

Annex: DBS seminar presentations:Q

- BS, governance and corruption: Paolo De Renzio, Oxford university;
- BS and fragile states: Karin Christiansen, Overseas Development Institute;
- BS and local authorities: Gabriele Ferazzi, consultant;
- BS and women - the Uganda case: Sophye Kyagulanyi, ActionAid Uganda,
- The UK experience and way forwards: Matthew Sudders, Dfid;
- European Commission experience: Frans Baan, European Commission
- The Dutch experience and way forwards: Mark van den Boogaard, Ministry of Foreign Affairs, the Netherlands
- Spain and BS: Marta Romero, Spanish agency for development cooperation, Spain;



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SOSTEGNO DIRETTO AL BILANCIO E GOVERNANCE

Paolo de Renzio

Università of Oxford e ODI

26 Febbraio 2008

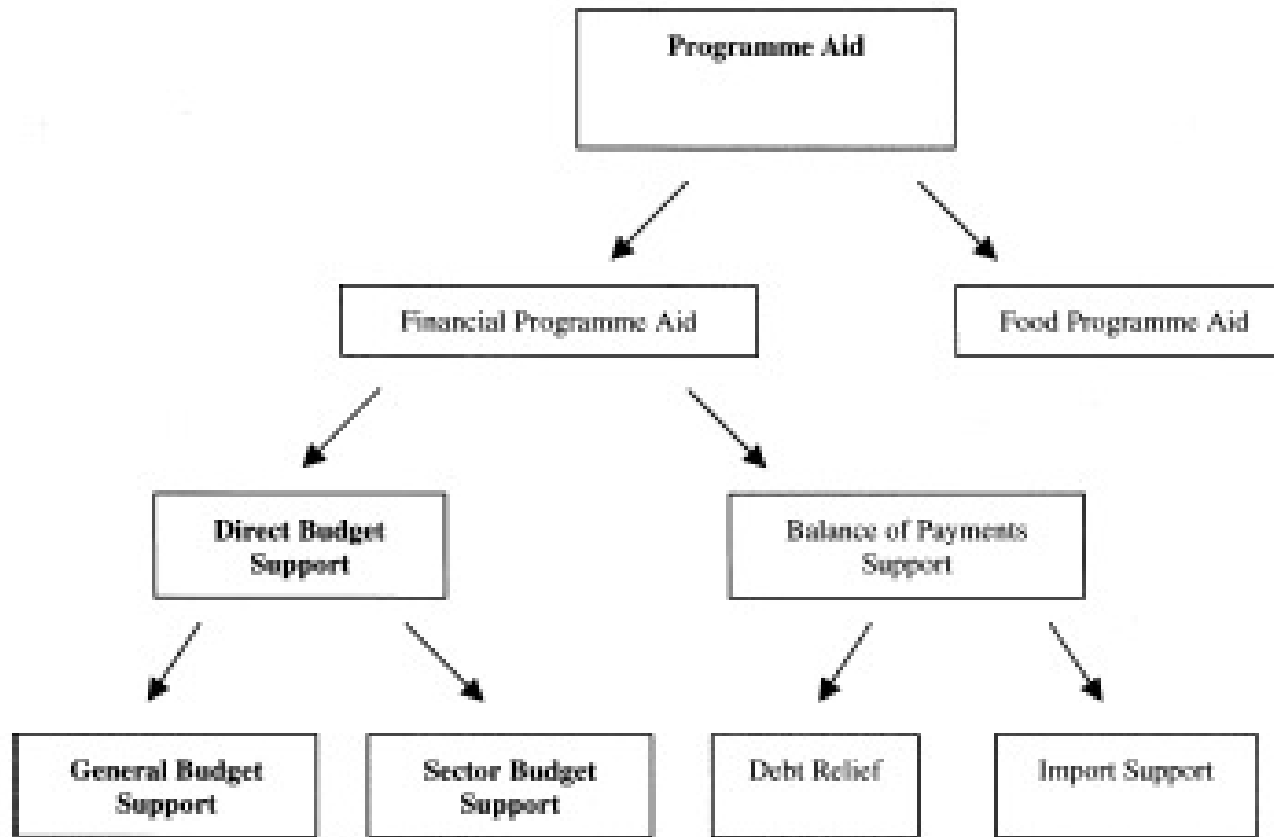


Cos'è il General Budget Support?

- 'Nuova' modalità di canalizzazione degli aiuti, basata su trasferimenti diretti al bilancio del paese ricevente, per sostenere la spesa pubblica in aree prioritarie
- Nato dalla percezione di eccessiva frammentazione degli aiuti e dalla necessità di promuovere titolarità (*ownership*)
- 20-25 paesi riceventi, 5% degli Aiuti Pubblici allo Sviluppo a livello globale, ma in alcuni paesi raggiunge il 30%
- Legato a meccanismi di coordinamento e di dialogo sulle politiche di sviluppo (*policy dialogue*) e a piani di lotta alla povertà (*Poverty Reduction Strategy Papers*)



Cos'è il General Budget Support?



Source: Adapted from White (1999).



Argomenti pro e contro il GBS

▪ PRO

- ⇒ *Approccio 'olistico'*
- ⇒ *Rafforzamento delle istituzioni locali*
- ⇒ *Titolarità (ownership) delle politiche di sviluppo*
- ⇒ *Rafforzamento della rendicontazione (accountability) domestica*

▪ CONTRO

- ⇒ *Rischio di corruzione*
- ⇒ *Eccessivo coinvolgimento dei donatori nei processi di policy-making*
- ⇒ *'Ventriloquismo'*
- ⇒ *Volatilità*



Risultati della valutazione DAC

- Valutazione dell'efficacia del GBS in 7 paesi
- Risultati in media positivi
 - ⇒ *Aumento della spesa prioritaria, della sua efficacia, e della discrezionalità del governo*
 - ⇒ *Sistemi di pianificazione e bilancio e capacità governative rafforzate, migliori incentivi alle riforme*
- Ma...
 - ⇒ *Scarsa riduzione di altre modalità*
 - ⇒ *Vulnerabilità al rischio politico*
 - ⇒ *Comportamento intrusivo dei donatori*



Alcune possibili soluzioni?

- Monitoraggio costante della qualità dei sistemi di gestione delle risorse pubbliche (PEFA, etc.)
- Migliore dialogo a livello politico
- Più attenzione ai risultati, meno a processi e politiche



Tensioni e tendenze

- Il problema della rendicontazione domestica dei donatori (Rapporto NAO, etc.)
- Il GBS come parte di un portafoglio di strumenti e modalità in ogni paese
- La confusione tra gli obiettivi di riduzione della povertà e quelli di sviluppo istituzionale
- Andare oltre la dicotomia progetti/GBS e la Dichiarazione di Parigi? Verso una *'carta dei principi sulla qualità degli aiuti'*



BUDGET SUPPORT IN FRAGILE STATES

maybe “the worst form of aid, except for all those other forms that have been tried from time to time”?

Karin Kristiansen

ActionAid workshop on GBS

26th February 2008



Should we do it?

- We already are:
 - E.g. Rwanda, Afghanistan, Sierra Leone
- Often using:
 - TRMs (simpler PRSPs with security in), Multi-Donor Trust Funds, 'horizontal programming'...



What is a “fragile state”?

- Limited consensus
- Range of terms, characteristic, definitions/indexes
- Ultimately based on subjective judgements
- ‘Difficult partnerships’ - relationship definition (about both states), between two actors/countries e.g. UK-Zim, Fr-Rw



What is different about fragile states situation?

Often/sometimes involves:

- 'Under-aided'
- High, sudden inflow of external finance
- Large number of external actors; fragmented national actors → complex fragmented set of relationships
- Humanitarian footprint – aid delivery → institutionalised parallel systems
- State avoidance assumption
- Weaker national institutions



Findings on donor behaviour and aid in fragile states

- It isn't really about modalities but donor behaviour as a whole (NB. you can do BS badly)
- The more fragile the state, donor behaviour is likely to matter
- Cycle of (understandable) state avoidance 'cos of weak institutions but → weaker ones (asset stripping)
- Might be hampering state formation
- Probably undermining their own objectives



The potential impact



So why would anyone risk BS?

The 'other logic' to BS: 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'



Challenges for donors on BS?

- All the other modalities and activities are still out there → need for consolidation
- Keeping it simple – very limited number, realistic, sequenced priorities in perf. assessment framework (PAF)
- Building policymaking, PFM, accountability systems
- Processes-based conditions/benchmarks
- Managing domestic politics
 - Corruption and fiduciary risk expectations
 - ‘Political shocks’ and demand to punish(But alternatively “we might as well give all our aid Norway”)
- Needs country leadership and capacity for managing external actors



Conclusions on BS in FS?

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



SITUATING LOCAL GOVERNMENT IN DIRECT BUDGET SUPPORT

Gabriele Ferrazzi

Jesper Steffensen

presentation to the conference

“Is General Budget Support the best way for aid?”



Aim of presentation

- Indicate how decentralization/local government (D/LG) has been situated in direct budget support
 - Describe key ways D/LG is being addressed
 - Raise questions/issues
- Suggest what might be good practices



Overall Context for DBS (General and Sector BS)

- **DBS is a modest proportion of aid**
 - About 20% of reported aid (OECD Monitoring the Paris Declaration, 2007, pg. 75)
- **but a growing aid modality**
 - Paris Declaration principles: by 2010 66% of aid for the government sector using common arrangements through program based approaches (e.g. DBS)
- **DBS has shown some positive results**
 - OECD-DAC evaluation 2006
- **DBS has been national in focus**
 - PRSP, MDGs, sector policies
 - TA targeting



Why DBS should be LG* friendly

- Rationale for DBS mirrors that for intergovernmental decentralization:
 - increases discretion, and thereby scope for matching expenditures to objectives and
 - predictable financial flows to facilitate planning
 - maximizing efficiency; increase performance in governance and service delivery.
 - reduces transaction costs in preparation, implementation and monitoring
- LG (general purpose; 100,000-1,000,000) is increasingly charged with regulation and expenditures associated with what has been focus of DBS;
 - poverty reduction,
 - achievement of MDGs,
 - service delivery
- But this natural affinity is not always reflected in DBS design

* LG here refers to sub-national government – explicit mention of federal case is made in presentation

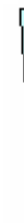
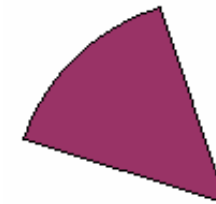


**How is D/LG taken into account in DBS?
Must look at different ways D/LG fits in DBS:**

Type of DBS having a LG dimension

- National level DBS (general or sector); can address decentralization (D)/local government (LG) with D/LG indicators/targets possibly placed in the Performance Assessment Framework alongside macro-poverty ones
- DBS (national level) can be entirely focused on D/LG “sector”
- DBS can be provided to LG

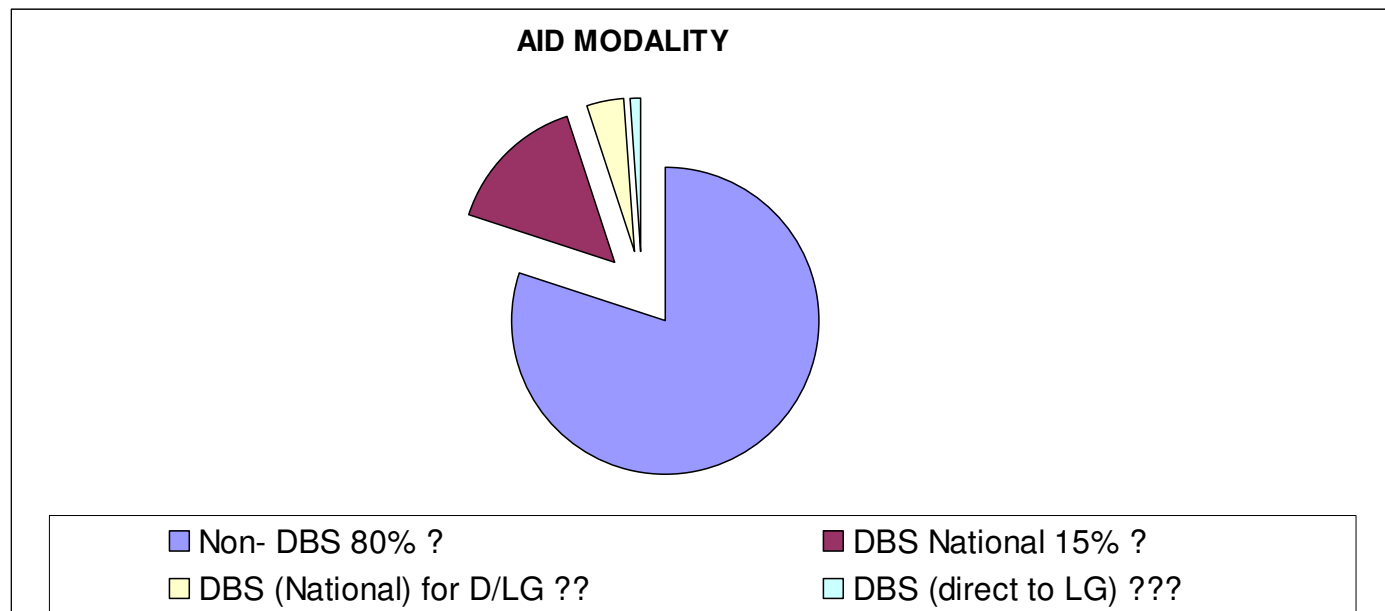
Icon code for type of DBS



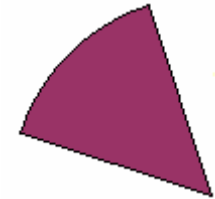
Magnitude of aid modalities

Data scarce - but if guess had to be made:

- If **ODA is \$ 100 billion/year**, DBS is maybe **\$ 20 billion/yr**
- DBS focused on D/LG may be **several hundred million/yr**
- DBS to LG: If 10 countries (mostly Africa) each reach 10 million, and average is \$1/person, then ~ **\$ 100 million/yr**



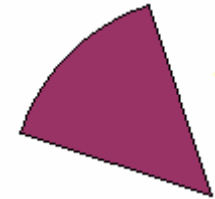
Ghana: D/LG in national GBS that is focused on poverty reduction



- Multi Donor Budget Support (MDBS) focused on the Growth and Poverty Reduction Strategy (initiated in 2003): about USD 300 million/yr
 - GPRS II has a section in its policy matrix for “enhancing decentralization”
- MDBS takes up decentralization theme with a broad goal of “implementation of National Decentralization Action Plan”
- In GoG –DP dialogue forums, the Decentralization Working Group seeks to raise the issue of decentralization in the MDBS forum
 - e.g. seek to raise Ghana’s district assembly fund (5% to 7.5% of national revenues)



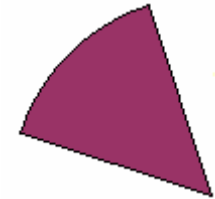
Pakistan: D/LG in health sector BS



- DfID sector budget support to federal government -National Health and Population Welfare Facility (NHP)
- £60m of financial aid (in eight 6-monthly tranches) and up to £4m for TA over 4 years (began in 2003)
- Focus is to spur, and support, federal level Ministry of Population and Welfare and Ministry of Health in (Policy Units and 7 “vertical programmes”)
- Provincial/district mentioned; to be assisted through federal organizations.



Uganda: both GBS and SBS



- Comprehensive general and sector budget support
- Large part of this is allocated to the GoU's budget for further transfer to the LGs through the unconditional and conditional grant schemes (earmarked through the Poverty Action Fund window)
- Ensure a relatively high level of grants to LGs, although mostly earmarked for sector-specific activities
- DBS is a tool for mainstreaming Development Partners (DP) support
- New Decentralisation Strategy and LG Sector Investment Plan whereby decentralisation is treated as a SWAp – pooled DP funding, funding against the overall plan.
- Strong DP coordination



Indonesia: example of DBS (national) focused on “D/LG sector”



- Several policy based loans (program loans) have been seen in the “D/LG sector” in Indonesia since reforms began in the late 1990’s;
 - e.g. Asian Development Bank’s Local Government Finance and Governance Reform Program: \$ 300 million over 3 years.
- Connected to National Development Planning Agency or Ministry of Finance
- Broad set of policy conditionalities/triggers for tranches
- Small amount of TA to support partner’s efforts toward agreed targets
- Loans finance TA to LG actors



Table of selected Performance Based Grant Systems (GBS to LG):
Source Jesper Steffensen 2007

Features	Uganda (2000-	Ghana (2007-	Nepal (2002-	Indonesia (2005/06-	Bangladesh (2004-
Minimum conditions	Yes (8)	Yes (9)	Yes (14)	Yes (> 20)	Yes (4)
Performance measures	Yes (~120)	Yes (57)	Yes (53)	No but entry level conditions	No/Yes in the pilot (41)
Assessment	Combined teams	Fully contracted out to the private sector	Contracted out	Submission of documents to project office	Previously citizen-based Now external audit
Scoring	Rewards/sanctions against fixed scoring	LGUs are scored relative to each other in a given year	Rewards/sanctions against fixed scoring	Passing of various reform levels	Rewards against fixed scoring
Formula	Population + land area (+ performance adjustment)	Population, land size, equal share, performance adjustment	Population, HDI, cost index, equal share (+ performance adjustment)	Selection based on "reform-mindedness" and poverty	Population (+ performance adjustment)
Coverage	Nationwide	Nationwide	20 Pilot districts (nationwide roll-out pending)	Piloting with ~40 districts	Gradually rolled out
Funding	GoU	GoG + DPs	DPs: Future GoN	Gol and DPs	GoB + DPs



Yemen: GBS to districts – the case of Local Authority Development Fund (LADF)



- LADF is lead by UNCDF/UNDP lead with Social Fund for Development (SFD), Italian Government, USAID, and DANIDA contributions
- Designed as “pilot”; 28 districts out of 333 districts
- LADF contribution of ~ \$ 100,000/district (2006) on average but dropping to ~ \$ 50,000 in 2007; about \$ 1/person-yr
- Formula based allocation (e.g. population, service coverage)
- 80% capital and 20% operation and maintenance
- Transferred through national level
- Some conditionalities for eligibility (production of the long term and annual plans, investment plan and budget)



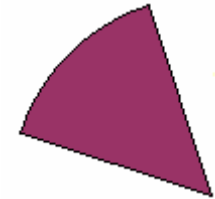
Ghana: GBS to districts – still in planning stage



- Multi-donor (CIDA, KfW, Danida, others)
- National coverage – all districts
- Transferred through national level
- Development grant with performance incentive (subject to minimum conditionalities and annual assessment)
- Development grant is formula based (equal share/population/geographic size)
- Functional and Organisational Assessment Tool (FOAT); financial management focused – decides incentives
- Capacity development plan to align with FOAT (10% of pool)
- Will be in the range of 1-2 US\$ per capita – still to be defined
- Investment focused
- Discussions of level of earmarking of DP support (to grant system versus support to the overall Dec. Strategy)



Questions & observations on national GBS (poverty reduction focus) and Sector BS (1)

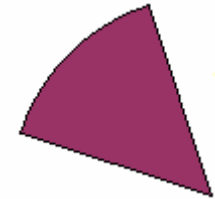


How is D/LG treated in DBS/PAF? - a wide range is evident:

- GBS: Vietnam - no mention of D/LG
- GBS: Malawi/Zambia/Ghana/Madagascar - D/LG is marginal
- GBS: Uganda – Decentralisation is covered in matrix but still insufficient
- GBS: Bangladesh, Bhutan and Solomon Islands - emerging earmarked budget support to fiscal transfer systems, but yet to be included in the overall PA frameworks
- GBS: Mozambique - only injected at later stage
- Sector BS: Pakistan in health mentions LG but as a marginal element, whereas
 - health is mainly constitutional jurisdiction of provinces
 - devolution program pushed by federal govt. (2001) devolves basic health and most hospital care to districts
 - capacity challenge is greatest at district level – where programs must mesh with district politics and administrations



Questions & observations on national GBS (poverty reduction focus) and Sector BS (2)



- How many DBS indicators/targets related to D/LG become the focus of joint partner-donor monitoring?
 - D/LG dialogue in Ghana is hardly visible in context of MBDS
 - Uganda has elements, but still insufficiently linked
- To what extent has complementary TA been aligned with the D/LG elements of DBS?
 - In Ghana and Uganda, very inadequate levels of TA focused on the specific indicators
 - Pakistan: focus is on federal level – neglecting LG
- To what extent is the GBS influence on LG capacity and service delivery examined?
 - This downstream consideration is not given much attention
 - May be the case that decentralization makes DBS successful, or DBS spurs decentralization (funds to LG, policies)...but not really understood.
 - Only one case study – Uganda as part the overall OECD evaluation of GBS

Questions & observations on national DBS focused on “D/LG sector” (Indonesia)



- To what extent have these been part of a Sector Wide Approach?
 - IFI lead, with narrow linkages to Gol, and other donors on the periphery
- To what extent has complementary TA been aligned with the D/LG elements of the DBS?
 - TA was inadequate from IFIs doing the DBS; it came largely from bilateral projects – but with little coordination on focus/sufficiency to meet targets
- How has the DBS influenced D/FG policies and performance?
 - Assessment of the policy based loans has been minimal, but that done by ADB indicated it was “partly efficacious”
 - Tranches disbursed even if targets achievement was low
 - D/LG policies showed some improvement, but probably due to Gol and other donor support
 - Actual performance of LG has been slow in coming, esp. on service delivery



Questions & observations on national DBS focused on “D/LG sector” (Ghana)



- Only some of the MBDS (e.g. EC, KFW) may support separate D/LG focused DBS
- Initial response from GoG has been cool (from Ministry of Local Government and Rural Development, although more positive from MoF)
- How will the new and focused DBS relate to the existing MDBS?
 - Will D/LG be dropped from MDBS?
 - Will focused DBS be more elaborated?
 - Will it be large enough to attract attention of GoG?
- Will TA complement be better defined and sufficient?
- Will the D/LG DBS be part of a SWAp for this “sector”?
 - Many large old fashioned projects still dominating D/LG sector
 - New donor District Development Fund (GBS to districts) being developed- adds to complexity; but holds some hope for shifting from projects...- will depend on the overall strategy for fiscal decentralisation



Questions & observations on GBS to LG (1)

- Performance Based Grants/Local Development Funds can help to
 - pursue better LG performance (financial management/good governance procedures, e.g. transparency)
 - initiate a sound discussion on the ways and means to improve performance, competition and innovation
 - identify capacity building gaps and link between funding and TA support
 - ensure better linkage between grant allocation and LG absorption capacity through the minimum conditions
 - possibly to lead to better service provision (not studied sufficiently)
 - shift donor efforts away from poorly coordinated project modality

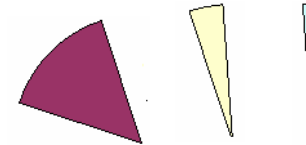


Questions & observations on GBS to LG (2)

- They may however experience some disadvantages:
 - may be limited to “pilot” LG with uncertain future (Yemen)
 - if national in reach, they may not have a clear path to institutionalization (e.g. so far in Ghana)
 - may have been developed to avoid problematic national government (e.g. Ethiopia) – where is it going then?
 - are usually limited to investment – can lead to mismatch capital and operational if not properly designed and linked to other grant schemes
 - demand stronger capacity at the central government level to handle the performance assessments
 - may not be aligned with regular planning/budgeting cycle
 - small allocations may be seen as marginal by all parties – even as learning tool
 - may be poorly connected to dialogue and reforms on D/LG, i.e. they cannot stand alone



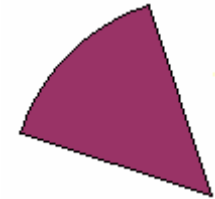
Possible good practices for all forms of DBS



- Donor policies on DBS need to be explicit on role of LG/Decentralization (they are not now)
- LG, esp. via associations, need to be given a strong voice in DBS design (they are now marginalized, except perhaps for GBS going to specific LG)
- TA packages should be sufficient to assist partners (at relevant levels) to achieve D/LG policy objectives/targets; ODA needs to find balance between DBS and TA (DBS over-commitment can leave donors without room to fashion adequate TA)
- Need to explore and be cautious about the linkages between sector specific BS and support to decentralisation (often contradictory)



Possible good practices for national DBS focused on poverty reduction



- LG, esp. via associations, need to be given a strong voice in DBS design, particularly PAF, monitoring, and dialogue.
- PAF/dialogue in DBS needs to be meaningful on D/LG; more specific targets and focus on strategic issues (not smaller details).
- Strong coordination on the support to decentralization through joint Government –DP working group on decentralization

For most countries doing DBS, this is where D/LG may get biggest boost



Possible good practices for D/LG “sector” BS



- Because of focus on D/LG, and smaller in size, it may give “non IFI” donors a more comparable contribution and equal voice within funding donor group - and more coherent donor voice in the policy dialogue with government
- This modality may best be workable within a SWAp for the D/LG sector - all contributing donors having a say in design, monitoring and dialogue
- Should pay particular attention to partner capacity to coordinate donors in D/LG sector
- Should be based on a national strategy, action plan and implementation arrangement for decentralization (DPs can assist with this through the TA support)

Now few; should probably be more of these,
better designed and TA supported



Possible good practices for GBS to LG

- May be appropriate when
 - Federal units are receiving it (if have jurisdiction over LG)
 - National level is not ready
 - Piloting of intergovernmental relations is needed
- For piloting of intergovernmental relations schemes
 - GBS per capita should be large enough to be credible and gain attention of LG and central level actors
 - Should have a clear path for institutionalization from start, within intergovernmental relations (e.g. financing)
 - Must not detract attention and energy from fundamental decentralization reforms (assignment of functions, overall financing, planning system, supervisory system)

Should largely be transitory, for piloting - a small part of DBS



Thank you – and final thought

If Accra 2008 's meeting of donors and partners is where **civil society** is brought into the fold of the DBS dialogue...

will 2009 be **Local Government's** turn?

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UGANDA GBS EXPERIENCES FOR WOMEN RIGHTS GROUPS AND CIVIL SOCIETY

Paper Presented at the General Budget Support Seminar

Presented by

Sophie Kyagulanyi Bakkide

Policy Analyst - Governance



Outline



- **Background**
- **GBS Achievements for Uganda.**
- **Womens rights CSO's concerns on GBs.**
- **How can GBS work better.**



Background

- Ability to use aid effectively based on a system of public expenditure management.
- Fiscal and budgetary discipline linked to systematic medium term planning and budgeting, as guided by the policies and objectives of the Poverty Eradication Action Plan (PEAP).
- Service delivery decentralised to local governments.
- Governance matrix raising issues not covered by PRSC matrix



Figures on Budget Support

Total Partnership GBS Disbursement (USDm)									
	1998	1999	2000	2001	2002	2003	2004	TOTAL	%
	66	39	176	311	369	405	409	1775	45%

Donor budget support to Uganda is no small sum. Below is their contribution to the national budget between June 2005 and June 2008.

In 2005/06 donors provided 40%

In 2006/07 they provided 42%.

In 2007/2008 it reduced to 38.7% of the total resource envelope of 5,025 billion USD



Achievements

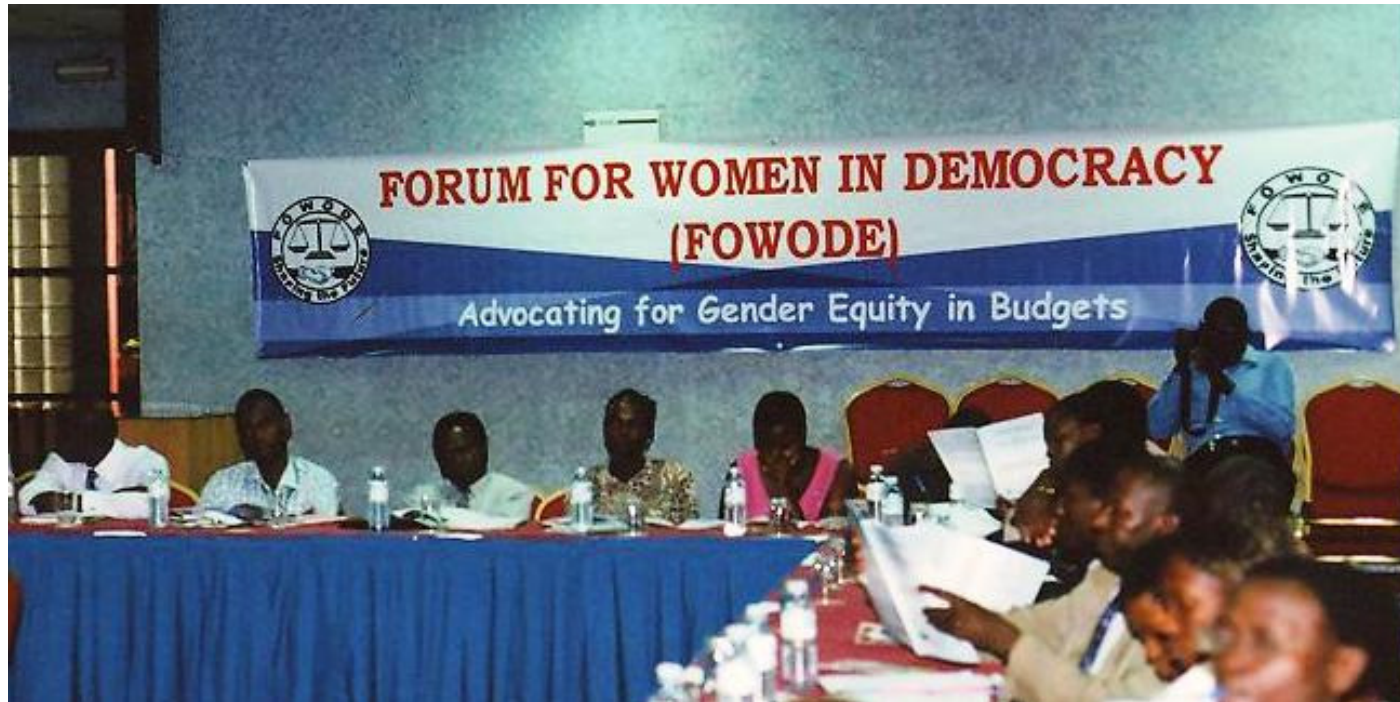
- **GBS Achievements for Uganda**
 - **Policies and Policy Processes.**
 - **Delivery of Public services.**
 - **Ownership.**
 - **Governance Matrix.**



Civil Society Concerns on GBS

- **Womens rights CSO's concerns on GBS**
 - **New role of CSO'S**
 - **Political governance**
 - **Government favouring easier approaches to Gender.**
 - **Use and allocation of DBS confined donors & Ministry of FPED.**
 - **Donor harmonisation limits introduction of new Agenda items**





- Reduction of funding available to CSO's
- Failure for CSO's to capitalise on accountability space.
- Donors less attention to strengthening the role of parliament.



Recommendations

- **How can GBS work better.**
 - Changes in Donor recipient government relations
 - GBS engaging in wider consultative processes.
 - Strengthening institutional structures to avoid gender issues being lost
 - Strengthening ownership by supporting parliament to obtain technical capacity in decision making.
 - Support to CSO's holding their government accountable



BUDGET SUPPORT

UK Experience



Why do we deliver budget support?

- Governments matter
- In the right circumstances, budget support helps governments deliver core functions:
 - Rwanda it has helped the government to build financial and political stability
 - In Ghana and Tanzania it helped stabilise the macro economy
 - Mozambique, it has helped government spend more money on poor people. Built 3,300 new classrooms a year, and a 50% increase in the number of children in school from 2.3 million on 2000 to 3.7 million in 2004
- Budget support enables governments to be accountable for its actions and responsive to its citizens
- Because budget support uses government systems it helps strengthen them.



Managing Risks

- Deliver budget support where it is appropriate – commitment to poverty reduction, strengthening human rights, improving PFM and governance; and if benefits > risks
- Protect funds
 - Risk assessment based on PEFA and checked by external experts
 - Ensure governments have credible reform programme to improve their systems
 - Use safeguards where appropriate



Maximising Impact

- **Combine budget support with other interventions**
 - Strengthen accountability between state and citizens
 - Build capacity to formulate, implement monitor and evaluate policy
 - Strengthen analysis of use and impact of government expenditure
- **Design and deliver budget support effectively**
 - Predictability
 - Align monitoring and review processes with government systems
- **Strengthen the way other aid is delivered**
 - Aid flows delivered outside government systems and plans undermine possible impact of budget support.
 - Paris Declaration agenda – aid on budget, coordinated technical assistance.



What has budget support achieved?

- **Reinforced and built effective states**
 - Stronger budget and planning processes
 - Better public financial management systems
 - More accountability within government (between MoF and sector ministries); basis for stronger accountability between gov't and citizens
- **Effectively and efficiently delivering aid**
 - Lower costs for government of spending aid
 - All government spending allocated more efficiently
- **Delivering results**
 - Malawi – health spending increased from \$15m in 2000 to \$46m in 2005; u-5 mortality rate fallen 30% since 2000.
 - Rwanda – budget support enabled free primary education in 2004, 900 new primary schools built, 500,000 more children in school.



When budget support is not appropriate

- BS will not always be most appropriate way of delivering aid:
- If government committed to poverty reduction but weak plans, weak systems and little likelihood of improvement
 - Multi-donor trust funds effective
 - Sector support
 - Mirror features of budget support as far as possible
- If government not committed to reducing poverty; deliver through civil society and UN organisations



DFID policy

- Policy up-dated February 2008 see: <http://www.dfid.gov.uk/news>
- Main changes:
 - Budget support in the mix
 - Clarity over when we will use budget support
 - Stronger focus on political governance
 - Best practice in design and delivery



EUROPEAN COMMISSION BUDGET SUPPORT

Presentation by

Frans Baan

Economic Governance and Budget Support

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Economic governance

- **BS is part of a bigger picture**
- Public Financial Management
- Focus on poverty reduction and growth strategies
- Transparent management of resources
- Providing solid basis of fiscal revenue



Budget support

- Is bridging a gap, is of temporary nature
- Assisting on focusing on improved PFM, internal controls, domestic accountability, revenue collection
- Supporting achievement of MDG targets and in particular in the social sectors
- Looking inside the kitchen, leverage effect



Budget support

- Evident link to harmonization, alignment, supporting national systems, reducing transaction cost
- In line with aid effectiveness
- 2008 year of truth, ACCRA, DOHA...
- Also: joint programming: budget support is the preferred modality



Perceptions of Budget support

- Risky, no direct controls
- Lack of visibility
- Money is fungible (corruption, military expenditure, extravagant expenditure..)
- Difficult to grasp (local authorities, civil society, parliament, press)
- Focusing on government (NSA?)



European Commission

- Budget support is important
- Characteristics: rigor and innovation
- Fragile states
- Debt issues
- Conclusions



EC budget support facts

- In 10th EDF 44% of total assistance (out of 13.5 billion) from 25% 9th EDF
- Number of countries: 43 in the 10th EDF, only 25 in the 9th EDF
- GBS: increase moderately 24.7 to 28%
- SBS: increase up to 16%
- Still skewed: 10 biggest BS countries absorb about 60%



Specific characteristic

- Eligibility criteria (policy in place, stability, PFM)
- What matters=partner's commitment
- Result oriented because:
 - Creates space for Gov policy
 - Encourage evidence based policy analysis and policy making
 - Stimulates demand for high quality data



Characteristic (2)

- Fixed / variable tranches
 - On average 65-35
 - Leverage effect
 - Transparent assessment
 - Appreciated by central Ministry
 - Agreed country-owned indicators



MDG contract

- For selected countries
- 6 years commitment
- Fixed annual amount/ mid contract review
- Monitoring process: annually
- Safety valve: withholding mechanism
- Eligibility (track record, GBS foreseen, Gov led coordination/medium term horizon)



Fragile States

- In post emergency, stabilization phase
- Coordination is crucial
- Policy frameworks being put into place
- Eligibility criteria honoured
- One year, more flexible mechanism
- Is labour intensive
- More risky, very much needed (salaries..)



Debt

- You are on your own...



Conclusions

- Linkage budget support – (economic) governance
- Is preferred modality but not without risks (nothing is without risks)
- Centre of attention: PFM, budget performance, commitment
- Need for scrutiny of the system: Parliament, civil society, press, local government (info, training, demystify BS)



GENERAL BUDGET SUPPORT; A “DUTCH TREAT”

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Overview

- Facts and figures
- Focus of presentation
- Relevant characteristics of Dutch Development Cooperation
- Basic tool for BBS appraisal; “Track Record”
- Rationale for “promoting” GBS
- Issues for discussion



Dutch Facts and Figures

- We use GBS-modality since 1991; intensively since 1998; (Mali and Uganda 10 years in a row)
- In 1994 GBS policy is spelled out/operationalized
- In 2007 19% of all Dutch bilateral assistance to partner countries was provided as GBS
- 1998-2006 15 partner countries in Sub-sahara Africa received 800 mln EUR; 10% of total bilateral assistance; in 9 countries even more than 30%
- We came in second in last years (SPA) budget support “beauty contest”, behind Ireland



International Facts and Figures (SPA data)

- Is there a budget support “glass ceiling”?
- WB and EC see Budget support drop from around 50% of portfolio to about 30%; No GBS growth in Africa!
- Only DFID (and AfDB?) provides around 50% of bilateral assistance as budget support
- Quality of budget support provided (performance of donors) is improving, according to clients
- Quality (predictability and accountability) seems to be of even greater importance than quantity of GBS



Focus of presentation

- Focus on GBS in regular “MDG partner-countries”;
Only now is a framework for BS-use in fragile states being developed (one slide at the end)
- Primary focus on General Budget Support; Sectoral Budget Support is much smaller in size and conceptually messy (one slide at the end)
- Clear distinction made between structural BS and incidental BS (e.g. floods/oil-price increases plus resulting BoP problems; decision ad hoc, yet on basis of international data & agreement)



Relevant characteristics of Dutch Development Cooperation

- High degree of decentralised decisionmaking/staffing
 - embassies are, generally speaking, in the driver seat in terms of implementation
 - HQ sets financial and general policy frameworks
- Exception to this rule is the assessment of whether a country qualifies for GBS (“Track Record Analysis”):
 - Embassies draw up the Track record; yet The Hague is to give clearance
 - TR approval is key element in approval of (multi) annual plan drawn up by embassy



Basic tool for GBS appraisal; “Track Record analysis”

Cluster A – Poverty Reduction	Cluster B – Economic Management	Cluster C - Good Governance	Cluster D – Dialogue
A1 - Poverty Reduction Policy	B1 – Macro- economic (stabilisation) policy	C1 - Public Finance Management	D1 – Quality of Policy Dialogue
A2 - Political Commitment to Poverty Policy	B2 - Business Climate & Structural Reform	C2 - Basic Conditions for Good Governance	D2 - WAS: Harmonisation & Alignment; now Paris Survey



Use of track record

- Main purpose of instrument: to assess the modality“ceiling”: project, program or GBS
 - Emphasis on ceiling: always a modality mix
- Role HQ: to objectify through cross-country comparison and benchmarking (CPIA/IRAI)
- TR structures the decision-making process; exceptions are possible yet require special approval
- Though a “Dutch” instrument (aligned?) most clusters are based on joint donor assessments such as PEFA, PRSP-review; also input from others welcomed



Rationale for “promoting” GBS

- Allows for deepening of dialogue (on both effectiveness and legitimacy issues); creates basis for true partnership
- Helps strengthen PFM: both through capacity assessment and development as well as through improving (donor!) funding predictability
- Addresses some of the key weaknesses of project aid
 - Increases ownership and coordination
 - Improves alignment (policy and system)



“Extra” slide on: Budget support in Fragile States

- New policy priority: fragile states (a more political development cooperation; BS not to be excluded)
- Initial proposal:
 - Same track record used to “X-ray” fragile states
 - Only dialogue and commitment count; less strict
 - Added test of “contributing to stability”
 - Default of multi-donor trust fund arrangements
- Afghanistan, Burundi, Rwanda, Palestinian Ter., Kosovo
- PS: more political development cooperation also means discussing fragility concerns in countries like Colombia



“Extra” slide on: Sector Budget Support

- Issues of definition and measurement: Follow DAC?
- SPA estimates SBS at around 10% of GBS; relatively large contribution by EC (36% vs 14% in GBS)
- We distinguish notional earmarking (GBS with sectoral dialogue; Education Uganda) and earmarking of funds to sectors (AG requires one time additionality; no cuts); linked to domestic “MDG” commitments
- Also used in case of concerns over quality of service delivery (education in Tanzania/Uganda) and in case of “weak” policy areas (e.g. environmental ministries)



Challenges to donors

- Medium term predictability: 85/70/35% ('08/09/10)
- Reduction of transaction costs
- Finding right modality mix: GBS is not “solve it all”
- Approaches to conditionality, progress/performance measurement and tranching (e.g. WB, EC, NI.)
- Joint assessment and graduated response



Areas of criticism; Issues for discussion

- Vulnerability to criticism: successes not visible; GBS-modality hit hard in case of corruption
- Domestic accountability: inward (Parliament) and downward (local government)
- Role of civil society: here (complementarity) and there (voice)
- Demonstrating impact on growth and poverty



IS GENERAL BUDGET SUPPORT THE BEST WAY FOR AID?

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Spanish Agency
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1. Spanish Experience
2. Case study
3. Capacity Building
4. Technical Guidelines
5. Perspectives for the future



1. Spanish Experience and trends

- 2005: 17 M Euro (Honduras, Mozambique, Vietnam)
- 2006: 23 M Euro (El Salvador, Haiti)
- 2007: 52 M Euro (Bolivia, Nicaragua, Dominican Republic, Cape Verde, Namibia)
- 2008: 70 M Euro



1. Spanish Experience and trends

- Why this increase?
 - Paris Declaration
 - Master Plan for Spanish Cooperation (2005-2008):
 - Quality of the Spanish ODA
 - Increase of the Spanish ODA
 - OECD DAC Peer Review 2007



2. Case Study: Cape Verde

- Strengths:
 - Donor's side:
 - Long process of joint work
 - Multi-year commitment
 - Multilateral MoU
 - Adaptation to Cape Verde's budgetary cycle
 - Partner country's side:
 - Sound and comprehensive Environment Plan
 - Commitment to reform
 - Clear progress
 - Dialogue ownership



2. Case Study: Cape Verde

- Weaknesses:
 - Donor's side:
 - Weak harmonisation (donor specific requirements)
 - Weak capacity for political dialogue
 - Weak presence on the field
 - Partner country's side:
 - Overloaded staff
 - Misunderstanding of the SBS (local level)
 - Performance assessment



3. Capacity Building

- Dissemination of good practices
 - Coordination meetings
 - Country office reports
 - Workshops and seminars
 - Technical Guidelines



3. Capacity Building

- Organization of seminars at headquarters and in country offices:
 - Policy Dialogue (new actors, roles, civil society, dialogue spaces, influence strategies, cases studies)
 - Budgetary Aid
 - Basic (Paris Declaration, main concepts, eligibility criteria, risks)
 - Advanced (Results-orientated approach, country planning, budgeting, and monitoring, PEFA, CFAA)
 - General Budget Support (public financial management, budget cycle, MTEF, MTFF, audit)
- Workshop in June 2006 (DFID, SIDA and EC) to discuss the Technical Guidelines' first draft.



4. Technical Guidelines

- Main characteristics of the Guidelines
 - Created by a Task Group
 - Open document to debate
 - Operative and practical
- Objectives
 - To explain the principle concepts of budgetary aid
 - To establish main country eligibility criteria
 - To study the cycle of an operation
 - To settle the main internal procedures
 - To set guidelines on MoUs, according to the Nordic Plus Practical Guide to Joint Financing Arrangements



4. Technical Guidelines

- Contents:
 - Concepts
 - Eligibility Criteria for setting up a budget support
 - Management Cycle in budget support operations
 - Internal procedures (administrative and legal aspects)
 - Case study: Mozambique
 - Roles and capacities in AECID
 - Glossary
 - References of Use
 - Annexes



4. Technical Guidelines

- Eligibility Criteria for setting up a budget support
 - AECID
 - Presence in the country (delegated cooperation)
 - Priority country and sector
 - Experience and leadership
 - Economic and temporary dimension
 - Coherence and complementarity
 - Partner country
 - PRSP or Sector Plan
 - Interest and political will
 - Basic Public Sectors
 - Political and macro-economic stability
 - Country leadership and absorption capacity
 - Donors
 - Harmonization and alignment
 - Operations in process on the field



5. Perspectives for the future

- Paris Declaration and the European Consensus for Development
 - Paris Declaration Action Plan
 - Code of Conduct –Division of Labour
 - MDG Contracts
- Master Plan for Spanish Cooperation 2009 – 2012 + Country Strategy Papers



5. Perspectives for the future

- Challenges:
 - Funds devoted to GBS/ SBS
 - Long-term commitments
 - Real harmonisation and alignment
 - Capacity building
 - Lessons learnt from the last three years
 - Strategic planning
 - Coordination with the autonomous cooperation
 - Public opinion awareness



5. Perspectives for the future

- Reform of AECID

[Recent constitution (9/01/08) according to the *Act of State Agencies for Public Services*]

- More flexible and functional (new structure)
- Effective internal coordination
- Strengthening of the staff (expertise)
- Increased field offices' capacities
- Increased mobility between headquarters and field offices
- Awareness-raising role

