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Does Size Really Matter?

Small Bilateral Donors and Programme-Based Approaches (PBAs) – exemplified by Austria and Ireland

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Abstract

After fifty years of mediocre development aid success a new approach based around programme-based approaches (PBAs) has been developed. However, this poses a challenge for most small bilateral donors due to their comparatively small aid budgets and low capacities. The only small donors to extensively support PBAs so far are Ireland and Finland.

This paper endeavours to explore whether small bilateral donors should shift away from mostly project-based aid towards PBAs. The criteria for analysing this derive, *inter alia*, from the concern of small donors about budgets and capacities. These include transaction costs, capacities, externalities and donor impact. The research is based on a literature review and case studies of Austria and Ireland. The case studies are founded on a combination of published and internal documents, as well as semi-structured face-to-face interviews. The choice of these two case study countries is based on the fact that they are both small bilateral donors with similar absolute and relative official development assistance (ODA) contributions. They are also both relatively small but very rich Western European countries that lack colonial history in the South. Yet they differ considerably regarding the extent of their shift towards PBAs. Austria has just barely started to experiment with PBAs. Ireland is at the forefront of the international donor community with regard to PBA implementation, which currently accounts for the majority of its bilateral core budget. A cautious comparison of the two thus seems feasible.

This analysis finds that a shift towards PBAs actually seems to be more important for small bilateral donors than for large ones. This is because of the necessity to reduce and internalise their externalities which tend to be bigger with smaller players due to their smaller 'aid market share'. Moreover, PBAs enable small donors to 'punch above their weight' in terms of influence and to realise endeavours that would be impossible alone. Small donors also have an advantage regarding their comparatively neutral and non-threatening nature, which may enhance their leadership credentials as other donors and the recipient government are willing to support them. Furthermore, in light of increasing ODA budgets small donors in particular need to find ways to implement these without endlessly increasing capacity. PBAs offer such a possibility. However, a shift towards PBAs seems to increase transaction costs initially, burdening small donors as these costs are independent of

donor size. A shift is also associated with higher and altered capacity requirements. But these obstacles seem justified by increased aid effectiveness, and will pay-off once economies of scale commence.

The two case studies, Austria and Ireland, support this conclusion and illustrate that capacities do matter and transaction costs do increase at least initially. Austria has only just begun experimenting with PBAs and is thus struggling with the challenges and cost increases associated with a shift towards PBAs. However, where it is not participating in PBAs it often feels pressure to join in order not be excluded. Ireland is at the forefront of the international community in terms of PBA implementation and has benefited greatly from it. The most remarkable effect of Irish PBA engagement has been its lead position in most of the PBAs it participates. PBAs make Irish Aid 'bigger' relative to its share of funding. It seems to boil down to the commitment of each donor – whether big or small – to overcome adverse incentives and buy into the PBA process.

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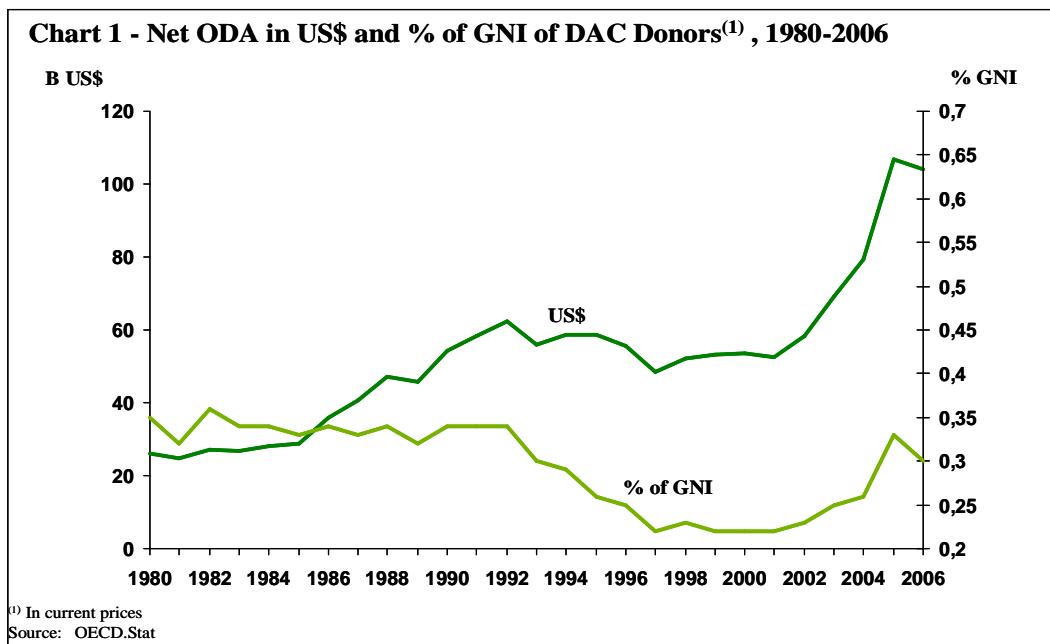
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Acronyms and Abbreviations

ABP – Area Based Programme
ADA – Austrian Development Agency
ADC – Austrian Development Cooperation
AFM – Austrian Foreign Ministry
B – Billion
BoP – Balance of Payment
BS – Budget Support
CSP – Country Strategy Paper
DAC – Development Assistance Committee
DAF – Department of Foreign Affairs
EC – European Commission
GBS – General Budget Support
GNI – Gross National Income
M – Million
MAPS – Multi-Annual Programme Scheme
MoF – Ministry of Finance
NGO – Non-Governmental Organisation
IA – Irish Aid
ODA – Official Development Assistance
OECD – Organisation for Economic Co-operation and Development
PAEG – Programme Appraisal and Evaluation Group
PAF – Ugandan Poverty Action Fund
PBA – Programme Based Approach
PD – Paris Declaration
PFM – Public Financial Management
SBS – Sector Budget Support
SWAp – Sector-wide Approach

1. Introduction

Nearly half of the world's population still lives on less than US\$2 and over one billion people on even less than US\$1 per day (World Bank 2006: 9). This is a disappointing reality after half a century of development interventions. Since the 1990s development aid has found itself in a deep crisis because of low effectiveness. Hence, the international community decided to restructure the development approach. This new approach was consolidated in a number of fora, climaxing in the Paris High Level Forum on Aid Effectiveness in 2005. The outcome of this event, generally referred to as the Paris Declaration (PD), is adhered to by over 100 countries, including all DAC donors, several multilateral and civil society organisations. The PD focuses on ownership, alignment, and harmonisation, all backed by results-oriented indicators (OECD/DAC 2005d). Many factors of low aid effectiveness can be attributed to the most widely-used aid implementation modality: projects. A shift towards programme-based approaches (PBAs) thus seems to be one of the key factors in increasing aid effectiveness. Accordingly, indicator nine of the PD states that all donors are to implement at least 66% of their official development aid (ODA) through PBAs by 2010 (ibid.: 10). In line with this development, the share of PBAs in ODA has steadily increased, from 4.8% in 1995 to 14.4% in 2005¹ (OECD.Stat).



¹ Programme aid, as defined by the OECD, includes budget and balance-of-payment support, financing of capital goods and commodities, and sector programme assistance (OECD/DAC 2007d: 18). Therefore, PBAs as defined in this paper are likely to account for even higher volumes.

Notionally all bilateral development agencies are in favour of PBAs, but at different levels of commitment and implementation (Riddell 2002: 7). Unfortunately, comparable donor statistics of actual PBA implementation are to date unavailable as definitions differ and most agencies earmark their ODA flows by purpose not by modality. The main bilateral advocates of PBAs are two large donors, the UK and the Netherlands. Further proponents include Sweden, Norway, Denmark, Ireland, Finland, Canada and Switzerland, though the latter two have not yet translated their commitment into action (Klingebiel 2003: 14). Accordingly, the only small donors to comprehensively support PBAs are Ireland and Finland². Most small bilateral donors are uncertain whether and how to shift towards PBAs due to their relatively small budgets and capacities. This paper endeavours to explore whether small bilateral donors should shift towards PBAs.

It discovers that a shift towards PBAs seems even more important for small bilateral donors than for large ones. This is due to their smaller 'aid market share' causing lower internalisation of externalities and because PBAs enable smaller donors to 'punch above their weight'. However, a shift towards PBAs also seems to increase transaction costs initially, burdening small donors as these costs are independent of donor size. The shift is also associated with higher and different capacity requirements. But these obstacles appear to be justified by increased aid effectiveness, and are likely to pay-off once economies of scale commence, and are rewarded by higher donor voice and impact.

The criteria for analysing whether small bilateral donors should shift towards PBAs in this paper derive from their concern about small budgets and capacities. These include transaction costs, capacities, externalities and donor impact. The research is based on literature review and case studies of Austria and Ireland. The case studies are founded on a combination of published and internal documents, as well as semi-structured face-to-face interviews. The choice of these two case study countries is based on the fact that they are both small bilateral donors with similar absolute and relative official development assistance (ODA) contributions. They are also both relatively small but very rich Western European countries that lack colonial history in the South. Yet they differ considerably regarding the extent of their shift towards

² Small bilateral donors include Austria, Finland, Greece, Ireland, Luxembourg, New Zealand and Portugal, which are the seven smallest bilateral DAC donors in terms of absolute ODA (OECD/DAC 2005a: 35).

PBAs. Austria has just barely started to experiment with PBAs. Ireland is at the forefront of the international donor community with regard to PBA implementation, which currently accounts for the majority of its bilateral core budget. A cautious comparison of the two seems feasible.

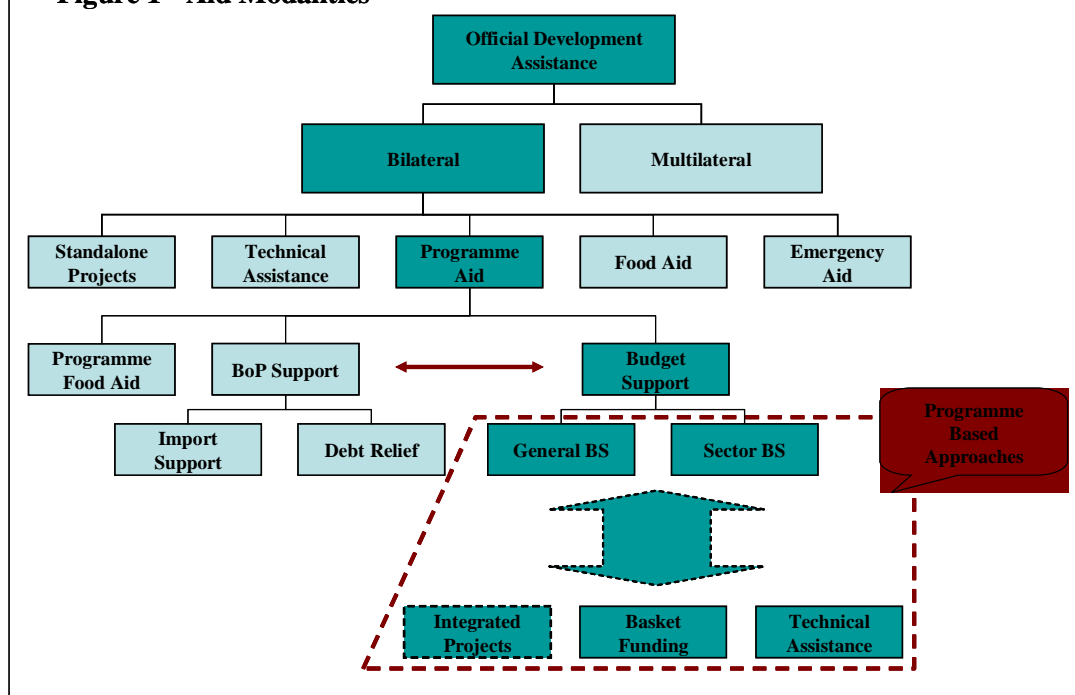
The following section defines relevant concepts, examines whether size matters and accordingly whether small donors should shift towards PBAs. Section 3 consists of the two case studies, Austria and Ireland. Section 4 discusses the results, while section 5 outlines conclusions and recommendations.

2. Does Size Matter in Shifting towards PBAs?

2.1 What are PBAs?

PBAs can be broadly defined as “*a way of engaging in development cooperation based on the principles of coordinated support for a locally owned programme of development*” (LENPA 2003: 1). PBAs include four key elements: (1) leadership by the partner-country; (2) a single programme and budget framework; (3) donor harmonisation; and (4) increased use of partner-country systems (Lavergne and Alba 2003: 2). They are dynamic approaches based on various funding modalities at sector (SWAp) and non-sector levels, including pooled funding and budget support (for definitions see Box 1).

Figure 1 - Aid Modalities



Box 1 – Definitions

Project support: “funds provided to implement a specific and predefined set of development activities over a specific period of time” (Bandstein 2007: 8).

Sector-Wide Approach (SWAp): “the defining characteristics of a SWAp are that all significant funding for the sector supports a single sector policy and expenditure programme, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all funds” (Brown et al. 2001: 7).

Pooled Funding: “refers to an arrangement whereby donors agree to contribute to a common fund or basket reserved for purposes agreed upon by donors and the host partner.” The flows are either integrated into the government budget, or use a single set of donor procedures (Lavergne 2003: 6).

Budget Support (BS): “refers to the channelling of donor funds to a partner government using its own allocation, procurement and accounting systems”.

General Budget Support (GBS): “covers financial assistance as a contribution to the overall budget”.

Sector Budget Support (SBS): “covers financial aid earmarked to a discrete sector or sectors” (DFID 2002: 11).

2.2 Why Shift towards PBAs?

While there is, to my knowledge, no literature dealing directly with small donors and PBAs, the general merits of PBAs over stand-alone projects are widely reviewed and generally accepted. The main advantages of PBAs over traditional projects can be subsumed under four categories: increased ownership, enhanced accountability, comprehensive strategy, and institutional development. As transaction costs are an important part of the arguments of this paper they will be briefly discussed.

There are also differences between the modalities used to support PBAs, with an implicit hierarchy from GBS to SBS to pooled funding to integrated projects (Riddell 2002: 10). Unfortunately a detailed analysis of all advantages of PBAs or all aid modalities is beyond the scope of this paper (for an overview see for example Bandstein 2007 or Ohno and Niiya 2004).

Table 1 – Projects versus PBAs		
	Stand-alone Project Support	PBAs
Ownership	donor-based	recipient-based; but higher overall donor influence possible
Accountability	donor-based (but limited); only limited results-based management	recipient-based; higher donor accountability; but need to strengthen internal accountability; results-based management possible
Strategy Comprehensiveness	lacking or low	high; higher allocative efficiency, internalisation of externalities by donors, lower transaction costs in long-term (?), higher predictability (?)
Institutional Development	undermined; by parallel project implementation units	reinforced; by use of recipient-government systems where feasible, and strengthening where not feasible

Ideally PBAs are based on one comprehensive strategy and budget, developed by the recipient-country and aligned to by harmonised donors. This should lead to a decrease of transaction costs for donors and recipients. A reduction of transaction costs for the partner-country is anticipated as parallel structures are reduced, efforts joined, and mechanisms standardised (Klingebiel 2003: 10). For donors, transaction costs are expected to increase initially but decrease in the long-term, especially once economies of scale are realised. For instance, the World Bank estimates that transaction costs initially increase by 50-100% for donors engaging in SWAps

(2001b: 37). However, evidence also suggests “*that the benefits in terms of improved transaction governance more than compensate for the costs*” (UNDP 2000: 9). Hence, when shifting to PBAs, transaction costs tend to shift for both recipients and donors (see table 2), often increase, but are justified by higher effectiveness (Klingebiel et al. 2005: 13).

Transaction Costs	Recipient		Donor	
	Project	PBA	Project	PBA
Pre-investment Appraisal	moderate	moderate	very large	moderate
Implementation	potentially large	low	moderate	low
Monitoring and Reporting	very large	large	moderate	large
Ex-Post Evaluation	moderate	low	moderate	large

Source: adapted from Killick 2004: 25, table 1

Naturally PBAs also have some drawbacks. As abovementioned PBAs can increase transaction costs and capacity requirements for donors. PBAs are also highly dependent on real ownership, commitment and capacities of partner-countries (Jones and Lawson 2000: 7). Moreover, projects are viable for addressing specific bottlenecks, piloting new policies, and assisting civil society and the private sector (DFID 2004: 5). They permit support in environments where PBAs are not possible, i.e. where preconditions for PBAs are lacking, or as a niche approach in scenarios with low aid dependence (Lavergne and Alba 2003: 5; Renard 2007a: 32). Projects also serve as on-the-ground monitoring devices for PBAs.

2.3 Influential Factors

Factors influencing the decision whether or not to shift towards PBAs include recipient-country and sector characteristics, as well as government preferences (Bandstein 2007: 6). PBAs are best implemented in countries with high aid-dependency, relatively good macroeconomic management and sector policy, but weak civil service management capacity (Lavergne and Alba 2003: 22).

In reality factors such as donor capacity, historical relationships, political support in donor-countries, and the international debate also exert influence. In other words, incentives and capacities tend to determine the choice of modality. At the systemic level several forces influence donor modality choices: international peer pressure, domestic politics, NGOs in donor-countries, and the private sector (De Renzio et al. 2005: 11f). At the organisational level, factors such as the degree of decentralisation to the field³, the relationship between country/regional and sector/technical departments⁴, clear policy guidelines, and the existence of a harmonisation focal point, will influence modality choices (ibid.: 13; Bandstein 2007: 31ff). Individuals working for development agencies also face incentives to promote or impede a shift towards PBAs. The implementation of PBAs tends to require a different skill mix than traditional project-support, leaning towards more generalist, macro-economic, and negotiating skills at a high level (NMFA 2004: 31; Schmidt 2001: 18). This could lead to resistance among staff fearing of lay-offs.

2.3‘Stay out of the Kitchen?’

Small donor size could potentially influence the benefits of PBAs over traditional projects, especially in terms of transaction costs and donor capacity. Moreover, many donors are insecure about their potential to actively participate and contribute added-value in PBA involvement. Most of these concerns seem to be unsubstantiated. Besides, small donors have the same international obligations as big donors, they have also committed to the PD, and as development can be regarded as a collective good they should share the efforts (Molenaers and Renard 2005: 17).

2.3.1. Transaction Costs

Some scholars state that small donors should ‘stay out of the kitchen’ as they increase transaction costs for all participants without contributing much in terms of funding (Renard 2006d: 15). According to Rogerson, “*from a transaction costs perspective, what matter more in any case are the overall number of players and the*

³ Field staff tend to be more positive towards PBAs as they feel the pressure most, and decentralisation facilitates responsiveness and flexibility.

⁴ Country/regional staff tend to be more in favour of PBAs as they feel the need to shift most while staff in sector/technical departments may fear loss of influence.

length of the 'tail' of very small ones – for example, those which provide less than 2% each of a country's aid flows” (2005: 543). Correspondingly, the main role of small donors in PBAs would be that of silent partners, sometimes also referred to as delegated cooperation, where they fund PBAs via other donors without participating actively (OECD/DAC 2005c: 50).

The argument against an active participation of small donors in PBAs is also based on the substantial initial increase of transaction costs for the donors themselves, as well as the lack of appropriate capacity and human resources needed to implement PBAs. The costs that emerge from participating in PBAs are similar for all participants, no matter their size (Steiner 2007: 68). Hence, these costs will eat a much larger share of the budget of small donors.

While some of these arguments are valid, it is important to take the counterfactual into account. Even if the participation of small donors in PBAs causes an increase in transaction costs disproportional to their funds, the alternative would be to continue to implement stand-alone projects. This would cause even higher transaction costs for recipient-country governments in the long-term as these have to be managed parallel to PBAs. Moreover, the “*relative financial share is by no means the only criterion for considering a donor's added-value or 'complementarity' with others*” (Rogerson 2005: 543). While silent partnerships may be the ultimate form of donor harmonisation, they are unreasonable as the only mode of PBA-participation for small donors since this would entail an exclusion of their expertise (Riddell 2002: 14).

The increased transaction costs for donors themselves will pay-off once economies of scale commence and are moreover justified by increased aid effectiveness as discussed above. As all bilateral donors have pledged to increase their ODA, PBAs are crucial funding-channels because they are scalable without increasing the need for capacity proportionally. This is even more important for smaller donors.

2.3.2 Capacities and Expertise

The fact that many smaller donors lack adequate capacity and human resources to implement PBAs actively is also critical. Small donors are usually unable to cover all relevant aspects, particularly at the macro-level (Steiner 2007: 68). However, small donors have important expertise, especially at sub-sector levels, which is just as fundamental in creating sustainable PBAs. Moreover, in line with harmonisation, it is

possible and desirable for small donors to depend on the ‘macro-expertise’ of bigger donors, while strengthening their own comparative advantages.

2.3.3 Externalities

Another key factor is centred on the ‘tragedy of the commons’ (Hardin 1986). Development can be understood as a common resource where “*the smaller an agency, the smaller the proportion of external costs it internalises, and the more selfish it will act*” (Renard 2006a: 5). This can be exemplified by the practice of staff poaching from public service and administration by aid agencies.

“Hiring a skilled professional away from the government reduces the quality of public governance, which is a public-good input to all aid projects. This creates an externality. The lower a donor’s share in the recipient’s aid “market”, the less it internalizes this externality, and the more incentive it has to poach the best people from the government” (Roodman 2006: 7f).

Consequently, small donors should align and harmonise to internalise and reduce externalities. This can best be achieved by shifting to PBAs as donors acquire a stake in the general development success of a recipient-country.

2.3.4 Voice and Impact

A further factor that makes smaller donors hesitate to participate actively in PBAs is their relative weight compared to other donors. Small donors seem to be concerned that their voice will not be heard by larger participants and that they can thus not contribute appropriately (ibid.). They experience the ‘small donor syndrome’ where they feel that they are being harmonised, instead of actively harmonising, and consequently a loss of identity, visibility, and distinct added-value (Renard 2006c: 7; Thornton 2006: 5).

Yet, PBAs enable small donors to increase their impact by combining resources with others (OECD/DAC 2004: 65). Participation in PBAs offers small donors a unique opportunity to contribute effectively to the dialogue on government policies or implement endeavours, such as comprehensive evaluations, that are otherwise impossible for them alone (Koeberle et al.: 2006: 20). In fact, small donors might need to join the more powerful groups as they otherwise might become totally excluded.

2.3.5 Further Reasons for Joining the Cooks

Many smaller donors actually have advantages over bigger donors regarding PBA engagement. Most lack colonial ties, enabling them to have more partnership-based relationships with recipient-countries. They are also commonly perceived as neutral and non-threatening, as well as comparably altruistic (Gunning 2004; Berthélemy 2004). This status of small donors enables them to act as brokers between donors to facilitate harmonisation, as well as reducing the dependency of partner-countries on big donors (with strategic interests) (Steiner 2007: 68). Consequently they are frequently supported by other donors and partner-governments to take lead positions. This can make small donors even bigger.

In conclusion it seems all donors should shift towards PBAs where feasible. And size does matter. A shift towards PBAs increases transaction costs initially and intensifies capacity requirements. However, small donors should shift towards PBAs even more urgently than large ones, due to their smaller ‘aid market share’ causing lower internalisation of externalities and because PBAs enable smaller donors to ‘punch above their weight’. Moreover, small bilateral donors also often have the advantage of an ‘unthreatening’ status and thus enjoy the support of other donors and partner-governments. The following case studies support this conclusion.

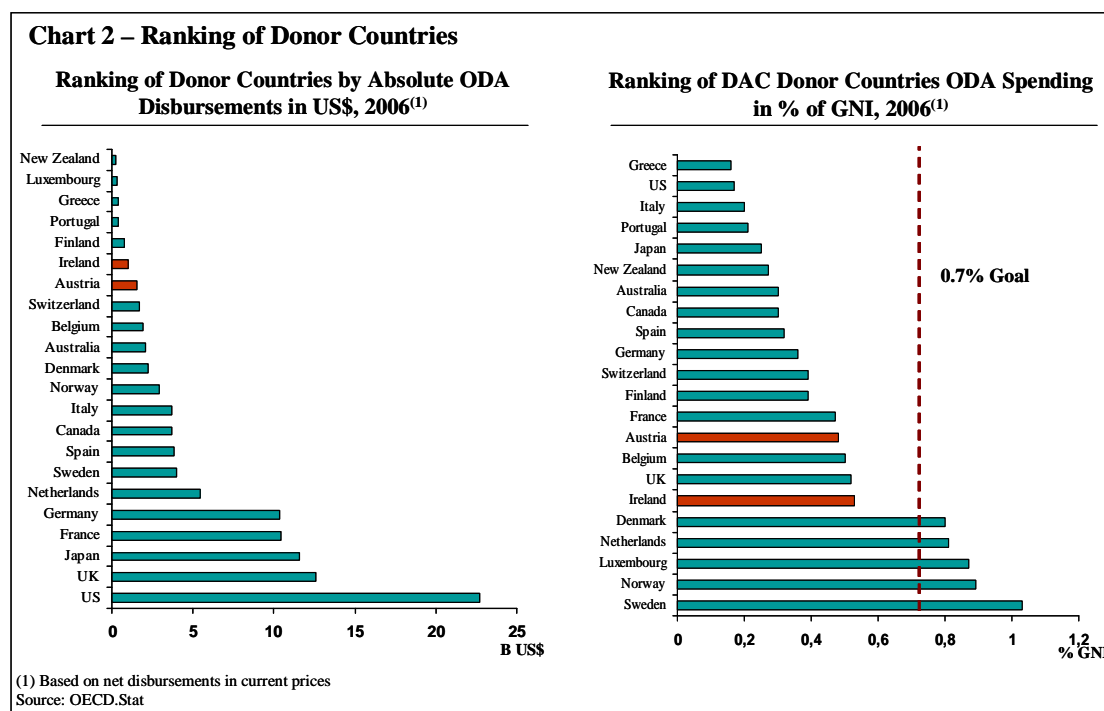
3. Case Studies – Austria and Ireland⁵

This case study of Austria and Ireland will examine the effects of PBA implementation on the donor agencies, with a focus on transaction costs, capacities, externalities, as well as donor voice and impact. It will also analyse the driving forces behind the different PBA implementation stages – Austria has just barely started to implement PBAs, while Ireland started over a decade ago and now implements the majority of its bilateral ODA through PBAs. Unfortunately neither Austria nor Ireland has comprehensive statistics on PBA implementation. I therefore try to exemplify my case with country examples or compile time series where possible.

Both Austria and Ireland are relatively small but rich DAC donors with similar absolute and relative ODA contributions (see chart 2). Austria and Ireland are the sixth and seventh smallest DAC donors respectively in terms of total ODA

⁵ Interviewees are not referred to by name in order to retain some anonymity.

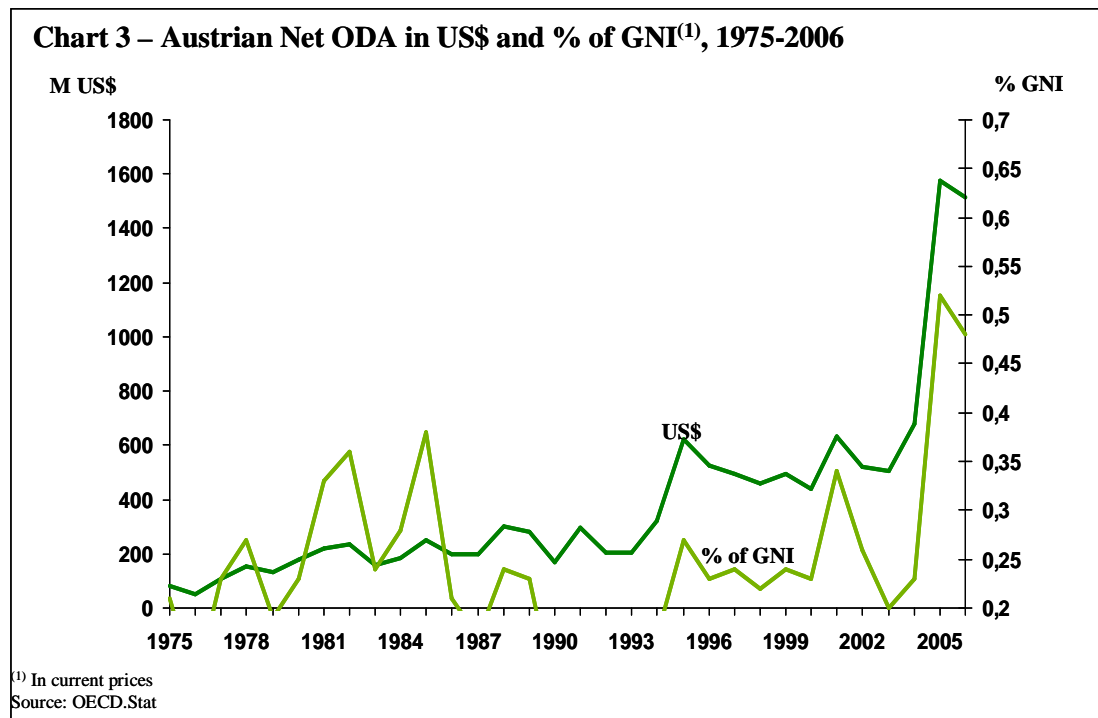
contributions. Total ODA amounted to US\$103.43 billion in 2006 of which Austria accounted for 1.45% and Ireland for 0.97% (OECD.Stat).



3.1 Austria

3.1.1 Overview

After strong fluctuations, Austria's ODA recently increased substantially to over €1.5B, or 0.48% of GNI in 2006 (OECD.Stat). The same year bilateral aid accounted for 73% of Austrian ODA, while the bilateral operational budget implemented by the Austrian Development Agency (ADA) amounted to only 8% or €91M (ibid.; Concorde 2007: 17).



Austrian Development Cooperation (ADC) is concentrated regionally and thematically. It currently has eight priority⁶ and eleven cooperation⁷ countries in the South, in which it commonly engages at sub-national level (AFM 2006a: 18; OECD/DAC 2005a: 60). This enhances the poverty focus by concentrating on the poorest regions, such as Sofala in Mozambique. However, priority countries are seldom top-recipients of Austrian ODA. Top-recipients are rather determined by debt relief, and the biggest sources of influx of refugees or foreign students (OECD/DAC 2004: 12). Accordingly, ADC plays a small role even in its priority countries with annual budgets of, for example, €3.5M in Burkina Faso and €2M in Cape Verde (AFM 2006c:13; 2005b: 20). Overall, only about 16% of Austrian ODA (including multilateral flows) went to LDCs in 2005 (OECD.Stat).

ADC's thematic priorities are education, rural development, water and sanitation, private sector development, energy, and good governance (AFM 2006a: 31; OECD/DAC 2004: 28). In 2005, 15.2% of bilateral aid was allocated to social and administrative infrastructure, while 69.4% went to debt relief. Economic infrastructure accounted for 0.7% and energy for 0.4% (OECD.Stat).

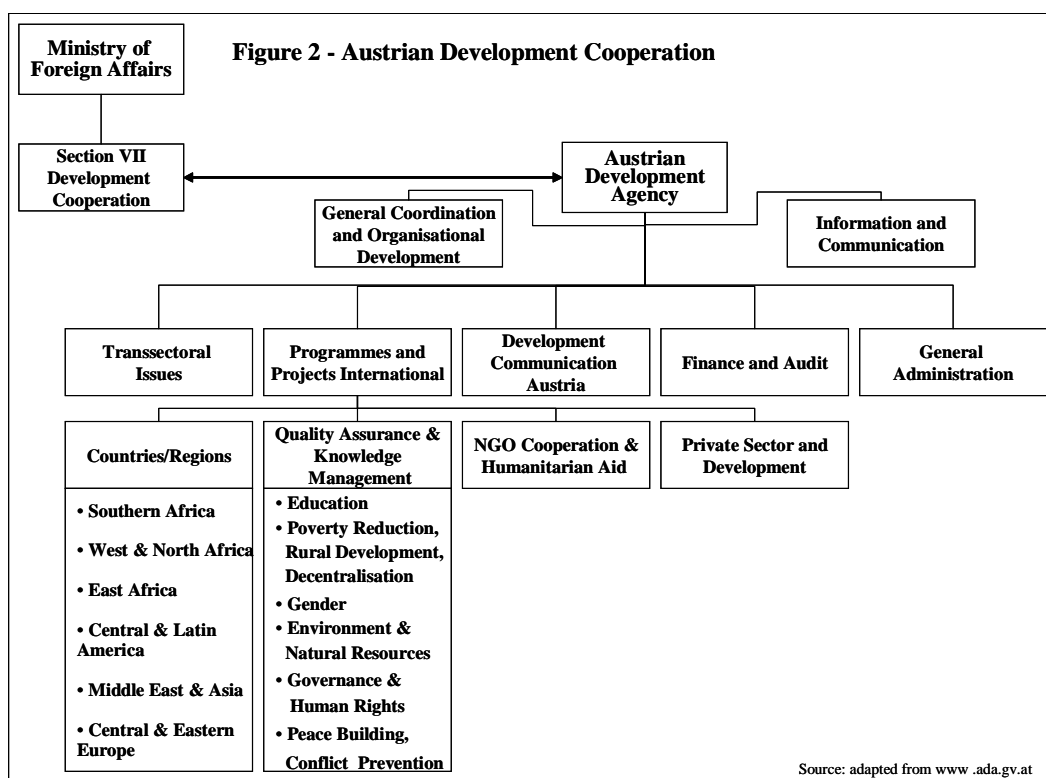
Since 2004, Austria has a separate executing agency for the bilateral core budget, the ADA. This leaves the section for development cooperation of the Austrian Foreign

⁶ Nicaragua, Cape Verde, Burkina Faso, Ethiopia, Uganda, Mozambique, Bhutan, and Palestine.

⁷ Guatemala, El Salvador, Senegal, Kenya, Burundi, Tanzania, Rwanda, Zimbabwe, Namibia, South Africa, and Nepal.

Ministry (AFM) responsible for the formulation and management of development policies, strategic framework, and overall coherence (OECD/DAC 2004: 20). Only 22% of ODA is managed by the AFM due to the weight of debt relief and other instruments. Roughly half of this is the bilateral operational budget implemented by ADA (ibid.: 47). The ADA has five main sections at the headquarters in Vienna and separate cooperation offices in all priority countries and some partner-countries. The latter function as decentralised organisational units that conceive, implement and monitor country programmes. At the end of 2005, ADA had 143 staff; 65 at the headquarters and 78 in the cooperation offices of which 60 were local staff (ADA 2005: 43). Approximately further 30 development staff are located at the AFM (EC/OECD 2006: 53). In late 2007 the creation of an Austrian Development Bank was decided, but it remains to be seen what kind of role it will play in ADC.

NGOs have played a key role in implementing bilateral ODA in Austria from the onset. Over 50% of the bilateral core budget is channelled through NGOs and further 20% through private companies via competitive tenders (ibid.: 52; 14). NGOs thus have a special role in Austria as they are simultaneously contractors and development partners of the government while also playing an advocacy role (ibid.).



3.1.2 Bilateral Aid Modalities

3.1.2.1 Composition

Austria notionally endeavours to create a suitable modality mix in each of its partner-countries. However, the bilateral core budget is almost exclusively channelled through project-support. The projects are relatively small and fragmented and generally implemented by NGOs or firms. For example, in Nicaragua ADC funds 80 projects in three sectors with an annual budget of €5M (AFM 2002b: 21).

Austria recently started experimenting with PBAs, including a cautious phasing-in of SBS and GBS. PBAs (SBS, basket funding and pooled funding) amounted to €8.2M in 2006, equal to 0.7% of total bilateral ODA, or 9% of the bilateral core budget (ADA 2007; OECD.Stat; Concorde 2007: 17). The official goal for the phasing-in of BS is 10-15% of the operative bilateral budget by the end of 2008 (Steiner 2007: 65). This would amount to at least €9.1M, which ADC will likely achieve (see tables 3 and 4).

ADC disburses SBS within SWAp frameworks in four pilot countries: the agriculture SWAp in Mozambique; the justice, law and order, and the government/decentralisation SWAps in Uganda; the environment SWAp in Cape Verde, and the health SWAp in Nicaragua. Additionally, ADC is planning SBS for the decentralisation and water sectors in Mozambique, the water and sanitation sector in Uganda, and vocational training in Burkina Faso.

From 2008 onwards ADC will give GBS for the first time. The selected country is Mozambique, as it has excellent preconditions. Austrian GBS will amount to €1.6M per year which is equal to 40% of its total ODA flows to Mozambique (AFM 2007).

Table 3 - ADC Operational BS in €M (committed)					
Country	Sector	2006	2007	2008	2009
Mozambique	GBS	0	0	1.6	1.6
	Agriculture	2	1	1	0.5
Uganda	Justice, Law and Order	0.5	1.5	1.5	0.5
	Local Government/ Decentralisation	1.3	0	1.3	1.3
Cape Verde	Environment	0.9	0.5	0.4	-
Nicaragua	Health	1	1	1	1 ¹
Total		5.7	4	6.8	4.9
Source: BMaA 2007				¹ considered but not yet certain	

Table 4 - ADC Planned BS in €			
Country	Sector	2008	2009
Mozambique	Decentralisation	1	1
	Water	?	?
Uganda	Water & Sanitation	0.9	1.05
Burkina Faso	Vocational Training	1	1
Total		2.9	3.05
Source: BMaA 2007			

3.1.2.2 Analysis

Austria is still at the very beginning of shifting towards PBAs and its first attempts are cautious. At the systemic level there is pressure to conform to the PD and thus increase PBA implementation. The fulfilment of the 0.7% of GNI goal by 2015 will lead to a substantial increase of ODA. PBAs are recognised by ADC as instruments to increase aid volumes with transaction costs and capacity remaining roughly unchanged (AFM 2006a: 14; .ADC interview 07/07).

Some resistance to a shift towards PBAs has come from Austrian NGOs due to their role as implementing agencies. Several NGOs realistically fear that their partnership with the ADC and thus their source of funding is endangered (AGEZ et al. 2005: 5). This anxiety has led some NGOs to lobby against PBAs, possibly causing excessive and uninformed concern among society and politicians. The Austrian private sector may also have a stake in preventing a shift of ADC towards PBAs as this makes tied aid impossible.

At the operational level, the choice of priority countries and sectors is principally advantageous regarding PBA implementation. Most of Austria's priority and cooperation countries are poor and aid dependent with rather good track records of governance. The thematic focus on mainly social sectors should also ease the transition. However, the small bilateral core budget and its fragmentation are likely to hinder the shift by keeping capacities and aid volumes minute. Moreover, as most of this operational budget is implemented by organisations other than the ADA, a lack of direct involvement and feedback may have delayed the realisation for the need to shift towards more effective approaches. Nonetheless, Austria's neutral stance and lack of colonial history are a distinct advantage in PBA implementation, particularly concerning harmonisation and policy dialogue.

Regarding the internal operational level of ADC, employees are generally positive towards PBAs. The first impetus to shift towards PBAs came from cooperation offices, followed by an approval from the AFM (ADC interview 07/07). Staff at ADA headquarters, particularly at the country desks, and cooperation offices reacted especially positively as they feel the pressure to shift to PBAs most, and hope to benefit from reduced transaction costs (ADC interview 07/07). Some scepticism came from older staff in the AFM as some of them worked with traditional project-support for over 30 years and have a strong status quo bias (ADC interview 07/07). Overall, there is no fear of dismissals among staff, as technical and sectoral expertise is also needed under PBAs, and further expertise is acquired in a pragmatic manner through trainings. The dual structure of the AFM and ADA potentially enables the recruitment of ample non-diplomatic staff. While ADA is recruiting staff, such as a BS specialist for Mozambique, it has to date been an insufficient and lengthy process. However a focal point for BS at headquarters is currently being created.

3.1.3 Consequences of a Shift towards PBAs

3.1.3.1 Transaction Costs, Capacities and Expertise

As ADC is only just phasing-in PBAs it has so far not experienced many direct benefits from implementing PBAs, but mainly transaction cost increases and various difficulties associated with the shift. ADC faces a challenge in accumulating the necessary capacity, both at headquarters and in cooperation offices, as “*expertise for*

new aid modalities (budget support and SWAps) barely exists” (OECD/DAC 2004: 54). AFM and ADA are training their staff in necessary skills, including macroeconomics and PFM, in a pragmatic manner. This is associated with increased costs. Another challenge is the need to integrate existing projects and new PBAs in order to arrive at a complementary modality portfolio (Steiner 2007: 67). Additionally, cooperation offices report increased transaction costs due to intensified coordination efforts (ADC interview 07/07).

3.1.3.2 Externalities

Externalities are difficult to measure and quantify. One possibility is to use a proxy variable such as the number of professional local staff employed (see section 2.3.3). Most professional local staff is employed for project implementation which should minimize with a shift towards PBAs. As Austria is only at the very beginning of PBA implementation it has not had much of an effect on local staff numbers to date. Moreover, as ADC does not implement its projects itself it is unlikely that the shift towards PBAs will ever have a substantial impact on local staff numbers of ADC. Nonetheless, ADC has a ratio of local staff employed per €M of bilateral core budget of 0.66, which is relatively high when compared to Ireland (see below).

3.1.3.3 Impact

Where Austria does engage in PBAs it frequently plays an active and influential role. In Uganda, Austria is the lead donor in the water sector (off-budget) basket fund (AFM 2004a: 18; Weiss-Gänger 2006: 40). In Cape Verde, Austria has an interesting role because of low government capacity and leadership, and the fact that it was for some time the only bilateral donor on-site. It thus became the focal point of donor coordination. This, however, strained capacities greatly (ADC interview 07/07). It also has a proactive role in the environment SWAp as it is the only bilateral donor apart from Spain in this sector (ADC interview 07/07). Austria is the lead donor in technical education and vocational training in Burkina Faso (AFM 2005b: 20). It is also designated to become lead donor in a decentralisation sub-sector in Mozambique, where it is also the lead donor for its priority province Sofala. Regarding the agriculture SWAp in Mozambique, Austria had an influential role even before it

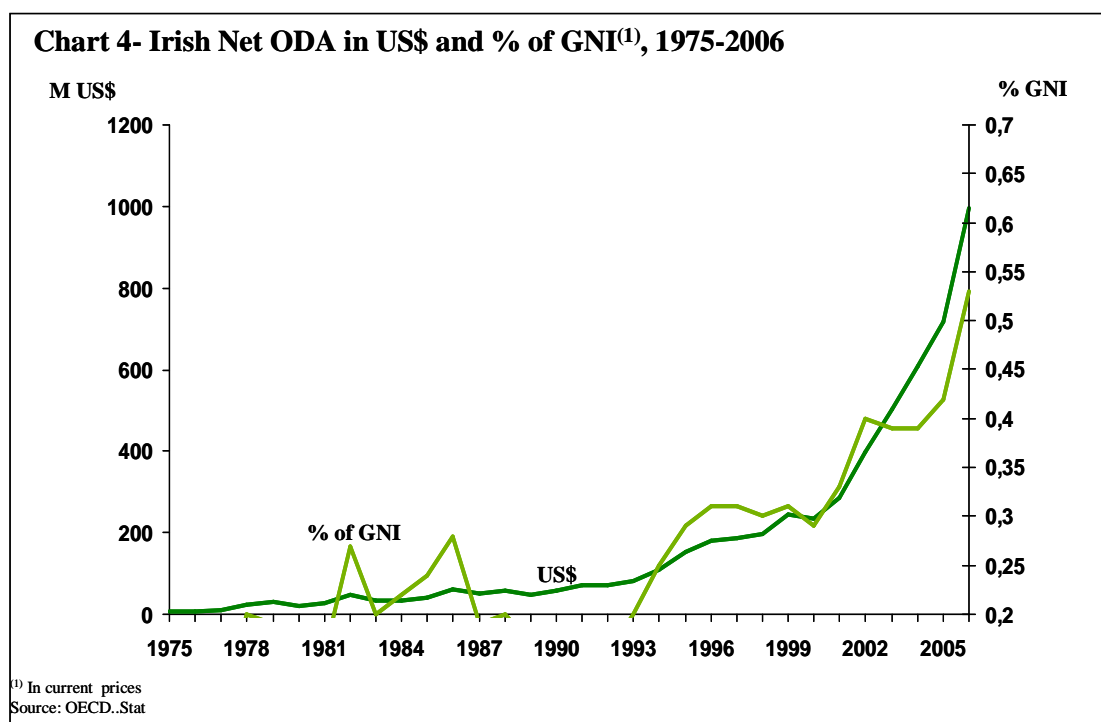
finally joined it in 2005 because of excellent sector expertise and innovative approaches using adapted technology (ADC interview 07/07).

Where Austria does not participate in PBAs it often feels marginalised and pressure to join. This pressure can best be exemplified by the case of Mozambique where the donor structure changed in such a manner that the GBS donor group became more influential than the actual main donor group. This made it essential for Austria to join the GBS donor group and embark on GBS funding for the first time (ADC interview 07/07).

3.2 Ireland

3.2.1 Overview

Compared to Austria, Ireland's ODA has steadily increased since its establishment, reaching €813M or 0.5% of GNI in 2007 (GoI 2006a: 8, 2006b: 3). This has catapulted Irish Aid (IA) to the forefront of bilateral donors in terms of relative contributions.



In 2005, IA had a bilateral core budget of €322M (equal to 56% of ODA), of which 44% were allocated to its eight programme countries⁸ (DAF 2006: 69). This concentration backs IA's strong poverty focus as it channels over 50% to social sectors⁹, and income-group focus, with LDCs receiving about 40% of ODA (Dochas 2007: 1; OECD.Stat).

Irish development cooperation is characterised by high coherence and coordination. It is largely managed by the Development Cooperation Division¹⁰ in the Department of Foreign Affairs, which accounts for approximately 70% of ODA (GoI 2006a: 97; OECD/DAC 2005a: 56). IA itself has ten sections and an advisory board (see figure 3). The majority of bilateral ODA is implemented by IA itself. Due to this organisational setting, human resource management is based on civil service. IA is thus staffed with generalist career diplomats, while technical staff is recruited for required technical assistance on a contractual basis (OECD/DAC 2005a: 72). Ireland's field missions are present in each programme country and are typically staffed by a combination of diplomatic, technical and local staff. They are responsible for proposing and implementing the Country Strategy Programmes (CSPs). In 2004, IA had 409 staff, 125 of which were at headquarters, 34 expatriate staff in the field and 250 local staff (specialists and support staff) in the field (EC/OECD 2006: 53).

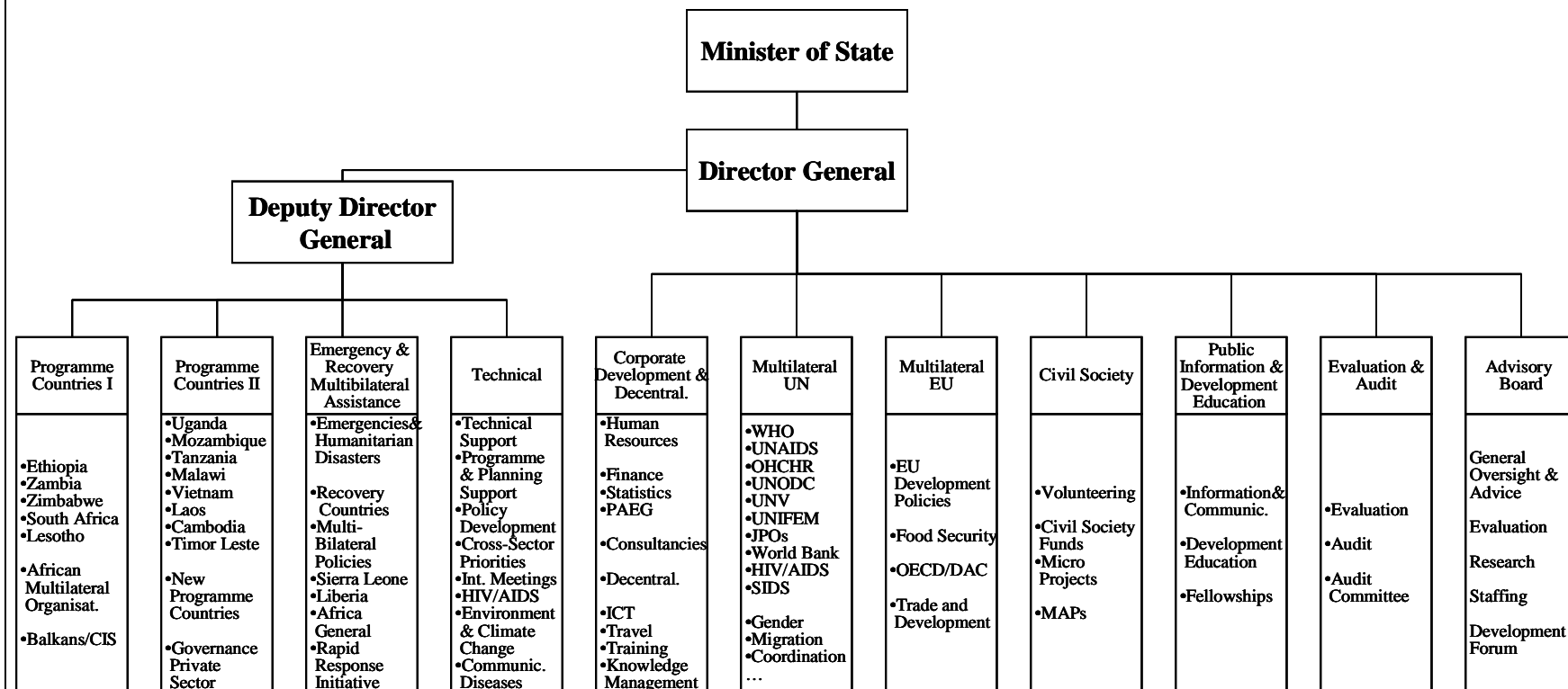
Outside the government sector, NGOs are the main actors in the Irish development arena. IA allocates between 15 and 20% of ODA to NGOs annually (OECD/DAC 2003a: 63). 95% of Irish society is supportive of development assistance, but only a much lower share is aware of IA and its activities (O'Neil 2006b: 328).

⁸ Ethiopia, Lesotho, Mozambique, Tanzania, Timor Leste, Uganda, Zambia, and Vietnam.

⁹ Health (20% in 2005), education (12%), government and civil society (15%), water and sanitation, and agriculture (each 3.5%) (DAF 2006: 109).

¹⁰ Also referred to as IA.

Figure 3 – Irish Development Cooperation Directorate (Irish Aid)



Source: DCD Organigram

3.2.2 Bilateral Aid Modalities

3.2.2.1 Composition

IA also emphasises the importance of a balanced and context specific aid modality portfolio (GoI 2006a: 72). The composition of the bilateral aid modalities portfolio has changed significantly over time. In the 1970s and 1980s most aid was delivered through projects. During the 1980s, Area Based Programmes (ABPs) were introduced. In the 1990s, SWAps became the main modality, and some GBS is given since the new millennium (O'Neil 2006a: 191). During the last decade PBAs have become the main implementation approach, accounting on average for over 70% of CSPs. For example, PBAs will account for 83% of the Tanzanian CSP 2007-2010 (DFA 2007c: 32). Today, projects make up only a minute proportion of CSP funding, such as 7% in Mozambique, but they remain a legitimate modality under the abovementioned circumstances (see section 2.2) (Bjørnstad et al. 2003: vi). ABPs amounted to 30% of CSP funding in 2002 (OECD/DAC 2003a: 71).

Ireland tends to support sector programmes (SWAps) mostly through SBS or pooled funding arrangements, which account for a large part of ODA flows in most countries today. For example, in Uganda, SBS accounted for 77.9% of health, 80.2% of education, and 66.6% of governance and justice sector support in 2003 (Bjørnstad et al. 2003: 15). In Zambia, SWAps (32%) and other basket funds (16%) account for nearly half of CSP funding (DFA 2005c: 14).

GBS is a fairly new modality for Ireland and still accounts for a relatively small share of bilateral aid (DFA 2002b: 57). Today IA gives GBS to Mozambique and Tanzania and BS to the Poverty Action Fund (PAF) in Uganda (DFA 2006d: 26).

Country	2000	2001	2002	2003	2004	2005	2006	2007 ¹	2008 ¹	2009 ¹	2010 ¹
Uganda	2.36 ²	3.84 (16%)	11.97 (26%)	9 (28%)	9 (29%)	6.3 ² (23%)	10 ² (29%)	10 ² (29%)	10 ² (26%)	10 ² (25%)	n.a.
Tanzania	6.34 ³ (40%)	6.35 ³ (37%)	6 ⁴ (28%)	7.5 ⁴ (39%)	8.5 ⁴ (39%)	10 ⁴ (40%)	10.2 (40%)	12.4 (39%)	15.8 (39.5)	18.6 (39.5)	19.5 (39%)
Mozambique	-	3.84 (19%)	5.63 (21%)	6.15 (21%)	6 (21%)	6.1 (22%)	6 (22%)	9 (21%)	10 (21%)	11.5 (21%)	13.5 (22%)
% of total bilateral core budget	7.1%	8.3%	10.8%	9.5%	8.4%	7%	n.a.	n.a.	n.a.	n.a.	n.a.

¹ Forecast
² Poverty Action Fund
³ Multilateral Debt Fund
⁴ Poverty Reduction Budget Support

Sources: DFA Annual Reports; CSPs; 2007a: 64; 2007d: 25

3.2.2.2 Analysis

Ireland is at the forefront of the international community in terms of PBA implementation and conception. At the systemic level the shift was facilitated by the global move towards higher aid effectiveness. Ireland took on a visionary role and hosted several key conferences with regard to PBAs and aid effectiveness, such as the ‘International Strategy Meeting of Sector Wide Approaches to Health’ in 1997 (IA interview 07/07). Ireland also became part of the ‘like-minded’ donors, also referred to as the ‘Nordic Plus Group’¹¹ (Nordic Plus Group 2003: 1). This group shares the rationale of funding through the government budget and has committed to intense dialogue and division of labour with each other and partner governments (DFA 2004e: 21). Political backing also aided this process.

There broad public and political support for development cooperation which is partly “*a product of Irish history*” as Ireland itself experienced colonialism, famine, and mass emigration in relatively recent history (Morony 1997: 22; DFA 2002: 2). In fact, Ireland also received ‘budget support’ from the EC for it to catch-up with the rest of Western Europe, most of which it has now outdone. Additionally, Irish NGOs did not feel threatened by the shift towards PBAs. Funding to NGOs was never endangered but actually increased in volume and became more programme-based through the Multi-Annual Programme Scheme, which provides predictable funding over five years (GoI 2006a: 76).

At the operational level, IA’s direct experience with projects and subsequently ABPs offered important feedback and gave the impetus to search for more effective and sustainable approaches. One interview partner remarked that IA simply “*learnt the need to move interventions up higher and higher the hard way*” (IA interview 07/07). Additionally, in light of a rapidly increasing bilateral core budget but comparatively stable human resources, IA was searching for “*a way of disbursing increasing volumes of aid quickly and effectively*” (DFA 2005b: 2).

The coherent structure of Irish development cooperation is likely to have facilitated the shift towards PBAs¹². As IA is responsible for the bulk of ODA it has the authority to implement far-reaching policy shifts. Other factors that have facilitated and even enabled Ireland’s shift towards PBAs include its strong sectoral and geographical focus. IA thus increases impact through focus. It concentrates its efforts on few countries and rationalises the numbers of sectors it supports, even when these are within its core competence. For example, IA withdrew from the education sector in Tanzania and the health sector in Zambia (DFA

¹¹ Denmark, Finland, Ireland, the Netherlands, Norway, Sweden and the UK.

¹² Unfortunately this stronghold might be threatened by the decentralisation of IA to Limerick, which is to be completed by the end of 2007.

2007c: 11). This allows IA to enhance its strategic focus and expertise within each partner-country, thus strengthening its comparative advantage and enabling it to take on lead roles. Moreover, the countries in which PBAs were first implemented were relatively new partners. For example Uganda, Ethiopia and Mozambique were established as programme countries in 1994. This permitted a fresh start (IA interview 07/07).

At the internal operational level, the relatively flat hierarchy enables flexibility and initiative. IA is able to respond at short notice to urgent requests and changing needs. Flexibility is further enhanced by the mix of aid modalities which allows IA to shift resources if necessary. This has been a strongpoint in its partnerships with other donors and governments (IA interview 07/07). A good example is the Uganda CSP 2000-03 which showed huge flexibility in terms of aid modalities and budget volumes during its actual implementation (Bjørnstad et al. 2003).

Within IA there is also broad support for the shift towards PBAs. There was no fear of dismissals among staff as the need for technical expertise continued and was occasionally even 're-intensified' (IA interview 07/07). Career diplomats also benefited from the increased requirement of generalist and macroeconomic skills. Moreover, the shift towards PBAs started at a time when new technical staff was employed in the health and education sections. They literally drove the shift towards PBAs (IA interview 07/07). Having less of a 'status-quo bias' probably made it easier for them to pursue new approaches. However, some concern does exist among technical staff regarding the rationalisation of sectors described above.

A further advantage of IA regarding PBA implementation is its non-threatening status backed by longstanding relationships in many countries through missionaries¹³ or NGOs. Ireland lacks colonial legacy, is perceived as neutral regarding geopolitical and economic interests, and has an impartial position within the donor community. It is thus a welcome partner by governments and other donors, and often favoured for lead-positions. One example is Ireland's non-permanent membership of the UN Security Council in the years 2001-02 where its application was supported by many developing countries (IA interview 07/07).

3.2.3 Consequences of a Shift towards PBAs

3.2.3.1 Transaction Costs, Capacities and Expertise

Ireland's shift towards PBAs has had several consequences. According to IA there have been administrative benefits both for itself and partner-countries due to the disengagement

¹³ For example, Irish missionaries used to teach today's civil servants in Zambia (IA interview 07/07).

from a multiplicity of projects, a reduction of expatriate expertise, and a decrease of parallel management structures (DFA 2005b: 2). Several staff emphasised that transaction costs and project staff requirements have significantly declined. Other interviewees mentioned an increase of transaction costs at the policy dialogue level, but stressed that this increase is justified by higher aid effectiveness (IA interview 07/07). Joint efforts, in monitoring and evaluation for example, have enabled a level of comprehensiveness that could never have been achieved by IA alone. However, field office staff has in some cases been overstretched to a point where programme quality was threatened (DFA 2007b: 9).

Further capacity and expertise are needed in areas such as macro-economics, PFM, governance and public sector reform (DFA 2002b: 87). So far, headquarters adequately responded these altered requirements, especially in the field offices (IA interview 07/07). New skills were obtained through training and recruiting of staff.

3.2.3.2 Externalities

The impact of the shift towards PBAs on IA externalities is again difficult to quantify. Looking at local staff employed by IA as a proxy, it is interesting that IA experienced a reduction of (mostly local) project staff when shifting to PBAs (IA interview 07/07). Moreover, although IA implements most of its development interventions directly and does not outsource them to other agencies, it only has a slightly higher ratio of local staff employed per €M of bilateral core budget (0.77) than ADC (066). This could suggest that externalities are deliberately internalised by hiring less local staff, but is more likely to point towards a reduced requirement for local project staff due to the shift towards PBAs. The reason behind it actually does not matter as the effect remains the same – less local staff ‘poached’ increases government bureaucratic quality.

3.2.3.3 Impact

The most remarkable feature of IA’s shift towards PBAs has been its proactive and highly influential role in virtually all of the PBAs it is engaged in. For example, IA’s work on local government reform in Tanzania had strong influence on the high level policy dialogue in 2006 (DFA 2007c: 13). Additionally, Ireland is the chair of the health sector group and the co-chair of the local government reform group (DFA 2007c: 22). In Uganda, IA held the chair of the education sector and the justice, law and order sector working group and is currently chair of the economics, the good governance and the decentralisation group (Bjørnstad et al. 2003:

22; DFA 2004b: 13; IA interview 07/07). In Lesotho IA is the largest and in some sectors, such as rural water and sanitation, the sole bilateral donor. Consequently, IA is “*sucked into a de facto role of ‘lead donor’*” (DFA 2006a:11; 2006b: 5). Most significantly, IA is chair of the Mozambique GBS donor group, consisting of three bilateral and two multilateral donors that rotate, from 2007 to 2010 (DFA 2007e: 19). It seems as if PBAs enable IA to consistently ‘punch above its weight’.

3.3 A Comparison?

It is always problematic to compare distinct countries, with different histories and cultures. However, Austria and Ireland do have several similarities and thus a cautious comparison seems feasible. They are both relatively small but very rich Western European countries, neither has a colonial history in the South, and both are, according to official numbers, small but committed donors. Nevertheless, Ireland is fully involved in PBA implementation for over a decade, while Austria has barely started. This difference seems to stem from several causes.

Ireland has always been directly involved in bilateral aid implementation while Austria has outsourced implementation to other organisations. This has given Ireland a distinct advantage in regard to feedback and learning-by-doing. IA was able to reflect on low aid effectiveness and thus deliberately search for other approaches.

Another difference between Ireland and Austria is the volume of the operational bilateral budget and the level of resource concentration. Ireland has a much larger bilateral operational budget (€322M) than Austria (€91M) and a stronger focus on its programme countries. This means that Ireland is a much bigger player in most of its partner-countries and had less reason to worry about influence and impact when becoming involved in PBAs than Austria. This difference is accompanied and reinforced by the higher level of coherence and control over ODA by IA than by AFM/ADA.

It is not viable to compare transaction costs of Ireland and Austria due to their dissimilar aid implementation arrangement. Nevertheless, Ireland has experienced a reduction in transaction costs as well as administrative benefits since its shift towards PBAs. Whether Austria would experience similar consequences remains uncertain, as all of its actual aid implementation activities are outsourced. The same holds true for externalities when local professional staff is used as a proxy.

The most important difference is the role of Austria and Ireland in their respective partner countries. While some of this variation is certainly due to different budgets and implementation arrangements, a big part can likely be attributed to the (dis)engagement in PBAs. While Austria is lead donor in only few of its interventions, in fact mostly in those where it participates in PBAs, Ireland plays a lead role in all of its long established programme countries. Most astonishingly, it is currently the lead donor of the most important donor coordination group in Mozambique, the GBS donor group, where it coordinates 19 bilateral donors and several multilateral donors.

4. Discussion

4.1 Transaction Costs

In theory the implementation of PBAs shifts transaction costs within recipient and donor organisations and reduces them overall. In reality transaction costs tend to initially increase for donors, especially small donors, while decreasing only for partner-countries. When shifting to PBAs, IA experienced an increase in transaction costs due to coordination efforts and policy dialogue. But it simultaneously experienced a decrease in transaction costs due to the disengagement from a multiplicity of projects and a reduction of expatriate expertise. No valid conclusion can be made to date whether overall transaction costs have fallen. Furthermore, increased effectiveness justifies the cases where they have not. Austria, on the other hand, is only at the very beginning of PBA implementation and is thus struggling with a pure increase of transaction costs. But even here, the other benefits of PBA participation seem to outweigh this initial drawback. It would be important to make a detailed analysis of transaction cost changes when small donors shift to PBAs. To date no such analysis exists that I know of.

4.2 Donor Capacity

The capacity argument seems to be a more serious constraint in regard to PBA implementation. Both theory and case studies show that capacity needs for PBA implementation differ from project-based interventions and are in fact intensified. Indeed, the decisive factor seems not to be the budget itself but the capacity to engage. While both IA and ADC are not lacking sectoral expertise, only IA has so far managed to build-up sufficient

‘macro-expertise’. This has enabled IA to fully participate in and even lead PBAs, even at the macro level. ADC, in contrast, still has a rather modest role in most of the PBAs it supports. Both ADC and IA have also experienced capacity strains when participating in PBAs. A good opportunity for small donors to take the lead is a rotational system, like the GBS Troika in Mozambique. This enables smaller donors like Ireland to head a group by concentrating capacities temporarily. Moreover, in line with harmonisation, it is possible and desirable for small donors to depend on the ‘macro-expertise’ of bigger donors, while strengthening their own comparative advantages, which are just as crucial.

4.3 Donor Voice and Impact

The fear of small donors of being disregarded in the harmonisation process seems to be unfounded. Theoretically small donors are likely to have more voice when participating in donor groups than when remaining outside. The cases of IA and ADC confirm this. IA has managed to consistently ‘punch above its weight’ and be in charge within many PBAs. ADC actually feels pressure to join PBAs so as not to be excluded from development policy dialogue. ADC’s GBS to Mozambique demonstrates this case. Another example is the case of Luxembourg, the second smallest bilateral DAC donor in absolute terms, which is the chair of the health sector working group in Vietnam (University of Antwerp Interview 06/07). Accordingly it seems that small donors tend to become bigger by engaging in PBAs, while possibly becoming even smaller when remaining outside.

4.4 Externalities

Theory clearly suggests that small donors should shift to PBAs in order to reduce and internalise externalities. As externalities are difficult to measure in reality one possibility is to look at local staff employed by the aid agency as a proxy. In regard to ADC this is rather meaningless as most local professional staff would be employed in regard to project implementation but ADC out-sources all of its project implementation to other organisations. IA however, has experienced a decline in local staff numbers during the shift towards PBAs. While this is likely due to a simple decline in capacity need rather than deliberated action, it still has the effect of reducing externalities. Nonetheless, further ways to empirically verify this theory still need to be found.

4.5 Neutrality

The non-threatening status of most small donors and the common lack of colonial history should theoretically facilitate PBA participation. This also seems to be the case in reality, as both ADC and IA tend to be respected partners when participating in PBAs. In fact, IA was asked to take the chair of the GBS donor group in Mozambique by other donors and the government due to its neutrality. Accordingly, small donors seem to be able to take the lead without being intimidating or ‘dominant’ and are thus often supported by all other stakeholders.

5. Conclusions and Recommendations

After fifty years of mediocre aid success a new aid approach based around PBAs has been developed. However, small bilateral donors have been reluctant to shift towards PBAs due to their comparatively small aid budgets and low capacities. This study endeavoured to analyse whether small bilateral donors should shift towards PBAs. Size does really seem to matter and small donors should join the cooks, i.e. shift towards PBAs even more urgently than big donors. This is because of the necessity to reduce and internalise their externalities which tend to be bigger with smaller players. Moreover, PBAs enable small donors to ‘punch above their weight’ in terms of influence and to realise endeavours that would be impossible alone. Small donors also have an advantage due to their comparatively neutral and non-threatening nature, which may enhance their leadership credentials as other donors and the government are willing to support them. Furthermore, in light of increasing ODA budgets small donors especially need to find ways to implement these without endlessly increasing capacity. PBAs offer such a possibility.

The two case studies, Austria and Ireland, support this conclusion but also illustrate that capacities do matter and that transaction costs do increase at least initially. Austria has only just begun experimenting with PBAs and is thus struggling with the challenges and cost increases associated with a shift towards PBAs. However, where it is not participating in PBAs it often feels pressure to join in order not to be excluded. Ireland is at the forefront of the international community in terms of PBA implementation and has benefited greatly from it. The most remarkable effect of Irish PBA engagement has been its lead position in most of the PBAs it participates. PBAs have really made Irish Aid bigger relative to its share of funding.

Accordingly, small donors should shift towards PBAs wherever feasible, but most importantly implement a contextually suitable modality mix including projects where

necessary or viable. Transaction costs can be reduced by not reinventing the wheel and being oriented towards good practices and codes of conduct established by other donors. They can also be reduced by means of an increased focus on both partner-countries and sectors. Capacities will have to be increased initially, in a pragmatic manner, but these will pay-off once the planned increases in ODA activate the economies of scale. Essentially the shift towards PBAs is more than justified by increased aid effectiveness through enhanced partner-country ownership, alignment, and harmonisation. It boils down to the commitment of each donor – whether big or small – to overcome adverse incentives and buy into the process.

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Appendix I - Interviews and Informal Technical Discussions

Austrian Development Agency (July 2007)

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Brigit Niessner

Petra Schirnhofner

Austrian Ministry of Foreign Affairs (April, July 2007)

Anton Mair

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Belgian Technical Cooperation (June 2007)

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Irish Aid (July 2007)

Jerry Cunningham

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University of Antwerp (June 2007)

Prof. Robrecht Renard