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The Baltic States as aid donors: How can they best share their transition experience with their partner countries?

Author:	Hilmar Þór Hilmarsson
Institution:	University of Akureyri
Address:	Borgir v/Norðurslóð, 600 Akureyri Iceland
E-mail:	Hilmar@unak.is
Telephone:	+ 354 849 8380

Abstract

In spite of a setback during the current economic and financial crisis the Baltic States have made a remarkable progress in their economic transition since independence. Estonia and Latvia are according to the World Bank classification high income countries and Lithuania is an upper middle income country. Having recently implemented successful transition programs it can be argued that those countries have a valuable and relevant experience to share with other lesser advanced transition economies and developing countries. All the Baltic States have recent experience in working with international financial institutions (IFIs) and bilateral donors when advancing their own economic development. As EU member states the Baltic States are committed to increase their contributions to development cooperation. Multilaterally they already contribute to and participate in the management of the World Bank Group (WBG) and the European Bank for Reconstruction and Development (EBRD). In addition to this they are participants in European Union (EU) development programs. All the Baltic States have also initiated bilateral development programs. Currently most of their priority countries are middle income countries in Europe and Central Asia. As the Baltic States increase their aid volume according to their EU commitments is seems that they will need to revise their development approaches, add new partner countries, advance their coordination with other donors and become more active in their participation in IFI where they currently are members. They also need to consider broadening their participation by becoming members in IFIs such as the regional development banks. It would seem ideal for the Baltic States to form partnerships with the Nordic Countries since they already cooperate and share coordination offices with them at the World Bank Group and the EBRD. Three of the Nordic countries, Denmark, Norway, and Sweden, have large aid programs and are active participants in the international dialogue on aid effectiveness that emphasizes developing country ownership, donor harmonization, use of local systems, development results and donor/partners mutual accountability. All the Nordic countries are also participants in budget support operations including Poverty Reduction Support Credits (PRSCs). However PRSCs are for low income IDA countries and the most of the partner countries of the Baltic States are not eligible for PRSCs. The paper will take stock of the current situation of the development programs in the Baltic States, including main partner countries and priority sectors and suggest new venues to expand their engagement as their aid programs become larger. This will include discussion about the current project approach and possibilities to engage in budget support. This could be done via Development Policy Lending (DPL) in partnership with the World Bank and other donors when the Baltic States assist their current middle income priority countries and in PRSCs if they decide to add low income countries to their list of priority countries. This article is based on a review of theoretical literature, interviews, secondary data and the author's experience as a staff member of the World Bank Group for 12 years in three continents.

Keywords: The Baltic States, bilateral development cooperation, multilateral development cooperation, budget support, policy dialogue, international financial institutions (IFIs).

Introduction

In spite of a setback during the current economic and financial crisis the Baltic States have made an impressive transition since gaining independence from the Soviet Union in 1991. Their achievements are especially noteworthy given that those countries had to be transformed from being provinces in the Soviet Union into modern independent countries. All the Baltic States are now members of the EU, NATO and the WTO. Estonia and Latvia have according to World Bank classifications already achieved high income status and Lithuania is an upper-middle income country. Estonia is a member of the Euro Zone and became a member of the OECD last year. This transition has not been without challenges and the current global crisis seriously affected all the Baltic States. Nevertheless, during the last two decades those countries have been successful in their transition and are now firmly integrated into the global economy. The experience that those countries have gained during their still ongoing transition is not only valuable for the Baltic States. Other countries, for example transition countries further to the south and to the east, could learn lessons from the Baltic States. The Baltic States could become a source of inspiration and encouragement for other lesser advanced transition countries and demonstrate to them what is possible to achieve in a relatively short time. The subject of this paper is to discuss how the Baltic States can best share their transition experience with other lesser advanced transition countries. This is not only a challenge for them but it is also a global challenge to find ways to utilize this experience for other countries seeking to advance their own transition and development and improve the living standards of their people.

The Baltic States as aid donors: Their partner countries and priority sectors.

The Baltic States have already initiated their international development cooperation. Multilaterally they are members of the World Bank Group (WBG)[1] and the European Bank for Reconstruction and Development (EBRD).[2] The Baltic States actively participate in the management of the WBG and share an executive director´s office with the Nordic countries[3] at the World Bank´s headquarters in Washington DC and have their advisors to the bank´s board. They also cooperate with the Nordic countries at the EBRD in London. At the EBRD, Estonia shares an office with Iceland and Sweden, Latvia works with

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[1] The World Bank was established in 1944, initially to support the reconstruction of Europe after the World War II. Now the World Bank is a source of financial and technical assistance to developing countries (low and middle income) around the world. World Bank Group consists of the following five institutions:

i. International Bank for Reconstruction and Development, IBRD, 1944.

ii. International Development Association, IDA, 1960.

iii. International Finance Corporation, IFC, 1956.

iv. Multilateral Investment Guarantee Agency, MIGA, 1988.

v. International Centre for Settlement of Investment Disputes, ICSID, 1966.

[2] The European Bank for Reconstruction and Development (EBRD) is the first international financial institution of the post Cold War period. It was established in 1991 in response to major changes in the political and economic climate in Central and Eastern Europe. Inaugurated less than two years after the fall of the Berlin Wall, the bank was created to support the development of market economies in the region following the widespread collapse of communist regimes. (European Bank for Reconstruction and Development 2011). EBRD now operates both in Europe and Central Asia.

[3] The Nordic countries are: Denmark, Finland, Iceland, Norway and Sweden.

Norway and Finland, and finally Lithuania cooperates with Denmark[4] (European Bank for Reconstruction and Development 2011). In addition to WBG and EBRD activities the Baltic States participate in and contribute to European Union programs and to the United Nations.

All the Baltic States have initiated their bilateral development programs and have selected priority countries. Unlike the Nordic countries that primarily support low income countries in the south, especially in sub-Saharan Africa, the Baltic States have mainly chosen middle income countries in Europe and Central Asia[5], see Table 1. In addition to this they have also identified priority sectors/areas to engage in with their partner countries, see Table 2.

Table 1. Priority Partner Countries of the Baltic States and their income level.		
Estonia: Development co-operation - priority partner countries.		
Afghanistan	Low income	GNI per capita US$ 486
Georgia	Lower middle income	GNI per capita US$ 2.530
Moldova	Lower middle income	GNI per capita US$ 1.590
Ukraine	Lower middle income	GNI per capita US$ 2.800
Source: World Bank 2010a, Ministry of Foreign Affairs Estonia 2011.		

Latvia: Development co-operation priority countries.		
Belarus	Upper middle income	GNI per capita US$ 5.540
Georgia	Lower middle income	GNI per capita US$ 2.530
Moldova	Lower middle income	GNI per capita US$ 1.590
Ukraine	Lower middle income	GNI per capita US$ 2.800
Source: World Bank 2010a, Ministry of Foreign Affairs Latvia 2011.		

Lithuanian: Priority partner countries.		
Afghanistan	Low income	GNI per capita US$ 486
Azerbaijan	Upper middle income	GNI per capita US$ 4.840
Belarus	Upper middle income	GNI per capita US$ 5.540
Georgia	Lower middle income	GNI per capita US$ 2.530
Moldova	Lower middle income	GNI per capita US$ 1.590
Ukraine	Lower middle income	GNI per capita US$ 2.800
Source: World Bank 2010a, Ministry of Foreign Affairs Lithuania 2011		

[4] That group of countries also includes Ireland and FYR Macedonia.
[5] An exception to this rule is Afghanistan which is a low income country. Assistance to Afghanistan may be considered a special case for the Baltic States and related to their membership in NATO.

Table 2. Priority sectors/areas of the Baltic States in their partner countries.		
Estonia[6]	**Latvia**[7]	**Lithuania**[8]
(i) Education and health (human development); (ii) Good governance and democratization; (iii) Sustainable economic development (including environment); (iv) Horizontal field: ITC.	(i) Fostering market economy (international trade and DCFTA standards and requirements); (ii) Promoting good governance (civil society, local governments, state administration reforms); (iii) Environment; (iv) Education.	(i) Promotion of democracy; (ii) Rule of law and human rights; (iii) Economic development; (iv) Euro-integration processes; (v) Administrative capacity building.
Sources: Ministry of Foreign Affairs Estonia 2011, Ministry of Foreign Affairs Latvia 2011, Ministry of Foreign Affairs Estonia 2011.		

The country choice of the Baltic States is different than that of most OECD/DAC donors and EU15 member states but similar to the country choice of the other EU10 countries, i.e. the new EU member states (NMS) from Eastern and Central Europe.[9] The Czech Republic and Poland are exceptions since in addition to European and Central Asian partners they also include partner countries from Africa and one partner country in East Asia.[10] The sectors that the Baltic States engage in have much to do with: Good governance, democracy and rule of law; administrative reforms and capacity building; human development including health and education; and sustainable economic development, including the environment. These appear to be technical assistance (TA) and capacity building projects important to support transition, including possible EU accession for some of their partner countries. Similar sector choice or areas of engagement can be seen among the other Eastern and Central European NMS (see for example Lundsgaarde 2011).

[6] According to an email to the author from the Ministry of Foreign Affairs in Estonia dated April 25, 2011.
[7] According to an email to the author from the Ministry of Foreign Affairs in Latvia dated April 26, 2011.
[8] According to the website of the Ministry of Foreign Affairs in Lithuania accessed on April 27, 2011, available at: http://www.urm.lt/index.php?699487924
[9] The NMS from Central and Eastern Europe are: Bulgaria, Czeck Republic, Hungary, Poland, Romania, Slovakia and Slovania.
[10] The Czech Republic has chosen Angola and Zambia as partner countries and Poland has chosen Angola. The Czeck Republic and Hungry have also chosen Vietnam as a partner country (see, Lundsgaarde 2011).

According to the European Consensus on Development from 2006, at least half of European Union increase in aid until 2010 was to be allocated to Africa (European Communities 2006), but as Bukar and Mrak point out this was “a heavy target for NMS.” (Bucar and Mrak, 2007, p. 15). The middle income countries chosen by the Baltic States are mostly transition and emerging market economies likely to want to implement reforms that the more advanced Baltic States have already done or made progress with. As Bucar and Mrak emphasize “a clear comparative advantage of NMS exists in the areas of transition expertise as well as EU accession expertise” (Bucar and Mrak, 2007, p. 14). The Baltic States are also in unique position to assist those countries since they have already graduated to donor status but have recently been on the receiving end and know well what countries need in terms of advice on policy reforms. They also are experienced in negotiating with and coordinating assistance from bilateral donors and international financial institutions supporting policy reform. This focus on middle income countries maybe out of line with the emphasis of EU15 countries who give priority to low income partners in the south, but as Lightfoot and Zubizarreta point out “It makes little sense for Lithuania, say, to try and play a significant role in Africa, a continent where it has little expertise. It makes more sense for them to be more active in those countries where they have a comparative advantage such as Belarus” (Lightfoot and Zubizarreta 2008). This policy to focus on an upper middle income country like Belarus may appear to lack the poverty focus that the EU15 countries want to see but as Lightfoot says “Within the EU there appears to be a reluctance to open up a debate about aid to the south especially as many of the citizens of these new Member States are still struggling to cope with poverty and economic change.” (Lightfoot n.d.). This is true and the focus on middle income countries does not in itself imply a lack of poverty focus. As the World Bank´s president Robert Zoellick has recently emphasized the middle income countries are home to 70 percent of the world’s extreme poor (Zoellick 2009). There is a job to be done there that can use support from the international community and the Baltic States are well placed to contribute to this effort. In addition to this, which their country choice the Baltic States can contribute to growth and stability in Europe and Central Asia. This is an effort that the EU15 countries also benefit from and should welcome.

EU membership and increased aid volumes from the Baltic States.

With EU membership come certain expectations and obligations for new member states (NMS), including the Baltic States, to contribute to international development cooperation. In 2005, the ten NMS that joined the EU in the previous year undersigned the European Consensus on Development. In the same year, the EU set development financing targets, committing NMS that had joined the EU since 2002 to provide aid amounting to 0.17 percent of GNI by 2010 and 0.33 percent of GNI by 2015 (Lundsgaarde 2011). In 2009 none of the Baltic States were close to achieving this target except for Lithuania. That year Estonia contributed 0.11 percent of GNI, Latvia 0.08 percent of GNI and Lithuania 0.14 percent of GNI (Lundsgaarde 2011). The global economic and financial crisis that started in 2008 surely reduced their ability to increase their development contributions. Nevertheless it seems clear that in the coming years the contributions of the Baltic States to international development cooperation will increase substantially, especially when their economies return to pre-crisis growth levels. In fact, the April 2011 World Bank EU10 Regular Economic Report projects economic growth recovery for all the Baltic States in the near future, see Table 3. The same applies to all the EU10 countries. (World Bank 2011, p. 2)

Table 3. Projected Growth rates in all the EU10 countries as well as for the Baltic States.

	2010	2011	2012
EU10	2.1	3.1	3.8
Estonia	3.1	3.7	3.9
Latvia	- 0.3	3.3	4.0
Lithuania	1.3	4.3	3.2

Sources: World Bank 2011.

As the Baltic States increase their aid volumes according to their EU commitments and as their economics grow and become stronger they may also have to revise their development approaches, add new partner countries, advance their coordination with other donors and become more active in their participation in IFIs where they currently are members. They also need to consider broadening their multilateral engagement by becoming members in IFIs such as the regional development banks.[11] This is not only an issue for future official development cooperation with countries in those regions. This also is important for future Baltic private sector engagement in Asia, Latin America and Africa and can contribute to transition and development of future partner countries. In addition to supporting government reforms all those institutions are keen to facilitate private sector development and foreign investment. These IFIs have instruments to invest in equity in private companies. They can also provide loans as well as guarantees/insurances against non-commercial risk that can be critical for companies especially those who come from small countries (see e.g. Hilmarsson 2008).

Can the Baltic States increase their development impact in partnership with other donors? Project approach versus budget support.

Three of the Nordic countries, Denmark, Norway and Sweden, with which the Baltic States partner multilaterally at the World Bank and at the EBRD, are among only five countries in the world that have achieved the UN target of contributing 0.7 percent of their GNI to international development cooperation, see Figure 1. Those countries, have large bilateral aid programs and are active participants in the international dialogue on aid effectiveness that emphasizes developing country ownership, donor harmonization, use of local systems, development results and donor/partners mutual accountability. In addition to having large bilateral development programs those three Nordic countries are also very active in the international financial institutions, including the WBG, EBRD where they cooperate with the Baltic States, and also in the regional development banks, AsDB, AfDB and IDB where the Baltic States are still not members. While the Baltic States should find their own way to contribute to

[11] The regional development banks are the Asian Development Bank (AsDB), the Inter-American Development Bank (IDB) and the African Development Bank (AfDB).

international development cooperation it might also be useful for them to look to other countries to see if there are lessons to be learned from their experience and approaches.

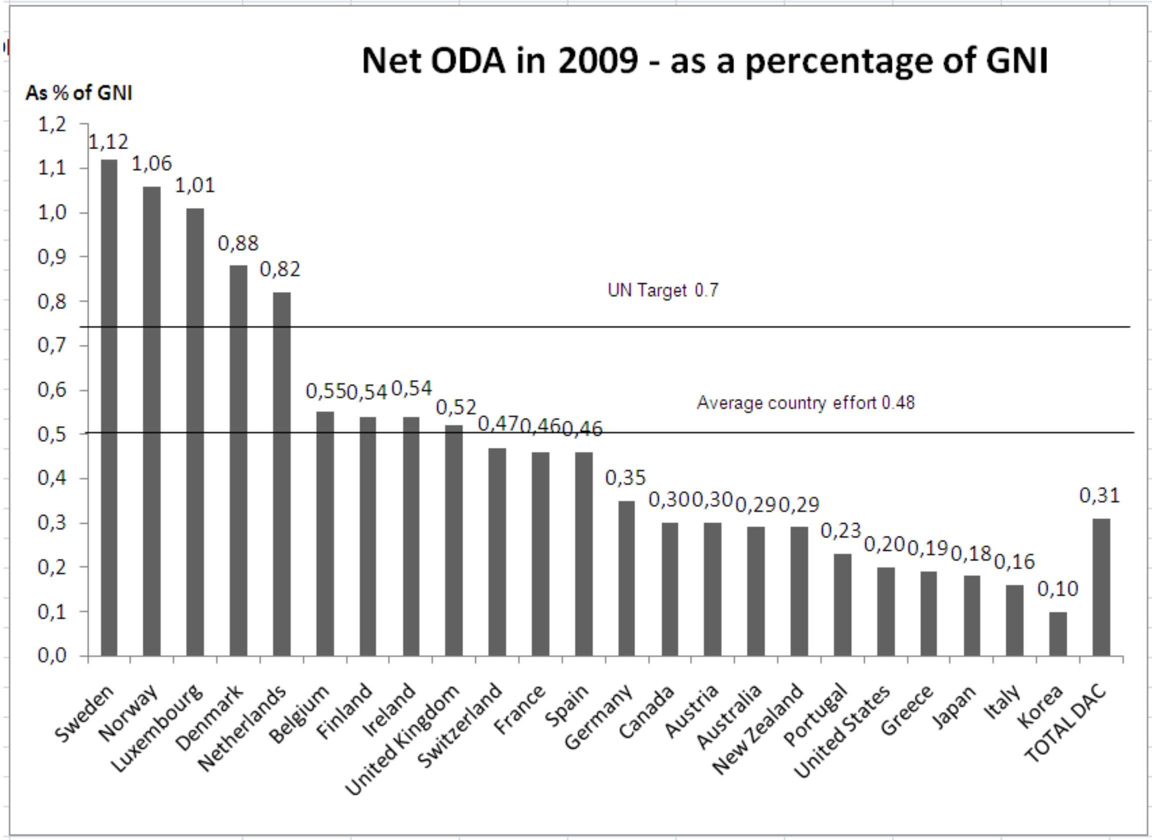

Figure 1. Net ODA in 2009 from OECD countries.
Source: OECD 2010

So far the Baltic States have mainly used the so called project approach in their development cooperation and supported technical assistance and capacity building projects in their partner countries.[12] At the same time the international donor community is increasingly moving towards program approach emphasizing country ownership and using the planning, budgetary and procurement systems of the receiving/partner country.[13] Internationally there also is an increased

[12] There are exceptions including Lithuania that has participated in sector budget support in Afghanistan (Email to the Author from the Ministry of Foreign Affairs in Lithuania April 27, 2011).
[13] In 1980 the World Bank introduced its first structural adjustment loan which marked a shift from project aid to program based approach, where policy conditionality played an important role. Since then there has been a substantial shift in the international institutional environment for

emphasis on budget support to recipient countries and in assisting them in creating an overall policy environment conducive to long-term economic growth.[14] Given the recent trends internationally one may ask the question when time will come for the Baltic States to engage in policy dialogue with partner countries and provide a direct budget support in partnership with other donors, including small states, as well as international financial institutions?[15] Many donors, including the three Nordic countries mentioned above, are involved in budget support and use it as means to engage in policy dialogue with the

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development cooperation and a number of important donor meetings have taken place, and declarations issued on aid effectiveness. Among those are: the Copenhagen Summit in 1995, the Millennium Development Goals from 2000, the Monterrey Consensus 2002, the Rome and Paris Declarations on Aid Efficiency from 2003 and 2005, and the Roundtables on Managing for Development Results (These roundtables were organized by the World Bank and took place in Washington DC 2002, in Marrakesh in 2004, and in Hanoi 2007). World Bank´s Comprehensive Development framework launched in 1999 is a notable change in the World Bank's development approach and the OECD DAC guidelines are also important. As a result, the key words in the current development paradigm are: ownership, alignment, harmonization, and results- orientation. This has also resulted in increased emphasis on budget support to recipient countries and in creating an overall policy environment conducive to long-term growth.

[14]The so called Washington Consensus attempted to summarize the outcome of the debate on what policy stances are conducive to economic development. (Williamson 2000, Center for International Development, Harvard University 2003). The relationship between "good" economic policy and economic growth is still hotly debated but will not be discussed in this article (For further discussion see Hilmarsson 2011). The current economic and financial crisis has only created more confusion as the high income countries preaching "good" economic policies suffered the most during the global economic and financial crisis. In its original formulation, the Washington Consensus prescribed a policy that could be summarized in ten propositions as follows: (i) fiscal discipline, (ii) a redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure, (iii) tax reform (to lower marginal rates and broaden the tax base), (iv) interest rate liberalization, (v) a competitive exchange rate, (vi) trade liberalization, (vii) liberalization of FDI inflows, (viii) privatization, (ix) deregulation (in the sense of abolishing barriers to entry and exit), (x) secure property rights. For empirical analysis on the relationship between good policy environment and economic growth see for example David Dollar and Craig Burnside who made the case that aid had positive impact on economic growth in countries with good economic policies (Burnside and Dollar 2000). Other authors have been more cautious (see for example Easterly, Levine and Roodman 2004) and emphasize that the seminal paper of Burnside and Dollar does not provide the final answer on this critical issue. It is also interesting to study the views of those who have to support government policy reforms on the ground. The World Bank country directors must, for example, make decisions and provide advice when they cooperate with governments in the field. A good example of different views can be found in a World Bank publication "At the Frontlines of Development – Reflections from the World Bank" (World Bank 2005). This publication contains an article from two experienced country directors, James Adams and Edwin Lim. In his article Adams argues that the Washington Consensus provides very useful benchmarks for a successful economic reform program (Adams 2005). In contrast Lim warns countries against following textbook prescriptions or external advice with inadequate considerations of their own capabilities and conditions (Lim 2005).

[15] Since the Baltic States are members of the European Union they already are partners in budget supported channeled through the European Commission.

developing country and to help the government of the receiving country to take the lead and ownership of the overall policy reform program.

Nordic countries like Denmark, Norway and Sweden are all participants in budget support operations including Poverty Reduction Support Credits (PRSCs). However PRSCs are for low income IDA countries and most of the partner countries of the Baltic States are not eligible for PRSCs. However the Baltic States provide assistance to middle income countries that are eligible to receive Development Policy Loans (DPL) from the World Bank. The Baltic States might in the future want to consider participation in Development Policy Lending (DPL) in partnership with the World Bank and other donors when they assist their current middle income priority countries. They might also want to consider participation in operations such as PRSCs if and when they decide to add low income countries to their list of priority countries. Here they need to make their own decisions and take the initiative. The EU is unlikely to push at least in the short-term as “there is little appetite to open a wide-scale debate upon relations between the CEE states and the South, especially during a recession.” (Lightfoot 2010, p. 346).

Frameworks for donor coordination already exist for PRSCs but possible participation in DPLs to support middle income countries would need to be very carefully thought through by all partners involved. Here the international community, including the World Bank Group should make an effort to find ways to cooperate with successful transition countries like the Baltic States and make use of their expertise and experience to the benefit of other less advanced transition countries. The Baltic States might also consider engaging in policy dialogue with and provide budget support to partner countries in cooperation with other bilateral donors with or without involvement from IFIs.

Budget support and fiduciary risks.

Some donors may be hesitant to engage in budget support because of the perceived fiduciary risks involved. But are there any credible reasons to believe that budget support is necessarily more prone to corruption than investment projects? There seems to be no research that settles this issue unambiguously. To begin with, fiduciary risk seems hard to measure in any rigorous way. An Evaluation of General Budget Support (1994-2004) is the title of an independent report carried out by the University of Birmingham on behalf of more than thirty donor and partner countries. It was initiated and supported by the OECD´s Development Assistance Committee's Evaluation Network. According to the OECD "The team of evaluators found no clear evidence that budget support funds were, in practice, more affected by corruption than other forms of aid" (OECD 2006, p. 1). Furthermore when discussing fiduciary risk Ritva Rainikka at the World Bank says "there is no clear evidence that the risk is greater for budget support than project aid" (Reinikka 2008). Countries receiving budget support also often receive assistance to improve their financial managements systems and in fact according to the World Bank "To reduce fiduciary risks associated with budget support, PRSCs were intended to strengthen domestic budget processes" (World Bank 2010b, p. xiii).

The advantages and disadvantages of being a small donor.

If the Baltic States would decide to participate in a coordinated effort with the donor community, including other bilateral donors and international organizations, they would probably often be relatively small measured in financial contributions. However, being a small country does not mean that you cannot be an important donor. Some small countries are leaders in international development cooperation. As noted before only five countries in the world have achieved the UN target to contribute 0.7 percent of their GNI to international development cooperation. Those countries are Sweden, Norway, Luxembourg, Denmark and the Netherlands, see Figure 1. All these countries have been classified by the small states literature as small countries. Currently the most obvious constraint for the Baltic States to engage in coordinated support to their priority countries is the limited financial resources they now have available. The most obvious advantage they can offer is recent and relevant transition experience that they can share. They still remember how it is to be a recipient country receiving funding and advice from donors and having to meet donor expectations and implement policy actions. Because of their recent transition experience small countries like the Baltic States can operate as brokers between the partner country and the larger bilateral donors and international financial institutions. This can increase the development impact that small donors like the Baltic States could possibly have bilaterally. In a recent PRSC evaluation the World Bank even complains that "Individual small donors can sometimes unduly influence the agenda" (World Bank 2010b, p. 43). A more proper reaction from the World Bank would have been to welcome initiatives and leadership offered by small states. The same evaluation finds that "in the case of Vietnam, donors complain that the Bank sometimes appears too demanding for small donors and suggests a more effective division of labor toward donors who have expertise in a sector" (World Bank 2010b, p. 56). Small donors can probably often increase their impact by being selective and focus on a limited number of policy actions where they have expertise and recent experience. They can also provide technical assistance (TA) to prepare policy actions and TA to help with implementation. They can target this TA to policy action they are most keen to support.

It is understandable that small donors like the Baltic States may hesitate to engage in coordinated budget support operations. This may not only be due to their relatively small aid budgets but also concerns that their advice will not get proper attention in a larger donor group. In addition to this comes a possible loss of visibility and identity. Projects would surely allow them to plant their flag and to better control the use of their money.

But what has been the experience of some of the small donors so far? In a study presented at the 12th EADI General Conference 2008 Laura Leyser considers the case of two small bilateral donors, namely Austria and Ireland, and their experience of Program-Based Approaches, PBAs. Leyser finds that “a shift towards PBAs seems even more important for small bilateral donors than for large ones” (Leyser 2008, p. 2). PBAs “enable small donors to “punch above their weight” in terms of influence and to realize endeavors that would be impossible alone” (Leyser 2008, p. 34). When discussing the Irish experience Leyser states that “The most remarkable effect of Iris 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” (Leyser 2008, p. 3). Leyser gives further examples about Austria´s experience in Mozambique and Luxembourg´s working group leadership in Vietnam and concludes that “Accordingly it seems that small donors tend to become bigger by engaging in PBA´s, while possibly becoming smaller when remaining outside.” (Leyser 2008, p. 33).

What Leyser´s paper demonstrates is that small donors can have an impact and this impact can increase if they work in partnership with other donors. Her discussion about Programme Based Approach is not limited to PRSCs. PRSCs however (and DPLs more generally) are programmatic to the extent that they include more than one operation (e.g. PRSC 1 and PRSC 2). [16]

[16] Generally, each of the operations is on a single tranche, as there is great reluctance to use strict conditionality, as would be required in multi-tranche operations. Therefore, it is conceivable to have a DPL that is not programmatic (just one operation). But that would be the exception more than the rule, at least in principle. In practice, PRSC and DPL series which were supposed to be programmatic never move beyond their first operation (e.g. because the macroeconomic situation deteriorates, or a new government is not keen to follow up). In the Poverty Reduction Support Credit evaluation of the World bank one can see that countries like Armenia received 4 PRSCs from 2005 to 2008, Burkina Faso received 7 PRSCs from 2002 to 2008, Georgia Received 4 PRSO from 2006 to 2008, Moldova received two PRSCs from 2007 to 2009, Mozambique received 5 PRSCs from 2005 to 2008 and Vietnam received 7 PRSCs from 2001 to 2008, etc. For some other countries only one PRSC is reported like for Azerbaijan 2005, Nepal 2004, Sri Lanka 2003, etc. (World Bank 2010b). The PRSCs including more than one operation can be considered programmatic.

According to Martin Rama,[17] Irish support to Vietnam is channeled through two policy lending operations: one cross-cutting (PRSC) the other sectoral and focused on poverty reduction among ethnic minorities (Program 135 Phase II). Given the limited capacity of a country like Ireland to lead on development projects at a country level, this kind of engagement allows them to have a seat at the policy dialogue, which they would otherwise be unable to do given their limited financial contribution. Other than that, Ireland has made a lot of mobilizing intellectual resources to share their own development experience, as a country going in just one generation from being one of the poorest to being one of the wealthiest in Europe. That doesn't require having expertise on development economics, but still attracts a lot of attention and good will. The Irish case is a good example of what impact a small country can have if it works in partnership with other donors.

As noted before in this paper the OECD/DAC and EU15 countries tend to focus on low income countries in their development cooperation especially targeting their assistance to sub-Saharan Africa. Smallness has not stopped some of the countries in this group to participate in budget support operations. Countries like Sweden, Norway, Denmark and Ireland can for example be found among the top three bilateral budget support providers in countries like Tanzania, Mozambique, Uganda, Burkina Faso, Rwanda, Mali, Malawi and Benin.[18] (World Bank 2010b, see Table 4.3, p. 48).

The experience of those small countries in participating in budget support operations is worth considering for the Baltic States. It is also important to keep in mind that implementing small projects and engaging in budget support is not an either/or option. TA and capacity building projects can support partner

[17] Email from Martin Rama to the author on March 23, 2011. Dr. Rama was the Lead Economist for the World Bank in Vietnam.

[18] Sweden is among top 3 bilaterals in its budget support share in Tanzania, Mozambique, Burkina Faso, Rwanda and Mali. Norway is among top 3 bilaterals in its budget support share in Malawi and Uganda. Denmark is among top 3 bilaterals in its budget support share in Benin. Ireland among top 3 bilaterals in its budget support share in Uganda (World Bank 2010b, p. 48).

countries in implementing policy actions agreed to under budget support operations. Thus the Baltic States could consider participation in budget support operations and by doing so get a seat around the policy dialogue table. They could then continue with their technical assistance and capacity building projects that would support the policy actions that they consider most important for their partner country. Also, while the focus of this paper is on PRSCs and DPLs, the Baltic States could engage in Programme Based Approach operations and provide budget support to a partner country with other bilateral donors with or without the involvement of international financial institutions like the World Bank. In this case they would need to establish some joint framework with other donors and engage in policy dialogue with the receiving government in partnership with the donors providing support under that framework agreement.

Conclusions

While the Baltic States may initially use the project approach when they assist their partner countries they may also soon want to consider engagement in budget support operation and participate in policy dialogue with their partner countries. This could become increasingly important for them as their aid volumes increase towards 0.33% of GNI by 2015. With larger aid volumes project approach may become too time consuming and out of line with the practice used by other donors.

What distinguishes the Baltic States from the Nordic countries is that their priority countries are mainly middle income countries whereas the Nordic countries focus mainly on low income countries. In fact all the EU10 countries tend to support middle income countries whereas the EU15 countries focus more on low income countries. This division of labour between EU10 and EU15 may make good sense at this time since the EU10 countries have recent and relevant transition experience to share that is particularly relevant for middle income transition countries. The EU15 countries have more experience in working with low income countries.

But what instruments could be used for coordinated budget support to middle income countries? One option for the Baltic States is to co-finance Development Policy Loans (DPL) to their middle income partners. This way they could get a seat around the policy dialogue table and might be able to increase their development impact by doing so. They can also engage in budget support when and if they shift their focus more to the low income countries. Some NMS are already engaged in sub-Saharan Africa as discussed earlier in this paper. Of course they could also decide to support both low and middle income countries in the future.

The decision whether or not to participate in budget support operations is a decision no one else than each of the Baltic States can make. The current projects that they support allow them to plant their flag and to better control the use of their money. But in the big picture of things, the impact of those projects may be marginal. Policy lending under a PRSC-like umbrella or a possible DPL umbrella gives them a seat at the table for the policy dialogue. But a small country can only focus on a limited number of policy actions. The best way to have an impact may be to combine involvement in budget support with technical assistance for the ministries or agencies in charge of those policy actions. The partner country receiving the assistance could then rely on the products of that technical assistance as an input in the policy dialogue, and on the technical assistance program itself to deliver on the policy actions (e.g. drafting of a decree). Also while the focus of this paper is on PRSCs and DPLs the Baltic States could engage in Programme Based Approach and provide budget support to a partner country with other bilateral donors with or without the involvement of international financial institutions like the World Bank.

The Baltic States have taken important steps to support the transition of countries in Europe and Central Asia that are less advanced than they are. This is an important initiative. After the crisis aid volumes will increase. It is important to utilize the experience and the expertise that the Baltic States have for the benefit of lesser advanced transitions countries. The international community through IFIs like the World Bank also has a responsibility to provide a feasible venue for cooperation including via lending instruments that small donors like the Baltic States can participate in without too much bureaucracy. These instruments should also allow the Baltic States to continue with their targeted TA projects that support policy actions and help implement key reforms in transitions countries.

Further research needs to be done to work out in some detail a framework for donors and international financial institutions to work in partnership with middle income transition countries. This includes identifying suitable lending and TA instruments and modes of co-financing. The experience for PRSCs donor partnerships could be useful here.

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