



Institute of Development Policy and Management (IDPM)

New aid modalities: Preliminary remarks

DGOS Training on budget aid

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Outline

1. 'Old' and 'new' aid instruments

- Project aid
- General Budget Support (GBS)
- And everything in between

2. Budget support: facts and figures

3. Managing budget support

- Deciding on budget support
- Policy dialogue and conditionality
- M&E
- Donor harmonisation

1. 'Old' and 'new' aid instruments

The essence of project aid

=

micro-level earmarking

A typical simple logic model for a project

Impact	<ul style="list-style-type: none"> •Reduce mortality rates for children under 5 years old (dimension of poverty reduction)
Outcome	<ul style="list-style-type: none"> •Improved use of ORT for managing childhood diarrhea
Intermediate outcomes	<ul style="list-style-type: none"> •Increased maternal knowledge of ORT services •Increased access to ORT services
Outputs	<ul style="list-style-type: none"> •15 media campaigns completed •100 professionals trained in ORT
Activities	<ul style="list-style-type: none"> •Launch media campaign to educate mothers •Train health professionals in ORT
Inputs	<ul style="list-style-type: none"> •Trainers •ORT supplies •Funds

Source: Kusek et al. (2005), Kuzek, J., Rist, R., White, E. (2005). 'How Will we Know the Millennium Development Goal Results When We See Them?'. *Evaluation*, Volume 11(1): 7-26. .

Relative strengths and weaknesses of project aid

Strengths

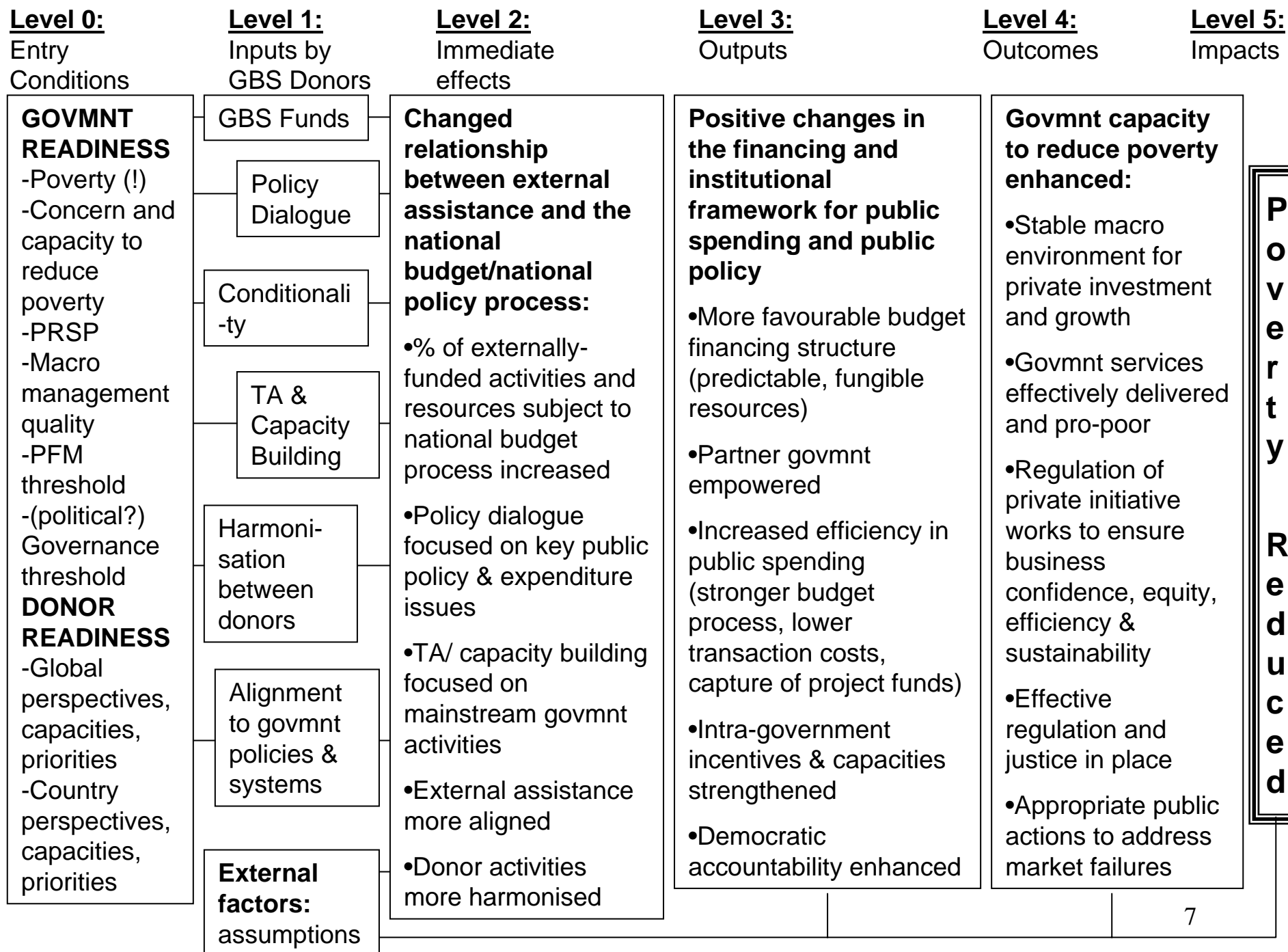
- Allows addressing genuine poverty issues at local level
- Even in absence of a 'development state'
- Relatively simple to manage and supervise (log frame)
- High donor commitment
- High donor accountability

Weaknesses

- Fungibility (WYS≠WYG)
- Institutional undermining of public sector
- Unpredictability of aid flows
- High donor and recipient transaction costs
- Weak national ownership (donor-driven priority setting)
- Weak sustainability

The essence of GBS = intentional fungibility

- Donor funds are pooled with partner government funds
 - disbursed through the government's public expenditure system
 - with the aim of financing government budgeted activities and by use of government procedures
 - (in its purest form) unearmarked
- Different logic model, emphasizing:
 - alignment with recipient country planning (PRSP) and procedures
 - donor harmonisation (and partnership with recipient government)
 - policy dialogue and conditionality
 - technical Assistance (TA)
- With the ultimate goal of improving the capacity of the public sector to address poverty



Relative strengths and weaknesses of GBS

Strengths (in principle)

- Institutional strengthening of policy-budget-implementation-control process
- Increased ownership (country-driven priority setting)
- Lower donor and/or recipient transaction costs
- Increased sustainability
- Higher predictability of aid flows

Weaknesses

- Fiduciary Risk
- Difficulty of tracking
- Low donor country accountability
- Donor collective action problems

Intermediate modalities/instruments include

- Earmarked GBS
 - e.g. to priority spending as e.g. in PRSP
- Sector (or sub-sector) budget support
 - equivalent to earmarking at sectoral/sub-sector level
 - same type of log frame analysis can be applied at this level
 - includes strengthening general vs. sector level-relations
- Debt relief
 - equivalent to GBS (can be earmarked (HIPC) or not), to the extent that debt service savings are not virtual
 - largely international-level initiative driven (G8,IFIs).
- Co-financing (with or without delegated monitoring)
- Basket funding
 - joint donor funding, but typically using parallel systems and procedures

2. Budget support: facts and figures

- Data are surprisingly poor
- Two sources used here
 - DAC-secretariat follow-up of Paris Declaration
 - SPA 2005 survey

DAC data on PBAs (Programme Based Approaches)

Characteristics of PBAs

- Country leadership
- Single comprehensive programme and budget framework
- Formal donor coordination and harmonisation
- Efforts to use local planning, implementation, financial management, M&E

PBA modalities include

- National support (general budget and balance of payments support)
- Sector support (sector budget support and projects integrated in SWAPs)
- Other forms of PBAs

Importance of PBAs

(billion \$, 2004, 34 countries)

PBAs	Budget support	Sector support	Other PBAs	Total
Numerator (aid in form of PBAs)	3.36	3.94	0.13	7.44
Denominator (total aid)	17.43	17.43	17.43	17.43
Indicator	19%	23%	1%	43%
Target for 2010				66%

SPA data on general budget support

(SPA 2005 survey, 15 countries)

Table 2.1: Value of commitments (millions of US\$) disbursed within 2003 by donor type and by country and as % of GDP

	IMF	WB	AfDB	EC	Bilaterals	Total	GDP of country 2002	GBS as % of GDP
Benin	9.4	0.0	0.0	0.0	9.5	19.0	2695.0	0.70%
Burkina Faso	4.8	50.0	0.0	32.4	26.0	113.2	3127.0	3.62%
Ethiopia	14.6	123.0	0.0	35.7	34.8	208.1	6059.0	3.43%
Ghana	73.8	128.0	33.6	46.7	73.2	355.2	6160.0	5.77%
Madagascar	15.9	0.0	0.0	78.5	0.0	94.4	4400.0	2.15%
Malawi	9.2	25.0	0.0	18.4	23.1	75.8	1901.0	3.99%
Mali	18.1	110.8	0.0	37.2	44.4	210.5	3364.0	6.26%
Mozambique	11.8	72.0	0.0	38.9	102.2	224.9	3599.0	6.25%
Niger	23.7	40.0	0.0	29.1	0.0	92.8	2171.0	4.27%
Rwanda	0.8	0.0	0.0	5.8	35.6	42.1	1732.0	2.43%
Senegal	4.9	0.0	0.0	0.0	11.1	15.9	5037.0	0.32%
Sierra Leone	19.6	15.4	0.0	0.0	16.3	51.3	783.0	6.55%
Tanzania	8.0	132.0	0.0	36.9	227.6	404.5	9382.0	4.31%
Uganda	5.8	178.2	29.2	0.0	94.4	307.6	5803.0	5.30%
Total	220.3	874.4	62.8	359.6	698.2	2215.3		

**Figure 2.3: Dependence on general budget support:
GBS as % of GDP, by country**

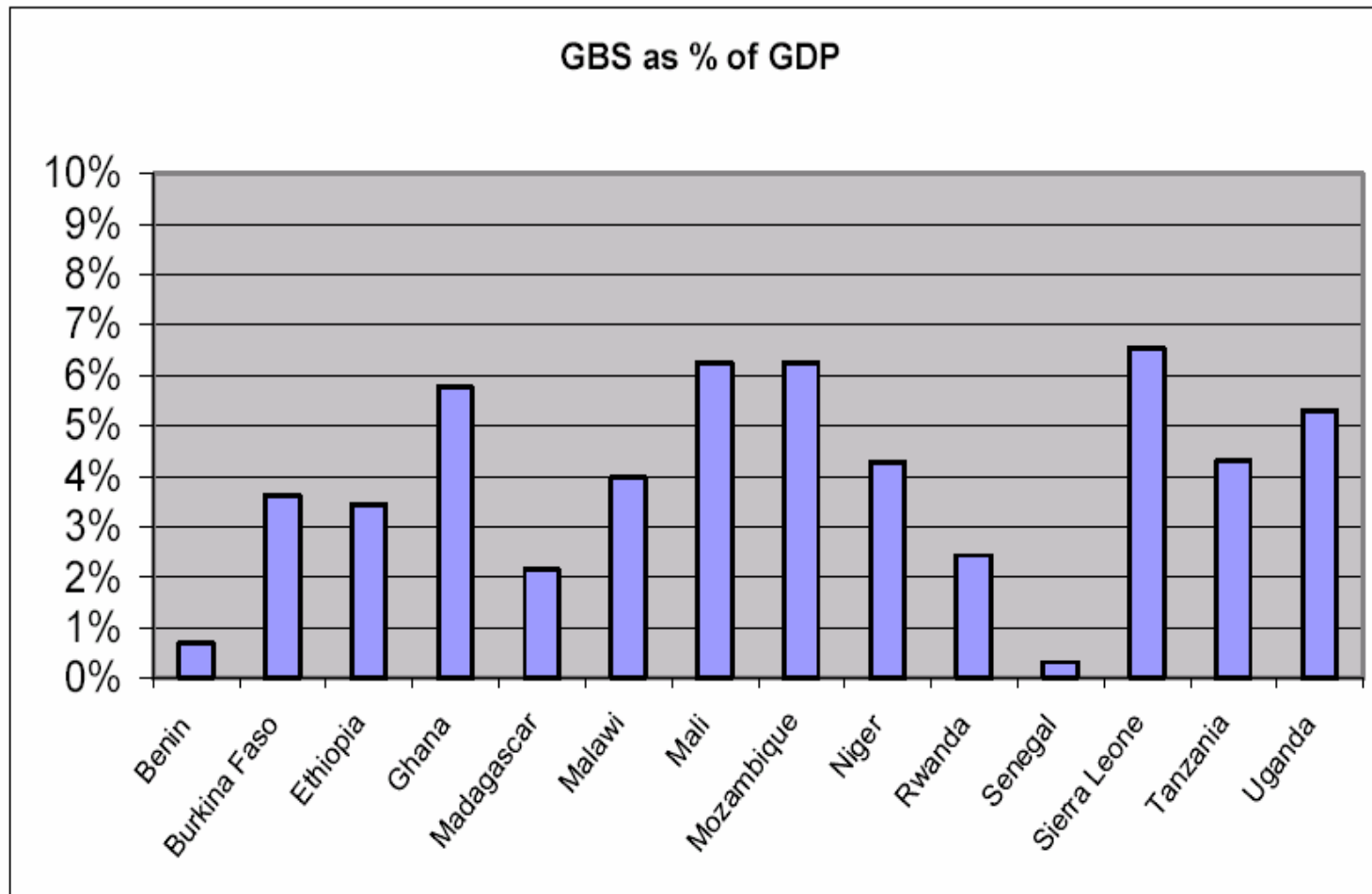
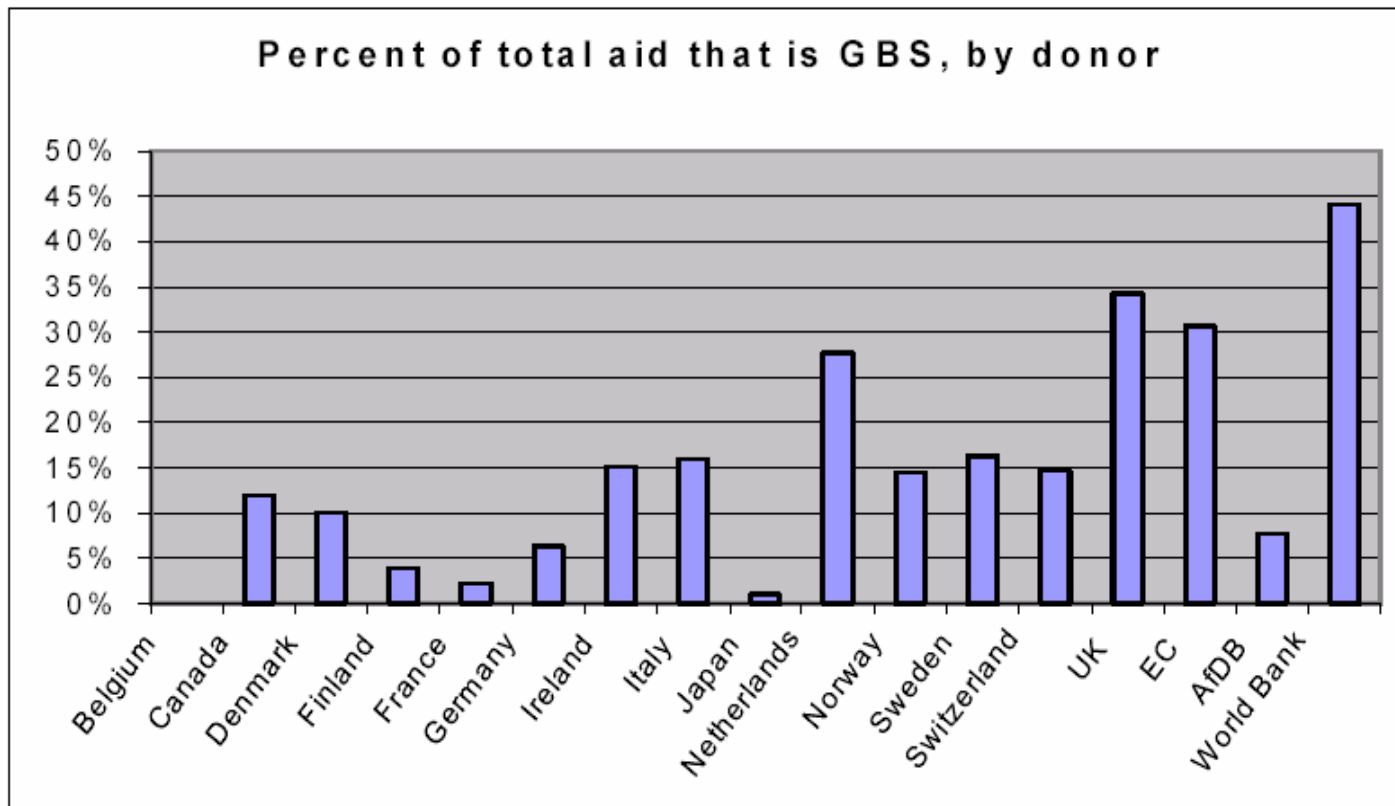


Table 2.3: General budget support (disbursed in 2003) as % of total aid to these recipients in 2003, millions of US\$, by donor

	Total GBS reported in survey (disbursed in 2003 or 2003/04)	Total aid to these recipients (for 2003 or 2002)	GBS as % of total aid
Belgium	0	117.3	0.0
Canada	26.9	225.0	11.9
Denmark	33.2	328.8	10.1
Finland	2.0	51.0	3.9
France	14.7	644.8	2.3
Germany	28.6	448.7	6.4
Ireland	24.1	158.4	15.2
Italy	14.7	92.1	16.0
Japan	3.4	324.3	1.0
Netherlands	137.0	493.0	27.8
Norway	37.1	256.1	14.5
Sweden	51.3	238.5	21.5
Switzerland	25.0	130.1	19.2
UK	302.5	884.2	34.2
EC	359.6	1170.7	30.7
AfDB	62.8	379.9	16.5
World Bank	874.4	1819.2	48.1

Figure 2.6: Percent of total aid to these recipient countries that is GBS, by donor



3. Managing budget support

- Deciding on budget support
- Policy dialogue and conditionality
- M&E
- Donor harmonisation

Deciding on budget support

- Decision algorithm
 - yes/no
 - selectivity matters!
 - general, earmarked, sector, subsector, project
 - choice among aid modalities and instruments
 - TA & capacity building
 - need for coherence
 - formalised algorithm
 - HQ supervision/support
- Fiduciary risk assessment
- Quality (level + evolution) of government policies
 - PRSP/sector policies
 - implementation
 - M&E

Policy dialogue and conditionality

- Soft or hard forms of conditionality
 - is ‘partnership’ an illusion?
 - policy assessment frameworks
- Technocratic or political ?
- When are conditions credible?
- Next slides: from SPA 2005 survey

Figure 2.17: Where does conditionality fall?

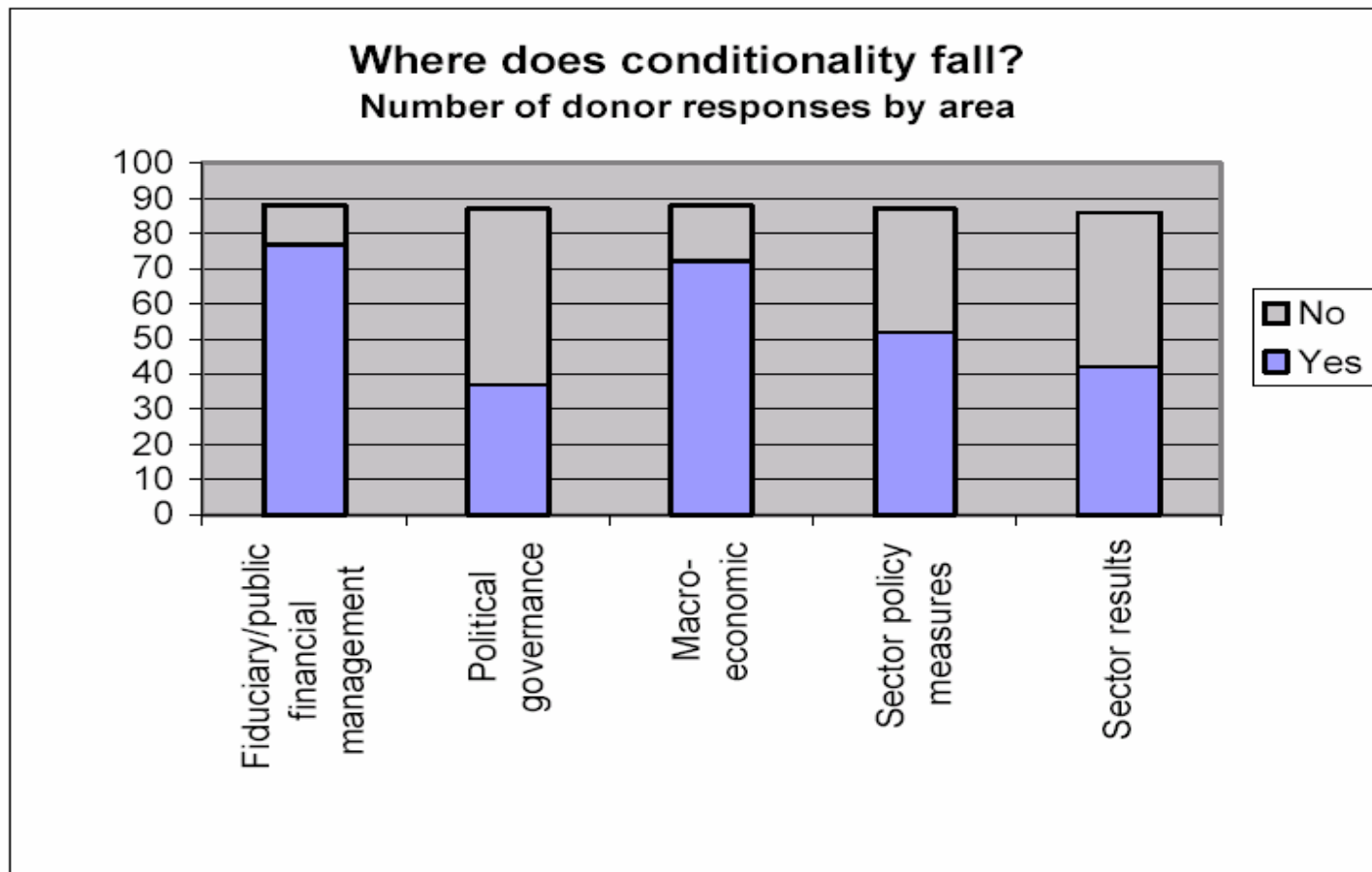
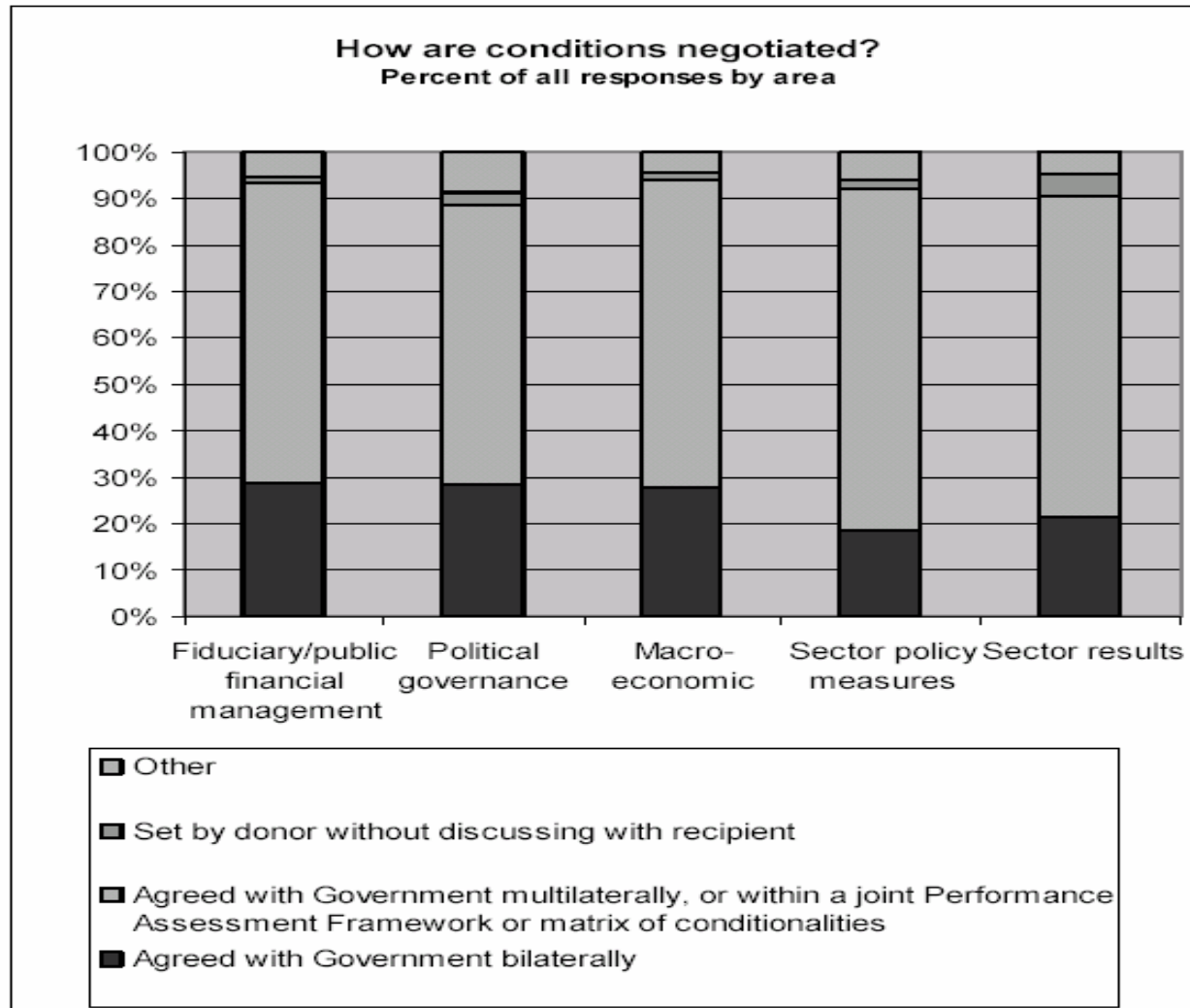


Figure 2.22: How are conditions negotiated?



M&E under budget support

- Results-based monitoring
 - the missing middle
- The problem of causality or attribution
 - individual donor impact
 - external factors
- Alignment with national M&E ?
 - the chicken-egg dilemma of donors
 - and donor accountability?

Donor harmonisation

- budget support = multi-donor
- need for formalised donor consultations and coordination
- a natural division of labour?
 - IMF, WB: macro-conditionality
 - bilateral donors:
 - political conditionalities
 - check on IMF and WB
 - what about the EC ?
 - what about the UN ?
- overcrowding and pecking orders
 - some genuine feel-good harmonisation is taking place (e.g. PEFA)
 - more often some donors harmonize, others ‘get harmonized’
 - should small bilateral donors ‘get out of the kitchen’?