Global Environment Facility
Evaluation Office

A REVIEW OF OTHER AID DELIVERY MODALITIES:
What can GEF find Relevant?

Technical Paper 3
Part of the Joint Evaluation of the GEF Activity Cycle and Modalities, conducted by the GEF Evaluation Office.
Evaluation Component 5: Review of Modalities

Not edited

November 2006

By: Jyotsna Puri, Consultant, and Juha Uitto, Senior Evaluation Adviser, Evaluation Office, UNDP
Task Manager for the Joint Evaluation: Siv Tokle, GEF Evaluation Office
Table of Contents

Acronyms ........................................................................................................................................ 3
Executive Summary .................................................................................................................................. 4
1. Introduction ..................................................................................................................................... 6
2. Modalities used by the GEF ........................................................................................................ 7
3. Modalities that may be useful ....................................................................................................... 8
   3.1 Direct Budget support (DBS) .......................................................................................... 9
   3.2 General Budget support (GBS) ..................................................................................... 10
   3.3 Sector Budget Support (SBS) ....................................................................................... 11
   3.4 Sector Wide Approaches (SWAps) ............................................................................... 12
4. Project Aid ................................................................................................................................. 13
5. Other Aid Modalities .................................................................................................................. 15
   5.1 Debt Cancellation ........................................................................................................ 15
   5.2 Balance of Payment Support .................................................................................... 16
   5.3 Sectoral Aid .................................................................................................................. 16
   5.4 Sector Program Assistance (SPA) ........................................................................... 16
   5.5 Micro-project Approach ............................................................................................ 16
   5.6 Twinning ....................................................................................................................... 16
   5.7 Global Funds .................................................................................................................. 16
6. The Main GEF Agencies and their Modalities ......................................................................... 17
   6.1 UNDP ............................................................................................................................ 17
   6.2 UNEP ............................................................................................................................ 18
   6.3 The World Bank ............................................................................................................ 18
   6.4 The Asian Development Bank .................................................................................. 19
7. Other trends in the International Arena .................................................................................... 19
   7.1 Poverty Reduction Strategy Papers (PRSPs) ................................................................ 20
   7.2 Millennium Development Goals (MDGs) .................................................................... 21
   7.3 Harmonization and Alignment ................................................................................... 21
   7.4 The Cotonou Agreement ............................................................................................... 21
   7.5 Performance Based Allocation ..................................................................................... 21
8. Conclusions – Key Issues Relevant to GEF .......................................................................... 22
Annex I: Review of Various Aid ‘Approaches’ ............................................................................ 26
Annex II – A Cross-Tab of Agencies and Aid Modalities ............................................................ 28
Annex III: The Cotonou Agreement ............................................................................................. 29
References ..................................................................................................................................... 30
<table>
<thead>
<tr>
<th>Acronyms</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACP</td>
<td>African, Caribbean and Pacific governments</td>
</tr>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>CABIS</td>
<td>Common Approach to Budget Support</td>
</tr>
<tr>
<td>DBS</td>
<td>Direct Budget Support</td>
</tr>
<tr>
<td>DFID</td>
<td>UK Department for International Development</td>
</tr>
<tr>
<td>DPL</td>
<td>Development Policy Loan</td>
</tr>
<tr>
<td>EA</td>
<td>Enabling Activity</td>
</tr>
<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organization</td>
</tr>
<tr>
<td>FSP</td>
<td>Full sized projects</td>
</tr>
<tr>
<td>GBS</td>
<td>General Budget Support</td>
</tr>
<tr>
<td>GEF</td>
<td>Global Environment Facility</td>
</tr>
<tr>
<td>GP</td>
<td>Global Programme</td>
</tr>
<tr>
<td>GPRS</td>
<td>Ghana Poverty Reduction Strategy</td>
</tr>
<tr>
<td>HDR</td>
<td>Human Development Report</td>
</tr>
<tr>
<td>IA</td>
<td>Implementing Agency</td>
</tr>
<tr>
<td>IADB</td>
<td>Inter American Development Bank</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
</tr>
<tr>
<td>IFI</td>
<td>International Financial Institutions</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>LMDG</td>
<td>Like Minded Donor Group</td>
</tr>
<tr>
<td>MDBS</td>
<td>Multi-Donor Budget Support</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goals</td>
</tr>
<tr>
<td>MSP</td>
<td>Medium sized projects</td>
</tr>
<tr>
<td>MYFF</td>
<td>Multi-Year Funding Framework</td>
</tr>
<tr>
<td>NCSA</td>
<td>National Capacity Self-Assessment</td>
</tr>
<tr>
<td>OCR</td>
<td>Ordinary Capital Resource</td>
</tr>
<tr>
<td>PDF</td>
<td>Project Development Facility</td>
</tr>
<tr>
<td>PRS</td>
<td>Poverty Reduction Strategy</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>RAF</td>
<td>Resource Allocation Framework</td>
</tr>
<tr>
<td>RP</td>
<td>Regional Programme</td>
</tr>
<tr>
<td>SBS</td>
<td>Sector Budget Support</td>
</tr>
<tr>
<td>SGP</td>
<td>Small Grant Programs</td>
</tr>
<tr>
<td>STRM</td>
<td>Short-term Measures</td>
</tr>
<tr>
<td>SWApS</td>
<td>Sector Wide Approaches</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNCDF</td>
<td>United Nations Capital Development Fund</td>
</tr>
<tr>
<td>UNCT</td>
<td>United Nations Country Team</td>
</tr>
<tr>
<td>UNDAF</td>
<td>United Nations Development Assistance Framework</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>UNEP</td>
<td>United Nations Environment Programme</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nations Industrial Development Organization</td>
</tr>
<tr>
<td>UNIFEM</td>
<td>United Nations Development Fund for Women</td>
</tr>
<tr>
<td>UNV</td>
<td>United Nations Volunteers</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
</tbody>
</table>
Executive Summary

In this paper we discuss and compare new aid modalities that may be used by GEF, and, project based aid delivery modality, that is most frequently used by GEF.

A discussion of new modalities is especially important for GEF because GEF operations have been mostly project based, and are characterized by high transaction costs, long processing times, and elaborate and complicated procedures leading to lengthy activity cycles. Adopting simpler aid disbursement, with more government ownership, that concentrates on building capacities and policy within partner governments is likely to enable GEF to achieve its global environmental mandate more easily. Furthermore, new modalities that engage other donors and encourage dialogue with donors and domestic stakeholders are also likely to help GEF harmonize its own operations with other donors (and vice versa), leading to greater aid effectiveness.

New modalities that are relevant to GEF and that are discussed here include Direct Budget Support – which has two forms, General Budget Support (GBS) and Sector Budget Support (SBS) – and Sector Wide Approaches (SWAps).

Various agencies have emphasized the need to develop more efficient, effective, country driven, coherent and participatory aid disbursement modalities. These are all attributes that these new aid modalities possess.

More specifically, the need for new and different aid modalities has been emphasized for several reasons. Firstly, there is a belief that traditional project aid is saturated and it difficult to scale. Secondly, project based aid is characterized by high transaction costs. Thirdly, there is an increased amount of emphasis being place on outcomes and results rather than on outputs. The latter are usually project based. The former are broader and associated with broader aid modalities such as sectoral aid. Fourthly, project aid forces donors’ priorities on recipient governments, and in many cases, to procurement linked to donor country contractors. This has led to inefficient spending. Fifthly, donors feel that reliance on parallel, non-government project management structures and special staffing arrangements undermines the effectiveness of government systems. Finally, project based forms of aid disbursement are usually based on conditionalities. There is emerging evidence that conditionalities are ineffective and tend to modify the development process in a country, while also alienating civil society and non-governmental groups.

The paper uses these concerns with project based aid to motivate a discussion on newer modalities that are being discussed in the international arena. In this group of new aid delivery modalities, the paper concludes that sector based aid delivery modalities are most relevant to GEF. There are a number of reasons for this. Firstly, these can best be expected to meet the global environmental mandate of the GEF, in that environmental policy may be targeted by SBS or SWAps. Secondly, these have the advantage that they can closely be linked to GEF’s operational principles. Sector based approaches also make it possible to link GEF initiatives with other donors while ensuring that GEF initiatives are closely aligned with country priorities. The provision for increased dialogue with the recipient government and other donors also implies that GEF can take on the role of catalyzing and leveraging additional aid. Thirdly, sector-based modalities make it possible to use a programmatic strategy, characterized by coherence and consistency of vision across different projects. Fourthly, sector based aid delivery modalities are more efficient. Transaction costs are reduced as compared to project-based modalities because, sector based modalities eliminate the need for additional and different administrative and accounting procedures. Fifthly, sector based modalities are likely to force GEF to harmonize its operations with other donors. This will also make it easier for GEF to meet its own co-financing requirements. Sixthly, sector-based approaches lend themselves easily to a results based allocation framework, which the GEF has recently
adopted. Finally, sector based approaches tend to be flexible, country driven and transparent to the extent that the governments’ systems are transparent and accountable. These can be assessed ex ante.

Some key issues however are important.

First, the effectiveness and impact of sector based initiatives have not been rigorously examined. Secondly, traditional SBS or SWAs also provide support for recurrent costs in the sector. GEF would have to isolate initiatives and strategies within governmental plans that help to fulfill the global environmental mandate and devise ways to compute incremental costs within these initiatives. Thirdly, some procedures will have to be devised to evaluate outcomes and impacts on a sectoral level, across donors, rather than those that are GEF specific. This is because sector based aid is usually fungible across donors. In the context of GEF’s overall mandate to achieve global environmental objectives, incorporating linkages established with other donors may be a more effective way to assess impact. Related to this, the extent to which sector based support is visible for GEF, as separate from aid from other donors, and, the extent to which it is additional, will have to be discussed internally within GEF. In the environment sector however, achieving additionality, may not be a big problem especially because the environment sector tends to be under-funded in most countries.

The paper concludes that if the GEF continues to use project based aid disbursal modalities, it should do so in a way that establishes the advantages of doing so. One of the important features of project based modalities is that their results can be better evaluated using evidence based methods. These should be advocated amongst GEF’s implementing agencies, so that there is a rich database of evidence to strengthen arguments in favor of this modality.

The study makes two main recommendations:

First, the GEF should quantify the importance and effectiveness of project based modalities using evidence based methods. This can be definitively done if outcomes and impacts of projects are quantitatively established. Indeed the evaluation literature has evolved much to present many alternatives that enable this quantification. This will provide detractors and followers alike with evidence that project based modalities have much to recommend them.

Second, GEF should not remain oblivious to the many changes in the international aid arena. While it is the largest environmental fund and the only fund to target incremental costs, it is also mandated to be innovative and catalytic. In this context, GEF should examine the effectiveness of sector based modalities. A country based pilot program that uses this approach will enable GEF to assess whether there are advantages to pursuing this approach in the future.
“Creating the conditions for more effective aid means making aid more predictable, reducing excessive conditionality, increasing donor harmonization, ending tied aid and providing more aid as programme support through government budgets.”


1. Introduction

There is an increasing perception within the international arena that new aid delivery modalities that move away from project based models of aid disbursement, need to be developed and adopted. This was underscored for example, at the Paris High Level Forum in 2005 where donor countries, multilateral donors, partner countries and members of civil society enumerated their common goal to harmonize, align and simplify aid modalities (Government of France, 2005). Various agencies have since, individually and together, emphasized the need to develop more efficient, effective, country driven, coherent and participatory aid disbursement modalities.

The need for new and different aid modalities has been emphasized for several reasons.

Firstly, there is a belief that traditional modalities such as project aid have reached their limits of impact (or ‘saturated’) and it is difficult to scale them. UNDP (2005) calls results of project aid ‘islands of development’ that have limited impact beyond immediate beneficiaries. Scaling is also limited due to saturation of projects at the country level and restricted due to inadequate absorptive capacity and country level capacity. Thus one of the desirable features of new aid modalities is that they should build policy-based partnerships and strengthen national governance institutions and processes.

Secondly, traditional interventions such as project based aid have high transaction costs. These are especially high because of the small, unconnected initiatives undertaken in a country. Small project based aid which is usually off-budget, implies that separate administrative arrangements have to be made to manage these projects. This is costly. Furthermore it can lead to inconsistent plans across and within sectors. In many cases it can also weaken government management systems and discount their authority. Finally, different donors have different reporting, consultation and evaluation demands that impose a burden on the scarce resources within developing countries, most importantly skilled staff.

Thirdly, there is also an increased amount of emphasis being place on outcomes and results rather than outputs – which tend to be project based (see for example Utito, 2005). Results are assessed on the basis of their contribution to the partner country’s development effectiveness.

Fourthly, project aid forces donors’ priorities on recipient governments, and in many cases, to procurement linked to donor country contractors, leading to inefficient spending. Furthermore, despite contractual arrangements, problems associated with meeting disbursement conditions and implementation conditions for different projects, project aid is still characterized by unpredictability in funding (HDR, 2005).

Fifthly, donors also feel that reliance on parallel, non-government project management structures and special staffing arrangements can undermine the effectiveness of government systems. Partner countries aver that the use of donor-specific mechanisms has enervated the accounting structures of democratic governments.

Finally, traditional forms of aid disbursement modalities are based on conditionalities. There is emerging evidence that conditionalities are ineffective and tend to modify the development process in a country,
while also alienating civil society and non-governmental groups. New aid modalities are moving away from conditionality based aid to a much more open and participatory mode. An exploration of trends and new modalities is especially important for GEF because GEF operations have been mostly project based, characterized by high transaction costs, long processing times, and elaborate and complicated procedures leading to lengthy activity cycles. Furthermore, GEF possesses only a theoretical capability to deal with programmatic initiatives. Adopting simpler aid disbursement, with more government ownership, that concentrates on building capacities and policy within partner governments will also enable GEF to achieve its global environmental mandate more easily. Furthermore, new modalities that engage other donors and encourage dialogue with donors and domestic stakeholders are also likely to help GEF harmonize its own operations with other donors (and vice versa), leading to greater aid effectiveness.

In this paper we discuss some new aid modalities that may be used by GEF. These include Direct Budget Support – which has two forms, General Budget Support (GBS) and Sector Budget Support (SBS) – and Sector Wide Approaches (SWAp s). Other modalities are also briefly discussed. These aid modalities mark a departure from previous aid arrangements which have relied on project-based aid or other forms of programmed-based aid that have depended on \textit{ex ante} conditionalities.\textsuperscript{e}

The paper also contrasts these modalities with project-based aid disbursement which is predominantly used by GEF. The literature cites several advantages of project based aid which the paper also discusses. These advantages include greater control over project processes, focused objectives and the potential ability to better monitor and evaluate outcomes and impacts.

\textbf{This paper makes two main recommendations}: First – that following the trends in the international arena and its own mandate to be innovative, GEF should pilot a program to test the effectiveness of new sector based modalities. Second – that there is, simultaneously, some merit associated with project based funding that GEF should take advantage of. The most important of these is that the impacts of projects are most easily measured and quantified. In this context there has been a recent surge of studies urging the use of evidence based methods that are most appropriate for project modalities. GEF should use these methodologies to evaluate the effectiveness of its own projects.

Scheme of paper: Section II briefly reviews the main modalities used by GEF. Section III discusses three new important aid modalities that may be useful to GEF. Section IV discusses project aid as the main delivery modality used by GEF. Section V discusses other aid modalities. Section VI briefly discusses the main modalities used by GEF’s main agencies and trends within these agencies. Section VII discusses other trends in the international arena. Section VIII concludes.

\section{Modalities used by the GEF}

GEF modalities are mostly project based interventions but the conventions allow them to be flexible. Main modalities include Full sized projects (FSPs), medium sized projects (MSPs) and project development facilities (PDFs). Additionally there are Enabling Activities (EAs) and STRMs, NCSAs, SGPs, Targeted Research, Adaptation Activities, Cross cutting capacity building, GEF Country Dialogue Workshops and more recently (May 1999), support to financial services to help GEF national focal points and Council Members in recipient countries to carry out their responsibilities.

GEF provides new and additional funding to meet the agreed incremental costs of measures to achieve global environmental benefits in six focal areas and is a mechanism for international cooperation with three implementing agencies – UNEP, UNDP and the World Bank; and, seven Executing Agencies (AfDB, ADB, EBRD, IADB, IFAD, FAO, and UNIDO).
GEF funds have been disbursed mostly as projects. This reflects thinking in the post-war period: After the war, projects became the main vehicle for concessional loan and grant aid to developing countries (DFID, 2004). The focus on projects as the ‘cutting edge of development’ (Gittinger, 2002) was driven by a belief the principal constraint to development was a lack of finance and that projects were the most efficient way to deliver capital investment. Alongside, projects with their own separate accounting and administrative arrangements minimized fiduciary risk and thus guaranteed tax-payers that their aid was producing concrete assets and not being wasted.

Disbursing funds in the form of projects also have other advantages. The most important of these is that projects can be narrowly and very precisely defined. Project based aid also makes it likely that the effect of exogenous factors is minimized. Most importantly, aid that is provided to projects can be monitored and their exact impact on outcomes can be evaluated much more easily than via any other modality (see for example Banerjee and He, 2003). This modality is discussed some more below.

Although ‘programmatic approaches’ have been advocated and piloted within the GEF, these have not resulted in concrete changes within GEF modalities. Different types of programmatic approaches that GEF has experimented with include country, partnership and technology programs. Examples of the programmatic approach as used by the GEF, include the Black Sea Basin, which is a combination of several GEF interventions. These include the Black sea and the Danube-plus, an intervention for the Dnipro river and a number of other biodiversity projects (GEF, 2004).

In this context, the International Waters focal area of the GEF has specially used geographic criteria to develop programmatic approaches (Brewers and Uitto, 2002). The geographic approach recognizes the fact that international waters especially require joint cooperation between otherwise disparate countries for the success of any intervention directed at an international water body. Thus a group of projects linked together by a) a joint political commitment to build capacity and work together; b) jointly set priorities on the basis environmental assessments of water bodies; c) common actions to address trans-boundary problems; and d) implement agreed regional and national policies; e) attract investments needed to address these problems.

For GEF, a ‘project’ has thus come to signify using a programmatic approach if “it is undertaken in partnership with in-country and international partners including IAs.” However as noted above, these are mostly undertaken in the international waters focal area. In the biodiversity focal area, there are some programmatic approaches that have been implemented (see for example, the Mesoamerican Biological Corridor project – MBC, (CEPF, 2001)), but these are very few.

3. Modalities that may be useful

In this section we discuss some aid modalities that may be useful for the GEF. Additional modalities are discussed in the next section.

Modalities are specific mechanisms of client interaction with products or services. Delivery modalities are mechanisms via which GEF delivers aid to its partner countries. In this sense modalities or approaches map onto aid instruments or delivery modalities. In this paper we thus differentiate between approaches to mean strategies that help to make aid related decisions and, modalities to be synonymous with aid disbursement methods. Clearly these are related and modalities usually incorporate a strategy to disburse aid. However the reverse is not true.

In recent years there has been a significant shift by bilateral and multilateral aid donors away from traditional project support towards programmatic approaches such as un-earmarked Direct Budget Support, also called General Budget Support (GBS). Thus for example, GBS represents 20% of total
overseas development funding for the UK (DFID, 2004). Other European countries such as Netherlands, Sweden and Denmark are also beginning to devote significant portions of their bilateral aid to GBS. Since the Cotonou Agreement (2000) the EC has also committed to allocating an increasing proportion of its development cooperation in the form of budgetary support. Other multi-lateral agencies such as the World Bank, Inter-American Development Bank and the Asian Development Bank are also re-designing their lending in similar ways, and simultaneously moving away from conditionality driven balance of payments support to more loosely targeted budget support, in the form of Adjustable Programme Loans, that frequently take the form of PRSCs (Poverty Reduction Support Credits).

![Diagram of Aid modalities](image)

*Figure 1: Aid modalities*

### 3.1 Direct Budget support (DBS)

Hauck et al. (2004) calls budget support “the meeting place’ for those advocating development from a macro-economic perspective and a development community which has traditionally supported development from the bottom up.” All types of budget support include a lump sum transfer of foreign exchange and are a mechanism to support the balance of payments of an economy. Various multilateral donors are using or, have started to use DBS or variants of DBS as their main disbursement modality. Variations in DBS occur because of the extent of earmarking and the level of policy dialogue and conditionality imposed.

A variant of Budget support is the Multi-donor Budget Support (MDBS) which has been implemented for example, in Ghana where it is linked to the Ghana Poverty Reduction Strategy (GPRS). The MDBS provides finances for policies and resource needs identified in the GPRS. It provides a fixed amount of budget support to the government but not the whole amount. Getting the rest is dependent on the government achieving agreed goals in areas of economic growth, education and good governance. The goals act as triggers. When these are reached, the donors hand over more money. Two triggers focus on increasing the gross primary enrollment rate and health service take-up in deprived regions. Ten donors (AfDB, Canada, Denmark, EU, France, Germany, Netherlands, Switzerland, the World Bank and the UK) have come together to support the government’s budget under the MDBS arrangement (DFID, 2003). An approach similar to MDBS is the Common Approach to Budget Support (CABS), which has been implemented in Malawi. (Donors include EC, Norway, Sweden and UK.)
A DBS usually provides resources either as a contribution to a country’s national budget either via non-earmarked General Budget Support (GBS) or as Sector Budget Support (SBS). SBS is usually based on a sector-wide approach (SWAp) through which donor agencies pool funding for a particular sector or cross-cutting issue. The other difference between GBS and SBS is that GBS represents a transfer to the national treasury in support of a national development strategy, macroeconomic and budgetary framework. On the other hand, SBS represents a transfer to the national treasury in support of a sector programme and spending framework. These two modalities are discussed below. See Box 1 for a definition of terms used in this discussion.

3.2. General Budget support (GBS)

GBS is untied development assistance provided directly to a partner government. It is channeled to the central government budget using the latter’s own allocation, procurement and accounting systems. The currency lent generates an equivalent amount of local currency of equivalent value and does not require additional documentation etc. if convertibility of currency is permitted.

GBS funds are also usually ‘un-earmarked’ in the sense that funds may be virtually accounted for against certain sectors but there are no formal limitations on where the funds are actually spent and is usually not linked directly to project activities. Any conditionality is focused on policy measures related to overall budget priorities. Within this category, funds may be nominally accounted for against certain sectors but there is no formal limitation on where funds may be actually spent. Different agencies use different terms to refer to GBS: The EC refers to GBS as Macro-economic Budget Support; in countries that have a poverty reduction strategy, non-earmarked GBS is referred to as Poverty Reduction Budget Support.

The objective of the GBS is not to just increase the total amount of resources but also to strengthen the budget process and public financial management structures. One advantage of the GBS is that it can be disbursed in tranches, which are linked to results. GBS concentrates aid to the central budgets of partner governments. DFID (2004) identifies six components/steps of GBS:

a. Funds paid into the national budget;

b. Policy dialogue linked to funds;

c. Discussion and achieving any associated conditionality;

d. Technical assistance or capacity building linked with budget funds;

e. Efforts to align GBS with national goals and systems;

f. Efforts to harmonize GBS donors’ aid with that of other donors.

But there are risks associated with GBS because several public finance systems are not proven (Scanteam, 2005; DFID, 2004). In its current form GBS is geared towards short-term financing requirements and is subject to annual conditionalities. Support can be frozen should the government fail to meet conditionality requirements with significant risk to the country’s economic stability. For countries that perform well with respect to public financial management this modality is well-suited, although the disadvantages of unpredictability remain. This may adversely affect programme delivery.

Importantly the effectiveness of GBS in achieving development related goals is still unproven. Similarly, their role in modifying governance structures, in supporting consultation within society of this new modality is still being examined. In part this reflects the newness of the modality (at least in the form it has been provided since 2000), and in part it reflects the difficulties in assessing causality and attribution. An evaluation of GBS to assess its development effectiveness has to involve a joint country level assessment of the effects of the operations of all donors providing budgetary aid.
3.3. Sector Budget Support (SBS)

SBS refers to financial aid earmarked to a discrete sector or sectors, with any conditionality related to these sectors. SBS is usually provided after sector related conditions are agreed to and donors and recipients have commonly agreed to a policy and expenditure plan within a sector. Like GBS, SBS is disbursed and accounted for by Government systems, with possibly some additional sector reporting. In that sense, SBS is GBS provided to the Ministry of Finance, but with “real” (and not notional) sectoral earmarking. (For differences between real and notional/virtual earmarking, please refer to Box 1). SBS is also different from GBS because policy dialogue surrounding it is focused at the sectoral level rather than at the level of overall budget (see Table 1).

A workshop held by a group of Donors (DFID, EC, Kfw and USAID) noted that although SBS is seen as a stepping stone to GBS, it has its own advantages. In the context of Africa, SBS is especially seen as a modality that will increase and as one that is extremely effective.

Relevantly, the use of SBS is specially increasing and is expected to grow even more. SBS flows in 2004, accounted for more than one-third of total budget support for some donors. The EC – one of the largest donors – expects to see its use of SBS expand rapidly. For EC the SBS is “the financing instrument of choice whenever the conditions permit it” (EC, 2005)

Donors especially like SBS because it lends itself well to a complementary role, along with other aid instruments. SBS provides them the opportunity to focus on strengthening sector performance while using the donors’ sectoral expertise. Politically as well SBS is easier to defend for politicians at home because it adheres to a sector so that general over-arching issues like governance can be dealt with separately. SBS is also able to provide more predictable flows for partner governments than GBS, for example, by letting donors make longer multi-year commitments. In this context, SBS can be disbursed in fixed tranches that are subject to general conditions thus making SBS predictable. Or, it can be disbursed in variable tranches that are linked to performance and to achieving ex ante indicators.

However there are also several disadvantages associated with SBS:

- SBS can lead to inconsistent and fragmented budget support-related conditionality and dialogue. This can particularly occur if various sectors have SBS and these are inconsistent, or, if there is a lack of dialogue between the group of donors and government officials managing a GBS which may have sector specific conditions (e.g. WB Poverty Reduction Support Credits) and those managing an SBS.
- SBS can undermine government’s central processes (regarding strategies, medium-term expenditure budgets, monitoring systems public finance management systems, personnel management systems etc.) and strengthen sectors that are otherwise poorly aligned.
- SBS can result in donor micro-managing the sector resulting in weak sector level domestic capacities.
- SBS may result in conditions or management processes that are inconsistent with national budget management processes. Some donors have used ‘earmarking’ of SBS financial flows in the past to ensure that financial management occurs in a sector. Recent evidence has however shown, and there is increasing consensus within the donor community, that earmarking has no economic rationale and is ineffective and unhelpful. Some other donors (e.g. EC) however still want to see SBS achieving ‘additionality’ in some sense which may not happen if funds are completely fungible.

Ideally SBS is based on a Sector Wide Approach through which donor agencies pool funding to a particular sector or cross-cutting issue (this is also called sector earmarking). It is also important to note that in practice, with SBS, donors use different forms of earmarking. Some donors leave the use of sector funds to the discretion of the sector ministry based on a sector strategy that spells out broad objectives. Others earmark funds for specific programmes or projects and keep a close eye on spending.
### General Budget Support Sector Budget Support

<table>
<thead>
<tr>
<th>Origin</th>
<th>General Budget Support</th>
<th>Sector Budget Support</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Is modified structural adjustment</td>
<td>Genesis is project-based aid</td>
</tr>
<tr>
<td>Objective</td>
<td>To support national policy and strategy</td>
<td>To support sectoral policy and strategy</td>
</tr>
<tr>
<td>Dialogue</td>
<td>Focuses on national policy and strategy</td>
<td>Focuses on sectoral policy and strategy</td>
</tr>
<tr>
<td>Eligibility</td>
<td>National, macro and PFM</td>
<td>Sectoral, sectoral PFM</td>
</tr>
<tr>
<td>Indicators</td>
<td>Focus on outcome indicators</td>
<td>Analysis of the whole chain of processes</td>
</tr>
<tr>
<td>Additionality</td>
<td>Rarely the subject of discussion</td>
<td>Important part of dialogue and discussion</td>
</tr>
</tbody>
</table>

Source: Adapted from Merlo and Jensen, 2005.

**Table 1: Differences between GBS and SBS**

### 3.4 Sector Wide Approaches (SWAps)

The defining characteristics of a SWAp are that all public funding for the sector supports a single sector policy and expenditure program, under government leadership, and adopts a common approach across the sector. It relies on government procedures to disburse and account for all public expenditure, however funded. The working definition focuses on the intended direction of change rather than just the current attainment. Sector Wide Approaches (SWAps) were introduced in the mid-1990s and are being used increasingly by donor organizations and partner countries to achieve development objectives based on principles of common interest and equitable partnership, national ownership and execution, harmonizing donor initiatives, capacity development and performance.

SWAps are also used for translating goals of PRSPs into operational plans that can facilitate a transition from project aid to forms of budget support. In this sense, a SWAp is a process rather than a “blue print” in which sector funding, however sourced, supports a single policy and expenditure program, under government leadership and which adopts a common approach to management and implementation across the sector. Usually it is accompanied by capacity development interventions aimed at strengthening government procedures for disbursement and accountability.

In this regard it is important to point out that SBS and SWAps are different. A SWAp aims to coordinate all government and donor assistance to a sector in support of a common expenditure programme. Eventually it may reach a stage where all sector finance goes through the budget and uses the same procedures. However SWAp financing typically includes a range of donor budget support, project aid, and technical assistance, which may or may not be earmarked to specific expenditures and may or may not be disbursed using government management arrangements.

There is some concern in the donor community that SWAps can lead to negative impacts on the devolution of power between the central government level and the local government level because SWAps are usually negotiated with central governments, thus forcing a top-down governance system and stalling decentralization (see for example, Land and Hauck (2003), Gould (1999)). They are also touted to have an impact on inter-sectoral relationships. Other observers have commented on the benefits gained from the introduction of SWAps such as the availability of more and more predictable levels of funding to local authorities.
Box 1: Important Definitions and some Implications

**Conditionality**
Are policies that partner governments agree to implement as a condition for aid.

**Earmarking**
Is a way of tying budget support to financing pre-specified items within the national budget. From the donor’s perspective, it is a means to “ring fence” activities that each individual donor has financed. Depending on whether the control over external resources is ex post or ex ante, a distinction can be made between *notional/virtual* or *real* earmarking. Thus for instance DBS funds are *notionally* earmarked because DBS resources are controlled ex post. DBS resources are made available to budget lines according to a fixed disbursement schedule. National authorities thus must ensure that spending in these lines is greater than or equal to disbursed DBS tranches. So long as the chosen budget lines are the ones that would have been financed in any case, DBS resources remain fungible and the costs of DBS are purely administrative.

*Real* earmarking occurs when resources are required to be spent on budget lines ex ante. SBS is thus a form of real earmarking because resources must be spent on a sector. Earmarking SBS resources implies that special bank accounts need to be created and there is a hold on these until expenditures are confirmed. This also means that resources are not fully fungible. However if resources are directed to budget lines that would have been financed anyways, SBS resources will be fungible.

The use of real earmarking is the main feature distinguishing Sector Budget Support from General Budget Support.

**Fungibility**
Aid fungibility means that the government adjusts its own expenditure for a particular purpose to offset donor funding. Thus for instance, donor funding earmarked to health may not increase total health spending if the recipient government reduces its own spending.

Fungibility also means that total spending (government and donor financed) is adjusted to reflect priorities of the national government rather than the uncoordinated preferences of a number of donors.

If aid if fungible, as DBS is, then it is very difficult to prove that aid is additional since aid could displace the partner government’s own resources. However fungibility is not necessarily a bad thing. Foster et al (2004) note that the Government of Vietnam asked donors to take on funding for big infrastructure projects. This had the effect of releasing government funds that could then be used for reducing poverty and improving social indicators.

**Additionality**
It means to ensure that donors’ resources result in increased funding for the sector. Usually partner governments are free to move their funds to other activities thus making it unlikely that aid is ‘additional’ in a sector. One of the important concerns in aid modalities is whether it is ‘additional’. Ensuring additionality in most cases requires constant dialogue and monitoring.

4. **Project Aid**

GEF uses project based aid as its main delivery modality. Some advantages of using this modality are discussed in this section.
Project Aid is aid directed to individual projects or preferably projects that are part of a sectoral programme. These projects have the advantage of being viable in certain circumstances, such as crisis and post-crisis situations, or when management conditions are not met (e.g. violent conflict, deterioration in the standard of governance) and allow for involvement of a great variety of partners, particularly civil society and local authorities. Due to the complex set of community rules and procedures, implementation can be rather slow with this form of aid. There is also a major risk that the projects will not measure up well in terms of ownership by the country.

There are some advantages to project-based aid. Donors are sometimes unwilling to move to pooled funding arrangements mainly because of concerns of fiduciary responsibilities. Some donors do agree to pool some funds but there are extensive reporting arrangements attached to these. There are some perceived advantages to project aid. Donors often have concerns about government capacity, budget management and financial reporting systems and thus use project-aid to circumvent these. In many countries donors operate hundreds of projects that are financed and managed outside of government systems.

There are also other advantages: Projects are focused and much more easily monitored and evaluated. They tend to be usually precisely defined in their objectives and it is relatively easier to identify any weaknesses or performance problems. Because of this, quantifying their impacts is relatively easier compared to integrated and broadly defined modalities. Under special circumstances this makes it possible to measure impacts and assess the extent to which these can be attributed to donor sponsored activities (see Box 2). This has the advantage that it is easier to convince donors about the effectiveness of aid. It is also, potentially, easier to understand and control factors that affect its effectiveness. On the other hand, these advantages have rarely been exploited by donors. If donors continue to use project based funding, it is critical that they exploit one of the most important strengths of project based funding: that of quantifying impacts.

In the context of GEF, there are other advantages associated with project based funding. These are related to GEF’s mandate to be innovative and to finance incremental costs of environment projects so that global environmental benefits may be realized. Project based funding can be experimental and innovative. If well designed, it can also be catalytic. However these benefits are all predicated on the ability to measure the impacts of projects. This is because best practices can only be realized once the context within which projects can be successful, are understood.
5. Other Aid Modalities

This section defines other aid modalities that have been used and are currently being used by multilateral and bilateral donors. It is based on definitions and discussions laid out in Foster and Leavy (2005) and NORAD (2003).

5.1. Debt Cancellation

Debt cancellation offers an original response but one which is limited in time and volume. It is akin to budget aid and is used for a group of countries selected in accordance with objective criteria (they are poor and heavily indebted) and with the level of commitment demonstrated by the country (poverty-reduction strategies and macroeconomic stability). Debt cancellation can be seen as a hybrid of DBS/GBS/SBS since it is a type of earmarked budget support which is not converted to local currency. However it has a local currency effect in the future due to savings in debt servicing costs. The use of these savings may or may not be earmarked. EC (2005) contends that debt cancellation has imposed lower transaction costs on the recipients than other forms of aid, and has provided the best example of coordination and harmonization. On the other hand, it is a bad modality in terms of resource-allocation.

Box 2: Evidence based evaluation of Project Aid – Some Methods and Pitfalls

One of the important trends in the international aid arena has been an increase in studies advocating the use of evidence based evaluation. These methods are particularly suited to project based modalities which tend to be focused and precisely defined and much more easily monitored. Within evidence based methods, experimental methods – such as randomization – and quasi-experimental methods have especially become popular.

Randomized experiments have been advocated by the MIT poverty lab (see for example Ravallion, xxx; Baker, xxx; Banerjee xxx). Necessary conditions for evaluating and quantifying projects via experimental methods include presence of baseline data, presence of control groups and survey data on control sites and treatment (project) sites.

But randomized experiments are not suited to all situations and conditions. Absence of data and baseline information is the most frequent bottleneck: data is either unavailable or evaluators usually do not have information about these sources. Furthermore, new data is expensive and time consuming to collect. Some other difficulties and exceptions are listed below. However in the context of projects these are not insurmountable although they require careful planning by evaluators.

Firstly, frequently results from randomized experiments cannot be generalized. Thus projects that are successful in India may not be in Indonesia. Since quantifying results requires more resources than employing qualitative methods, donors are usually unwilling to spend money on these evaluation methods;

Secondly, in many cases, the use of experimental methods is just not feasible. These include sector-wide efforts to increase economic opportunities or funding that target phenomena that have economy wide impacts such as exchange rate policies.

Finally, and significantly, most methods for evidence based quantification of aid remain politically impractical. Most of these are based on experiments that donors and governments are unlikely to find attractive such as randomized project site selection. (This objection though is easily dealt with some control sites are identified during project planning.)
criteria, since the countries that have benefited most from debt cancellation are not the poorest, the neediest or the best managed.

5.2. Balance of Payment Support

If the finances transferred via aid, are converted to local currency and then retained by the Central Bank (and not made available to the government budget, as in the case of budget support) then this is called Balance of Payment Support.

5.3. Sectoral Aid

Sector aid is aid provided in the form of budget aid, but possibly delivered in project form, given to support a particular sectoral policy. It is important that the agency providing Sectoral aid can bring something to this dialogue, in coordination with other donors.

5.4. Sector Program Assistance (SPA)

SPA uses a set of economic activities unified by a common output – one that is narrow enough to have an analytical identity and is broad enough to include significant investment and policy issues. SPA usually covers a broad area such as agriculture or health and concentrates on sustainable sector growth. It supports policy reforms and other actions to reduce these constraints. SPA is usually conditionality based.

5.5. Micro-project Approach

Programmes supporting investment in basic community structures aimed at fostering local development of essential services and political dialogue at various levels (central government, local government, civil society and parliaments). This approach has an impact on the way civil society is structured and on the role it is able to play in creating a poverty-reducing dynamic. The Small Grants Program (SGP) of the GEF has successfully implemented micro-projects.

5.6. Twinning

Its current geographical scope is limited to EU accession candidate countries and neighboring countries in the Western Balkans, the New Independent States and the Mediterranean Region. Twinning finances the secondment of civil servants from EU Member States to beneficiary countries. It can be used to implement all institution capacity-building projects. Beneficiary countries select the twin Member State and commit themselves to undertaking and funding reforms, while Member States commit to accompanying the process all along. At the end of the project a new or adapted system must function under the sole responsibility and means of the beneficiary country. Its role is expected to increase in coming years.

5.7 Global Funds

Donors are also trying to reduce transaction costs via multilateral initiatives involving greater specialization and cooperation. Mechanisms such as the ‘Global Fund to Fight AIDS, Tuberculosis and Malaria’ and the ‘Education for All Fast Track Initiative’ enable donors to pool resources, deliver aid and delegate reporting to a single body. Contributions to these funds cannot be earmarked so that they reduce the risk of donor bias. Furthermore, both funds have rigorous performance standards and neither is linked to the host of conditions demanded by donors within other programmes, reducing the risk of goods – and especially public goods – being suddenly unavailable because of a failure to achieve targets. Both funds also provide multi-year funding allowing for greater financing predictability.
In keeping with this effort several donors such as Denmark, Netherlands, Norway, Sweden and the UK have announced intentions to streamline aid programmes. In an example of harmonization through greater specialization, Norway and Sweden are implementing a plan in Ethiopia under which Sweden will channel health funding through Norway, and Norway will channel education funding via Sweden. However, these arrangements seem to be exception rather than the rule.

Furthermore global funds are usually executed as projects with considerable burden on governmental and other agency staff since effectiveness of these projects depends on in-country capacity, whether this is in the government or in the non-government sector (Shakow, 2006).

<table>
<thead>
<tr>
<th>No.</th>
<th>Modality</th>
<th>Conditionality</th>
<th>Earmarking</th>
<th>Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Balance of Payments Support</td>
<td>Macroeconomic</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>2</td>
<td>Aid-financed Debt Relief</td>
<td>Macroeconomic and</td>
<td>Usually none</td>
<td>Govt. systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Budgetary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>General Budgetary Support</td>
<td>Macroeconomic and</td>
<td>None or nominal</td>
<td>Govt. systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Budgetary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Sector Budget Support</td>
<td>Sectoral</td>
<td>On-budget</td>
<td>Govt. systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>to sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Off-budget</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>within sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>usually basket</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>funding</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Sector Earmarked</td>
<td>Sectoral</td>
<td>Govt. systems</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Projects using Government Systems (Sector and project)</td>
<td>Project</td>
<td>Govt. systems</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Projects using parallel systems (which includes GEF type project aid)</td>
<td>Limited. Low government ownership</td>
<td>All</td>
<td>Donor</td>
</tr>
<tr>
<td>8</td>
<td>Micro-project approach</td>
<td>Variable government</td>
<td>All</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>support. Limited</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>conditionality</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Foster and Leavy (2002)

Table 2: Summary of Conditions associated with new Aid Modalities

6. The Main GEF Agencies and their Modalities

In this section we discuss the main modalities and trends in delivery aid modalities being used by implementation agencies of the GEF. For illustrative purposes we also discuss modalities used by one executing agency of the GEF. This is the Asian Development Bank (ADB). The section concludes that most agencies that implement and execute GEF projects use project-based disbursement modalities.

6.1. UNDP

UN has a mandate to develop system-wide capacity. It is not a donor organization but helps donors in disbursing their funds, who see it as an impartial mediator. For disbursing these funds, the UNDP uses project based aid. In an effort to harmonize its disbursements between UN’s various agencies – the UNDP, UNICEF, UNFPA and WFP – it employs the UNDAF that provides a common framework for the four UN organizations to collaborate. Under this unified framework, the agencies prepare a Common
Country Assessment (CCA) which analyzes the national development situation and identifies key development issues, while considering national priorities. The United Nations Development Assistance Framework (UNDAF) provides a collective and coherent response to these priorities and needs within the framework of the MDGs. Based on the UN programming framework, UNDAF describes the minimum requirements and processes used within UNDP to successfully manage processes to produce development results, by applying accepted international standards for the management of projects and programmes. Within the context of the UNDAF, UNDP uses projects to produce outputs to contribute to outcomes approved in Country Programmes, Regional Programmes and the Global Programmes to operationalize UNDP’s vision, directions and strategies as established in the Multi-Year Funding Framework (MYFF). The mainstays of UNDAF’s objectives are as follows (UN, 1999):

- Identifying where the UN system can make most difference using its strength as a development partner;
- Stronger unity of purpose within the UN system;
- Increased collaboration through a mix of agency, parallel and joint programming;
- Better integration of normative and operational aspects of developmental cooperation;
- Increased partnerships and dialogue with other members of the development community.
- More efficient use of resources based on improved division of labor.

UNDP still uses the traditional project approach although theoretical forays have been made into policy and programmatic interventions that can strengthen governments (UNDP, 2005). Several studies have commented on the inability of the UN to move away from project orientation. UN agencies do not have large scale core funding that would support moving to a policy focus as outlined in the Paris declaration and thus must continue with selling their individual ‘projects’ to donors to mobilize resources. Donor funding thus does not provide a predictable funding base or incentive structure required at the country programme level to support the UN moving towards sector programming and policy development (UNDP, 2005). UNDP programming is especially focused on capacity development, conflict and disaster relief, and relevantly to the GEF, the environment (Raffler, 2006)

6.2. UNEP

UNEP focuses on providing policy advice, analytical support and doing research to support the needs of countries. Therefore capacity building, integrated environmental assessments, training programmes with the aid of national and regional workshops, location specific studies are the main focus of its activities. These are mainly undertaken using project based modalities.

6.3. The World Bank

Since 1999, the WB has adopted the Comprehensive Development Framework. This has four principles:

- Development strategies have to be comprehensive and based on long term vision;
- Development goals and strategies have to be owned by the country based on local stakeholder participation in shaping them;
- Countries receiving assistance should lead the management and coordination of aid programs through stakeholder partnerships.
- Development performance should be evaluated by measurable results on the ground to adjust the strategy to outcomes and a changing world.

These are important because they clearly mirror trends in the international donor community: country ownership and country management are important features of discussions on any new aid modalities.

The World Bank has two basic types of lending instruments: Investment loans and development policy loans. Investment loans have a long term focus (5-10 years) and largely finance goods and infrastructure.
Development Policy Loans (DPLs) have a short term focus (1 to 3 years) and provide quick disbursing external financing to support policy and institutional reforms.

DPLs were formally adopted by the World Bank in August 2004 and replaced the Bank’s main lending instrument until then – Adjustment Lending. Unlike Adjustment Lending, DPL however encompasses a swathe of instruments used by the Bank. These include sectoral adjustment loans, sectoral adjustment loans, and poverty reduction support credits. Over the past two decades DPL has accounted for more than 20% of the Bank’s lending.

The rationale for DPL also underscores the need for country ownership. It acknowledges that ‘adjustment lending’ had only in a few cases, been actually used for adjustment i.e. only in few cases had Adjustment Lending been preceded by a crisis for which adjustment was necessary. By 2004, the World Bank had been providing programmatic support, in the garb of adjustment lending, for complex medium term structural and institutional changes, rather than to help eliminate economic distortions.

With respect to defining conditionality too, the World Bank has moved on. Consistent with the trend in the international community, the WB recognizes that ‘conditionalities’ are not effective unless these are owned by the country itself. Thus the bulk of the Bank’s operations are now done in the form of programmatic adjustment loans in which disbursements are made against actions that have already been completed rather than actions in the future. Conditionality thus is more of a “mutual commitment device” which holds governments accountable for reliably making progress towards their own poverty reduction strategies.

6.4. The Asian Development Bank

The Asian Development Bank is an executing agency of the GEF. We describe some of its operations here to illustrate the activities and disbursement modalities of the GEF executing agencies. ADB lends via Equity operations, Cofinancing and Guarantee Operations, Grant Financed Projects and Technical Assistance Operations. ADB loans are of several kinds – Ordinary Capital Resource (OCR) loans are mainly for lending operations to better-off borrowing countries and are made at near market terms. ADB’s concessional or soft-loan window is funded by ADB’s donor member countries. These carry very low interest rates and are for the poorest borrowing countries. ADB also disburses Poverty Reduction Grand Funds and has technical assistance projects. ADB lends mostly to Agriculture and Rural Development. The Bank also provides technical assistance through grants and organizes studies and project loans (UN, 1997).

7. Other trends in the International Arena

In this section we explore some other trends in the international arena. Although the donor community is increasingly focusing on poverty alleviation as is seen by the new instruments and their close linkages with the PRSP process, there is an increasing perception that sustainable development and poverty alleviation cannot be de-linked from the environment. Mainstreaming the environment is thus advocated by all donors. Global environmental issues (climate change, biodiversity, land degradation, pollution) are especially being increasingly recognized as a responsibility of developed countries even while they require a commitment from all countries. Addressing these issues will require “additional financial means to be channelled through external thematic programmes, over and above complementary country-specific allocations,” (EC, 2005).

The importance of global funds such as the GEF has also been remarked upon by several multilateral donors. However a great deal of ambiguity persists. An extract from an EU policy document on Global funds is telling:
“Global initiatives and global funds are powerful instruments for launching new policies or bolstering new measures that do not have a broad enough scope to help meet MDGs. When focused on a particular theme such as … environmental protection…they attract attention…In principle at least such initiatives are capable of mobilizing additional financial resources such as private funds. However in practice, evidence is not conclusive…Mechanisms are needed whereby activities financed by global funds can be brought back into the fold of ordinary country or regional cooperation after a few years.”

The main trends emerging in the international arena that are common to some of the agreements and movements described below are:

- Harmonize efforts within donor community, to promote collaboration and communication while simplifying procedures, policies, and develop common standards. In this context, the “three Cs” – Coordination, Complementarity and Coherence, as a policy between the EC’s member states and EC – are particularly relevant to convey the overriding emphasis in the larger donor community. Complementarity is the ultimate objective – seen as a division of labor – that can only be achieved via a framework of common policies and strategies in programming and procedures for delivery of aid.
- Align assistance with the national development priorities of partner countries.
- Develop a more reliable aid modality to complement existing modalities, for governments to pursue the policies they need, but especially policies aimed at accomplishing the MDGs.
- Develop modalities that are aimed at increasing institutional capacity of recipient countries in specific areas.
- Maintain the option of giving aid to non-state actors and their activities in order to reinforce participatory approaches and facilitate ownership of development strategies by people.
- A widespread perception that aid conditionality with and without projects has not generated sustained impact.
- A wide commitment by donors to the Millennium Development Goals for poverty reduction goals to be met by 2015, broad agreement on the OECD’s Development Assistance Committee’s recommendations to guide action to meet the principles of MDGs;
- An increased demand for accountability and for monitoring instruments to measure progress;
- Support for PRSPs and Sector based approaches as a basis for donors to contribute coherently to budgets and processes designed by governments.
- A movement away from donor managed projects to interventions – many of which are off-budget." In many cases off-budget resources may exceed those disbursed via the state budget system.

Below we discuss some relevant initiatives.

7.1. Poverty Reduction Strategy Papers (PRSPs)

As recognition of the need to have a coherent strategy amongst main donors/multinational organizations in a country and the country itself, the PRSP is prepared by member countries through a participatory process involving domestic stakeholders and external development partners including the WB, the IMF and the UNDP. These are updated every three years with annual progress reports. PRSPs describe the country’s macro-economic, structural and social policies and programmes over a three year period.
7.2. Millennium Development Goals (MDGs)

The MDGs have become the guiding principles in most donor decisions and strategies. They also provide a coherent way to align and harmonize donors along developmental principles. For the GEF, the most relevant is MDG goal 7 which commits countries to sustainable development with two sub-goals:

- Integrate the principles of sustainable development into country policies; reverse loss of environmental resources;
- Reduce by half the proportion of people without sustainable access to safe drinking water.

7.3. Harmonization and Alignment

At the High Level Paris forum (2005), donors and recipient country governments alike reiterated the following:

- Strengthen partner countries’ national development strategies and associated operational frameworks (planning, budgeting and performance assessment).
- Increasingly align aid with partner countries’ priorities, systems, and procedures, helping to strengthen their capacities.
- Enhance donors’ and partner countries’ respective accountability to their citizens and parliaments for their development policies, strategies and performance.
- Eliminate duplication of effort and rationalizing donor activities to make them as cost-effective as possible.
- Reform and simplify donor policies and procedures so that it encourages collaborative behavior and progressive alignment with partner country priorities, systems and procedures.
- Defining measures and standards of performance and accountability for partner countries…”

The Harmonization effort has led to several unified approaches – being used by donors, amongst them the Like Minded Donors Group (LMDG) which comprises of Denmark, Finland, Ireland, Norway, Sweden and United Kingdom. The Paris Declaration on Aid Effectiveness incorporates about 50 commitments to improve aid quality. Progress is to be monitored against 12 indicators. Most of these are aimed at reducing transaction costs. Pilot programmes to strengthen harmonization and coordination are now being implemented in Ethiopia, Ghana, Tanzania and Uganda but results are still not available.

7.4. The Cotonou Agreement

The Cotonou Agreement (2005) marked the shift in macro-economic support from up-front conditionalities under structural adjustment, to the provision of negotiated budget. The Cotonou agreement contained three tenets which are widely regarded as innovations:

- Setting poverty as a core objective;
- Underscoring the need for ACP states to decide their own development strategies.
- Making the partnership all-inclusive by extending it to non-state actors.

(Also see Annex III for more on the Cotonou Agreement)

7.5. Performance Based Allocation

Most donors are moving towards performance based allocation. An influential study by the World Bank (1998) argued that aid was only effective in countries with “good policy environments” (i.e. fiscal stability, low inflation, open markets and other criteria). That study led to a new stream of thinking that aid should be used selectively to reward strong reformers.” Following this, recent research using the World Bank’s policy selectivity index – a measure of correlation between aid and the quality of institutions in aid recipient countries suggests that donor countries have indeed been directing aid flows to countries with good ‘quality’ institutions (quality is defined by the index). In GEF this has translated into
the RAF (Resource Allocation Framework), according to which countries will be eligible to receive a certain portion of GEF funds and these will be tweaked depending on country performance.

The goal for most donors now is to assess the partner country’s needs and performance, although many donors are still developing these indicators and the relative weights that should be attached to needs and performance respectively in the overall index are still to be determined.

8. Conclusions – Key Issues Relevant to GEF

Sector based approaches appear to be the most relevant to GEF. These can best be expected to meet the global environmental mandate of the GEF, in that environmental policy may be targeted by SBS or SWApS. These have the advantages that they can closely be linked to GEF’s operational principles (see Box 3 for a list of GEF’s operational principles).

**Box 3: GEF’s Operational Principles**

- COP guidance and accountability of GEF;
- Financing of Incremental Costs for Global Environmental Benefits;
- Cost Effectiveness
- Country Ownership
- Flexibility
- Disclosure of Information
- Public Involvement
- Country Eligibility
- Catalytic effect and Financial Leverage
- Monitoring and Evaluation

Sector based approaches are linked with other donors in the sector and closely align themselves with partner government priorities and plans. This approach will also enable GEF to dialogue with other donors, engage them and build partnerships. The provision for increased dialogue with the recipient government and other donors also implies that GEF can take on the role of catalyzing and leveraging additional aid.
<table>
<thead>
<tr>
<th>GEF Operational Principles</th>
<th>Budget Support</th>
<th>SWAp</th>
<th>Project Aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>COP Guidance</td>
<td>None exists</td>
<td>None exists</td>
<td>Available*</td>
</tr>
<tr>
<td>Accountability of GEFx</td>
<td>Depends on government reporting systems</td>
<td>Depends on government reporting systems</td>
<td>Easy to measure</td>
</tr>
<tr>
<td>Financing incremental costs</td>
<td>Easy to implement</td>
<td>Easy to implement</td>
<td>Requires co-financing for baselines</td>
</tr>
<tr>
<td>Cost effectiveness</td>
<td>Hard to measure</td>
<td>Hard to measure</td>
<td>Hard to measure</td>
</tr>
<tr>
<td>Country ownership</td>
<td>High</td>
<td>High</td>
<td>Variable to medium</td>
</tr>
<tr>
<td>Flexibility</td>
<td>High</td>
<td>Medium</td>
<td>Low to medium</td>
</tr>
<tr>
<td>Disclosure of information</td>
<td>Dependent on government systems</td>
<td>Dependent on government systems</td>
<td>Dependent on government systems</td>
</tr>
<tr>
<td>Public Involvement</td>
<td>Variable and dependent on participatory measures undertaken</td>
<td>Variable and dependent on participatory measures undertaken</td>
<td>Variable and dependent on participatory measures undertaken</td>
</tr>
<tr>
<td>Country eligibility</td>
<td>Difficult to determine if activities</td>
<td>Difficult to delineate</td>
<td>Easy to delineate</td>
</tr>
<tr>
<td>Catalytic Effect</td>
<td>Potentially high</td>
<td>Potentially high</td>
<td>Not knownx</td>
</tr>
<tr>
<td>Financial leverage</td>
<td>Potentially high</td>
<td>Potentially high</td>
<td>High</td>
</tr>
<tr>
<td>Monitoring and Evaluation</td>
<td>Dependent on government systems</td>
<td>Dependent on government systems</td>
<td>Good</td>
</tr>
</tbody>
</table>

Notes: Ratings based on authors’ assessments; Two operational guidelines have been split into separate rows for expositional ease. These are “COP guidance and accountability of GEF” and “Catalytic effect and financial leverage”.

Table 3: A Comparison of Different Aid Modalities and their suitability to GEF Operational Guidelines

There are other advantages to adopting a sector based approach – in the form of either SBS or a SWAp: First, a sector-based approach enables a programmatic strategy, characterized by a coherence and consistency of vision across different projects and uses of aid. Second, it is efficient.aa Transaction costs
are reduced as compared to project-based aid thus eliminating the cost of additional and different administrative and accountability arrangements. Third, it will force GEF to harmonize its operations with other donors. This will also make it easier for GEF to meet its own co-financing requirements. Fourth, sector-based approaches lend themselves easily to a results based allocation framework, which the GEF has recently adopted. Finally, sector based approaches tend to be flexible, country driven and transparent to the extent that the governments’ systems are transparent and accountable. These can be assessed ex ante. They also lend themselves to policy based interventions, capacity building and public financial management which is the sine qua non for effective aid and which are becoming increasingly emphasized within in the GEF.

Some key issues however are important.

First, SBS or SWAps also provided support for recurrent costs in the sector. GEF would have to isolate initiatives and strategies within governmental plans that aid fulfilling the global environmental mandate and separately discuss the issue of sector based recurrent costs with other donors.

Second, some procedures will have to be devised to evaluate outcomes and impacts on a sectoral level, across donors, rather that those that are GEF specific. This is because sector support is fungible across donors. In the context of GEF’s overall mandate to achieve global environmental objectives, incorporating linkages established with other donors may be a more effective way to assess impact. Related to this, the extent to which sector based support is visible for GEF, as separate from aid from other donors, and, the extent to which it is additional, will have to discussed internally within GEF. In the environment sector however, additionality, if it is important to GEF, may not be a big problem especially because the environment sector tends to be under-funded in most countries. Environment sector aid is not as fungible as in other sectors.

Third, evidence about the effectiveness of Sector based approaches is still state-of-the-art, even though many donors are increasingly using these, and, will dedicate an increasingly larger proportion of their resources to this approach. A study of impacts and outcomes is made somewhat difficult because an assessment of effectiveness requires an assessment of effectiveness of all donors in the sector. Constant engagement with the government and with other donors may however compel all actors to maximize their effectiveness. Furthermore, even at this stage GEF is struggling to establish its own effectiveness in attaining global environmental goals. Partnering with donors may help to understand and build on linkages required to attain this goal. Another important consideration with GEF modalities is building and incorporating private sector partnerships. Sector based aid disbursal modalities are able to easily incorporate and harmonize private sector aid. It is too early to judge if private sector lending is leveraged by SBS and responds to the opportunities created by it.

Fourth, if the GEF does adopt new modalities, then successfully managing the transition is important. As in the rest of the development world, ‘old’ and ‘new’ modalities have to be co-managed by all actors. Old modalities have the advantage that many of them are off-budget and hence beyond the partner government’s ability to link to national development priorities. Thus they can also be ‘innovative’. However this has not met with success and many country offices have decried the onerous nature of GEF’s procedures and programming requirements. New modalities are broader and recognize the role of linkages, country ownership and management, capacity building and scalability. However their impacts remain unproven. Successfully implementing and managing both sets of modalities will prove to be challenging but can lead to greater effectiveness for the GEF.

Finally, if the GEF continues to use project based aid disbursal modalities, it should do so in a way that establishes the advantages of doing so. One of the important features of project based modalities is that these can be better evaluated using evidence based methods. These should be advocated amongst the
implementing agencies of GEF, so that there is a rich database of evidence to strengthen arguments in favor of this modality.

Although we see many merits of project based modalities, these have not been established in a definitive sense. In the absence of definite evidence, donors have rapidly moved towards examining other forms of aid disbursal. We recommend that the GEF establish the merits of different modalities. In this context we make two recommendations:

First, the GEF should evaluate the importance and effectiveness of project based modalities. This can be definitively done if outcomes and projects are quantitatively established. Indeed the evaluation literature has evolved much to present many alternatives that enable this quantification. This will provide detractors and followers alike with evidence that project based modalities have much to recommend them.

Second, GEF should not remain oblivious to the many changes in the international trade arena. While it is the largest environmental fund and the only fund to target incremental costs, it is also mandated to be innovative and catalytic. In this context, modalities such as SBS are approaches that GEF should explore. In view of the fact that the jury is still out on how effective these modalities are, a country based pilot program that uses this approach will enable GEF to assess whether there are advantages to pursuing this approach in the future.
## Annex I: Review of Various Aid ‘Approaches’

<table>
<thead>
<tr>
<th>Approach/Strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country Assistance Strategy</strong></td>
<td>In producing its CAS, the Bank does extensive analysis of the country’s economic and social situation in consultation with the government. In its diagnosis, CAS takes into account the performance of the Bank’s portfolio in the country, country’s creditworthiness, state of institutional development, implementation capacity, governance and other sectoral cross-cutting issues. From this the level and composition of Bank advisory, financial and technical support to the country is determined. To track implementation it includes a clear framework of targets and indicators. All sectors are represented. It is also country driven and MDGs are given priority. Implementation and evaluation limited by the capacities of domestic stakeholders, data collection and PRSIA (Poverty and Social Impact Analysis). After consultations with stakeholders, the government identifies country’s strategies and targets for reducing poverty over a 3-5 year period. The Bank and other agencies then align their assistance efforts with the country’s own strategy.</td>
</tr>
<tr>
<td>Comprehensive Poverty Reduction and Growth Strategy (CPRGS)</td>
<td>Is a country level assessment adopted by Vietnam</td>
</tr>
<tr>
<td>Development Priority Matrix (DPM)</td>
<td>Is an n-axis matrix in which the key features or functions of the project/strategy are listed in order of priority on the left of the matrix and the different columns represent the ranking attached the features by different participants. This tool is used by, e.g. the FAO.</td>
</tr>
<tr>
<td>Low Income Countries under Stress (LICUS)</td>
<td>The LICUS initiative is an approach to engagement in countries that have weak policies, institutions and governance. Traditional aid programs have not worked in these countries because governments usually lack the capacity or the inclination. Most LICUS countries are characterized by conflict. In 2004, the WB established the LICUS implementation Trust Fund with an initial allocation of $25Million to support governance for countries unable to get IDA approval. For each country in the group, different operational and policy approaches are needed. There is thus a Transitional Results Matrix (a simple planning tool to integrate political, security, economic and social actions) and MDTF-financed budget support programs in Timor and Afghanistan.</td>
</tr>
<tr>
<td>Like Minded Donor Group (LMDG)</td>
<td>Consists of bilateral donors such as Denmark, Finland, Sweden, UK, Norway, Netherlands and Ireland and Canada. The group advocates new forms of aid delivery and encourages donors to put money in government systems and strengthen overall performance.</td>
</tr>
<tr>
<td>Medium Term Expenditure Framework (MTEF)</td>
<td>Consists of a top-down estimate of aggregate resources available for public expenditure consistent with macro-economic stability; bottom-up estimates of the cost of carrying out policies (existing and new); and, a framework that reconciles these costs with aggregate resources. It is called medium term because it provides data on a prospective basis for the budget year (n+1) and for following years (n+2 and n+3). MTEF is a rolling process repeated every year and aims at reducing imbalance between what is affordable and what is demanded by line ministries. MTEF does this by bringing together policy-making, planning and budgeting early in the planning cycle with adjustments taking place through policy changes. It involves building macro-</td>
</tr>
<tr>
<td>Approach/Strategy</td>
<td>Description</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Program Liaison Unit (PLU)</td>
<td>Is an approach used to establish a distinct liaison unit for a particular program in a country that can liaison with the stakeholders directly and has an identity that is separate from the donor. The work of the PLU is to coordinate, report, share information, and, develop coherence between the program and broader development efforts.</td>
</tr>
<tr>
<td>Sector Investment Program (SIP)</td>
<td>A SIP is a long term national program covering public expenditure in an entire sector.</td>
</tr>
<tr>
<td>Sector-Wide Management (SwiM)</td>
<td>Is an overall term to capture initiatives at the level of the sector, to capture MTEF and SWAps.</td>
</tr>
<tr>
<td>Technical Assistance (TA)</td>
<td>Is used by most multilateral donor organizations.</td>
</tr>
<tr>
<td>CCS Country Cooperation Strategy</td>
<td>Is mainly used by WHO and reflects WHO corporate criteria. It contains a selective and focused program of work that works to develop a strategic role for WHO and emphasizes the role of wider partnerships.</td>
</tr>
<tr>
<td>RBM</td>
<td>It is a planning and reporting system used by UNDP. The planning instruments are: MYFF (Multi-year funding framework), the SRF (Strategic Results Framework), and the IRF (Integrated Results Framework) and an Evaluation Plan. The Reporting Instruments consist of: A ROAR (Results Oriented Annual Report) and a Multi-year Funding Framework Report (MYFFR).</td>
</tr>
</tbody>
</table>
### Annex II – A Cross-Tab of Agencies and Aid Modalities

<table>
<thead>
<tr>
<th>Modality</th>
<th>UNDP</th>
<th>WB</th>
<th>UNEP</th>
<th>FAO</th>
<th>EBRD</th>
<th>ADB</th>
<th>IFAD</th>
<th>UNIDO</th>
<th>AfDB</th>
<th>IADB</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Budget Support</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td>Y</td>
<td>EC, NORAD,</td>
</tr>
<tr>
<td>General Budget Support</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td>EC</td>
</tr>
<tr>
<td>Sector Budget Support</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
<td>EC</td>
</tr>
<tr>
<td>Sectoral Aid</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td>EC</td>
</tr>
<tr>
<td>Sector Wide Approach (SWAps)</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td>EC, DFID</td>
</tr>
<tr>
<td>Sector Investment Program (SIP)</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>n</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td>EC</td>
</tr>
<tr>
<td>Sector Wide Management</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td>EC</td>
</tr>
<tr>
<td>Sector Earmarked</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td>EC</td>
</tr>
<tr>
<td>Project Aid</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>EC, DFID,</td>
</tr>
<tr>
<td>Technical Assistance Twinning</td>
<td>Yes</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>EC</td>
</tr>
<tr>
<td>In service training</td>
<td></td>
<td></td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>EC</td>
</tr>
<tr>
<td>Balance of Payments Support</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td></td>
<td>N</td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td>EC</td>
</tr>
<tr>
<td>Debt Cancellation</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td></td>
<td>N</td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td>EC</td>
</tr>
<tr>
<td>Sector Adjustment Lending</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td></td>
<td>N</td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td>EC</td>
</tr>
<tr>
<td>Poverty Reduction Support Credit</td>
<td>N</td>
<td>Y</td>
<td></td>
<td></td>
<td>N</td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td>EC</td>
</tr>
<tr>
<td>Other conditionalities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance based allocation</td>
<td>N</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poverty Reduction Strategy</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
<td>N</td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country Assistance Strategy</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td></td>
<td>N</td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projects using parallel systems</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td>Y</td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projects using government systems</td>
<td>Yes</td>
<td>N</td>
<td>Y</td>
<td></td>
<td>Y</td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annex III: The Cotonou Agreement

The Cotonou Agreement (2005) was the first Agreement to lay down the legal basis for budget support. The Agreement concentrated on regulating development finance cooperation between EU and its ACP partners. Some articles as cited in ECDPM (2004) are particularly relevant. (This section is reproduced from ECDPM (2004)):

Under Article 61 of the CPA, DBS in support of macro-economic or sectoral reforms may be granted if:

- Public expenditure management is sufficiently transparent, effective and accountable;
- Well defined macro-economic or sectoral policies established by the country itself and agreed to by its main donors are in place; and
- Public procurement is open and transparent.

The Agreement acknowledges that these conditions are hard to meet and if these were taken as absolute criteria, very few countries would meet eligibility conditions. It thus underscores the importance of a process-oriented approach to development. In Article 67 thus, it says:

**Paragraph 4:** ACP states that undertake reform programmes that are acknowledged and supported at least by the principal multilateral donors, or that are agreed with such donors but not necessarily supported by them, shall be treated as having automatically satisfied the requirements for adjustment assistance.

**Paragraph 5:** Structural adjustment support shall be mobilized in a flexible manner and in the form of sectoral and general import programmes or budgetary support.

Additionally, the Cotonou Agreement stresses ownership by partner countries. These involve joint management of funds, joint signature of cooperation strategies and financing agreements, development of joint guidelines (between donor EU and recipient ACP countries), permanent contact through joint institutions, and, a practice of participation and consultation with civil society members. In the case of Bretton Woods Financial Institutions, this is reflected in the close cooperation required within the context of the country owned PRSPs.
References


Norwegian Ministry of Foreign Affairs, “How can the UN deliver better at the Country Level, Speech by Development Minster Hilde F. Johnson to the UN Chief Executive Board, Greentree, 29-30 October, 2004a.


OECD, Harmonizing Donor Practices for Effective Aid Delivery, DAC guidelines and Reference Series,


Raffler, Pia ‘Relationship between the ‘main’ actors in development cooperation in the wider UN system” Final paper, The UN: Challenges, Origins and Expectations, School of International and Public Affairs, Columbia University, Spring 2006.


UNDP, Energy and Environment Outcome Evaluation, prepared by Porter, Gareth, Shi Han, Zhao Shidong, May 2003.
UN “UNDADF Guidelines,” April, 1999.
UNDP User’s Guide
Wells, Michael, Independent consultant and Advisor the study, Personal Conversations, June 2006.
Personal conversation with James Patterson, Bureau of Management, UNDP, 2006.

a It would be good to get some figures of transaction costs for GEF.
b In cases discussed in HDR (2005), there was an average of 23 donors operating in recipient countries in Sub-Saharan Africa in 2002. The Ethiopian government for example received aid from 37 donors in 2003. Tanzania similarly had about 650 donor projects operating either through national ministries or local government. In a case cited by the World Bank, five donors in Bolivia sponsored a single poverty survey, each requiring separate financial and technical reporting so that the government official managing the project had to spend more time on reporting rather than on the survey. In another quote cited in the HDR, the Finance Minister of Afghanistan from 2002 to 2004, Ashraf Ghani, laments “As Finance Minister more than 60% of my time was spent on managing donors, in terms of meeting visiting missions and representatives to reiterate government policy, raise funds... to enable the recurrent costs of government to be met, advocate for support to government-led programmes channeled through government financing, procurement, and accounting systems, and discuss and negotiate projects... This time could instead have been devoted to raising domestic revenue and managing internal reform.”
c It was these problems that led to the World Bank’s Aid Effectiveness report (1998), to say the following: “Aid agencies have a long history of trying to ‘cocoon’ their projects using free-standing technical
assistance, independent project implementation units, and foreign experts – rather than trying to improve the institutional environment for service provision... They have neither improved services in the short run nor led to institutional changes in the long run.” (World Bank, 1998).

There may be still a role of project-based aid, as pointed out by World Bank (1998). The study argues that the role of projects is not to finance favored sectors but rather to support knowledge creation, since usually what stands in the way of effective public services is not a lack of money but ineffective policies and institutions at the sector and local levels. The goal of this paper is not to argue against project aid wholly, but rather to underscore its uses – where possible and predominantly to emphasize new modalities that may be used by the GEF.

In the 1980s development assistance moved from financing investment (roads, dams etc.) to promoting policy reform. This reorientation came from awareness that “developing countries were held back more by poor policies than by a lack of finance for investment.” (Dollar and Svensson, 2000)

The EC manages 20% of total EU development assistance on behalf of the community. From an economic point of view budget support is basically the same as structural adjustment. Both forms of payment result in a stabilization of a country’s balance of payments. The difference between them is the rationale behind making the transfers. While structural adjustment aims primarily at institutional and economic reform, budget support is intended to achieve much wider aims. The overall objective is poverty reduction, which requires the instrument to be linked to the recipient country’s wider development strategy. (See Hauck et al. (2004) for a nice pictorial comparison of processes in a Structural Adjustment program and those required for Budget Support.)

The history of this is described nicely in Hauck et al. (2004): “After gaining independence, most African, Caribbean and Pacific countries received loans and grants from their former colonial governments and international financial institutions (IFIs), the World Bank and IMF to promote (investments through) imports. Under the leadership of IFIs, balance of payments support was continued under the structural adjustment facilities created in the 1980s. Several bilateral donors followed that lead and contributed to these facilities. The transfer of funds was made conditional however on the adoption of drastic economic and institutional reforms. Structural adjustment often lacked any form of accountability, monitoring was relatively weak and recipient government’s commitment to policy reform was low. Since structural adjustment did not have the desired impact on national development and poverty reduction, the donor community shifted its focus in the 1990s from financing and economic stabilization alone to poverty-oriented macro-economic support. The EC followed this trend as of 1995 when it made budget support a specific form of programme aid available to certain countries.”

This is being increasingly done by the EC. “In practice a number of countries have received ongoing budget support over several years but the uncertainty hanging over the support and the constant risk that it can be withdrawn at any time detracts from the recipient’s countries’ ability to commit to medium-term financing.” (EC, 2005)

In this context a report by DFID (2004) states “Nevertheless, the governing bodies of multilateral and bilateral aid agencies (their boards and parliaments), as well as audit offices, and civil society stakeholders are rightly asking where is the empirical evidence to justify the trust which has been bestowed upon general budget support? At the operational level, partner governments are also concerned about finding more efficient ways of planning, disbursing and managing it – as are the country managers of bilateral and multilateral aid agencies.”

Sector earmarked support is similar in this regard but limits donor aid to specific expenditures or categories within a sector. Thus for example, so called “basket funding” in some health sector programmes has focused on supporting primary health spending at the district level.

There are a range of definitions for SBS. For more see DFID (2005).

Land and Hauck (2003) note that the term SWAp is predominantly used by the donor community. Recipient government officials usually refer to these as “wider sector development plan” or a “sector strategy” for which donors channel their funds into baskets for jointly defined areas of intervention. Thus for example, if donors talk about a Tanzania Education SWAp, they are referring to basket funding of the Primary Education Development Plan which is only one element of the Ministry of Education’s Sector Strategy, comprising primary, secondary and higher education and, vocational training.

There are two kinds of SWAps which this study does not go into detail about: Advanced SWAps embrace harmonized planning and budgeting and a common implementation procedure steered usually through national institutions. ‘Less Advanced’ SWAps can consist of a common dialogue and agreement on policy
objectives and sector strategies but in which implementation (including budgeting) is not harmonized and remains largely project based.

\(^p\) That SWAps have been used mainly as instruments of sector ministries is an insight is mainly derived from Anglophone African countries such as Tanzania and Uganda but also Bolivia. However SWAps are a relatively new instrument and data is compelling governments to work more closely with local governments and civil society and non-governmental stakeholders.

\(^q\) However the HDR (2005) reports that project aid has a track record of intensifying problems in these areas. Instead it avers that “…many recipient governments complain that donors acknowledge national priorities in principle but undermine government processes in practice by directing aid towards individual projects – an approach that reduces efficiency, increases transaction costs and erodes capacity.”

\(^r\) UNDP’s partner countries also see it as an impartial mediator. Various outcome evaluations have made this clear. See for example, China Outcome Evaluation (UNDP, 2003).

\(^s\) ‘Mutual commitment device’ is a term used by Dollar and Svensson (2000).

\(^t\) In 2003, of the 62 public sector projects and programs, 10 categorized as core poverty interventions, 29 as poverty interventions. Projects amounted to 51% of public sector funding or $3 Billion. Thematically, consisted of 15 projects (24%) supporting economic growth, 6 projects (10%) for human development, 3 projects (5%) for environmental protection, same for good governance, 2 projects supporting gender and development and 1 for private sector development.

\(^u\) Off-budget refers to projects and programs that are negotiated directly between a government ministry or NGO and the donor agency without the revenues being recorded on central budget accounts, undermining the recipient government’s (or partner government’s) ability to manage resources and allocate them towards priorities.

\(^v\) HDR (2005) cautions against using this approach as a standard formula: It threatens to give rise to ‘donor darlings’ and ‘donor orphans’ depending on countries’ capacity to make good use of aid. This is already happening in Africa: There is a concentration of donor darlings in Anglophone Sub-Saharan Africa, Mozambique and Ethiopia. On the flip side, there is a concentration of donor orphans in Francophone African and Latin America.

\(^w\) The COP recognizes that most GEF funding is done in the form of projects. Thus for example, the UNFCCC notes that “The COP also took note of information provided on the current level of funding for full- and medium sized projects, small grants programme activities, enabling activities, and project preparation activities. It noted with satisfaction important progress made in supporting the implementation of projects in the areas of renewable energy (OP(6)) and energy efficiency and energy conservation (OP5)…It also urged the GEF, in its future reports to the COP, to place more emphasis on the results and impacts of projects it has financed, drawing on existing GEF reports and information.” (UNFCCC, 2004; Italics our own.)

\(^x\) Accountability here refers to accountability to GEF donors in using GEF resources

\(^y\) This depends on whether countries are signatories to the conventions

\(^z\) GEF Evaluation Office has commissioned a study to examine the catalytic effect of GEF.

\(^aa\) Efficiency is defined as being cost-effective.