

# **Report**

**of international seminar on**

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# **Direct Budget Support the best way of doing Aid?**

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**26th February 2008**

**Rome**





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**Introductory remarks by**  
**Marco De Ponte**  
**Regional Director**  
**ActionAid Europe**

Action Aid is really interested in the discussion on Direct Budget Support (DBS), as a new aid modality. This is why we have decided to organise this seminar, to table this issue in the European and Italian debate to achieve a mutual and positive influence.

We are aware of DBS limits and potential, particularly in state building. ActionAid considers the State as the central actor to be strengthened to effectively tackle poverty and foster sustainable development.

The reduction in transactions costs, together with the increased harmonisation among different development actors, are more likely to be achieved via DBS. These results are not automatic. Many analysts have underlined how DBS is as good as the strategy, it is supporting. As for ActionAid a good DBS strategy necessarily has necessarily to be focused on the improvement of the democratic scrutiny carried out by civil society.

We are convinced that the governments should be in the driving seat in the process, and that the national development strategy shouldn't always rely on the policy frameworks (PRGF, Washington consensus) used by the international institutions in order to achieve one of modality potentials: ownership.

The Italian DBS experience is limited to Mozambique; but we hope that today discussion can create positive spin-off not only at a technical level, but even in the political debate to influence further thinking in the Italian cooperation.

Whichever government will lead our country in the future, DBS has to be one of the pillars in the next strategic discussions, together with aid quantity,

and aid architecture reform to avoid replicating old policies based only on the project aid modality. A DBS discussion necessarily implies a general debate on the Italian aid quality. The achievements of aid EU quantity commitments risk entailing absorptive problems to Italian administration, too under-staffed to manage thousands of different projects. Only an replication of DBS experiences can prevent chaotic management.

For Action Aid, today's seminar is an opportunity to learn on potential and risk of this modality. We have a generally favourable opinion on the inspiring principle of the modality, but today's perspective is to look at DBS from those actors that could lose the most a dn being marginalized from a DBS scaling-up, notably Civil Society, fragile States, and local authorities.

Speech by  
**Paolo De Renzio**  
 Overseas Development Institute  
 University of Oxford

## Governance and Direct Budget Support

Good Morning and thanks to Action Ad to invite me to introduce this interesting theme.

I would begin with some basic definitions about DBS. Usually as DBS we define a new way to channel aid directly through the budget of the receiving country. It is not based on projects performed by a donor agency, but is a direct support to the public expenditures of the country.

The DBS was born due to the sense of fragmentation of aid, related to the increase of projects, and to the need of an increased ownership of aid for local governments.

Today DBS is utilised in no more than 25 countries, mostly in sub-saharian area, and represent only the 5% of total ODA. Nevertheless in some states it has an important role reaching the 30% of the total aid, representing the 15% of the entire public expenditure.

It is a tool that rely mostly on coordination between donors, as is evident in Mozambique where 19 donors contribute to a common fund, with mechanisms of review and dialogue to check the results and the respect of the conditionalities. Usually it is based on development programme that last from 3 to 5 years, and is connected to a poverty reduction strategy paper already issued by the World Bank and the International Monetary Fund, at the beginning of the 90's.

In order to give a more detailed view of this instrument there is a chart from the OECD (see Annex 1, slide 2).

Usually the DBS can be intended as the last point of a line that begins with the projects, where there is no coordination between the different actions, continues the sectoral programmes,

and arrives to DBS, where all the budget is centralised and all the different initiatives are coordinated. The differences between projects, sectoral programmes and Direct Budget Support can be resumed on the base of three characteristics. First of all "who" decide the priorities: in the projects system the priorities are outlined by the donors, on the base of an assistance strategy; in the sectoral programmes the responsibility is divided between the local governments and the donors, while with DBS the main actor is the government that defines the poverty reduction strategy on the base of a discussion with the donors and the civil society. The second important element is related to the governance system: in the first case the projects are separated from the local budget and are only controlled by the donor agency, that will utilise its own cycle management and accounting system; in the sectoral programmes the local budget is not considered, but usually the rules and the accounting system of the fund created by donors are decided together; finally in the case of DBS all the aid is channelled through the local budget, so that the accounting system and the cycle management are the ones usually used by the government. Thirdly is important the overall approach used in these different modalities, in fact while in the project system there is no coordination between the donors, in the sectoral support, and mostly in DBS system it increases thanks to the creation of global funds by the donors, and the major role covered by the local government that should define coherent national strategies. The international debate on aid

effectiveness has evidenced how the this increases moving from the left of the line (projects) to the right (DBS). In the Paris declaration of 2005 about aid effectiveness, there are a number of indicators that helps to push the international consensus towards the line to the right. I do not completely agree with this outcome as there are good reasons for and against DBS. The main reasons in support of DBS are the more holistic approach with different integrated measures, not only the economic support but even technical assistance to the local institutions, and the increase of the sense of ownership and of the level of accountability of the government both to the donor and to its own civil society. With this tool there is a substantial increase in the role of the Parliament as it has to scrutinise the governmental expenditures. The potential problems with DBS are: the risk of corruption, as the donor signs a check to the local government that can use the funds on its own with only one control at the end of the process. Though this risk of corruption has not been evidenced as higher for the DBS if compared to the normal project or sectoral programme system. A second criticism to DBS is related to the direct presence of the donor in the local administration, for instance in the case of Mozambique for 3-4 weeks a year representatives for the donors and from the local government, in order to check the status of the DBS, have broad access to data and information on the budget and reform processes. So the presence of the donors could be perceived as too strong, if compared to other development tools, and this is clearly in contrast with the sense of ownership, that is one of the main

argument used in favour of DBS. A third criticism is referred to the so called "ventriloquism", that means that the more the aid is a substantial part of the state budget, the more the government will try to "say the right things", in order to continue to have the flow of money into their budget. The last problem is the problem of volatility, that means that for the donor is extremely easy to close the financing lines, because the money is directly administered by the local government, and there isn't any structure, with people that can remain without work, that the donors will have to close as a consequence of the end of the aid programme. So it can happen that the country in the middle of the programme could remain without the necessary budget to cover the basic needs, more easily than in sectoral programmes or in the project system where there are contracts that the donors have to respect. What is difficult to analyse is the effectiveness of the DBS. I have to underline that this modality has been used only in a small number of cases, for only a short time, the only existing broad study has been performed by the DAC, that has evidenced how the DBS has, in general, achieved its aims. In fact the administrative expenses has decreased, while there is an increase in the government public expenditures, and in its capacity to allocate the funds and in its economic planning capacity. Moreover a clear connection between DBS and the reforms was registered. On the other hand what is evident is that DBS in these experiences didn't substitute completely, the projects or the sectoral support, and this caused an increase in transaction costs and

some major difficulties due to the lack of coordination. Furthermore the DAC has registered how some important cases of corruption, violation of human rights, or civil wars have brought the donors to close the funding, creating major problems to the state budget. What can be said in general is that even if the DBS is based on important principles, such as ownership, accountability and better allocation of funds, is still difficult to assess if it works or not. Nevertheless there are some solutions that have been suggested in order to solve some of the problems. Firstly a more constant monitoring on the quality of the public procedures and the administrative capacity in order to limit the risks of corruption. PEFA is an example of a methodology aimed at controlling the public finance, with some indicators that can help the donors to check the internal processes of the state. Secondly it is important to increase the dialogue between the donors and the recipients in order to tackle the volatility and increase the level of accountability. Thirdly to move from analysing the on-going processes, to a result oriented approach, guaranteeing some incentives to the governments that achieve some important benchmarks (for example: completing primary education for a number of children...). This can be useful even to diminish the presence of the donors in the internal processes, focusing their attention to the final outputs. Finally some tendencies that can give the sense of the today debates. The first one is related to domestic accountability of the donors, as an

example in a recent report the General Accounting Office has evidenced the need of an increase in the monitoring capacity of the donors, in order to check where the funds are allocated. Clearly this can create major challenges, as major control could contrast with the sense of ownership, while the domestic public society, or the Parliament could push to have a clearer view on how their money are spent.

Moreover the DBS implies a decrease in the “visibility” of the donors because the projects are directly implemented by the local government, and is difficult to say, how and who has contributed to a single project.

Finally more and more donors are intending DBS only as one of the possible instruments, in a wide range of possibilities that can be used. This can create a lack of coordination between the different instruments used in a single state, both from the donor and the local government side. Another important problem with DBS is the potential contradiction between the short term achievements, frequently related to poverty reduction objectives as the MDGs, and the long term strategy, that is connected to the sustainability of the growth based on the increase in the public administration capacity and transparency, and the empowerment of the civil society.

As a conclusion I can say that this dichotomy between the DBS and the project system, that is the base of the Paris declaration, could undermine our capacity to focus on some more basic quality indicators that are independent from the method that is utilised, and that can guarantee a general

assessment useful both for the project and the DBS management.

Thank You...

#### **Question by the audience:**

Is it possible to consider the operations on debt, such as debt reduction, as example of DBS?

#### **Paolo De Renzio:**

In order to be intended as an example of Direct Budget Support, debt cancellation should refer to truly exigible credits and their related interest payments, so that it can create additional resources in the state budget if cancelled. Most bilateral debt cancellation actually amounts to mere accounting operations aimed at taking debt that was not being paid anyway off the books. Multilateral debt cancellations, on the other hand, free up real resources.

Speech by  
**Karin Kristiansen**  
 DATA  
 (Debt Aid and Trade for Africa)

## Fragile states and Direct Budget Support

When talking about aid and fragile states, the first thing that has to be underlined is that we are already giving budget support to fragile, and extremely fragile states, as Sierra Leone, Rwanda or Afghanistan, frequently with on going conflicts. In this contexts DBS is frequently used as a modality of aid with the creation of multi-donors trusts or the so-called “horizontal programming”, both aimed at delivering aid directly to the budget and ensuring services are delivered at local level with resources flowing government even if they are not provided by government.

A second introductory remark is related to the definition of fragile states. In fact there's no common definition of what a fragile state is, not only in the broad public, but even between the different ranking and assessment systems. All of the different indexes ultimately rest on a range of subjective and often very political assessments.

When one does a textual analysis of the use of the term the adjective “fragile” is more frequently actually capturing some sense of the relationship between the donor and the recipient country. The same country can be considered “fragile” from by one donor, while it is not by another donor agencies.

There are however a range of characteristics that research suggest can be seen in some fragile state situation. aid context. The Fragile States work we did for the senior level forum of the DAC found that that frequently but not always, they are

- ▶ ‘Under-aided’
- ▶ High, sudden inflow of external finance

- ▶ Large number of external actors; fragmented national actors à complex fragmented set of relationships (e.g. dozens of different donors, security agencies, military services...as it is evidently happening in Afghanistan, inter facing with a fragmented range of domestic actors)
- ▶ Humanitarian footprint – aid delivery → institutionalised parallel systems
- ▶ State avoidance assumption
- ▶ Weaker national institutions (but not always as non-existent as we assume e.g. the Afghan public finance system.

The most important thing about this work on aiding fragile states was that

- ▶ It isn't really about modalities but donor behaviour as a whole (NB. you can do Budget Support badly)
- ▶ The more fragile the state, donor behaviour is likely to matter
- ▶ Cycle of (understandable) state avoidance because of weak, corrupt institutions but → weaker ones (by ‘asset stripping’ e.g. recruiting their best staff)
- ▶ Might be hampering state formation (e.g. by providing service, undermining the concept of citizenship and the right to demand service and accountability from the state)
- ▶ Probably undermining their own objectives

So why would anyone do budget support?

The potential ‘other logic’ to is that in some circumstances we can't afford not to do it

1. Preventing state collapse – keeping people in the ministries, soldiers off

the streets, supporting new regimes etc.

2. The more fragile the state, the greater the potential damage of parallel systems and 'state avoiding' modalities
3. Building resilience against deterioration/changes in 'political will' – which has arguably been the case in Uganda

However there are a series of challenges to budget support in such situations

- ▶ All the other modalities and activities are still out there à need for consolidation
- ▶ Keeping it simple – very limited number, realistic, sequenced priorities in perf. assessment framework (PAF)
- ▶ Building policymaking, PFM, accountability systems – which is both the prize of GBS - to build up policy making capacity, a real and accountable financial system, and to check if the government is truly delivering change and development for its own people.
- ▶ Processes-based conditions/ benchmarks – because cause the results are so far away and unattributable that we really have to concentrate on the next few steps (a law, a reform).
- ▶ Managing domestic politics
  - Corruption and fiduciary risk expectations
  - 'Political shocks' and demand to punish (But alternatively "we might as well give all our aid to Norway")
- ▶ Needs country leadership and capacity for managing external actors

The impact of volatility of aid is important in any context, however it is fundamental in fragile situations. When a state has to implement policy or deliver a service, it has to recruit personnel in the various administrative branches, from school to ministry, from health to justice, if after recruiting the state's budget is cut these people will not be paid or lose their jobs. Which in turn has potentially serious implications for governments at risk of collapse, or of political violence - the more so in fragile environments.

So to some concluding thoughts:

GBS can perhaps best be viewed as high risk – high benefit

- ▶ Particularly risky for recipient govts
- ▶ But also for donors

Use it where it might shift the incentives or prevent damage being done (not in a category of countries or situations)

But an aid modality isn't the answer

- ▶ GBS need to be done well, part of a mix
- ▶ resourcing a sensible, strategic, coherent external engagement
- ▶ beyond Paris Dec plans to practice and from harmonisation to (shadow systems) alignment
- ▶ across the full range of actors

Speech by  
**Gabriele Ferrazzi**  
Canadian Consultant in  
Decentralized Governance

## Local Government and Direct Budget Support

I am also presenting on behalf of Jesper Steffensen, a practitioner in local government DBS who has extensive experience in many countries. I have been fortunate to have to have had the opportunity to observe and take part in DBS initiatives, with a particular focus on local government. I think that from the rationale for DBS, the case for the local government involvement is quite evident. If we look at the level of DBS and at the funds spent for enhancing local governance, they move together. The relationship of local government with DBS is particularly strong when viewed in terms of the role that local government plays in many countries in poverty reduction strategies and basic service delivery (e.g related to the MDGs). However, this connection or affinity is not always fully appreciated. Although this coherence between DBS and local governance needs to be strengthened, in fact local government can be seen to fit within DBS in at least three ways at the moment:

- ▶ In the poverty reduction GBS at the national level, where GBS can support, as one of many policy objectives, local governments reform and the role of local government in local poverty reduction;
- ▶ If you think of decentralisation as a sector, it can become the objective of a Sectoral Budget Support, focused on local government policies;
- ▶ And finally you can have DBS that targets local government, providing financing for local expenditures.

In terms of size, if DBS as a whole is about 20billion, the first part (GBS)

should be the largest by far, followed by several hundred millions directed to the Sectoral Budget Support to decentralisation, and no more than perhaps 100 millions devoted to the Local Budget Support.

**[For example (Ghana, Pakistan, Uganda, Indonesia) please refer to the slides in Annex]**

The national level generally determines the role of local government within Budget Support.

An example of national level GBS is that seen in Ghana, where the poverty reduction focus allows for some indicators, albeit general ones, on decentralization. In Ghana there is even a discussion on a “performance based grant” that should involve all the districts of Ghana. There is also a separate donor-government discussion on decentralization, where specific policy options are being discussed, e.g. increasing the funds directed to districts..

In general, local government does not show up adequately in Direct Budget Support at a national level, in terms of policy indicators/targets. This weakness is carried through the way Budget Support policies are monitored and discussed. We are not very sure about the success of the DBS or local government in countries where GBS is operating.

A deeper assessment on the performance of local government in service delivery, is needed, and in particular its link to DBS.

The only example of this analysis has been that commissioned by the OECD-DAC for the case of Uganda.

Analysing the second way that local government can fit within DBS,

Sectoral Support to decentralisation, we have some evidence from Indonesia showing that it is dominated by large IFI lending, with other donors being on the periphery. The efforts have been problematic in the way the policy conditionalities have been decided and the way disbursements have been made.. There does not appear to be any clear connection between the sectoral BS and the performance of local government in services delivery. In terms of the Local Budget Support, there are about 10 countries now experimenting with these “performance based grant” mechanisms. Ghana is currently designing a scheme as well. In this country this scheme is in addition to a national level GBS that is poverty reduction oriented (with some attention to decentralization), a Sectoral Budget Support on education, and an effort to design a Sector Budget Support for local government; a great deal of initiatives that may overwhelm capacities.

Local Budget Support has been shown to improve financial management/ other governance processes of participating local governments. They can potentially shift donors away from uncoordinated and transaction heavy project support. They can also model changes that might be taken up in the regular intergovernmental system. The negative side of this Local Budget Support, is first of all that if you start it as a pilot you may see it just disappearing after that, without any institutionalization. There is a need to map out a strategy, step by step, that will lead to lessons (good practices) and models being used/scaled up. Another potential problem is the focus on capital investments; which may lead

to poorly funded operations in service delivery.

In general, to improve the link between local government and DBS, it is important for local government to be involved in the national discussion on DBS strategies, and in terms of the scope of the DBS. The associations of local governments in particular have to play a bigger role, together with other stakeholders.

In terms of local government/ decentralization sector Budget Support, I think it is promising as it provides the chance of involving a smaller number of donors. While it has to date been dominated by IFIs, the amounts are smaller than the cross sector/poverty reduction GBS, allowing bilateral donors to chip in as well in principle, and allowing for SWAPs to take shape. Whether for GBS or local government sector Budget Support, it is important to balance the policy objectives with adequate technical assistance to follow through the reforms entailed in the policy objectives. This is therefore needed at the national level, where the reforms (in policy frameworks) are taking place, and at the local level where changes must be implemented. Finally if you are going to the local government level with DBS, be sure about what you want and what/how you will get out of it. It makes sense to have a pilot project, but only in a framework of a long-term strategy. The incentives must also be sufficient to draw the attention of local government. Ultimately, the essential question should be: “how will this pilot project help the larger decentralisation reform effort in this country?”. Someone has said that this is the year

for civil society to be involved in DBS; I hope the year after that it will be the turn of local government.

Thank you...

### **Chair:**

Which are the donors that are experiencing this kind of modality directly at local government level?

### **Gabriele Ferrazzi:**

At the local government level, these initiatives have been mostly funded by the UN system (UNCDF or UNDP) but other countries are also supporting these; e.g. DANIDA, and even Italy (in Yemen). Because of the restrictions imposed in some schemes, there is some debate about whether these schemes qualify as a true form of Budget Support

Speech by  
**Sophie Kyagulanyi**  
ActionAid Uganda

## The experience of Ugandan Civil Society with Direct Budget Support

My presentation will focus on the consensus that is shared among the civil society in my country about Budget Support, paying a special attention to the issues of gender and women's rights.

As many has already said Uganda is an example of good practices related to DBS, we have managed to use the funds quite well, constructing an accountable system both to donors and civil society. We have a fiscal and budgetary discipline which is linked to systematic reviews, guided to the poverty eradication action plan, that leads all the donors strategies in the country. This plan is today under review and we will have a new governmental plan by June of this year.

There is even a strong decentralisation of service delivering, supported mainly through the funds of General Budget Support, that has a central role in setting up the structures, more than in direct support to the service delivering actions.

Then we have government matrix developed for GBS policies that focuses on issues such as corruption, governance, human rights, democracy, and that has been developed in order to answer to the requests of transparency made by the bilateral donors.

In terms of money, from 2005 to 2008 there hasn't been a clear trend in the investments on DBS. In 2005 it represented the 40% of the total development budget, it increased to 42% in 2006, and decreased in 2007 to 38%.

There are a number of reasons why it is reducing: firstly because the relation between the harmonisation processes aren't clear enough for some donors;

secondarily because the donors have found some lack in the fund management structure; and finally for political reasons. In fact, as it has been already said Uganda is considered a Fragile State, so the relations between the executive and the donors are incredibly important to reduce the perception of a fiduciary risk, but these relations have worsened in the last years and the political situation is now getting worse even for the citizens. But the main issue is how this reduction is having an impact on the results of the DBS general strategy, mainly in terms of service delivering. We have very good and transparent processes in Uganda, well written and easy to read, while practise is completely different. For example, on delivering of public services, there is a big gap between the service institutions, and the real delivering to the public.

In terms of ownership the Ugandan government has strongly imposed himself in determining how he will use GBS. This has been evidenced by the fact that often the government has used, or misused, the GBS funds for expenditures that weren't so much in the interest of the donors. As an example we have seen an increase in the defence budget at some point, and this caused a withdrawal of some donors, or new conditionalities that has been imposed.

Our consensus as Human Rights or civil society organisations is based on the fact that now we have a new role thanks to GBS. Now our role is moving from the management of service delivering, to advocacy and lobbying, mainly monitoring the use of funds by the government.

During 80s-90s the women's rights were central of Ugandan agenda, both on the government and the civil society sides. So we have developed some important policies and reforms. But currently we have lost it, we don't know where we are, and we are even losing the previous reforms due to a lack in implementation. So I think that GBS should be used to stress out this point in order to begin a new debate on this theme.

The government approach on the gender issue is extremely simplistic, still focusing on education, without giving to the women a relevant role in the decision making process. And it is evidenced even by the case of GBS, the only partner for the donors in deciding how, and where to allocate the funds is the Ministry of Finance and Economic Development, while maybe there should be some more seats reserved for other departments, such as the Gender Ministry or others, even with the inclusion of the civil society representatives. The real risk is in fact that many of the issues that we raise tend to be lost in the private discussion between the donors and the Ministry of Finance.

The harmonisation is generally good, but risks to prevent any opportunity for civil society to raise new points, as gender, when the process is already on the way.

The reduction of funding available for civil society due to the focus on GBS modality is absolutely clear, many of the donors are in fact increasing their commitment directly to the government leaving the civil society alone in terms of funding. There is also an element on civil society capacity to redefine its role with DBS, that's true that many

services are now directly delivered by the state, but there are still some areas in which we should play an important role. There is a need for civil society to increase its capacity to capitalize this new situation.

Another important point that I want to stress out is that, as I already partially said, the civil society role on the budgetary decisions is still marginal. The discussions between the government and the civil society usually are not important for the final result, as the real decisions are taken on the table with the donors that is a completely separated one. We need to link the two processes.

Even the attention of the donors to the legislative body is decreasing dramatically, while it is important, as some of you has said, to strengthen the role of the Parliament in order to guarantee an higher level of democratic scrutiny on budget expenditures.

To have a better GBS we need to open the discussions on the allocation of funds not only to the Ministry of Finance, that often doesn't have the elements to understand which are the everyday problems of its people. We could think of a process of consultation, in which the various opinion are truly considered when the decisions are taken.

Moreover we need questioning from donors on the gap between the formal documents and policies, and the real implementation of them. We, as civil society, can try to monitor the real practices but we need the support of the donors on the other side to put the government under pressure.

Last point we need an higher level of support both to the Parliament and to the civil society in order to improve the

democratic scrutiny.

Thank you...

**Raffaele K. Salinari**  
**Italian Association of International Network (CINI)**

Speaking about DBS the first thing that I want to underline, as it has been already evidenced, is how this instrument can stimulate the debate within the world of the NGOs. The role of the civil society organisations in monitoring, and favouring DBS strategies will be discussed in the Accra conference, where I think we will have to evaluate even which has been the impact of the work of NGOs on the implementation of this instrument, in order to design a strategy for the future.

Another interesting theme that challenges the civil society is related to the possible uses of DBS in fragile states. Even in this case we need to rethink our strategy that cannot be related only to emergency service delivering. We should be more involved in the political debate on the state building and the development strategies, that cannot be left only to the intergovernmental discussion.

**Answer by Karin Kristiansen**

It is clear that with DBS the role of civil society will have to change, becoming always more similar to the one performed by NGOs in developed countries, where they doesn't implement services, but they lobby

the state for them, trying to influence and assess the political decisions and strategies.

Another short remark I want to add is about Sectoral Budget Support, in a recent study it has been underlined how difficult it is to define a sector, and how any kind of direct aid to the government budget, freeing resources for other policies, is a form of General Budget Support, only with more conditionalities.

So maybe we need to better assess which is the impact of this kind of policies, and if it is useful both on the donor or the recipient's side.

Even a broader debate should be done on defence budget, we in our country think that the monopoly of legitimate force by the state is extremely important, why we cannot accept the same for developing countries, so we have to understand and accept that a part of our funds will be used for the defence, as it acceptable for any other state.

As a last thing I want to point out that any kind of development strategy, even the projects, will allow the local government to free resources to use in any chapter of the public expenditures, so DBS is only a more coordinated instrument that avoid the risk of creating a parallel system, but that doesn't have effects on the fact that the government can buy useless things, or allocate resources on "questionable" chapters of public expenditures. Maybe on the other hand with a DBS strategy we can negotiate at least an enhancement in transparency that can, on a long term basis, allow civil society to better scrutinise the decisions of their governments.

### **Vincenzo Racialbuto** **Italian Ministry for Foreign Affairs**

As Italian cooperation, we are more involved in Sectoral Budget Support than in GBS, but I want to add some remarks to the debate. It is clear that the instrument of the Budget Support is extremely important, and we, as Italian cooperation, need to strengthen our capacity on this. At the same time do not have to think of it as the global solution, there is a wide range of tools that can be used on development, and DBS should be used only as one of them.

One of the main problems with DBS is that it is an instrument difficult to explain both to the citizens and the policy makers, so we have to be careful with it without thinking that the debate on development can be limited to the experts, excluding from it many other actors as broad civil society, or decentralised cooperation.

Moreover the fact that the USA doesn't use DBS as development modality is a real weakness for this instrument, as it creates major distortions in the harmonisation process.

### **Answer from Paolo De Renzio**

I would like to respond to some of Mr. Racialbuto's remarks. I completely agree that there are some problems related to DBS, but I think this should not be used as an excuse for the Italian cooperation to ignore this instrument that is the only one that seems to guarantee a higher level of ownership with fewer negative effects on accountability.

Secondarily what I want to point out is that the Italian cooperation has to make a fundamental choice, it is clear that Direct Budget Support strategies can be more complex to understand than a normal project for domestic civil society and policy makers, but at the same time it has more positive effects on state building and coherence of aid than any other instrument. So in some way the choice has to be made between recipients, or domestic civil society, and this is a major question that has to be answered. I really think that our civil society will be able to understand that their government isn't signing a blank check to a corrupted government, but that there are some good reasons to use DBS.

### **Marco Zacchera** **Member of Italian Parliament**

I only want to bring the welcome of the Italian Parliament to today's guests, as I think that discussions like this one are extremely important for the whole role of Italy as an international actor. On this broader field I would like to express my regret for a bill about landmines, that is now under scrutiny of the Parliament and that won't be approved by this legislature, and I hope that the future Members can continue the discussion in order to finalise the legislative process on this. As a last remark I want to confirm my commitment in bringing this discussion in the Parliament as I think that the Italian cooperation needs an increase in aid quality even more than in the quantity of the funds invested in development.

**Dante Carraro**  
**CUAMM (Physician for Afirca)**

As CUAMM we look with favour to DBS, as an interesting instrument, but we are even well aware of its limits. As civil society the question that I want to table is about the role of for us in the developing countries. Is it possible that the for NGOs, more than shifting towards a role in lobbying and technical assistance, to continue their fieldwork for the so called “excluded” in the rural or marginal areas, that often aren’t taken into account by the national government?

I think that is extremely important to assess the impact DBS on indicators as mortality and morbidity to understand if it is working, and which are the categories that are the main beneficiaries.

**Lodovica Longinotti**  
**Italian Ministry for Foreign Affairs**

My only remark is related to the necessity for the donors to involve all the Ministers in the recipient countries, not only one or two cabinet members. In fact even if it is important to empower the capacity of the Ministry of Finance on transparency, at the same time it is essential to enrich the discussion on the allocation of funds with the contributions of the others sectors of the state. Moreover maybe it can be interesting to pursue the idea of Local Budget Support, even as an instrument to increase the participation of civil society, and of the others levels of the public administration.

**Alfredo Mantica**  
**Member of Italian Senate**

The history of the Italian cooperation has two characteristics that do not fit well with any Direct Budget Support strategy.

Firstly the privileged role that has been given, by our public opinion and our politics, to the local civil society as the main partner in any development strategy; while the local government has been often perceived as corrupted and committed only to its own interests. Secondly in Italy the cooperation has its roots in a catholic and the leftist culture, that privileges a “political” discussion on cooperation, rather than a more technical one on new instruments as the Direct Budget Support.

An evident example of this can be taken from the catholic missions all over the world, that we have always supported. They are extremely difficult to convince to operate under a national strategy decided by a central government, after years in which they have operated as a parallel and nearly autonomous authority.

Another important problem is related with the quantity of the Italian aid. I do not honestly think that with our small investments in this field, 600mln/€ we can create a credible DBS strategy that requires an higher commitment to be relevant.

As a final remark I hope that in the future a greater attention will be devoted to this instrument, as a part of a mix of different tools that can be used, being aware that our history and culture doesn’t fit well with it.

**Giorgio Carta**  
**Member of Italian Parliament**

I want to add some remarks to this discussion. We have an old administrative system, without a central authority able to organise a coherent strategy, and we fall short of investments in a field in which we have committed ourselves for at least the 0.3% of the GNI in order to reach the international standards.

I think that the role of the civil society is extremely important to ask the policy makers for an increase in the commitment both in the quality and in the quantity of our aid.

The DBS in this framework can be an important instrument even to stimulate a broader debate around the Italian cooperation in general.

I hope the next government will be able to answer to all the requests that comes from the Italian NGOs in order to reach the important aim of having a more modern and effective cooperation.

Speech by

**Patrizia Sentinelli**  
Italian Deputy Minister  
for Development

## Prospectives of Italian Cooperation

It is important to begin by saying that the Italian Cooperation need that reforms.

The first problem of our law is related to the dichotomy in development management, between the Ministry for Foreign Affairs and the Ministry of Finance.

Another problem is related to the financial resources, the government has doubled financial commitment from 300mln to 600mln euros, that have been invested in bi-lateral and multilateral cooperation. But this level is still far from our commitments, and from the needs of a modern development agency.

Passing to the GBS discussion, the Italian debate on this instrument is extremely backlogged. The only pilot

project in Mozambique has been criticised by both the administrative officials and the NGOs, fearing a decrease in their role and in their access to the institutional funds. If we want the DBS to work well, we need a better dialogue with the civil society here, and in the recipient country. Only an alliance in this sector can guarantee a success; we have to share the responsibilities, stressing the importance of decentralisation processes, involving the local authorities.

In using the DBS is essential to reinforce the coordination between the bilateral and the multilateral actors, in order to create bigger and better coordinated strategies for poverty reduction.

Speech by

**Mark-Vanden Boogaard**  
Dutch Ministry of Foreign Affairs

## The Dutch experience with General Budget Support

The Dutch foreign ministry has a long experience with DBS: begun in 1991, intensively since 1998. At present 19% of all Dutch bilateral assistance to partner countries is provided in GBSS. After various experiences in different countries, mainly in SubSahara Africa it is clear that any DBS strategy cannot be implemented without a continuous and constructive dialogue with the partner country.

This kind of approach decreases the fiduciary risk as well, and has allowed us to raise the percentage of bilateral assistance channelled through GBS over the years.

The quality of a DBS strategy, cannot be assessed only on the base of the amount of funding channelled through this instrument, but also depends on

qualitative aspects. What is extremely important is its predictability. In fact the risk of donor-volatility with GBS is, as stated by other speakers, higher than with other modalities, so the donor countries need to be aware of this and prevent stop-go situations. Only a serious and continuous engagement with the partner country can create that "sense" of trust, that is fundamental for the implementation of GBS.

I will focus in my presentation on budget support we provide in so called "MDG-partner countries"; so I will not go into budget support to fragile states although I agree with Karin Christiansen: there is an important role for GBS in fragile states. As we are speaking are we developing a fragile states budget support policy.

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Secondly, my focus will be on general rather than sector budget support. Until now sector budget support is much smaller in size and it is rather complicated in terms of definitions.

A final point that I want to stress out is the difference that exists between structural and incidental GBS. In the second case the budget support is related to a situation of crisis, such as flooding or big shifts in terms of trade, and is aimed specifically at reducing the effect of the emergency, to prevent the long term strategy from going off track. I will focus here on structural budget support.

In the Dutch experience with DBS a major role is played by the embassies in the partner countries. Our decisions and management system is very decentralised. Regarding budget support there is one centralised "check" each year, performed by the Ministry's dedicated policy unit, on the base of so called "track record analyses" prepared by the embassies. Roughly 6 policy areas are assessed: poverty policy and –commitment, macro-stability and business climate, PFM and political good governance and finally quality of the dialogue. The main purpose of the Track Record instrument is to assess the modality mix-ceiling (project, program or GBS). The role of HQ is to do a quality check by benchmarking (for example with WB-IRAI scores) as well as cross country comparison. This Track record exercise structures the decision making process. So, on the basis of this assessment the Ministry will decide which kind of assistance can be implemented in the country: projects, programmes or DBS. Nevertheless exceptions are possible: on political motivation the Minister can decide to provide GBS even if DBS is not the suggested instrument given a country's performances.

In terms of rationale for supporting

the budget support modality we are guided by the many studies that document the many flaws of the project modality with its characteristic lack of ownership and high transaction costs related to fragmented, poorly coordinated donor interventions. GBS allows for a meaningful dialogue on both development-effectiveness and governance/legitimacy issues, it helps strengthen public financial management both through capacity assessment and development as well as through improving funding predictability. Finally GBS allows for efficient harmonisation and alignment around partnercountry systems and policies.

In conclusion: it is important to use this instrument of GBS jointly with capacity building projects and programs, in particular in the sector of public finance management (PFM), in order to minimize the risk of implementation risks (including that of corruption). Thank you..

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Speech by  
**Riccardo Morpurgo**  
Italian Ministry of Foreign Affairs

## The Italian experience with DBS

First of all I want to thank Action Aid for this conference, and for tabling such an important theme under the public attention.

In the Italian development budget DBS represents only a ridiculous 0.6% (4mln/€) of the total amount, with only one pilot project in Mozambique.

This situation derives from a sense of suspicion on this instrument within the Italian public opinion, and the ministerial officers. In fact it is perceived as a blank check to the local government, with a high risk of corruption and or money wasting; moreover the project modality is more attractive as it is more visible for the public opinion, because it is directly implemented by the Italian Cooperation, and not by the local government.

As it has been already stated what is important with DBS is the participation of the civil society in the implementation. But it has to be clear that the lobbying has to be directed not to the donor agency, but directly to the local administration, if we really want the DBS to express all its potential.

State building and empowerment of local civil society, together with a rise in public expenditures, are in fact the primary aims of this instrument.

In our experience in Mozambique the DBS has achieved most of its goals, but it has been possible thanks to the existence of a stable and trustful partner, as the local government is. DBS should not be used where the local government is not able to manage it.

Nevertheless the Italian cooperation has a wider experience with Sectoral Budget Support, but this modality increases the risk of lack of coordination between the state policies,

with an augmented expenditure of only one Ministry, and the competition between that Ministry, and the other ones, to attract the support in the future, with an increase of the so called: “ventriloquism”. Thank you. . .

Speech by  
**Matthew Sudders**  
 Department for International  
 Development - UK

## The UK experience with DBS

DFID's aim is to give the governments of developing countries the most appropriate aid instruments with which to respond to the needs of their citizens. Our strategy is based on the assumption that: "governments matter", this is why we promote DBS.

However we are well aware that it is not useful in every country context, and this is evidenced by the fact that between the 30 countries in which DFID have projects of more than 10mIn/€, only in 15 of them we use DBS.

DFID is convinced that a major role in the use of DBS, has to be played by our in-country offices and Embassies as a means of monitoring and assessing whether the local government respects the three fundamental criteria:

- ▶ Commitment in poverty reduction;
- ▶ Commitment in upholding human rights and international obligations; and
- ▶ Commitment in improving public financial management, promoting good governance and transparency and fighting corruption.

To maximize the effects of DBS, it is important not to depend solely on this instrument alone, but to supplement it with other more "traditional" tools, to effectively support country strategies for poverty reduction.

It is clear that after the Paris Declaration DBS is an important instrument in development policies, but it is not the only one.

Another important point with DBS is that, even if it is not a blank cheque to the government, it has to be predictable, as the risk of volatility can only be tackled through long term action plans. Normally, we approve

these plans every three years, and review the need for modification during this period. Additionally, the evaluation of DFID is not based on the analysis of the processes nor the instruments used by the government to achieve the objectives, our main focus is on the final outcomes (Result Based Approach), in order to verify whether the developing country government is truly committed to poverty reduction, or not.

In terms of how DBS relates to the role of civil society, there is no evidence that it has decreased due to the introduction and implementation of this instrument. Obviously, relationships have clearly changed, as projects are now decided and funded directly by the developing country government, rather than by the donor agency. However, this can be an opportunity to empower the role of local NGOs, and support joint working, rather than be viewed as a risk..

Thank You...

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**Speech by**  
**Marta Romero**  
**Spanish Agency for International**  
**Development Cooperation**

## **The Spanish experience** **with DBS**

The problems for Spanish cooperation with DBS are similar to the ones of Italy.

First of all we have a strong tradition of funding NGOs and we have also many decentralised actors working in development (Autonomous Regions, Municipalities...). These reasons can explain the limited experience of the Spanish Cooperation in DBS. Indeed, only 1% of our ODA is channelled through DBS, but the long term trend seems to be better.

Moreover as for the Dutch and English Cooperation, we need to increase the role of our Technical Cooperation Offices on the field, in order to have better assessment, to lead to a higher degree of decentralisation of decision making authority, and to coordinate the funds from the different development actors.

In the SBS in Cape Verde, a strong attention has been paid to the empowerment of the local Ministry of Finance, in order to improve the public finance management, that is essential for a good and accountable DBS strategy.

One problem that we outlined is that the perception, at municipality level, is still that SBS are implemented by the donors and not by the local government. This can create serious problems to an instrument, as DBS, that is designed to improve the ownership of the policies.

On our side we are trying to build capacities within the Spanish Agency (at headquarters and field offices) in order to improve the use of this instrument. We have also developed, on the basis of our experience in different countries and of the EC and the Nordic Group Guidelines, some technical

guidelines for our officers.

In fact as DBS is still a new instrument for us, we need to spread the knowledge of it among the general public, even to prevent the easy criticism of the “blank check”.

Speech by  
**Frans Baan**  
 European Union  
 DG DEVE

## The EC experience with DBS

As a representative from the European Union, I can say that we are extremely interested in the debate on DBS, as we use this aid modality from a long time, channelling through it almost the half of our budget for some countries.

The very base for any kind of Budget Support, as it has already been said, is the economic governance. So that the increase in the Public Finance Management (PFM), and in the ability of the parliaments and the civil society to scrutinise the budget is essential for a good DBS strategy. A good example of this is Tanzania, where the government has opened the debate on budget to the public opinion, admitting even a stronger role for the local Parliament.

It is important for the supporters of DBS not to undertake the problem of accountability, it is a matter of fact that only one failure with this instrument, can be perceived more than ten successes by the public opinion, that is often blocked on a vision of this instrument as a blank check to "corrupted" governments.

The budget support modality is the only one that allows the donors to empower the role of the government in the recipient state, it is evidently more important to give the opportunity to the local administration to build up a school, rather than having an European flag on it, if we really want to create the conditions for a truly sustainable development.

This year (2008) with the meetings of Accra e Doha will be the year of truth for DBS, the first moment of assessment for the whole International Community, after the Paris Declaration. This can be even the occasion to propose a review of the instrument,

pressing for a better coordination between the different donors on the criteria that have to be assessed, to evaluate if a recipient state is suitable for a DBS strategy.

As European Union we are deeply convinced that DBS can be used even in the fragile states, and that our main focus should not be on the instruments that the local government will use to achieve the results, but on the outcomes of his policies favouring a Result Based Approach (RBA). At the same time it is essential to ask for good and reliable data, in order to assess if our funds are been used in an efficient and effective way.

For what concerns the Sectoral Budget Support we think that it can be an alternative to DBS in certain situations, it is a sort of a DBS minus, not a project system plus, because funds are still channelled through the local government.

Finally, to improve the effectiveness of DBS, it is important to work on a wider debt reduction strategy, on the base of the Cotonou Agreements, that will consent to the local partners to use DBS funds only for public expenditures, and not to repay the credits.

Thank you...

Speech by  
**Rose Mushi**  
Country Director  
Action Aid Tanzania

## The experience of Tanzanian civil society with DBS

With this speech I will try to give the perspective of the Tanzanian civil society on DBS.

In my country the use of this aid modality begun in 2000, and today represents the 50 % of the total aid programmes.

Although it is still too early to assess the precise impact of this “new” aid modality on our economy and society, it is clear that some progresses has been made. From the introduction of DBS there has been an improvement in our government institutional capacity, and in the role of the civil society to scrutinise the budget, and to ask for a better transparency in policy processes.

Even from the donor side there has been a request for an enhanced transparency, and more controls on the results and the implementation of the projects; this new attention of the donors has even opened a wider democratic space, increasing the role of the Parliament and of the NGOs. Summarising the adoption of a DBS strategy in Tanzania, has strengthened the rule of law and democracy.

I’ve evidenced how the Budget Support modality is challenging the Government and the administration, although if we want to exit from the poverty we need an increase in the aid quantity, and not only in its quality. The level of the aid is in fact even more important in a Budget Support strategy, than in the project one, because the aim is not only to build up a single school, but is bridging the gap in national budget between domestic revenue and expenditures required to address national policies .

Thank you . . .

**Raffaele K. Salinari**  
Italian Association of International  
Network (CINI)

I think that the presentations of this afternoon, made by the other major european donors, has evidenced the deficits of the Italian cooperation. If we want to participate to the futures debates on development, beginning from the Accra meeting, we have to conclude the reform process of our law on development, and we have to increase our capacity and experience with “new” instruments as Budget Support.

**Nino Sergi**  
INTERSOS

Many speakers in today’s debate have stated that the position of Italian civil society, in particular the NGOs, is generally against the Budget Support. I honestly think it to be false, in fact our initial opposition was related to the lack of local governance that is the very base of any BS strategy, on the other hand I think that today many of us are convinced of the importance of this instrument. At the same time we are well aware of the important limits and gaps that are still in place, and that I think have been evidenced during this seminar. First of all for a good DBS strategy we need an enhancement in coordination between the donors, with multi-lateral funds, and a clearer position on the use of the projects. Furthermore the role of the civil society needs to be reinforced with a bi-level approach that should focus, not only on the capacity building

of the government and on the increase in public expenditures, but even on the empowerment of civil society, even through a direct financing of the NGOs.

**Enzo Caputo**  
**Expert in the field of**  
**International Development**

I think that this seminar organised by Action Aid has answered to many of the common issues and anxieties related to Budget Support. I consider the followings as the most important outcomes: first of all it is essential, in order to build up a Budget Support strategy, to coordinate the various domestic actors involved in development (NGOs, Ministry of Foreign Affairs, Decentralised Cooperation). Secondly we need to empower the local civil society capacity in scrutinising the central Budget. Thirdly the “myth” of an increase in fiduciary risk with Budget Support is false, and often the implementation of this instrument is more transparent and less subjected to corruption. Finally the problem of a deeper involvement of donors in local policies can be tackled by using a result-oriented approach.

The use of Budget Support can be the very base for a general reform of the Italian cooperation, and can be initiated within the present legislative framework directly by the technics of the Minister. The collection of good practices, and the use of new tools, can be used even to direct the political debate towards the legislative reform that we are waiting since a long time.

**Stephen Meyer**  
**Expert in the field of**  
**International Development**

As for the other speaker even I'm convinced that GBS will be an important instrument in the future. Nevertheless I want to point out some weaknesses that we have to answer if we really want to create a more flexible and effective tool. Firstly it is important to find common statistical indicators for DBS, in order to evaluate the various programmes isolating the best practices that we have to share. Moreover the evaluation should focus more on the impact on Human Rights, that aren't often included as main indicators of a good GBS strategy. On the recipient side we should give them more power in the evaluation, not only on themselves, but even of the donor policies in order to create a real partnership in which, through peer reviews, both the donors and the recipients can become more and more accountable.

As a last remark, I want to underline another time the importance of coordination between the donors, in order to create a real multilateral Budget Support that is essential to increase the effectiveness of this instrument.

**Answer from Matthew Sudders**  
**DFID - UK**

First of all I want to agree to who has evidenced the lack of common benchmarks between the donors, as one of the major challenges connected to DBS, both in evaluating the impact of

this instrument, and in deciding which are the cases where it can be usefully used.

As the DBS has been connected to a general reform of the development policies of Italy, I can maybe bring my experience with DFID underlining which are the main features of our agency: First of all we rely of a real political commitment both of the various workers and of the agency itself, this is reinforced by the fact that the whole development policy is administered by a single agency, without and sovaposition of competences. Moreover the commitment to international development is really important in the cabinet discussions on foreign politics, and this can be evidenced even by the fact that there is a law that imposes a minimum finance commitment for the government on this specific theme.

**Answer from Frans Baan**  
**European Union - DG DEVE**

Just to things that I want to stress on the role of civil society in DBS strategies. I think that at least the 15% of the total budget in any development strategy should be channelled through civil society. I think it is evident how important is to empower the local actors if we want a good and accountable DBS.

On a domestic side it is essential to share our assessments with a broader public, not only within the experts of the various agencies, if we want to avoid any misunderstanding about this instrument, and gain a larger support for its implementation.

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