Jalles d'Orey, Maria Ana; Prizzon, Annalisa

Research Report

Exit from aid: An analysis of donor experiences

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Report

Exit from aid

An analysis of donor experiences

Maria Ana Jalles d'Orey and Annalisa Prizzon

April 2019

Cover photo: MOL Bravo transits from the Suez Canal, Egypt to Florida, US. Photo: JAXPORT/Flickr CC-BY-NC-ND.

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All errors and omissions are the authors' responsibility and this report does not reflect the view of either our funders or the ODI.

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Acronyms

AFD	Agence Française de Développement
BMZ	Federal Ministry for Economic Cooperation and Development
CICID	Inter-Ministerial Council on International Development
CIDC	Committee for International Development Cooperation
DAC	Development Assistance Committee
DCI	Development Cooperation Instrument
DFAT	Department of Foreign Affairs and Trade
DFID	Department for International Development
DHS	Directorate for Human Security
EU	European Union
GIZ	German Agency for International Cooperation
ICAI	Independent Commission for Aid Impact
IDA	International Development Association
JICA	Japan International Cooperation Agency
KfW	KfW Entwicklungsbank
LDC	least developed country
LIC	low-income country
LMIC	lower-middle-income country
MCC	Millennium Challenge Corporation
MDB	multilateral development bank
MEAE	Ministry for European and Foreign Affairs
MFA	Ministry of Foreign Affairs
MIC	middle-income country
MoFA	Ministry of Foreign Affairs (Japan)
MOSF	Ministry of Strategy and Finance
ODA	official development assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PEPFAR	President's Emergency Plan for AIDS Relief
PPY	person poverty years
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs
SIDA	Swedish International Development Cooperation Agency
UK	United Kingdom

UMIC upper-middle-income country

UNDP United Nations Development Programme

USAID United States Agency for International Development

Executive summary

Many countries are expected to move away from aid…

Over the past 15 years, 35 low-income countries (LICs) have joined the ranks of the world's middle-income countries (MICs). By 2030, a further 29 countries are expected to graduate from the list of countries eligible for official development assistance (ODA) (OECD, 2014a). These trends reflect the strong and sustained economic growth achieved in most parts of the developing world.

Because of this improved income status, several dimensions of the development finance landscape are likely to evolve for most MICs. In particular, they will see a reduction in the resources they receive from development partners (lowering reliance on aid), changes to the terms and conditions attached to development finance (making them more expensive financing options) and shifts in the sectorial allocation of resources (with financing shifting towards the infrastructure sector).

…but we have limited evidence on how partner country governments and development partners have managed this transition away from aid so far

As developing countries become richer and address their own development challenges, development partners usually reconsider their programming and interventions. While transition and exit from bilateral development cooperation programmes should be considered an indicator of success in economic and social development, we know little about how development partners' engagement evolves when recipient countries are reclassified and/or exit from bilateral assistance, and how the process is managed and communicated. Albeit not extensive, the literature analysing how development partners have managed their transition from bilateral development cooperation programmes identifies a few common elements, i.e. the lack of a transition or exit strategy (and the need for one at the time of 'entry'), that the process should be a long-term, gradual one, and the need for transparency and communication at the appropriate political levels. However, to the best of our knowledge, there are no comparative studies on the different approaches that donors take to transition and exit from bilateral development cooperation programmes, or on how the terms and conditions of financing have changed, which could provide valuable cross-cutting lessons.

The approach of this report

This research report analyses the process of transition and exit from bilateral development cooperation programmes from the perspective of the development partners. A companion paper to this project analyses this policy process from the viewpoint of recipient country governments (Engen and Prizzon, 2019). We provide a preliminary assessment of the criteria used to decide when country programmes should be phased out and how this process has been managed, based on reviews, analysis and comparisons of 11 development partners. The bilateral development partners selected for this study are: Australia, Denmark, the European Union (EU), France, Germany, Japan, the Republic of Korea, Sweden, Switzerland, the United Kingdom (UK) and the

United States (US).[1] Each of the case studies included a desk-based review of grey literature (including policy and strategy documents), OECD Peer Reviews and academic papers. These were complemented by semi-structured interviews with former and current staff from development agencies, academics and think tanks, conducted between May and July 2018.[2]

Most development partners have an indirect or informal approach to transition and exit from bilateral development cooperation programmes

We looked at examples of how transition and exit have been managed and found that a number of different approaches have been used. These can be categorised as (i) no approach to transition, (ii) an indirect or informal approach, and (iii) a formal approach (regarding criteria and/or policy). Most development partners reviewed in this report fall within the first category (see Figure 1).

Within these broad categories, there are many other differences in how development partners approach transitions and exits from bilateral programmes:

- Decisions about withdrawal of development assistance are not necessarily centralised or coordinated within a development partner's cooperation system. Instead, they might be taken at the agency level (and therefore using different criteria and processes), or even at lower levels within each agency (based on the sector of intervention).
- Some development partners acknowledge the need to have a formalised transition strategy (such as the UK and the US), but have yet to implement one. Others have been less focused on or do not consider a transition strategy to be a necessary reform in their development cooperation (France, Japan and the Republic of Korea, for example).
- Nevertheless, all the development partners have a set of publicly stated criteria that they use to inform their allocation of resources (and, to a certain extent, whether to transition

A proposed classification of development partners' approaches to transition from bilateral development cooperation programmes

1 The 11 bilateral development partners include some which have phased out and some which have ramped up their assistance, and those that continue to operate in the LICs reviewed in Engen and Prizzon (2019).

2 Although we contacted relevant government officials in all agencies under review in this paper, the analyses of some development partners (Denmark, Sweden and the UK) are based on a review of secondary literature only.

from bilateral development cooperation programmes), with different degrees of formalising parameters to guide such decisions.

- There are very few examples where criteria have been put in place for both transition and exit from development programmes. These examples can be found in specific agencies within a development cooperation system or in specific instruments (such as the EU's Development Cooperation Instrument (DCI)). The European Union operates like a multilateral, with many owners and finite resources, so must set objective limits to avoid being pulled in too many political directions.
- Income per capita only marginally drives decisions on aid allocation (and therefore on transition). Most indicators for allocation and transition and exit capture non-income measures, focusing on needs and impact of development cooperation. In contrast, if the recipient country graduates from the list of ODA-eligible countries (income per capita lower than the high-income country threshold), this will determine that bilateral development cooperation programmes are withdrawn and phased out entirely (such as France and the UK).
- Partner countries' fiscal or institutional self-sufficiency can be a major driver in such decisions (as with the UK and the US), but rising institutional capacity can also imply rising demand, such as in the case of assistance from the Agence Française de Développement (AFD).

Donors that have a diverse set of financing instruments for development assistance tend to apply them strategically in the context of transition. Notwithstanding the challenges involved in reviewing whether and how terms and conditions change when a development partner starts phasing out its bilateral development cooperation programmes, we identified three main approaches across the development partners analysed in this report. First, a 'gradation' approach for bilateral development cooperation programmes (e.g. France), offering a continuum of differentiated financing terms, with terms and conditions based on a country's specific situation, rather than on broad income categories. Second, differentiated terms and conditions, albeit with exceptions (e.g. Germany and Japan). Third, non-grant financing agencies and channels within the development cooperation system (e.g. the UK).

Lessons for managing transition and exit from bilateral development cooperation programmes and recommendations for development partners

This report does not attempt to provide a full evaluation of the approaches to transition adopted by each of the development partners covered, as in Dutch Ministry of Foreign Affairs (2016), Slob and Jerve (2008) and Forsberg (2010). Instead, we have identified a series of common elements within development partners' positive experiences of managing withdrawal from bilateral development cooperation programmes. From these elements, we have drawn the following lessons for other partners:

- *Plan well ahead, and take a flexible approach during transition.* In their management of transition from bilateral programmes in Viet Nam, both Department for International Development (DFID) and Swedish International Development Cooperation Agency (SIDA) showed that communicating a plan to all relevant parties well in advance and then applying that plan flexibly can enable a smooth handover to the government. In other words, transition and exit should be planned well ahead of implementation and be part of long-term strategy. The planning should include mapping out projects to be phased out, identifying which organisation (government or other development partner) should take over responsibilities, ensuring continuity, focusing on the sustainability of development programmes (as in the case of Denmark in India) and managing potential risks.
- *As part of the planning process, communicate the decision to exit in advance to the relevant stakeholders and across the partner country's government.* Effective communication was an integral part of the smooth transition of bilateral programmes for both DFID and SIDA in Viet Nam. We found a few examples (e.g.

other DFID transition processes, the EU in Peru) where transition intentions could have been more effectively communicated.

- *Hand over responsibilities to the government and/or other development partners and/or government departments while taking time to develop this process*. As mentioned above, planning the handover, whether to the country government or to other development partners, should be one of the principles for transition from bilateral programmes. It may also be necessary to leverage regional programmes and/or other agencies within the national development cooperation system (as the case of Swiss development cooperation).
- *Diversify the set of instruments: phasing out bilateral programmes does not mean ending assistance to the country.* For example, the EU has started developing a toolbox for use in different country contexts and with graduated countries. Unsurprisingly, we found growing demand for technical assistance and policy assistance during the transition phase.
- *Review past transition processes and learn from them*. The motivation behind this report was the small number of reviews of development partners' approaches to transition and exit that were available (being limited to evaluations of Danish, Dutch and Swedish development cooperation programmes). This makes reviewing previous experiences and learning from them even more important.

Development partners that do not have formalised criteria or approaches to transition from bilateral development programmes might benefit from having greater flexibility, as they can handle each situation on a case-by-case basis. However, general principles should be established. Development partners should review their approaches and principles to transition to ensure that withdrawal is planned thoroughly, communicated across government and coordinated with other development partners, and that it sets new strategic directions for bilateral relations beyond development cooperation.

1 How development partners manage transition from aid when countries change income status

1.1 Introduction

Many countries are expected to move away from aid in the coming years. For example, it is estimated that by 2030, 29 countries will have graduated from the list of countries currently eligible for official development assistance (ODA) (OECD, 2014a). Over the past 15 years, 35 low-income countries (LICs) have joined the ranks of the world's middle-income countries (MICs).[3] These trends reflect the strong and sustained economic growth achieved in most parts of the developing world.

Because of this improved income status, several dimensions of the development finance landscape are likely to evolve for most MICs. Notably, the volumes of resources they receive are likely to fall (lowering reliance on aid), the terms and conditions attached to development finance are likely to change (making them more expensive financing options) and the sectorial allocation of resources is changing (with financing shifting towards the infrastructure sector).[4]

As developing countries become richer and address their own development challenges, development partners usually reconsider their programming and interventions. While transition and exit from bilateral development cooperation programmes should be considered an indicator of success in economic and social development, we know little about how the development partners' engagement evolves when the recipient country is reclassified and/or exits from bilateral assistance or how the process is managed and communicated.

This report offers a comparative critical analysis of the approaches to transition and exit from bilateral programmes adopted by 11 development partners.[5] By reviewing the criteria and processes that lie behind these partners' decisions, this report aims to generate a better understanding of the factors that trigger transition and exit and how these processes are managed, and to draw lessons from past experiences. With many countries moving away from aid, identifying how development partners and partner countries alike should manage and coordinate their transitions has become more important now than ever. Development partners should also consider the impact of transition and withdrawal from affected communities, but this is not the focus of this report.

3 Definitions of LIC and MIC status used in this report are based on the World Bank Income Classification.

4 See Engen and Prizzon (2019).

5 As commonly used in the development effectiveness literature, the term 'development partners' will refer to 'donor countries' and 'partner countries' will refer to 'recipient countries'. We will use the expressions 'development partners', 'donors' and 'donor countries' interchangeably throughout the report.

A companion report reviews the available literature and, based on the experiences of eight African and Asian countries that have recently been reclassified as MICs or graduated from soft windows of multilateral development banks (MDBs), analyses changes in access to external finance (Engen and Prizzon, 2019). While we know that access to finance, and the volumes and terms and conditions available, are changing, we know little about how developing country governments have managed the transition away from receiving aid and the shifting patterns of external finance, or of the strategies those governments use in the move from concessional to less concessional financing (Prizzon and Rogerson, 2017).

Box 1 elaborates on the concepts of transition and exit and how we interpret them for the purposes of this report. Transitions and exits evolve over time, and can be politically sensitive as they involve decisions about phasing out country programmes and projects and closing country offices, through budget cuts and/or reorientation of policy priorities.

Currently, very little evidence and literature are available to inform decisions related to the phasing out of country programmes and projects or closing of country offices, and what there is mainly focuses on evaluations for individual donors. In contrast, there is far more literature on the criteria used for aid allocation: changes to allocation priorities are likely to lead to reductions in country programmes, initiating the transition away from bilateral programmes. Some of the development partners reviewed for this report have not published many examples of completed transition processes. However, others have none or do not review transition processes systematically, at least through assessments that are in the public domain and could be cited. It should be noted that this paper focuses on cases where bilateral development cooperation programmes were phased out because of improved economic conditions and human development, rather than withdrawals driven by other motives, such as governance issues or conflict.

Several bilateral development partners are indeed now rethinking and reviewing their approach to transition and exit from bilateral development cooperation programmes, as this report later illustrates. Through our analysis, we would like to offer a comparative critical review of development partners' approaches to transition and exit. The goal is to map how the transition process can be managed and coordinated with other development partners (local and international) and communicated to partner country governments. We also would like this initial review to be useful for resource mobilisation departments in partner country governments; to help them map some of their development partners' approaches and strategies to transition and enable them to plan ahead.

Box 1 What do we mean by transition and exit from bilateral development cooperation programmes?

As with many other concepts, there are no agreed definitions of transition and exit from bilateral programmes.

Throughout this report, we refer to 'exit' when a recipient country no longer receives support from a bilateral development partner, whether *de jure* (by no longer meeting certain eligibility criteria) or *de facto* (when programmes are no longer in place and/or assistance is no longer demanded). This means that donors have phased out their assistance and withdrawn their bilateral development cooperation programmes. Graduation is considered a synonym of 'exit', but it usually refers to the case of countries that are no longer eligible for concessional and non-concessional assistance from MDBs.

We refer to 'transition' – the focus of this report – as the period when the financing mix and instruments evolve. Transition might last several years, during which the volume of concessional finance normally falls and instruments diversify. The result is a move towards a different type of partnership between donor and recipient countries. This is not necessarily a linear process, and there might be a risk of reversal.

1.2 Research questions, abridged methodology and report structure

This project aims to answer three research questions:

1. What criteria do donors use when deciding which countries to continue to support, and how are criteria for transition and exit from bilateral development cooperation programmes defined, if any exist?
2. How do terms and conditions evolve during transition and exit from bilateral development cooperation programmes?
3. How should donors manage transition and exit from bilateral development cooperation programmes at the country level?

To attempt to address these questions, we conducted 11 short case study analyses. The 11 bilateral development partners include eight that have continued operating in the lower-middle-income countries (LMICs) reviewed in Engen and Prizzon (2019) and which have either phased out or ramped up their assistance (Annex 1 describes the case study selection methodology). The 11 bilateral donors selected for this study are: Australia, Denmark, the European Union (EU), France, Germany, Japan, the Republic of Korea, Sweden, Switzerland, the United Kingdom (UK) and the United States (US).

Each of the case studies included a desk-based review of grey literature, covering policy and strategy documents, OECD Peer Reviews and academic papers. These were complemented by semi-structured interviews with former and current staff of development agencies, and with academics and members of think tanks (see Annex 2 for a list of interviewees who agreed to be cited for this study), conducted from May to July 2018. Although we contacted relevant government officials in all the agencies under review in this paper, the analyses of some development partners (Denmark, Sweden and the UK) are based on a review of secondary literature only.

This report is structured into six main parts:

- Section 2 summarises the literature reviewed to determine the criteria and approaches to allocation and transition, how the terms and conditions evolve and, finally, how transition is managed at the country level.
- Section 3 briefly describes which agencies are involved in, or take decisions about, transition from bilateral programmes (and which are, in principle, in charge of withdrawing country programmes) in each development partner analysed. We review changes in policy priorities and budgets affecting decisions on transition and exit from bilateral programmes. Annex 3 provides further details.
- Section 4 analyses and compares approaches to transition and exit across partners, focusing on criteria and processes of transition for bilateral development cooperation programmes.
- Section 5 reviews the terms and conditions of bilateral development cooperation as they evolve during transition.
- Section 6 highlights lessons and experiences across the bilateral development partners reviewed.
- Section 7 concludes by outlining the elements that a bilateral development partner could consider when setting criteria and processes for a strategy for transition from bilateral programmes.

2 How donors manage the transition from aid: a review of the literature

This section provides a brief review of the large body of literature on allocation, selectivity and effectiveness of development assistance. These issues are closely related, as aid allocation decisions can directly affect decisions to transition or exit from development cooperation. If a development partner changes its allocation of development assistance, it will often then to decide to either reduce or end its participation in bilateral programmes. Even though the donor might not have an explicit transition policy or approach, its announced principles for aid allocation – which are often general parameters rather than absolute rules – may suggest when and where programmes can be expected to shrink. (For example, if a donor decides to concentrate its resources on the poorest countries, where its contribution can make the greatest impact, or countries and sectors where they have a comparative advantage, the consequence will be a reduction in resources for MICs.)

We then review the academic and policy literature as we address our three main research questions.

2.1 Allocation, selectivity, transition and exit

The core literature on aid usually discusses allocation, selectivity and effectiveness in the context of allocating foreign aid across countries – aid is allocated 'selectively', based on need and effectiveness. While this practice goes back to the 1970s, the literature became more prominent with the publication of *Assessing aid* (World Bank, 1998). In this report, the World Bank advocated a selective approach, where aid allocation should be targeted towards recipients that have good policy as well as high poverty. Collier and Dollar (2002) also promoted this approach, following Burnside and Dollar's influential study (2000) showing that aid worked better in a good policy environment. Before long, however, some started to contest this claim (e.g. Alesina and Weder, 2002; Bueno de Mesquita and Smith, 2007, 2009; Hansen and Tarp, 2000; Dalgaard et al., 2004), while others found that aid reduced poverty independently of recipient policies (Mosley et al., 2004; Gomanee et al., 2005). Nevertheless, research suggested that aid allocation had become more selective with respect to both policy and poverty (Berthelemy and Tichit, 2004; Dollar and Levin, 2006). Allocation, selectivity and effectiveness became buzzwords in all development agencies' strategic thinking when considering the criteria for funding selected partner countries.[6]

Evidence on how bilateral donors approach transition and exit is, however, limited. There are only a few publicly available reviews of development partners' transition or exit strategies. Furthermore, the available evidence is relatively recent (since the late 2000s), primarily relies on evaluations and focuses either on specific sectors (predominantly health) or on

6 See Clist (2011) for a review of the literature and discussion on approaches to aid allocation.

specific countries. In the rest of this section, we identify how contributions so far have helped to answer our project's three research questions.

2.2 Factors and strategies for deciding on transition and exit

There are several factors that can drive a donor to end its aid to a partner country, including an improvement in the partner's capacity for self-reliance, a unilateral decision by the partner to withdraw or a reduction by the donor in its number of priority countries.

2.2.1 Self-reliance and progress

The exit of development partners from partner countries may be supported by the argument that 'recipients can manage without aid' (Slob and Jerve, 2008). The rationale is that when countries reach a higher level of economic development, their national governments are *able* to take more (eventually full) responsibility to deliver programmes/services and therefore *should* do so. It can also be argued that national governments are the 'natural custodians' of large-scale programmes; given that donor commitments are time-bound and uncertain, the goal from the outset should be that domestic actors assume ownership to achieve or maintain scale and sustainability.

2.2.2 Unilateral decisions

The second set of arguments relates to the partner countries' own preferences: countries might not want to continue an aid relationship, but instead wish to move towards a purely economic partnership. Thomas (2013) and Slob and Jerve (2008) emphasise the 'preference of MICs' and 'exit dictated by recipient governments', which can occur when development partners are perceived as interfering in domestic affairs. Some recipients want to be perceived as self-reliant and to reduce the burden of aid coordination. India has been held up as an example of this: its government has explicitly stated that the country does not want or need aid and wishes to 'voluntarily' give it up (Gilligan, 2012).[7]

2.2.3 Fewer priority countries

For various reasons, development partners may wish to reduce the number of countries they regard as priorities for the allocation of aid (Slob and Jerve, 2008). One argument for this is aid efficiency, based on the belief that a donor may spread its aid too widely and that reducing the number of partner countries would allow the donor to become more efficient (and would help to reduce fragmentation in the aid system) (Forsberg, 2010).

From the literature review, it emerges that donors do not usually have an explicit transition and exit policy or transition strategy in place. Instead, the most common approach is a 'natural phasing out', which means that ongoing commitments are met and donor-supported activities are 'faded out' at the end of the transition period (Slob and Jerve, 2008). For a donor to plan its exit and handover for any development programmes it supports, with a focus on the impact and sustainability of development results, is the exception rather than the rule.

2.3 Terms and conditions of development cooperation during transition and exit

There is only limited evidence and little publicly available literature on how transition affects the sectoral allocation of resources. Most of the literature focuses on the health sector, and there is some evidence that recipient countries have used budget support to increase expenditure in the social sectors, particularly following the phasing out of some bilateral assistance.

In the case of funding for HIV/AIDS, for example, two development partners significantly reduced their bilateral contributions after having decided to reduce their number of priority countries. First, the UK's Department for International Development (DFID) cut nearly all its bilateral HIV funding to MICs (Murphy and Podmore, 2014). This was part of a shift by DFID towards supporting a more selective group of partner countries, following the 2011 Bilateral

7 Nevertheless, India quietly reversed its original decision, although it now accepts only very large bilateral donors.

Aid Review (DFID, 2011). DFID argued that it supports MICs via its contributions to the Global Fund to Fight AIDS, Tuberculosis and Malaria.

Second, the Australian Department of Foreign Affairs and Trade (DFAT) significantly reduced its HIV funding to Asian and Pacific countries, such as Indonesia, Papua New Guinea and countries in the Mekong region, asking national governments to increase their funding of HIV efforts (Burrows et al., 2016). In this case, the government reoriented Australia's aid programme, to focus much more on economic development, particularly commercial enterprise, trade and infrastructure, and less on social sectors, such as health.

However, there were other cases where additional support was not provided or planned. According to the Dutch Ministry of Foreign Affairs (2016), the exit of Dutch development cooperation from Burkina Faso, Nicaragua, Tanzania and Zambia implied a loss of about €89 million for the health sectors in the recipient countries. This was a net reduction that has not been compensated by budget increases in other sectors and/or countries. Even though most of these countries experienced favourable rates of economic growth, large discrepancies remain between required and available budgets, especially in the social sectors. Public services remain underfunded, which has had a negative impact on their quality. This has also made it very difficult for partner countries to find other sponsors, and they had limited options for generating their own resources.

The review of literature across bilateral donors found no recent examples of where a donor's approach to transition involved a change in the type of financing instrument being used (e.g. from grants to loans) from the development partner's perspective.

2.4 How donors managed transition at the country level

To date, scant attention has been paid to learning about how to manage exit and transition from aid. Exit from aid is often perceived as a negative process in which there are few rewards for good management. Exit decisions are often accompanied by immediate downsizing of embassies, or even, in some instances, their closure (Slob and Jerve, 2008). However, the literature has identified some elements that *should* be in place if a transition is to be managed effectively.

2.4.1 A transition plan in place, even at time of entry

The literature review revealed a lack of clarity among stakeholders about what transition to country ownership meant in practical terms. For example, in South Africa, government officials became frustrated and resentful that the President's Emergency Plan for AIDS Relief (PEPFAR) lacked a written and clearly communicated plan for its transition – one that would specify the exact timing of funding reductions and what would happen with regards to prevention (as opposed to treatment and care) interventions, which had always been funded by donors (Vogus and Graff, 2015).

2.4.2 Transparency, communication and consultation with local stakeholders

The way a donor's decision to exit is communicated to the recipient is important: recipient countries preferred it when exit decisions were conveyed at the political level, rather than by the civil service. It is usual for exit decisions to be presented and understood as faits accomplis, in some cases coming as a surprise to the recipient country. In some cases, politicians took the responsibility to communicate the exit decision. Although the partner country did not welcome the decision, this approach was preferred to the examples where it was left to civil servants of various ranks to convey the news (Slob and Jerve, 2008). The Republic of Korea's transition in the 1960s, which included a very gradual and transparent process, is considered to have been highly successful (Runde et al., 2012). Processes were found to be more successful when national stakeholders had a greater involvement in the planning and implementation of the transition process (Slob and Jerve, 2008).

2.4.3 Long-term gradual process – complete projects before exiting

The speed and phasing of the process also matter. When a realistic time frame was set and the exit was allowed to take time, attention could be paid

to sustainability and the mitigation of adverse consequences. This involved long-term planning, careful consultation with all stakeholders and good monitoring of results (Slob and Jerve, 2008). When Sweden withdrew from Viet Nam, it did so gradually over a four-year period (2009–2013). There had also been informal discussions within the donor community for five years before the decision was announced (Forsberg, 2010).

2.4.4 No examples of donor coordination on transition strategies

Cross-country evidence suggests that when a country crosses the World Bank's operational cut-off for International Development Association (IDA) eligibility, bilateral Development Assistance Committee (DAC) donors regard it as a signal that the country is in less need of aid. The donors then reduce their aid to the recipient, thereby reinforcing the (negative) effects that threshold-crossing has on IDA flows (Knack et al., 2014). There are also many examples where several development agencies exited simultaneously from an MIC, or from specific sectors within a recipient country (such as from education in Zambia). For example, several large donors (Denmark, the UK and Sweden) all announced within a short period that they were ending their support to Nicaragua. There was no donor coordination or harmonisation regarding these decisions; indeed, all these exit decisions by 'like-minded' donors were taken unilaterally, based on domestic considerations (Dutch Ministry of Foreign Affairs, 2016).

2.5 Conclusions from the literature: lessons and gaps

Although the literature analysed for this study is not extensive, a few common elements can be identified in how development partners have managed their transitions from bilateral development cooperation. Most important is the general lack of transition or exit strategies among donors. Donors should have such strategies in place at time of 'entry', and transitions should be long-term gradual processes. Transparency and communication at the appropriate political level are also important.

To the best of our knowledge, there are no comparative studies on the different approaches taken by donors during transition and exit from bilateral development cooperation programmes. Likewise, there are no studies on how the terms and conditions of aid have changed during transition and exit.

The case study analyses presented in this report (Sections 4 to 7) test the extent to which development partners' experiences resonate with the findings and lessons from the literature.

3 Institutional arrangements for managing transition and exit from bilateral development cooperation programmes

Section 4 reviews the approaches that different development partners have used to transition and exit from bilateral development cooperation programmes. To provide context, for each of the development partners considered in this study, this section briefly outlines who takes decisions and manages the transition process and what other national agencies are involved.

The way that development cooperation is organised and managed varies by donor. In some cases, the Ministry of Foreign Affairs (MFA) takes the lead and is responsible for policy and implementation. In others, development cooperation is managed by a department or agency within the MFA. Other institutional arrangements include: a separate executing agency outside the MFA, responsible for the implementation of MFA policies; and an agency or ministry outside the MFA that is responsible for both policy and implementation. Some of the development partners reviewed in this study have also set up a development finance institution to implement their programmes and projects with the private sector. The institutional setting affects who makes allocation and transition decisions and how those decisions are made. In this section, we highlight the main agencies within each donor that have a responsibility to make these decisions (for an extended description of each donor's institutional arrangement, see Annex 3).

- Within **Australia**'s development cooperation system, DFAT is the main agency taking decisions on aid allocation and programmes (managing 93% of ODA budgets; see OECD, 2018). DFAT leads on both aid and trade agendas, offering (at least in principle) greater opportunities to support a strategy for transition away from aid.
- In **Denmark**, the Ministry of Foreign Affairs is responsible for allocation decisions. Danish development cooperation is increasingly integrated with foreign and trade policy (OECD, 2016b).
- In the **EU**, a Directorate-General for Development Cooperation was established in January 2011 with the objective of consolidating the delivery of development cooperation. One agency leads on policy and the implementation of most of the EU's financing instruments for development cooperation (OECD, 2012a).
- In **France**, implementation is overseen by two core ministries, the Ministry for European and Foreign Affairs (MEAE) and the Ministry of the Economy and Finance (Treasury Department), and is coordinated by an

Inter-Ministerial Council on International Development (CICID), usually chaired by the Prime Minister. French development assistance is implemented by one large central agency (AFD), which has both ministries on its board.

- In **Germany**, the Federal Ministry for Economic Cooperation and Development (BMZ) has the overall policy-steering and oversight role for German development cooperation. It is also responsible for decisions on aid allocation and transition. BMZ has its own budget envelope, as part of the federal budget. German cooperation is implemented by two major state-owned institutions: the German Agency for International Cooperation (GIZ) and the development bank, KfW Entwicklungsbank.
- In **Japan**, the Ministry of Foreign Affairs has a policy-making role in development cooperation, including on aid allocation. The Japan International Cooperation Agency (JICA) is responsible for implementing more than 60% of total bilateral ODA. It uses a country-based approach in which grants, loans and technical cooperation are brought together into a single envelope for each country (Faure et al., 2015).
- The **Republic of Korea**'s major ODA policies are decided at the Committee for International Development Cooperation (CIDC), chaired by the Prime Minister and with a membership that include ministers, heads of ODA-implementing agencies and civilian experts. The Ministry of Foreign Affairs (MFA) supervises bilateral grant aid and multilateral aid to the United Nations and other multilateral organisations. It oversees and coordinates grant aid by formulating overall grant aid policy direction, annual strategies and regional and country-specific programmes, while also supervising the Korea International Cooperation Agency's (KOICA) execution of grant aid programmes. The MFA also acts as an executive secretary to the Inter-Agency Grants Committee (chaired by the Vice Minister of MFA).
- In **Sweden**, the Ministry of Foreign Affairs is responsible for Sweden's development policies and management, and SIDA is the main agency responsible for implementing those policies and strategies (Faure et al., 2015).
- In **Switzerland**, development cooperation is implemented by two bodies. The first is the Swiss Agency for Development and Cooperation (SDC), Switzerland's international cooperation agency within the Federal Department of Foreign Affairs (FDFA). The second is the Economic Cooperation and Development Division in the State Secretariat for Economic Affairs (SECO), which is responsible for the planning and implementation of economic cooperation and development activities, mainly with middle-income developing countries, countries of Eastern Europe and the Commonwealth of Independent States (transition countries). In a strategic review conducted with the Directorate for Human Security (DHS) (at the Foreign Ministry) every four years (Dispatch), the two agencies agree on their joint strategy for Swiss development cooperation, on their respective priority countries (including new ones and those from which they are planning to exit) and complementary countries for SECO where they both operate.
- In the **United Kingdom**, DFID is the agency responsible both for policy decisions – including on aid allocation and transition – and for implementation.
- The **United States** has a complex institutional system for the delivery of development assistance. Currently, different allocation models interact, based on previous funding requests, Presidential Initiatives, Congressional earmarks, country-specific budgeting and supplementary appropriations. The result is a highly fragmented budget, which translates into a complex array of instruments and reporting requirements for field offices, leaving them very little discretion (Faure et al., 2015). Congress is a key component of the US institutional system for development cooperation. According to interviewees, the resource allocation system is complex, with budget requests being the main planning instruments for the following fiscal year, much of which reflect Presidential Initiatives (such as PEPFAR, Millennium Challenge Corporation (MCC), Feed the Future and Global Health, some of which are now independent agencies or quasi-autonomous programmes) without

a strong coherence strategy across agencies. While more than 21 agencies are involved in US development cooperation, around 90% of all ODA is concentrated in only three agencies (USAID, the State Department and the Treasury) (OECD, 2016).

4 Development partners' approaches to transition and exit from bilateral development cooperation programmes

The 11 development partners[8] analysed for this report applied diverse criteria and processes when triggering and informing transitions and exits from bilateral development cooperation programmes. Several factors contributed to this varied picture.

First, decisions on whether and how development partners should withdraw their bilateral development cooperation programmes from partner countries are often rather sensitive. At times, these are driven by political decisions and budget constraints. They require flexibility, hence the challenge of framing specific parameters, metrics and processes to be used.

Second, decision-making regarding the withdrawal of development assistance is often not centralised or coordinated within a development partner's cooperation system.

Finally, several OECD Peer Reviews of the development partners studied in this paper recommended they concentrate their assistance in fewer priority countries, with the aim of reducing fragmentation and boosting the impact of their country programmes. This prompted the partners to reflect on how best such a selection process could be informed.

Despite these differences, for this report we have attempted to divide the different approaches to transition into three groups, based on the degree of formalisation of the criteria for transition and exit and the policy process: [9]

1. No formal approach to transition (case-by-case approach)
2. Indirect or informal approach to transition
3. Formal approach to transition (criteria and/or policy).

4.1 No approach to transition (i.e. case-by-case approach)

In this analysis, France, Germany, Japan, the Republic of Korea and Sweden were found neither to apply rigid allocation criteria for their bilateral development cooperation programmes, nor to follow specific guidelines for exiting from

8 In the case of Denmark, we did not find a published strategy or manage to secure any interviews. However, the country was kept in the review because of the evaluations of transition and exit it provides.

9 Section 5 focuses on the evolution of terms and conditions of development assistance during the transition from bilateral development cooperation programmes.

Figure 1 A proposed classification of development partners' approaches to transition from bilateral development cooperation programmes

such programmes. However, these development partners do select priority countries for their development cooperation and have indicators in place that broadly, but not rigidly, inform their allocation of bilateral assistance.

4.1.1 France

The CICID periodically defines or amends France's list of priority countries and the themes for French cooperation, and it announces key financial and ODA goals. In 2018, the list of priority countries (formerly known as priority poor countries) was increased from 16 to 19, all of which are least-developed countries (LDCs). All but one (Haiti) are in Africa, and all but two (Ethiopia and Gambia) are francophone. The CICID commitment for the past few years has been that half of French budget subsidies for development[10] should be directed to these priority countries, and two-thirds of those subsidies should be routed through AFD.[11]

The clearly understood and applied upper limit is that only DAC-eligible ('DAC list') developing and emerging countries may benefit from AFD assistance, even if this is not explicitly subsidised.[12] As and when countries graduate from the DAC list, the presumption is that AFD would wind down its programmes there, as would the MDBs, for example. France generally aligns with World Bank graduation practice, but it may choose to continue to operate multilaterally where it does not have a bilateral development cooperation programme (Chile, for example, is still eligible for assistance from the International Bank for Reconstruction and Development). This is an issue of current relevance, as AFD has recently been authorised to open a programme in Argentina, but probably for a limited transition period. In the same time frame, the option of a parallel programme for Chile was rejected, given its graduation from the DAC list of eligible countries in 2018, even though there might have been

10 Subsidies are: AFD project subsidies; the MEAE's Priority Social Fund; technical assistance; scholarships, traineeships and missions; general budget support by the Treasury; private sector research and support funds; commercial capacity programme; and French Fund for the World Environment (MEAE (2018), *Document de Politique Transversale* (DPT).

11 There was also an earlier commitment by CICID that 85% of AFD's and the state's 'financial effort', including grants, should go to Africa and the Mediterranean, which fits with France's historical and cultural ties. We understand that this third target has not been met since 2012.

12 An exception, not regarded as ODA, is a programme managed by AFD for French overseas territories and departments.

operational synergies with Argentina. AFD has also expanded into Colombia.

While it must seek permission before opening a programme in any new country,[13] AFD has a relatively freer hand to close programmes, especially in non-priority countries.[14] Factors such as an improvement in the fiscal or institutional self-sufficiency of the partner are not major drivers in such decisions (in fact, improved capacity may increase demand for AFD products). Technical assistance and humanitarian programmes outside AFD (the main French technical assistance programme, Expertise France, will be administratively transferred to AFD from 2019) have more latitude on country choices, but similar considerations apply. As a point of foreign policy, France maintains a quasi-universal footprint, through its worldwide diplomatic offices, so basic administrative infrastructure is not usually the binding constraint.

4.1.2 Germany

Germany does not adopt rigid criteria when it comes to selecting the countries it supports. Germany, through BMZ's bilateral country programmes, currently provides assistance to 85 countries. The list of countries assisted, which include LDCs, LMICs and upper-middle income countries (UMICs), has actually grown in recent years.[15] Annual or biannual BMZ allocations are based on structural and political considerations, are context-specific and use a mix of instruments tailored to each situation.

German development cooperation is also sourced from other ministries' budget envelopes (as well as from BMZ), and from KfW market-based financing. Compared with other major donors, Germany has always targeted its aid more towards MICs,[16] reflecting its priority sectors and interventions, addressing inequality and the development of 'social market' institutions, as well as climate change and environmental sustainability.

Germany has also long been a provider of triangular cooperation and is one of the most active countries in this financing mechanism (together with Spain and others) (BMZ, 2013).

Germany applies a case-by-case analysis to transition and exit; when it comes to criteria for a formal transition strategy, it does not apply any hard thresholds. A reclassification to MIC status (based on the World Bank threshold) does not affect whether a country is included in the priority list. A country remains eligible for funding from BMZ until the ministry decides to terminate assistance. When countries are reclassified to MIC status, BMZ does not usually stop providing assistance. Instead, the ministry revises the financing mechanisms used (see Section 5) or the quotas allocated to different sectors. For instance, under the federal budget, there are binding quotas for specific sectors. The sectors these apply to are: agriculture and rural development, climate protection and adaptation, biodiversity, education, and maternal and child health. The aim is to allocate globally a certain amount of bilateral aid (technical and/or financial) to projects and programmes related to these sectors. (Such an allocation needs to be negotiated and balanced with other demands and obligations, such as short-term political priorities or partner countries' priorities and demands.)

Germany has invested considerably in developing its engagement with what it calls 'Global Development Partners' – large powerful

13 AFD should seek approval to operate in a new country, usually from officials and advisers forming a subset of the CICID (mainly from MEAE and the Treasury) and occasionally from ministers. The main decision criteria are: (1) sufficient foreign relations advantages (bearing in mind the dominant focus on Africa and the Mediterranean, but not strictly limited to these areas); and (2) a good business case, in terms of prospects of adequate programme income to carry the costs of operation, and on portfolio risk diversification grounds.

14 In the special case of sanctions, suspension or closure may be mandatory.

15 The full list of countries receiving assistance from BMZ is available at www.bmz.de/en/countries_regions/laenderkonzentration/index.html.

16 Although Germany is now increasingly also focusing on Africa and LICs.

emerging economies, such as Brazil, China, India, Indonesia, Mexico and South Africa. As with the transition from LIC to MIC status, Germany applies a case-by-case approach to reclassification from LMIC to UMIC status. Nonetheless, the cessation of eligibility under the DAC rules is the main trigger or primary reference for the phasing out of bilateral development cooperation programmes. UMICs are also still entitled to receive grants under certain conditions and in certain sectors, and therefore the concept of Global Development Partners does not equate to wholesale exit from bilateral assistance (BMZ, 2015), where UMICs would not be eligible to receive ODA-related flows. This is based on the assumption that, although they have more financial resources, MICs can still lack capacity in many areas of public policy and management.

4.1.3 Republic of Korea

As a response to the recommendation of the 2012 DAC Peer Review to rationalise further ODA budgets (OECD, 2012b), the Republic of Korea has reduced the number of its priority countries from 26 to 24. Priority countries are those where a Country Partnership Strategy has been agreed across government departments (MFA for grants, and Ministry of Strategy and Finance (MOSF) for loans) for a five-year cycle. These strategies aim to maximise synergy effects and to improve ODA effectiveness through strategic concentration.[17] Assistance was phased out in five countries (Cameroon, Democratic Republic of Congo, Nigeria, Solomon Islands and Timor-Leste) and started in another three countries (Myanmar, Senegal and Tanzania). Neither the review of the policy literature, nor the interviews clarified what criteria had been applied in those decisions or how the transition process was managed. The list of priority countries includes LICs and LMICs, and some UMICs (such as Azerbaijan, Colombia and Peru). The inclusion of UMICs would suggest that that the overall allocation of Korean development assistance is not driven by needs – i.e. by the income classification of the recipient country – and is largely affected by geostrategic and economic factors.

The companion report to this project (Engen and Prizzon, 2019) and a previous report (Prizzon and Rogerson, 2017) have both found that, over the past five years, the Republic of Korea has visibly expanded its non-concessional loans to Indonesia and Viet Nam (via the Korea Eximbank), whereas other bilateral donors have begun phasing out assistance.

4.1.4 Japan

In Japan, the Ministry of Foreign Affairs is the agency that makes decisions on exiting from bilateral development cooperation programmes. However, these decisions are not guided by any formal strategy. Japan sees international cooperation as an increasingly important component of its wider foreign policy and diplomatic efforts (OECD, 2014b). Based on a philosophy of 'non-interference', 'non-intervention' and promoting 'self-help', Japan is willing to support MICs and their investments, to help these countries sustain economic growth while at the same time utilising the expertise of the Japanese private sector.

When determining what cooperation to extend, Japan considers both the recipient's actual development needs and the affordability of any cooperation measures, rather than just per capita income level. The list of countries it supports includes some that have achieved progress and economic growth but still face development challenges, such as exposure to natural disasters, infectious diseases, environmental issues and climate change. This includes small islands and other countries that have vulnerabilities despite having attained a certain level of per capita income (referred to in the literature as caught in the 'middle-income trap') (MoFA, 2015). While factors such as fiscal capacity and debt sustainability are taken into consideration in decisions on whether to support particular countries, they are used as a reference

17 In 2015, the Republic of Korea's government selected 24 priority partner countries out of 134 partner countries. The priority partner countries comprise 11 Asian countries, seven African countries, four Central and South American countries and two Middle East and Commonwealth of Independent States countries (see www.odakorea.go.kr/eng.policy.CountryPartnershipStrategy.do).

and not as fixed criteria. Interviewees have reflected that the decision to support a country is ultimately based on bilateral considerations and demand from recipient countries.

Similarly, Japan's aid allocation is not necessarily guided by a set of criteria and there are no predetermined country envelopes for individual countries or regions. While Japan provides aid to more than 140 countries, its aid is highly concentrated in 20 recipients, mostly MICs in Asia, through economic infrastructure support funded primarily by concessional loans. Such an approach has ensured that MICs are not disadvantaged when other DAC donors focus their ODA on poorer countries. Despite the aid focus on Asia, Japan has made a series of commitments to increase the share and volume of its aid that goes to Africa and for a quarter of its ODA to be channelled to LDCs. Japan is also a key supporter of South-South and triangular cooperation (OECD, 2014b).

4.1.5 Sweden

Sweden had a formal exit strategy for Viet Nam and was the first donor to make an official statement about its exit (see also Section 6), but it did not have a formal strategy or approach for the transition. The exit strategy did not involve a radical severing of bilateral relations with Viet Nam. Rather, it meant the creation of new partnerships in trade, investment, cultural and research cooperation between Viet Nam and Sweden, with the Swedish Ministry of Foreign Affairs being quite active in promoting continued bilateral relations. Sweden's exit from Viet Nam, which has been very well documented, had a phase-out process that happened gradually. Two main arguments prompted Sweden's exit from Viet Nam. First, Viet Nam had managed to sustain economic development for two decades, resulting in falling poverty ratios and the country shifting from LIC to LMIC status (leading to the assumption that Viet Nam would no longer need aid). Second, the Vietnamese one-party state was, at the time, under intense scrutiny (Forsberg, 2010).

In 2007, the Swedish government decided to concentrate its foreign aid in three groups of countries: long-term partner countries mainly in Africa; countries in conflict or post-conflict situations; and Eastern European transition economies. It therefore reduced the number of partner countries from around 70 to 33 (Forsberg, 2010). Decisions about which individual countries to exit from were described as 'purely political', to reflect the Swedish government's preference to become a more efficient donor in a narrower number of countries. Sweden has also started consolidating its aid programme into a smaller number of sectors.

4.2 Indirect or informal approach to transition

The UK and the US both use allocation criteria for their bilateral development cooperation programmes. Neither country has a formal transition strategy, but both have recognised the need for one (and have recently been working on one). Australia has adopted a similar approach. While aid allocation is not driven by explicit criteria and rules, its decisions on new projects are based on a set of parameters. The Australian government has also been reflecting on a new approach to its engagement with MICs.

4.2.1 United Kingdom

Following its Bilateral Aid Review in 2011, DFID reduced the number of beneficiary countries from 43 to 27. Decisions about which countries to continue to support were partly informed by the use of an index, which for each country captures:

1. Development needs (based on the number of people living on less than $2 a day, the country's score on the UNDP's Human Development Index and a fragility measure).
2. Likely effectiveness of assistance (based on the World Bank's Country Policy and Institutional Assessment score).
3. Strategic fit with the UK government's priorities.

Following the 2011 review, DFID also ended its bilateral HIV/AIDS funding to MICs, prioritising LICs and LDCs. DFID argued that it supports MICs more effectively through the Global Fund to Fight AIDS, Tuberculosis and Malaria (Murphy and Podmore, 2014) (see Section 2.3).

As part of its 2016 Bilateral Aid Review, DFID introduced a new aid allocation model, entitled

'person poverty years' (PPYs). This aimed to allocate UK aid such that it would achieve the highest impact and best value for money (DFID, 2016), and in a way that reflects DFID's principles and priorities, with poverty reduction as its core principle, as directed by the International Development Act 2002. Under the new model, the number of people in poverty in a country is multiplied by the number of years they are expected to remain poor. The goal is to maximise the reduction in PPYs until a country is able to self-finance poverty reduction. The model implies that the amount of UK aid provided will reduce when a country reaches a particular PPY level, rather than income level. However, this model has already been criticised as it is not clear how DFID prioritises between countries with high PPY levels, how it incorporates other factors (such as challenging environments and comparative advantage in relation to other donors) and how it sets out any transition policy, given that countries' positions in this model will change as these factors shift (ICAI, 2016). We should note, however, that the allocation model is intended to inform a political set of allocation decisions and is not a mechanical or formal guide.

In 2014, the UK's then Secretary of State for International Development, Justine Greening, made it clear that DFID needed a transition strategy.[18] In 2016, the UK's Independent Commission for Aid Impact (ICAI) reviewed DFID's approach to managing transition and exit, and followed this up in 2018 with a study focusing on countries no longer receiving DFID's assistance (such as Burundi, Cambodia or Viet Nam) or that have a different type of partnership (China, India, Indonesia or South Africa). ICAI (2016) concluded that:

> DFID does not have a standard approach or processes for phasing out bilateral aid and managing exit or transition. The 2008 strategy on middle-income countries was not replaced, leaving DFID without clear guidance as to its role within the emerging powers. DFID does not consistently prepare exit or transition plans and strategies. DFID's only specific guidance dates from 2011 and focuses on the practicalities of closing programmes and offices and has not been updated to reflect recent experience or the changed strategic context.

In the DFID management response to the ICAI follow-up review in June 2018, it was confirmed that DFID management has been developing 'working principles for managing transition', and that there is director-level responsibility for coordinating the approach across DFID (ICAI, 2018).

4.2.2 United States: USAID

Multiple factors affect US decision-making on foreign aid

The US does not apply a unified and transparent approach to resource allocation. It is difficult to map the criteria it uses to allocate aid across agencies (OECD, 2016). Resource allocation combines a bottom-up approach (whereby field missions make resource requests) with top-down decision-making (whereby Presidential Initiatives and congressional directives drive the authorisation and appropriation processes). Joint regional strategies developed by USAID and the State Department are also prominent tools for aligning objectives and guiding resource allocation. Resource allocation criteria become a little more transparent when we look at specific agencies, accounts and sub-accounts, and their underlying goals and objectives.[19]

USAID is the main development agency in the US. Despite not having a standard approach

18 House of Commons International Development Committee (see https://publications.parliament.uk/pa/cm201415/cmselect/cmintdev/663/66306.htm).

19 For instance, the Economic Support Fund is allocated strictly on foreign policy criteria; the Millennium Challenge Account is allocated on standard development criteria; the Global Health Initiative is based on more specific health criteria for need and effectiveness; and Feed the Future has its own allocation criteria. This is similarly the case for climate change, the education earmark and other earmarked 'pots of money'. Funding to support the transition from communism had its own quite sensible approach to transition during the late 1990s and into the 2000s, with separate accounts.

to making decisions on transition and exit, the agency has recognised the need to develop a formal approach. It has been reflecting on policy approaches intermittently since the late 1990s, as part of its analysis of country selectivity and allocation (Martin et al., 1999). By this time, USAID had started measuring progress and performance at the sector level, rather than country level. This approach meant, at least in theory, that when goals set for each sector were achieved and certain criteria were met, USAID programmes would have gradually closed, and the mission would have been downsized.[20]

Gaps despite frameworks and directives

In 2004, USAID formulated a framework (which became the official policy in 2006) for allocating aid to five different goals: promote transformational development; strengthen fragile states; support strategic states; provide humanitarian relief; and address global issues and other special self-standing concerns such as HIV/AIDS and other infectious diseases, climate change, biodiversity, among others (USAID, 2004, 2006). For each goal, exit criteria were established. The framework was intended to define what USAID assistance was meant to accomplish and to serve as a guide to programming under each goal. This approach was overtaken by the June 2006 Aid Reform, which created the Office of the Director of Foreign Aid in the State Department, with responsibility for policy. The (policy) centrepiece of this reform was the Foreign Assistance Framework, which had five functional goals, country groups and country 'graduation' from one group to the next (USAID, 2006). However, this framework was not fully articulated and was considered by interviewees to be 'short-lived' and 'problematic'.

In 2010, the Presidential Policy Directive on Global Development (PPD-6) (White House, 2010) called for greater focus and selectivity, arguing that US assistance should concentrate on key countries and sectors, supporting US development goals, promoting aid effectiveness and results. However, transition or exit approaches and policies were not mentioned explicitly, nor did the subsequent USAID Policy Framework (USAID, 2011) address this gap.

The journey to self-reliance

Even before he took office in 2017, USAID's new administrator, Mark Green, made public his conviction that the objective of foreign assistance 'should be ending its need to exist'. In line with this statement, when at USAID he started revitalising the transition and exit debate and articulated plans for 'strategic transitions'. As a first step in this direction, in June 2018 USAID launched the 'journey to self-reliance metrics', a country-centred approach focused on two main dimensions – commitment and capacity – that should help USAID to understand where each country stands in its development trajectory and what USAID can do in support (Box 2 elaborates on the concept of the 'journey to self-reliance' and its metrics).

The concept of a journey to self-reliance implies that recipient countries should not be surprised when donors decide to transition and exit from bilateral development cooperation programmes. As Christopher Maloney of USAID said at a Center for Global Development event in June 2018, 'roadmaps created for each country will be used as a signal for closer examination for strategic transition' (CGD, 2018). Interviewees and other stakeholders consulted for this report agree that Green's administration is looking into the approach to transition, about when and how USAID should transition away from traditional grant-based assistance towards alternative forms of engagement (Rose et al., 2017).

Notwithstanding the absence of a framework for transition from bilateral development cooperation programmes, USAID's exit decisions were based mostly on political and budgetary considerations. There was no use of publicly available metrics to trigger transitions in a consistent manner across countries (Runde et al., 2012). Following the PPD-6 in 2010, USAID and

20 In principle, when goals and criteria have been met, a country will be able to continue along its development plan without USAID assistance, being ready to take full responsibility for its programmes. Although Martin et al. (1999) reviews USAID experience on transition before 1999, some interviewees for this report argued that this contribution remains one of the most, if not the most, comprehensive analyses about US transition from bilateral development cooperation programmes.

the National Security Council had implemented selectivity and focus recommendations, but these were mainly about downsizing or reducing presence. These exercises were fairly ad hoc and part of the annual budget process. Nevertheless, there are some examples of US missions closing because the partner country was considered ready to transition away from aid (such as Costa Rica) or because USAID was expelled from the country (as in Ecuador). Others (in Liberia for instance) closed temporarily because of civil wars or for safety concerns. Although USAID has closed missions since the 1960s, there is no official or definitive list.[21] Likewise, while having a strict set of metrics for the process of transition might not be feasible, some have argued that many past transitions by the US could have been smoother if the thinking had been more open and the transition more foreseeable (Runde et al., 2012).

Box 2 The journey to self-reliance

The concept of self-reliance

According to USAID (2018):

> 'Self-Reliance' is a country's ability to plan, finance, and implement solutions to solve its own development challenges. If we are to one day end the need for foreign assistance, USAID needs to understand how self-reliant each of its partner countries is overall, where a country's self-reliance strengths and challenges are, and reorient partnerships accordingly. Ultimately, we need to ensure that the programs we implement are best-supporting a country's journey to self-reliance.

Self-reliance's theory of change

According to the theory of change, two mutually reinforcing factors determine a country's self-reliance:

- **Commitment**: the degree to which a country's laws, policies, actions and informal governance mechanisms – such as cultures and norms – support progress towards self-reliance; and
- **Capacity**: how far a country has come in its journey across the dimensions of political, social and economic development, including the ability to work across these sectors.

As such, as a country increases its commitment and capacity to plan, finance and manage its own development, its level of self-reliance should also increase. USAID's partnerships should also evolve to a stage where programmes support the country's own journey to self-reliance.

Self-reliance metrics

USAID has identified seven metrics for commitment and capacity:

Commitment metrics (choices/behaviours)	Capacity metrics (achievements/outcomes)
1. Open and accountable governance	1. Capacity of the government
2. Inclusive development	2. Capacity of civil society
3. Economic policy	3. Capacity of citizens
	4. Capacity of the economy

Source: USAID (2018).

21 Rose et al. (2017) tried to assemble a list of closed missions based on a range of public sources, but this may not be comprehensive.

4.2.3 Australia

Australia differs from the other development partners reviewed in this report in two significant ways. First, its lead agency (AusAid) has been incorporated into a government ministry (DFAT) (in 2013). Second, a large share of its development assistance goes to MICs (in Asia), primarily via grant financing.

A decision-making approach based on four criteria and regional lenses

Australian development allocation is governed by four main criteria. These are used primarily to select programmes, rather than to allocate resources systematically across countries and sectors. The criteria have not substantially changed since the 2012 last AusAid strategy (AusAid, 2012), although their order of priority was adjusted in the recent Foreign Policy White Paper (DFAT, 2017).[22] The four criteria are:

1. Australia's national interest, i.e. effort will be focused on countries and regions whose security and prosperity are directly linked to Australia's (AusAid, 2012).
2. The promotion of inclusive growth and the contribution to poverty eradication.
3. Whether an Australian contribution adds value – which includes where Australia has experience and expertise – and whether the programme can be delivered in partnership with other countries.
4. Whether the programme can deliver results and value for money.

The strong focus on the Indo-Pacific region, where the majority of Australian aid is concentrated, also drives a regional approach to development cooperation; for example, technical assistance supporting regional programmes on trade agreements, ASEAN and partnerships.

Lack of a formalised strategy is a deliberate choice

DFAT is not planning to transition or exit from aid programmes in partner countries (DFAT, 2016). The Australian government has also been very much opposed to transition and exit, noting that 'the on-going exit of OECD donors from South East Asia region is not something that Australia will mimic' (Australian Government, 2011). From interviews with government officials, we understand there is a preference for a case-by-case approach, rather than an overarching strategy and approach to transition from bilateral development cooperation programmes. The transition process should be self-evident – i.e. bilateral development cooperation programmes should phase out when the partner country no longer needs development assistance. It should also be based on aid effectiveness arguments – i.e. exiting from countries where programmes have become very small would reduce aid fragmentation.

Over the past 20 years, Australia has closed bilateral development cooperation programmes in four countries (Malaysia, Thailand, China and India, in that order). Based on the interviews conducted for this project, we understand that Australia did not close the programmes because these countries reached a particular income level. All countries were ODA-eligible at the time. Programmes were closed for two other sets of reasons.

In the cases of Malaysia and Thailand, we understand that it was the partner country governments who decided to transform their relationships, from being aid recipients to trade partners. In 1992, as a result of a unilateral decision by the Malaysian government, an Aid Graduation Strategy was signed, ending the bilateral aid programme. There was no compensatory expansion or adoption of a different set of instruments. In 2003, the Thai government announced it would move away from being an ODA recipient. During the interviews, it emerged that this decision was considered to be premature as the strong growth that Thailand was experiencing at the time was not sufficiently pro-poor.

The approach to phase out and exit from China and India was rather different. These decisions were taken because of – or possibly justified by – the recommendations of the 2011 Independent Review of Aid Effectiveness.

22 We also reviewed more recent strategies (e.g. 2014), but there was no explicit reference or changes in the criteria for aid allocation.

At this time, the aid budget was increasing, therefore there was no imminent need to cut these programmes. The reasons behind this move include the low impact achieved by the small budget allocations. Programmes in China were already being scaled back, ahead of the decision to phase out bilateral aid, and mainly focused on selected areas, such as environmental policy and health insurance. The case for continuing an aid programme in China had become weak, given the country's major power status, its economic success and resources and the fact that it had itself become a major donor. Similarly, in India, where many donors were operating, the Indian government had a strategy to reduce the number of donors (Australian Government, 2011).

The Pacific region will be prioritised, with decisions largely independent from per capita income assessments of partner countries. The region remains strategically important (if not the priority) for Australian development cooperation. Pacific islands are among the most aid-dependent countries; they are geostrategically important countries for Australia, and past colonial ties remain relevant. Only a few development partners operate in these countries, and these have developed skills and expertise to operate in the context of small island economies.

Programmes evolving in Asia's emerging economies
Australia is changing its approach to development cooperation. Rather than being a provider of traditional development assistance, it is establishing economic partnerships with emerging economies in Asia, with a primary focus on providing policy advice to further enhance and sustain economic growth (OECD, 2018). The integration of Australia's aid programme into DFAT aligns Australia's foreign, trade and development policy efforts, with economic diplomacy at the forefront of Australia's international engagement and supporting such an approach. Aid investments and diplomacy will be mutually reinforcing (DFAT, 2014). Australia has continued to provide targeted assistance to emerging economies such as China and India through multilateral organisations and regional programmes where it is still possible to make a difference to people in poverty (AusAid, 2012). In other countries, however, the strategy is different, with some changes to priorities and the sectors supported. DFAT decided to discontinue its involvement in the health and energy sectors in Viet Nam (DFAT, 2015a), to reallocate resources away from basic service delivery and towards provision of targeted advice and technical assistance in the Philippines (DFAT, 2015b), and to move away from direct financing in Indonesia, instead providing technical advice on policy functions while pioneering new techniques (interview).

4.3 Formal approach to transition (criteria and/or policy)

Some agencies within national development cooperation systems have clear criteria both for aid allocation and for transition and exit. Examples include Switzerland, MCC and PEPFAR in the US and the DCI of the European Union.

4.3.1 Switzerland

Swiss development cooperation is managed by three separate agencies – SDC, SECO and the DHS (the DHS is not reviewed here). These agencies are highly specialised within the development spectrum. In very approximate terms, SDC operates in the social sectors in poorer countries and SECO operates in the economic and productive sectors in MICs. Both are part of the strategic reviews of Swiss development cooperation (known as the Dispatch). This institutional arrangement means there are two separate sets of criteria for aid allocation (which are used more for identification of priority countries than for aid allocation across countries and sectors), which reflect the sectoral focus and expertise of each agency.

SECO – no formal exit strategy, but criteria for selecting priority countries
SECO uses several criteria for selecting priority countries:

1. The partner country is an MIC or has the potential to become one soon.
2. The partner country qualifies for ODA (according to the OECD's DAC).
3. The partner country needs SECO's specific expertise, and its macroeconomic situation is appropriate to the corresponding interventions.

4. The country has take-up capacity for the measures on economic development cooperation and meets minimum governance standards.
5. There is a mutual political (and economic) interest in the partner country and Switzerland working together.

Unlike SDC, SECO has no formal approach or strategy for exit from bilateral development cooperation programmes (even though a few countries were removed from the priority list in the last Dispatch). Rather, it applies these criteria to identify new priority partner countries and for the medium-term exit from a priority partner country.[23]

SDC – selection criteria for priority countries and for exit

SDC's priority countries are mostly among the poorest and structurally weakest in the world. They are chosen according to specific entry and exit criteria, such as needs, fragility, added value, the potential of the results of cooperation, the will of the countries concerned to carry out reforms and cooperate, mutual interest in cooperation and the presence of other donors. The 2017–2020 Dispatch articulates the criteria for SDC's exit strategy, at least in general terms, as follows:

1. The country has its own resources and institutional capacity.
2. The country has strong policies when it comes to poverty eradication.
3. Public investment attracts the private sector.
4. Swiss development cooperation is no longer demanded.

At the time of the 2013 DAC Peer Review, SDC was phasing out its support to six countries. However, SDC added six new countries to its list of priorities, nearly all of which were new countries that SDC would focus on under its regional priority areas (OECD, 2013).

The division of labour between the two agencies, as described in the Dispatch, suggests there could be a path for transition and exit within the Swiss development cooperation system itself, from SDC to SECO development assistance. Such an approach has never been a planned or deliberate part of the system, but the handover of the Viet Nam country programme between the two agencies is a clear example (see Section 6.2).

4.3.2 United States: MCC and PEPFAR

Transparency of process and scorecards on governance

MCC operates in poor countries, defined in MCC's authorising legislation as LICs and LMICs (based on the World Bank's GNI per capita Atlas method estimates). MCC's board of directors then selects partner countries based on 'objective and quantifiable indicators' of a country's demonstrated commitment to just and democratic governance, economic freedom and investments in people, to the maximum extent possible (Hayes-Birchler and Staats, 2014). According to Hayes-Birchler and Staats, MCC is the only donor agency in the world to base country selection so heavily and transparently on publicly available information. To assess candidate countries' relative policy performance, MCC compiles 20 quantitative, publicly available indicators from third-party sources into country 'scorecards'.

To meet MCC's eligibility criteria, a country must score better than a given threshold (usually the income-based peer group median) on at least half of the indicators, including the indicator that measures control of corruption and at least one of the two indicators that measure the strength of democratic rights and practices. MCC's board of directors bases its eligibility decisions on countries' scorecard performances, and on supplemental information that provides a more complete picture of a country's policy performance and the agency's scope to reduce poverty and promote economic growth there. In addition to selecting countries on the basis of their governance, MCC has demonstrated an important willingness to suspend or terminate a country partnership when policy performance substantially deteriorates (MCC, 2013).

When it comes to transition and exit from a programme, interviewees highlighted that MCC

23 For example, programmes were withdrawn in Chile, Honduras, Mali, Nicaragua, Sudan, Tanzania and Togo.

had situations where compacts were terminated or suspended following a range of warning stages. Just as MCC's process for selecting countries for assistance is open and transparent, MCC is also committed to being transparent on the triggers for suspension or termination of compacts.[24]

Need is a key criterion in the health sector
While transition and exit are based on general approaches and criteria, specific indicators and approaches to transition are unique to different sectors. In most cases, country income or the level of development and capacity are common drivers of transition, whereas in specific sectors the criteria are more about need. As health (particularly HIV/AIDS) is a priority sector for the US, PEPFAR has reflected on the criteria and approaches to transition for its programmes and how best it can learn from previous experiences. For instance, in PEPFAR the severity of the disease burden is the primary concern, with national fiscal capacity more an added consideration. A country where HIV/AIDS has effectively been eradicated or brought under complete control within its national capacity is obviously one that must graduate from PEPFAR, as there is no further purpose to achieve, regardless of its income level. Box 3 reviews examples of PEPFAR and USAID transitions in the health sector.

4.3.3 European Union

Clear criteria for allocation and phasing out of the DCI
The EU's DCI uses a structured approach to aid allocation and transition, whereas other EU External Financing Instruments use more flexible allocation approaches for political or legal reasons.[25] The EU's development policy, the Agenda for Change, introduced the concept of 'differentiated development partnerships' to help inform its objective to 'target its resources where they are needed most to address poverty reduction and where they could have greatest impact' (European Commission, 2011). The Agenda for Change sets out four groups of factors that should determine the EU's aid allocations:

1. country needs[26]
2. capacities[27]
3. country commitments and performance[28]
4. potential EU impact.

Subsequently, the European Commission has further developed its policy of 'differentiation'. This entailed changes in:

- **aid allocation**: introducing eligibility criteria for grant-based bilateral aid (leading to aid 'graduation') and increasing the share of aid to LICs, LDCs and fragile states, and

24 This is available in MCC's Policy on Suspension and Termination (MCC, 2013).

25 The European Union has a multifaceted approach to transition from bilateral development cooperation programmes. The criteria informing aid allocation and decisions on transition and graduation of bilateral aid differ across the EU's development cooperation instruments; in some cases they are very detailed and structured, but in others, they are completely absent. The DCI has very extensive criteria for aid allocation and for triggering the transition process, but the Partnership Instrument, which targets emerging economies, including those graduated from the DCI, does not, at least in principle. The European Development Fund (EDF) – the EU's other main development funding instrument – has not adopted a graduation policy because the international agreement governing it does not allow for phasing out bilateral aid to the counterpart states. Instead, all African, Caribbean and Pacific countries are eligible for the EDF at any level of income. For these reasons, this section primarily focuses on the DCI.

26 The factors include economic and social/human development trends and the growth path, and vulnerability and fragility indicators.

27 That is, a country's ability to generate sufficient financial resources, notably domestic resources, and its access to other sources of finance, such as international markets, private investment or natural resources.

28 The factors include investment in education, health and social protection, its progress on the environment, democracy and good governance, and the soundness of its economic and fiscal policies, including financial management.

Box 3 PEPFAR, USAID and transitions in the health sector

PEPFAR

From 2010 to 2014, PEPFAR transitioned from a number of countries in the Eastern Caribbean (Vogus and Graff, 2015;) and Africa (Brundage, 2011). This was part of PEPFAR's broader transition from providing emergency relief interventions (PEPFAR I, 2003–2007) to a long-term, sustainably managed HIV/AIDS programme with greater country ownership (PEPFAR II, 2008 onwards). PEPFAR's 2012 strategy explains that, 'As the epidemic's tide was stemmed … PEPFAR evolved to the natural next phase of helping countries build a long-term, sustainable response' (PEPFAR, 2012). Part of PEPFAR's third strategic phase (2013–2019) is targeting the response towards key geographic areas and populations with the highest incidence rates.

In terms of the transition process, PEPFAR has stated that it 'does not believe in a "cut and run" strategy'; its goal is 'to work in lock step with partner countries as they assume greater responsibility for controlling their own country's epidemic' (PEPFAR, 2014). The PEPFAR III strategy included a 'Sustainability Agenda', which launched the concept of a 'Sustainability Index and Dashboard' (SID) that was subsequently rolled out from 2015 to 2016. The SID assesses the current state of sustainability of the national HIV/AIDS response in each PEPFAR country and tracks its progress over time across four domains and 15 elements (PEPFAR, 2015). The SID does not appear to be a tool specifically to determine graduation. The stated purposes are to:

1. help countries better to understand their sustainability landscape;
2. inform priority areas for PEPFAR investment in countries;
3. serve as a diplomatic advocacy or negotiation tool to dialogue with partner government and multilateral counterparts; and
4. communicate progress towards sustained epidemic control to external stakeholders (PEPFAR, 2015).

It could therefore be argued that the SID is a 'soft' tool for graduation in that it encourages and monitors countries' own readiness and informs PEPFAR negotiations. However, there do not appear to be any other graduation or transition policies or published criteria or thresholds that determine when a country should be graduated from PEPFAR assistance.

USAID health

Beginning in 2008, USAID phased-out global health funding in 26 countries to strategically focus efforts on priority countries selected on the basis of: (1) highest need; (2) demonstrable commitment to achieving sustainable health impacts; and (3) the greatest potential to leverage US government programmes and platforms. USAID has also closed funding based on an analysis of country progress on regional priorities and readiness for country exit and, like many other donors, due to resource constraints, foreign policy, instability and so on. USAID has a well-defined phase-out strategy document for the health sector with the host country government and partners.

USAID has used deliberate, planned processes to stop programmes when development goals have largely been attained or when countries were ready to take on activities on their own – as well as because of resource constraints, instability and economic or political reasons (Chaudhry et al., 2012a, 2012b).

USAID has a lot of experience in family planning, having closed 24 programmes in this health sub-sector, primarily in the Latin America and the Caribbean and Europe and Eurasia regions. Experiences in this area have provided a model for close-out processes (Chaudhry et al., 2012a).

- **aid modalities**: differentiated development partnerships – using different tools and instruments (Herbert, 2013).

As set out in EU Regulation 233/2014 (establishing the DCI),[29] differentiation takes account of multiple factors – principally income per capita, but also income distribution, poverty, human development, domestic revenue capacity and absorptive capacity, and country commitment and performance (for instance, prioritisation of its budget, governance and human rights, gender equality). Established indices, such as the Human Development Index and the Economic Vulnerability Index, are also used.[30]

Regulation 233/2014 mandates that UMICs and countries representing more than 1% of the world's GDP graduate out of bilateral assistance provided through the DCI. However, it named five exceptions to this rule: Cuba, Colombia, Ecuador, Peru and South Africa.[31] From 2014, the EU started phasing out bilateral geographical aid (but not 'thematic' or regional aid) to graduated countries and large developing economies. Sixteen countries have faced graduation from DCI aid under these new rules.[32] Phasing out from a country refers to the bilateral aid only and not to regional programmes (i.e. multi-country programmes which address all ODA-eligible developing countries). Reflecting the highly sensitive nature of aid eligibility and graduation dilemmas, the differentiation policy and framework was debated and negotiated for several years among the EU institutions before being agreed (Herbert, 2013; Piccio, 2014; Cirlig, 2014).

The New European Consensus on Development (European Union, 2017) reiterates some of the key priorities in the Agenda for Change: in particular, tailoring partnerships to reflect capacities and needs. The Consensus calls for cooperation in 'an increasingly diversified and tailored manner for all countries', and states that partnerships should encompass development cooperation and financial assistance, but also include a range of strategies, policies and instruments, in order to reflect the growing variety of developing country circumstances. Policy dialogue, mutual interests and partnerships beyond financial transfers form the core of this engagement (Di Ciommo and Sayos Monras, 2018).

No policy approach to transition per se

The Agenda for Change did not specify a particular policy on graduation or transition, but rather pointed to a more flexible, country-specific approach (European Commission, 2011).[33] The policy also recognised the importance of having the flexibility to respond to events and changing

29 Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014–2020 (see www.europarl.europa.eu/meetdocs/2014_2019/documents/deve/dv/dci_reg_/dci_reg_en.pdf).

30 The formula used in differentiation can be found at https://ec.europa.eu/europeaid/sites/devco/files/methodology_for_country_allocations_2014-2020.pdf.

31 These exceptions are not rationalised in the text of the Regulation, but they appear to be a result of heavy political lobbying in the European Parliament (on the part of the Latin American countries), especially by Spain, which was keen to maintain strong development cooperation ties with these countries. The proposal to phase out South Africa also produced an outcry. South Africa has often been taken as an exceptional case by donors, and it has been suggested that it was maintained as it was seen as a 'successful aid programme' (see www.devex.com/news/it-s-almost-final-eu-to-slash-aid-to-middle-income-countries-82686).

32 14 UMICs: Argentina, Brazil, Chile, China, Costa Rica, Iran, Kazakhstan, Malaysia, Maldives, Mexico, Panama, Peru, Thailand, Uruguay and Venezuela; 2 LMICs with GDP larger than 1% of world GDP: India and Indonesia.

33 According to the Agenda for Change, 'through comprehensive political and policy dialogue with all partner countries, the EU should define the most appropriate form of cooperation, leading to informed and objective decisions on the most effective policy mix, aid levels, aid arrangements and the use of new and existing financial tools, and building on the EU's own experience in managing transition'.

circumstances, although in practice the EU has struggled to do so.

The DCI 2014–2020 has succeeded in applying graduation and adjusting the allocations to DCI countries still eligible for ODA ('quantitative differentiation'). Yet the shift towards new forms of cooperation partnership (as well as countries close to graduation) has been challenging. This is linked to several factors, including: the changing nature of relations with increasingly influential emerging economies; the need to find areas of common interest and translate these into concrete programmes; the effective use of instruments other than the DCI (particularly the Partnership Instrument); and the new skills required to forge such partnerships. The EU is increasing its use of blending and investment facilities, helping to manage risk, and incentivising private sector entities and public institutions to carry out essential investments with high social impact that might otherwise not be undertaken. Meanwhile, the Partnership Instrument is designed to pursue mutual EU–partner country interests and raise EU visibility, and involves a relatively small amount of funds and overhead costs on the part of the EU institutions (Particip, 2017). Innovative though it is, and despite the progress that has been made, the Partnership Instrument cannot (and was not designed to) substitute for the loss of ODA eligible assistance in graduated countries.

4.4 Conclusions: main elements of donors' approaches to transition and exit

The main findings of the review of donors' approaches to transition and exit from bilateral development cooperation programmes carried out for this paper are as follows:

- Decisions about withdrawal of development assistance are not necessarily centralised or coordinated within a development partner's cooperation system. Decisions can be made at the agency level (using different criteria and processes), or even at lower levels within an agency, based on the sector of intervention.
- Some development partners acknowledge the need for a formalised transition strategy (such as the UK and the US), but have yet to put one into place. Others have been less focused on the issue or do not consider a transition strategy to be a necessary reform to their development cooperation system (France, Japan and the Republic of Korea, for example).
- Nevertheless, all the development partners reviewed have publicly stated criteria that they use to inform their allocation of resources (and, to a certain extent, transition from bilateral development cooperation programmes), although the parameters are formalised to different degrees to guide such decisions.
- In contrast, only a few of the development partners – either specific agencies within a development cooperation system or specific instruments (e.g. the EU's DCI) – have criteria in place for both transition and exit from development programmes. The EU's DCI is more typical of a multilateral, with many owners and finite resources, and which has to set objective limits to avoid being pulled in too many political directions.
- Income per capita is only a marginal driver of decisions on aid allocation (and therefore on transition). Most indicators used for allocation and transition and exit decisions capture non-income measures, focusing instead on needs and impact of development cooperation. However, if the recipient country is on the list of ODA-eligible countries (i.e. its income per capita is lower than the high-income country threshold), this will be sufficient to prevent a withdrawal or phasing out of bilateral development cooperation programmes.
- Partner countries' fiscal or institutional self-sufficiency can be a major driver in donors' decisions (as with the UK and the US), but rising institutional capacity can also imply rising demand (as in the case of AFD assistance).

5 Terms and conditions of financing instruments during transition and exit

This section reviews whether and how the terms and conditions of development assistance evolve during the transition phase and exit from bilateral development cooperation programmes. It considers both the type of instruments and the use of 'beyond-aid' approaches, such as boosting opportunities and support for policy dialogue. A starting hypothesis concerning the use of financing instruments during transition from concessional finance was that grant financing should be concentrated in the poorest and least creditworthy countries, which have limited ability to mobilise their own resources directly or to access international markets.[34] Other instruments, such as loans, guarantees and equity, should be prioritised in MICs, or at least those MICs that have the ability to generate their own domestic public revenues.

Two caveats are worth noting for this analysis. First, most of the development partners reviewed in this report mainly deliver their programmes through grant financing; they use only a limited range of other financing and non-financing instruments. Second, the interviewees often had only partial information about this issue, and the secondary literature on it was rather limited. Defining the terms and conditions to be applied during the transition phase and exit from bilateral development cooperation programmes should be one of the aspects of a strategic approach. Notwithstanding the challenges in reviewing whether and how terms and conditions change when a development partner starts phasing out its bilateral development cooperation programmes, we identified three main approaches across the development partners we reviewed:

1. A 'gradation' approach for bilateral development cooperation programmes (e.g. France).
2. Differentiated terms and conditions, albeit with exceptions (e.g. Germany and Japan).
3. Non-grant financing agencies and channels within the development cooperation system (e.g. the UK).

5.1 A gradation approach for bilateral development cooperation programmes

France's approach is to offer a continuum of differentiated financing terms. In other words, this is a 'gradation' approach, as some observers have called it, with terms and conditions based on a country's specific situation, rather than on broad income categories. This is offered primarily through AFD, at the country and sector or project level, to suit different country and project circumstances, debt-carrying capacity and needs.

The terms and conditions for French aid differ according to where countries sit on the income ladder. Regarding countries at the upper limit of eligibility for French aid, recent political discussion (including with the French parliament) centred on the need for selectivity in the specific cases of China and South Africa. The outcome was a decision not to allocate any further explicit

34 This opening hypothesis was also based on evidence and recommendations in Kharas et al. (2014).

subsidies to China, except for limited climate change purposes, or to South Africa, except for social cohesion or protection. However, AFD's market status as a quasi-sovereign financial intermediary means that it is still able to pass on prime terms to such borrowers – often considerably better than they could obtain themselves – without requiring any up-front budget subsidy or incurring a loss. Loans can also be blended using parallel sources of grant technical assistance where available.

For countries lower down the country income ladder, AFD operates a suite of terms. In addition to fully unsubsidised loans for some UMICs, it offers three increasingly soft sets of terms for sovereign loans and non-sovereign loans to other UMICs, LMICs and LDCs. Terms are fine-tuned according to the specifics of different projects, their expected return rates and co-financing options. As such, there is not a single, ex ante fixed allocation process of grant elements for every country, and no specific terms (as in IDA Blend, for example) are reserved for 'transition' countries.

5.2 Differentiated terms and conditions, and exceptions

The financing mechanisms offered by Japan comprise grants and technical assistance approved by the Ministry of Foreign Affairs (MoFA) and loans (previously yen only, but now also US dollar) for projects decided by three ministries: the MoFA, the Ministry of Finance and the Ministry of Economy, Trade and Industry (METI).[35] Japan's loans are highly concessional: interest rates are low, maturities and grace periods are long. The level of concessionality applied varies according to recipient countries' per capita income levels (principally, the interest rate increases for the higher income per capita category). However, there is no rigid cut-off and there are several exceptions.

First, for ODA loans, recipient countries that move up from the category of low-income LDCs benefit from a three-year transition period. During this period, the terms and conditions for low-income LDCs will still be applied.[36] Second, MICs (based on the World Bank income classification) can also receive preferential terms (including grants) for selected sectors and interventions; for instance, global environmental and climate change issues, health and medical care and services, disaster prevention and reduction, and human resource development. Third, LDCs are not eligible for STEP (Special Terms for Economic Partnership), which is applied to projects that use Japanese technologies and expertise (JICA, 2017). Fourth, grants can be extended for bilateral or security reasons or when the recipient country is too debt-distressed to receive ODA loans, irrespective of its income per capita. Finally, Japan can provide aid to graduated countries. Japan's latest strategic guidance, the Development Cooperation Charter in 2015, and the JICA Law of 2008, allow Japanese aid to be extended to countries defined as 'developing areas' by the Japanese government. These also include high-income countries (with MoFA having the authority to designate countries as developing areas) (MoFA, 2015).[37]

With German development assistance, countries promoted to MIC status start moving from a grant-only relationship to being able to access non-concessional loans. Lending comes from the development bank, KfW

35 According to the interviewees, the primary objectives of METI's involvement in yen loans are to assist partner countries' industrial development and to secure natural resources for Japan from the Middle East and Central Asia. The aim of ODA, particularly yen loans, is to facilitate the Japanese business activity and procurement of goods and services to industrial development processes. As such, yen loans are also a convenient instrument for reducing commercial credit risk for business.

36 The terms and conditions include a 0.01% interest rate and 40-year repayment period including 10-year grace period, applied irrespective of sectors and fields.

37 Before 2015, Japanese ODA was, in principle, extended only to the countries on the list of ODA recipients. Decisions to continue to provide aid to graduated countries were made on a case-by-case basis. In 2015, the new Development Cooperation Charter made the policy objective of supporting MICs and ODA-graduated countries more explicit. Countries in the 'developing area' include Bahamas, Bahrain, Barbados, Brunei, Kuwait, Oman, Saudi Arabia, Trinidad and Tobago and UAE. The transition countries for DAC graduation were Saint Christopher and Nevis (JICA, 2017).

Entwicklungsbank (KfW), on blend or market-based financing (we understand that this is an ad hoc approach, depending on the country). Where KfW uses blended funds subsidised from the federal budget, the bank is working on behalf of BMZ, and there is a large degree of communication between the two institutions and the partner country. BMZ and KfW do not have a specific transition strategy for countries that are promoted to MIC status, but instead, there is a country-specific strategy that is revisited every six years. In cases where the federal budget is no longer involved, KfW operates under market-based terms, in which funding to countries is dependent on risk assessments and country ratings. China offers an example of such an approach, where the German bilateral financial cooperation, grant- or blend-funded, was phased out in 2010. China still benefits from market-based financing from KfW, with a focus on sustainable development, and from political dialogue with BMZ.

Beneficiary countries of German development cooperation are, however, entitled to receive grant financing irrespective of their income status. However, this funding should not exceed a certain percentage of the total of grants and should target specific purposes: promoting gender equality, poverty reduction measures oriented towards self-help, credit guarantee funds for small and medium-sized enterprises, social infrastructure or environmental and resource protection measures. The income category of the country is not relevant to the amount received or the sector that is preferred for technical assistance programmes, all of which are commissioned by GIZ.[38] Germany sees technical assistance as a way to shape policy and practice and maintain cooperation with recipient countries as partners (BMZ, 2015).

5.3 Non-grant financing agencies and channels within the development cooperation system

In the UK, the Independent Commission for Aid Impact (ICAI, 2016) highlighted examples where countries that had transitioned from one type of engagement with DFID to another continued to receive significant aid flows, but through other channels.

In the case of India, following the termination of financial aid, DFID continued to provide a substantial development capital investment portfolio (aid-funded loans and equity investments) and technical assistance. These flows were in addition to the substantial UK aid flowing to India through other channels, in particular, through CDC [39] (which had assets in India representing 25% of its global portfolio in 2006). With China, DFID continues to spend £8 million to £10 million per year from centrally managed programmes on helping that country to become a more effective donor and investor in developing countries, despite having terminated all assistance on domestic development issues. CDC is also still spending in China, but, unlike in India, only on legacy programmes. No new CDC investments have been recorded since the end of bilateral aid in 2011. Both India and China are also beneficiaries of substantial financial assistance from the UK's Prosperity Fund (ICAI, 2016).[40]

38 Technical assistance programmes are funded by the federal budget through BMZ, with GIZ being an implementing agency.

39 CDC is the UK's development finance institution, wholly owned by DFID, whose mission is to support the private sector in developing countries.

40 The Prosperity Fund is a cross-government fund announced in the 2015 Strategic Defence and Security Review (HM Government, 2015) with £1.3 billion over the next five years to promote economic reform and growth in partner countries, particularly MICs.

6 Lessons for managing transition and exit from bilateral development cooperation programmes

Sections 4 and 5 have analysed and compared the criteria and approaches that the development partners reviewed in this report use to inform and drive their decisions on phase-out and exit from bilateral country programmes. This section looks at how transition and exit have been implemented across those 11 development partners. We highlight examples of approaches that were either problematic or positive, from both the donor and the recipient perspectives.

Our analysis is based on the review of policy literature presented in Section 2. It does not offer a full evaluation of approaches to transition for each development partner, as in Dutch Ministry of Foreign Affairs (2016), Slob and Jerve (2008) and Forsberg (2010). The objective here is to provide an initial assessment across the development partners, to highlight examples of how they have managed their withdrawals from bilateral development cooperation programmes and to identify what lessons can be drawn for others.

To this end, for each development partner, we reviewed its policy literature and any examples that emerged during the semi-structured interviews with staff at its headquarters (strategy department or equivalent and/or department responsible for transition and exit). Using this approach meant that we acquired far more information and analysis for some of the development partners than for others, simply because of differences in the number of publicly available assessments and commissioned evaluations. Some of the development partners reviewed in this report have very few, if any, examples of completed transition processes, or do not review their transition processes systematically and so have no assessments in the public domain.

We grouped the lessons drawn into four main categories:

1. Plan the transition process well ahead, communicate all decisions to relevant counterparts throughout and take a flexible approach.
2. As part of the planning process, hand over responsibilities to the recipient government, other development partners or other donor government departments.
3. Diversify the set of instruments.
4. Review past transition processes and learn from them.

6.1 Plan ahead, communicate, be flexible

Several of the examples reviewed suggest that the development partners' overarching priority before phasing out and withdrawing from bilateral development cooperation programmes is to have a plan in place. Furthermore, that plan must be communicated well ahead to all relevant parties and be applied flexibly.

6.1.1 Prepare the exit

Despite an initial lack of consultation with government counterparts, the phasing out of Swedish development assistance in Viet Nam improved substantially when the Swedish agency, SIDA, became very active in dialogues with the national partners and foreign development partners, discussing who could take over its programmes. The approach helped to prepare the Vietnamese government and national partners to continue programmes that Sweden had been involved in (such as with Denmark). More specifically:

> The Embassy arranged for a study to be undertaken by an external consultant to map out all Swedish previous and existing cooperation in Vietnam, including projects using non-official channels that received some kind of support from SIDA. The study was used in Stockholm to prepare the strategy. (Forsberg, 2010)

According to ICAI (2016), the UK's DFID produced a strong plan for exiting from Viet Nam, based on broad consultations. The exit was well planned and took place over a long period, allowing handover to other agencies and the Vietnamese government. ICAI highlights that there was no negative reaction to DFID's exit, with senior officials attending several events held to celebrate the end of a successful aid relationship, while local staff were supported in finding new jobs. Furthermore, DFID explicitly analysed the development risks associated with its exit and put in place measures to manage them. Three years before the exit, DFID identified the main long-term development themes that it believed were the most crucial for Viet Nam (such as anti-corruption, dialogue between government and the private sector, and civil society development) and concentrated part of its remaining funding in those areas.

In the case of USAID, Rose et al. (2017) analysed the agency's approach to transition and recommended that USAID reviews the time frame for the overall process – to be a minimum of three to five years – and sets clear objectives and tasks as part of the transition strategy. An example of a USAID exit is when it phased out its assistance to Costa Rica in 1996, on the basis of country progress. USAID was involved in setting up institutions that have remained self-sufficient. It contracted with Harvard Business School to establish the pre-eminent business school in Costa Rica, provided a series of loans that were disbursed to establish some initiatives to combat poverty, and helped to create a prominent binational foundation (CRUSA)[41] that has promoted continued partnership between the two countries (Runde et al., 2012).

6.1.2 Focus on sustainability of development programmes

Danish development cooperation developed a comprehensive plan for exit from India, what Slob and Jerve (2008) called a 'phase out with a focus on sustainability'. Denmark's exit from India was implemented over the medium-term (initially planned as 10 years, and then shortened to seven) with flexibility on setting completion dates. Considerable time was taken to negotiate programme- and sector-specific elements of the phase-out, with the resulting 'sector action plans' focusing on sustainability. At the same time, the Indian government was committed to ensuring sustainability, and to finding ways of continuing the post-aid cooperation between the two countries. The medium-term planning also meant that all relevant stakeholders were consulted throughout the process. Slob and Jerve (2008) found a clear relationship between the length of time involved and the extent of participation and consultation with stakeholders. Allowing time for a negotiated exit management process gave local stakeholders, at local government and village levels, the opportunity to play an active role. During the exit period, funds were allocated flexibly to enable ownership of programmes and projects to be transferred to Indian partners. Denmark's aid allocations to India actually

41 CRUSA is governed by founders with equal representation from the US and Costa Rica. It supports programmes and projects to advance development progress in areas such as water resources, renewable energy and rural economic development (Rose et al., 2017).

increased or remained roughly level during the first few years of the exit period. It was only in 2003 – after the decision to shorten from 10 years (2008) to seven (2005) was taken – that annual disbursements began to decrease markedly.

When Australian development cooperation reduced its operations in Indonesia, as a result of budget cuts in 2015/16, existing contracts were met and, we understand from interviews, other development partners took over some of the programmes.

In the case of Swiss development cooperation, SDC's medium-term focus (over two to three years) during transition from bilateral programmes was on sustainability and knowledge management, and on how to deal with personnel, legal contracts and commitments to the authorities and to other donors.

6.1.3 Communicate the decision to phase out

The decision to phase out from bilateral development cooperation programmes must be communicated across relevant government counterparts. Both Swedish development cooperation and the UK's DFID in Viet Nam offered examples of this. In Japan, JICA offices and embassies are responsible for communicating the decision to central governments and, if necessary, to local governments. From the interviews, we understand that JICA offices proactively engage with country governments in advance of a future transition, to ensure there are no surprises.

6.1.4 Phase-out as part of a long-term strategy

From the interviews conducted with national stakeholders, it was clear that phasing out from a country arose as aid programmes were closed, as a part of a long-term strategy. Australia closed bilateral development cooperation programmes that had become small in volume terms, such as in China and India. Decisions were mainly driven by the limited impact that these programmes had at the country level and by the need to reduce aid fragmentation in those countries, although there were other factors. In an example from France, we understand that the Seychelles, which admittedly had only a very small (and regionally linked) programme at the time, asked to be graduated from French aid some months ahead of leaving the DAC list in 2018; this was agreed and is being implemented, apparently smoothly. Our respondents said that the general aim with any closure of a substantial country programme is to phase it out gradually, so there will be no sharp discontinuities or shocks and the benefits for the ultimate programme beneficiaries are not reduced.

6.1.5 Ensure continuity

Within the Swiss development cooperation system, there was a transfer of programmes in Viet Nam from SDC to SECO. Although the transition was not really planned formally,[42] it did allow for a handover of staff and responsibilities, albeit with a different strategic aim, which ensured continuity in the relationship. From the interviews conducted, we understand that such continuity was not achieved in the case of Indonesia. When SDC phased out, Indonesia became a SECO priority country, but only at a later stage. As a result, there was a partial loss of knowledge and contacts in the country during the transition. SECO has subsequently built up in areas previously managed by SDC, such as vocational training and education.

6.1.6 Failure to plan

In the review of development partners, we found examples of the consequences of a failure to plan for transition from bilateral development cooperation programmes. From the UK, ICAI (2016) found several management weaknesses with respect to China and India. In one case, DFID cut short programmes in order to meet deadlines. This had consequences for its partnerships and for the value of its previous investments. The transition timelines were also criticised for being too short (for instance, there was as little as nine months between DFID formally announcing the end of bilateral aid to China and closing its programmes there). In another example, several countries graduated out of the EU's DCI, leaving gaps that were

42 Article in Agence Télégraphique Suisse, 19.05.2017.

only partially filled by regional and thematic programmes and the Partnership Instrument. As some EU member states have withdrawn from certain partner countries, EU institutions have come under pressure to fill the resultant funding gaps and sustain the political dialogue (Di Ciommo and Sayos Monras, 2018).

6.1.7 Failure to communicate effectively

A few examples show how transition intentions and plans could have been more effectively communicated to government counterparts to ensure a smoother withdrawal of bilateral development cooperation programmes. For example, communication between DFID and the country teams left national stakeholders uncertain of DFID's intentions. While DFID communicated its high-level objectives to partner governments at a senior level, it failed to share clearly its intentions with national stakeholders. DFID's lack of clarity about its transition processes created misunderstanding and miscommunication, at some cost to its relationships, and may have reflected a wider uncertainty within DFID at the time about its role in relation to MICs. An exception to this was the transition process for Indonesia, whereby DFID and the Indonesian government readily agreed to focus the new partnership on climate change (ICAI, 2016). In India and South Africa, joint communication plans between DFID and the partner countries were disrupted by events outside DFID's control, producing communication errors in the critical phase of the transition (ICAI, 2016). In the case of the EU's transition from Peru, the DAC Peer Review (OECD, 2012a) found that a more inclusive approach was needed for partner countries from which the EU planned to phase out, taking into account the required division of labour. The review found that ongoing discussions on differentiated cooperation, taking place at headquarters, were curtailing the EU's ability to plan ahead and conduct a productive dialogue with its partners.

6.2 Hand over responsibilities

The review for this report found that any transition or withdrawal strategy should include a handover to other development partners or to the government. However, we found little evidence of this when it comes to handing over to other government departments, except in the case of the UK.[43]

6.2.1 Identify other development partners for a handover

For example, in its exit from Viet Nam, DFID worked systematically to identify other development partners and national authorities that could take the lead on critical development themes and initiatives. The exit was also well planned over a long period, allowing for handover to other agencies and the Vietnamese government (ICAI, 2016). DFID set itself the goal of exiting responsibly by ensuring that priority issues under DFID leadership were taken forward by others and made this goal central to its exit planning. For each partner, DFID identified which relationships it could transfer to the British Embassy or to multilateral agencies. Programmes on HIV/AIDS were the exception, as DFID could not identify other development partners willing to take over its funding, even though it actively tried to manage such risks. ICAI (2016) also found evidence that DFID created inter-departmental units to manage specific issues (e.g. regarding India and Indonesia) or shared offices with other government departments.

We understand from interviews with national stakeholders that when Australia's overall development cooperation portfolio in Cook Islands became too small, it delegated its programme implementation to New Zealand. It was also found that when Swiss development cooperation in Viet Nam was transitioned from SDC to SECO, demand for SECO's grant financing assistance increased, because of changes in volumes and reorientation of programmes by other development partners.

43 The ICAI review (2016) found little evidence that DFID passed on its knowledge or relationships to other government departments (as with the Prosperity Fund, which lacked a common approach by DFID). This point was confirmed in the follow-up review in 2018 (ICAI, 2018).

6.2.2 Shift to regional approaches for development cooperation

From the semi-structured interviews, we understand that several development partners have deliberately chosen to adopt a regional approach to development cooperation while phasing out bilateral development cooperation programmes, often leveraging multilateral institutions. Australian, Swiss and UK development cooperation employed this approach to engage with countries after transition and exit. For Switzerland, we understand this was the approach taken with Pakistan, following humanitarian interventions in 2010. The ICAI review of the UK identified that in some countries, such as Burundi and Viet Nam, phasing out the country office and passing functions to regional programmes helped to improve value for money. However, no further evidence was identified on other countries where the UK has phased out (ICAI, 2016).

6.3 Diversify the set of instruments

Another key element that emerged from the review was a diversified approach to the use of instruments during phase-out. Phasing out bilateral development cooperation programmes need not mean ending assistance to that country. (See also Section 5.3.)

6.3.1 A diversified toolbox during transition

The EU has emphasised that UMICs are still supported by other instruments during transition (Regulation 233/2014):

> The Union should engage in new partnerships with countries that graduate from bilateral aid programmes, notably on the basis of regional and thematic programmes under this instrument and other thematic Union instruments for financing external action, in particular the Partnership Instrument for cooperation.[44]

Thus, an integral concept within the EU's approach to graduation is transitioning MICs onto alternative financing and cooperation modalities, including blended finance. The Partnership Instrument was created in 2014 to equip the European Commission and the European External Action Service with an instrument for promoting EU and mutual interests (Di Ciommo and Sayos Monras, 2018). It was designed as a separate instrument to minimise the risk of creating tensions between development objectives and other aims. Its strengths were found to be its responsiveness to EU objectives, its nimbleness and its ability to work on a demand-driven, yet increasingly strategic basis in collaboration with other Directorates-General. The Partnership Instrument has been key to supporting climate change initiatives that could not be accommodated under the DCI. It has strengthened the EU's political leverage to create space for dialogue based on trust and common interests and has scope for further development in this direction.[45] The EU is currently reviewing this set of instruments, including innovative financial products (such as blended instruments), peer-to-peer learning and triangular cooperation. The upcoming programming phase, where the EU defines country-specific approaches and priorities, will be key to clarifying how this set of instruments will be tailored to different contexts.

All financing instruments and agencies used by Switzerland's SDC – such as blended finance provided by the Swiss Investment Fund for Emerging Markets – have been deployed but not explicitly linked to a transition strategy.

German bilateral development cooperation in China was phased out in 2010, but China continues to benefit from market-based financing by the KfW and political dialogue with BMZ.

44 The Partnership Instrument is a non-ODA instrument that promotes the EU's commercial, diplomatic and strategic interests.

45 A key challenge for the Partnership Instrument is that it requires some form of endorsement from partner countries, but not country ownership. So far, it has mainly been used for strategic partnerships, for example with Brazil, China, Mexico and India, but expansion is constrained by limited budget and human resources (Di Ciommo and Sayos Monras, 2018).

The decision to phase out development cooperation was based on the rationale of concentrating assistance in countries in need of international support to reduce poverty. Nonetheless, Germany recognised that China still faces substantial challenges (e.g. ecological issues), and that it is an important global player for the implementation of the Sustainable Development Goals. Germany, therefore, continues to provide some targeted support to China (Klingebiel and Li, 2016).

As reviewed in Section 5.1, France adopts a 'graduation' approach, offering differentiated financing terms (primarily through AFD) at the country and sector or project levels. The terms offered are graduated to suit different country and project circumstances, debt-carrying capacity and needs.

Regarding Australia, it was clear from both the review of policy documents and interviews with national stakeholders that development cooperation has transitioned from traditional forms of development assistance, to new economic partnerships with fast-growing countries in Asia. There is now a clearer focus on providing policy advice to further enhance and sustain economic growth, facilitated by the new organisational structure. Interviewees made similar points on the EU's development cooperation. In the UK, ICAI (2016) argued that even if DFID's financial aid was no longer essential in China and India, national stakeholders would have appreciated having DFID's continued policy advice and support.

6.4 Take stock of past transition processes and learn lessons

There are very few reviews of development partners' approaches to transition and exit from bilateral country programmes. Those that exist mainly concern evaluations of Danish, Dutch and Swedish development cooperation programmes, and more recently the ICAI review of DFID in the UK. This very lack of evaluation was one of the motivations behind this report, and indeed makes assessing previous experiences and learning from them even more important.

For example, the ICAI review found that DFID's exit from bilateral development cooperation programmes in Viet Nam was the only instance when DFID had placed a strong focus on lesson learning (ICAI, 2016). In that case, DFID commissioned an evaluation of the record of UK aid to Viet Nam to ensure that lessons were captured. From the round of consultations regarding the EU, we understood that experience with European neighbouring countries, peer learning and institutional partnerships were used to help the EU to develop instruments, and that knowledge of transition processes helped it to develop an approach with partner countries in other regions.

Analysing and drawing lessons from a transition process is rather challenging. For the UK, the sharing of lessons was an informal process and was limited in scope. It focused mainly on the practicalities of closing programmes and offices, rather than on reflecting on recent experiences (ICAI, 2016). ICAI recommended DFID should have a more structured processing for learning, so that lessons could be shared in-house and with other donors.

7 Conclusions: recommendations for development partners

Many countries are expected to move away from aid in the coming years. It is estimated that by 2030, 29 countries will have graduated from the current list of ODA-eligible countries (OECD, 2014a). Given this, it has become critical that we understand the implications of this trajectory for development finance, and how development partners and partner countries alike should manage the transition processes. If transitions away from aid are not managed effectively, there is a risk of jeopardising the development outcomes achieved so far and causing setbacks to fully owned and effective government programmes. To achieve this, it may be necessary to change the nature of the development relationship, from that of donor–recipient to, for example, one of economic diplomacy.

This research report provides a preliminary assessment of a small number of development partners. It identifies the criteria they use when deciding which country programmes they should phase out and compares their different approaches. We looked at examples of how transitions and exits have been managed on the ground. These range from no approach to transition, to an indirect or informal approach, to a formalised approach (regarding criteria and/or policy). Most development partners reviewed in this report fall within the first category. Where donors have a diversified set of instruments, they tend to apply them strategically within the context of transition.

Although preliminary, this report nonetheless aims to fill a gap in the policy literature – that is, the lack of systematic cross-donor analysis of how development partners have managed and implemented withdrawal and exit from bilateral country programmes, especially beyond evaluation reports. We emphasise how little is known about how donors make their decisions and manage such processes. It underlines the need to develop a more granular analysis of this area, in order that lessons can be drawn from previous experiences and thus criteria and processes can be improved.

This review has shown that few bilateral donors have criteria for transition from bilateral development programmes in place – at least structured in a publicly available document and strategy. These criteria should be articulated. While it is recognised that not having formal criteria or approaches can increase flexibility, by enabling case-by-case handling of situations, general principles should be established. Development partners should review their approaches and principles to transition to ensure that withdrawal is well planned, communicated across government and coordinated with other development partners, and that it sets new strategic directions for bilateral relations beyond development cooperation.

Our intention was not to offer a full evaluation of approaches to transition used by each of the development partners.[46] Instead, we have identified a series of common elements within development partners' positive experiences of managing withdrawal from bilateral development

46 For this, see Dutch Ministry of Foreign Affairs (2016), Slob and Jerve (2008) and Forsberg (2010).

cooperation programmes. From these elements, we have drawn the following lessons for other development partners:

7.1 Lessons for other development partners

Complete projects and plan well ahead, taking a flexible approach during transition

Through their management of transition from bilateral development cooperation programmes in Viet Nam, DFID and SIDA have demonstrated that a plan that is communicated well in advance to all relevant parties and is applied flexibly can result in a smooth handover to the government. In other words, transition and exit should be planned well ahead of implementation and be part of a long-term strategy. The planning should include mapping out projects to be phased out, identifying which organisation (government or other development partner) should take over responsibilities, ensuring continuity, focusing on the sustainability of development programmes (as in the case of Denmark in India) and managing potential risks.

Communicate the decision to exit in advance to the relevant stakeholders and across the partner country's government

Effective communication was an integral part of the smooth transition from bilateral development cooperation programmes for both DFID and SIDA in Viet Nam. We found a few examples (e.g. other DFID transition processes, the EU in Peru) where transition intentions could have been more effectively communicated.

Hand over responsibilities to the government, other development partners and government departments

Planning the handover, whether to the country government or to other development partners, should be one of the principles for transition from bilateral development cooperation programmes. It may also be necessary to leverage regional programmes and/or other agencies within the national development cooperation system (as in the case of Swiss development cooperation).

Diversify the instruments – phasing out bilateral programmes does not mean ending assistance to the country

For example, the EU has started developing a toolbox for use in different country contexts and with graduated countries. Unsurprisingly, we found growing demand for technical assistance and policy assistance during the transition phase.

Review past transition processes and learn from them

One of the motivations behind this report was the small number of reviews of development partners' approaches to transition and exit from bilateral country programmes. This makes reviewing previous experiences and learning from them even more important.

7.2 Scope for expanding the research

The methodological approach used in this study, and the small number of development partners reviewed, mean there is scope to expand this research. The following specific areas could be investigated, to inform transition strategies further:

Transition strategies for the development partner as a whole and for each agency

In Section 3 we described the complexities of decision-making and project implementation for each agency. Several actors within each system make decisions on how to allocate resources across countries, often without coordinating a joint policy position. An in-depth case study analysis of a single development partner could provide a more informed picture of its transition approaches and management strategies. Furthermore, our methodological approach did not consider in depth how the relationship evolves across a single donor's agencies, either from bilateral development programmes within ministries of foreign affairs and implementing agencies to development finance institutions, or from development cooperation to development diplomacy (this latter aspect is considered in Gulrajani et al., 2018 for the case of India).

Transition in the use of instruments

One of our hypotheses regarding the use of financing instruments during the transition from concessional finance was that grant financing should be concentrated in the poorest countries, which have limited ability to mobilise their own resources. Other instruments, such as loans, guarantees and equity, should be prioritised towards MICs, or at least to those countries with the ability to generate their own domestic public revenues. Several development partners reviewed in this report were principally offering grant financing instruments or similar. As a result, we inevitably gathered very limited evidence on how sets of instruments have evolved during transition, except from Japan and France.

Extend the number of development partners reviewed

This review covered 11 DAC members, which were selected using the process explained in Annex 1. The number of development partners could be expanded to include other DAC members and also non-DAC donors.

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Annex 1 Case study selection

Eleven countries were selected to be part of this study. The methodology for choosing these followed two steps: first, identifying the population (that is, all development partners suitable for analysis in this report); and second, creating a shortlist, using selection criteria that reflected the key research questions (see Section 1).

1. **The population:** We selected DAC members as of 2013 (because of limited availability of data on more recent members). These comprised:
2. **Shortlist:** We used four criteria to select the development partners to be included in this research. The criteria were designed to select a combination of the top donors, long-standing donors and donors that had ended or reduced the size of their programmes in any of the countries covered in the case studies in the companion report to this project: Egypt, Ghana, Lao PDR, Nigeria, Pakistan, Papua New Guinea, Sri Lanka and Viet Nam (see Engen and Prizzon, 2018). Data on official finance reflect the sum of ODA and other official flows from the OECD Common Reporting Standard database over the period 1973 to 2016.

Australia	Germany	Norway
Austria	Greece	Portugal
Belgium	Ireland	Republic of Korea
Canada	Italy	Spain
Denmark	Japan	Sweden
EU institutions	Luxembourg	Switzerland
Finland	Netherlands	United Kingdom
France	New Zealand	United States

a. **Largest five of the top 10 bilateral development partners providing official finance to each recipient country between 1973 and 2016.** EU institutions, France, Germany, Japan and United States met this criterion.
b. **Donors that had supported all the selected recipient countries since 2008.** These were Australia, Canada, EU institutions, France, Germany, Japan, Republic of Korea, United Kingdom, United States.
c. **Donors that had stopped funding in at least one of the selected recipient countries since 2008.** That year was chosen as most of the country case studies transitioned from LIC to LMIC status in 2008. These countries were Belgium, Denmark, EU institutions, France, Germany, Greece, Luxembourg, Spain, Sweden, Switzerland.
d. **Geographical balance across regions and pre-existing contacts in selected donor countries.** Australia, Canada, Denmark, EU institutions, France, Germany, Japan, Republic of Korea, Sweden, United Kingdom and United States met this criterion.

Shortlist

Eleven donors met at least two of the four selection criteria: Australia, Denmark, EU institutions, France, Germany, Japan, Republic of Korea, Sweden, Switzerland, United Kingdom and United States.

Table A1 Selection criteria for the choice of donor countries

DAC donors	Among the five largest donors	Donors funding across all case study countries since 2008	Donors stopping support in at least one of the case study countries since 2008	Geographic balance and networks in place in selected countries	Number of criteria met
Australia		Y		Y	2
Austria					0
Belgium			Y		1
Canada		Y			1
Denmark			Y	Y	2
EU institutions	Y	Y	Y	Y	4
Finland					0
France	Y	Y	Y	Y	4
Germany	Y	Y	Y	Y	4
Greece			Y		1
Ireland					0
Italy					0
Japan	Y	Y		Y	3
Luxembourg			Y		1
Netherlands					0
New Zealand					0
Norway					0
Portugal					0
Republic of Korea		Y		Y	2
Spain			Y		1
Sweden			Y	Y	2
Switzerland			Y	Y	2
United Kingdom		Y		Y	2
United States	Y	Y		Y	3

Annex 2 List of interviewees

Interviewee	Organisation
Akihiko Yoshida	Japanese Ministry of Finance
Ben Day	Australian National University
Cate Rogers	DFAT
Christopher Maloney	USAID
Florian Lütticken	DEVCO – European Commission
Hubert de Milly	AFD
Jacob Grover	Millennium Challenge Corporation
James Coe	Publish What You Fund
Jean-François Cuénod	SDC
Julianne Kolsdorf	GIZ
Kate Tench	Independent consultant
Kentaro Orita	Japanese Ministry of Foreign Affairs
Laura Kerr	Results UK
Mae Kurkjian	ONE Campaign
Mariella Ciommo	ECPDM - European Centre for Development Policy Management
Martin Saladin	SECO
Matthieu Boussichas	FERDI - Foundation for Studies and Research on International Development
Mehdi Hussain	EEAS European External Action Service
Michael Krempin	GIZ
Mondo Yamamoto	Japanese Ministry of Foreign Affairs
Niels Keijzer	DIE
Noam Unger	USAID
Patricia Pfister	SDC
Pierre Gaudin	French Treasury
Richard Moore	Independent
Rochika Chaudhry	USAID
Shinichi Yamanaka	Japan International Cooperation Agency
Sib Hayer	DEVCO – European Commission
Soyeun Kim	Associate Professor at Sogang University
Stephen Howes	Development Policy Centre

Annex 3 Donors' institutional arrangements for managing transition and exit from bilateral development cooperation programmes

Australia

In 2013, AusAID was integrated into the Department of Foreign Affairs and Trade (DFAT), 'enabling the aid and diplomatic arms of Australia's international policy agenda to be more closely aligned'. DFAT follows both aid and trade agendas, offering, at least in principle, greater opportunities to support a transition strategy away from aid. DFAT is the main agency within the Australian development cooperation system that takes decisions on aid allocation and programmes (managing 93% of ODA budgets – see OECD, 2018). A watershed moment for Australian aid was the approval of the 2015/16 budget, with major cuts to areas outside Australia's traditional regional areas of interest (Dornan, 2015).

Denmark

In Denmark, development cooperation is managed within the Ministry of Foreign Affairs (MFA). From 2011 to 2015, the MFA was jointly headed with the Ministry for Development Cooperation, the latter then replaced by the Ministry for Trade and Development. Danish development cooperation is increasingly integrated with foreign and trade policy within the MFA, which is responsible for allocation decisions (OECD, 2016).

Overall, development cooperation policy is coordinated at headquarters, largely through the Centre for Global Development and Global Cooperation at the MFA, which also provides technical advisory support to embassies and missions that are developing country-level strategies. The model of Danish development cooperation is highly decentralised, with management of – and responsibility for – individual programmes placed with the heads of mission in embassies.

European Union

A Directorate-General for Development Cooperation was established in January 2011 with the objective of consolidating the delivery of development cooperation, with one agency leading on policy and implementation of most of the EU's financing instruments for development cooperation (OECD, 2012a). In response to the Lisbon Treaty, the European External Action Service (EEAS) was set up to serve the High Representative.

Article 9 of the EEAS Council Decision, sets out that:

> The High Representative shall ensure overall political coordination of the Union's external action ensuring the unity, consistency and effectiveness of the Union's external action, in particular through specific external assistance instruments. The allocation for the EDF (European Development Fund) and the Development Cooperation Instrument (DCI) shall be established by the EEAS in agreement with DEVCO while the thematic programmes under the DCI shall be prepared by DG DEVCO under the guidance of the Commissioner responsible for Development and presented to the College in agreement with the High Representative and other relevant Commissioners (see Working arrangements between Commission Services and the European External Action Service (EEAS) in relation to external relations issues, 2012).

France

French development assistance is implemented by one large central agency (Agence Française de Développement, AFD), operating partly with grants but mostly with loans, and several smaller, mostly grant programmes (PROPARCO, an affiliate of AFD, mainly makes loans without sovereign guarantees and is not reviewed here). Implementation is overseen by two core ministries, the Ministry of Europe and Foreign Affairs (MEAE) and the Ministry of the Economy and Finance (Treasury Department). It is coordinated by an Inter-Ministerial Council on International Development (CICID), usually chaired by the Prime Minister, with these and other participants. This formally meets approximately every two years (11 times since its creation in 1998), but also interacts informally at official and political adviser levels. In the background is a Framework Law on international development, most recently enacted in 2014, establishing principles which CICID subsequently elaborates and, along with Parliament, monitors its implementation.

Germany

The Federal Ministry for Economic Cooperation and Development (BMZ) has the overall policy steering and oversight of German cooperation, and is responsible for decisions on aid allocation and transition. BMZ has its own budget envelope, part of the federal budget. German cooperation is implemented by two major state-owned agencies: German Agency for International Cooperation (GIZ) and the development bank, KfW Entwicklungsbank.[1]

- GIZ acts as a technical and strategic adviser to BMZ and its partner countries and implements development programmes, with a focus on capacity-building. GIZ also carries out work for other

1 Germany's implementing agencies can be commissioned by ministries other than BMZ. As for GIZ, while most of its work is commissioned by BMZ, it also operates on behalf of other German ministries and public institutions (states and municipalities) as well as public and private sector clients in Germany and abroad.

German ministries, governments of other countries, EU institutions, the UN, the World Bank and the private sector.
- Financial cooperation is implemented by KfW Entwicklungsbank, a development bank that is a member of the KfW banking group. A portion of KfW's funds comes from the federal government's budget. KfW also employs to a great extent its own funds, raised on the capital market (Faure et al., 2015).

Operations are coordinated on the ground thanks to a clear division of labour between BMZ and its implementing agencies, the creation of country teams and having GIZ and KfW located in the same country offices (OECD, 2015).

Japan

The Japanese Ministry of Foreign Affairs (MoFA) has a policy-making role in development cooperation, including on aid allocation. The Japan International Cooperation Agency (JICA) is responsible for implementing more than 60% of total bilateral ODA using a country-based approach in which grants, loans and technical cooperation are brought together into a single country envelope (Faure et al., 2015). ODA task forces (in-country teams usually comprising staff from embassies and JICA country offices) are then responsible for delivering country assistance policies, facilitating donor coordination and ensuring that ODA policies are executed correctly in the field. MoFA is in charge of most of the ODA budget, including JICA's budget, as well as grants disbursed by the ministry directly (OECD, 2014a).

Japan's Ministry of Economy, Trade and Industry (METI) is also involved in decisions on ODA loans (together with MoFA or the Ministry of Finance), however, it is not really involved in transition decisions and therefore it is only briefly mentioned in this study.

Republic of Korea

The Republic of Korea's major ODA policies are decided at the Committee for International Development Cooperation (CIDC), which is chaired by the Prime Minister and composed of several members including ministers, heads of ODA implementing agencies and civilian experts. The CIDC holds meetings approximately three times a year. It deliberates and decides on the framework plans and annual comprehensive implementation plans and evaluates ODA policies and the progress of ODA projects (see Faure et al., 2015).

The Ministry of Strategy and Finance (MOSF) supervises concessional loans in bilateral aid and cooperation with multilateral development banks in multilateral aid. For concessional loans, MOSF establishes and reviews overall policy direction and annual planning. As the main agency for operating the Economic Development Cooperation Fund, it runs a Fund Management Council (chaired by the Minister of Strategy and Finance) and entrusts the Korea Eximbank with executing the fund, including the identification, implementation and evaluation of concessional loans.

The Ministry of Foreign Affairs supervises bilateral grant aid and multilateral aid to the UN and other multilateral organisations. It oversees and coordinates grant aid by formulating overall grant aid policy direction, annual strategies, and regional and country-specific programmes while supervising the Korea International Cooperation Agency (KOICA) to execute grant aid programmes. The MFA also acts as an executive secretary to the Inter-Agency Grants Committee (chaired by the Vice Minister of the MFA).

Sweden

The Ministry of Foreign Affairs is responsible for Sweden's development policies and management. The Swedish International Development Cooperation Agency (SIDA) is the main agency responsible for implementing those policies and strategies (Faure et al., 2015). The ministry and SIDA jointly develop the governmental development budget draft.

Switzerland

Swiss development cooperation is largely implemented by two bodies (we have not covered the Directorate for Human Security in this report). First, the Swiss Agency for Development and Cooperation (SDC) is Switzerland's international cooperation agency within the Federal Department of Foreign Affairs (FDFA). SDC is responsible for the overall coordination of development activities and cooperation, as well as for the humanitarian aid delivered by the Swiss Confederation. Second, the Economic Cooperation and Development Division in the State Secretariat for Economic Affairs (SECO) is responsible for the planning and implementation of economic cooperation and development activities with middle-income developing countries, with countries of Eastern Europe and the Commonwealth of Independent States (transition countries), and new EU Member States. It coordinates Switzerland's relations with the World Bank Group, the regional development banks and the economic organisations of the United Nations (see Faure et al., 2015).

In their strategic review (Dispatch), conducted every four years, the two agencies agree on their joint strategy for Swiss development cooperation, on their respective priority countries (including new ones and where they are planning to exit from) and complementary countries where they both operate.

United Kingdom

In the United Kingdom, the Department for International Development (DFID) is the agency responsible for policy decisions – including on aid allocation and transition – and for implementation. DFID has a seat in Cabinet and on the National Security Council (NSC). DFID's budget is separate from the Foreign and Commonwealth Office (FCO), accounting for 72.5% of ODA in 2017. Being the lead government department in development cooperation, DFID drives the development agenda and decides on most funding decisions, whether bilateral or multilateral allocations, for which evidence is provided by the bilateral and multilateral aid reviews (OECD, 2014c).

CDC is the UK's development finance institution, wholly owned by DFID, whose mission is to support the private sector in developing countries.

United States

The United States has a complex institutional system for delivering development assistance. Currently, different allocation models interact, based on previous funding requests, Presidential Initiatives, Congressional earmarks, country-specific budgeting and supplementary appropriations. The result is a highly fragmented budget that translates into a complex array of instruments and reporting requirements for field offices, leaving them very little discretion (Faure et al., 2015). Congress is a key component of the US institutional system for development cooperation. According to interviewees, the resource allocation system is complex, much of which reflect Presidential Initiatives (such as PEPFAR, MCC, Feed the Future and Global Health). The office of the US Foreign Assistance Resources has the overall coordinating role on budgeting and planning but has counterparts at the State Department's Office of Budget and Planning and USAID.

While more than 21 agencies are involved in US development cooperation, around 90% of all foreign assistance is concentrated in only three agencies: USAID, the State Department and the Treasury (OECD, 2016). The Secretary of State is the President's principal foreign policy adviser and the State Department is the lead representative of the US government overseas. USAID's Administrator reports directly to the Secretary of State. USAID, the main US development agency and the lead player in US development cooperation, provides technical and financial assistance, research and policy advice for both development and humanitarian purposes (Faure et al., 2015). In order to address coordination challenges due to the number of entities with ODA budget lines, an Interagency Policy Committee on Global Development was established, led by the National Security Staff (NSC) and

reporting to the National Security Council. Despite not being a permanent member, USAID is a regular participant in these meetings, bringing an important voice to the NSC table (Ingram, 2014).

Sectoral allocations align well with the priorities of the PPD-6, particularly the Presidential Initiatives. Health accounts for 25% of US bilateral ODA and the US support is particularly important for HIV/AIDS, with the President's Emergency Plan for AIDS Relief (PEPFAR) representing 90% of all DAC funding for HIV/AIDS. As such, the special cases of PEPFAR and USAID health are also reviewed in this report (OECD, 2016). Because Millennium Challenge Corporation (MCC), a key development agency operating in the development context in the US, offers a sound model for bilateral allocation decision-making and a good example of how agencies managed exit and transition decisions, it is also reviewed in this report.

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ODI
203 Blackfriars Road
London SE1 8NJ

+44 (0)20 7922 0300
info@odi.org

odi.org
odi.org/facebook
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