Managing Aid Exit and Transformation

Summary of a Joint Donor Evaluation

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Managing aid exit and transformation: Evaluation summary

What are the consequences in the recipient countries, when donor countries close down their bilateral aid programmes? Are exit practices consistent with established principles of partnership and mutuality in development co-operation? These are the two main questions under scrutiny in this evaluation initiated in 2005 by four donor countries – Denmark, the Netherlands, Norway and Sweden. The evaluation is based on country studies in Botswana, Eritrea, India, Malawi and South Africa including 14 exit cases involving any one of the four donors. It is a joint donor evaluation, and representatives of the partner countries were consulted in various ways. The evaluation was carried out in 2007/08 by a consortium of ECORYS (the Netherlands) and Chr. Michelsen Institute (Norway). It was guided by a Steering Group with representatives of the four commissioning donors, and Sida acted as lead agency in the management of the evaluation.

Overall conclusions

Donor exits, exit strategies and good exit practices attract scant attention and form a neglected part of development co-operation. But the number of exits is increasing and will continue to do so with donors concentrating bilateral aid on fewer countries and sectors.

Planning for a proper exit and handing over, and thus sustainability, is the exception rather than the rule, and good and careful monitoring of exits is extremely rare. Despite the principles of partnership and mutuality which have become formulated in the Paris Declaration of 2005, all exit decisions studied proved to be unilateral decisions – and only in the case of India by the recipient.

Country exit decisions were politically motivated, they did not involve a prior assessment of the sustainability of the activities supported, and donors rarely put much effort into exploring the possibilities of other donors taking over. There were only few examples of phasing out processes with a clear focus on ensuring sustainability. The force majeure type of exit situations, which are likely to become more frequent in the future, left no scope to focus on sustainability directly. Here, most attention was paid to a rapid winding down of activities.

Good exit examples were found, mostly in countries which no longer depend on aid and have the capacity to take over. Successful exits typically involved a mix of realistic timeframes, careful and mutual planning, consultation, and flexibility.

Bad exit examples, though, were more frequent, especially in countries still depending on aid. The consequences for people and institutions involved were severe, in some cases even disastrous, and it can be questioned whether the exit decisions and practices in these cases are consistent with agreed principles of partnership and mutuality in development co-operation.

14 case studies

Botswana:	Denmark, Norway and Sweden;
Eritrea:	Denmark, the Netherlands and Sweden;
Malawi:	Denmark and the Netherlands;
India:	Denmark, the Netherlands, Norway and Sweden;
South Africa:	The Netherlands and Sweden.

Exits – a natural, but neglected phenomenon

Aid is by nature temporary. Yet, there has been very little focus on the exit of donors. Development organisations and recipient countries know relatively little about how exit issues are discussed and managed outside their own organisations and institutions. In fact, this evaluation is the first of its kind. As a result, there are few opportunities to learn from each other, but apparently, there is an increased recognition that the issue of exits for too long has been overshadowed by the constant search for new entry points for aid.

Consequences of the exits range from positive to disastrous

The consequences of the exits for the beneficiaries were mainly assessed through interviews with selected representatives of sector/local government institutions or beneficiaries. A number of positive outcomes of the exits were reported in countries no longer dependent on aid, i.e. India and Botswana. Here, the governments to a large extent had the resources and the capacity to take over activities and foot the bill, although the scope for trying out innovative approaches suffered. In some cases the aid exit had a positive consequence of enhancing local ownership and led to expansion of the activities started by the donor.

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

Little focus on sustainability

It is conventional aid logic that the phase out of aid should only take place when the development partners are assured of the sustainability of the outcomes achieved through aid. Yet, exit decisions were rarely based on sustainability being achieved, and were invariably made before sustainability was ensured. There were only few examples of phasing out processes with a clear focus on sustainability, and in the force majeure type of exits, there was hardly any scope to focus on sustainability directly.

What happened to donor coordination?

Only in a few instances did donors assess the possibilities of other donors taking over – even when exiting from aid-dependent countries. It is rather remarkable that, despite the rhetoric around principles of donor harmonisation and alignment, most donors were not forthcoming or able to take over activities from other donors, and that no examples were found of joint exit decisions by several donors. Nor were there any examples of an exit decision being negotiated between donor and recipient. This suggests that exits do not yet seem to be guided by the principles of donor coordination as expressed in the Paris Declaration on Aid Effectiveness.

A wide variety of exit justifications, contexts and types

Aid forms part of political relations and is subject to political agenda on both the donor and recipient sides. Exit decisions are always political. While the exit decisions are not evaluated, a clear understanding is required of the reasons brought forward to justify the decision, because they influence the manner in which the exit is handled.

Various justifications for exit decisions

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

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

The cases of aid exits dictated by the recipient government are fewer, and only represented by India in this evaluation.

Four different exit contexts in partner countries

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

Three different types of exits

The management of exits and their consequences in partner countries are conditioned by a combination of the political justification of the exit decision and the context in the partner countries. Three types of exit management were found:

- Exit from a force majeure situation: characterised by strained diplomatic relations and/or insecure conditions. The exit objective is to wind-up orderly, but as quickly as possible.
- Exit from an aid-dependent country under conditions that allow for proper planning: the main exit objective is to realise development cooperation goals within a given time period, with an eye especially on the sustainability of results.

- Exit from a country no longer aid dependent: here, too, the main objective is to realise the development cooperation objectives with an eye on the sustainability of results, while a second objective related to phasing in might be to strengthen new forms of non-ODA funded cooperation and to strengthen bilateral relations.

Four ways of phasing out

- Cancellation of contracts: just winding up administratively (e.g. Malawi-Denmark: education programme).
- Accelerated phase out: attempts to advance the closing date and/or frontload disbursements (e.g. India-Netherlands: education programme in Gujarat; Eritrea-Denmark: education programme).
- Natural phase out: adhering to agreed plans – which is the most common approach (various examples).
- Phase out with a focus on sustainability: adjusting plans and budget to accommodate sustainability concerns (e.g. India-Denmark: several projects; Malawi-Netherlands).

Critical factors for good exit management

The evaluation identified a number of key factors that influenced the way in which the exit process were handled. They are critical to the outcome of exit process and can – if properly addressed – make exits even from aid-dependent countries successful.

Take communication seriously

The way exit decisions were communicated and who was responsible for the communication influenced the outcome. In some cases politicians took the responsibility to communicate exit decisions, and that was welcomed, but in other cases it was left to civil servants of different ranks to communicate. All exit decisions were unilateral and most of them communicated and perceived as a fait accompli. Early warnings were rare, indeed, in several cases the exit decision came as a surprise to the recipients.

Involve stakeholders

The degree of planning and of participation of stakeholders in the planning and implementation of exit processes was found to be a good indicator for their success. Exit processes that were not planned in detail had little stakeholder involvement, while the opposite was the case, when planning did take place.

Set realistic timeframes

In extremely short phase outs – i.e. less than two years – hardly any attention was paid to participation and consultation of stakeholders. This is not surprising as extremely tight exit processes leave little time and scope for communication and interaction with authorities and stakeholders in the partner country, as is often the case in force majeure situations. When, on the other hand, a realistic timeframe was set and the exit was allowed to take time, long-term planning, careful consultation of all stakeholders and good monitoring of results did happen.

Respect legal obligations AND commitments

The fulfillment of ongoing commitments is an important factor in determining success, especially in aid-dependent countries, and respecting legal obligations is not enough. When donors walk out from commitments made in extensive planning processes, it affects recipient institutions negatively, even if commitments are not yet formally agreed.

Be flexible

Flexibility is key to allow for the sense of partnership and mutuality which is a precondition for the planning of successful exit processes. Without flexibility on time frames, plans and financing it is not possible to assess the capacity on the recipient side, tailor the exit to the existing situation, and include stakeholder and sustainability concerns. Avoiding a quick closure of the donor Embassy in the recipient country was also found to be a useful and welcome way of demonstrating and allowing for flexibility.

Best and worst practice examples

The closest one gets to a 'best practice' example is Denmark's exit from India. It was characterised by a high level of flexibility: It had a very generous time perspective and disbursements even increased the first couple of years after the exit was decided. The Netherlands' exit from Malawi also ranks among the successful examples, not least due to the flexible approach by the donor, and it illustrates that successful exits can also happen from aid dependent countries.

Denmark also provides the closest one gets to a 'worst practice' example, the exit from Malawi over just six months. While misconduct on the Malawian side was given as a reason for the exit, it was the Danish government's political decision to cut the aid budget, which created a force majeure situation resulting in little consultation and flexibility and severe consequences. This example leads to the conclusion that changes in a donor's aid policy cannot justify creating a force majeure exit.

Difficult transformation to post aid relations

Three of the countries studied, India, Botswana and South Africa, have graduated or are graduating from being aid dependent. This represents the desired end-state of development co-operation and can – and should – be prepared jointly well in advance. Yet, there are few examples of this, one of them being Sweden's decision in 2004 to set a closing date for most bilateral aid to South Africa by 2008.

The transformation process in general proves difficult for various reasons: The phasing out aspects of aid are not easily combined with the phasing in of new types of broader or broad-based co-operation based on mutual interests. In general, phasing in easily gets more attention than phasing out. The focus tends to shift from a concern of sustainability to the future post-aid relations.

Another question is: Are donors really interested in developing new forms of co-operation? While this is certainly the case for India and South Africa, it has not been the case for Botswana, a country considered of marginal geopolitical importance. Despite a keen interest of the Government of Botswana to keep up relations, and similar objectives of particularly Norway and Sweden to do so, efforts have so far not been successful.

Increasing need for exit strategies

The number of exit situations is increasing and likely to increase even further in the years to come. This, unfortunately, is not only caused by the fact that more developing countries graduate from being aid dependent, but by a variety of other reasons, which all call for an increasing focus on developing better exit strategies for different situations, and ideally, exit should be discussed at entry, but the evaluation found no clear cut examples of this.

Aid entry and exit part of foreign policy

Although one may argue that force majeure type of exits should be avoided, they remain a political reality. Aid policy is increasingly being coupled to foreign and security policy concerns and aid is increasingly being used as a foreign policy instrument. As a result politically unstable countries with weak and often corrupt administrations are topping the list of aid recipients, and the likelihood of difficult force majeure exits – like the problematic exits from Malawi and Eritrea in the sample – has become much higher. The politisation of aid, thus, has lead to a higher level of aid volatility and an increased number of exits running counter to basic principles of good donorship, emphasis on predictability and concern for the rights of beneficiaries.

Donor coordination leads to donor exits

In line with the Paris Declaration several donors are in the process of concentrating bilateral aid on fewer countries and sectors. This means that exits are increasingly taking place in countries still depending on aid, and it emphasizes the importance of developing strategies for proper exits and handing over to recipient countries, but also of exploring the potential of other donors or NGO's taking over. While a better division of labour among donors and agencies certainly has advantages, it also increases the vulnerability of recipient countries in the event of exits. Donor countries should take that into consideration in their exit decisions and strategies.

Recommendations

Although this evaluation does not cover all types of donor exits, it represents sufficient variation in terms of contexts, political justifications and management processes to distil recommendations for exit management guidelines that can be applied by development co-operation actors more broadly:

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