the concentration on. Using GNP per capita or OECD/DAC's definition of developing countries will both be quite rough instruments that could be questioned for a number of reasons. However, it will have the advantage of being a fairly simple and transparent selection criterion, agreed upon in international coordination forums and implemented universally by all donors.

With reference to the experiences in Eastern Europe and the former Soviet Union one could also question whether it is enough to look at the absolute development level, maybe the direction is as important. Take for example Beluras and Vietnam. In Beluras the gross national product fell by approximately 10% 1992 and 93 respectively and in 1994 the drop in GDP amounted to over 20 % (EuroFutures, 1996). However the income per capita is still higher than in most developing countries, although rapidly approaching them. Vietnam on the other hand is a very poor country in terms of income per capita, but one of the fastest growing economies of the world. The reasons to support both Beluras and Vietnam may be good, but different.

There is no simple answer to the question of final graduation. We will come back to our recommended approach below. But let us first discuss the issue of stepwise graduation, i.e. the issue of appropriate forms of cooperation before the stage of final graduation is reached. To move from soft, concessional terms towards more commercial terms is the most common concept for stepwise graduation. Another suggestion is that the recipient should be made to share an increasing part of the cost for development activities. ICS suggests that as a country develops one should move from untied support towards more tied aid.

The guiding principle for a stepwise graduation policy must be that it serves some development objectives. As we see one can find different arguments for all the different graduation models but from a development point of view it is not possible to argue for a certain kind to be applied at a specific development phase. Such an idea is based on a linear development thinking. That is, that countries more or less follow the same development track and that they differ mainly because they are at different stations on this (same) track. But if countries travel along different development tracks, some of the development problems a country goes through may come in a different order compared with some other country and some of the problems will not occur at all. This causes two problems with respect to development of a graduation policy. First, it will be very tricky to define the threshold levels and secondly it will be impossible to generalise about appropriate forms of support at different levels.

When developing a graduation policy it should be borne in mind that countries develop more slowly than agencies produce new policies. Hence, a graduation policy will mainly serve the purpose of determining which countries would be considered eligible for aid *today* with respect to current values and knowledge of the processes of development. Before any larger number of countries eligible for aid today have reached final graduation Sweden will have changed the criterion many times. However, we do need to consider which countries we should support today and to think in terms of a graduation model is a way of catching the dynamic aspect of development when determining the criteria for Sida's country portfolio.

It should also be borne in mind that stakeholders will mobilise their resources to counter any graduation criteria that will imply that countries cease to be eligible for Swedish assistance. The political economy of aid policy will therefore make it difficult to develop and implement graduation criteria.

To achieve a more effective development cooperation is the rationale behind developing a graduation policy. If a changed policy for final graduation does not contribute towards this end there is of course no need for such a change. The assistance through NGOs is one of the most important factors contributing to spread of Swedish aid to so many countries. However, this form of support does not demand much administration from Sida (although the total administrative cost for this cooperation is not particularly low) and in those countries that could be subject for graduation under a tougher graduation policy they seem to concentrate on activities that are well in line with Swedish aid objectives.

In principle, all developing countries and countries in transition should be eligible for aid. However, concentration is still warranted, but should be sought through other means. In the process of strategic management a larger proportion of the aid budget should be geared towards the programmed country support.

In the selection of the programme countries the new emphasis on the main objective for Swedish aid, poverty reduction, should be the point of departure. That is, the programmed cooperation should be concentrated to the least developed countries. Among those the stress should be on the countries where we could contribute the most to achieving poverty reduction. It is of limited operational value to try to develop a more generalised model on which countries that should be subject to programme aid and which should not. This should rather be determined on a case-by-case basis. The PROJECT 2015 regional studies are important in Sida's review of its country portfolio.

However, there may be a scope for a partial stepwise graduation. As ICS writes, countries do not develop evenly. The constraints to development may look different in different sectors and at different dimensions of the economy. Taking for example tied concessional credits, it is rather the profitability of the project, not the income level, that is of most interest when considering the appropriateness of this tool. More interesting is the debt burden of the recipient country and government, and the problem of debt overhang in particular.

Another example would be that for countries that have succeeded in developing a fairly transparent and competent public administration, Sida should move towards more financially untied support (e.g. sector programme support or even budget support). So there is scope for generalisation about different forms of support that could be utilised when making decisions on what kind of support to apply in different situations, although maybe not at the most aggregated level.

4. THE ROLE OF TIME LIMITS

A management device that has been considered in PROJECT 2015 is the application of stricter time limits. Time limits are not interesting in themselves. They are instrumental and are only relevant in relation to a goal. ICS notes that time limits is not a new feature in Swedish aid but what “may be lacking are instead detailed guidelines for the phase-out process and, more important, the actual adherence to time table requirements”. Sida needs to operationalise time limits as a means to achieve a cost efficient support.

The core of the problem is how to design clear agreements and how to follow up these agreements. Basically any project should be governed by an agreement that states what should be done, when it should be done and by whom. Furthermore the agreement should specify what the consequences will be if certain achievements are not reached within the stipulated time. Preferably the agreements should be designed to give those involved an incentive to work for the project goals while making it possible to complete the project even if time limits are not kept. The purpose is not to kill the project through rigid project agreements but to foster an effective implementation. Lessons could be learnt from commercial agreements for larger construction and building works. Such agreements usually includes clauses on fines for each week completion is delayed.

Which factors that are actually under the control of the implementing party and which are not should be carefully considered. Punishment and rewards linked to factors that are out of control for the one subject to these incentives and disincentives are meaningless and will only cause frustration. At the same time one should avoid agreements that frees operators from responsibility if the outcome in any way is affected by some external factor. There will always be external factors. To some extent it could be expected that external factors should be handled by the implementing body within the framework of the project agreement. Hence, the agreement must also recognise this. Ultimately an agreement is about the limits of responsibility and these should be made as clear as possible.

Perhaps the major problem for Sida has not been to make agreements on what should be done and when (although there may be some room for improvements even on these points). It is rather the follow up that is the problem. Non-fulfilment of project agreements does not necessary lead to any consequences for the parties. Often a meagre result is blamed on some external factor that is used to legitimise some deviation from the agreement. When this is the case agreements risk becoming meaningless paper products. There may be several reasons for this failure of using agreements as an effective management tool:

- the agreement may be badly designed from the start making it difficult to use as a follow up instrument. First, the intended output and/or when it was supposed to have accrued may not have been clearly defined. Secondly, the agreement may have been designed not allowing for any flexibility. An external factor may make the agreement impossible even though what is actually possible to fulfil may be very warranted and make economic sense. In such a case all involved will have strong incentives to ignore the agreement in order to make possible to achieve something good. Thirdly, time tables and performance criterion may be too optimistic making it impossible to live up to the agreement even in the absence of negative external factors.⁷
- another problem is that the parties have not *a priori* made clear what the consequences would be if the agreed objectives are not reached. Expectation on the measures to be taken will differ between the parties and the responsible desk officers must be prepared to deal with a conflict. There may be reasons for avoiding such a conflict and so delays, or output below expectations, are accepted and there are no repercussions.

⁷ As shown by Sobhan (1996), stakeholders on both the donor and the recipient side may have strong incentives to enter into an agreement that has no prospect of being successfully implemented.

The potential situation of a result that falls short of expectations should be foreseen when an agreement is formulated. Consequences for the parties of delayed completion, should be spelled out. If the regrettable situation materializes the agreement will facilitate the follow-up. Expectations on consequences will be less divergent.

- finally, political interests may make it difficult to take a tough stand on the fulfilment of agreements if the pressure for continued support is strong.

Experience has shown that time limits often cannot be met due to unrealistic planning. This has led to a gradual undermining of respect for time limits in aid administration. It is important for efficiency reasons to reestablish such respect. Agreed time limits should be adhered to. Hence, it is extremely important that those time limits are realistic, and include sufficient margins for unforeseeable events.

In project preparation, expected results in relation to time should be clearly spelled out as should exit points. With due respect to a realistic perception of risks, time limits and exit points should be formalised in agreements.

Other incentives that can contribute to aid effectiveness should also be considered. ICS suggests that commitments could be made for a second step project conditioned on the performance of the first phase of the project. Different kind of monetary incentives could also be used. However, such incentives must be analysed carefully so as not to distort the domestic resource allocation.⁸

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⁸ An example of a distorting monetary incentive is topping up of salaries in the public sector. The donor community has in different policy document agreed to regulate this practice. "As a matter of principle, the practice of salary supplements should be avoided. It exacerbates wage distortions and intensifies donor competition for scarce recipient administrative skills" (OECD, 1992 p 55; see also SPA, 1994).

FROM CONCENTRATION TO PORTFOLIO MANAGEMENT

Background Study for Sida's 2015-project

by

SPM Consultants

1996

0. BACKGROUND AND SUMMARY

This study is a component of Sida's 2015-project. The 2015-project aims at reviewing and challenging some of the conventional wisdom in the policies and approaches to development cooperation to be used for policy review and development in a medium to long term perspective.

Concentration has been a lead word in the Swedish development cooperation policy since its inception in 1963. The purpose of concentrating the resources to a limited number of countries and sectors was thought to lead to forceful actions and, thereby, to ensure an effective and efficient use of the resources. It was not based on empirical evidence, but understood to be a good principle in a new field of government activities.

Chapters 1 and 2 clearly show that the Swedish aid program has developed in quite the opposite direction. Diversification is a more adequate label for the actual evolution. The trend is the same regardless of which perspective is applied: the number of recipient countries, the sector allocation in the country programs and the total number of projects, supported by Sida. Three driving forces have jointly managed to undermine the official concentration policy: the active Swedish policy for international development cooperation and solidarity, the emergence of new aid agencies and the response to issues on the global agenda for development.

Chapter 3 contains a brief inventory of how the thinking in current business and management schools has treated the issue of concentration. Despite the differences in rationale, some insights, especially on portfolio management and strategic management, can be used to guide Sida in its future deliberations on aid management.

Chapter 4 is an attempt to apply the experiences of chapter 3 – and with due respect for the three driving forces – by defining the cornerstones of a model for program management. The main conclusions are that

- formal concentration to countries and sectors should be replaced by portfolio management, aiming at the establishment of country specific project and program portfolios that seek the best combination of “risk and return”; portfolio management aims at ensuring that the policy directives in the country strategies (and, when relevant, sector strategies) are transformed into effective and efficient projects and programs (this requires that the present project database is developed into an easily accessible management information system; a project classification matrix is developed in section 4.2);
- strategic management is necessary to act on and adapt the portfolio to the often dramatic and unforeseen changes in the country and sector environment in the recipient countries; the tool to do it is there (LFA), but it has not been fully developed as an operational device;
- the time dimension of the cooperation needs to be more flexible.

The study has been conducted by Lars Rylander (team-leader), Ulf Rundin and Camilla Hedlund, SPM Consultants.

1. CONCENTRATION IN THEORY AND PRACTICE

1.1 Defining the issue

“Concentration” is almost a *mantra* in the history of Swedish development cooperation. It was mentioned as an overriding principle already when the government program for international development cooperation started, and it has – with few exceptions – been emphasized in the annual budget proposals and the Parliamentary debates since then.

The very first Bill to the Parliament in the subject area, dated 1962, contains three criteria for the Swedish cooperation to become effective and efficient:

- it should be (able to be) efficiently utilized by the recipient government;
- it should be directed to areas and sectors where Sweden had a comparative advantage in relation to other donor countries and to the needs in the developing countries;
- it should have a cumulative effect.

The Parliament added (1964) that “it is obvious that our efforts should not be divided between too many countries and areas”. SIDA¹ concluded in the first budget proposal that the technical cooperation should be concentrated to the six countries which already received the bulk of the support². A limited amount of technical assistance was proposed to be continued, but not expanded, to nine other countries³. This operational interpretation of the principle of concentration was confirmed by the Government.

¹ In the report the donor agencies are referred to with their names before 30 June 1995: SIDA, BITS, Swedfund and IMPOD (which became SwedeCorp in 1990) and SAREC, whereas Sida is reserved for the new agency created 1 July 1995.

² Ethiopia, Kenya, Tanzania, Tunisia, India and Pakistan.

³ Algeria, Ghana, Liberia, Sierra Leone, Zambia, Burma, Ceylon (Sri Lanka), Korea (South) and Nepal.

The Government also declared that family planning and vocational training should be given “super-priority” when concentrating the support to sectors and areas. Emergency assistance and, to a certain extent, family planning could be excluded from the principle of country concentration, because these issues needed to be addressed on a global scale. The support through NGOs and trust fund arrangements with the UN system were also implicitly excluded, although not without parliamentary debate.

In summary, the principle of concentration was expected to ensure that the efficiency and the effectiveness of Swedish development cooperation were to be maintained by focusing on a limited number of countries and sectors. The principle was not based on empirical evidence, but thought to be a wise line of orientation when utilizing scarce financial, technical and administrative resources.

1.2 The reality

Concentration to countries

Most of the debate on concentration during the following years referred to the *number of recipient countries* and how it affected the quality and effectiveness of aid. The tables below show the change in the number of recipient countries of Swedish bilateral development assistance. A registered disbursement, small or big, to a country is used as definition of a “recipient country”⁴. The figures do not include disbursements from NGOs supported with Government funds. Therefore there is a possibility that the actual number of recipient countries is underestimated.

Table 1 below shows that the number of recipient countries has increased from 26 in 1975 to 116 in 1993. The number more than doubled between 1975 to 1985, and doubled again between 1985 and 1993. The strongest increase took place between 1990 and 1993 when on average 12 new countries were added per year, corresponding to an overall increase of 45% during the period.

Table 1: Number of bilateral recipient countries 1970 - 93

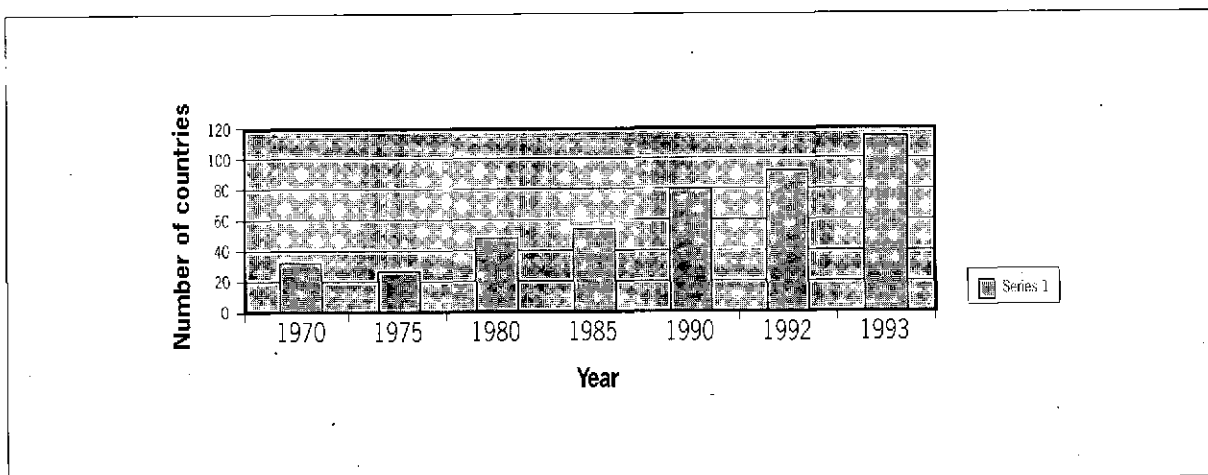
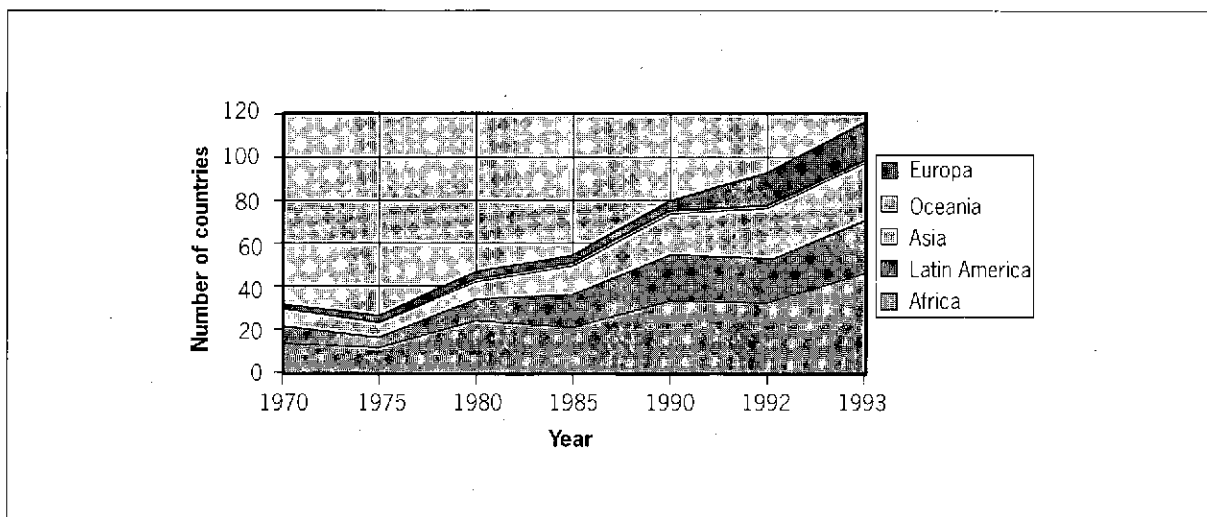


Table 2 describes the growth of the number of recipient countries per continent. The picture is clear: the number has grown on all continents, and since 1990 Europe (Eastern and Central) has become increasingly important as recipient of Swedish bilateral aid.

⁴ Figures from OECD’s Development Assistance Committee.

Table 2: Distribution between continents



However, the principle of concentration did not exclude the possibility that many countries could be recipients of Swedish development cooperation as long as the long term development cooperation remained concentrated to a handful of countries (in SIDA’s vocabulary referred to as “program countries”). Besides this group of regular partners are those countries who receive contributions on an ad hoc basis. Table 3 also shows that the largest increase has taken place within this latter group of countries.

Table 3: Number of countries taking 25 and 75% respectively of total disbursements

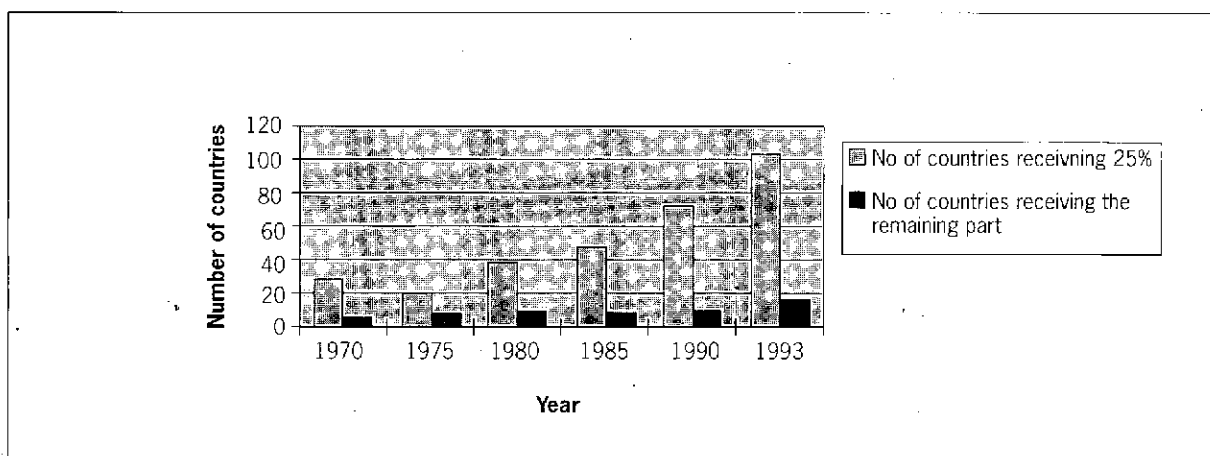
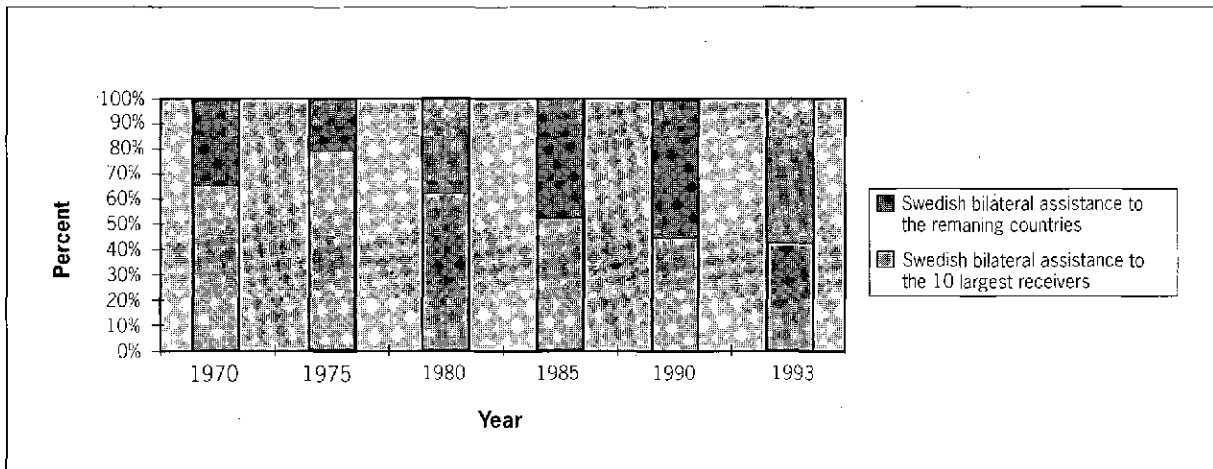


Table 3 shows that 14 countries received 75 % of the total bilateral disbursements in 1993. Consequently the remaining 25% were shared between no less than 102 countries. This may seem to confirm that concentration to a few larger partners has, after all, been applied as a leading principle, and that the strong increase in the number of countries mainly reflects the fact that smaller and less regular support has been granted to a growing number of countries.

A closer analysis proves, however, that the high concentration in 1993 was mainly due to the fact that very considerable amounts were disbursed that year as emergency assistance to two areas of armed conflict: Ex-Yugoslavia and the West Bank/Gaza. If instead a country by country approach is applied it turns out that more than 30 countries have become regular and long term partners with Sweden in development cooperation (although not necessarily as “program countries”).

Table 4 confirms that the rate of concentration has been reduced. During 1970 – 75 the ten largest partners received between 70 and 80 % in 1970 – 75. That share went down to just about 40% in 1993.

Table 4: Share of Swedish bilateral assistance to the 10 largest recipients

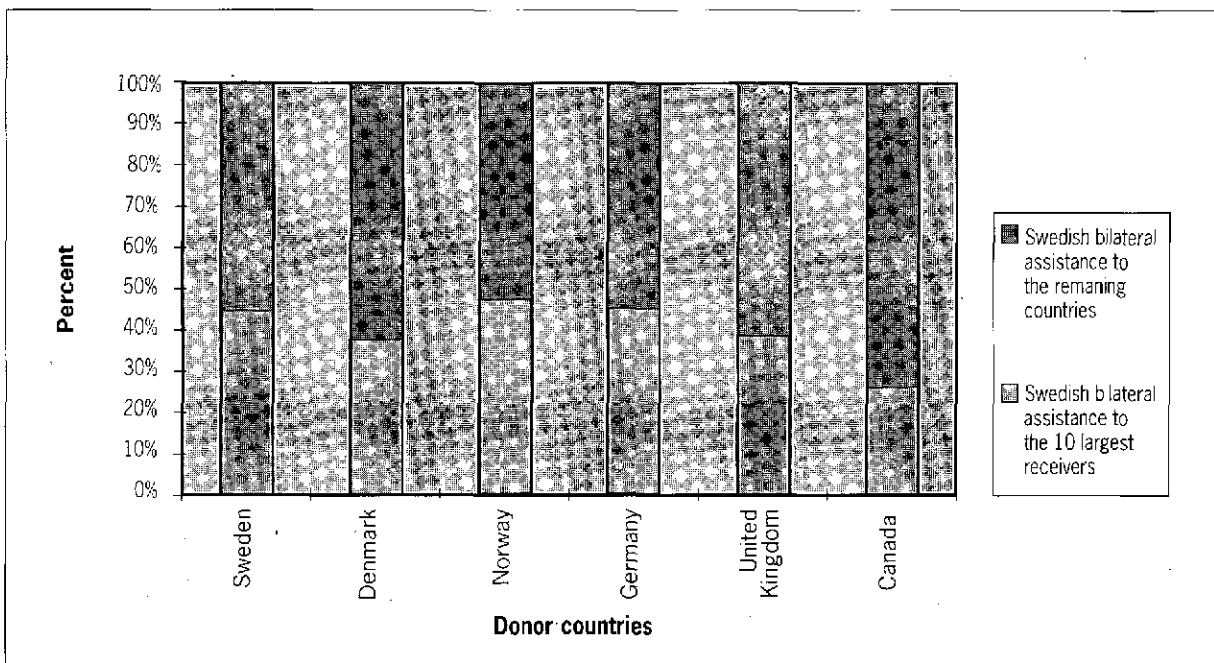


There are three dominating trends in the number of recipient countries:

- a growing increase in the total number of recipient countries;
- a growing number of recipients on all continents;
- more countries are becoming long term partners.

These trends are not unique for Sweden. As regards the number of recipient countries Sweden is placed between Canada, Germany and UK which all have more than 120 recipient countries and the other Scandinavian donors with 72 for Denmark and 90 for Norway. A look at how much of the total funds are disbursed to the ten largest countries by these donors shows that the share varies between 38 and 45 % with Canada as the only exception (26%).

Table 5: Share going to the ten largest recipients in six countries



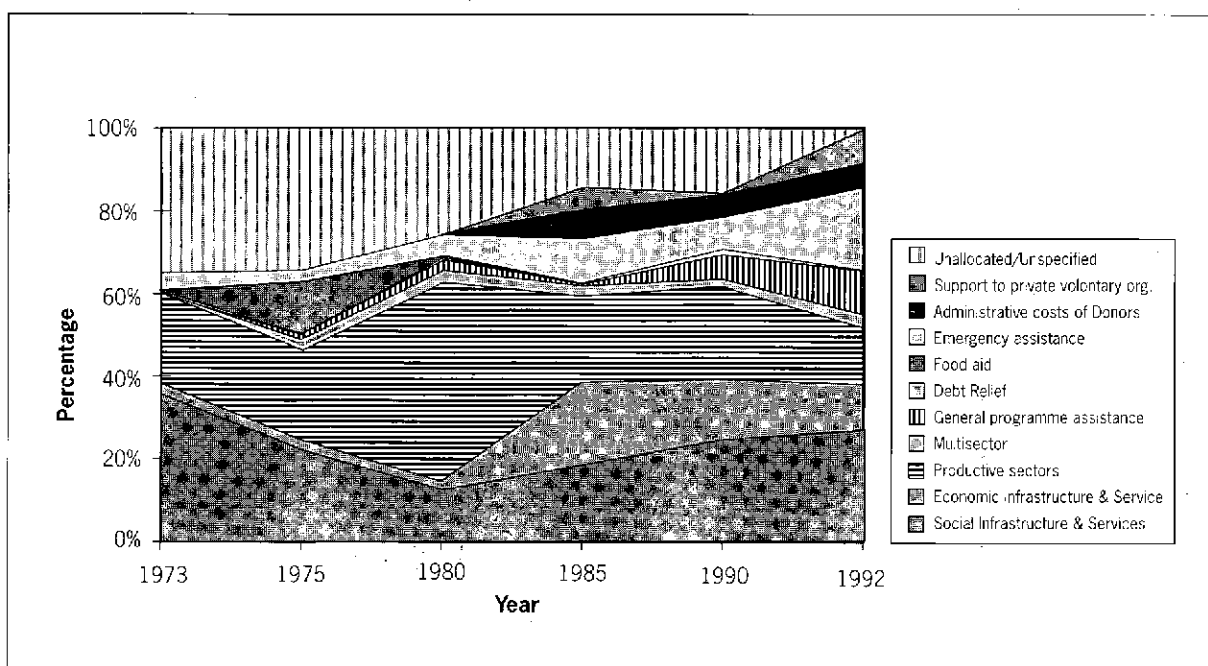
Concentration to sectors

Another argument that was used for ensuring efficiency and effectiveness in the Swedish cooperation was to concentrate the aid flows to areas and *sectors* where Sweden has a comparative advantage. This issue will be discussed in greater detail in the next chapter in relation to the cooperation with six countries. The presentation here will only focus on the global picture.

After the first years concentration to family planning and vocational training, the support soon spread into new areas of cooperation. The country programming technique, which could limit SIDA's role "to transfer resources in accordance with the partner countries' priorities"⁵ was one factor that opened the door for greater variation in the sector allocation.

Table 6 below shows the changes of the relative sector allocation of the bilateral assistance between 1973 and 1992⁶. The table is not broken down into SIDA's sector and sub-sector allocation (health, education, water, energy and so forth) for the simple reason that the pattern would be far too scattered to allow for analysis. Yet it well shows how the priorities have changed over time.

Table 6: Official Swedish commitments by sector destination 1973-92



Apart from the growing complexity, which would be much further underlined by a break-down into SIDA sectors and sub-sectors, some interesting trends are noticeable. Firstly, the relative share of emergency assistance has grown. The same trend can be observed for general program support (multisector, food aid, debt relief, import support), although not to the same extent. In two sectors the trend has changed direction during the period: the allocation to the production sectors first rose and then declined, while the resources to the social sectors followed the opposite course. Finally, infrastructure has maintained its relative share since 1985.

⁵ SIDA's Budget Appropriation for 1975/76.

⁶ SIDA BSD (Bistånd i siffror och diagram).

1.3 Why was concentration not accomplished?

There seem to be three main reasons why so little effective respect has been paid to the principle of concentration, be it in terms of the number of recipient countries or the sector allocation.

The first is predominantly *political*. During the late 1960s and early 1970s the eligibility criteria for developing countries to become long term partners (program countries) were intensively discussed. In the wake of the political radicalization, it was emphasized that the economic growth in the Third World did not meet the needs of the poor or of the rural population. It was thus argued that the best way of ensuring an effective redistribution of productive and social services and involvement of the poor in the development would be to cooperate with countries which themselves pursued a policy with this purpose. "The country became the project", as one critic expressed it⁷.

The political dimension opened the door for a new set of recipient countries where Swedish policies in support of de-colonization, national independence and anti-imperialism were the guiding principles, rather than explicit evaluations of the Swedish goals for the development cooperation⁸. The focus on human rights in Central America and, later, on the dismantling of communist rule in Central and Eastern Europe made countries in these regions recipients of Swedish aid. The justification often referred to fundamental Swedish development goals, especially support to a democratic development and respect for human rights. There were also other political considerations involved, especially with regard to Eastern Europe, and its particular geopolitical situation close to the Swedish territory.

The second explanation relates to the perception that when the Swedish government wanted to develop more commercially oriented forms of cooperation, based on a mutual interest and on less concessionary terms, SIDA was not the best tool. This new form of "broader" cooperation emerged with the three countries that were considered too rich to remain program countries⁹ and a group of countries, mainly oil-exporting, with whom Sweden wanted to develop scientific, industrial and commercial relations¹⁰. After a few years of defining this cooperation, it became institutionalized in the Commission for International Technical and Economic Cooperation, BITS. Also the birth of Swedfund and SAREC with their respective focus on industrial and research cooperation can be referred to this category, where the creation of *new institutions* in Swedish development cooperation contributed to undermining the formal concentration policy. Through these agencies new recipient countries were introduced, but the assistance to these new countries was also directed to non-traditional SIDA sectors.

The third explanation is the emergence of *new issues*, sometimes conceptualized as new objectives or a re-focus of existing ones, sometimes as important, cross-cutting policy issues. In this category falls gender equality, environmental concern (whereby the Sahel countries were introduced), human rights, HIV/AIDS, energy conservation and so forth.

Each one of these factors – the international political ambitions, the emergence of new institutions and of new issues – has diversified the aid pattern in its particular way, in fact, to an extent where "diversity" became a word of honor for the Government's policy on international development cooperation¹¹. Despite this development, Parliament reconfirmed in 1990 that "the main part of the Swedish cooperation should also in the future be concentrated to a limited number of poor partner countries".

⁷ Swedish Development Aid in Perspective, p. 70.

⁸ New program countries during this period were Botswana, Lesotho, Swaziland, Vietnam, Laos, Angola, Cape Verde, Guinea-Bissau, Mozambique.

⁹ Tunisia, Cuba and Pakistan.

¹⁰ Algeria, Iraq, Nigeria, Egypt, Libya and others.

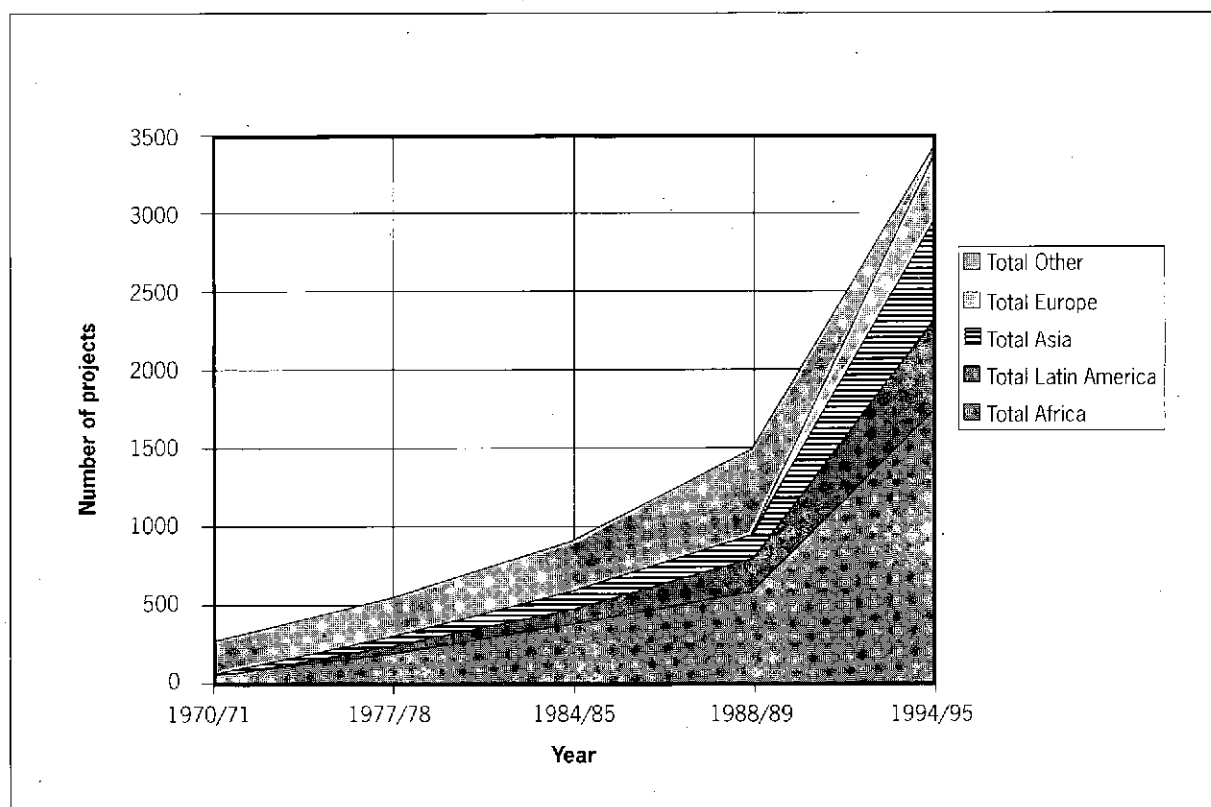
¹¹ Government's Budget Bill 1988/89.

1.4 Effects on the aid administration

It probably holds true that the determining factor for the workload of the aid agencies is the extent and orientation of their portfolio of projects and programs, not the number of countries and sectors *per se*. The core of each agency's operational activities is the assessment of project and programs, the design of the Swedish support, the contracting of resources for implementation and the monitoring of the implementation. While new countries and issues demand an initial investment in new knowledge, it is the production of project and program support that uses the bulk of the staff and management resources. Every support activity, be it limited or large in time or volume, follows a more or less identical project cycle format, from project idea formulation to evaluation and final report¹². For this very reason it is of interest to see to what extent the diversification into new countries and sectors had an impact on the number of projects.

Table 7 below shows the rapid increase in the number of projects in the bilateral cooperation that has taken place, and that the number has increased rather evenly on all continents. The dramatic growth from 1988/89 to 1994/95 may be an exaggeration due to the difficulty of defining a "project" in the databases. Still, it is probably a good indicator of the effect that the creation of new agencies, the revitalization of the democratization goal and the introduction of the environmental goal, especially in SIDA's case, had on the overall stock of projects.

Table 7 The growth of the project stock in Sweden's bilateral assistance



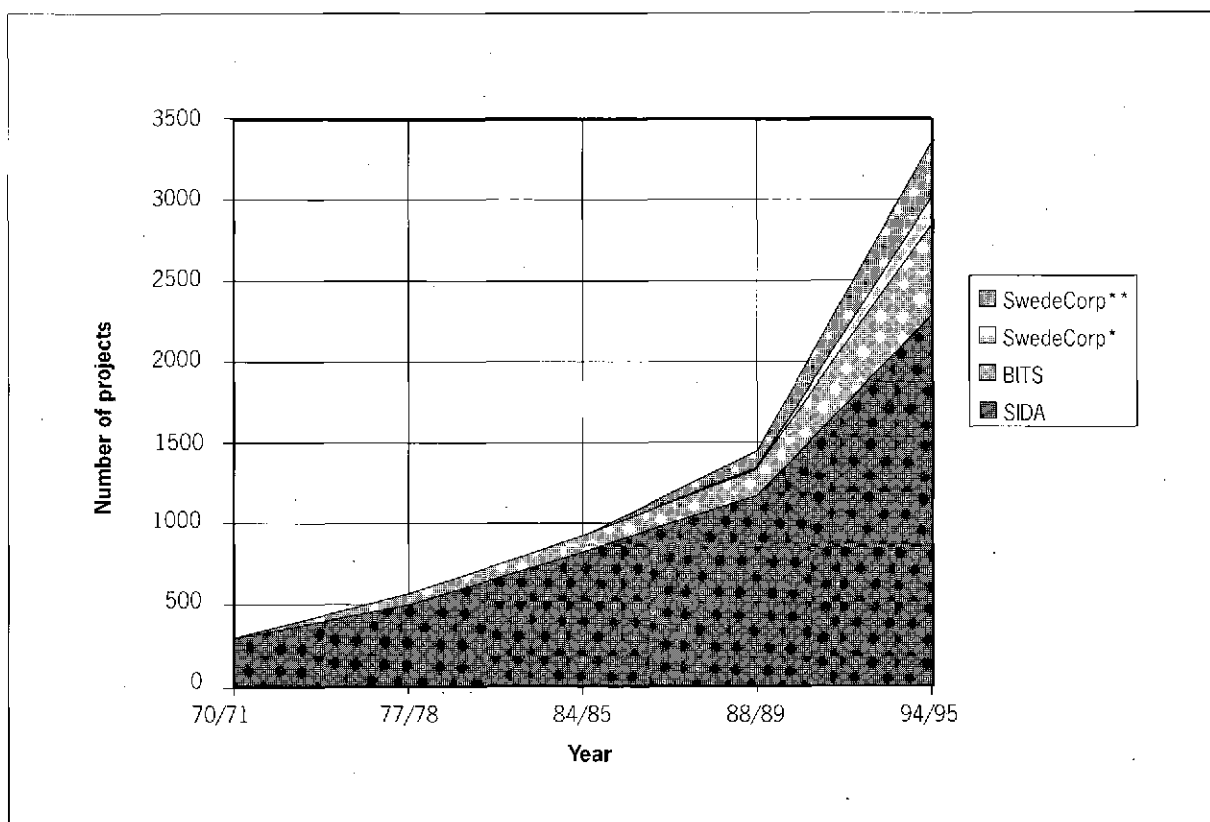
¹² A SIDA review in 1993 found that the financial volume of a project is not correlated to the use of administrative resources. The character of the project (policy formulation/institution building as opposed to project implementation) and the use of Swedish resources (consultancy services/procurement of goods as opposed to local cost financing) are the main determining factors (Översyn av SIDA, 1993).

The estimation below of the number of projects differs from other calculations. The review in 1993 already referred to estimates that SIDA was engaged in 118 programs, of which 65 were in sectors defined as concentration sectors. The definition of a program was here equal to an entire sector support program, and thus represented a substantial under-estimation of the number of projects as calculated in table 7, even when the calculation was limited to the program countries (a sector program may contain 5 – 15 distinct projects, each one needing planning and monitoring).¹³

A SIDA in-house calculation of “all active projects” in March 1995 found that SIDA was engaged in 1 287 projects, once again calculating a sector program as a “project”.

The growth pattern is largely similar for all agencies, which is confirmed by table 8 below. It should be noted here that the data for SAREC only cover 1987/88 and 1994/95 and for SwedeCorp only the stock during 1994/95 is included.

Table 8: The growth of the project stock per organization



While it seems that BITS has been able to cope with this expansion¹⁴, SIDA has repeatedly cautioned that the quality of aid would suffer unless more staff resources were granted to meet this expansion. The other institutions (SwedeCorp, SAREC) have not developed project portfolios of the size where the administrative resources have become a constraint.

¹³ It is virtually impossible to use SIDA’s database to select “project support”. The database does not discriminate between development projects in sector programs in the countries and, for instance, preparatory consultancy studies, consulting services (to a project), field positions for gender issues etc. The comparisons over the years are therefore not accurate, but the trends are most likely to be correct.

¹⁴ In a recent booklet, the Lutheran work ethics of BITS are particularly commemorated (“BITS 16 år i biståndet”).

The growth of the number of projects in SIDA's portfolio has provoked a redefinition of the concentration policy. The founding mothers and fathers of Swedish aid and of the concentration policy feared that a diversification into too many countries and sectors would limit the effectiveness and efficiency of the aid. Now one can see that the diversification that has taken place has resulted in a severe strain on SIDA's administrative resources, and that it has become the main rationale for SIDA's demand for and reviews of the concentration policy, especially as regards the number of partner countries. While concentration initially was justified with regard to the usefulness of Swedish aid resources (its output and impact), it has gradually come to motivate requests by SIDA to ease the administrative burden of the cooperation.

There are also other reasons for the differences between SIDA and the other agencies. SIDA's partner countries belong to the poorest, those with least absorptive capacity, which require more involvement in planning and monitoring and, hence, long term technical assistance. Another reason is that SIDA is expected to focus on poverty reduction through broader and more long term sector programs. Consequently SIDA's work seems to be more labor-intensive in spending relatively more time on assessments and, certainly, on monitoring of the support to projects and programs. SIDA has also spent much more time on country and sector analyses and general research work in aid issues than the other agencies.

BITS has intentionally pursued a policy of non-concentration to sectors, and of considering a part-financing of a contract between institutions, companies etc. whenever a "mutual interest" has been identified by the partners themselves. The main thrust in BITS's operations has been to ensure that the capacity of the partners involved is adequate and that the expected development impact of the cooperation is in line with Swedish development goals, rather than to take part in the detailed design of the project or monitor its implementation. BITS has also been granted fresh staff resources, although limited in volume, to meet the increasing demand for its services.

SwedeCorp has used a bottom-up approach in its project identification. This has also led to a project portfolio which is largely defined by a joint interest between partners in Sweden and the recipient countries in promoting commercial projects in the recipient country. Both BITS and SwedeCorp have been encouraged by the Swedish Government, through their board of directors, to promote cooperation with new countries. SAREC's approach in its bilateral and international programs has also been explicitly anchored in national or international research institutions.

With the benefit of hindsight one must also bear in mind that the expansion from six main and 15 other recipient countries to 30 main and 80 other countries, from a few to most sectors, and from a limited project portfolio to a situation where it is difficult even to define the portfolio, would not have taken place if the financial resources had not been provided.

1.5 Conclusions

The discussion so far indicates three main conclusions on the theoretical and practical application of the principle of concentration on the global level:

1. The initial clear operational definition – support to a limited number of countries and sectors – soon became abandoned. It was initially intended that concentration would ensure *forceful actions* through the use of Swedish comparative advantages in a handful of recipient countries. In the last ten to fifteen years it has been used as an argument to *reduce the strain* on SIDA's administration from an already extensive program.

2. Three strong driving forces in Swedish development cooperation have challenged the concentration to recipient countries and sectors: the active policy for international cooperation and solidarity, the creation of new agencies for international development cooperation and the development of new policies in response to the global debate in new issues. Because of the lack of respect for the concentration definition, and also the rapid growth of the aid funds, the driving forces have been able to undermine the concentration principle.
3. The question to be asked is why concentration has been maintained as an official Swedish policy guideline, when so little actual concentration can be observed? First it was thought to be a means for ensuring an effective development cooperation; then it appeared as a end to economize with SIDA's administrative resources. The future relevance of the concept must obviously be linked to the larger issue: will a policy on concentration (to countries, to sectors or to projects) produce better development or are there other managerial policies and tools that are more essential?

The next chapter will focus on how concentration has been applied in the cooperation with six countries and the lessons that can be learned from it.

2. LESSONS FROM SIX COUNTRIES

This chapter contains a discussion of the guidelines and directives given by the Government regarding the cooperation with China, Guinea-Bissau, India, Nicaragua, Tunisia and Zimbabwe. The purpose is to study how the concentration policy has been pronounced in each case, to what extent the policy has been implemented in terms of allocation of resources to "concentration sectors", and how the policy may have influenced the results of the cooperation.

A more thorough description of the cooperation with each of the countries, including statistical abstracts, is enclosed as appendices 1 and 2.

2.1 Sector concentration in practice

It was not until the mid 1980s that the Government in the Budget Bills started to state explicitly which of the Swedish development cooperation goals should be given priority in the cooperation with each of the program countries. In the 1984/85 Bill it was emphasized that "the goals should be specified in the country program for each individual country. These (the country programs) should explain the major trends in the development and which sectors to support."

SIDA had already, in a review of the concentration policy in 1980¹⁵, defined concentration sectors in each of the countries. A similar review was undertaken in 1985. The Governmental guidelines regarding the sector concentration – and other issues – have largely been expressed through the budget dialogue between SIDA and – to a lesser extent – the other agencies. The governmental instruments for management of and coordination between the aid agencies were the subject of an official inquiry in 1993¹⁶.

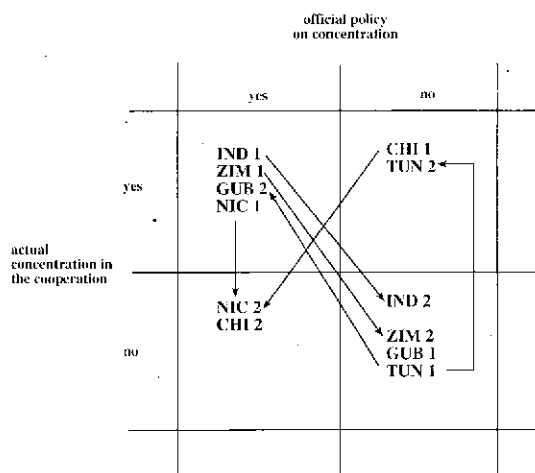
The chart below is a summary of the sector concentration policy, how it was expressed in each of the six countries and whether it was actually implemented in the cooperation. The horizontal axis indicates whether an official policy of sector concentration has been declared in the cooperation with the six

¹⁵ Landöversyn 80 ("Country review 1980"), SIDA 1980.

¹⁶ Styrnings- och samarbetsformer i biståndet, SOU 1993:1.

countries. The vertical axis shows the extent to which the cooperation in reality has been characterized by sector concentration. The understanding of the concept of concentration in the table is that cooperation aiming at or comprising activities in less than three sectors is regarded as concentrated (in SIDA's terminology "concentration" seems partly to indicate sectors where a long term cooperation is envisaged; the number of concentration sectors have amounted to five or more in a few countries).

The figure includes actual shifts that may have taken place in the policy or in the actual sector concentration in the course of the cooperation. The shifts are marked by an arrow between situation 1 and 2 respectively¹⁷.



It is interesting to note that the number of countries subject to an **official policy** of sector concentration (our interpretation) is the same before and after policy shifts took place (first India, Nicaragua and Zimbabwe, then China, Guinea-Bissau and Nicaragua). The **actual** sector concentration where there is a policy of concentration has decreased from 3 to 1 (first India, Nicaragua and Zimbabwe, then Guinea-Bissau as can be seen in the yes-yes-combination). It can also be observed that the number of countries in the **no actual** concentration fields has increased from 2 to 4. Although the number of countries studied is very small, the changes still indicate that the rate of sector concentration has also fallen in the countries with which Sweden has entered into long term cooperation.

Apart from these general trends the pattern is very scattered, which suggests that the explanations for the changes are different in each one of the countries. In fact, five different combinations of change can be observed.

2.2 Five different patterns

1. From a policy of concentration and actual concentration to the opposite (from yes-yes to no-no)

India and Zimbabwe belong to this category. In the case of **India** the cooperation in the early 1970s was effectively concentrated on an import financing program and a few projects in the field of family planning and forestry. Swedish political concern for the widespread poverty in India and the weak achievement of the goals related to the import support program contributed to a change of policy at the end of the 1970s. An increase in project based assistance in the social sectors (health, water, social forestry) was carried out over the years, resulting in better targeting but also in a larger number of small projects in several sectors.

¹⁷ The policy shifts refer to changes in policy statements in the Government's Budget Bills.

Seen over a period of thirty years, the Swedish assistance gradually became more tied and project-oriented. Energy production was added in the early 1980s and later grew to substitute the old import support altogether. At the outset the Indo-Swedish program was not concentrated through a declared Government policy. India's creditworthiness and need for industrial inputs made a lending program the appropriate assistance form but it was more a policy by default than by intent. The subsequent change of the program composition represented a deliberate step to achieve a better targeting of the poor. This goal was given priority over existing administrative ambitions to concentrate.

A complicating factor was the large country financial frame which under the import support program was easy to handle, as the Indian ability to utilize the funds was well developed. With project support, which took more time to plan and implement, a huge balance of unused funds was accumulated. This put pressure on planners to find fast disbursing projects and the time for preparation and field-testing of new ideas became too short.

As for **Zimbabwe**, there was initially a clear policy of concentration to rural health and education and import support, partly tied to procurement in Sweden. These sectors were selected with reference to the goals of "social and economic equality" and of "economic and political independence" from South Africa. There were also early expectations that the cooperation could soon be transformed into more commercial forms. The relatively strong private industrial sector in Zimbabwe would be the vehicle for this.

A part of the financial allocation was subsequently reserved for a personnel and consultancy fund, whereby Swedish technical assistance was provided for investment studies and other forms of expertise. The economic potential of Zimbabwe motivated BITS to grant concessionary credits, and Swedfund came to regard Zimbabwe as a possible major partner. Also SAREC's research cooperation with Zimbabwe grew steadily. All this, naturally, led to an increased diversification of the support.

However, the expectations of rapid social and economic development in Zimbabwe were not met. One of the more difficult national issues was the transformation of a basically totally white – and non-cooperative – public sector to a sector more in tune with the new government policy. SIDA was approached at an early stage by the Zimbabwe government to assist in these endeavors. Following Zimbabwe's public sector reform and policy of decentralization in 1984/85, a SIDA sector program was launched to support the enhancement of the public administration. During the same period the consultancy fund had, among other things, been used to develop a roads master plan, and the transport sector became a new sector of cooperation in 1986.

This broadening of the support to new sectors was reflected in the concentration decision of 1986, which mentions these five sectors as "concentration" sectors. Following the introduction of technical assistance through BITS the cooperation expanded further, and Zimbabwe became one of the recipient countries in which all of the Swedish aid agencies were very active. This led to concern about the lack of coordination, and the cooperation with Zimbabwe was subject to a critical case study on coordination in the above mentioned official inquiry.

In sum, the initial sector concentration was – implicitly – abandoned in 1985. The main reason was that Zimbabwe requested support to new sectors, and there were no constraints, financial or technical, against this.

2. A policy of concentration maintained, but less actual concentration (from yes-yes to yes-no)

Initially the cooperation with **Nicaragua** was expected to have the same potential as that with Zimbabwe. After a few years of emergency and import support to cater for the social and economic convulsions during

the transition from Somoza to Sandinista rule, there was a belief that industrial and commercial relations between Nicaragua and Sweden would grow.

The Government declared in 1985 that the cooperation should be “directed at economic growth and national independence through the mining and forest industry”. These two sectors plus import support were declared concentration sectors by SIDA in the 1986 review. However, a deterioration both of the security situation, due to increased armed aggression, and of the macroeconomic conditions effectively destroyed the conditions for productive investments in Nicaragua.

The democratic elections in 1990 led to a new agenda for the development cooperation with Nicaragua. Following the national privatization of public corporations the support to the national mining corporation became largely obsolete, and also the support to the forestry sector changed focus to institutional and environmental aspects. Import support and energy development became new concentration sectors, but support has also been granted to the social sectors – mainly health -, forestry, public administration and democratization.

In view of the great changes in the cooperation with Nicaragua, it is evident that long term development cooperation to a few concentration sectors is a useless tool to ensure efficiency of the cooperation in countries undergoing rapid political and economic change .

3. From a policy of non-concentration and no actual concentration to the opposite (from no-no to yes-yes)

The cooperation with **Guinea-Bissau** has undergone a substantial change since its inception at independence in 1975. A widespread import program, inherited from the commodity support to the liberation movement PAIGC, had to be partly transformed to project support in a number of sectors, due to a limited capacity for managing the commodity support. Consequently, the SIDA review on concentration in 1980 indicated that no less than six sectors were to be concentration sectors.

However, experience also showed that the cooperation tended to favor the urban rather than the rural economy, and therefore a gradual reorientation of the support to the rural sector was recommended in that review. This policy was realized during the mid 1980s, and reconfirmed by the SIDA review in 1986. The cooperation was concentrated to three sectors: agriculture (especially), education and import support.

Throughout the period the Government indicated that the overriding goal for the cooperation with Guinea-Bissau should emphasize economic growth and social development. An evaluation by SASDA in 1994 found that very little economic growth had materialized in Guinea-Bissau, and it was furthermore concluded that “the growth objective is too vaguely defined to make possible a definite conclusion of the effectiveness of the Swedish aid to the country”. Institutional and policy deficiencies were mentioned as the main factors behind the weak development.

The cooperation with Guinea-Bissau shows that concentration on rural poverty reduction – no matter how well motivated it is – cannot be an effective tool as long as the economic and institutional framework is weak and gives little support to development. A more diversified policy, in combination with support to establish a better policy and institutional environment, would probably have produced more tangible results.

4. From a policy of non-concentration and no actual concentration to actual concentration (from no-no to no-yes)

Tunisia was one of the first long term partners in Swedish development cooperation – one of the initial group of six countries. Tunisia also became a program country when this form of cooperation was introduced in 1972, although not without debate due to the country's relative prosperity compared to most of the other program countries. During the period between 1963 and 1975 the cooperation expanded rapidly from an integrated support to a small fishing village in the Cap Bon peninsula to a well-spread and reasonably well-managed support in the production, infrastructure and social sectors. There was no policy on concentration in the cooperation. Tunisia could absorb the development assistance, and the main constraints were to be found on the donor side. SIDA also used funds-in-trust arrangements with UN agencies to overcome the administrative constraints.

In 1976, Parliament decided to change the cooperation into less concessional forms, and concessionary credits and technical assistance through BITS became the mainstay of the cooperation from 1980. As mentioned in chapter 1, BITS did not communicate any policy message favoring sector concentration, but rather wanted to encourage cooperation where there were mutual interests. There were of course consultations between the Tunisian government and BITS on various projects, but the new terms of cooperation – cost-sharing and commercial or institutional joint interests – became the motor of the cooperation. Since then most of the cooperation has in fact become concentrated to two of the former SIDA sectors: telecommunications and sewage water treatment.

The bottom up approach, i.e. when mutual interests at micro/project level define the cooperation, can thus lead to increased concentration in the cooperation even when this is not encouraged – but rather discouraged – by the donor's official policy.

5. From a policy of non-concentration and actual concentration to a policy of concentration and no actual concentration (from no-yes to yes-no)

The cooperation with **China** started on a small scale at the beginning of the 1980s with no limitation to particular sectors. The Swedish Government and BITS deliberately left the program to find its own composition, depending in the first place on the interest of the Swedish partners and the Chinese in utilizing resources from Sweden. Concessionary lending became an important part of the program. The direction of the lending operations always depended on whether Swedish companies were interested in bidding for them and whether the bids were selected as competitive. As for technical assistance, the quality of the project, reliable and interested contracting parties, and a feeling for what was appropriate for Swedish assistance, guided the selection of projects.

The assistance to China was frozen in June 1989 after the purge of the demonstrators in Beijing. The freeze continued until April 1991 when lending was resumed on a limited basis. In May 1992, the Swedish Government for the first time took an official decision on the future direction of the cooperation with China. It was to be limited to the environment, democracy and projects in the social sector. After strong objections from the BITS board, the Government opened the program once again for telecommunications and energy. Later other sectors have been added.

2.3 Conclusions

The experiences of the six case studies can be summarized as follows:

1. Decided or agreed concentration of the support to defined areas or sectors is seldom honored in practice. Other policies or events seem to be preponderant whenever they challenge the principle of concentration. The rate of concentration increased in two countries: Guinea-Bissau and Tunisia. In the first case it is doubtful whether this was the best policy. In the second case, the concentration was not geared by policy but by the terms of the cooperation.
2. It does not seem that the size of the country program has any particular implications for actual sector concentration. The rate of sector concentration has changed in all countries – and in different directions – without particular relation to substantial changes in the real value of the annual allocations.
3. A number of factors encourage diversification, and thus are erode the concentration policy:
 - rapid changes in the political and economic framework (Nicaragua);
 - presence of several Swedish aid agencies (Zimbabwe);
 - ambitious policies of poverty reduction (India; and the fact that the concentration to rural poverty reduction in Guinea-Bissau has not been particularly successful also indicates that concentration may be difficult to combine with poverty reduction);
 - certain aid forms, especially consultancy funds, which tend to work as engines for diversification (Zimbabwe);
 - recipient country policies to broaden the contact network with the donor country (China).
4. The cooperation with Tunisia and China shows that when the cooperation is driven by mutual (commercial) interests at micro level, there may, surprisingly enough, appear strong forces leading to sector concentration;

3. LESSONS FROM BUSINESS AND MANAGEMENT SCHOOLS

The discussion in this chapter is an attempt to apply current thinking in business and management schools to the discussion on concentration. It must be made very clear that these ideas and theories are developed to answer a qualitatively different question than Sida's discussion on effectiveness and efficiency: how to create a *strategic advantage* that will help *profitability* to be maintained or improved under *competition!*.

Still, there are similar concerns in the sense that business ventures and public organizations, such as Sida, share the interest of a continuous review and improvement of the management systems so as to ensure a good use of their financial and human resources. There may thus be something to learn from the contemporary literature on business strategies¹⁸.

¹⁸ This section is based on writings by T. Peters & R. Waterman, M. E. Porter, H. Mintzberg, MacKinsey, Boston. Consulting Group, B. Karlöf, L. Bengtsson & P. H. Skärvad.

3.1 From long term planning to strategic management

Lesson 1: The basis for strategic corporate decisions has since the 1970s moved from long term planning and forecasting over strategic planning to strategic management. This move implies a shift *from* the belief that future markets, prices and interest rates can be forecast and used for investment decisions *to* the bitter experience that they cannot (remember for instance the oil shocks, the Krona devaluations and the complete redrawing of the maps that these changes caused). Strategic management aims at improving the organization's capacity to observe, interpret and act intelligently when changes occur in the business environment.

Some companies have also used this insight to scrap or reduce their research departments (except for research intensive companies) in product development and instead to rely more on trial and error by marketing new products in smaller areas, before possible full-scale production and marketing is decided.

Relevance for Sida:

Who would have said, in 1985 or even as late as in 1990, that almost 20 % of Sweden's total assistance would go to Europe at the same time as Africa's share would decrease from 41 % to 28 %? And who would in 1980 have predicted that Sweden in 1993 would have 25 partner countries receiving more than SEK 50 million each when, in fact, the entire ambition was to reduce the number of countries from 17 to around 10? These simple facts demonstrate that forecasts of long term patterns and trends can provide only limited guidance for strategic decisions on the best composition and orientation of future work programs.

The six country case studies give a similar message. Macroeconomic shocks, political changes, deteriorating human rights situations and other emergencies and events that are difficult to forecast create a need for considerable changes of the program over time in a given country. These changes will sometimes affect the project, program and sector environment more than the capacity for project planning and management (these are referred to as "external factors" in LFA terms). This conclusion does not eliminate the need for a long term perspective in the cooperation with regard to the choice of concentration sectors. What it means is that there must be an awareness that the premises for the decision on concentration may change and hence that Sida and the partner countries must be alert enough to update the cooperation program when such changes occur.

Lessons for Sida: Strategic management should combine a bottom-up approach, on support to projects and components that perform well – on their own or under a sector umbrella – and a macro-analysis as part of a country strategy process regarding which sectors or areas to support. With this view support to non-performing projects should be discontinued, regardless of their high theoretical development impact (unless they can be reformulated so as to improve performance). Strategic management could also imply greater caution in starting full scale cooperation in certain sectors, and to rely more on the performance of individual projects before the necessary conditions for successful cooperation at sector level have been established. Sector program support should first be directed to build the necessary policy and institutional platform through concrete projects.

The annual sector reviews should focus even more than today on the results (outputs, effects, impact) of the program, and the reasons for deviations – positive and negative – in expected results. Necessary modifications to improve the rate of effectiveness and efficiency should be negotiated without delay. This would furthermore make it easier to redistribute resources from slow performing projects to those which do better. The system of result oriented annual reviews, based on the LFA framework, could then become the foundation of Sida's system for quality assurance.

3.2 Diversification vs. specialization

Lesson 2: A salient feature in corporate management is the choice of strategies for risk management, i.e. how to minimize or reduce the threat from competitors. With too little managerial attention to this the company may at worst be forced out of business. Over the years the conventional wisdom in risk management has swung between diversification and specialization of production as the optimal way of handling risk.

During the 1990s specialization has been the dominating strategy – to go “Back to Basics” – rather than diversify into new products and business areas.

Relevance for Sida:

The belief of early years that concentration to a handful of sectors would ensure effective and efficient development cooperation has been overtaken by events. The new Sida has a great variety of projects and is active in many sectors, although the profile differs a lot between different partner countries. One part of the diversification originated in the rapid growth of the aid appropriations in the 1970s. Another part came from the expansion into “broader” cooperation.

Another explanation is that the issue of development turned out to be more complex than just adding resources to modernize industry and infrastructure, and to help control population growth. Yet, it may be time again to rethink to what extent Swedish comparative advantages should guide the allocation of Swedish aid to various sectors. This is not a controversial issue in the more advanced developing countries, where the terms of the cooperation are driven by a mutual interest to get a Swedish company or an institution to become engaged in commercial or institutional activities. But the question is if Swedish comparative advantages should also guide the assistance to the poorer countries to a greater extent than it does today?

Lesson for Sida: What would an agenda for “Back to Basics” mean for Sida?

3.3 Portfolio vs. business strategies

Lesson 3: The concept of a portfolio strategy was originally created to guide stock investments, i.e. a “portfolio” consists of the different types of stocks that the investor holds. A portfolio could be synergetic or diversified and the mix reflects the investor’s assessment of the best combination of risk and return. The concept has also been used to describe how group companies are composed of subsidiary companies with different business ideas and products (synergetic or diversified).

A business strategy, on the other hand, is more fundamental in the sense that it should answer the question on “why are we in business”.

Relevance for Sida:

The reason why Sida is in business is largely undisputed. But being recently formed as a “group company” would call for a discussion of each department’s business strategy and, certainly, of the overall portfolio strategy of the “group” and of each department. These strategies must, of course, be compatible at country level. As a matter of fact, the 2015-project can be regarded as the first step in developing a portfolio strategy for Sida.

This discussion must be closely related to the use of country and sector strategies. Both strategies express policies and intentions. To become operational, they must serve as guidelines for identification of support to projects and programs in order to accomplish precisely the development impact expressed in the strategies. Portfolio management fills the operational gap between the strategies and the follow-up by focusing on how projects and programs should be designed and monitored to increase the probability of effective and efficient implementation.

In Sida, the application of a portfolio concept should be built on the actual and intended production (= appraisal, negotiation and monitoring) of the different forms of support (to projects, sector programs, general programs). The application requires access to and classification of projects and programs with reference to their expected and actual performance. The projects and programs should be summarized in a *country portfolio* (particularly in countries where the cooperation is managed and monitored through country programs), in a *sector portfolio* (at least one per sector strategy) and, why not, in a *department portfolio*.

What is a portfolio?

A *country portfolio* is not synonymous with the sector programs in a given country, but a classification of all projects supported in a given country. For practical reasons it is suitable to group projects under a sector program together as one program. A concentration of the support to activities and projects in a certain sector program or in a few sector programs implies, of course, that Sida's portfolio in the country is weighted at that sector, be it poverty reduction, commercial development or macro-stabilization.

A *sector portfolio* includes all the projects, with their special features, in that particular sector in all the countries; i.e. one could talk of Sida's portfolio in e.g. primary health.

Similarly, a *department portfolio* is a summary of the projects that the department is involved in; i.e. one could then talk of INEC's or DESO portfolio, which is a summary and classification of all the projects and programs under the supervision of the respective department.

Portfolio management does not stop at the identification of certain portfolios, but includes also an active identification and monitoring of projects and programs which are expected to perform well (or better than the alternatives) in relation to the development objectives defined for each partner country.

Does portfolio management challenge recipient country ownership?

In Sida terms portfolio management should be seen as Sida's contribution to the recipient's responsibility for project cycle management. Portfolio management says that Sida also has a stake, although more altruistic than commercial, in the development projects and programs that Sweden supports, and that Sida has its responsibility to make sure that the projects deliver both short term and tangible results and development impact.

Where the in-house responsibility for portfolio management is to be exercised, Sida's general policy on decentralization and delegation should be followed.

The composition of the country portfolio should reflect Sida's (and the recipient country's) assessment of "risk and return" (probability of failure and achievement of objectives, respectively) in the cooperation program. The risk assessment may involve factors such as:

- political risk (political and economic stability),
- environmental risk and
- institutional/commercial risk (institutional capacity, ownership, capacity for cost-sharing).

The assessment of the expected "return" is based on the logical project structure (according to LFA) and the expected results, impact and cost-effectiveness of the project.

Sometimes it may be motivated by vital policy directives to establish a country portfolio which carries relatively more risk for failure (relatively more "up-hill projects and programs" than in other portfolios – for definition see below chapter 4). The arguments for this should then be presented in the country program.

Based on the various portfolios a number of issues could be raised. Should Sida for instance try to establish synergetic country portfolios (mutually supporting projects and sector programs) or is a diversified portfolio to preferable in a given country? Is it possible – or desirable – to continue to operate in one country in the same manner as before Sida was formed, i.e. with different approaches to the size and scope of the cooperation depending on the sector and the respective department's sector strategy? These and other issues should make an important part of the country strategy process for each long term cooperation partner.

Lessons for Sida: There are, at least, two main areas for application of the portfolio concept in Sida: the *country portfolio* expressing the composition of the cooperation at country level, and the *sector portfolio*, which describes the present stock of projects in a Sida sector (education, health, private sector development, forestry). The portfolio carries more information on the project and programs than the present list of projects, especially as regards the factors that determine "risk and return" (see more in chapter 4 below). The composition of both kinds of portfolios emanate from the country and sector strategies respectively, and are updated through project and program appraisals and through annual and in-depth reviews, being part of and providing feed-back for continuous portfolio management. Full application of portfolio management thus involves definition of performance criteria for project and program selection and project monitoring according to a methodology that aims at ensuring good results and impact with regard to the risks involved.

The present data base does not easily produce information on Sida's project portfolio, which makes these analyses difficult to conduct. These issues will be addressed in chapter 4 below.

3.4 Corporate culture and shared values

Lesson 4: It is the culture and values of the organization that set the agenda and define the path and quality of the production rather than written instructions and handbooks.

Relevance for Sida:

SIDA and SAREC have had a common feature in showing great empathy in their daily work. The staff in these two donor organizations are far from being hard-nosed bankers, striving primarily to ensure

financial viability in the projects. The resultant organizational culture has been characterized by an alertness to assist in defining problems and in finding creative ways to finance even “non-bankable” projects, and by looking at processes rather than at projects and tangible results. When a request for support is proposed to a staff member, the response would in many cases be a gentle – “yes, let’s see if we can take it” – rather than a flat or even cautious “no” with reference to current strategies on concentration or other formal practices. But it must also be acknowledged that even when SIDA has taken a tough attitude against further diversification, there may be strong political and commercial pressures to persuade SIDA to include new projects or continue supporting projects that were to be phased out.

The cultures of BITS and SwedeCorp are more commercial, more focused on delivery of short term and tangible results, although yet with empathy. Both organizations also require some kind of local cost-sharing and contracting of Swedish companies and institutions. Both organizations have been in a process of establishing themselves “in the market”, finding their segment in relation to SIDA’s. Although the “products” have been comparatively well-defined, the need to market them has created an openness and an attentiveness to new clients and countries. Both organizations have sent marketing delegations abroad – and received such delegations from abroad – to explain their respective missions and to describe how to apply for funds from them.

The two predominant cultures – empathy and marketing ambitions – converge in one important point: an inherent positive attitude to ideas and proposals of cooperation from existing or potential partner countries. All the four organizations have established a contact network which provides them with a stable flow of such proposals and requests. The extensive network in combination with the positive organizational cultures define the environment in which a strategy on portfolio management is to be developed.

Lessons for Sida: The new organization will have to learn how to say a polite no rather than a hesitant yes if any policy and strategy on portfolio management, aiming at balance between the rather fixed administrative resources and operations, is to survive the date of its decision. Defining – in advance – clearer exit points for the Swedish support with the use of performance indicators will support such a process.

3.5 Conclusions

With due respect for the differences between Sida’s and commercial companies business environment, the experiences of the latter seem to provide some guidance for Sida:

1. The need to cope with political and economic instability in many of Sida’s partner countries requires flexible methods of cooperation. Project planning must be more sensitive to risks (political, economical, social, environmental), and implementation more attentive to the need for firm ground and sustainable effects. Full scale introduction of project cycle management (JFA) – through close monitoring of results and external factors – would give partner countries and Sida’s management the necessary signals about the performance of each project. Strategic management of the portfolio would then imply that not only is performance more closely monitored but there is also a stronger readiness and capacity within the organization to focus on necessary changes to project structures and allocations whenever necessary.
2. All agencies have been very successful in engaging Swedish institutions and companies in project implementation. More reliance on Swedish partner participation tends to concentrate the portfolio into areas where Swedish resources are competitive, in particular if concessionary credits are offered (e.g. Tunisia). Network building through technical assistance could on the

other hand proliferate the aid into unmanageable micro projects, the effects of which are hard to assess (e.g. China). However, a well balanced application of the existing comparative advantages could be a useful instrument of strategic management.

3. To serve as an instrument for portfolio and strategic management, the Sida project portfolio must be better defined and recorded. It is quite likely that a reclassification of the "projects" in the present database would give a different and more accurate picture of the reality of concentration in some countries. Portfolio management requires that the "project" concept is related to its management dimension, both at country level and at sector (and department) level. The portfolios should include projects which need appraisal, funding, monitoring and reporting (be they inside or outside a sector program), whereas small one-time contracts and ad hoc contributions should not be included in this group. Active portfolio management combines the long-term approach in the country and sector strategies with strategic management aiming at ensuring good results and high impact (see point 1 above).
4. Sida has been concerned for a long time about its cultural inability to discontinue support to projects and programs. The inability is most certainly exaggerated, but clearer exit points expressed through performance indicators would no doubt reduce the scope for personal considerations when a project is approaching its end.

4. CORNERSTONES IN A MODEL FOR PROGRAM CONCENTRATION

4.1 Three critical features

When working towards a model for achieving more focused programs, attention must be paid to three critical features that need to be accommodated by the model.

1. The main conclusion in chapter 1 was that endeavors towards concentration could not cope with the strong driving forces in Swedish development cooperation:

- the policy for international development cooperation and solidarity,
- the emergence of new aid agencies, and
- new issues on the international agenda.

One of these forces has now been brought under control: since 1 July 1995 there has only been one agency for development cooperation. As for the other two, there is no indication that Sweden intends to change its active development cooperation policy, nor is there reason to believe that the agenda for international development has been set for good. A new policy on reducing the number of projects and programs must bear this in mind, and the model to be constructed must be able to handle these driving forces. For the same reason, policies that aim at reducing the project portfolio by setting barriers around the number of partner countries and sectors of cooperation in each country will not succeed.

The inherent driving forces will soon break through these barriers, and there will be no vehicle for the automatic phasing out of support to sectors or partner countries when new sectors or countries are introduced.

2. Concentration has no intrinsic value. Sida's main task is to direct the resources to projects and programs that maximize the development impact as expressed by Swedish goals. Nothing says that this would be best accomplished by putting all eggs in a few baskets: be it in one or two countries or in one or two predetermined sectors in a number of countries.

It is a trivial statement that the development conditions of each country are unique. The mechanisms of resource allocation must be able to direct the resources to areas or needs that are vital for the development in each recipient country, at the same time as they are in line with Swedish development goals and resources and, not least, achieve results and impact in support hereof.

Thus, concentration or focused policies would start with a *definition of these areas and needs* and an *intervention with Swedish resources* in them with the best possible combination of the instruments that Sida has at its disposal: policy advice, various forms of financial and technical assistance, well defined project support or broader more long term sector program support, and so forth. Focused country strategies should be a vehicle suitable for these considerations. In the light of the conclusions in chapter 3 on strategic management, it is important that the country strategies combine the long term perspective with ability to maneuver in the short term.

3. Concentration should thus start from the demand side: how can Swedish assistance be used effectively and efficiently in the process of development? Yet, the administrative capacity of the aid organization is a constraint to the number of development interventions that Sida can make. But this constraint is not static; it depends to a great extent on the character of the project and program portfolio. The more-risk prone the portfolio management is, the more administrative resources (staff hours, direct costs) must be spent on assessment and monitoring, and consequently the smaller the number of projects which can be supported with given resources. The other side of the coin is that the less risks are involved, the larger the portfolio can be and the more development impact can – probably – be generated.

One practical Sida problem in coming to grips with this issue is the present project database. It was mentioned in chapter 3 that it is almost impossible to get comprehensive information on the project stock. And it is definitely not possible to get access to information that sheds light on the composition of the stock in respect of the risk scenario. Such information is necessary for discussion by the management on the optimal way of using administrative resources. Below is an attempt to construct a model which would contribute to such a discussion.

4.2 Project and program structure (portfolio)

The classification matrix

In Sida's policy on Sector Programme Support a number of criteria were identified, to be used when assessing the suitability of such sector programs. The criteria referred to the planning and implementation capacity of sector institutions, to the general socio-economic environment, not least the requirements for macro-stability, and the level of donor coordination. The capacity of sector institutions in *planning* and *implementation* represents a fundamental risk factor to be assessed not only in sector program support but in project support in general. In fact, the criteria used can be further broken down into characteristics of the *sector environment* (policy support, comprehensive national strategy, commitment) and the *capacity* of sector institutions to actually *implement and manage* activities in the sector.

Below is a matrix that defines the composition of Sida's project portfolio. The matrix has the sector environment in terms of policies and strategies along one axis and the capacity to manage and monitor implementation along the other axis. (When the matrix is used for classification of general program support, the "sector" environment should be understood as the macro-economic environment.)

It should be made clear that that the two axes are not necessarily uncorrelated: the implementation capacity may be facilitated by an adequate sector policy and a strong political commitment, but the opposite also holds true: it doesn't matter how good the capacity is for project management as long as the policy is inadequate, and further, even the best policy and strategy will be useless unless there is adequate management capacity at the implementing institutions to transform the policy into action.

In the model, the sector environment is characterized as “supportive” and “not supportive” depending on the degree to which there is

- a national policy for the sector's development,
- a comprehensive strategy in terms of administrative and financial resources to implement it, and
- a demonstrated ownership in terms of national, political commitment to the program/project (demand-driven).

The capacity of sector institutions is rated as “high” and “low” respectively depending on the degree to which there is

- a program or project document with clear objectives for implementation, and
- implementing institutions with capacity for project management (personal commitment as opposed to political commitment), especially in terms of financial management and procurement.

		Sector environment	
		Not supportive	Supportive
Capacity for implementation	High	3	1
	Low	4	2

The four fields of the matrix describe four different project environments:

– **Field 1:** here are projects and programs which operate in a well planned environment with clear priorities, often characterized as “enabling”. There is a strong national ownership rendering high priority for implementation. In this category one is likely to find projects that do well without great Sida involvement in assessment and monitoring. The risk of institutional failure is low. In project management vocabulary these are known as *flyers*. The partner institutions are able to define the kind of technical and financial assistance they need to improve their performance, but they do not need fundamental policy advice or help to develop their general managerial or institutional capacity. In short, there is a strong ownership of the project or program both at the political and implementing level. However, project management, for instance in the construction of a power station or other specialized transfer of know-how, could be included in this project environment.

Many of the former BITS s projects and also some SwedeCorp projects belong to this category. One part of the explanation is that the general sector conditions are often “enabling” in these agencies partner countries. But since the perspective used in the classification model in most cases refers to the sector environment and institutions, not the entire country (exception: general program support), it is quite possible to find flyers also in the program countries, for example energy projects in India, telecommunications development in Mozambique, support to education in Sri Lanka etc. Most SAREC bilateral projects and many of Sida s “special programs” probably belong to this category.

– **Field 2:** projects and programs in this category enjoy a reasonably stable policy environment, but they need technical assistance to be successfully implemented. The technical assistance component is not limited to project management, but to the development of various forms of management information systems in planning, programming, budgeting, human and material resource administration and other administrative systems. Projects in this category are accordingly *capacity-builders*, and they must include activities for improving institutional and management capacity.

There are a number of such Sida projects and" I Rograms, in public administration but also in other sectors: health in Kenya and Zambia, fishing investigations in Angola, population in Bangladesh, water in Tanzania, district development in Botswana etc. Such programs require time both for preparation (appraisal of program documents), contracting of long term consultants and general monitoring. Coordination with other donors should be sought in the establishment of entire sector programs; in this manner the technical assistance in capacity building could also be shared and harmonized.

– **Field 3:** projects in this category are often difficult. The policy environment is not supportive, and sometimes in conflict with the project and program objectives. It is therefore not possible to support development projects downstream, without resources being directed to policy dialogue and development. A part of the technical assistance must often be used to ensure that the agreed objectives are respected during planning and implementation. Projects in this category could be referred to as projects which lack a *national driver*. Here again, it is important to seek donor coordination around sector policies and in developing sector program support with a focus on policy and strategy development and commitment.

Examples of programs in this category are the rural development and employment program in Bangladesh, part of the health and fishery program in Angola, social forestry in India etc. The crux of some of these programs is that the development needs are obvious, but it is impossible to ensure a rational use of funds under the existing (deficient) policy. These projects therefore tend to use a great deal of managerial resources at headquarters (and may also be the subject of media concern).

– **Field 4:** in this category are the real *uphill* projects. They are often found in the rural and social sectors in the poorest countries. Projects and programs in this category need a very long term approach, following the full Logical Framework Approach Format. It would imply application of a risk-prone management if Sida became generally engaged in programs in this field¹⁹. Those that are taken up, encouraged by policy directives, should be carefully assessed and monitored through strategic management. Once again, the sector program support approach is vital for a gradual establishment of the conditions that make a joint recipient-donor approach possible for more concerted actions in these sectors.

In this category one would find education and rural development in Guinea-Bissau, education in Tanzania, Mozambique and Ethiopia. It would also appear that many of the projects aiming at democratization form part of this category.

¹⁹ Others would claim that projects in this field should be Sida’s main concern.

Application

Based on the classification, portfolios at country, sector and departmental level could be established. The main purpose would, of course, be to study the composition of the portfolios. Is there a concentration of uphill projects in certain sectors or in certain countries? How could the country portfolio become more focused, and which programs should then be phased out – uphill projects or flyers? Appendix 3 shows a desk attempt to establish the country portfolios for Kenya and Nicaragua.

The classification should also be used to define the necessary competence within Sida to manage the various portfolios:

- the *flyers* need competent project administrators, experienced in project and program appraisals (according to LFA) and contract negotiations – this can be regarded as base-line Sida competence;
- the *capacity-builders* also need experience in organization and management analyses – capacity to assess whether intended institutional goals can be achieved with available managerial and institutional resources (reliability and adequacy of budget and accounting systems, capacity for project planning and management, capacity for procurement and maintenance of goods and services) ;
- the *no national drivers* projects need the ability to conduct a dialogue in (sector) policy and strategy formulation; this requires both technical skills in the relevant sector and understanding of policy formulation;
- the *uphill* projects need a combination of policy formulators and capacity-builders; in other words, teams of expertise rather than individual program officers, since it is unlikely to find this combination of knowledge in one single person.

The in-house expertise in these areas, as well as the supply of consultants with relevant experience in the subject areas, set the limits for Sida's portfolio. Again it is evident that the larger the number of flyers, the larger the number of projects and programs that can be handled by Sida.

The model also contains a dynamic component: the overall purpose of the support to projects and programs in the last three categories above is to make them move into field number 1. And the more projects that become flyers, and later on be successfully phased out of Sida's portfolio, the higher the development impact of the whole program.

In addition to the country strategy process, where we believe that a classification of the projects and programs according to the matrix would give the best operational feed-back, there are other areas where the portfolio perspective would provide a basis for important analyses:

- are there too many uphill projects and entire programs, given the existing resources? In view of the structure of the portfolio, should administrative resources be increased or shifted around?
- what is the profile of each division/department's portfolio and how does it correspond to its (sector) strategies and actual resources and expertise?
- where should a reduction of the portfolio start in relation to the most severely felt bottle-necks?
- what kinds of additional skills seem indispensable in relation to the desired portfolio?

Such information would also make the governmental budget dialogue in Sweden more constructive. Through the classification, Sida would have a better tool to demonstrate the administrative consequences of the total program for development cooperation, and certainly with regard to requirements for expansion into new sectors and countries.

In order to perform such a classification, the project database must be reorganized. This process has already started by combining the databases of the four agencies. From a classification perspective, there are some very precise requirements for the new database:

- the database should be able to single out not only sector programs but also projects under a sector program (there is no requirement to register this level in the present database). This is important since most of the sector programs in fact consist of “projects”, which need their own planning and monitoring, especially to allow for reallocations between projects. (Very few sector programs are today (or will be) composed mainly of budget sector support.);
- every program and project should refer to the relevant project document;
- as in SwedeCorp every program and project should have a Log Frame matrix included in the database (in larger projects the matrix should preferably be part of the project document, in smaller projects such as democratization and the special programs a home-made matrix would do);
- the monitoring format (date of decision, agreement, annual review, in-depth review etc.) should be registered;
- every project should be classified in one of the four categories above (until other and better formats are identified) and be reclassified, when necessary, following the annual review (corr.).

From the above requirements it is evident that the development of the new project database must be the joint effort of project and program operators, LFA-specialists, statisticians and financial staff.

4.3 Conclusions

The discussion so far has shown that a formal policy on concentration to countries and sectors has not been sufficient as an instrument for accomplishing efficiency and effectiveness in the Swedish development cooperation. The discussion has focused on ways and means to improve the management of the actual production of support activities, not general policies and strategies. If Sida wants to pursue this orientation, three main issues must be addressed.

Portfolio management instead of a concentration policy

Concentration should be replaced by portfolio management. The portfolio would reflect the country strategy (when relevant) and be related to

- the specific problems and issues in the country
- Swedish comparative advantages
- Sida's personnel resources

The country strategy would then be the vehicle for striking the right balance between policy directives at country level and available in-house and external resources. There may be countries where no formal country strategies need to be elaborated; in these cases the portfolio can reflect a simulated analysis based

on the country s or other donors analyses. Portfolio management necessitates easy access to a management information system as the one described in section 4.2.

Portfolios should also be established for sectors and departments, since they provide information on the balance between strategies and results as well as between commitments and available resources.

Strategic management for results based decision-making

The need to react to and adapt to change calls for more emphasis on a bottom-up approach in monitoring of the support. Sida (SIDA and SwedeCorp) has, in principle, a good tool for assessing the results of the cooperation through the Logical Framework Approach to project planning and monitoring. A full-scale application of LFA at all stages of the project cycle – and serving as the fundamental management information system – would certainly facilitate a rapid and results-based allocation of the Swedish resources and contribute to ensuring an effective and efficient use of Swedish (and national) resources.

The time dimension

The time dimension of the cooperation includes a latent conflict of interest. While, on the one hand, it is important to give some selected countries long term assurance of cooperation, such commitments may on the other hand lock up resources in activities that do not perform well. Portfolio and strategic management combine a long term perspective with flexibility to change the composition of the portfolio. One concrete idea to pursue may be define more clearly the road from “concern” to “voice of discontent” to “exit”. Clauses may be included in the project agreements which can be referred to when the project performs less satisfactorily than expected, what the indicators of performance are and when the exit option can be used. In other words, projects that do not perform well – that do not follow a steady path to eventually become flyers – should be phased out with reference to these performance criteria.

A system with indicative planning frames, rather than fixed country frames with balance carry-over rights, will give better flexibility in managing the project portfolio. The risk of losing funds, if project performance is below expectations, can be a strong driving force for improved performance.

APPENDIX 1: CASE STUDIES ON SIX COUNTRIES

1. CHINA

Basic Data	
General	Swedish cooperation
Population:	1 187 million
GNP/capita:	370 US
ODA/capita:	3 US
	Cooperation started: 1979
	Total disbursement:
	– main sector: energy
	– share of total:

Background

The cooperation with China started in 1979 with technical assistance through BITS. The major part of the cooperation consisted of training courses and project studies. A scholarship program for studies and research training in Sweden was run by the Swedish Institute and other Swedish scientific institutions. The first line of concessionary credits was agreed in 1983.

The policy

China is besides India the most important country for concessionary lending from Sweden. Several factors have contributed to making China a favored partner for both technical cooperation and concessionary credits. China has a big population, it is a low-income country, it has been credit-worthy over the years, it has a large industrial base and it continues to invest heavily in infrastructure. All these factors made China an interesting commercial partner and the country has attracted great interest from Swedish companies.

The cooperation with China expanded rapidly during the 1980s. BITS and the Chinese authorities agreed in 1984 to expand the technical cooperation and to give priority in lending to energy, industry, transport and telecommunications.

The conditions changed, however, in June 1989 after the purge of the demonstrators in Beijing. The technical cooperation was restricted and no new lines of credit were extended to China. The freeze continued until April 1991 when the Swedish Government decided to allow BITS to resume lending on a limited basis. A few credits were signed in the field of telecommunications and preparations went ahead for resumed cooperation with China.

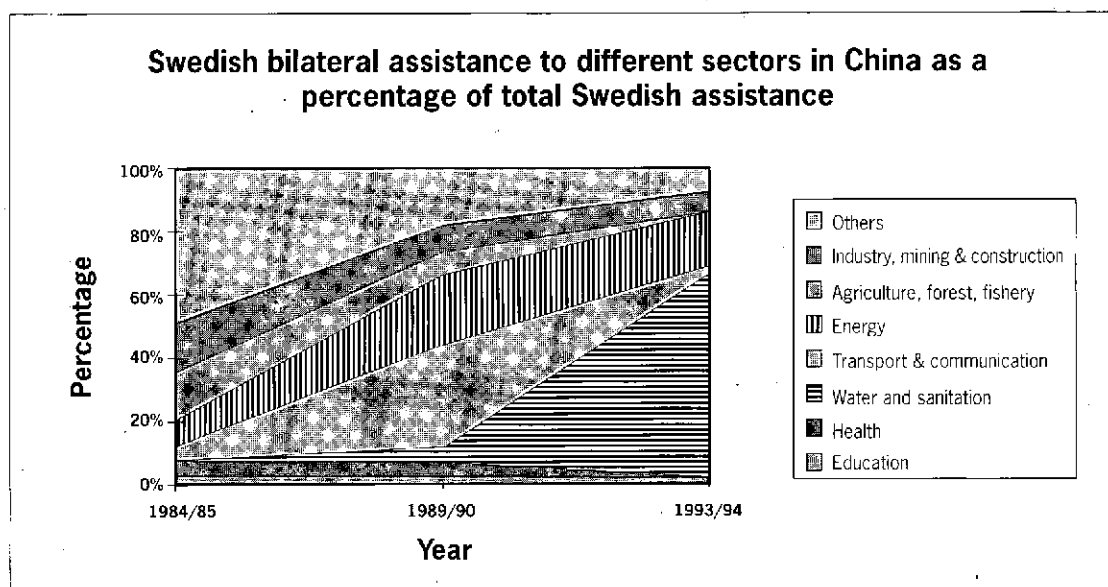
In May 1992 the (new) Swedish Government for the first time took an official decision on the future direction of the cooperation with China. The cooperation, mainly in the form of concessionary credits, was to focus on projects within the social sector and in the area of the environment and democracy²⁰. These limitations, if they had been implemented, would have meant a complete turn around of the development cooperation with China, which was very much oriented towards industry and infrastructure. However, the policy was not fully put into effect. BITS' board made great efforts to convince the Government to

²⁰ "Regeringen beslutar att det begränsade svenska biståndssamarbetet med Kina, bestående av främst u-krediter, huvudsakligen skall inriktas på projekt inom miljöområdet, demokrati-främjande insatser samt insatser inom den sociala sektorn".

reconsider its restrictive standpoint. In the Budget Bill for 1992/93 the Swedish Government agreed to include telecommunications and energy once again in the Chinese-Swedish cooperation program.

The reality

During the period of our review, China has become the most important partner in the "broader" cooperation.



BITS increased its assistance rapidly during the 1980s both as regards technical cooperation, international courses and concessionary credits. During this period the cooperation was not limited to particular sectors but governed by the general rules, which applied to BITS' technical cooperation and concessionary lending. It is important to note that the volume and direction of the cooperation, in particular the concessionary lending, has partly been determined by circumstances outside BITS control. Despite certain priority areas, the projects to be selected were always dependent on whether Swedish companies were interested to bid for them and on whether the bids were considered competitive.

Quality of projects, reliable and interested contracting parties and a feeling for what was appropriate for Swedish assistance guided the selection of technical assistance projects. The process of selection was often done together with the Chinese counterpart during the annual meeting between BITS and the Chinese authorities. The Chinese were keen to get the network as broad as possible with many departments involved on the Chinese side. In their perspective, a broad cooperation interface had a value of its own.

Projects proposed by the Chinese had to fit the Swedish resource base. The requirement for cost sharing (local costs, accommodation, travels, etc.) gave the necessary indication that the project had priority. Sometimes the technical cooperation, in particular the international courses, started as a complement to approved credits, as they opened new windows of cooperation. But on the whole, the technical cooperation was not programmed systematically by BITS or predetermined by Government directives, at least not in the 1980s.

New consensus rules within the OECD, agreed in 1992, on limitation of concessional lending to projects classified as "commercially viable", reduced BITS's possibilities to extend credits to the industrial sector. These rules did not affect Swedish cooperation with China very much as the Swedish government already had decided to limit the lending to a few non-commercial areas.

The Chinese-Swedish cooperation today mainly covers projects in the area of telecommunications, energy, transport and the environment. Since the start around 150 projects have been finalized of which 90 % focused on training and studies.

Conclusions

While BITS has tried to concentrate concessionary lending to a few areas, the technical cooperation has been greatly diversified and covered several sectors. From the start the Swedish Government and BITS have deliberately left the program to find its own composition, depending in the first place on Swedish partners and Chinese interest in utilizing resources from Sweden. The cooperation with China was never programmed or restricted until 1989. The Government decision of April 1992 is the first and only policy statement on the direction of the Chinese-Swedish cooperation. The decision was a break from the earlier cooperation, when the driving force of the cooperation was the mutual interest between partners at micro level. The later modification of the decision must be regarded as an adaptation of the policy to the real conditions for the cooperation.

2. GUINEA-BISSAU

Basic Data		Swedish cooperation	
General			
Population:	1.0 million	Cooperation started:	1975
GDP/capita:	180 USD	Total disbursements:	2.2 billion SEK
ODA/capita:	106 USD	- main sector:	agriculture
		- share of total:	25 %

Background

The government to government cooperation between Sweden and Guinea-Bissau was initiated in 1975. It had then been preceded by substantial Swedish commodity support to PAIGC, the liberation movement that seized power after independence. The first years of cooperation continued along the same path, although with a clearer orientation of the import support for development purposes of certain sectors (telecommunications, energy, education, health, agriculture). A program for small and medium scale industrial development was also agreed upon to increase the economic value-added from the industrial transformation of national resources. Following fact finding missions, project cooperation was soon initiated in education, health and small-scale fishery.

It was early understood that the management capacity on the Guinean side would be the main constraint in the cooperation. In fact, this circumstance soon also made it necessary to transform the import support to telecommunications and energy to project support.

The policy

Towards the end of the 1970s it became evident that the Guinean policy and the Swedish assistance were not effective in addressing the emerging dual economy, and that the assistance was biased in favor of the urban sector. This was acknowledged in SIDA's country review of 1980, which concluded that the Swedish assistance, because of the low absorption capacity, initially had to be spread over several sectors,

but that a gradual reorientation should take place from infrastructure to the productive sector and with increasing focus on the rural sector. Programs that supported resource mobilization would be favored.

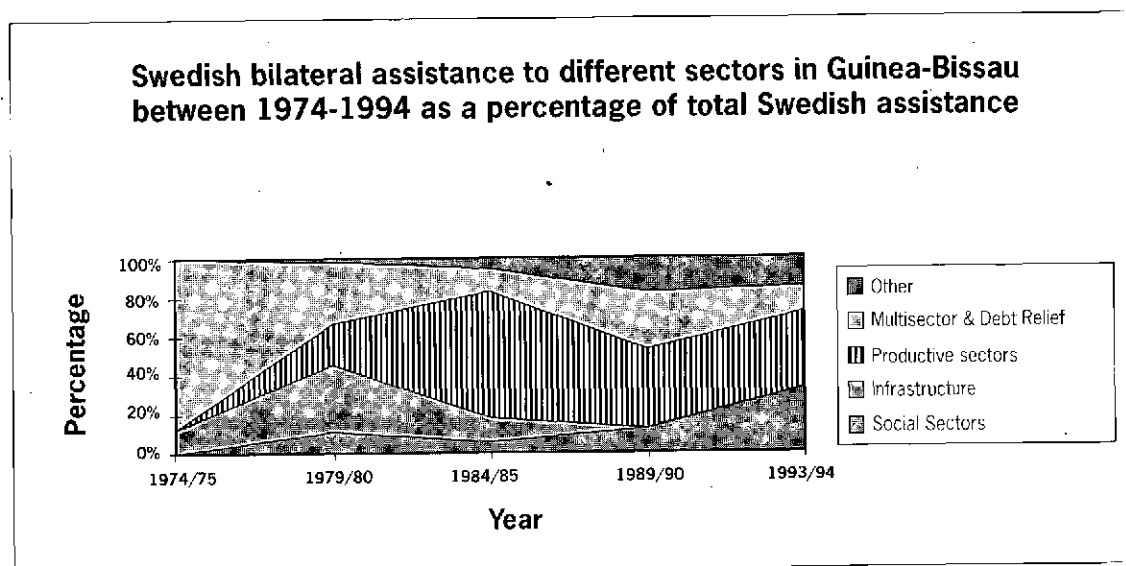
The first, explicit priority in the Swedish development cooperation thus became to support the development of the rural sector, and agricultural development in particular. This was considered of prime interest, partly with regard to the essential role of that sector in the Guinean economy, partly with the purpose of spreading the resources for development more equally between the urban and the rural sectors.

In the mid 1980s the Government's Budget Bills noted that the two governments agreed that "priority must be given to the needs of the rural sector and to agriculture". By that time, the growing deficits in the public sector had resulted in hyperinflation and an accumulating foreign debt. Structural adjustment programs were launched with support from the World Bank and other donors, Sweden included. The objective of the Swedish cooperation became even clearer in its emphasis on economic growth and social development. The SIDA support to industrial development was farmed out to Swedfund, which had initiated a project of its own in 1982. Although it was clear from the beginning that this support was to be phased out it took more than 10 years to do so.

The bleak macroeconomic perspective remained, however, and the fundamental growth orientation of the Swedish assistance was reconfirmed. Within this framework, the Government noted in its Budget Bill 1992/93 that this goal should be accomplished by "human resource development and institution building". The Bill also said that a "further concentration of the support ... should increase the efficiency of our cooperation".

Reality

The cooperation with Guinea-Bissau has two dominating trends, of which the first can be observed from the table below.



The first trend refers to the sector allocation of the assistance. As the table shows the cooperation has moved from import (balance of payments) support, over to infrastructure (telecommunications and energy), further to the productive sectors (small scale industry, fishery and rural development) and, most recently, to the social sectors (education and health). A small revitalization of the balance of payments support, resulting from the structural adjustment programs, can also be observed.

The other trend relates to the project cycle (formulation, preparation, implementation, evaluation) and where in that cycle SIDA has concentrated the assistance. The trend indicates a move upstream from project implementation to institution building and systems development, i.e. to strengthen the capacity of recipient institutions to develop strategies and plans and to manage the core activities.

The cooperation with Guinea-Bissau was evaluated by SASDA in 1994²¹. After having found that very little economic growth had materialized as result of the overall foreign aid-financed investments, the evaluation concluded that “the growth objective is too vaguely defined to make possible a definite conclusion of the effectiveness of the Swedish aid to the country”. The bleak results are partly blamed on the imbalance of the volume of aid in relation to the absorptive capacity of recipient institutions and partly on the deficient socio-economic framework.

Conclusions

The most pertinent conclusion of the cooperation with Guinea-Bissau is that policies for sector and project concentration are not effective tools as long as the general socio-economic and institutional framework is not conducive to development. This is most clearly demonstrated by the deliberate concentration of the assistance to rural development, which not has led to any tangible development effects. It might have been a mistake to concentrate the portfolio to the productive sectors and forego infrastructure in the early 1980s. The single most successful project is without doubt the support to telecommunications, which laid the foundation for the privatization of the telecoms department. It cannot be excluded that similar results could have been gained for instance in energy, which was phased out to provide room for the productive sectors.

The lesson is that resources must first be directed to help establish a reasonably supporting policy and institutional environment, before more substantial investments in social and economic development can bear fruit. The current discussion on Swedish support to education also proves this fundamental circumstance.

3. INDIA

Basic Data		Swedish cooperation	
General		Cooperation started:	1953
Population:	880.1 million	Total disbursement:	SEK 15.7 billion
GNP/capita:	330 US\$	- main sector:	energy
ODA/capita:	3 US\$	- share of total:	40%

Background

As one of the leading countries in the third world and the home of a major proportion of the world's poor, India has always been in focus for Swedish aid considerations. Apart from aid policy objectives, political interests as well as commercial interests have played, and still play, an important role in shaping the India-Swedish cooperation program.

²¹ Evaluation of Swedish Development Cooperation with Guinea-Bissau, 1995

The cooperation with India grew out of an import financing program intended at the outset to serve the requirements of Indo-Swedish industrial joint ventures. Technical cooperation expanded in the early 1970s in family planning and forestry, and later in the same decade to vocational training, drinking water and health. A program with clear focus on the poor segments of the Indian society emerged during the 1980s.

The policy

Very few statements about the desired direction of the Swedish support were made by the Government in the early 1970s. The import support was aimed at filling the two "gaps" in the Indian economy, i.e. the lack of domestic savings for needed investment and the trade deficit. No particular discussion on the relevance of this gap-filling assistance was held in the Swedish Parliament. The Government Budget Bills of the early 1970s only noted the existence of such assistance and described the type of imports made possible by the loan from Sweden (e.g. raw materials, intermediate goods, spare parts)

The introduction of tied commodity aid in 1972, which started as a result of a Government directive, did not change the direction of the aid flow very much, in particular as the Indian government chose to include commodities which otherwise would have been financed by untied funds under the commodity aid scheme.

A few *sectors or subject areas* were given priority as early as the 1960s. Family planning was explicitly mentioned in the Indian program. It was further noted in the Government's Budget Bills that the Swedish assistance to India was focused on "rural development". In reality it meant IDA loans for construction of silos and piped water wells. A few UN trust fund projects were included in the early 1970s such as the cooperative movement (ILO project), health (eradication of smallpox with WHO) and export promotion (ITC). They all remained small in terms of disbursements.

A new aid policy emerged during the 1970s, marked by a mistrust of import financing as a means to reach stated Swedish development assistance goals, and stronger support for project aid, believed to be more efficient in reaching the target groups. This shift in emphasis was initiated by SIDA. It is not reflected in the Government Budget Bills to the Parliament until 1977, when it is stated that project assistance should be increased and arranged so that the poorer segments of the population would benefit more directly.

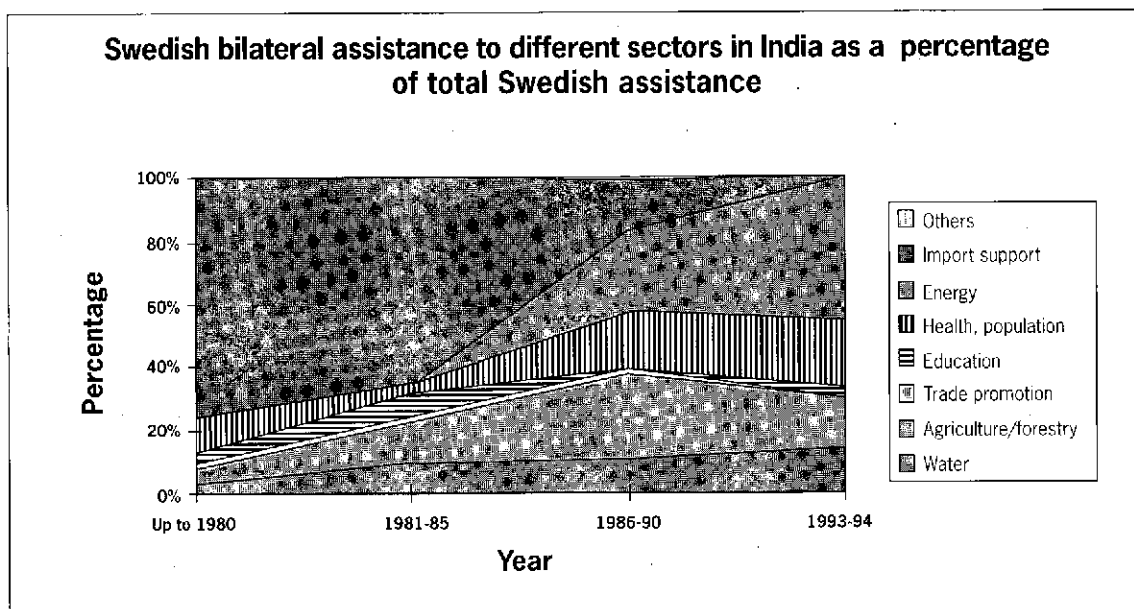
Similar statements are made 1978 and 1979 and 1980: a gradual increase of project based assistance should be made with increased concentration to large and long-term programs and projects within a limited number of sectors. A gradual decrease of import financing was foreseen as this type of assistance was criticized both inside and outside SIDA for not being effective in reaching the social development objectives.

Later, in 1984, the targeting of the poor was stressed even more through emphasis on a particular segment of the poor people, "the most underprivileged groups, in particular in rural areas".

Several new project areas or sectors were added during the 1980s with the intention of scaling down the import support and shifting emphasis to sectors and themes which were considered more important in the Indo-Swedish cooperation. Energy was introduced as a concentration sector in 1984 and gradually became an area with several high-tech projects. SAREC started to support research projects. The environment as a subject area is first mentioned in the 1988/89 Budget Bill to the Parliament. Industrial environment projects were selected for financing by BITS through its two lines of credit. SwedeCorp got engaged in business development in Karnataka and Kerala. Human rights is noted as target area as from 1993/94.

The reality

Seen over a period of thirty years, the Swedish assistance has gradually become more tied and project-oriented. A cooperation which started with very loosely defined areas has changed into a project based program, where the import support now stands for less than one per cent (Uri will absorb all import support financing over the next few years).



In 1979 SIDA selected four concentration sectors: health (including family planning), education, forestry and import support. These limitations did not last long. Already in 1981 drinking water supply was introduced and energy was identified as a suitable new area for cooperation. The volume of project aid grew gradually with the introduction of direct assistance to womens NGOs. The import support was scaled down to make room for the project aid to better target the program. While long-term programs and projects within a limited number of sectors were repeatedly advocated, the policy shift to better target the program to the poor led in reality to a more diversified program. A further proliferation occurred as a result of Swedish interest in the Indian industrial sector. The introduction of tied energy assistance and soft credit lines for industrial development was significant for this development.

The Indian government representatives were not in favor of substituting import support for project based assistance. However, they understood, or had to accept, that the cooperation program must be more in line with Swedish development objectives and eventually compromised on both the poverty focus and tying to energy. While new sector engagements were to be "concentrated" to only a few subprojects (social forestry to three states, health to three subprograms, energy to small-scale power stations, etc.) the discord between the strategy of concentration and the policy of introducing more project assistance was never commented upon in Government documents.

Conclusions

Concentration as such has not been a major objective of the Swedish assistance program for India. The planning has been directed to expansion into new areas with the aim of contributing to poverty alleviation. As noted in a recent study²², the wish in the late 1970s to find large investment programs which would

²² G. Edgren: Indo-Swedish Development Cooperation. Objectives, Issues and Achievements. Mimeograph 1995.

directly benefit the poor proved to be too optimistic. The multibi health projects in malaria, tuberculosis and leprosy were comprehensive and well targeted but in most other areas, education, water, etc. a focused poverty profile made it necessary to move into several small projects. The need for a poverty profile for Indo-Swedish cooperation undermined the administrative demands for a comprehensive program.

The Indo-Swedish cooperation was initially managed through a small representation in New Delhi. When the demand for project assistance grew, efforts were made to find low-cost methods for monitoring the new projects. One solution was multibi (health assistance through WHO, water through UNICEF, etc.), another was long-term contracts with consultants (applied to social forestry projects). The energy cooperation provided opportunities to involve Swedish companies for project supervision and implementation. A sort of sector concentration was achieved at low cost. A more effective strategy might have been to build more on Indian local resources both for project planning and for supervision²³. Direct cooperation between Swedish and Indian institutions has been, and is still, an area which could be developed more.

A particular aspect of the Indo-Swedish program is the concentration to a few states or geographical areas. The introduction of social forestry projects closely tied to the State governments in Tamil Nadu, Orissa and Bihar, encouraged a concentration to these states and to Rajasthan. The reasons were mainly administrative and the wish to develop good knowledge about the states and good working relations with the local administration. No evaluation of this particular aspect of concentration has been made. As proposed in the above mentioned study it would be worthwhile to review the selection of Indian concentration states from the point of view of some specific criteria related to either the policy environment or the chances of replicability, or both.

4. NICARAGUA

Basic Data			
General		Swedish cooperation	
Population:	4.0 million	Cooperation started:	1979/80
GNP/capita:	400 USD	Total disbursements:	3.2 billion SEK
ODA/capita:	166 USD	- main sector	multisector
		- share of total	40 %

Background

The Swedish cooperation with Nicaragua was motivated by the Sandinista revolution, which put an end to the dictatorial political regime of Somoza in July 1979. Humanitarian assistance of SEK 2.5 million had been provided the year before to cater for the socially deprived in Nicaragua and for refugees staying in neighboring countries "as a consequence of the events in Nicaragua". The following year, after the new government had seized power, SEK 30 million was allocated from the emergency budget, to be used mainly to finance imports for reconstruction purposes. The Government further remarked that "cooperation in other forms" was expected, especially with Swedfund, IMPOD and SAREC. A special

²³ A recent "Review of SIDA's Aid Management Effectiveness in India" (Draft July 1995) argues for a greater involvement of DCO personnel in "a managerial role" and complains that there is no institutional memory because DCO personnel transfers every 3-4 years. This would hardly be cost-effective for Sida in India considering an alternative with greater reliance on local Indian participation and increased institutional cooperation.

contribution was granted to an NGO affiliated to the Swedish labor movement, AIC (now known as the Olof Palme International Center). The following year the Government stated that it would “not exclude that the cooperation after the present phase of reconstruction and consolidation will be transformed to other forms of cooperation”.

This statement was not repeated in subsequent years. Instead, the 1982/83 Budget Bill declared that “the cooperation with Nicaragua (and Zimbabwe) should be planned according to the same long term principles that otherwise apply to program countries”. When the reconstruction work was concluded, the regular cooperation became oriented to productive sectors, notably mining and forestry, and, to a lesser extent, to energy and public administration (system for tax collection).

During the Sandinista period, the socio-economic and political environment never became conducive to development. Not only did the external sector suffer from a US trade embargo on Nicaraguan exports, and the financial sector from a US veto on multilateral lending, but during the second half of the period most development activities were hampered by the civil war between the government and the *contras*. The election of a new government in 1990 has stabilized the political situation, although most of the economic problems remain to be settled.

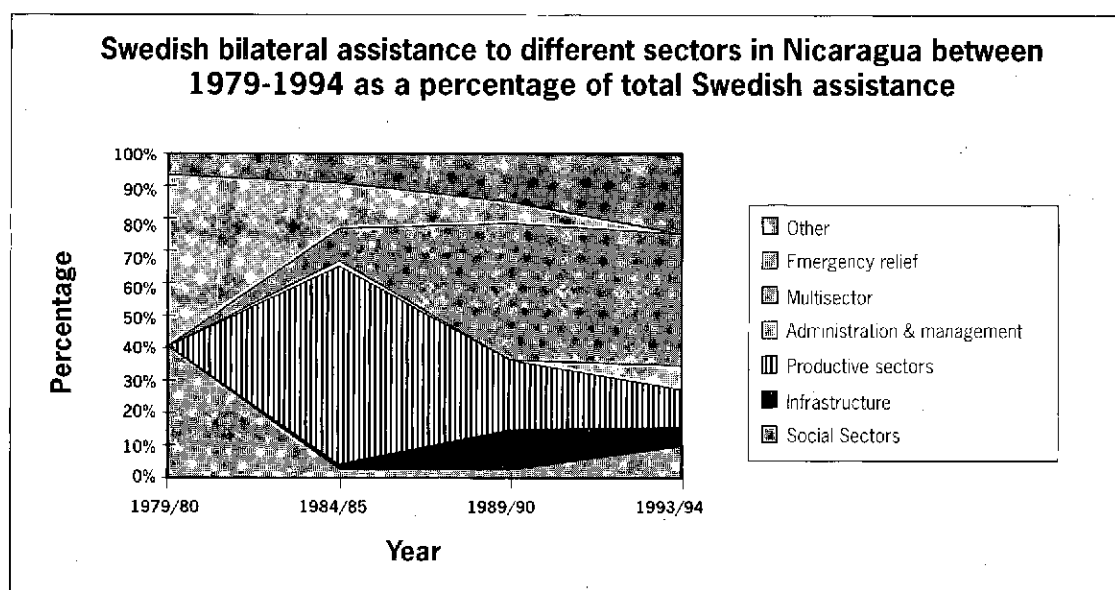
The policy

During the first half of the 1980s, the cooperation was regarded by the Government and SIDA to be of a different kind than that to other partners. Swedish institutions and companies were invited to direct collaboration, financed by SIDA, with Nicaraguan counterparts. Initially the Swedish institutions acted as advisers to facilitate implementation of the support to the productive sectors, and there were expectations that this form of assistance should be the start-up of commercial cooperation, particularly in mining and forestry. The Swedish government declared in 1985 that the cooperation was “directed at economic growth and national independence through the mining and forest industries”.

The very same year import support was introduced to meet civil needs arising from the military aggression. The bulk of the import support was used for importing inputs to the agriculture cooperative movement, which later became a sector program, and to the industry sector. As a consequence of the continued armed aggression and the economic deterioration, the share of the import support was increased to correspond to more than half of the country program. During the late 1980s new projects were introduced in culture and media. SAREC's cooperation had grown into a substantial research program of more than SEK 10 million per year, partly related to the concentration sectors (geology, energy and medicine).

The democratic election in 1990 led to a significant change of the Swedish development cooperation policy for Nicaragua. The earlier dominating support to mining was canceled, as the state mining company was privatized. SwedeCorp financed a consultancy to facilitate that process. The support to forestry was gradually transformed from logging and planting to strategic planning and, ultimately, to focus on environmental aspects. In 1992 the Government declared that the cooperation with Nicaragua should follow two main lines of orientation: “to consolidate democracy and the process of reconciliation and to support the economic reform programs”. The latter orientation would imply that the balance of payments support would reach “a high level, but would gradually be reduced to benefit the energy sector”.

SwedeCorp has been encouraged to initiate cooperation with Nicaragua. The macroeconomic situation has, however, not facilitated commercial projects. Nicaragua is one of SAREC's major partners.

The reality

The table underlines the drastic changes in the cooperation program with Nicaragua, especially the complete turnaround of the support from production and income generating projects to fundamental institutional issues related to the general social and economic framework for development. The deteriorating conditions for development following the armed aggression and the US embargo have been mentioned as the main reason for this change. But also internal factors, such as a weak economic policy and, as regards the cooperation, lack of clear objectives and short sightedness²⁴, contributed to a refocusing of the program.

Conclusions

The Swedish cooperation with Nicaragua has almost entirely been dictated by the events at macro level in Nicaragua. The first year's optimism of emerging commercial cooperation, based on mutual interests, was washed away by the grim unfolding of events, and probably, a certain over-appreciation of the planning and management capacity of Nicaraguan institutions. As an example, the tax project was poorly adapted to the existing computer capacity, both as regarded hardware and software.

The shift in the macro-economic paradigm between the Sandinista government and the Chamorro government, installed in 1991, had strong repercussions on the agenda for cooperation. A consequence of the change is that the portfolio has been more diversified (see the statistical abstract).

The cooperation with Nicaragua shows that long term sector concentration is a rather useless tool for ensuring efficient and effective cooperation when the general conditions for development are changing rapidly.

²⁴ See for instance Evaluation of the Swedish Support to the Forestry Sector 1982 - 92, February 1993.

5. TUNISIA

Basic Data			
General		Swedish cooperation	
Population:	8.4 million	Cooperation started:	1963
GNP/capita:	1.500 USD	Total disbursements:	SIDA 450 SEK million
ODA/capita:	48 USD	- main sector:	telecommunications
		- share of total:	

Background

Several factors, the most important probably being close contacts between the ruling political parties in Sweden and Tunisia, made Tunisia an early partner of Swedish development cooperation. The first agreement was concluded in 1963. Tunisia was also one of the first countries to be excluded from the group of program countries. The last country program between the two governments expired in December 1981. The cooperation has continued since but in other forms, notably concessionary credits, technical assistance and industrial cooperation. On the Swedish side, BITS and Swedfund/IMPOD/ SwedeCorp, have been involved in this cooperation.

The policy

In the first phase of the cooperation, Sweden was actively encouraged by the Tunisian government to concentrate its support to the Cap Bon peninsula, and in particular to the fishing village of Kelibia and its surroundings. Sweden agreed in 1963 to support the construction of fishing port facilities, a vocational training institute for fishermen and a mother and child health care center.

Towards the end of the decade, when the program country approach was initiated, there was considerable hesitation on the Swedish side as to whether Tunisia should enjoy the status of a program country. Two arguments were raised: Firstly, that the Tunisian economy had reached a level where its GDP/capita had surpassed the World Bank criteria for developing countries. The second argument was the dismissal, and later imprisonment, of the Tunisian minister of planning, who had been instrumental in the development of the cooperation. The government decided, however, to include Tunisia in the program country category, partly with the ambition to help Tunisia to achieve a definite economic "take-off"²⁵.

Before the program country period started, the cooperation had spread into new forms and areas. A growing part of the assistance had been implemented through trust fund arrangements with UN agencies, e.g. development of olive cultivation with FAO, secondary schools with UNESCO, export promotion with ITC. Furthermore, long term credit had been supplied to the national institution for industrial development (SNI).

In the 1972 Budget Bill the Government emphasized the role of employment generation, in view of the high unemployment figures (15%). This led to a large labor market study, for which ILO was contracted.

During the 1970s the diversification continued: agricultural credit, afforestation, irrigation, agricultural extension, stock breeding, technical high schools, teacher training, rural water supply, housing construction, urban water supply, sewage treatment and rural electrification. These projects and programs

²⁵ Based on "Sweden - Tunisia. Experiences from 20 years of development cooperation". B. Wallberg, SIDA 1982.

were generally well executed by the Tunisian authorities. Towards the mid 1970s, SIDA proposed that "broader cooperation" should be discussed with Tunisia. The Government confirmed in 1975 that assistance from SIDA "was expected to be phased out around 1980".

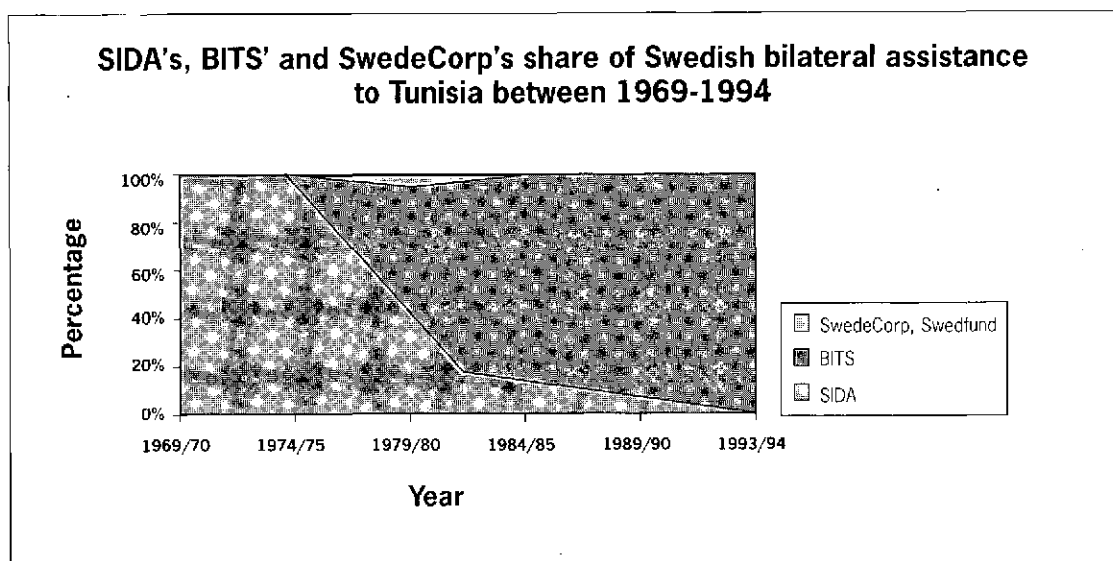
The broader cooperation took off in 1977 in the form of technical assistance from BITS. A large part of that cooperation was a continuation of SIDA's support to sewage treatment, which, with a stronger emphasis on the environmental aspects, has become one of the largest sectors of support from BITS. SIDA also supported training in telecommunications in the early 1970s, which contributed to the Swedish telecommunications company Ericsson's business in Tunisia. Telecommunications have later become the largest sector, mainly through five concessionary credits for installation of AXE exchange equipment and, to a lesser extent, technical assistance. An active involvement by Swedish companies has been a necessary condition for cooperation in both these sectors. BITS has had an explicit policy of not concentrating the support to pre-selected sectors, but to supporting projects where there was mutual interest. Concessionary lines of credits were opened for small scale industry cooperation and environment. Institutional cooperation was supported in physical planning and housing, and in the archeological excavations at Carthage.

Swedfund and IMPOD were also encouraged to initiate cooperation with Tunisia in the late 1970s. Although being well prepared, the joint venture companies in which Swedfund became a shareholder, faced growing difficulties. A reason that has been mentioned is the differences in the Swedish and Tunisian business cultures. SwedeCorp has maintained the trade promotional activities initiated by IMPOD.

The reality

From the table in appendix 2, one can see that Tunisia's position as a recipient country not has weakened since the broader cooperation was initiated (which Tunisia feared). During the peak years of SIDA's assistance, Tunisia received (in current prices) SEK 40 million. During the first years of the 1990s the value of the grant element of credits plus other grants reached over SEK 90 million per annum.

With the introduction of the broader cooperation, particularly the concessional credits to telecoms and water treatment, the concentration has increased; the three largest sectors now take more than 90% of the funds. Since the table does not include all years, the big share of concessionary credits going to telecommunication is partly concealed.



The table below shows the transitional period – how BITS gradually replaced SIDA as the main donor agency in the cooperation with Tunisia. The presence of SwedcCorp Swedfund/IMPOD peaked around 1980.

Conclusions

The cooperation with Tunisia has never been related to any explicit objectives or motives, except during the transition period to ‘broader’ cooperation, which was motivated by the growth of the Tunisia economy. Implicitly, it is obvious that the driving force in the Swedish-Tunisian cooperation shifted early from an ideologically hinged concern for rural and regional development to a strengthening of the general conditions for growth in all sectors and with active involvement of Swedish institutions and companies.

The project portfolio expanded rapidly during the 1970s due to good Tunisian capacity for planning and management of projects and programs. The fact that the portfolio has been reduced since 1981 is not a reflection of a decrease in that capacity. Instead, it is the shift to a more supply driven form of cooperation, which requires that Swedish companies and institutions have suitable capacity and a willingness to cooperate, that explains the change. It is interesting to note that the policy of letting “market forces” determine the cooperation has led to an increased sector concentration of the Swedish support.

6. ZIMBABWE

Basic Data			
General		Swedish cooperation	
Population:	10.6 million	Cooperation started:	1980
GNP/capita:	670 USD	Total disbursements:	3.2 billion SEK
OD/capita:	69 USD	– main sector	education
		– share of total	22%

Background

The cooperation between the governments of Sweden and Zimbabwe started in 1980, the year of Zimbabwe’s full independence from the United Kingdom. It was preceded by humanitarian support to the two main liberation movements – ZANU and ZAPU. The government had indicated support to an independent Rhodesia in several of the Bills in the late 1970s. The country was a rather odd partner compared to the other major recipient countries. It had a positive balance of payments, high GDP per capita and an industrial sector that contributed a third of the GDP. On the other hand, the bulk of the productive resources were in the hands of the white minority. This circumstance formed the foundation for the Swedish support, in addition to the immediate needs to cater for the refugees returning from neighboring countries.

The policy

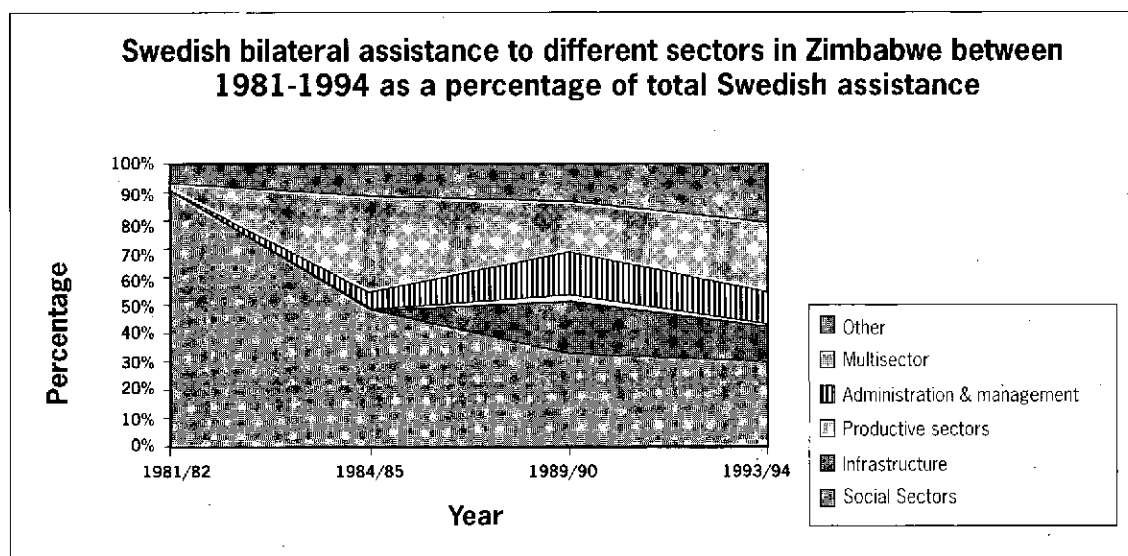
The first Budget Bill referring to Zimbabwe (1980/81) declared that Sweden now started cooperation based on a “country program ... for long term development, concentrated to rural development”. The need for reconstruction of the rural social infrastructure and to rehabilitate refugees became the first priority in the cooperation.

The fact that the country already had a relatively strong private industrial sector made the Government add that it “cannot be excluded that the Swedish support proposed now can be transformed after a few years into other forms of cooperation”. The Swedish Government obviously anticipated cooperation on less concessionary terms. A part of the first year’s allocation was accordingly reserved for a personnel and consultancy fund whereby Zimbabwe would be able to use Swedish technical assistance for investment studies and other expert advice. For the same reason, a portion of the import support was tied to procurement in Sweden. The other aid agencies were also encouraged to initiate cooperation with Zimbabwe, and all agencies were active there by 1983.

The following years the Government declared that the cooperation should be concentrated to just a few sectors: rural reconstruction and development (health and education), the personnel and consultancy fund and import support. The rural orientation was motivated with reference to the goal of “social and economic equity” whereas the other support was related to “economic and political independence”, aiming in particular to reducing Zimbabwe’s economic and commercial dependence on South Africa.

The message was reconfirmed until 1991, when the Government in the Budget Bill that year rather surprisingly declared that “the striving towards democracy has been central in the composition of the country program”. This shift in emphasis was probably more related to the change of government in Sweden than based on an evaluation of the effectiveness of Swedish support, although the deteriorating human rights situation in Zimbabwe had been watched since the mid 1980s. The new policy was further confirmed in 1994 when it was declared that the “process towards democracy, particularly the development of good governance, and the growing respect for human rights should be supported, as well as the economic reforms aiming at a liberalization of markets and the establishment of a competitive business sector”. In view of the needs to develop the Southern African regional infrastructure, the Bill also concluded that infrastructure projects would become increasingly important.

The reality



The increasing diversification is demonstrated by the time series over the share of total assistance going to the three concentration sectors. That the rate fell from the first year’s 95% should not be a surprise, but that it has continued to fall over the years to less than 50% is more remarkable and seems to be in contradiction with the concentration policy. Half of the assistance to Zimbabwe in 1993/94 was channeled

to activities other than rural health and education (“equity”) and multisector (“independence”). The change in policy was reflected in a SIDA review on concentration in 1986, when no less than five sectors were declared to be “concentration” sectors: education, health, import support, public administration and transport.

As regards the number of projects supported, there is a clear increase both within the sectors and in the category “other sectors”. Although the other agencies have been active in Zimbabwe for more than ten years, SIDA has still dominated the resource flow with its share remaining at over 90 % of total disbursements (except for the years when concessionary credits have been granted). Technical assistance through BITS was introduced in 1990.

Conclusions

Instead of being phased out early as a program country, Zimbabwe became – for various reasons – an attractive recipient country. The transition of the public administration sector required gap-filling, and the personnel and consultancy fund became a useful tool in recruiting Swedish staff to a number of management positions. The need to staff the public sector with persons more in tune with the government’s intentions and the striving towards decentralization of the public sector opened the door to a sector program for public administration from 1985. This program soon spread into a great number of projects. The consultancy fund spilled over to projects in the transport sector and by 1986 an agreement on support to the transport sector was signed.

The cooperation between Zimbabwe and BITS, Swedfund/SwedeCorp and SAREC respectively has undergone a similar trend, and Zimbabwe has become an important partner of all agencies. Swedfund organized industrial delegations to Zimbabwe at an early stage to encourage commercial cooperation, and also posted a representative in Harare. Despite these measures Swedfund/SwedeCorp’s experience of the cooperation with Zimbabwe is mixed. BITS and Swedfund have joined forces in a couple of projects, but otherwise there is little evidence of more concerted efforts. SAREC has also had a regional research coordinator posted in Harare.

In fact, Zimbabwe is one of the recipient countries where all agencies have been active. A recent case study showed that the coordination between the agencies could have been better, especially after the introduction of technical assistance through BITS.²⁶

²⁶ Styrnings- och samarbetsformer i biståndet, SOU 1993:1, bilaga 4 “Biståndssamarbete med Zimbabwe” K. Forss.

APPENDIX 2: STATISTICAL ABSTRACTS

China		Thousands SEK at current prices			
SIDA, BITS, SwedeCorp, UD, Swedfund, Impod, Sarec					
	Years				
	1969/70	1974/75	1979/80	1984/85	1989/90
Sectors					
Social Sectors			1394	1840	2936
Education			1394	670	498
Health				1117	1319
Water and sanitation				53	1119
Population					
Other social infrastructure & services					
Infrastructure				3086	14810
Transport				1054	6597
Communications					2231
Energy				2032	5982
Productive sectors				7519	4657
Agriculture, forest & fishery				3533	2130
Industry, mining & construction				3986	2327
Trade & tourism					200
Administration & management			97	11530	4494
Financial administration					
Central and regional banks					
Central administration			97	593	1042
Local administration					
Support to private sector				10937	3452
Multisector					
Import support, tied					
Import support, untied					
Other multisector					
Debt Relief					
Emergency relief					
Natural disasters					
Refugees, war & conflicts					
Other emergency relief					
Total			1491	23975	26897
Food			4400		
Emergency					
NGOs					1800
Democracy					
Regional Prog					
Environment					700
Other (Special programme)					500
C1, C3, G1					
Humanitarian aid					
TOTAL			5891	23975	29897
Total SIDA			4400	0	3000
UD					
BITS			1491	13038	22357
SAREC					888
SwedeCorp					
Others					
Swedfund				10937	3452
Impod					200
Debt relief					
TOTAL			5891	23975	29897
	1969/70	1974/75	1979/80	1984/85	1989/90
Swedish bilateral assistance going to the largest sector			4400	10937	6597
Swedish bilateral assistance to the remaining sectors			1491	13038	23300
Total Swedish bilateral assistance			5891	23975	29897
	1969/70	1974/75	1979/80	1984/85	1989/90
Swedish bilateral assistance going to the three largest sectors			5891	18456	16031
Swedish bilateral assistance to the remaining sectors			0	5519	13866
Total Swedish bilateral assistance			5891	23975	29897

Guinea-Bissau		Thousands SEK at current prices			
SIDA, BITS, SwedeCorp, UD, Swedfund, Impod, Sarec					
	Years				
Sectors	1969/70	1974/75	1979/80	1984/85	1989/90
Social Sectors			5 570	3 802	13 142
Education			4 210	1 622	9 606
Health			1 360	2 180	3 453
Water and sanitation					83
Population					
Other social infrastructure & services					
Infrastructure		2 000	17 455	9 164	7 33
Transport					
Communications			4 768	7 853	733
Energy			12 687	1 311	
Productive sectors			11 681	4 955	40 685
Agriculture, forest & fishery			3 569	23 535	29 283
Industry, mining & construction			8 112	2 601	11 402
Trade & tourism					
Administration & management					5 019
Financial administration					
Central and regional banks					
Central administration					5 019
Local administration					
Support to private sector					
Multisector		14 000	15 987	7 624	8 762
Import support, tied			3 645	53	
Import support, untied			8 531	6 776	5 424
Other multisector			3 811	795	3 338
Debt Relief					21 100
Emergency relief					
Natural disasters					
Refugees, war & conflicts					
Other emergency relief					
TOTAL		16 000	50 693	70 140	89 441
Food				919	3 000
Emergency				2 300	
NGOs			326	499	6 300
Democracy					
Regional Prog					
Environment					
Other (Special programme)				400	2 900
C1, C3, G1					
Humanitarian aid					
TOTAL		16 000	51 019	74 258	101 641
Total SIDA		16 000	50 902	74 258	79 358
UD					83
BITS					1 100
SAREC			117		
SwedeCorp					
Others					
Swedfund					
Impod					
Debt relief					21 100
TOTAL		16 000	51 019	74 258	101 641
	1969/70	1974/75	1979/80	1984/85	1989/90
Swedish bilateral assistance going to the largest sector	14 000	12 687	26 015	29 283	
Swedish bilateral assistance to the remaining sectors	2 000	3 832	4 824	7 235	
Total Swedish bilateral assistance	16 000	16 519	30 839	36 518	
	1969/70	1974/75	1979/80	1984/85	1989/90
Swedish bilateral assistance going to the three largest sectors	16 000	29 330	57 403	61 785	
Swedish bilateral assistance to the remaining sectors	0	2 189	16 855	39 856	
Total Swedish bilateral assistance	16 000	31 519	74 258	101 641	

India					
SIDA, BITS, SwedeCorp, UD, Swedfund, Impod, Sarec					
Thousands SEK at current prices					
	Years				
Sectors	1969/70	1974/75	1979/80	1984/85	1989/90
Social Sectors	10000	39600	45432	99105	161747
Education		1600	4762	38716	1526
Health		20800	8981	11276	102114
Water and sanitation			31689	49113	58107
Population	10000	16400			
Other social infrastructure & services		800			
Infrastructure				99830	1019160
Transport					311
Communications					119
Energy				99830	1018730
Productive sectors	8600	2400	21484	44436	154859
Agriculture, forest & fishery	8600	900	11149	43462	146884
Industry, mining & construction				750	2414
Trade & tourism		1500	10335	224	5561
Administration & management				2691	182
Financial administration					
Central and regional banks					
Central administration				304	182
Local administration					
Support to private sector				2387	
Multisector	19400	215500	205283	159321	7492
Import support, tied		71000	100000	125241	1492
Import support, untied	19400	125000	105000	33750	
Other multisector		19500	283	330	6000
Debt Relief					
Emergency relief					
Natural disasters					
Refugees, war & conflicts					
Other emergency relief					
TOTAL	38000	257500	272199	405383	1343440
Food					
Emergency	100	46400	1000	1480	500
NGOs			6332	21243	38800
Democracy					
Regional Prog					
Environment					3000
Other (Special programme)				1516	1000
C1, C3, G1					
Humanitarian aid					
TOTAL	38100	303900	279531	429622	1386740
Total SIDA	38100	303900	278321	323537	829317
UD					
BITS				100974	552623
SAREC			1210	2500	4400
SwedeCorp					
Others					
Swedfund				2387	
Impod				224	400
Debt relief					
TOTAL	38100	303900	279531	429622	1386740
	1969/70	1974/75	1979/80	1984/85	1989/90
Swedish bilateral assistance going to the largest sector	19400	125000	105000	125241	1018730
Swedish bilateral assistance to the remaining sectors	18700	178900	174531	304381	368010
Total Swedish bilateral assistance	38100	303900	279531	429622	1386740
	1969/70	1974/75	1979/80	1984/85	1989/90
Swedish bilateral assistance going to the three largest sectors	38000	242400	236689	274184	1267728
Swedish bilateral assistance to the remaining sectors	100	61500	42842	155438	119012
Total Swedish bilateral assistance	38100	303900	279531	429622	1386740

Nicaragua		Thousands SEK at current prices			
SIDA, BITS, SwedeCorp, UD, Swedfund, Impod, Sarec					
	Years				
Sectors	1969/70	1974/75	1979/80	1984/85	1989/90
Social Sectors			25000	2460	8945
Education			3000		658
Health			22000	1960	3021
Water and sanitation					
Population					
Other social infrastructure & services				500	5266
Infrastructure				2856	52971
Transport					
Communications					
Energy				2856	52971
Productive sectors				78476	88094
Agriculture, forest & fishery				28915	45369
Industry, mining & construction				49370	42725
Trade & tourism				191	
Administration & management				2637	
Financial administration				2637	
Central and regional banks					
Central administration					
Local administration					
Support to private sector					
Multisector				12928	111448
Import support, tied					15088
Import support, untied					89013
Other multisector				12928	7347
Debt Relief					65000
Emergency relief					
Natural disasters					
Refugees, war & conflicts					
Other emergency relief					
TOTAL			25000	99357	326458
Food					4300
Emergency			33344	18046	25000
NGOs			4147	11027	34700
Democracy					
Regional Prog					100
Environment					4300
Other (Special programme)				784	6300
C1, C3, G1					
Humanitarian aid					13400
TOTAL			62491	129214	414558
Total SIDA			62491	123799	339418
UD					
BITS				98	281
SAREC				5300	9859
SwedeCorp					
Others					
Swedfund					
Impod				17	
Debt relief					65000
TOTAL			62491	129214	414558
	1969/70	1974/75	1979/80	1984/85	1989/90
Swedish bilateral assistance going to the largest sector			33344	49370	89013
Swedish bilateral assistance to the remaining sectors			29147	79844	325545
Total Swedish bilateral assistance			62491	129214	414558
	1969/70	1974/75	1979/80	1984/85	1989/90
Swedish bilateral assistance going to the three largest sectors			59491	96331	206984
Swedish bilateral assistance to the remaining sectors			3000	32883	207574
Total Swedish bilateral assistance			62491	129214	414558

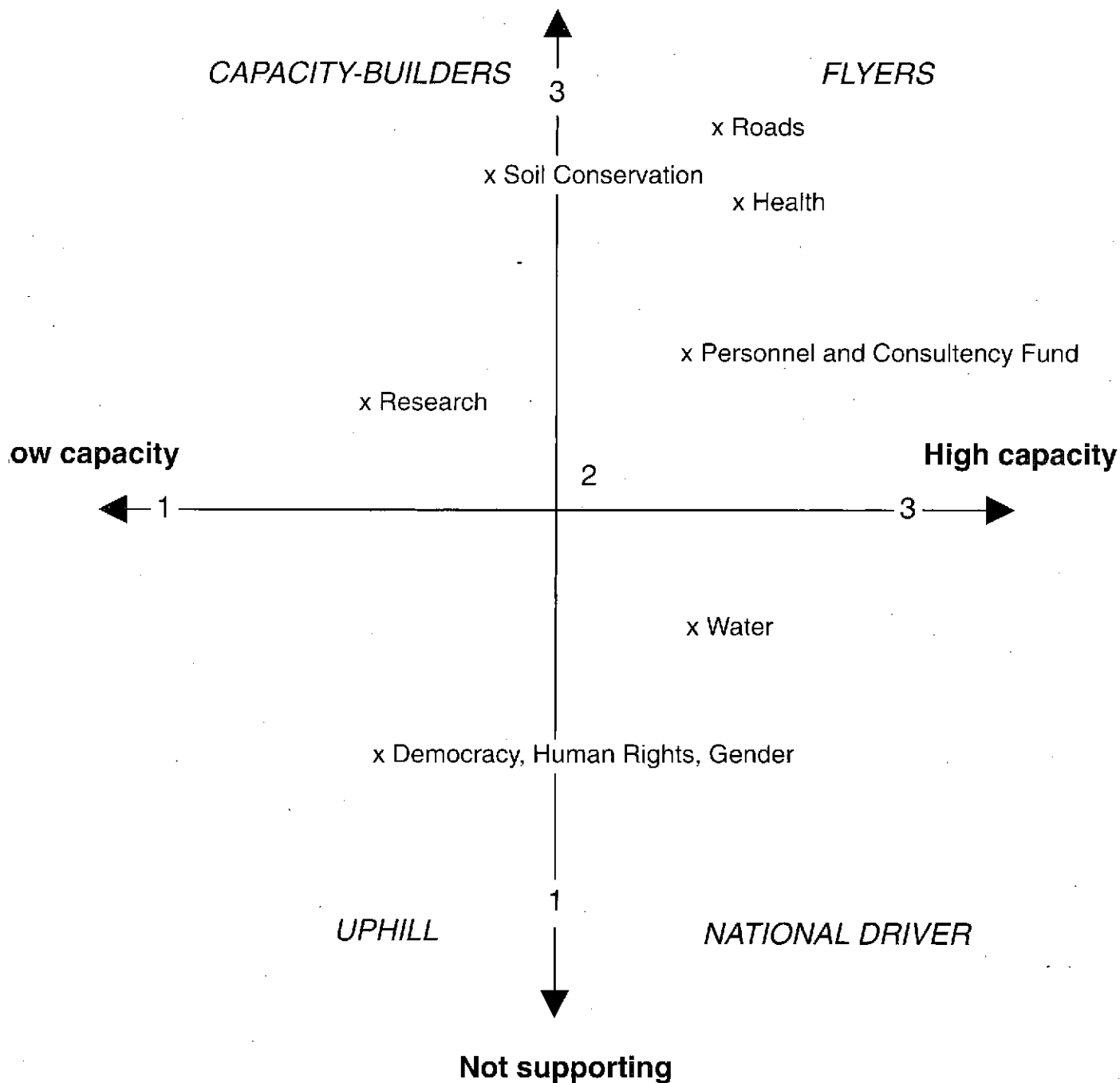
Tunisia		Thousands SEK at current prices				
SIDA, BITS, SwedeCorp, UD, Swedfund, Impod, Sarec						
		Years				
Sectors	1969/70	1974/75	1979/80	1984/85	1989/90	
Social Sectors	8500	23800	23262	1993	1923	
Education	6000	6200	8155			
Health		400				
Water and sanitation		17200	8587	1993	1923	
Population	2500					
Other social infrastructure & services			6520			
Infrastructure			225	829	79821	
Transport			225	125	151	
Communications				704	79618	
Energy					52	
Productive sectors	1500	23000	1630	906	547	
Agriculture, forest & fishery	1500	10500	984	906	20	
Industry, mining & construction		11000	40		327	
Trade & tourism		1500	606		200	
Administration & management	900		2179		100	
Financial administration						
Central and regional banks						
Central administration					100	
Local administration	900		380			
Support to private sector			1799			
Multisector	12100		154	99		
Import support, tied						
Import support, untied						
Other multisector			154	99		
Debt Relief						
Emergency relief						
Natural disasters						
Refugees, war & conflicts						
Other emergency relief						
Total	23000	46800	27450	3827	82391	
Food				3321	5500	
Emergency	400		90			
NGOs			903	2233	1600	
Democracy						
Regional Prog						
Environment					5300	
Other (Special programme)				1924		
C1, C3, G1						
Humanitarian aid						
TOTAL	23400	46800	28443	11305	94791	
Total SIDA	23400	46800	24228	8346	12400	
UD						
BITS			2416	2959	82191	
SAREC						
SwedeCorp						
Others						
Swedfund			1799			
Impod					200	
Debt relief						
TOTAL	23400	46800	28443	11305	94791	
	1969/70	1974/75	1979/80	1984/85	1989/90	
Swedish bilateral assistance going to the largest sector	12100	17200	8587	3321	79618	
Swedish bilateral assistance to the remaining sectors	11300	29600	19856	7984	15173	
Total Swedish bilateral assistance	23400	46800	28443	11305	94791	
	1969/70	1974/75	1979/80	1984/85	1989/90	
Swedish bilateral assistance going to the three largest sectors	20600	38700	23262	7547	90418	
Swedish bilateral assistance to the remaining sectors	2800	8100	5181	3758	4373	
Total Swedish bilateral assistance	23400	46800	28443	11305	94791	

Zimbabwe		Thousands SEK at current prices			
SIDA, BITS, SwedeCorp, UD, Swedfund, Impod, Sarec					
	Years				
	1969/70	1974/75	1981/82	1984/85	1989/90
Social Sectors			54371	88442	71728
Education			48207	60934	41584
Health			6164	22853	30144
Water and sanitation-					
Population					
Other social infrastructure & services				4655	
Infrastructure				120	43105
Transport					42556
Communications					300
Energy				120	249
Productive sectors				348	3001
Agriculture, forest & fishery					1186
Industry, mining & construction				348	1815
Trade & tourism					
Administration & management				8689	33368
Financial administration					
Central and regional banks					
Central administration				8513	30554
Local administration				52	
Support to private sector				124	2814
Multisector			1276	62379	40329
Import support, tied			227	35748	35209
Import support, untied			1049		3181
Other multisector				26631	1939
Debt Relief					
Emergency relief					
Natural disasters					
Refugees, war & conflicts					
Other emergency relief					
Total			55647	159978	191531
Food				3884	
Emergency			1000	800	4600
NGOs			2889	7900	18300
Democracy					
Regional Prog					2600
Environment					100
Other (Special programme)				6700	2800
C1, C3, G1					
Humanitarian aid					
TOTAL			59536	179262	219931
Total SIDA			59436	175172	201465
UD					
BITS				411	4952
SAREC				3446	10700
SwedeCorp					
Others					
Swedfund				124	2814
Impod				109	
Debt relief					
TOTAL			59436	179262	219931
* avser enbart tom juli 1994					
	1969/70	1974/75	1981/82	1984/85	1989/90
Swedish bilateral assistance going to the largest sector			48207	60934	42556
Swedish bilateral assistance to the remaining sectors			11229	118328	177375
Total Swedish bilateral assistance			59436	179262	219931
	1969/70	1974/75	1981/82	1984/85	1989/90
Swedish bilateral assistance going to the three largest sectors			57260	123313	119349
Swedish bilateral assistance to the remaining sectors			2176	55949	100582
Total Swedish bilateral assistance			59436	179262	219931

**APPENDIX 3:
COUNTRY PORTFOLIOS FOR KENYA AND NICARAGUA**

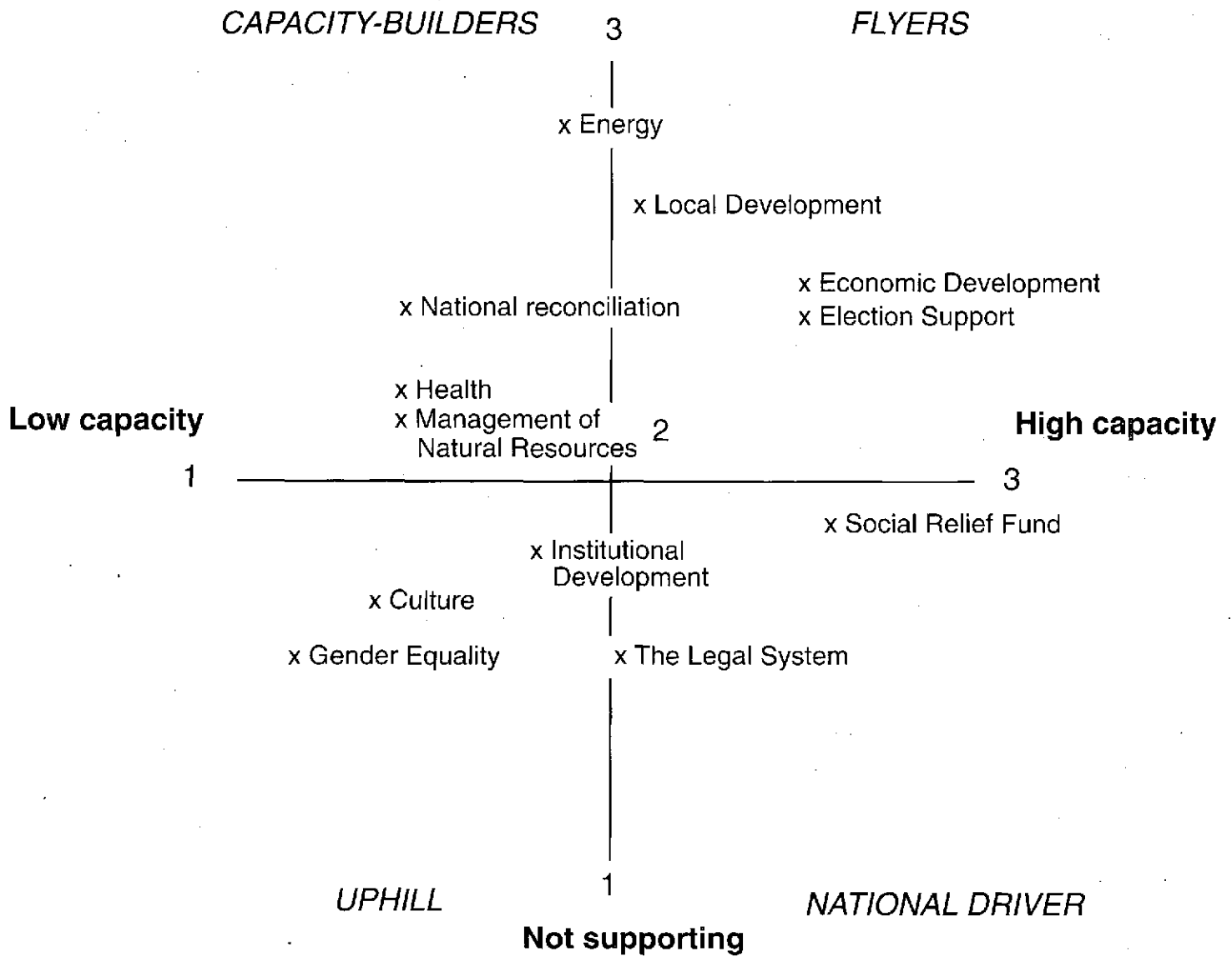
KENYA

Supporting environment



NICARAGUA

Supporting environment



COUNTERING THE CONVEYOR BELT

On Time Limits and Graduation

by

Jan Valdelin and Göran Schill

Interconsult Sweden (ICS)

April 1996

0. EXECUTIVE SUMMARY

This paper reports on one of several studies within Sida's *Project 2015*. It concerns the time factor in project and programme management as well as eligibility and graduation from Swedish international development co-operation. The authors strongly argue that the objective of the study – *to arrive at policy and implementation guidelines* – is a very timely exercise as the collective of stakeholders is currently under strong outside pressure to reform. The current cuts in Swedish aid budgets are regarded as *an opportunity to seize for improved implementation of policies for project cycle management and for the introduction of a Swedish graduation policy*. Past experience and current needs to adapt to budget constraints jointly point at the urgency of excluding projects, programmes and countries from Swedish co-operation: the policy proposals of this paper provide ways and means for such action.

The analysis of stakeholders points at the existence of a national and international aid establishment, with a joint interest of keeping aid at high levels, as the strongest single engine of the ever-moving conveyor belt for new projects. Alliances of stakeholders between countries and across the frontiers of roles make it very difficult to terminate projects and to graduate countries. As indicated above, a stakeholder crisis due to strong outside pressure may be seen as a beneficial event, making headway for reforms.

By reviewing the existing discourse and current practices of the international donor community we have arrived at the strict conclusions that graduation criteria should only apply to development levels (objectives in the LFA hierarchy), while time factors should only be applied to inputs, activities and outputs (again in the LFA sense). *Graduation is therefore relevant only for sectors and countries. Time factors are relevant only for projects and programmes* (others than sector programmes in the strict sense). Graduation and time factor management are two distinctly different matters.

In spite of many a good argument against a strict policy of time limits in project cycle management, the paper strongly holds that *the only manageable solution is a strictly disciplined application of time limits*.

combined with incentives to projects in order to achieve results on time. To do otherwise would be equal to abstaining from a policy.

We argue that Sweden should *urgently adopt a two-level graduation policy*: the lower level is a ceiling for grants only and the upper level is a ceiling for all development co-operation involving Swedish subsidies. Our proposed levels may of course be debated, but we propose, in line with other systems and past Swedish application of instruments, eligibility for grants below annual average GNP per capita of 800 USD and graduation at levels above 3000 USD per capita.

In the zone between the two ceilings, there is a need for a means for transition of the co-operation along with country development. Rather than the conventional means of degrees of concessionality of credits, or the traditional project level approach of cost-sharing, we propose the tool of *changes in the Swedish instrument mix*, closely in line with past practices in Swedish development co-operation.

1. INTRODUCTION

In 1995, the Swedish International Development Co-operation Agency (Sida) initiated a number of studies as part of Project 2015. This is the report on the study of *Time Limits and Graduation* (cf. **Annex 1**, Terms of Reference). The first draft of the report was completed in December 1995¹ and most of the text has remained in its original shape.

1.1 Report status

The present report is the revised Final Report on *Time Limits and Graduation*. It has benefited from discussions at two seminars arranged by Sida in December 1995 and February 1996. We would like to thank all those who made comments on earlier versions of the report and those who generously gave of their time to discuss with the authors and propose articles and other documents. (cf. Annex 2, Documents reviewed and Annex 3, People met).

1.2 Current trends in international development co-operation

Our study was carried out against a background of changing conditions for Swedish international development co-operation. Some of the historic milestones and current trends, as we perceive them, should be spelt out as part of the stage for future policy changes. The relevance of each of them may vary, but together they add up to a fluid situation of more uncertainty and higher risk levels for future projections than the levels of risk felt during the 1970s and the early 1980s.

- the end of the Cold War
- the international ideological current towards less state intervention and more reliance on markets
- the new budgeting principles of the Swedish government (performance based budgeting)
- the budgetary crisis of the Swedish government
- the floating of the Swedish currency
- the reduced support from public opinion in Sweden to international aid
- the increasing shares of aid going through non-governmental organisations (NGOs)

¹ Title: *From stakeholder power to mutual interests. On time limits and graduation.*

- the past reductions of Swedish aid and the probability of further reductions²
- the perceived increased risks of termination of finance to projects due to lack of funds
- the Swedish entry into the European Union (EU)
- the new Swedish aid policies already decided upon, including the new organisation (the planned reduction of the number of projects, the new sector support policies, etc.)
- the introduction of the Logical Framework Approach (LFA) as a planning tool in Sida
- the on-going policy studies on Swedish aid, such as Project 2015
- the emergence of the "Eastern" aid recipients after the disintegration of the Soviet Union
- the increased probabilities of further armed conflicts in Europe and its neighbouring regions
- the increasing importance of "common security" as an objective of international aid
- the continued deterioration of conditions for the majority of populations in many countries in Africa and Latin America
- the return of poverty alleviation as a major theme among influential donors
- the political uncertainties surrounding future US support to the World Bank and the UN system and its implications for other major donors³

The above trends and events are not further developed in the report. Sometimes they will constitute not only a part of the implicit background of our reasoning, but also an explicit assumption of argument for decisions on policy options. We argue, for example, that some of the above trends actually do support hypotheses about opportunities for a more important role for policy and guidelines (cf. section 1.4).⁴

1.3 The ideal case and the real cases

At some points in a policy study one necessarily has to revert to an analysis of theoretically assumed situations. The only way to isolate different arguments about reality may sometimes be to base the analysis on theoretical models or ideal cases. On the other hand, it is obvious that policy guidelines need to be based on consideration of real situations in order to be workable. The aim of this study is to arrive at proposals for workable policy guidelines on the use of the time factor and graduation in planning and monitoring of Swedish aid. The implicit overall objective is to contribute to more impact from each spent unit of money.

A well-known scientific paradigm may illustrate the point about ideal cases. The neo-classical model of economics is far from close to real situations in most economies in this world. Still, it is being used for a great number of practical applications and policy formulations, not least in the current international assistance paradigms such as enabling environment and structural adjustment⁵. The art of moving from the ideal case to application to real cases is tried by many a donor without really having the skills for it. Among the Swedish aid evaluation criteria we find cost-effectiveness. According to a study carried out by

² Since this was written, the Swedish government has proposed a cutback on international development co-operation for the 1997 budget, by more than ten per cent in nominal terms.

³ In Odén, 1995, it is stated: "Total aid flows to the South can be assumed to be significantly reduced during the period" (twenty years).

⁴ The proposed 1997 reduction of the Swedish aid budget will probably lead to a quicker test than we expected of this argument. For an interesting analysis of the ideological and political changes paving the way for "aid fatigue", cf. Utrikesdepartementet, PM 1996-03-12, Jens Odlander.

⁵ In spite of views like that of North: "Neo-classical theory is simply an inappropriate tool to analyse and prescribe policies that will induce development. It is concerned with the operation of markets not with how markets develop". (1993).

SIDA⁶, cost-effectiveness is a concept based on the neo-classical general equilibrium model, which in turn implies a number of assumptions that are seldom met in situations where the cost-effectiveness criterion must be applied in evaluations. In the real case, evaluators must try to find other approximate means to assess cost-effectiveness.

It would be too cumbersome to discuss, for example project cycle management, without assuming that projects are reasonably similar in important respects, such as that the planning process has involved at least minimum precautions in terms of the establishment of objectives, outputs, etc. according to some planning tool, for example LFA. The analysis is then based on some kind of 'ideal case', involving assumptions such as for example: that LFA standards have been followed, that individual officers tend to toe the line, that monitoring is carried out, etc. When it comes to policy guidelines one must move on to drop assumptions that are not met in actual Sida practices, for example, in order to make the guidelines workable in the real cases. Readers of this report must have to bear with this movement from the analysis of ideal cases to examples of real cases, and to keep this distinction in mind when assessing the relevance of analytical arguments and policy guidelines, respectively.

1.4 Policy in spite of realities

In the past, many a SIDA decision was made under heavy pressure from stakeholders of various camps: in real cases policies or guidelines may not be sufficiently specific to resist pressure from the particularities of each situation. In the final analysis, so the saying goes, politics is all that matters. So, why bother about policy and guidelines?

A major force behind past decisions has been alliances of stakeholders in a black and white world of Cold War and never ending allocations to international development co-operation (cf. section 4 below). During a long period of time after the 1968 parliamentary decision to fix Swedish aid budgets at one percent of GDP, annual increases were 25% or more.

We have identified a basic set of specific changes that, reinforced by the other trends mentioned above, may have a major impact on the past basic unity among influential people making Swedish aid practices. These are: the end of the Cold War, the new scarcity of funds since the beginning of the 1990s and the new budgeting principles of the Swedish government. Together, these changes make us believe that policy and guidelines, based on an increased sentiment of accountability in the new Sida, may get a lot more importance in the future than in the past.

Therefore, we propose policy and guidelines in the conviction that they will, in spite of the sometimes blurred perspectives of real cases, be useful for future decision making in Sida. Once the necessarily political decisions on objectives, country choices and overall allocations have been made, the practical application will be supportive of more effective use of aid money. Again, our discussion is governed by the purpose of more effective aid.

⁶ SIDA, i.e. the Swedish International Development Authority, was abolished on June 30, 1995 together with the Swedish Board for Investment and Technical Support (BITS), the Swedish International Enterprise Development Corporation (SwedeCorp), the Swedish Agency for Research Co-operation with Developing Countries (SAREC) and Sandö U-centrum (Styrelsen för u-landsutbildning). From July 1, 1995, these former agencies merged to become the Swedish International Development Co-operation Agency, i.e. Sida. In order to distinguish between these units, all the mentioned acronyms may need to be used in the present report, covering a long time span in its empirical parts. To uphold strictly this distinction, however, leads to absurd wording problems. This is why the reader is requested to interpret the acronyms in their proper context. Further, the remaining foundation not merged into Sida, i.e. Swedfund International AB (Swedfund), must of course also be included in a discussion of future instruments of co-operation.

2. GRADUATION – CONCEPT AND POLICY

Astonishingly little research has been carried out on graduation in a development co-operation context: the issue of when and how to end donor engagement is more or less a white spot in the current debate. A few attempts have been made, notably by the World Bank and the Development Assistance Committee (DAC), to elaborate policies on how to graduate countries from development assistance. However so far, next to nothing has come out in terms of operational criteria and detailed working guidelines.

Generally, graduation refers to the withdrawal of foreign assistance when it is no longer warranted. It implies that the main rationale of co-operation is to assist poor countries in reaching certain development objectives and that interventions should be terminated once these have been met.⁷ As such, graduation is, at least in theory, a more or less self-evident and non-controversial feature in international development co-operation.

However, a closer look at the subject reveals a number of uncertainties and, perhaps, problems. In four sections, this chapter examines graduation from a conceptual as well as a practical angle. *First, it makes a brief review of existing donor policy and guidelines. Second, it argues, partly based on conventional LFA-thinking, that Sida policies for graduation should be applied both to country and sector levels, but not to projects and programmes. Third and relatedly, it suggests that graduation and time factors are two different matters, and that they, for the sake of clarity, should remain separated also in Sida's policy discussion.*

Finally, the chapter observes that the achievement of certain development levels is not the only reason why assistance could be withdrawn. Country and sector support may have to be terminated because development is deemed impossible given for example lacking commitment and poor performance. Further, the success and failure of assistance are not the only criteria for a selection of co-operation activities, nor, probably, for final phase-out. It is no secret that donors' domestic and foreign policy interests always hover in the background of decisions to engage in or pull out of development co-operation. Prospects of mass migration from neighbouring regions and common security concerns are increasingly and overtly influencing such strategic choices. Commercial considerations are there, as are those of individual decision makers and stakeholders. Thus, a realistic policy discussion on graduation and related subjects cannot be held in isolation from issues which lie outside the strict confines of development in the recipient country.

2.1 Graduation and the international donor community

This section presents a summary of current policy discussion on graduation and development co-operation. It should be noted that the precise frontiers between official policy, confidential working guidelines, and mere discussion matters are not always distinguishable in the discourse reviewed. However, rather than to reveal what exactly has become donor policy, the idea is to present a range of recent ideas on graduation and their relation to current foreign aid practices.

The World Bank

During the early 1970s, the World Bank formulated a graduation policy based on per capita incomes. If a country reached a certain income level, it was assumed that it also had the capacity to substitute private borrowing for Bank loans. At present, countries with 1992 per capita incomes of over USD 4,715 are expected to begin the graduation process from the International Bank for Reconstruction and Development (IBRD). The IBRD and the government concerned come to an agreement on the modalities

⁷ This definition is generally uncontested.

of this process. The duration, scale and composition of the lending programme during the transition period will depend on specifics, including the country's past record of private borrowing. Since the IBRD made its first loan in 1947, 26 countries have been graduated (Barbados and South Korea being the most recent examples).⁸

The World Bank's soft loan arm, the International Development Association (IDA), was established in 1960 to fund investments in countries unable to fulfil IBRD lending terms. The formal eligibility threshold for IDA credits is updated annually and is currently limited to countries with 1992 per capita incomes below USD 1,305.⁹ Once a country's income exceeds the threshold and its creditworthiness improves, it is deemed no longer to be eligible for IDA credits. It then becomes eligible for the IBRD. Some borrowers are also subject to a combination of IDA credits and IBRD loans. There are at present seven such "blend" countries, including China and India. Since 1960 20 countries have graduated from IDA.

In the 1980s, the IBRD and IDA began treating the per capita income more as a point of departure for an analysis of possible graduation, rather than as a mechanical and once-and-for-all criterion. The graduation policy was therefore elaborated with parallel benchmarks related to a country's ability of embarking on long-term development programmes as well as to its overall economic situation. Although it is unclear what exactly became IBRD policy, particular emphasis was placed on two related factors influencing the pace of graduation from the Bank: a country's access to external capital markets and its progress in establishing key institutions for economic and social development.

The World Bank experience showed that when countries approach the IBRD GNP per capita trigger level, they are likely also to have gained *access to private capital markets* for medium and long-term borrowing. IBRD's position was that the critical factor is the access to adequate and steady in-flows of capital, although no formula generally applicable for measuring such access was identified. It was concluded that flexible approaches were required in determining the pace at which a country could move to complete reliance on non-concessionary finance. A careful and *country specific study* of these issues was therefore deemed necessary once a country reaches the income threshold level.

The IBRD also recognised that countries with similar levels of per capita incomes may display substantial differences in their progress towards developing *key institutions* for economic and social development. Obviously, countries which have recently experienced a rapid increase in income because of for example improved terms of trade or new mineral discoveries, tend to display much lower scores on social indicators than other countries at the same income level. While refraining from formulating a general policy approach to such deviations, the IBRD called for a *thorough assessment* of borrowing countries' seriousness in addressing developmental problems as well as for considering this seriousness when determining the graduation timetable.

The IDA has embarked on a similar qualification of its eligibility benchmarks. Current criteria are based, apart from relative poverty (indicated by per capita income), on the borrowing country's (i) position (indicated by economic performance and absorptive capacity) to use IDA resources effectively, and (ii) lack of creditworthiness for conventional lending. Although these criteria broadly were in place already in the early 1960s, they have since been developed to form a more elaborate policy of IDA eligibility and graduation.

⁸ *The World Bank Homepage*, The Internet, October 1995.

⁹ Since the late 1980s, IDA credits are provided only to countries with income levels well below the formal threshold (at present below USD 805). The gap between formal and real maximum levels for eligibility is generally referred to as "the operational cut-off", and is partly a result of decreasing IDA resources since the 1980s. *Ibid.*

The performance criterion is used by IDA both for eligibility and allocation purposes. As an eligibility criterion, it precludes IDA from lending to a country whose performance, due to political instability or inappropriate economic management, is so poor that it prevents the country from making effective use of those resources. Examples of countries which have been ineligible for IDA on performance grounds during five years or more are Uganda (1972-79), Central African Republic (1973-78), Chad (1980-85), and, since 1980, Vietnam and Afghanistan. Lending has also been suspended for shorter periods to Liberia, Sierra Leone, Haiti and Zambia. With respect to allocation, the performance criterion helps determining the amount of IDA funds to eligible countries (better performance justifies more resources for any given level of income and size).

Box 1: Costa Rica's argument

The government of Costa Rica has argued along the lines of rewards and punishment for good governance. Other countries with similar conditions, it claims, have not pursued the right policies. So they are less well off than Costa Rica is, but this is largely their own fault. Why then should they receive continued assistance, while Costa Rica's support is being reduced because of our success? We still could benefit from further assistance.

However, little information is provided on exactly how IDA defines workable criteria of performance. Three factors seem to stand out as the most important in this regard: the quality of economic management, poverty alleviation, and government willingness to pursue a meaningful policy dialogue, but the detailed measurement of these factors remains unclear. In any case, performance-related criteria are today said to carry more weight (as a result of an increase in policy-based lending) in IDA's approach to eligibility and graduation than was the case during its first decades of operation.¹⁰

Creditworthiness is defined by IDA as the ability to service new external debt at market interest rates over the long term. A lack of creditworthiness thus implies a need for concessional resources for a country's development programme. On the other hand, if a country manages to obtain loans on conventional terms (including from IBRD) in spite of an income level below the IDA threshold, it will receive no credits. Countries with low creditworthiness but relatively high income may be offered the blend of IDA credits and IBRD loans. Indications on what makes a country creditworthy or not depends critically on the level of a country's existing debt service, its ability to save, and the relationship between returns on its investment (as reflected in real income growth) and the interest rate on its external debt.¹¹

Interesting to note is the inherent inconsistency between poor performance and creditworthiness. Poor performance, reducing the eligibility for IDA lending, leads to worsened creditworthiness which, in turn, increases the eligibility. The IDA is of course aware of this pitfall: countries which lose their creditworthiness due to poor performance do not automatically become eligible.

DAC

The Development Assistance Committee is currently developing its own approach to eligibility and graduation. Although the Committee has yet to agree on a final policy, the preparatory work carried out so far is interesting enough, not least since, in contrast to the World Bank, it discusses graduation also in

¹⁰ *Ibid.*

¹¹ Savings capacity and returns on investments, in turn, depend to a large extent on a country's economic policies and management, its human and natural resources, and its external terms of trade. *IDA Policies*, IDA, September 1987.

relation to grant aid. It should be noted that the following is not official DAC policy, but a working paper produced by one of its consultants.¹²

The paper proposes a definition of graduation from Overseas Development Assistance (ODA) on the basis of *real per capita income* (adjusted by Purchasing Power Parity) along with two sets of additional indicators: the ability to rely on fiscal and private sources of finance (*financial capacity*), and the achievement of satisfactory development levels (*economic and social development*). The paper goes on to consider an eligibility system based on the successive fulfilment of these indicators. Countries above the income threshold are classified as "potential graduands", fulfilment of financial capacity targets make them "active graduands", while achievement of economic and social development implies final graduation.

Wide-ranging (and rather complicated) sets of criteria for each step of the process towards final graduation are provided. The financial capacity criterion has been selected on the basis of showing a country's ability to finance its own development programme without recourse to ODA. As such it is also split into three groups of sub-criteria showing that a country

- should have ready access to international capital markets as a means of complementing its own resources (criteria: reliance on aid, private creditor's share of debt, concessionality of public borrowing, private capital inflows, and borrowing spread),
- should be able to mobilise sufficient domestic resources for the basic investment needs of both public and private sectors (criteria: savings rate, savings/investment, private investment, and government revenue),
- should be able to sustain its domestic and international financial position in the medium and longer terms (criteria: debt burden, debt maturity, reserve position, capital cost, and sovereign risk).

The economic and social development criteria are similarly broken down in three sub-groups showing

- that structural transformation from traditional agriculture and primary commodity production has taken place (criteria: percentage of the labour force in agriculture, percentage of labour force in industry, industrial production as per cent of GDP, and manufactured exports as per cent of total exports),
- that appropriate levels of human and social development have been achieved (criteria: life expectancy at birth, adult literacy, mean years of schooling, access to safe water, the ratio of female to male years of schooling),
- that the economy is sustainable and not vulnerable to pressures of various kinds (criteria: total fertility rate, population growth rate, ratio of debt service to exports, and export concentration ratio).

¹² *Criteria for Graduation from Eligibility for Official Development Assistance*, University of Oxford, October 1994.

Box 2: Immature graduation in Belize

In 1993 the USAID pulled out from Belize, taking with it CARE, the major NGO channelling aid to the country. The country had graduated in the sense that many indicators demonstrated that no further assistance was needed. In water and sanitation the coverage rates approached 100%, for example. Two years later, a population census demonstrated that the population had increased considerably and most indicators turned worse. The population majority was no longer garifuna but Spanish speaking. A newspaper headline said: "Belize is now Belice".

All these criteria are defined more in detail in the DAC paper, but they are not made operational. The paper suggests that, in order to forestall possibly misleading and temporary levels of any indicator, it would be appropriate that countries stayed above specified pre-graduation levels for a minimum of 3-5 consecutive years before decisions on promotion and final graduation are made.

UNCTAD

The United Nations Conference on Trade and Development (UNCTAD) has recently presented a paper on graduation in relation to the Generalised System of Preferences (GSP).¹³ Although this matter is of utmost importance to most countries receiving official development assistance, it is still a special case in relation to the main theme of this report. The main points relating to UNCTAD's graduation paper are therefore presented in Annex 4.

Bilateral donors

Very little documentation can be found on graduation policies of the bilateral donors. CIDA (the Canadian agency) is currently up-dating its criteria for the ODA eligibility framework approved by government in 1987. The framework stipulates a number of general conditions based on foreign policy provisions, human rights records and economic criteria. Each year Canada establishes confidential five year bilateral planning figures for each eligible country, using criteria which take account of the country's needs, its commitment and capacity to manage aid effectively, the quality of its economic and social policies (or its commitment to improve such policies), its political and commercial relations to Canada, as well as its commitment to involving the population in development. Emergency food aid and humanitarian assistance may be provided to ineligible countries after specific Ministerial approval.¹⁴

DANIDA activity is regulated by a combination of recipients' per capita GNP and the form of assistance provided. NORAD and FINNIDA do not seem to have any explicit graduation policies at all. Neither does Sida, although "Project 2015" is one of the initiatives to develop one.

2.2 The scope of graduation

One of the first issues to be tackled when developing a graduation policy is its scope: who and/or what should actually graduate? Most donor policies (or policy discussions) reviewed so far tend to focus exclusively on graduation at country level. They highlight various criteria that signal that a country's development has reached such levels that make it, as a country, ineligible for further development assistance. An exception is of course the discussion on partial (sector or product) and full (country) graduation from the GSP programme (cf. Annex 4).

¹³ *Criteria for Graduation under the Generalised System of Preferences (GSP)*, UNCTAD, July 1995.

¹⁴ *Official Development Assistance (ODA) Eligibility Framework*, CIDA, April 1992.

The question, then, is whether policies for graduation should be restricted to the country level or be expanded downwards to apply also to sector level (and perhaps even upwards to the regional level).¹⁵ Not surprisingly, no simple and general answers seem possible. Such choices must be guided in part by the overall objectives of the assistance from which graduation is to be effected, as well as by the available set of instruments or forms of that assistance.

However, it is difficult to see why the envisioned Sida policy for graduation would not benefit from embracing also the sector level. This is so for at least three reasons. First, after the aid organisation merger, Sida today has a broader-than-ever range of instruments for co-operation with recipient countries – from various types of grants to different forms of concessional credits. Its scope in terms of geographical coverage and sector-wise engagement has increased, compared to the former SIDA. At the same time, individual projects, some clustered to form sectoral programmes and primarily targeted to the poorest countries, still constitute Sida's predominating activity. A graduation policy which is strictly defined for the country level would therefore have less operative relevance for Sida. Although dependent on the development level set (Sida may choose to co-operate only with LDCs, thus narrowing the developmental gap between the present situation of these countries and that required for future graduation), it seems that country level graduation of a majority of recipients of Swedish assistance is likely to be too distant in the future. Thus, one result of treating graduation in relation only to countries and not to sectors, would be a policy of less applicable and active value.

Second, Sida is currently preparing the way for future implementation of its new policy for sector programme support (SPS), approved by the Executive Board in September 1995.¹⁶ The SPS policy spells out a vision for (non-specified) budget support as well as ear-marked activities coherently directed to a particular sector through the government's budget. Strong emphasis is placed on donor co-ordination and recipient-donor dialogue. Attached to SPS is a range of requirements covering, in particular, the recipient's sector policy and capacity for planning and implementation. In the ideal case, i.e. where all conditions for a full-fledged SPS are met, all bilateral agreements for a particular sector will take the form of budget support, "fully managed by the recipient government in support of activities which are consistent with a coherent sector and national development policy".

Coherence also between Sida's SPS and graduation policies is undeniably desirable. The SPS benefits from a holistic approach which bridges policy provisions between the sector and macro levels, a case also for graduation. Countries could reach graduating levels by means of progressing their respective projects and programmes for development. The process leading to country graduation is largely one of sector level activities fulfilling their respective objectives in a step-wise manner towards the required development level. Sector and macro development are interdependent processes, but it is also important to recognise that sectors may be unevenly developed and that graduation of one sector in a country may be warranted, while not of others.

Third, regardless of the SPS's envisioned trend away from bilateral projects, it could be safely concluded that ear-marked projects will continue to form an important part of Sida operations for many years to come. The application of graduation thinking also to the lower (and more operational) sector level will provide leverage for the wider results-orientation of Sida-funded activity at the project level. It will highlight that the desired impact of individual projects and programmes contribute to the broader

¹⁵ "Expanded" would then imply that a sector becomes ineligible (while other sectors of the same country may still be eligible) for further assistance when it reaches a certain development level, much in the same way as sectors are graduated from GSP-treatment.

¹⁶ *Sector Programme Support – Background Document to Sida Policy*, Sida, July 1995. Indeed, this is the first policy taken by the new Sida.

objectives of sector graduation. An additional sense of direction and purpose of these activities could be expected as a result.¹⁷

Therefore, the Sida policy for graduation should arguably best be designed to apply to both sectors and countries.¹⁸ But should it apply all the way down to project and programme levels? Conceptually, it cannot. Projects and programmes¹⁹ do not graduate from development co-operation – they *are* development co-operation. They should be terminated when their respective output targets have been achieved according to a given time table, or when targets cannot be achieved. Where successful and properly planned, the impact of projects and programmes contribute to the development levels deemed necessary for graduation. To put it in LFA language, graduation criteria are “impartial” and long-run in the sense that they are outside and above project objectives. In sum, an implementation of project and programme graduation would, apart from confusing matters, add little to the guidelines on project cycle management already maintained by SIDA²⁰ and Sida.

The issue of the scope of graduation also needs to be addressed in relation to the various instruments of co-operation which Sida has at its disposal. Should policies for country and sector graduation cover all of Sida’s instruments and channels? This question is particularly important for the support provided through Swedish NGOs. One basic feature of such support is that the NGOs have (and, according to prevailing policy, should have) a high degree of autonomy from Sida in the planning and implementation of their respective activities. A graduation policy of full coverage would restrict the autonomy of NGO activity by subjecting it to the eligibility thresholds.

For example, the support provided by the Swedish Volunteer Service (SVS) to the Seychelles would probably fall prey to an all-out graduation policy. The Seychelles is relatively rich: its annual per capita income is USD 6,280 (far above IBRD’s indicative trigger level for graduation), its life expectancy at birth was 71 (highest in Africa), in 1992 its pupil/teacher ratio was 22 (lowest in Africa), etc.²¹ Still it received SEK 2.6 million in 1993/94.²² Whatever the criteria used and benchmarks set for country graduation in future Sida operations, it could be safely concluded that the Seychelles will not qualify for co-operation if graduation were to apply also to the NGO channel.

Although this example is simply too clear-cut to be representative for NGO support at large, it illustrates the friction which may be expected between different Sida policies. Thus, in order to avoid overlapping and inconsistency, it is necessary to streamline future graduation provisions with other Sida policies already in force.

¹⁷ This advantage is also recognised by SPS: “In the development of sector programme support, the analysis made at project and sector level is combined with a macro level approach, ensuring that the support can be consistent with a coherent development policy at all three levels.” *Ibid.*

¹⁸ It must be observed that all forms of Swedish assistance cannot be embraced by sector graduation. For example, balance of payment support applies only to the country or macro level.

¹⁹ It has been pointed out to us that SIDA used to make a distinction, in Swedish, between “projekt” and “insats”, the former being the country’s project and the latter being the Swedish support to that project. In this distinction our conclusion applies of course only to the project support part of the intervention. It could be argued that this distinction in many cases is an illusion: many a “projekt” is just a gimmick to raise donor funds and would never be realised without donor support.

²⁰ A particular difficulty should be pointed out already at this stage: during the SIDA period, the other agencies also had their own versions of project cycle management, in some important respects differing from those of SIDA. In Sida, therefore, there are currently more than one practice of project cycle management. In many instances, when discussing methodology, we here refer to the former SIDA’s “Metodhandbok”, however.

²¹ *African Development Indicators*, The World Bank, January 1995.

²² *Bistånd i Siffror och Diagram 1993/94*, Sida, January 1995.

2.3 Graduation and time factors

Separating the subject of graduation from that of phasing out projects and programmes is more than a question of conceptual hair-splitting. The dividing lines between the two are even more pronounced in a discussion on time bound development co-operation. Trigger levels for graduation of countries and sectors cannot be operatively tied to time limits – the more macro the level of graduation, the lesser the applicability of time factors. It is inconceivable that development agencies could in any way estimate and plan their assistance on the basis of the future dates of country or sector graduation. The external and unknown factors influencing the development process at such levels are simply too many. Graduation is effectuated when countries and sectors are ripe, but to calculate this and to plan co-operation thereafter is impossible.

However, Sida could set time frames for its projects and programmes. As mentioned, the rationale for phasing out and ending co-operation should in fact be the fulfilment or non-fulfilment of output targets according to time plans. This was already stipulated by standard SIDA methodology, albeit not always implemented. What require further studies and guidelines are instead the modalities and best practices for time bound implementation. In this regard, the studies of the processes of ending three Swedish programmes in Zambia and Laos are particularly interesting.²³ As time limits and phasing out processes constitute a subject quite different from graduation, these studies will be discussed and analysed in the next chapter.

2.4 Graduation, time and the logical framework approach

The subjects discussed in the preceding two sections, graduation and the relation to time factors, is rather neatly summarised and illustrated by conventional LFA reasoning. The basic elements of the LFA project matrix are clustered in three groups: (i) inputs, activities and outputs, (ii) immediate and development objectives, and (iii) pre-conditions and external factors.

The first group delimits the actual development co-operation, be it in the form of projects or programmes. This is the area that the project management could influence directly both in terms of planning and implementation, and for which it is held accountable. As such, it is also the area for which time factor considerations in development co-operation apply. There is no point of introducing time limits above this area since the corresponding increase in the influence of external factors (risk increase) inevitably will cloud any projection of such limits.

The second group of LFA elements delimits the co-operation's objectives. Consequently, this area is not only beyond the direct reach of the project management, it is also the area in which the notion of development levels begins to make sense. These development levels, whatever the criteria used for measuring them, are the main hallmarks for donors' decisions to graduate or not. The co-operation's immediate objective should contribute towards the development objective. Ideally (or at least most cost-effectively), the ultimate development objective will be synonymous with the development level which triggers graduation.

To summarise, time factors apply to inputs, activities and outputs of development co-operation (group one in the LFA matrix), whereas eligibility for assistance and criteria for graduation apply to development levels, i.e. the objectives of co-operation (group two).

²³ C.f. e.g. *The Phasing Out of Aid Programmes – Experiences and Guidelines*, University of Stockholm, December 1994.

2.5 Other rationales for withdrawal

Graduation denotes success. The country or sector is developed beyond the levels set for eligibility, and Swedish development co-operation should be re-allocated to areas in greater need. However, donors may face situations where it is necessary to withdraw in spite of formal eligibility. Such situations could be a consequence of factors ranging from for example non-committed leadership and unsound economic management to political instability and war. Whatever, the point is, from an objectives-oriented perspective, that assistance should be terminated either because the results are poor, or because the results are good but irrelevant in a broader context. Although this paper does not dig deep into such questions, it should be noted that the success of co-operation is not the only possible rationale for withdrawal. Sweden's decision to pull out of Chile after the military coup (cf. below) serves as an example.

Moving away from the strict issue of recipient development, a parallel set of factors may influence donors' choice for the selection and phase-out of co-operation. Such factors, for example the donor's domestic and foreign policy interest, common security, commercial relations, and preferences of individual decision makers and stakeholders, are best discussed on the basis of empirical evidence (cf. subsequent chapters). A few comments on some of the driving forces of assistance could be raised already at this stage, however.

Initiation of and withdrawal from co-operation should logically be based on one and the same criterion (or criteria). If Sida engages in Eastern Europe because of geopolitical considerations²⁴, then a certain level of obtained common security should justify withdrawal. Similarly, the more commercial forms of co-operation aimed at developing scientific, industrial and commercial relations imply that Swedish interests guide the allocation of assistance, and that such assistance should be phased out once these interests have been (or cannot be) satisfied.

Or should it? Sweden's security and commercial concerns for co-operation are of course sided by a concern for development in the recipient country. A problem with dual (donor and recipient) justifications is that they tend to make decisions on withdrawal more difficult and less rational. What are the proper balances between security and commercial development in both Sweden and Eastern Europe that warrant some kind of mixture of termination and graduation? How could policies provide clear-cut and operational answers?²⁵

Sweden's security (as a part of common security) and commercial interest (as part of mutual benefit) are examples of openly recognised and endorsed justifications for co-operation that do not belong, directly or wholly, to development in the recipient country.²⁶ Then there are the unofficial reasons – those relieved rather by stakeholder analyses than by documentation and policy. While it could be generally concluded that stakeholder interests (those of consultants, decision makers, counterparts, project staff etc.) have an impact at project and programme levels, it could remain an open question whether such interests, in themselves, have the potential of initiating, continuing and terminating co-operation also at the sector and even country levels. This paper provides an affirmative response to this question, however (cf. section 4 below).

²⁴ C.f. *On Concentration – Background Study for Sida's 2015-project (Draft Report)*, SPM Consultants, October 1995.

²⁵ A related problem (in a graduation context) is the number of overall development objectives for Sida support. What is the proper balance between the multitude of fulfilled and/or near-fulfilled objectives required for graduation, even on case-by-case basis?

²⁶ C.f. e.g. *Regleringsbrev för Budgetåret 1995/96*, Ministry of Foreign Affairs, June 1995. Whatever some people would like to believe, that fact is that these things belong to Swedish development co-operation.

Finally there are the more indirect reasons for termination of assistance. The following is a list of five *Swedish* factors which are likely to have at least a potential impact on the decisions to withdraw from sector and country support: (i) negative public opinion, (ii) a harsh economic situation, (iii) Sida's size and potential relevance as compared to other donors in a particular country or sector (the more donors involved, the lesser the justification for Sida presence), (iv) empty resource base (withdrawal because all experts in a certain field have for example been retired or have lost their international competitiveness), and (v) the policy of concentration. The list could probably be made longer, but the interesting point is whether such factors indeed have sparked off termination or not.

3 THE TIME FACTOR IN PROJECT CYCLE MANAGEMENT

The previous chapter concluded that graduation at project and programme levels does not make much sense, basically because graduation has to do with development levels (the ends of co-operation) and not with the projects and programmes as such (the means). However, this is not to say that the issue of phasing out and ending donor activity at the project level is in any way less urgent. Rather the other way around, most Sida-sponsored activity goes on at the project level, and the meeting of targets within stipulated time frames is one of Sida's main operational responsibilities.

3.1 Projects with and without time factors

Obviously, time bound Project Cycle Management (PCM) is not a recent innovation. For several years, it has been stressed as a main feature in a range of SIDA manuals for PCM methodology, not least as part and parcel of cost-effectiveness requirements.²⁷ Thus, general policy provisions for time factor considerations are already in place. What may be lacking are instead detailed guidelines for the phase-out process and, more important, the actual adherence to time table requirements.²⁸

Therefore, two types of discussions on time factors seem necessary the ideal case where time factors do frame the project cycle, and the real case where they usually do not.²⁹ In the ideal case, the project unfolds smoothly and in accordance with plans (including time plans). The targets are SMART³⁰ and defined in project documentation already from the outset; an adequate assessment of the project environment has been carried out; and a realistic vision for the project's contribution to development guides all activities etc. In the ideal case, ending a project or a programme becomes mere routine. Sida engagement is simply withdrawn either when targets – including, where warranted, targets for counterpart capacity to take on full responsibility for project sustainability are achieved at a pre-destined date or when targets cannot be met due to previously unknown and inconceivable factors in the project environment.

²⁷ C.f. e.g. *Metodhandbok 90*, SIDA, 1990, and *LFA – Handbook for Objectives-oriented Planning*, NORAD, no date.

²⁸ Another aspect has to be neglected here, but is of crucial importance: the institutional framework. According to North (1993) a theory of economic dynamics, and thus an important part of development, must include "institutions and time". A reasonable hypothesis would be that the use of the time factor in PCM, its relative ease and workability, is strongly dependent upon the institutional set up of a project. Suffice it to mention the comparison between a BITS financed contract and a SIDA agreement with a Ministry. In this paper we cannot detail this matter, but the reader must keep in mind that the instruments used in development co-operation should be carefully analysed in institutional terms when the use of the time factor is settled.

²⁹ In past practices there are significant differences between SIDA, on the one hand, and the other agencies on the other hand. BITS and SwedeCorp, for example, have practised time limits on a much stricter basis than SIDA did. The institutional arrangements were also very different.

³⁰ Specific, Measurable, Achievable, Relevant, and Time-bound.

Needless to say, this is a tall order. In reality, a range of circumstances frustrate the handbook version of PCM – the achievement of targets and phase-out in accordance with time tables is a rare phenomenon according to past Sida evaluations. Why is there such a discrepancy between the ideal and real cases?

First of all, it should be recognised that proper PCM is difficult, especially in the developing world. One important point, however, is that SMART targets were rarely found in project documents or as guiding lights during project implementation. If a project is brought to life without specific and measurable targets, then there is no way of telling whether targets have been met or not after a certain time period. In fact, time tables, other than in sheer budgetary terms, are inconceivable without proper targets. Thus, the absence of operational targets tends in itself to dilute the attention to time limits. An improved capacity for LFA-oriented planning and implementation should therefore yield positive results also when it comes to time factors in PCM.

Second, and perhaps more important, ending projects which have not fulfilled their targets (or at least some kind of idea of what should have been achieved) within the stipulated time is difficult because it implies failure. Evidently, inadequate results are always unwanted. By prolonging the projects' life time and infusing more resources than originally planned, results could be improved and overt failure avoided. Such additional agreements are frequently recommended by consultants and employed by SIDA as part of a strategy for "saving" projects. When resolving the problem of unachieved targets, the highest priority has often been given to the outputs of co-operation, much at the expense of qualitative requirements for time limits and cost-effectiveness.

In this context, an interesting question is precisely why time limits usually play such a sub-ordinate role in PCM. Put roughly, why does failure (i.e. unachieved targets at a given point of time) so often result in additional funding instead of termination? While not exhaustive, the following list seems likely to have contributed in varying degrees to past absence of time limits in much of Swedish development co-operation:

- *"Past investments" and ignorance of "sunk costs"* – Evaluations of projects which have failed to deliver the anticipated results often come to the conclusion that adjustments, more resources and additional time will eventually yield the desired outcome. A common justification for granting further support is that the resources already allocated will be wasted unless such a project is brought to a successful end (thus implying that the results of these projects are produced much in the way ketchup is coming out of the bottle). While the past investments argument may make sense in some cases, it usually tends to ignore the concept of sunk costs. If not contributing to the results of new investments, the resources already ploughed into the project are sunk and irrelevant to the decision to allocate additional resources.
- *Biased evaluations* – Separating relevant past investments from sunk costs requires independent evaluations which, where justified, are outspoken enough to call past inputs sunk and irrelevant (for additional support). The close, almost in-house relationship between SIDA and many of its consultants tends to yield evaluations which are low in profile when it comes to matters which are difficult and politically incorrect, such as the necessity of terminating failing projects.
- *Stakeholders' pressure (donor side)* – Relatedly, a range of social groups in the donor community have various interests in continued co-operation. NGOs and implementing consultants are of course eager to highlight the positive aspects and the future potential of their respective projects. In addition, prolonged support always implies renewed engagement for the NGO and consultancy markets.

- *Stakeholders' pressure (recipient side)* – A similar pressure is mounted from the recipient side. Institutions, organisations and individuals have invested money and prestige in the projects and want them successfully terminated. Some do not favour any kind of termination at all since they rather want a continuation of lucrative fringe benefits which inevitably surround the co-operation (further discussion on stakeholder interests is provided in chapter 4).
- *Donors' role and discomfort* – Solidarity with people in poor countries has been a main feature in development co-operation. In simplistic terms, donors are here to help, not to cut off support. It may be more inspiring and sometimes much easier to continue assistance than to turn one's back on counterparts and past co-operation. Prolonged support becomes a convenient, more glamorous and less conflict ridden solution to poor results.
- *Non-acceptance of failure* – Sweden today assists thousands of projects in some of the poorest countries in the world. It goes without saying that all these projects cannot be success stories. A large number are likely to fail irrespective of who manages them and how. The main problem in this respect seems to be the general pressure on Sida to always produce good and tangible results. Rather than allowing projects to fail deservedly, Sida has tended to transform this pressure into a neglect of less urgent time limits and of non-measurable effectiveness.
- *Disbursement targets and over-budgeting* – Even if there is strong pressure on Sida to produce results and even if the aid budget has been cut during recent years, there are still no strong economic incentives for an effective resource allocation (or portfolio management). Sida's disbursement targets imply that there is more finance available than capacity to absorb, at least in some countries. Each year, considerable amounts of country frames have been left non-disbursed and reserved for the following year's budgets. Sida's resources may be scarce on an aggregate level and, more certainly, in relation to the poor world's needs. But for individual projects, scarcity and opportunity costs have not usually so far influenced or directed the decision to prolong assistance.

It is not possible here to prove or measure the precise impact of any of the above points. Some may be irrelevant and some may be justified in given context. More certain is that there is a gap between the ideal and real cases of PCM. If time factor considerations are deemed to be both feasible and desirable at the project level, then this gap could and should be narrowed. But how? The remainder of this chapter looks into some suggestions as to how the present policy on project phase-out could be developed and specified (section 3.2) and how pragmatic approaches to time factors in PCM could be framed (section 3.3).

3.2 Policy specifications

From a policy perspective, it is necessary to discuss whether the development of detailed guidelines on how to end projects and programmes could help bridge the gap between the ideal and real cases. While it is true that time bound PCM was required already by SIDA policy, it is equally true that this policy was not very elaborate when it comes to phase-out processes. The above mentioned studies by Hans Hedlund are particularly interesting in this respect.³¹ Based on the experience of three phase-out processes in Zambia and Laos, Hedlund provides a number of important insights and recommendations regarding planning and implementation of successful termination.

While the programmes reviewed by Hedlund were clearly different in several respects, their phase-out experiences display two common themes: first, that the termination processes were largely *ad hoc* in the sense that they were insufficiently planned for and communicated by SIDA, and, secondly, that most actors on the recipient side showed little or no interest in Swedish assistance being withdrawn.

³¹ C.f. *The Phasing Out of Aid Programmes – Experiences and Guidelines*, University of Stockholm, December 1994.

Hedlund concludes that “project termination is the most crucial time for facilitating the sustainability of those activities which a project has focused on. If termination of a project is implemented in a non-structured way, much of the project work and efforts carried out previously may be neutralised or ruined”. Therefore, a number of modifications (or, rather, specifications) of conventional PCM are required and proposed. Hedlund’s recommendations, based on a clear appreciation of the “project culture” and the influence and power of various (donor and recipient) stakeholders, are divided in four groups covering in brief:

- the *decision* to terminate when targets for project impact³² and potential have been achieved (including planning for such decisions),
- a *quality team* ensuring quality performance in both regular project activity and phase-out (as well as to identify and recommend indicators for the future decision on phase-out),
- well-structured and participatory *phase-out consultations* focusing on the anticipated opportunities and constraints related to the phase-out process (and embracing all important stakeholder categories),
- a specific *phase-out document* analysing for example stakeholders’ reactions to phase-out, and potential killing factors which may emerge as a result of the phase-out process which, in turn, may hamper future sustainability.³³

While specifying present policy of PCM and, as such, hopefully minimising the discrepancy between the ideal and real cases, Hedlund’s proposals do not give much guidance as regards of timing and time limits. The decision on termination, he says, has to be taken in a process-based way after project commencement, when a clearer picture of activities and the project environment can be established.³⁴ Further, quantitative and qualitative indicators on project impact and sustainability should determine when the decision concerning a phase-out should be initiated, not an already set time table.

This is exactly the basic problem of time limits in development co-operation. Swedish assistance should be results-oriented (and projects sustainable when the support has been withdrawn). Swedish assistance should also be subject to a time table and withdrawn after a specified period. But should the support be terminated according to time tables even if output targets have not been achieved (and even if the project is likely to collapse after withdrawal)? Which policy guideline should rule, the achievement of targets or the adherence to time limits? We do not want to compromise the results, because without them co-operation cannot be justified. At the same time, we do not want to water down time factor provisions as these serve, or at least, are argued to serve, as an incentive for reaching the results in a cost-effective manner. So what should be done when results and time do not go hand in hand?

Put simply, the handbook answer is (i) that SMART targets, as the abbreviation indicates, are achievable also within time frames, and (ii) that results always should be achieved cost-effectively, i.e. that there is little point of achieving delayed results. But the achievable in some countries is likely to be less than what is desired by the actors involved and the Swedish public at large, even if co-operation is brilliantly planned and managed. Thus, strict adherence to policies probably would end up in modest ambitions, partly in order to keep results realistic and within time frames (SMART). As most Sida projects currently run

³² The present authors argue that time factors apply only to inputs, activities and outputs (c.f section 2.3), not to impact, i.e. objectives. This should be kept in mind when assessing our policy proposals for time limits.

³³ These points are much more exhaustive than presented here. As there is no point of repeating Hedlund’s findings in this paper, the reader is recommended to consult his report(s) for further information. *Ibid.*

³⁴ Thus implying that time-limits may not be possible even at the project level.

without measurable criteria, we cannot tell whether such adherence would actually *lower* the ambitions of co-operation.³⁵ We could expect, however, that more would be achieved in a cost-effective manner. This last point is important. It must be recognised that policies are instrumental and *have no intrinsic value*, they are workable guidelines designed for the purpose of directing activities toward shared goals. If, on the other hand, policies are neither workable nor goals-oriented, they should be revised or rejected.

3.3 Pragmatic approaches

Still, in a non-predictable world, planning and implementation may backfire, partially or completely. Non-perfect outcomes are an inevitable fact which has to be accommodated in realistic approaches to policy implementation. Sida and its counterparts are constantly in the process of building capacity for PCM, but no such capacity can be waterproof. Thus, guidelines should be established for cases where actual results do not fulfil the required standards after a specified time period. As the present report is a desk study (with a narrow scope for qualified empirical back-up), we do not pretend that we could provide detailed suggestions in this respect. Rather, by discussing a number of relevant issues, this section delineates a background and possible framework for such suggestions.

The main (potential) advantage of time limits is that they make clear and emphasise the responsibilities of various actors in the co-operation. They motivate project staff to achieve results before foreign assistance is withdrawn and, as such, highlight the requirements of recipient ownership and project sustainability. Time limits could also prove instrumental in the assessment of individual project's relative effectiveness, thus contributing to an efficient allocation of Sida resources in general.

These positive features cannot be taken for granted however. They depend in each unique case on a range of 'ifs'. In fact, time limits may even result in reduced motivation and sustainability. If a main pre-occupation of counterpart staff is how to prolong the inflow of Swedish resources to the project area (and not necessarily to achieve project outputs)³⁶, the introduction of time limits could have the perverse effect of lowering motivation to such levels that fewer results are achieved and sustainability becomes even more difficult (cf. Box 8)

At first sight, a sensible conclusion seems to be that time limits need to be employed by Sida in a flexible way, time limits in development co-operation are desirable, but only if modifications and exceptions are an accepted part of the policy. *However*, while potentially justified in some cases, a policy of time limits which endorses its own exceptions invalidates most or all of its positive qualities. Time limits are advantageous because they *spur motivation, responsibility, counterpart ownership and project sustainability*.

These effects cannot be fully realised if actors do not expect time factors to be respected by Sida (much in the same way as today's governments cannot allow rumours of devaluation if they want to avoid actual devaluation). Put simply, *a policy which communicates its own repeal is pointless* because it will not be respected. Since expectations are likely to depend also on past adherence to time limits during previous projects, future Sida assistance will generally benefit from a non-flexible approach to time factors. Deviations from agreed time limits should be avoided as they are likely to result in eroded confidence in and adherence to subsequent project schedules.

³⁵ If an output target is to 'improve', we do not know whether the reformed and measurable target 'improve by 5%' indicates more or less ambition.

³⁶ This could very well be the case in several projects. C.f. for instance Hedlund's reports for possible examples.

Thus, “flexible time limits” are unlikely to work in practice.³⁷ The main reason is simply that most actors involved in co-operation have common interests in (and will lobby for) a continued flow of resources to the respective projects. Projects could probably go on forever like a conveyor belt if Sida does not decide to terminate them.³⁸ If the continuation of projects beyond the time limits originally agreed upon is presented as a likelihood, the stakeholders directly involved will be tempted to make full use of their means of making this possibility come true.

The proper conclusion, therefore, is that departures from time limits should be avoided to the greatest extent possible, *even* if project targets have not been completely fulfilled. This does not imply that the results-orientation of Sida support is in any way watered down – we have never wanted results at diffuse costs. If only a few additional resources are required for reaching the project’s goals, it could also be argued that ownership and sustainability provisions (where applicable) call for the recipient to assume funding responsibility for such resources. On the other hand, if huge amounts are required, then this simply implies that the project (or its environment) is unsound and that assistance should be terminated as soon as possible.

If Sida decides to continue the project after the agreed time limit has expired; this decision should be based on an independent evaluation (and for example along the working guidelines discussed by Hedlund) which explicitly discusses the relationship between past investments and sunk costs.

Such decisions should be a rare exception from the general rule of terminating projects in accordance with time tables. If this provision is deemed unrealistic, Sida should refrain from formulating and enforcing an explicit policy of time limits – a policy which otherwise would become little more than an irrelevant paper product of no operative value.

The basic assumption of the discussion so far has been that the underlying structure of stakeholder interests work against project termination according to time tables. Stakeholder interests are the engines of the conveyor belt. Projects tend to be prolonged because there are no powerful interests working against prolongation. At present, all influential stakeholders in Swedish development co-operation have direct interests in continued aid flows – both on aggregated and project levels.

However, stakeholder interests are not static. They could be influenced and reformed by a mix of sticks and carrots. In the present context, the unpleasant sticks (time limits) have already been commented upon. By introducing various incentives³⁹, stakeholders could be stimulated and instigated to favour and actively work for the achievement of results within time limits. Such carrots should of course take different forms, depending on the nature of the co-operation. The following two variants could be contemplated by Sida:

- Given that interest groups (NGOs, consultants, project staff etc.) benefit from being engaged by Sida on a continuous, or at least, recurrent basis, projects may be designed so that the achievement of results within time limits triggers distinctly separate and *second-step projects*. A tentative idea of potential subsequent step(s) should be developed already from the outset of the co-operation, mainly to cause actors to be disciplined and incited to fulfil their respective first-hand

³⁷ Some critics of our proposal on strict time limits have called it naive. These critics belong to the stakeholders and it may be argued against their point that it is rather optimistic to think that things could continue like they have been.

³⁸ This view is basically supported by Hedlund’s studies which conclude that ‘project staff [local and expatriate] and the recipient institutions were rarely interested in terminating on-going project activities’ and that ‘these projects often brought extra benefits to their staff [local] and the future employment opportunities were uncertain’.

³⁹ Previous and current practices in projects for enterprise development (former SwedeCorp) already include incentives for time limits.

responsibilities in due time. The main point would be to present project staff with a possibility that they may be engaged also for later projects – projects which necessarily will build upon the achievements of preceding co-operation.

- Basically, *monetary incentives* are universal in the sense that they work irrespective of cultural differences. Why not fully utilise and exploit this human trait by attaching different types of bonuses to the achievement of project results according to time schedules? In fact, the incentives approach to remuneration is increasingly discussed and utilised by Sida in relation to consultancy contracts.⁴⁰ A main consideration should also be how to extend such practices to the engagement of local staff and expertise, especially in countries where public salaries are extremely low in real terms. In an environment where salaries are well below the Minimum Living Wage (MLW), monetary incentives will invariably produce results (provided that individuals have the skills and equipment to perform). One possible approach for Sida could be to link topped-up parts of local salaries to the achievement of project milestones rather than to fixed monthly payments.⁴¹

Needless to say, there is a range of difficulties with performance-related incentives. Success and failure may depend on previously unknown and inconceivable external factors for which the management cannot be held accountable. Who judges whether the project failed because of internal or external factors? Who judges whether the planning phase should have been able to foresee a killing factor? Should bonuses be paid to project staff in situations where the project was run excellently but where it nevertheless failed because of external factors? Inversely, should staff get bonuses even if they did not contribute to the project's success?

While general answers seem impossible, these questions are extremely important in a practical context not least since the whole point of incentives is to provide bonuses only in cases of merit.

4 STAKEHOLDER ANALYSIS

One of the expected results of the present study is to provide additional leverage for policy-oriented mechanisms in Sida's decision making processes, i.e. to assist in the setting of norms and indicators for time limits in programme cycle management as well as a mode of graduation using a mix of co-operation instruments that benefit others than the usual aid interest groups (if indeed stakeholders have the power to influence country choices). The rule of policy and decision criteria over 'unholy' alliances between stakeholders, should be one underlying aim of the whole study.

If the rationale behind empirical examples of prolonged support to countries or programmes has not primarily been one of explicit policy and strategy, one is tempted to look into and analyse the dynamics of various interests hovering in the background of the programmes. Interests may be found acting on an individual or a group basis, in the public, commercial and civic spheres, as well as in the donor and recipient countries⁴². The analysis is aimed at shedding light on the various forces influencing and governing programme management. It is also intended to provide insights into the potential forces

⁴⁰ C.f. also *Prestationsbaserade Konsultavtal*, ISO Swedish Management Group, January 1994, as well as practices already introduced by SIDA in recent years.

⁴¹ Experience shows that in-kind benefits and incentives for public servants should be avoided since they contribute to a lack of transparency and equity in the public remuneration system. Remuneration incentives should always be provided in monetary forms. C.f. e.g. *Background Paper on Civil Service Reform*, ICS Interconsult Sweden AB, September 1995.

⁴² In Karlström, 1991, there is a chapter on stakeholders.

forwarding or obstructing concerns for time limits and graduation – insights which in turn are important for the formulation of viable policy and guidelines.

Our analysis at this stage is based on examples, where categories of stakeholders clearly have influenced decisions on termination or continuation of support to projects, programmes or countries. When using a list of examples, we are not trying to point out specific past events, we revert to examples that we happen to know from our experience, from interviews or from documents. Any bundle of simplified examples of the influence of stakeholders in government activity may be seen to be controversial. Our aim here is only to illustrate the dangers and threats of not being aware of the existence of the different brands of stakes involved in international development co-operation. An isolated reading of the examples must not be taken as a basis for the conclusion that Swedish international development co-operation is particularly burdened by vested interests or lobby groups.

At the same time however, it should be clearly recognised that different kinds of interests are an inevitable characteristic in development co-operation activities (and, for that matter, any other large social undertaking), and that such interests may in fact constitute a major strength of the support, for example in terms of resource base and commitment. Categorical attention to policy and “legal-rational” provisions in the design and implementation tends to hamper flexibility and human innovation. Thus, our study remains within the aim of suggesting how a balance may be struck between top-down policy and interest-driven engagement from below to the benefit of time limits and graduation in general. Relatedly, it should also review potential avenues for Sida to manage and supervise different stakeholders in the co-operation activities.

4.1 Stakeholders in Sweden

On programme country level the number one stakeholder in Sweden’s presence in a given country is of course the Swedish government, the programme country selection being done by parliament. A public debate on Sweden’s support to a given country ends up at government level, even if Sida representatives may appear to explain Sweden’s policies. The Ministry of Foreign Affairs is vested with the political responsibility in relation to each country.

Once a programme country has been selected for Swedish support, there will in turn appear a number of stakeholders on the general level, i.e. defending the position that Sweden should continue the support to the country in question. This group may involve all the possible interest groups from the Swedish ambassador to Sida employees, political parties, labour unions, solidarity organisations, commercial interests or NGOs, and including of course a similar crowd of pressure groups on the recipient side. In the very early stages of Swedish international development co-operation, the most influential on country selection was probably the Swedish NGOs, particularly the churches, as they constituted the driving force behind the establishment of what preceded the former SIDA⁴³. The first country selected was Ethiopia, where the churches had been present for almost hundred years⁴⁴. They still continue to play an important role for country choice in an indirect and more limited sense, as the NGOs in some non-programme countries are the only Swedish actors supported by Sida. A similar role for country choice may be played by the UN system in the multi-bi share of Swedish aid. Even in a general way, the UN has influenced Swedish country choices. The second country selected by the original Committee was Pakistan, based on a recommendation by the UN.

⁴³ “Centralkommittén för svenskt tekniskt bistånd till mindre utvecklade områden”, formed in the early 1950s.

⁴⁴ And to which country the Swedish government gave a loan in 1945. Cf. Åström, S., 1992.

Box 3: The Somalia DCO case

Somalia was never a SIDA programme country. But at one point a small group of individuals in government, Ministry of Foreign Affairs and SIDA decided that they were interested in including Somalia in the group of countries receiving long-term regular Swedish grants. Neighbouring Ethiopia was a programme country of old date, while Somalia was then included in the Soviet bloc. The stakes of the people were different, probably ranging from political interests to the more modest ambition of taking up a post in Mogadishu, by that time an attractive posting in a repressive and hence "peaceful" environment. They used the "classical" way to influence country programme selection: a famine (1973/74) became the opportunity to send in an NGO for humanitarian support. The humanitarian support was allowed to grow based on reports of continued relief needs. When the Soviet Union supported a programme to turn impoverished nomads into fishermen, Swedish relief was used to deliver boat engines. Soon there was a need for service and hence skills for engine maintenance. By escalating relief support and Swedish presence in the country, the decision to make Somalia a programme country became almost unavoidable. From 1977/78 onwards, the support to Somalia was allocated "in the same way as for programme countries" (SIDA). A decision to open an office in order to monitor Swedish support could have caused an irreversible situation. Only by intervention from the highest political level was the 'private agenda' of a few civil servants adjourned.

After some time's presence in a given country, the Swedish scene will soon include a new rooting section for that country as well, joining the others existing for all countries.

Even at country level we must note that individuals may play a decisive role of influence, given the right position to act from. This latter aspect should not be ignored, as we have seen examples of surprising individual achievements in this respect. Only a stronger sense of accountability and strict management may reduce this element of individual stakeholders' *ad hoc* influence on country selection.

The majority of stakeholders on programme country level are actually tied to projects or programmes supported by Swedish aid or benefiting from the presence of Swedish embassies and development co-operation offices (DCOs), while not interested in the country as such. Major exceptions to this are the political organisations and the other NGOs. It is therefore more illuminating to look at stakeholders on a disaggregated level, i.e. programme and project levels.

In moving from country level to the levels of programmes and projects, we move from overall political responsibility to the more restricted responsibility for implementation. The first important stakeholder in projects or programmes supported by Sweden is of course Sida itself and the civil servants working at Sida. Sometimes the interests of Sida and an individual officer may diverge and the interests of the individual may take the lead over Sida's policy or guidelines.

Over the past twenty years we have seen many examples of SIDA as an institution being very touchy about criticism of Swedish assistance in general. Meanwhile, individual officers responsible for projects are often considering some projects as their babies, and consequently taking a position of over-protection in relation to such projects. In the past, therefore, SIDA's stake in the on-going programmes in general has implied a tendency to avoid public criticism of projects. This may probably be justified in relation to an overall political objective of keeping the support for international aid among the public in line with the parliamentary decision of allocating one percent of the gross national product to aid. But on a very basic level, it is of course a common interest of all people professionally involved in aid to keep up the readiness to pay taxes for aid in order to safe-guard their professional career and their means of making a living.

Box 4: Even the Auditor General

During the 1980's the Swedish Auditor General made a small study on SIDA's learning capacity. Some conclusions were considered by SIDA to be embarrassing and the organisation managed to effectively silence the criticism.

This latter argument also applies to consultants working on the aid market. According to a recent Sida publication there are about 1500 institutions and companies with which Sida has a co-operative relation. All of these are of course not totally reliant on the aid budget for their survival, but almost all may be assumed to have an interest in a continued flow of assistance funds.

For consultants closely involved with SIDA and dependent on SIDA for survival there has been an obvious interest in keeping SIDA happy with their reports and evaluations. This, in combination with SIDA's dislike of criticism, has of course led to the classical situation in terms of evaluations: consultants may have marginal remarks for improvements of projects, but on the whole the projects all have potential and should be continued. Other conclusions are much more difficult to digest and the risk of being black-listed for future jobs has always been in the minds of consultants. Such black-listing could be more or less general at the institution, or it could be effectively implemented by individuals covering a sector or a country.

Box 5: Face-saving of civil servants

Together with the World Bank, SIDA had been arguing for the need for a land reform in Ethiopia. When the emperor had been deposed the military junta declared such a reform. SIDA officers, joined by an officer at the Ministry for Foreign Affairs strongly argued before the Minister that Sweden should urgently allocate SEK 10 million to support reform implementation. The government decided to do so. When the end of the fiscal year was approaching the situation became embarrassing to the civil servants: there was no request from Ethiopia and even less a project proposal for using the Swedish funds. The DCO was instructed by the civil servants to arrange a proposal, a request and to arrange a disbursement before the end of the fiscal year. The acting head of the DCO negotiated with the acting head of the proper Ethiopian authority, who happened to be a Swedish expert contracted by SIDA. They signed an agreement for a project and the funds were disbursed just in time before July 1st. The danger of the Minister posing questions was eliminated.

Probably one important reason for the above tacit alliance between SIDA officers and consultants has been exactly the *absence* of a shared idea of termination of projects or a joint conscience of a time factor involved in the planning of projects. Instead, the most common conclusion in project evaluations where progress has not been impressive has been something like this: reasons beyond the control of SIDA or project managers explain the delays in project outputs, but through the implementation of the recommendations of the present consultant future performance will improve. The concept of sunk costs does not appear, but instead the past project costs are usually used as an argument to extend the project finance beyond the present agreement period.

SIDA officers may also have to defend their position in relation to the Ministry for Foreign Affairs and thus feel forced to act with this interest in mind.

In the 1990s SIDA, as well as international assistance in general, has taken a lot of beating in the Swedish media. Sometimes ill-founded criticism has been widely publicised. SIDA has also been provoked by the government's texts in its annual budget proposals, where the introduction of Swedish performance based budgeting principles has led to an increased demand for results and cost-effectiveness (without any definition, however). Gradually, this has probably, together with other social changes and changes in Sida itself, led to a more open attitude towards criticism – along with fatigue and bitterness – in the agency and among its staff. It remains to be seen whether this new receptivity will also encourage consultants to improve their work and increase their independence.

The NGO community, being the strongest pressure group for Swedish aid, plays a particular role. Its financial stake is presently high in the sense that it receives a large share of Swedish bilateral assistance, including funds that are intended to 'educate' the Swedish public. The NGOs clearly share values in line with Swedish political objectives of aid, but they all also have their own particular agenda in line with their respective organisational objectives. Sida cannot decide, of course, in the present regulatory framework, to terminate a NGO project. It could only decide to cut finance, but that decision has been delegated to the NGO community itself.

Box 6: Duration of NGO projects

Upon a tourist trip to Gambia a Swedish lady mobilised support from her local branch of an NGO to a Catholic mission school. The local branch lobbied at the central level of the NGO and finally received support from national funds to the mission. The project never had any defined objectives, targets, outputs or activities. There were no financial or progress reports worth mentioning. The personal commitment of the local branch was strong and dedicated. Very soon after the start of the support, the NGO applied for SIDA funds for the project according to the standard rules of such support. This support went on for more than fifteen years without anything similar to modern monitoring. SIDA, according to standard procedures, had no real means of following up or making independent decisions regarding the support. Only when a new management team came into the NGO, and with the help of outside independent consulting support, could the NGO support be gradually phased out.

Swedish commercial interests in the broader sense have a stake in the supply of hardware to Swedish supported projects. Although Swedish aid is rarely tied to procurement in Sweden, an important share of supplies is nevertheless procured from Swedish companies. On an overall level, Swedish industry has generally supported increased ties to Swedish aid, but this lobbying has not been very successful. Rather, the Swedish policy of aid with no strings attached was part of the set of 'constitutional rules' for Swedish development co-operation that was gradually worked out during the 1960s. In a speech to the industrialists in 1967, the Minister of Finance clearly told Swedish industry to manage on its own without support from the aid budget. At that time, the financial aspects of aid were handled by the Ministry of Finance and the technical aspects by the Ministry of Foreign Affairs and hence the no-strings decision was actually taken in that way.

Box 7: Duration of BITS projects

Although BITS projects were always limited in time by the contract dates – like all projects, anyway, as far as the formal agreements are concerned – there was also a strong incentive for the Swedish companies to extend project duration. This had to be done by means of a new contract, but by a clever use of repeat sales firms could make a “project” last for a long time. BITS did not start using formal evaluations by independent evaluators on any meaningful scale until the early 1990s, hence the assessment of project success was left between the consultant, the recipient party and the BITS officer. In an evaluation of courses given by Swedish consultants it was empirically evident that many course packages survived beyond time limits where they should have been declared obsolete due to technical evolution – although the recipient was altered at each repeat sale.

Swedish soft credits constitute a special case, where many companies, especially the (two) very large exporters, have used this window to make their commercial bids more attractive to potential buyers. The former BITS instrument of assistance, presently called “technical co-operation”, is of a particular standing among Swedish instruments; all of BITS funds were tied to Swedish procurement. When it comes to “technical co-operation”, claimed by BITS to be “demand driven”, Swedish companies had to identify a project and a partner in the recipient country, draw up a contract and have it signed by the proper authorities. This creates an opportunity for Swedish companies to create their own market in poor countries. Meanwhile, this instrument had its special characteristics, one of which is the clear time limits imposed by the contracts in relation to which the Swedish agency only took the role of financing. This reduces the stake involved in the projects for the civil servants. Instead, the main share of stakes are vested with the Swedish consultant.

4.2 Stakeholders in recipient countries

The comprehensive Nordic study of the impact of Nordic technical assistance by expatriate advisers pointed at a few rather negative aspects of this support: most representatives of the recipient countries did not assign much importance to the impact of expatriate advisers. They pointed at the spectacular differences in living standards between the civil servants of the recipient countries and the expatriates as an obstacle to effective working relations. But they also admitted that each expatriate brought material benefits, albeit often marginal, to the civil servants surrounding him. This alone could justify the civil servants to bear with the expatriates, in spite of the minor development impact.

Civil servants in the recipient countries, later joined by local employees in projects and local consultants, form the classical and largest group of stakeholders in the recipient countries. All the factors causing this problem need not to be repeated here, suffice it to mention that the real income situation of civil servants still remains the most important cause for corruption in the recipient countries.

In some countries there is by now a small group of civil servants so used to foreign aid and its fringe benefits that practically no technical assistance can possibly be given without it. Some capitals demonstrate, for example, a housing market where it is practically excluded to find a house for rent, whose owner is not in some way related to some civil servant engaged in international aid projects.

The most common action by stakeholders in the recipient countries is anything that keeps the aid flows coming in. But due to the compound effect of years of aid, some people have arrived at situations where unofficial benefits have become a requirement for continued co-operation, even at the risk of cutting off support to a given project. Termination becomes dictated by local officials even when the project is supported by the donor.

Box 8: Recipient civil servants refusing to extend projects

It may be argued that the recipient country's civil servants should have the last say in support extension or termination. But in some cases the local stakeholder may see his own personal benefits as the sole criteria for decision making. The Swedish support to a capacity building project in Tanzania was approaching its agreement expiration. The representatives of SIDA and the consultants had worked out a proposal for continued support. In a long process of dialogue and negotiations, it turned out that the civil servant who was responsible for the project expected some benefits from a possible extension of the support. When this was not forthcoming, he preferred to stall the continuation of the support in a blatant demonstration of power and of the expectations which long donor dependency had created.

Apart from the petty advantages indicated above, it must be spelled out that the situation in some areas, such as Asia and the former Soviet Republics, is one of an established and unavoidable market for commissions and various forms of fringe benefits of magnitude. This problem is grossly underestimated by donors and international banks, e.g. the World Bank, as they are the main feeding forces behind this assistance-based corruption penetrating the governments. Currently, however, it is not only the banks' international competitive bidding that is subjected to this abuse, but also local procurement supported by bilateral donors such as Sida. The most important stakeholders are then constituted by alliances of local and international stakeholders.

Finally, the donor community as such should be named a stakeholder. The lack of aid co-ordination on part of recipients (including intermediaries like such as implementing agencies) and the lack of co-ordination among donors also contribute to the difficulties of cutting aid flows to projects. When one donor is negotiating conditionalities or time limits, another donor may discuss with the same recipient about support. In this sense donor competition may be disastrous for aid effectiveness.

4.3 The hardest case – alliances of stakeholders

In situations where illegitimate interests abound, an alliance of stakeholders is often established, making it almost inevitable to arrive at decisions governed by such alliances. As soon as many pressure groups compete with different stakes and objectives one may hopefully expect that pluralism as such may create an open culture of tit for tat that could create outcomes reasonably acceptable over time. But when the stage is dominated by strong alliances of expertise or power, letting nobody else into the game, the long term impact will be the result of the objectives of such alliances only.

Of course there are many legitimate alliances of legitimate stakeholders around: between Sida officials and local civil servants, between Sida and consultants, between the local government and local consultants, and so on. Such alliances are important factors in decisions on termination or continuation of projects. But illegitimate alliances are more dangerous in terms of the negative development impact of their joint action.

Box 9: International specialists in ICB procurement benefits

Based on readings of the Interim report, we have been asked to substantiate our statements on ICB by references. Well... had there been references available we would not have to mention the issue. The most effective alliance for benefits from ICB must be able to influence the short listing procedures. Involved parties are the credit taker and the credit giver. So one needs people at the Bank and in the PIU. Then the final evaluation has to be influenced, which requires people at the PIU and elsewhere in the state machinery. And willing consulting companies abound. What is then so surprising about specialised firms for ICB contracts? Trade is historically one of the few human activities that is able to create its own customs and laws in the absence of state power.

The most common alliance is created in procurement situations where the bidding companies and the procuring agency – or individuals on both sides – go together with the aim of winning contracts. This practice is so established in some regions that the World Bank rules of International Competitive Bidding (ICB) become a joke⁴⁵. The Bank's establishment of so-called project implementation units (PIU) for larger projects makes it easy for companies to identify their target group for corruptive action. Currently, there are so-called international firms specialising in greasing the machinery of the procurement process. A project implementation unit in a very poor country can be bought for a fistful of dollars. Companies are then short-listed according to preferences of the specialist, who then turns to the short-listed companies to offer his services. In some Asian countries, the major task of local consulting companies is to channel funds to civil servants who make the procurement decisions. The percentage going to each of them is semi-official information in the country.

When Sida, in its ambition to transfer knowledge, functions and responsibilities to local authorities, lets the national ministries or projects procure international services, the process will take place in the above-mentioned environment. This is why, inevitably, even Swedish bilateral assistance is strongly threatened by this influence of stakeholders whose prime interests are far from anything close to development of the countries in question.

Box 10: Company strategy must consider stakeholders

A small growing Swedish consulting company in the aid business, committed to use what it has learnt from years of experience financed by Swedish tax payers in order to increase Sweden's share of the global aid market, has to move to market segments where local procurement is the rule. There is only one way to survive: to make a strategic decision where to go, what markets to enter, what marketing to implement. You cannot be everywhere with limited resources. Then a major criteria will not only be what the competition is, but, more important, who the stakeholders are and the price one has to pay to get in.

Sometimes, when the benefits to local participants become sufficiently large, they may provoke the establishment of rival factions on the recipient side. One group of officials may decide to challenge a formerly leading group by making its own alliance with another source of bribes – usually one of the competing firms. This opens a game where the stakes are soaring and where the firms also try to benefit from the split by overbidding each other.

⁴⁵ This is one reason why macro indicators cannot be enough for policy making. A lot of micro events will end up changing the macro environment. Also World Bank officers' careers have been strongly related to disbursement targets for a long time.

Box 11: Water supplies in Kenya

The Mombasa municipal water supply system needed to be rehabilitated. At the time the water sector in Kenya had been equipped with a dual system of responsibilities: at the side of the traditional Maji, largely created by Swedish support, there was an independent corporation for water supplies. There were no clear roles defined and a power struggle was cued right from the start. The Mombasa project amounted to huge investments and thus a large potential benefit for the responsible agency. A private Italian company had made a bid with a financial package. Meanwhile, a World Bank officer has managed to push through a Bank package for finance of the investment and the use of ICB. The resulting race for commissions led to a deep split within the Kenyan sector where all means were used to sabotage the opponent's project package.

One of the most important alliances, according to some observers, that influenced Swedish development co-operation decisions in the past – at least in SIDA – has been an alliance of civil servants in the aid bureaucracy and in the Ministry of Foreign Affairs, in turn associated with political allies in recipient countries. This type of alliance may not be illegitimate – maybe it could even be looked upon as desirable from some points of view – but it could involve the risk of reducing the influence of the democratic process on important decisions such as programme country or termination choices. In cases where a strong alliance of civil servants is working along its own political agenda, this may be directly opposed to the management of SIDA and the Ministry of Foreign Affairs, and hence in stark contrast to modern bureaucratic culture.

4.4 The immediate future

In sum, we conclude that interest groups in international development co-operation share a joint ambition, i.e. to keep aid flows at the highest possible levels. It is not easy to identify any active participants in the decision making or lobbying processes who represent a forceful force contesting aid or challenging individual countries or projects. If there are any in a particular case, they are likely to be political parties, which in Sweden are more or less committed to aid. So, we end up with a situation where all important stakeholders share the objective of keeping aid flowing.

Recently, we have experienced a few noteworthy changes in Sweden however. The end of the ever-increasing aid budgets and the gradual introduction of the new budgeting principles have made it hard even for a unanimous pro-aid community to be united on all important issues. The necessity to establish priorities and to terminate projects has created a situation where the debate once again will be more open. Hopefully, this will create contradictions among major Swedish stakeholders, whereby old established truths will again be questioned. The increasing number of younger people in the development co-operation agency will also contribute to vitalise the bureaucracy.

Within Sida, an interesting experience has just started. The formerly independent agencies now merged into Sida must hammer out a common set of priorities and policies for an effective use of scarce allocations. At the outset, this inner circle of aid workers will be divided into subsets of stakeholders: defending their working methods, their instruments, their countries, and so on. In the on-going debate about the direction of future aid and the methods of decision making and implementation it seems that the two main groupings will tend to be the classical ones in a matrix organisation based on regional and sectoral dimensions: the regional units versus the sector units.

In spite of and overriding the arguments phrased in different brands of aid ideology it seems that the most relevant dividing lines within the new organisation boil down to a simple matter of stakes of the participants. Those who represent sectors will always have a stake in the sector interests, basically boiling

down to the issue of having as many projects as possible within the own sector (project by project implementation), while those who represent the other dimension of the matrix will always have an interest in overall planning, i.e. as many planned programmes as possible (regional policies, country strategies, sector priorities): regions, countries, sectors should be planned by the regional units. The rationale behind these preferences is very simple: the sector specialists will always be involved in projects requiring their special skills, while the regional units' staff will only be involved as long as there are programmed co-operation elements. Projects-only would leave the planners in a void. To some extent this division line coincides with the frontiers between the formerly independent units. This does not simplify a merger or the elaboration of a joint policy with a mix of instruments.

There are reasons for hope, however. As has been indicated above, the end of a black and white geopolitical situation – where most of the basic rules from the sixties have been smashed to pieces by world events – in combination with the lack of funds has created a situation where the stakes suddenly may be less obvious within the Swedish system and where a profound reconsideration of the past would be possible. On top of that, the new Sida seems to be a lot more receptive to criticism and open for ideas and dialogue.

In most recipient countries we find very little of such hopes: rather, the situation in most regions, including Europe, tends to worsen in terms of stronger stakeholder alliances, more sophisticated systems to benefit from the aid flows and no countervailing powers in sight.

5. PAST SWEDISH EXPERIENCE

This section presents a few examples of cases from the history of Swedish aid in terms of graduation and time factors in PCM⁴⁶. Although the term graduation was not used, a number of trials to leave countries for various reasons have been made. These cases illustrate the selection of countries and of necessity mostly focus on the political level. It should be noted that only SIDA, among the former agencies, was practising the country programme model. The other agencies did not enter into agreements on country level at all, even if they could have informal indicative amounts for planning purposes. Of course, the whole issue of individual country's graduation is relevant only as long as some parts of Swedish assistance is based on country choices. Should all assistance be outside the country programming procedures, i.e. project based only, the only valid cases of graduation would be the application of general criteria: yes or no.

To illustrate the use of the time factor, examples from sector programmes or projects are discussed and we find that this puts the spotlight more on the technical level. In the case of project cycle management, examples may be taken from all the former agencies which illustrate the differences in their respective past practice. The new Sida obviously has a unique opportunity at this point of time, since the best elements of the past praxis could be picked out to make an effective combination for the new agency.

5.1 Countries: termination and graduation

For some readers it may be useful to know, before we continue with examples of country choices, that the SIDA practice around 1970 came to be focused on country choice. Assistance was looked upon as a means of eliminating bottlenecks in a country within the framework of the country's state planning for development. The criteria for this framework were gradually established in the government budget proposals 1970-1972 and concentrated on equity and independence. Countries were selected along those principles to become "major recipient countries" ("huvudmottagarländer"). The Swedish aid was fitted

⁴⁶ Main sources are interviews and official documents.

into the countries' planning through the process of 'country programming'⁴⁷. Countries selected were among others Tanzania and the countries of liberation movements (Angola, Namibia, Zimbabwe, Mozambique) as well as Vietnam. As may easily be understood, the concept of pulling out was not particularly relevant at the time of escalating Swedish aid budgets.

When people with long experience of Swedish development co-operation are asked about SIDA efforts to pull out of or phase out countries, a common answer is a broad smile and something like: 'that is something we have always tried, but we always got stuck'. The slightest whisper about leaving a country usually awakens the country's rooting section, of which the most important obstacles have been found in the Swedish aid establishment, e.g. the regional units of SIDA and the Ministry of Foreign Affairs. This may also be regarded as a sign of lack of determination on part of the political decision makers. At the time of changes of governments, the role of the civil servants was temporarily increased, which was also significant as the political decisions on country choice were often implemented on those occasions.

The famous 'classic' when it comes to SIDA's efforts to reduce the number of programme countries is the 'Country Review 80'. The purpose of the analytical exercise was to reduce the number of countries from twenty to about a dozen! The Country Review was carried out by a SIDA officer and contained at least hints about certain named countries that could possibly be candidates for a Swedish pull out. The reasons given for a pull-out and the suggested countries indicate that the issue was not graduation, but rather concentration. The proposal that was worked out contained the following countries and justifications: Pakistan: military dictatorship; Bangladesh: corruption; Swaziland: GNP per capita (implicit reason for graduation); Sri Lanka: the conclusion of the large energy project, Kotmale; Kenya: the nature of the regime and donor abundance; India: sheer volume relations;

Box 12: In the board of SIDA every country had its supporters.

Arguments of all kinds were raised from the representatives of different political shades: poverty in Bangladesh, why out of India and Kenya, if we stay in Laos? etc. A former director general of SIDA conclude about that time that decisions to pull out of an individual country never got political support by the time of decision making. Pulling out requires tough general decisions, or that the individual country messes up by itself.

The Country Review 80 effort provoked outcries from all concerned rooting sections and ended up with just two changes: in Pakistan SIDA pulled out, but Sweden stayed by a change of costumes in that BIFIS went into the country; SIDA pulled out of Swaziland (although the country continued to receive support from Sweden as a member of the grouping of "front line states"). Politically, the outcome of the whole exercise was an end to changes, a stalemate position was created.

Clear-cut cases of a Swedish pull out from a programme country are rare. The only straight-forward case is Chile, which is exactly an illustration of the point made above: the country itself creates a strong case for a Swedish pull-out, in this case for political reasons. Sweden had made its first support to Chile in the form of humanitarian support⁴⁸ after an earthquake. This was followed by a bilateral agreement on import support. Sweden entered into an agreement on development co-operation with Chile under Allende,

⁴⁷ In retrospect, it would be too easy to note that the means of politics and planning for development were grossly exaggerated in this process.

⁴⁸ Again and again, we find examples of how humanitarian support is used for entry into countries in spite of the principles for country selection.

whose regime met the criteria of a policy for equity and independence, but on top of that was also boycotted by the Inter-American Development Bank and the World Bank. The agreement was signed on 31 August 1973, less than two weeks before the military coup. The agreement contained the "purpose of economic development and social and economic justice in Chile as envisaged in the Development Plan of Chile for 1971-76".⁴⁹ This phrase was first used by Sweden to remain passive, but in September the government decided to suspend the agreement as the conditions to continue co-operation on the basis of the development plan were ruined after the coup. It may be concluded, as there had been an attempted coup a couple of months before the agreement, that Sweden may explicitly have added the phrase quoted in order to create an opportunity for exit.

South Korea is a rarely mentioned example of a country where Sweden terminated its assistance when the above-mentioned criteria for country selection were introduced. Sweden supported a family planning programme in that country, from which support was withdrawn.

An often quoted case of Swedish withdrawal is Cuba. The Caribbean island has been the subject of two decisions on termination of Swedish aid. The original Swedish support started in 1971 upon the visit of a Swedish delegation. The criteria were equity, independence and the absence of other donors. The country allocation was gradually increased until 1976/77 when there was political opposition to the continuation of aid to Cuba. Apparently, political wheeling and dealing involved a trade off between Cuba and Tunisia. In 1975, the Swedish parliament made a decision to gradually terminate aid to programme countries 'where a sustainable improvement of the development situation can be observed'.⁵⁰ This phrase, interestingly worded in terms of graduation arguments, was intended to mean Tunisia and Cuba. The political deal influenced the further destiny of Tunisia and Cuba in relation to Swedish aid.

Anyway, Swedish aid to Cuba was arrested due to domestic politics and a simple twist of fate: in the first version of the Swedish one chamber parliament the number of members was even and the aid to Cuba was decided by the flip of a coin upon an indecisive vote. Instead of the MSEK 70 proposed by the government, the parliament's decision was to allocate MSEK 40 million (partly credits with no interest) and to start the process of terminating aid to be succeeded by 'broader co-operation' as the term was phrased earlier in connection with Tunisia (cf. below). As in the case of Chile, this had nothing to do with graduation, only with politics. The Swedish decision led to a situation where Cuba was no longer a SIDA programme country, but where BITS and SAREC were active the next political decision to reduce aid to the country.

The second time around, the political decision to pull out from Cuba was much cleaner: a new government was committed to end aid to Cuba and did so right upon taking power. In 1991, the non-socialist government claimed to have cut aid to Cuba. The decision was again political and had nothing to do with graduation.

⁴⁹ Development Co-operation Agreement 1973.

⁵⁰ *Utvecklingssamarbetet med Tunisien*, SIDA, 1979 (our translation). One of the fundamentals of Swedish aid was established in 1962 when the government's annual proposition included the idea of a 'political mix' of countries, but excluding dictatorial regimes. The major policy study 1976/77 ("Biståndspolitiska utredningen") confirmed this principle of a political mix, but increased the emphasis on political independence, democracy and human rights. A mix necessarily involves political compromise.

Box 13: Cutting aid to Cuba – and returning

When the government in 1991 decided to cut aid to Cuba, the only agencies with projects in the country were BITS and SAREC. SAREC had contracts that had to be honoured and BITS had a contract for the extension of support to an industrial maintenance centre that was not signed by Cuba. The newspapers in Sweden announced that Sweden had cut aid to Cuba. Actually, the on-going SAREC project continued and the single impact was that the continued support to the maintenance centre was cancelled. The only member of the board of BITS who raised his voice to defend the project was the representative of the industrialists, arguing that the project aimed at improving the market based management of business.

With a new government in place in 1994 it did not take long until Cuba's return: the new minister, an old-time friend of the Cuban leader, called Sida and told the officers responsible that a remaining fund from the SAREC funds could now be used for support to Cuba!

When aid was reduced to a number of countries in the beginning of the 1990s, this was justified by the reductions in the general aid budget and not related to the graduation theme. The relative ease of pulling out of projects and programmes on that occasion may be taken as an illustration of the point quoted above that general decisions – forcibly in this case – are easier to implement than those aiming at individual countries.

In terms of actual graduation efforts, the classic example in the Swedish experience is Tunisia. This is so partly because the discussions and debates about Tunisia coined the term 'broader co-operation' in the Swedish aid jargon. Tunisia had become a country of co-operation in the 1960s, but was questioned in the early 1970s due to income level and donor abundance (France). This is an interesting exception to the above-mentioned rule that this time period did not involve any efforts to pull out. On the occasion of the first ideas and hints about reducing aid to Tunisia there was a political outcry on the part of Tunisia and the discussion had to cease. But later the political pressure in Sweden was increased (cf. Cuba above) and the negotiations with Tunisia, after the 1975 parliamentary decision, came to deal with actual gradual reductions of the annual allocation from Sweden. The phase-out from Tunisia started with a parliamentary decision in 1977 to end "bilateral co-operation" in December 1981, upon a parliamentary decision in Sweden⁵¹. From a graduation point of view it may be said that the graduation process was planned to last from 1977 to 1981, but it was extended to 1984, partly at least due to remaining funds that had not been used.

Meanwhile, 'broader co-operation' had started in 1977 with institutional co-operation, study visits and training projects in Tunisia and Sweden. In the last country programme document SIDA paints a relatively bleak picture of Tunisia's development and states a certain scepticism in relation to "broader co-operation". SIDA's experience was that "broader co-operation" was not effective as an instrument for 'transition from grant aid to commercial relations' and that it was administratively demanding. Tunisia's idea of a transitional instrument (between grant and commercial conditions) was focused on soft credits. Sweden had just (around 1976) abolished⁵² development credits ("biståndskrediter"). The 1979 parliament had requested material on development co-operation including 'criteria and methods for design and termination, respectively, of long-term co-operation programmes'.⁵³ A study was going on regarding a Swedish system of 'mixed credits' and SIDA requested this to include soft credits to be used in the graduation process.

⁵¹ Before on-going agreed project support was terminated another three to four years elapsed.

⁵² The existing loans were remitted, except for Tunisia.

⁵³ *Utrikesutskottet 1978/79:27* quoted in *Utvecklingssamarbetet med Tunisien, 1979* (our translation).

Box 14: The disbursement target and termination

The role of the disbursement target in donor organisations is well known by now. It is still a surprise, when re-reading old documents about termination, to note the immense importance of non-disbursed funds. As soon as a stock pile of funds is available, the budget-based management style inevitably leads the decision makers to extend the support in spite of already made decisions about termination. Will performance based budgeting and the reduced availability of funds be sufficient to eliminate this decision criteria?

The final decision to exclude Tunisia from the group of programme countries may have been political. Nevertheless, a large part of the original discussions within SIDA was related to the idea of graduation due to development levels in the country.

In the negotiation brief, the Ministry of Foreign Affairs pointed at the on-going project support within "broader co-operation" (estimated at a maximum of MSEK 5 as compared to the last country allocation of MSEK 50) and the emphasis on stimulating 'continued and lasting co-operation in industry, trade, science, education and culture'.⁵⁴ The delegation was explicitly instructed to give information on the opportunities for continued aid through NGOs and about the Swedish interest to support projects to improve the situation of women. It would also give information about Swedish export credits, support to research, Swedfund and the favourable conditions for delivery of new ships. This is an important illustration of what was meant in practice by "broader co-operation".

As most readers will recall, BITS was later formed partly as a response to the need for an instrument that could accommodate "broader co-operation" in the dialogue with Algeria. As always there were political considerations involved. In the early 1970s the political establishment in Sweden had become interested in supporting Algeria, for example in vocational training, in order to strengthen ties with the oil-booming country. The director general of SIDA did not want to include Algeria, which was justified by GDP per capita arguments, i.e. very similar to the Tunisia argument. A policy study on "broader co-operation" at the Ministry of Education focused on "cost-sharing" and "mutual interests" as the main elements and led to the proposal of establishing BITS. BITS later handled the co-operation with Tunisia with a small administrative input.

Portugal is not very often mentioned as an example of Swedish termination of aid. Sweden started co-operation in 1974 in order to support the process of democratisation of Portugal. The idea of selecting Portugal was clearly related to the concept of limited duration of the support. The concept of support to get across the threshold ("tröskelstöd") was applied in the preceding discussions. The last development co-operation agreement was signed in 1974 and was valid until the end of the fiscal year of 1982/83. Due to remaining funds SIDA extended the support another year, thereby ending the co-operation through SIDA in 1984. Part of the Swedish support went through NGOs and their capacity to pull out is lower than that of SIDA. The case of Portugal could be said to represent a case of graduation, where the criteria for entering and exiting the country was democracy-related.

Sweden has decided to phase out country programming to Lesotho. This is a case of termination, rather than graduation. The decision is largely justified by political reasons, i.e. "political uncertainty" and "regional changes". Further, the low capacity for implementation is a justification. Continued co-operation is planned to take place in infrastructure, soil conservation and democracy.

⁵⁴ *Avtal med Tunisien om utvecklingssamarbete: förhandlingsinstruktion*, Ministry of Foreign Affairs, 1979-05-23 (our translation).

Botswana often appears in discussions about time factors and graduation. It is mostly quoted as an example of Swedish failures to pull out of projects, sectors and to terminate aid to the country. This is partly due to the fact that people tend to think that SIDA got into Botswana with a determined idea of support of limited duration. Maybe the time has come to modify this image of Botswana-Sweden relations. The main reason for support was right from the outset the independence objective of Swedish international development co-operation – not poverty. Independence was in this case related to regional politics. Then came Botswana's diamond success and the impact on overall GNP, on exchange reserves, state budgets and other indicators, making the country look 'too rich' for Swedish grants. And for the World Bank, as the country graduated from IDA credits in 1994. But from an independence point of view, the support from Botswana could be justified all the way up to the democratisation of South Africa. In this sense, the withdrawal from Botswana could be seen as a case of graduation in terms of independence.

In the high level consultations in 1994, as part of the Swedish preparation of a country strategy, the idea of termination was the subject of discussion between Botswana and Sweden. The Swedish government has decided to end the country's status as a programme country by 1998 and the road to this end is outlined in the 1994-1998 country strategy. In the government's proposition the argument for ending country programming is that Botswana is a 'middle income country'.

In the 1980's SIDA also managed to reduce the number of sectors in Botswana. Under the influence of a study on concentration, SIDA's management was trying to concentrate to fewer sectors in the country by pulling out its support to industry. In 1995, Sweden has also left the water sector after twenty years of support. The support to rural water supply systems has been terminated on the grounds that the sector development objectives of Swedish support have been met.

Three countries are often mentioned as cases, where Sweden has nurtured the idea of country programmes of limited duration and where the main objective of support is to eliminate bottle-necks or to overcome thresholds to development⁵⁵. These are Zimbabwe, Nicaragua and Namibia.

In Nicaragua, the original planning period was three years. The initial support was regarded as time limited support to rehabilitation after the war. This period was later extended to five years, to be succeeded at the end of the fiscal year 1984/85 by "co-operation in other forms".⁵⁶ When SIDA in 1982 argued and proposed to the government that Nicaragua be treated as a programme country – i.e. implicitly a programme without limited duration – the justification was that 'the rehabilitation period after war and natural disasters will be longer than planned'. In 1982, there were practically no budget constraints in the aid organisations and there were strong political ties to the new government in Nicaragua.

⁵⁵ Some observers claim, however, that basically all programme countries except Ethiopia and India, were entered with the idea of a support of limited duration only to support the countries for some bridging problems. This was not put into agreements, but remained at the level of rhetoric.

⁵⁶ *Utvecklingssamarbetet med Nicaragua 1982/83-1983/84*, SIDA, 1982 (our translation).

Box 15: Decisions and justifications

The SIDA memo arguing for extended support to Nicaragua in 1982 is characterised by a rosy picture of the recent development in Nicaragua combined with the observation that 'a major need for support remains' – it is instructive to compare this wording with that of the memo where Tunisia is excluded from further grants.

The support to Zimbabwe was also conceived to be of limited duration due to the country's relative wealth upon independence in 1980. Without going into details, it is easy to note that after 15 years of support it is still a programme country. At one point a SIDA board meeting adjourned a decision on the country programme due to political violence in the country, and upon advice from the DCO. This led to a political uproar and the situation in Sweden was quickly 'normalised' again.

An instructive case for Swedish country programmes of limited duration may be Namibia. Sweden had supported SWAPO and parliament in 1990 decided to support the newly independent country from the start by bilateral development co-operation. But this support was explicitly limited in duration⁵⁷. It had been prepared during close Swedish monitoring of regional development in the latter half of the 1980s and includes Nordic co-ordination and division of labour (for Sweden: transports, central bank and certain training) for future support. The idea of a limited duration was also supported by Namibia's first president. The Swedish arguments were basically that GDP per capita was high, while income distribution was extremely skewed and that the country planned a redistributive income policy for increased equity.

At the outset, Swedish planning was based on the idea of staying in the country for about 15 years, but the time criterion was combined with specific project objectives. A mix of instruments was also foreseen. The first ten years would be grant aid, to be followed by five years of the instruments of BITS and SwedeCorp with a gradual phase-out of grants. The present country strategy is valid for the period up to and including 1998 and the present bilateral agreement is valid for three and a half years.

In retrospect, it seems that the Swedish planning and implementation so far has been relatively successful. The Swedish support got a head start in line with established objectives for the country programme support and results were soon obtained. The project support had been clearly defined: establish a central bank, privatise the telecom sector, construct roads and train a number of people in specific areas. Soon the efforts were supplemented by projects supported by BITS and SwedeCorp (10-15 projects at about 30-40 MSEK in 1995). Some factors, that may not be present in most other countries, clearly have contributed to the success: Swedish aid was relatively thriving⁵⁸, the country's government was very aware of the dangers of continued aid, public real wages are sufficient to gain a living from, and there is skilled and educated labour in the country.

The Swedish Namibia experience has demonstrated that the existence of an exit and time limits may lead to improved goal attainment (through stricter discipline among all parties). In terms of graduation it is useful to keep in mind that the country as such cannot be said to have graduated in terms of the original objectives (income distribution, for example), only the projects supported by Sweden have graduated in the sense of reaching their objectives.

⁵⁷ The first agreement with the Namibian government was for one year. But the SIDA proposal to the government (*Bilateralt utvecklingssamarbete med Namibia*, SIDA, 1990) clearly states, however, that SIDA has view that the Swedish support must be planned in a long-term perspective.

⁵⁸ In terms of general development of a given country, the role of all donor aid will always be marginal, however.

Last but not least, mention could be made of programme countries where events may have justified Swedish withdrawal, according to some observers, but where SIDA or the Swedish government did not take action. One example is Ethiopia in the late 1970s, when the military regime became domestically oppressive and escalated its war in Eritrea. Another example could be Sri Lanka where elections were cancelled due to the emerging civil war situation in the mid-80s. Such examples only demonstrate the inconvenience of pulling out.

It may safely be concluded from the above country examples that Swedish experience includes a number of various cases of efforts of termination and sometimes graduation, but that the past does not provide any particular guidelines for future policy discussions. The strongest point may be that there is a need for a general policy in order to reduce the influence of stakeholders and to simplify termination or graduation decisions regarding individual countries.

5.2 Projects and programmes: time factors and conditionalities

This section moves from the issue of graduation on country level to the use of time factors in projects and programmes.

Swedish experience of using time factors and conditionalities – leading to a time limit before certain conditions are met – is not very encouraging when it comes to projects within bilateral agreements. Among staff with experience of Swedish country programmes there is a general feeling of failure when it comes to successfully imposed conditions or time limits. Swedes are not strong and determined enough to succeed with this, the saying goes. Above, a few reasons for failure of time limited PCM have been given.

It must also be repeated that improved PCM with the purpose of increasing the impact achieved per spent *krona*, must be based on the concept of cost-effectiveness. Time has no meaning for PCM as such unless it is related to effectiveness. In this context, time *is* money.

Although the utility of a list of more or less well-known examples of difficulties of terminating projects may be rather limited, a few lessons could help to indicate the direction policy and guidelines.

First, the reader should be reminded that some Swedish development co-operation instruments are used with a strict application of time limits and sometimes with incentives to consultants or recipients who reach targets on time. Credits are based on financial investment analysis and have an evident time limit in an institutional context where ownership and responsibility are clearly defined. Technical co-operation and enterprise development support projects are not framed by a country programme agreement, only by isolated contracts or agreements over a restricted period of time. These kinds of agreements have cost sharing as an element in most cases. Enterprise development projects – with more Swedish involvement than the technical co-operation projects – normally run for three years (with a review after one year), and possibly with one year's extension. Pulling out is then not an issue as it is relatively easy to do just by avoiding new agreements. The institutions involved have a stronger sense of ownership and the responsibility for performance in project implementation is not shared by Swedish authorities.

Swedfund has had an aid component in its project history, especially during the period when training and management were subsidised through co-operation with BITS (started in 1981). Currently Swedfund is aiming at bigger projects and more suitable countries. The former Eastern bloc is now the fastest growing region, which will soon have the same share of the Swedfund portfolio as developing countries. A lesson learned in Swedfund's history is exactly the necessity of building exits into the agreements (the shareholders' agreement).

Among projects and programmes framed by country programmes where Sweden has been present for a long time and where efforts to impose conditionalities, to concentrate or pull out have proven very difficult, we may quote a few to illustrate the kind of problems encountered.

A classic in the memory of many a veteran in Swedish development co-operation is the Swedish effort to try to influence Ethiopian laws in connection with the support to the Chilalo Agricultural Development Unit (CADU). Studies carried out by the project had pointed at negative impacts for the target group, i.e. tenants (early 1970s). A major obstacle to an improved situation for the tenants turned out to be the tenure laws. In this case, SIDA's main line of action was to pose political conditions rather than to pull out. Finally the Ethiopian government presented a bill for a new law, but it was turned down by parliament. People in SIDA were advocating a suspension of project support, but before any decisive action was taken, the emperor was ousted by the military in 1974.

The support to the fishery and telecommunication sectors in Angola has been going on for a long time. To prepare for a reduction in telecoms, one year of dialogue went on between Sweden and Angola. In Vietnam, Sweden started to support hospitals more than twenty years ago. Ever since the Swedish strategy put heavy emphasis on primary health care, SIDA has tried to reduce its support to central hospitals in the country. In the last valid agreement, there is finally a phrase about a phase-out of support to central hospitals to be gradually replaced by Vietnamese finance. After signing the agreement, the two parties are involved in a continuous discussion where the Vietnamese are trying to convince Sweden to change its position.

Box 16: Hand pumps and mini-skirts

When Sweden was trying to impose low cost technology in the water sector in Kenya, hand pumps were suggested by the Swedes as a condition for support to a new water supply scheme. During the following discussions, the permanent secretary on the Kenyan side at one point exclaimed: 'Hand pumps are just a fad, like rock'n-roll and mini-skirts'.

In the water sector in Kenya, as well, Sweden has been a major donor for more than twenty years. When a Swedish expert found that the target groups of assistance were neglected in implementation, it took several years to turn the programme into the direction desired. Later, we started to support a pilot project with low cost technology, i.e. hand pumps replaced the previous piped water supply systems. Based on a new water sector strategy, SIDA wanted to continue investments in the sector with the new technology, while Kenya wanted to stick to piped supply systems and diesel engines. This confrontation led to a long and expensive period of negotiations before a compromise could be reached. Only much later, and due to increasing obstacles to co-operation and a Kenyan incapacity to reform the sector, has Sweden started to pull out of the sector.

As examples of Swedish exits⁵⁹, we have quoted the water and industry sectors in Botswana. Among recent examples due to the budget constraint, a lesson was repeated in India, when the country allocation was reduced in the 1990s. In the search for a project to terminate, Sweden had the choice between equally successful examples. There was no ideal candidate in the sense of a clear failure that could be taken out of the programme. In the final analysis the size of the annual support became the selection criteria. The choice boiled down to the support to the energy sector or the support to the water and sanitation sector. The support to energy created employment in Sweden and was politically desirable to keep. In the 1980's

⁵⁹ For further examples and analysis, cf. Hedlund, *op. cit.*

Sweden withdrew its support to agricultural co-operatives in Ethiopia. This was provoked by a policy conflict between Ethiopia and Sweden.

Box 17: Who's kidding whom...

When after twenty years of expatriate efforts for capacity building a recipient organisation comes up with capacity building as the objective for the next planning period? Or when a land use management programme turns into democracy support while all the stakeholders know that the important recipient representatives are profitably engaged in exactly those activities that the project should arrest?

Finally, we present the illustrative example of the Kenya Science Teachers' College (KSTC). The KSTC agreement was signed in 1965, i.e. in the early years of SIDA and before the era of the ever-increasing aid budgets. It was the first delegation ("utdelegering") to another institution by SIDA: the University of Uppsala was engaged for implementation⁶⁰. The KSTC agreement was signed for a three-year period, with a clause on automatic extension "for two further consecutive periods of three years each". There was a time limit of nine years and an exit possibility at least every three years (on six months' notice). Cost sharing was stipulated for the capital cost (approximately 10% for Kenya) as well as for the costs of maintenance and operation. Over a period of ten years, a plan for replacing the Swedish teachers by qualified Kenyan teachers (paid by Kenya) was quantified year by year, from zero in 1966-71 to 24-28 in 1976. The Kenyan and Swedish contributions to the cost of operation and maintenance (exclusive of Swedish staff) were specified year by year. The Kenyan contribution started at 30% to increase up to 100% in year ten, when the Swedish support was phased out.

The full KSTC agreement, excluding annexes, is five pages, but it seems to cover the basic problems we are concerned with here: it is limited in time, there are exits for the donor, cost sharing is stipulated and the Swedish contribution is reduced year by year up to the complete phase-out in year ten. No mention of LFA is made in the agreement, but the result of the above-mentioned elements plus the quality rules for teaching and outputs could easily be fit into a neat LFA matrix of the project, if wanted. The costs of qualified teachers can be calculated and compared to other colleges. As far as we know at the time of writing, the project was successfully completed.

The mixed picture of the use of time factors in Swedish development co-operation is amply illustrated by the indicated differences over time and over instruments used. But in contrast to the graduation issue, we note that the use of the time factor in project and programme cycle management may have a lot to learn from past Swedish experience. The project example from thirty years ago maybe provides a pointer: what we need are not new techniques or models, but a policy and accountability for its implementation. Among the lessons learned from past project management its elements may be identified.

6. CO-OPERATION INSTRUMENTS AND THE PRE-GRADUATION ZONE

According to the Terms of Reference, the present study should 'discuss and recommend criteria for co-operation in the commercial, technical and scientific fields, suitable either to succeed grant aid programmes or to be applied to countries where no such co-operation with Sweden has taken place so far'.

⁶⁰ The second was CADU, to Ultuna.

Based on the idea that different stages in a country's development process call for different co-operation instruments, the requirement implies that grant aid should be provided at low levels of development whereas credits should apply at higher levels. Arguably, such a soft-to-hard approach is based on the notion that recipient countries, as they grow richer, should increasingly contribute with their own resources in the co-operation. The two alternatives for "graduation through transition" from grant-based co-operation which were proposed in the Terms of Reference, were a "credit-based programme" or "a new concept of mutually beneficial exchange". The idea of a credit-based programme as a transition phase from grants to no aid at all is in line with the conventional thinking, i.e. decreasing degree of concessionality as a country grows richer. The mutual exchange concept is rooted in the former Swedish agency BITS, where this idea formed part of the origin. This report suggests a way of achieving the transition from grants to graduation. But before presenting our proposal it is necessary to clarify some points of departure and some problems common to all means for transition.

6.1 From little to less – by different means

Given that grant aid should only be granted to countries below a certain level of development and that a given higher level of development should mark total exit from all sorts of aid (as argued in this report), we are looking for means of transition between these two levels. When a country develops beyond the ceiling for grants, there will still be a way to go until it graduates, i.e. develops beyond the ceiling for all assistance funds. The simplest means of them all is: from little to less! The more a country develops the less aid it receives; and the easiest way to achieve this would be to reduce the total funds granted along a scale of development levels. The basic idea behind this means of transition is shared by all alternative means: as the country develops it should have less support from outside sources.

An obvious argument against the simple reduction of funds, is that a country's development, as measured by GNP per capita or by the HDI, never takes the form of a linear upward curve. Awkward effects could appear when temporary setbacks occur in the process, or when financial requirements actually are increasing and domestic or outside political events decrease the access to financial markets outside the international development co-operation, for example.

The argument of economic development not being linear between two levels of GNP per capita applies to *all* forms of changing co-operation linked to development levels, however. There is no choice: as soon as the necessity of graduation and the distinction of countries along development levels are there, we need means for the transition; and a policy of graduation does not necessarily imply that the policy holder believes in the linearity of development.

A second argument against the straight-forward reduction of funds is that it implies reduced co-operation between the two countries along with the decrease of funds. To avoid this, a way must be sought to achieve continued co-operation between the countries in spite of an increased development level.

Leaving the means of just reducing funds behind, we have the conventional idea stemming from the credit-based forms of aid (cf. section 2.1 above) that differences between development levels should be reflected in the degree of concessionality: when higher development levels are attained, the degree of concessionality is reduced. It should be noted, however, that this means of distinction between countries does not lead to a means of transition between two levels: it just triggers changing conditions at the ceilings by eliminating eligibility for higher concessionality. The Swedish international development co-operation embraces *so many more instruments* than just degrees of concessionality of credits, that it would be a waste not to use them also for means of gradual transition between ceiling levels.

One way to achieve a reduced input of finance from the donor government during the transition between development levels, without necessarily reducing the scale of co-operation and without abandoning the means of transition, would be to use the means of cost-sharing. The recipient country assumes an increasing share of the costs of the co-operation during the transition to graduation, when it will carry the full cost of all development projects. This method is of course not new at project level (cf. the example from the 1960s in section 5.2 above), but has not been tried at country level. One advantage of this method is the ease of measurement and application: it is a transparent way of designing a gradual transition from the grants-only level to final graduation. From an economic point of view the costs of each partner may be easily calculated. No major market distortions – apart from the grants themselves – are involved.

A third means of transition in Swedish development co-operation is to use the existing instruments of co-operation in a systematic and planned way along with the development of the country in question. The Swedish instruments could be classified along several criteria, such as for example grants or credits, degree of concessionality, degree of cost-sharing, among others.

In the remaining part of this section we argue that the most suitable means of transition from the grant ceiling to the graduation ceiling for Swedish international development co-operation are *changes in the mix of existing instruments*. This method shares a benefit with the cost-sharing method: the co-operation continues during the transition phase. One advantage of this transition method is that it is very much in line with empirical data of the past – although the instruments were then vested in different agencies – and could therefore be implemented with much ease. A disadvantage is that it is more difficult to calculate the precise costs of each partner in the co-operation than in the cost-sharing method.

In selecting the instrument mix as the transition method, all that remains is to decide a criterion for the choice of instruments early and late in the transition process, respectively. Conventionally, the degree of concessionality or cost-sharing would be the favourite candidates of economists.

6.2 Mutual benefit as an alternative

However, this chapter holds that *mutual benefit*, not counterpart financing, is the key rationale for the consecutive employment of “early” and “late” instruments. The suggested approach is thus founded on the principle that Swedish interests (commercial, scientific, cultural, etc. – not the interests of stakeholders in aid) should be accentuated parallel to the development of the recipient country, thereby also contributing to un-aided exchange between Swedish and recipient interests when Swedish assistance has been completely withdrawn.

Consequently, the dimension to look for when selecting co-operation instruments for the early and late phases of assistance is *tying to Swedish interests*, not whether instruments are of the grant or credit type.

Before we further develop the advantages of relating development co-operation phases to the co-operation instruments in terms of their respective ties to Swedish interests a few words on the different forms of ties are necessary⁶¹.

⁶¹ It should be clear to the reader that the authors of this report are not arguing for an increase in tied Swedish aid: the instruments with ties are already at hand and in use. The argument here is to use degrees of existing ties as an indicator to where to apply the instruments in the transition process. A well-known disadvantage of tied aid for the recipient country is the cost increase in a static comparison with a non-tied alternative. This is no problem for the present argument. The more important disadvantage in the present context is that the exact cost increase may be hard to estimate in each particular case.

“Tying” of aid may have different shapes: funds can on the one hand be tied to specific uses, e.g. individual projects, and on the other hand to the supply of Swedish goods *and/or* services. The following figures illustrate the relations between ties and concessionality as well as between ties and co-operation instruments:

Figure 1: Ties and concessionality

		USE	
		NO	YES
SUPPLIES	NO	GRANT (1) CREDIT (2)	GRANT (5) CREDIT (6)
	YES	GRANT (7) CREDIT (8)	GRANT (3) CREDIT (4)

(1, 3, 5, 7) Grants in general: grants may always be justified as long as they do not come with conditionalities which distort the use of resources of the recipient or alternative resources.

(3) Grants tied to supplies and use (or credits with a high level of subsidy, such as IDA credits): useful from the recipient point of view, given that the conditions do not distort the allocation of domestic alternative resources.

(2) Credits not tied to supplies or usage (i.e. general budget support or non-specific import support): the level of grants (concessionality) and the recipient’s creditworthiness determine the utility from the recipient’s point of view.

(4) Credits tied to supplies and use: such conditions are not acceptable at low levels of concessionality as they eliminate competition among other things. The distortion may however be reduced by ex post contract financing of signed contracts.

Figure 2: Ties and co-operation instruments

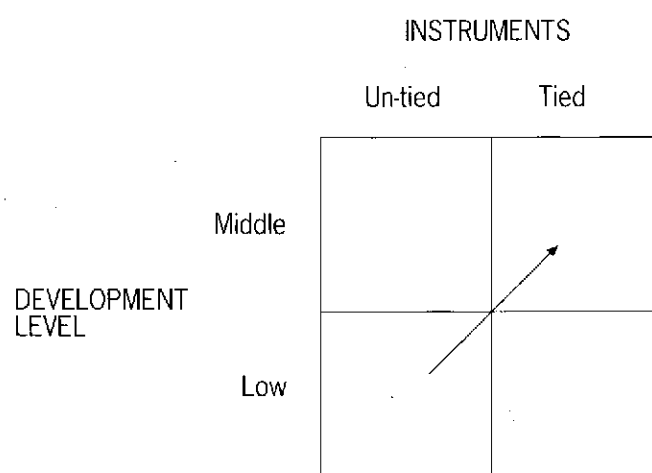
SUPPLIES		USE				
		NONE	WEAK	MEDIUM	HIGH	VERY-HIGH
None	Goods	Import support and budget support; programme support		Project support without prior definition of "Swedish interests"		
	Service					
Medium	Goods			credits for contracts (u-krediter) for given components of project		
	Service				project support with ties to Swedish consultant or with a defined "Swedish interest"	support to narrowly defined and selected costs and components with "Swedish interests"
High	Goods	Non-specified import support	Import support to specified sectors	Import support to specified programmes		Credits for narrowly selected project components (suppliers' credits and export credits)
	Service	Technical co-operation			Results generating research	

Developing countries would generally aim at credits in the "upper left" boxes of the above matrix, while Swedish export interests benefit from the instruments in the "lower right" areas of the matrix.

Recipients would tend to prefer credits not tied to supplies and with no specified use before other forms of credit. Donors and certain recipients sometimes do want to test sustainability and impact and evaluate results, which sometimes would justify credits for projects not tied to supplies (i.e. tied to given uses, but not to supplies of goods or services).

With the above distinctions in mind, we propose that Swedish development co-operation should be phased by the use of certain instruments over recipient development levels, and in a gradual switch from recipient benefits to mutual interests as indicated above. The transition to a situation characterised by mutual interests is done by increasing the ties to Swedish interests (outside of the aid stakeholders' interests). In terms of tying to Swedish interests, the relation between instruments and development levels could be summarised by the following matrix:

Figure 3.



The proposed approach would offer several advantages:

- it forwards conventional thinking on graduation by *linking development levels to the form of co-operation* (Robert Cassen, who could be considered setting present standards, suggests [cf. section 2.1] a highly elaborate system for levels but does *not* discuss the instruments of co-operation to be used as a country develops towards the graduation threshold),
- it builds upon the original idea of “*broader co-operation*” and *provides a vision for post-graduate relations* between Sweden and the recipient countries,
- in relation to cost-sharing it *adds a dimension* to the co-operation in that technical co-operation and research co-operation would involve Swedish partners in continued co-operation, in the cost-sharing case replacement is the more likely outcome,
- it *accommodates the existing reality of tied grants*, e.g. the former BITS’ technical co-operation and the former SAREC’s results-generating research, instruments which are predominantly directed to relatively rich countries,
- it helps *curbing the tendency of allocating un-tied grants to richer countries*, resources which could be spent more purposefully in poorer areas,
- it implies (since the actual instrument/level-of-development allocation of Sida resources today corresponds much better to tying than to any other dimension, such as grants/credits), that the adherence to a like-minded policy would involve *less radical shifts in the presence of different instruments in the country*,
- it *follows suit with several ideas currently discussed by Sida*, e.g. that concessional credits should not be given to the poorest and highest risk countries, and that the development credit instrument may be revived for such countries (provided that it stays minimally tied), and

- it *directs tied instruments to the relatively rich countries* which are better armed to accommodate the inevitable risks of market distortions.

The remainder of this chapter substantiates some of the above points and focuses on the different instruments which Sida has had at its disposal since SIDA, SwedeCorp, BITS and SAREC merged under single authority in July 1995⁶². Section 6.1 makes an elementary classification of tied (to Swedish partnership, goods and services) and un-tied instruments. Section 6.2 looks into the actual allocation (country-direction and resources channelled) of these instruments as of FY 1993/94. The underlying aim is to elaborate a simple staircase model for two-step, sequential graduation of Sida instruments as countries reach higher development levels. Criteria for such levels are suggested in section 7.

6.2.1 Instruments, solidarity and mutual benefit

Listed in accordance with their previous organisation, the present Sida instruments which qualify as un-tied (i.e. no formal or intrinsic strings attached to Swedish commercial, scientific and cultural interests) are:

Table 1.

SIDA	SwedeCorp	SAREC
Budget support	SwedeCorp projects	Research capacity building
Import support	Import promotion	
Balance-of-payment support		
SIDA projects		
NGO support		

In practice, SIDA's import support may involve various degrees of tying to Swedish goods and services. Similarly, SwedeCorp's import promotion activities have an evident, albeit indirect, relation to the Swedish export industry. However, such tying is informal and thus does not change the instruments' respective position in the two tables presented.

Moving on to the tied variants of Sida instruments, the list becomes somewhat slimmer. Swedfund's joint venture financing is included because it is one of the largest co-operation instrument found outside Sida's authority, and because it may be perceived – from a mutual benefit point of view as the final step in the graduation staircase.

⁶² In the discussion of Sida's instruments of co-operation and of possible ways of harmonising the use of them into suitable mixes along the graduation process, we have found no easier way to label the instruments than using the former agencies' names. Until we find new ways of labelling the instruments, we ask the reader to bear with this.

Table 2.

BITS	SAREC	Swedfund International AB
Concessional credits Technical co-operation International courses	Results-generating research	Joint venture capital

Interesting to note is SAREC's dual presence. The two forms for research co-operation are also directed to different recipient environments – the poorest countries are primarily targeted for capacity building efforts, whereas results generating research is generally allocated in the more developed countries.⁶³

Common to all instruments in the second table is that they are, by definition, tied to Swedish commercial and scientific interests and, as such, are instruments for mutual benefit rather than solidarity only.

6.2.2 Instruments employed

In order to simply illustrate how Sida's tied and un-tied co-operation instruments have been related to countries with differing development levels, a statistical exercise is presented in **Annex 5**. The tables presented there confirm that the instruments have been used discriminately in the past.

6.3 Problems of implementation or problems of theoretical purity

The preceding sections demonstrate that the choice of rationale for a changing magnitude and/or forms of co-operation is by no means an easy decision to make. The conventional degree of concessionality of credits is not sufficient as a tool for Swedish aid: it does not at all take care of the transition between ceiling levels and it cannot accommodate the existing grants and tied forms of aid. The cost-sharing tool is attractive for its beauty in respect of the combination of simplicity and economic transparency. It lacks the capacity to embrace existing Swedish instruments.

We do not believe that now is the time to throw out existing tied instruments from the Swedish tool kit (cf. section 1.2). That would cause unnecessary management problems in the aid agency and an uproar in public opinion. In a not very attractive choice between the theoretically pure option of cost-sharing and the manageable option of using the existing instruments for easy implementation we argue that aid management factors dictate the selection of the instrument mix as the tool for transition between ceiling levels.

7. ELIGIBILITY AND GRADUATION CRITERIA

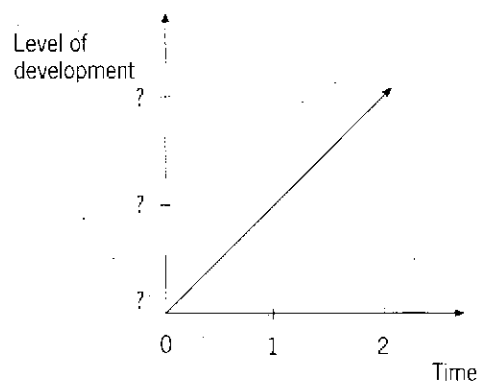
This chapter discusses and makes a tentative proposal for eligibility and graduation criteria. By setting standards for 'development levels', it thereby adds the final brick in our model for two-step graduation of Swedish recipients – from un-tied solidarity to, first, tied mutual benefit and, second, to un-aided exchange – as they grow more developed.

⁶³ C.f. *Partnership in Knowledge: Scientific, Technical and Cultural Co-operation between India and Sweden*, M. R. Bhagavan, Sida, 1995.

We thus want to find criteria for three consecutive thresholds of the graduation staircase: (i) eligibility for un-tied co-operation based on general poverty criteria and specific conditionalities, (ii) eligibility for tied co-operation based on general middle-level development criteria and, again, specific conditionalities (i.e. half-way graduation), and finally (iii) eligibility for un-aided exchange based on general high level development criteria (i.e. final graduation).

We also conclude the obvious: that conditionalities, although they have to be there, cannot be identified without regard to the specific context of each co-operation opportunity, and that time factors cannot be calculated and made part of the graduation policy. Our present concern can thus be illustrated by the following figure:

Figure 4.



This rather simplistic approach has been guided by two important facts, one empirical and one practical. The empirical fact is that Sida to date does not have any experience of graduation, with the possible near-future exception of Botswana. Swedish assistance on a larger and coherent scale has never been withdrawn because of a higher level of development in the recipient country. In Tunisia we hesitantly pulled out after a socialist-liberal horse-trading agreement basically to quit Cuba in order to achieve greater political balance in our country-portfolio, in Chile we withheld the start-up of country programme co-operation because of the 1973 coup, and in Portugal we pulled out long after democracy was in place. Thus, as we have no solid experience, any Swedish graduation policy has to be developed at least in part on a trial-and-error basis, starting from the simple and moving on to more detailed policy provisions as we gain new insights with respect to workable modalities of graduation.

The practical fact is that a policy for graduation from development co-operation *in any case* cannot be too complex – the general absence of enforced graduation provisions among international donors simply mirrors the probable truth that graduation is as difficult as development co-operation itself. Too much policy in this field risks degenerating into pure theoretical nonsense with negative-only consequences for country-wide aid management at large.

Therefore, we have tried to develop a model for graduation which is as simple – and hopefully as workable – as it can possibly get. Section 7.1 suggests, or rather repeats, two criteria for initiating the two steps of country graduation (per capita GNP and HDI), and contemplates a number of possible operative benchmarks. Section 7.2 takes a brief look at what would happen with Sida's current country portfolio if such criteria and benchmarks were consistently enforced.

7.1 A choice for development levels

For all their problems, the per capita income and HDI criteria may be the best bet when developing graduation policy from scratch: they are readily available in a statistical form, they are relatively reliable, and, most important, they are objectively related to a country's general development level. But, evidently, they cannot be treated in a mechanical way. They should serve as pointers signalling that an in-depth analysis of a country's prospects for graduation is required. At this stage, there seems to be little point of digging further down the hierarchy of development level criteria – we may simply conclude that there is clearly a scope for doing so, possibly by looking closer into the DAC's policy development (i.e. Robert Cassen's proposals).

Having settled criteria, we now want to have monitorable indicators for each step in the graduation model (i.e. for the three question marks in Figure 3 above), again recognising that these cannot be once-and-for-all benchmarks. First, we need to define what makes a country eligible for *un-tied assistance* in the first place. Put brutally, the poorer the country the better. – Swedish full concessional assistance should be directed towards the least developed economies. Parallel conditionalities, ranging from the economic, social and political varieties, will also determine whether co-operation should be initiated or not. Measured in per capita GNP and HDI the poorest countries are today Mozambique and Tanzania (both with a yearly income of USD 90) and Guinea (with an HDI at 0,191).⁶⁴

Second, a threshold level for half-way graduation from un-tied to *tied assistance* and broader co-operation will have to be determined. While it must be the Swedish government's choice where to settle this level, an indicative idea may be presented here. The IDA operational cut-off is at present in the neighbourhood of USD 805 (roughly corresponding to the World Bank's dividing line between low- and middle-income economies). Above and close to this threshold we find countries which are not traditional, long-term recipients of Swedish assistance, e.g. Morocco, Paraguay and Tunisia. We also find Namibia and Botswana, both scheduled for non-programme country status in the late 1990s, and the black communities of South Africa.⁶⁵ Arguably, on the basis of the income levels of these three countries (USD 1820, 2790 and 2980), they should already be partners in broader co-operation if it was not for their past position in the struggle against apartheid. But apartheid is gone, as is the Cold War. It may therefore be reasonable to set a floating level for half-way graduation at USD 800,⁶⁶ above which the mix of instruments will include both the tied and untied types.

Third and last, indicators for final graduation and un-aided exchange need to be agreed upon. One potential avenue for settling this issue could be to continue following the World Bank's classification scheme which holds that the line between lower-middle and upper-middle economies goes somewhere around USD 2800 (roughly between Botswana and Venezuela). Given that we already maintain a few

⁶⁴ Since per capita GNP (as measured here) does not take account of the purchasing power of each dollar, Sida may want to modify this criterion into PPP-adjusted income levels. The HDI embraces such adjustments and may therefore suffice as the relevant criteria for development in the model (Ethiopia and Chad would then display the lowest income rates with USD 370 and USD 447 respectively).

⁶⁵ But below the same level we also have Lesotho which is scheduled for broader co-operation already during the present fiscal year. The main reason is that, coupled with the fall of apartheid, the country's absorptive capacity for development aid (partly a result of political instability and less than good governance), makes it ineligible for traditional programme support. Thus, Lesotho is terminated, not graduated. Its eligibility for broader co-operation should therefore also be questioned until the domestic situation improves and conditionalities for un-tied assistance are met.

⁶⁶ In HDI-terms this level would be somewhere between 0,551 (i.e. "low-income" Egypt with an adjusted per capita GNP of USD 3600) and 0,586 (i.e. "middle-income" Indonesia with PPP-adjusted per capita GNP of USD 2730). Thus, although HDI tentatively seems to be a much better criterion, further inquiry is needed to settle the matter of exactly how to use these two criteria.

upper levels, e.g. for concessional credits (USD 2786) and the former BITS's international courses (USD 3000) and technical co-operation (the World Bank threshold just mentioned), we may consider USD 3000 as a possible level for final graduation.⁶⁷

Before summarising the discussion, one specific comment could be made on the first sequence of our model (i.e. that for un-tied assistance). The Terms of Reference state that our study, based on examples drawn from co-operation with Chile and Namibia, should 'discuss how country programmes of limited duration could be designed, managed and phased out'. We have already pointed out that a graduation policy cannot embrace time limits because we do not know when countries reach the threshold levels. But relatively developed Namibia, while not a case of planned graduation, is a good example of time-bound country programming for a *bridging* of certain economic and institutional bottle-necks. The programme identified a number of such bridging opportunities and set a time table for assisting Namibia in doing away with the obstacles found.

This means that we are down at the project level, where time limits are indeed applicable (c.f. section 2.3). Sida's support has been framed in objectives-orientation and a vision for withdrawal after a 15-20 year period. This is perfectly possible because the focus is on achieving project results, but it has nothing to do with graduation. What happens if the bridging efforts are brought to a successful end in due time but Namibia, at the macro level, is in fact less developed after that time period? This is also what seems to be happening according to Sida, the programme is running successfully while Namibia as a country is, because of a wide range of different reasons, is not reaching its objectives of social equity, for example.⁶⁸ Thus, while we do have a country programme of limited duration, Namibia does not necessarily reach graduating levels when the Swedish programme support is withdrawn. So should we withdraw certain co-operation instruments? This, it seems, must depend on whether Namibia is eligible by the time for withdrawal, not on our schedule for the present co-operation. In sum, time limits are applicable in the bridging type of programme support and should arguably best be applied to countries in the upper half of the first sequence in the graduation staircase.

The conclusions of our discussion on the possibilities of elaborating a model for graduation can be summarised by qualifying⁶⁹ Figure 4 found in chapter 6:

Figure 5.

		INSTRUMENTS	
		Un-tied	Tied
DEVELOPMENT LEVEL (per capita GNP)	<3000		(Swedfund) SAREC (ii) BITS
	<800	SwedeCorp SAREC (i) SIDA	

⁶⁷ A direct translation of this limit into HDI results lands on Botswana (0,670) and Venezuela (0,820), whereby we get an artificial average of about 0,750, and must again underscore the necessity of further research.

⁶⁸ Interview.

⁶⁹ Excluding HDI (see footnotes 66 and 67)

7.2 The model employed

A model-wise and real division of Sida's FY 1993/94 country-portfolio, including the current distribution of the different instrument categories⁷⁰, would yield the following (stereotyped) result:

Table 3: Distribution of 1993/94 recipients of aid based on per capita GNP income (S, S1, Sw, B, S2, Sf = respective presence of SIDA, SAREC 1, SwedeCorp, BITS, SAREC 2 and Swedfund instruments)

Un-tied co-operation (<USD 800)
AFRICA: Mozambique 90 (S, Sw, S1, Sf), Tanzania 90 (S, Sw, S1, Sf), Ethiopia 100 (S, S1), Sierra Leone 150 (S), Burundi 180 (S), Uganda 180 (S, Sw, S1), Eritrea n/a (S, S1), Liberia n/a (S), Somalia n/a (S, S1), Sudan n/a (S, B, Sf), Zaire n/a (S), Malawi 200 (S), Chad 210 (S), Rwanda 210 (Sf), Madagascar 220 (B, S), Guinea-Bissau 240 (S), Kenya 270 (Sw, S1), Mali 270 (S), Niger 270 (S), Burkina Faso 300 (S), Nigeria 300 (S), Togo 340 (S), The Gambia 350 (S), São Tomé and Príncipe 350 (S), Zambia 380 (S, Sw, S1, Sf), Central African Republic 400 (S), Benin 430 (S, Sf), Ghana 430 (S, B), Guinea 500 (S), Mauritania 500 (S), Zimbabwe 520 (S, Sw, S1/2, B, Sf), Ivory Coast 630 (S), Lesotho 650 (S, B), Egypt 660 (S, B, Sf), Senegal 750 (S, B)
LATIN AMERICA: Haiti n/a (S), Nicaragua 340 (S, Sw, S1), Honduras 600 (S), Bolivia 760 (S, Sw, S1, B)
ASIA & THE PACIFIC: Vietnam 170 (S, Sw, S1/2, B), Nepal 190 (S, Sw), Afghanistan n/a (S), Bhutan n/a (S, B), Myanmar n/a (S), Cambodia n/a (S), Maldives n/a (B, Sf), Bangladesh 210 (S, S1, Sf), Lao PDR 280 (S), India 300 (S, Sw, S2, B, Sf), Mongolia 390 (B), Pakistan 430 (S, S1/2, B, Sf), China 490 (S, Sw, S2, B, Sf), Sri Lanka 600 (S, Sw, S1/2, Sf), Indonesia 740 (S), Yemen n/a (S)
Tied co-operation (<USD 3000)
AFRICA: Cameroon 820 (S), Cape Verde 920 (S, Sw), Congo 950 (S), Morocco 1040 (S, Sw, B), Swaziland 1190 (S, B), Tunisia 1720 (S, Sw, B, Sf), Angola n/a (S), Algeria 1780 (S), Namibia 1820 (S, Sw, S1, B, Sf), Botswana 2790 (S, Sw, S1, B, Sf), South Africa 2980 (S, Sw, S1, B)
LATIN AMERICA: Guatemala 1100 (S, S1), Ecuador 1200 (S, B, Sf), Dominican Republic 1230 (S, S1, B), El Salvador 1320 (S, B), Colombia 1400 (S), Jamaica 1440 (S, B), Peru 1490 (S, Sw, S1, Sf), Paraguay 1510 (S, S1), Cuba n/a (S, S1/2), Costa Rica 2150 (S, Sw, S1/2, B, Sf), Panama 2600 (S), Venezuela 2840 (S), Brazil 2930 (S)
ASIA & THE PACIFIC: Philippines 850 (S, Sw, B), Papua New Guinea 1130 (S), Jordan 1190 (S, B), Lebanon n/a (S), West Bank and Gaza n/a (S, B), Thailand 2110 (S), Iran n/a (S)
No development co-operation (>USD 3000)
AFRICA: Mauritius 3030 (S, Sw, B, Sf), Gabon 4960 (S), Seychelles 6280 (S), Libya n/a (S)
LATIN AMERICA: Chile 3170 (S, Sw, S2, B), Mexico 3610 (S, S2, B), Uruguay 3830 (S, S2, B, Sf), Argentine 7220 (S, Sw, S2, B, Sf)
ASIA & THE PACIFIC: Malaysia 3140 (Sw, S2, B, Sf), South Korea 7660 (S), Hong Kong 18060 (S)

⁷⁰ The table excludes the former BITS' international courses. It should also be noted that SAREC's research support is not easily divided in clear-cut efforts of capacity building (S1) and results-generating research (S2). The division is based on Sida's own estimation of the emphasis placed in each country, and cannot be treated in a mechanical way.

8. POLICY PROPOSALS AND GUIDELINES

This final section is an effort to summarise the policy points made in the preceding chapters into a set of policy proposals and guidelines for practical implementation⁷¹. Only the Swedish context is treated.

8.1 Country graduation

1. Graduation applies only to countries where long term country programmes are in force. Without country programmes, there is no need for graduation, only for time limits to Swedish project and programme support. The graduation levels applied to support through NGOs would of course have immediate consequences, however (cf. items 4 and 9 below).
2. A graduation policy should embrace country level and sector level for operational reasons, but not projects and programmes. The issue of sector graduation is complex. It has not been sufficiently treated to allow specific conclusions, except for the one just made.
3. The scope of graduation in terms of instruments should, wherever possible, include all instruments except for emergency relief funds.
4. As a consequence of the proposed scope of graduation, graduation should apply also to support channelled through Swedish NGOs.
5. Graduation should be dealt with separately from time limits.
6. The graduation process itself is a matter that this paper does not cover. The proposed transition criteria give, however, an indication as to what a graduation process should look like.
7. In our analysis of possible transition criteria for Swedish aid, we have arrived at a new proposal. The underlying principle for stepwise graduation should not be steps from soft to hard, or anything else, but instead steps from 'solidarity' to 'mutual interest'. Consequently, we interpret "mutual interests" as increased tying of the co-operation to Swedish interests (*outside the aid establishment*) such as commercial, scientific or cultural interests.
8. This paper has demonstrated that existing Swedish aid instruments may be conveniently divided into un-tied and tied instruments. Further, the empirical distribution of recipient countries along the instruments displays a neat fit between the actual countries' development level and the tying of instruments.
9. The distribution of countries by instruments is strongly influenced by the NGOs: the former SIDA instruments move towards more developed countries, because of the fact that the NGOs (in spite of a focus on poorer countries by and large) spend some money (SEK 158 million) in 35 of the 36 countries that raise the average, e.g. Hong Kong, South Korea, Argentina and Uruguay. We suggest, as mentioned above, that the general graduation level should embrace also NGO-supported projects. The result is that NGOs cannot get Sida support for project in countries above the graduation limit.
10. This study has led to a proposed three-step graduation ladder. Three development criteria for the different levels of eligibility must then be defined:
11. Eligibility for un-tied aid: poverty (plus conditionalities), i.e. the poorer, the more eligible.
12. Non-eligibility for un-tied development co-operation, i.e. the trigger-level for (half-way) graduation from un-tied assistance. As one option, we have looked into the level for IDA credits, which in turn is very close to the World Bank's frontier between low and middle income economies at 800 USD per capita.

⁷¹ The following suggestions are not all that easy to understand when taken out of context. They should therefore not be read in isolation from the previous pages of this report. All arguments cannot be repeated here.

13. Non-eligibility for all aid or eligibility for full scale graduation, i.e. entry into exchange of interests without any aid support⁷². We have suggested a graduation level of 3000 USD (a level close to the World Bank’s limit between lower middle and upper middle economies, Swedish soft credits’ limit, Swedfund’s graduation limit and former BITS’ limits for technical co-operation and international courses.

		INSTRUMENTS	
		Un-tied	Tied
DEVELOPMENT LEVEL (per capita GNP)	<3000		(Swedfund) SAREC (ii) BITS
	<800	SwedeCorp SAREC (i) SIDA	

14. Applying these proposed eligibility and graduation criteria leads to the following simple model for basic principles of a Swedish graduation system, including a means of transition within the zone between the ceilings:
15. To summarise the proposal: un-tied aid should only be granted to countries below a certain income level. Countries above another higher level should not be eligible for any aid. In the transition from grants to no aid – from around 800 USD to around 3000 USD – a suitable *instrument mix* (of untied and tied aid) should be applied in a sequential way, since the move to graduation cannot imply abrupt change.⁷³ Such a sequence may also include time bound achievement of bridging objectives, i.e. widening of bottle-necks or establishment of necessary infrastructure for the further development to full graduation.
16. The implicit graduation ladder from grant aid to mutual interests without aid should offer an occasion to design workable mixes of the existing instruments of Swedish international development co-operation.
17. This paper has pointed to the fact that graduation as a process must be based on regional analyses and country analyses – it cannot be automatic. But our proposal of eligibility levels should indeed be taken by the letter: they should serve to focus Swedish international development co-operation.
18. Meanwhile, the new Swedish planning system with country strategies and regional allocations (without country items) is being designed with time limits and in order to facilitate Swedish exit and flexibility. This is in line with a graduation policy along the lines indicated in this paper.

⁷² We avoid the term ‘equal exchange’ due to the misunderstandings that have arisen from its connotations.

⁷³ Cf. the observations about linear development in section 6 above. The instrument mix must be designed on the basis of country and sector studies in each case.

8.2 The time factor in project and programme management

1. The phase-out of projects and programmes – as a distinct category not to be confused with graduation – could be guided by findings such as those presented by Hans Hedlund.
2. In project and programme planning we have noted that there is a trade-off between the criteria of time and results. A methodology for project and programme planning is already at hand, which means that what we need further is a pragmatic approach to practical planning. This approach should include the basic element that constitutes the bridge between time and results, i.e. the costs and benefits resulting from the project or programme.
3. The preceding paragraph and points made on previous pages lead to the following policy guidelines (without repeating existing policies):
4. All projects and programmes – not only those financed by credits- *should be based on an investment analysis, establishing what should be achieved in terms of costs and benefits before a given point of time.* The tools for this exercise exist and can be used.
5. Related to the above-mentioned point: in all projects – regardless of sectors – where cash flows are generated or capital formed, credit finance should be considered.
6. Flexible time limits do not work. Agreed time limits must be kept and a mutual understanding of this situation created over time. We suggest that a strict – *non-pragmatic for pragmatic reasons* – system of time limits be used for all projects and programmes.
7. If output targets have not been fulfilled after the set time period, projects or programmes should be terminated.
8. *Unless Sida is prepared to strictly apply the above guidelines for project and programme planning, Sida should refrain from formulating an explicit policy of time limits.*
9. Among the currently used instruments, Sida has already used the technique of adding a second-step project after the fulfilment of the strictly time limited first project. This may work as an incentive, but based only on a strictly disciplined relationship. Monetary incentives for the participants may also be used to encourage improved performance. A number of questions may be raised as to how to design workable incentives. There are no general answers, but those questions are practically important since the whole point of incentives is to provide bonuses only in cases of merit.

ANNEX 1: TERMS OF REFERENCE

Time Limits and Graduation

Swedish development assistance has always applied a very long time perspective for choosing its programme country partners as well as for deciding how long to stay in a project or programme in a particular country. This has brought both positive and negative consequences for programme quality: when a programme has failed to reach its objectives, it has mostly been possible to redesign the activity so that over time it has become more effective. On the other hand, longevity has brought with it an element of inertia and a lack of competition to demonstrate good results. SIDA's portfolio of country programmes has shown very little turnover. The country portfolio of BITS, on the other hand, underwent changes which were not insignificant. The situation facing the new Sida, with a vastly increased number of recipient governments and a shrinking aid volume in real terms, inevitably calls for selectivity in directing resources as well as in choosing the proper instruments of development cooperation.

From time to time the question has been raised in the Swedish aid debate, whether development cooperation with a particular country should not have a time frame which is limited either by duration or to the achievement of certain specific operational goals. Early on in this debate it was also suggested, that Sweden should practice a type of 'graduation' as programme countries became more economically advanced, like in the case of the World Bank where member countries graduate from IDA to less concessional mixes of hard and soft loans. Since many of Sweden's programme countries are still far from being capable of using less concessional forms of aid, this idea no longer figures in the discussion. Instead, the question of 'perennial disaster areas' has been raised, suggesting a shift in emphasis from traditional development programmes to eliminating or alleviating structural factors which lead to recurrent drought, war and mass migration.

The study shall:

1. discuss how country programmes of limited duration could be designed, managed and phased out (examples may be drawn from Swedish cooperation with Chile and Namibia); a brief review of earlier cases of disengagement in the history of Swedish aid is also in order;
2. discuss the concept of 'graduation' as applied to Sweden's current development cooperation partners (programme as well as non-programme countries);
3. discuss and recommend criteria for cooperation in the commercial, technical and scientific fields, suitable either to succeed grant aid programmes or to be applied to countries where no such cooperation with Sweden has taken place so far;
4. discuss whether 'perennial disaster countries' should be offered alternatives to the type of development cooperation programmes so far offered by Sweden (examples from the Horn of Africa, Afghanistan, Rwanda and Burundi);
5. make any other suggestions (e.g. in relation to the project cycle) that may be useful for enhancing the role of the time factor in the management of the Swedish aid programme.

The study should present a preliminary report by the end of September and a final report by mid-November.

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ANNEX 3: PEOPLE MET

Berggren, Lars
 Bhagavan, M. R.
 Edgren, Gösta
 Ehrenpreis, Dag
 Forsse, Anders
 Göransson, Bo

Johansson, Lars
 Karlén, Ingvar
 Klackenborg, Lennart
 Liljeson, Lars
 Markensten, Klas
 Norberg, Carin

Norrlöf, Claes
 Rylander, Sten
 Wirmark, David
 Åberg, Erik

ANNEX 4: UNCTAD AND GRADUATION

In short, the GSP is a system of preferential and non-reciprocal tariff reductions with the aim of promoting export earnings, industrialisation and economic growth in developing countries. As a beneficiary country becomes competitive in a certain industrial sector, the need for GSP treatment of that sector will gradually disappear. Thus, GSP eligibility works product-wise – a country may be eligible for preferential treatment for one product, but not for others.

Consequently, graduation from GSP is two-tiered. Partial graduation refers to the (partial) withdrawal of preferential treatment when product-specific competitiveness reaches a certain level. Full graduation indicates that a country has achieved such economic development that it warrants complete termination of GSP treatment. The approach is based on the fact that a country may develop internationally competitive industries without at the same time achieving an overall development level comparable to that in the preference-giving countries.

However, due to different import-competing concerns, preference-giving countries have not been able to agree on a common GSP system – individual countries run their own GSP schemes (with EU states participating in a common scheme).⁷⁴ In addition, a full range of safeguarding measures have been introduced in order to protect producers from import competition stimulated by GSP tariff reductions. Such measures cover product exclusions, product limits, product-country limits, and, most absurd, an escape clause which terminates GSP treatment altogether in cases where imports cause injury to the domestic industry.

As a result, individual (preference-giving) countries tend to look for different criteria when putting graduation provisions into force. Although there is no point of going through all practices here, it is interesting to note that a main rationale for graduating countries partially from GSP has been the safeguarding of domestic markets rather than the development levels in the recipient country. On the other hand, full country graduation has been based on (beneficiary) per capita GNP. With a current limit at USD 11,400, the United States has over the years graduated Bahrain, Bermuda, Brunei and Nauru. New Zealand graduates beneficiaries having a per capita GNP that exceeds 70% of its own. Poland and Bulgaria set the limit at 100%.

The EU, although it revised its GSP in early 1995, does not maintain any provision for country graduation. It does, however, have a very complex system for sector-wise graduation based on a development index which takes account of the level of development (criteria: per capita income and exports of manufactured products) and sector specialisation (criteria: competitiveness in the sector market). There is also a share limit for sector-country graduation which is introduced whenever a single beneficiary accounts for more than 25% of total GSP imports of any sector.

The UNCTAD paper recognises that it is desirable to separate the concept of graduation from that of safeguarding domestic industry. While the two are inevitable ingredients in real world GSP policies, their roles are clearly different and each should be activated on the basis of separate criteria. The rationale for graduation, the paper says, cannot be to protect the market of preference-giving countries. Graduation should reflect that a beneficiary country no longer needs preferential treatment, whereas safeguarding should mirror domestic markets' injury. If GSP provisions for a particular country are withdrawn on the basis of safeguarding, then, obviously, such withdrawal cannot in any way be referred to as graduation.

⁷⁴ Thus making the GSP anything but generalised.

Similarly, the EU share limit, used somewhat differently also by the United States, is not a criterion for graduation – it is a criterion for benefit distribution.⁷⁵

The paper also discusses the shortcomings of using solely the per capita income criterion when graduating beneficiaries from GSP. However appropriate, the criterion is certainly not sufficient for determining whether favourable treatment is necessary or not. There is a range of countries with high per capita incomes that are not industrialised, that have very concentrated export sectors, or that are generally unsuccessful exporters of manufactured products, e.g. Argentine, Botswana, Gabon, Oman, Saudi Arabia, and Venezuela. Therefore, a number of additional criteria, which could be used for partial and full graduation, are suggested.

The starting point for any coherent graduation policy must be the objectives of the assistance at hand, be it concessional credits, grants, or trade preferences. When it comes to partial graduation from GSP the subject is rather straightforward. The one criterion is competitiveness. If the trade pattern of a certain product survives the withdrawal of preferential treatment, graduation of that product was warranted. If not, graduation was unjustified and GSP should be restored. A number of practical and specific questions remains unanswered, however. One is how to measure a product's competitiveness – what trade variances are the accepted results of non-preferential treatment? Another is how to draw a working line between products and sectors – how many competitive products make a competitive sector? The UNCTAD paper also points out the necessity of implementing partial graduation with a closely monitored phase-out period, allowing both countries time to supervise and adjust to the withdrawal of GSP treatment.

With respect to full graduation, the objectives of the GSP programme are to promote export earnings, industrialisation, and economic development. As already mentioned, per capita income is not the only relevant criterion here. Two groups of additional indicators are suggested – those which are directly related to the goals of the GSP (exports of manufactured products and significance of the industrial sector), and those which were found indirectly correlated (health/life expectancy, population growth rate, education/literacy, energy consumption, and food cost). However, no operational benchmarks are provided.

⁷⁵ Empirical studies show that partial GSP graduation (or, to be semantically correct, termination) based on share limits has not resulted in benefit re-distributions: the withdrawal of GSP preferences for the more effective exporting beneficiaries does not significantly increase GSP trade for the remaining beneficiaries. What happens is instead that the former beneficiary simply exports less – a pointer good as any that the export product/sector was not competitive in the first place and, hence, that GSP treatment should be reinstalled.

ANNEX 5: INSTRUMENTS' PAST USE

The following tables expose the actual allocation pattern of Swedish support through the Sida and Swedfund channels during FY 1993/94. The tables confirm – with one partial exception – that Sida's un-tied and tied co-operation instruments indeed are directed separately to countries with low and middle/high development levels (measured in per capita GNP and Human Development Index) respectively.⁷⁶

Below, the average development levels of Sida/Swedfund recipients per instrument category are shown (the countries indicated are those Sida recipients which display levels closest to the GNP and HDI average):

Table 5:1: Average per capita GNP and HDI per instrument category:

Non-weighted	SIDA	SAREC i	SwedeCorp	BITS	SAREC ii	Swedfund
GNP/cap. (USD)	1447 Jamaica	1011 Morocco	1411 Colombia	1584 Paraguay	1854 Namibia	1416 Colombia
HDI	0,488 Lesotho	0,505 Maldives	0,559 Guatemala	0,590I ndonesia	0,652 South Africa	0,538 El Salvador

With two exceptions, the division and individual relation between un-tied and tied instrument-categories meet our expectations (i.e. that the higher the instrument's degree of tying, the more developed the recipient country). The obvious anomalies here are SIDA's GNP average and Swedfund. However, Swedfund regulations stipulate an eligibility threshold: joint venture financing should only be provided to countries with a yearly per capita GNP of less than USD 3000 (the partner country average of 1444 thus comes close to a perfect half of the level set by Swedfund policy).

⁷⁶ This section draws on data found in *Bistånd i Siffror och Diagram 1993/94*, SIDA, 1995; *World Development Report*, The World Bank, 1995; and *Human Development Report*, UNDP, 1994. Four comments are necessary here. First, one may wonder how the UNDP can give us the figure e.g. of Afghanistan's educational attainment to the hundredth of a percentage point. It cannot. Per capita income and HDI-levels are always estimations, and even more so in the poorest countries, but nothing makes a number look more carefully researched than a few decimal points. However, the World Bank and the UNDP are the most reliable sources in this respect, and their figures do have a comparative use – the same errors that went into the calculation of Jamaica's schooling index may roughly be the same as those which blurred Lebanon's. Thus we cannot be sure of the absolute levels set for each country, but there is a point in comparing (groups of) countries with regard to their relative scores, and this is what this section tries to do. Second, the average figures in the tables are "non-weighted", i.e. they do not take into account the size of allocations to a particular country. Weighted figures would be much lower since we pool more aid into e.g. Tanzania than South Korea. Further, since SIDA is the largest contributor, its average would probably fall far below the levels of all other instruments. However, of interest to this section is Sida's country portfolio, not exactly how much each country gets. Third, Swedish assistance to Eastern Europe and the Former Soviet Republics (FSRs) are excluded from the present statistical exercise, mainly because the rationale for support to these countries primarily is security and neighbourhood-relations (their inclusion would draw up rather drastically the average development levels for each instrument except SAREC's). Fourth, all figures on per capita GNP are the World Bank's while the HDI scores come from the UNDP.

For SIDA, the HDI average is lower in comparison to all other instruments, but its traditional poverty focus should also reveal GNP figures much lower than what is found in the table. An, for example, average per capita income of 1,447 is roughly equivalent to the levels of El Salvador, Colombia, Peru and Paraguay. The discrepancy found between GNP and HDI figures is rather instructive – an HDI average of 0,486 is equivalent to Cape Verde, Zimbabwe, the Maldives and Vietnam, all countries generally conceived as poorer than the Latin American countries just listed. Arguably, as the HDI extends beyond strict GNP figures (by covering e.g. life expectancy, literacy and schooling), it is a much more telling measurement of poverty levels. Keeping this in mind however, we still want to know exactly why the GNP average is so surprisingly high. The following provides an answer.

First of all, statistical figures (even when correctly calculated) may be misleading. Thus, isolating SIDA’s country programme support, the average is adjusted down to conventional wisdom:

Table 5:2: Average levels of SIDA programme countries

Non-weighted:	SIDA prog countries
GNP/cap. (USD)	616 Sri Lanka
HDI	0,406 Myanmar

Then, which country allocations press up the overall GNP average? Disregarding the programme countries, we group those remaining countries which receive SIDA support and which have an annual per capita income of 1447 or more, thus getting a group of 26 countries ranging from Peru to Hong Kong (roughly one quarter of all SIDA countries). Average per capita GNP and HDI levels are provided in Table 5:3. We now go on to isolate that part of allocated funding which has been channelled through SIDA instruments (SEK 635 million)⁷⁷, split this part in instrumental types, and get figures as of Table 5:4.

Table 5:3: Average levels of middle/high SIDA recipients

Non-weighted:	SIDA +1447
GNP/capita (USD)	3830 Uruguay
HDI	0,735 Turkey

Table 5:4: Allocations to middle/high-level countries per SIDA-projects/NGO-support

Non-weighted:	SIDA-projects	NGO-support
Country coverage:	58% (15/26)	96% (25/26)
% of country funding	77% (492/635)	23% (142/635)

⁷⁷ Emergency relief excluded.

Country coverage means that SIDA, through the NGO-channel, provided assistance to 25 out of 26 countries (i.e. those ranging from Peru to Hong Kong), while the percentage rate of country funding implies that SIDA-projects had a 77%-share (or SEK 492 million) of all of SIDA's non-country frame allocations to the mentioned countries.⁷⁸

What could be concluded from the above? First, the total amount of un-tied aid channelled to middle/high-level countries (SEK 635 million) is relatively low as compared to SIDA's overall budget – the richest quarter receives less than a tenth of all allocations. On the basis of money provided, it should be evident that Swedish assistance is predominantly targeted to the poorest countries in the world. However, it is also clear that the new Sida suffers from a lack of country-portfolio concentration. A glance at the DAC list reveals that we are currently involved (with all types of bilateral instruments) in 111 (or 73%) of the 152 countries and territories eligible for ODA.⁷⁹ The remaining 41 areas are, with few exceptions, micro island states/territories, mainly middle-income economies in the Pacific and the Caribbean.

Concentration of Swedish aid is frequently called for by the Government and there seems to be no reasons why such a policy should be restricted to programme countries only. Enforcing a graduation policy based on eligibility criteria is one way of initiating a reduction of Sida recipients. Therefore, the outcome of graduation-based concentration will depend on these criteria, an issue to which we turn in the subsequent chapter. At this point however, it could be safely concluded that a few flagrant country-portfolio exaggerations – Hong Kong, South Korea, Argentine, Uruguay, Mexico, Chile, Malaysia, and Mauritius (countries which are all rated by the World Bank as high and upper-middle income economies) – will have to be graduated, at least from un-tied assistance.

Second, as indicated in Table 5:4, Swedish NGOs constitute the bulk of Swedish un-tied presence in the middle/high-level countries: they have 96% coverage and contribute 23% of the resources (or 40% depending on how one wants to count, c.f. footnote 62). We then return to the question of the scope of graduation – should NGOs be included or not? Given their overall coverage in the countries discussed, and given their sole presence in e.g. Hong Kong, South Korea, and the Seychelles (all above for example the World Bank threshold for IBRD loans), it is suggested that they should. NGOs are widely argued to have a comparative grassroots' advantage in development co-operation, with a particular edge in identifying community-based projects. While undeniably true, there is still no reason to believe that they are in any way better suited than government when it comes to choosing partner countries.

⁷⁸ The percentage of country funding calculation embraces one completely non-representative disbursement figure: SEK 321 million through the democracy window to South Africa, or half of all allocations to the countries at hand. If South Africa is excluded (as it perhaps should be since it has an average per capita income of 2980 USD), the figures would be: SIDA-projects 60%, and NGO-support 40%.

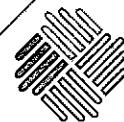
⁷⁹ Again, excluding Albania, the states of ex-Yugoslavia, and some of the Central Asian FSRs (the remaining EE- and FSR-states are not on the ODA eligibility list).

When the new Sida was formed out of six former independent aid-agencies, five inquiries were undertaken to give the new Sida a common policy in vital areas and a coherent vision of the future. The inquiry into the future, Project 2015, consists of a series of studies and seminars aiming to review trends, problems and opinions which will have bearing on the environment within which Sida will be working 5-20 years from now. This volume is one of nine publications that presents the results from the 2015 project.

The subject of this volume is how aid programmes should be managed in a changing world. With limited financial and administrative resources the organisation must carefully prioritise the various development activities in which it is involved. As experts on management, SPM Consultants were engaged to analyse the causes behind the proliferation of Swedish aid into new countries and sectors and the ever increasing number of projects. Interconsult Sweden (ICS) was contracted to look into three specific aspects of aid management: the influence of stakeholders, application of time limits and criteria for "graduation" of countries from being recipients of grant aid to receiving less concessional financing. Dag Ehrenpreis and Lars Johansson of Sida's Economic Analysis Unit have written a commentary paper which introduces the present volume.

Other publications from the 2015 project:

- Aid Dependency
- Trends in Social Development
- North East Europe
- Latin America
- Asia
- East and West Africa
- Southern Africa
- Development cooperation in the 21:st century



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