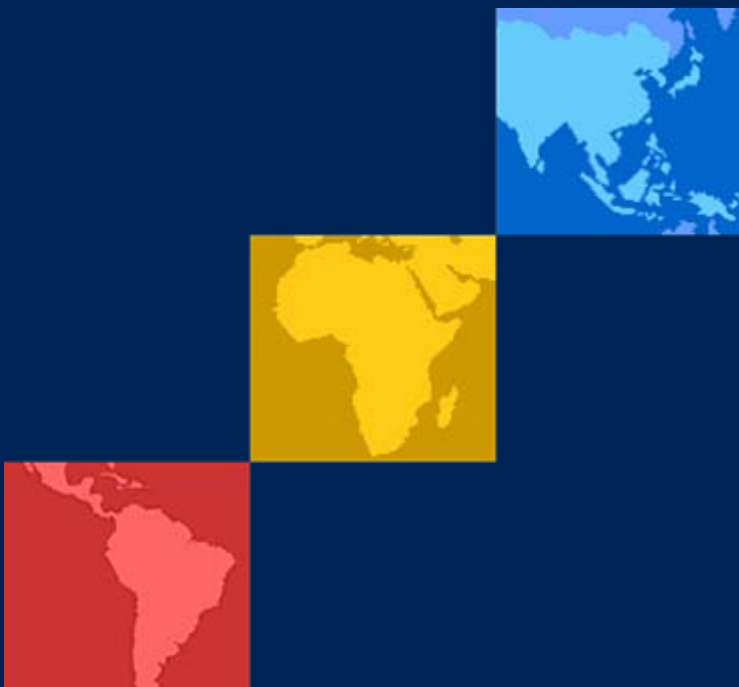


PRSP and budget support

The broader context

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DGCD/BTC Training Seminar
27-28 September 2006, Brussels



Outline

Session 1: The new approach in theory

1. PRSP as a response to aid failure
2. The broader context
3. The major components of the new approach

1. PRSP as a response to aid failure

- PRSP = 'Poverty Reduction Strategy Paper'
 - An official document
 - Indicates how HIPC-II savings and budget support will be used
- A donor conditionality
 - first introduced end 1999
 - replaces Policy Framework Paper (PFP)
- Used here to describe a 'new' approach to aid
 - of which the PRSP is a linchpin

The failure of aid

WHAT didn't work, in donor eyes?

- Donor-driven and managed projects
- Washington imposed structural adjustment
- ➔ The two major aid modalities under attack

WHERE did aid fail?

- In low-income, aid-dependent countries
- Mainly, but not exclusively SSA

WHO did the donors blame? Everyone!

Why did donor-driven and managed projects not work ?

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

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

Why did structural adjustment not work ?

Strengths

- Sound macroeconomic management stressed
- Some technocratic governance issues addressed
- Institutional strengthening of public finance management
- Attractive modalities: budget support and balance of payments support

Weaknesses

- Government uncommitted
- Public opinion hostile
- Disconnect with bilateral donors
- Conditionality design faults
- Reform overload
- Long-term view on development missing

The PRSP as the third aid paradigm

period	preferred aid modality	major constraint addressed
1960-1980	projects	<ul style="list-style-type: none"> - physical capital - human capital
1980-2000	policy based support	<ul style="list-style-type: none"> - macroeconomic policies
2000-	budget support	<ul style="list-style-type: none"> - ownership - governance

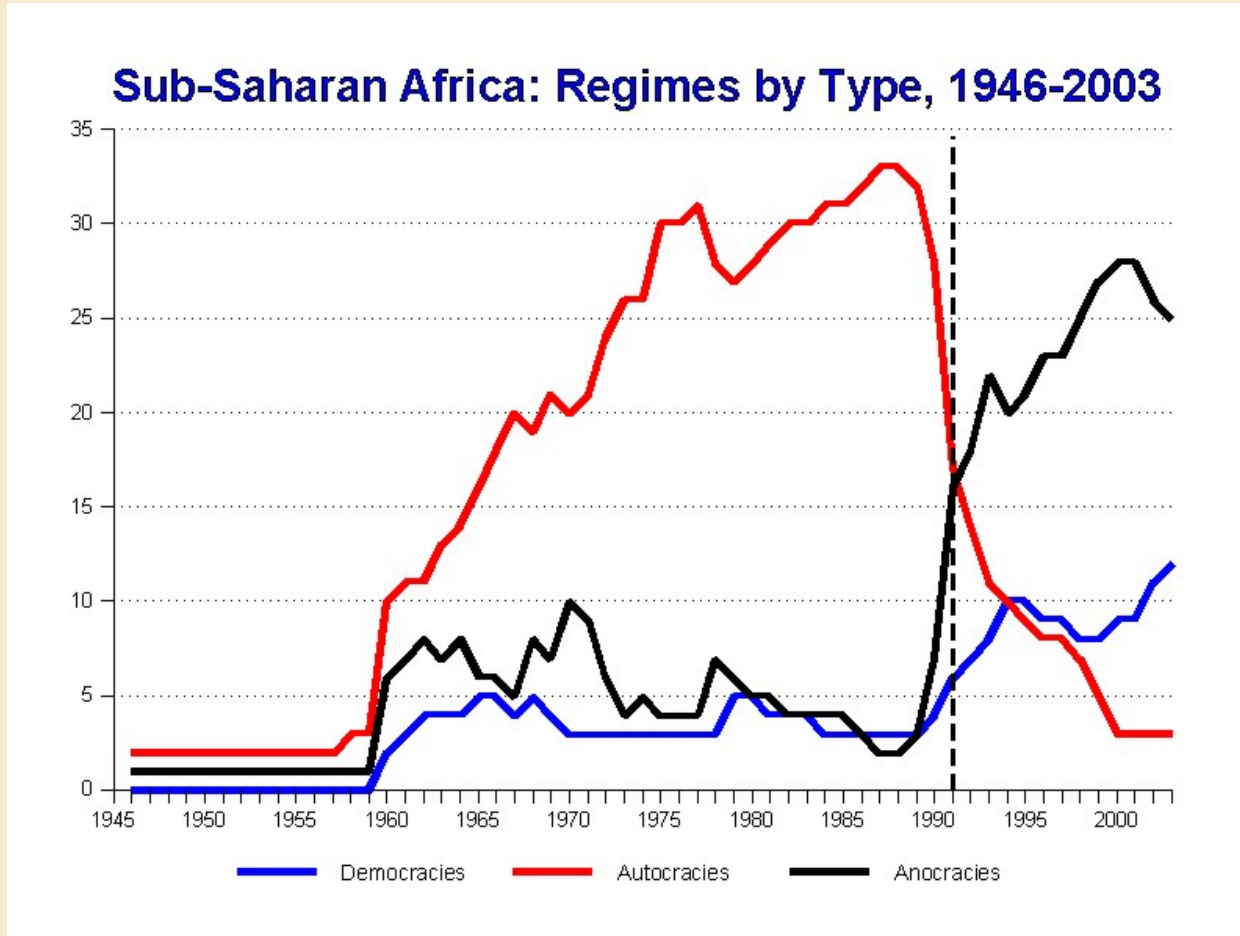
2. The broader context

- IMF and WB under fire
 - financial crisis of 1997 in East Asia badly handled
 - political dissatisfaction in key western countries
 - aid fatigue
- The international coalition for debt relief
 - policy makers under pressure to grant debt relief
 - NGOs recognise need of some conditionality
- End of Cold War and the drive for democratisation

The drive for democratisation

- Democratisation and the crisis of democracy
 - Civil wars, intra-national wars, ethnic violence
 - Decline of trust in stable democracies
 - Rise of extremist/fundamentalist movements
- Transiting versus consolidating democracy
 - Lapses into authoritarianism
 - Limited transition
 - Eternal transition
- The blooming of pseudo-democracies or anocracies

The rise of anocracies



Anocracy: some characteristics

- Elections
 - are held, but not really open/fair
 - opposition rarely wins
 - Parliament
 - rubberstamping institution
 - low capacity
 - largely dysfunctional
 - Government
 - authoritarian: limited space for political debate
 - often corrupt
- + Regime shifts did not necessarily produce the expected developmental outcomes
- ⇒ Electoral democracy is not the automatic solution
- ⇒ The rise of the governance concept

3. The major components of the new approach

The core CDF principles

1. Country driven
 - National ownership
 - Civil society participation
2. Results-oriented
3. Comprehensive, but poverty is key
4. Partnership
5. Long-term perspective

Features of the new approach

- Aid modalities
 - general and sector budget support
 - SWAPs
 - TA at central or sector level
- Alignment
 - policy priorities (PRSP, sector strategies)
 - planning and budgeting
 - implementation
 - M&E
- Harmonisation
 - policy dialogue
 - conditionalities
 - assessments

In the PRSP we trust

- In donor-managed project aid:
 - donors steer inputs and activities
 - they take co-responsibility for delivering outputs
 - and can evaluate 'their' projects on results and impact
- Under the new approach:
 - donors trust governments, selectively
 - promote systemic changes through
 - TA
 - policy dialogue
 - conditionalities
 - but no longer micro-manage their aid resources

Logic chain of a project

Impact	<ul style="list-style-type: none"> • Reduced child mortality (<5 yrs)
Results	<ul style="list-style-type: none"> • Increased use of ORT to treat child diarrhoea
Intermediate results	<ul style="list-style-type: none"> • Mothers better informed about ORT • Improved access to ORT treatment
Outputs	<ul style="list-style-type: none"> • 5 media campaigns held (local radio) • 100 health workers trained in ORT
Activities	<ul style="list-style-type: none"> • Media campaigns to educate mothers • Training of health personnel
Inputs	<ul style="list-style-type: none"> • Training • ORT supplies • Funds

Logic chain of GBS

Impact	<ul style="list-style-type: none"> • Income poverty reduced • Non-income poverty reduced (health, education, ...) • Empowerment of the poor
Results	<ul style="list-style-type: none"> • Improved business climate • Civil and political rights better protected • More public resources for pro-poor services
Intermediate results	<ul style="list-style-type: none"> • Improved fiscal discipline • Less off-budget spending • Allocation of public resources reflects PRSP priorities • Anti-corruption policies in place • Independent audit receives government accounts more timely and reports more freely
Outputs	<ul style="list-style-type: none"> • More donor funding on budget • Increased predictability of donor funding • PRSP and sector strategy documents used to make budget choices • Improved financial control during budget implementation
Activities	<ul style="list-style-type: none"> • Policy dialogue between government and donors • Annual progress reports • Technical experts help improve budget process
Inputs	<ul style="list-style-type: none"> • Technical assistance • General budget support

Outline

Session 2: The new approach in practice

4. Where do we stand today?
5. Policy dialogue and conditionality
6. Governance

4. Where do we stand today?

- PRSP countries
- Donors and the PRSP discourse
- GBS in support of the PRSP
- PRSP versus other initiatives

PRSP countries (situation May 2006)

- 63 low-income countries in PRSP process
- 50 countries have a full PRSP
 - about half in SSA
 - about half HIPC
 - of which second-generation PRSP: 4 countries
- Annual Progress Reports
 - first: 34 countries
 - second: 20 countries
 - third: 6 countries
 - fourth: 1 country
- ± 20 countries fully benefit from new approach

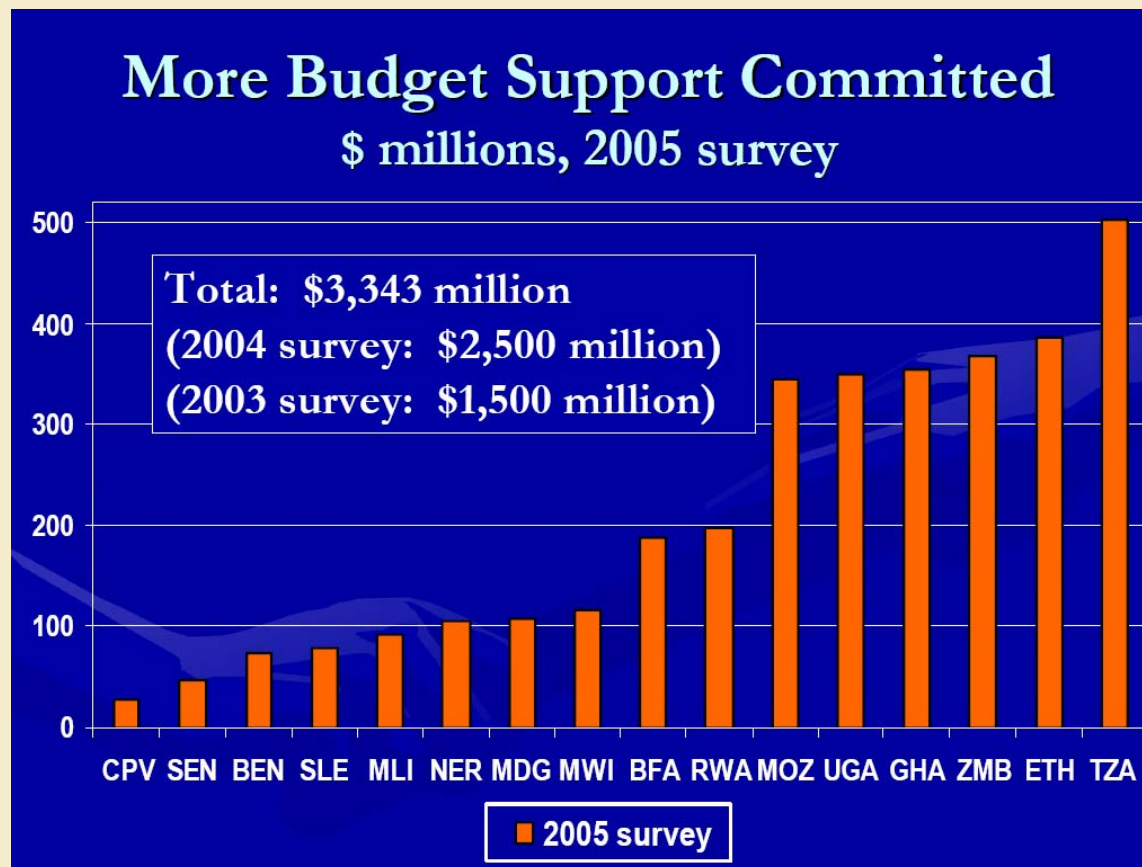
Donor and the PRSP discourse

- Original 'coalition of the willing'
 - World Bank, IMF, regional development banks
 - EC
 - like-minded countries
 - Scandinavian countries
 - Netherlands
 - UK
 - Switzerland, Canada
- Some of the sceptics showing increasing interest
 - France
 - Japan
 - Germany
 - But no clear signal from US
- But new modalities affect only a fraction of aid flows
- And donors always tempted by new fashions

Use of general budget support

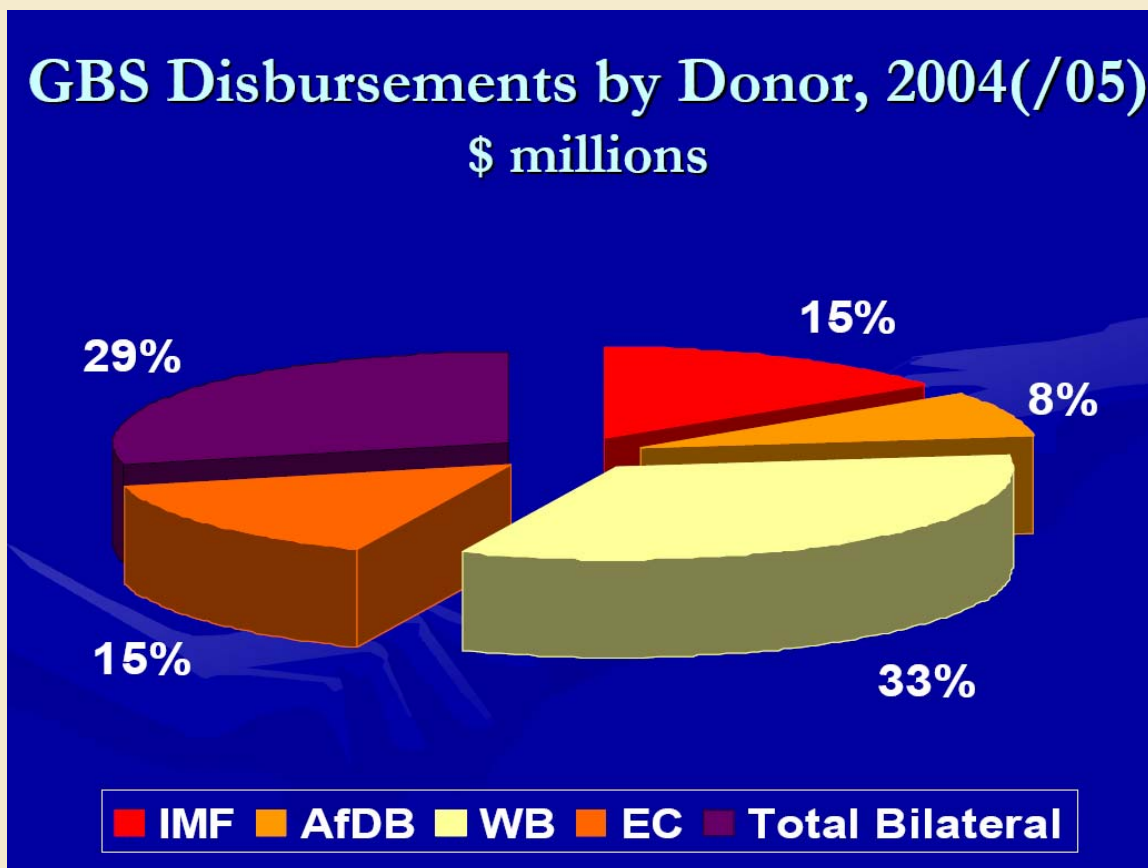
- Source for the following slides: SPA secretariat at the 2006 Accra annual conference
- Data on GBS in support of PRSP
- 16 African countries
- 18 donor agencies

The importance of GBS

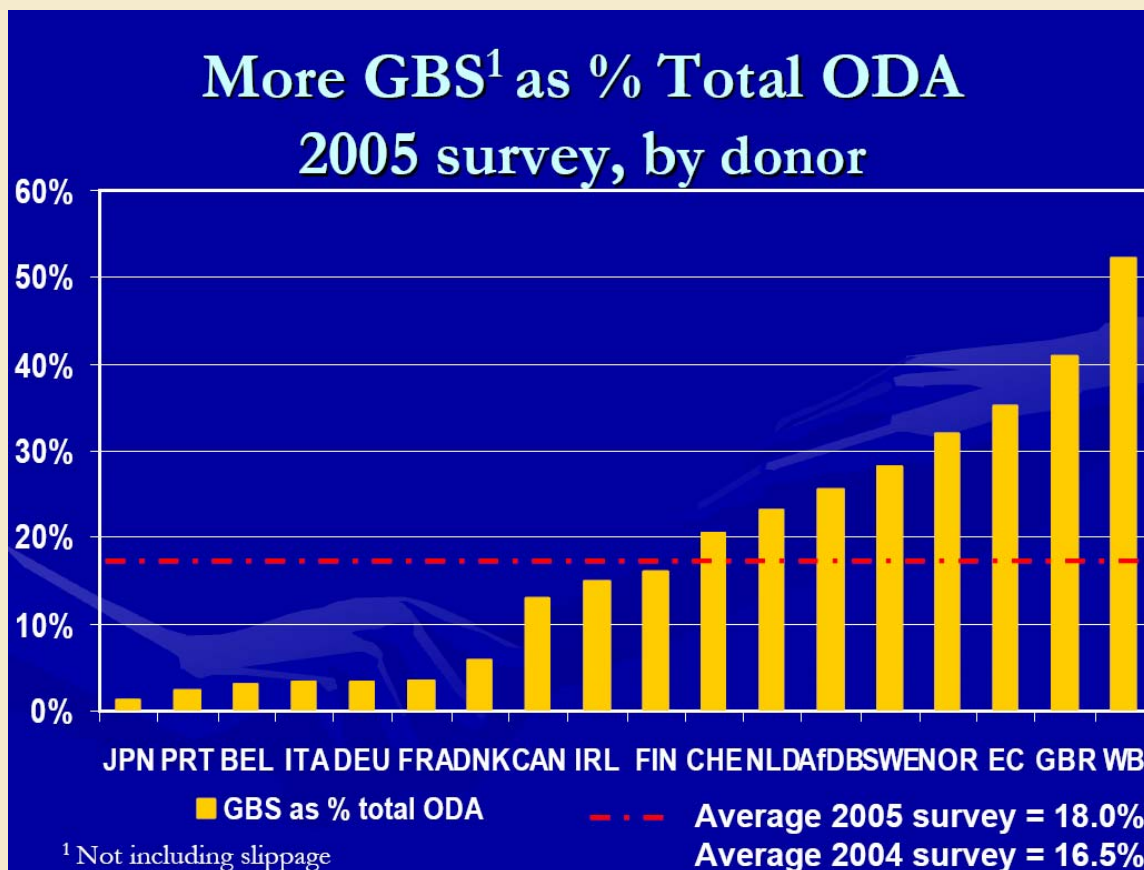


Note: DAC informal estimate of total GBS in support of PRSP: \$5 billion

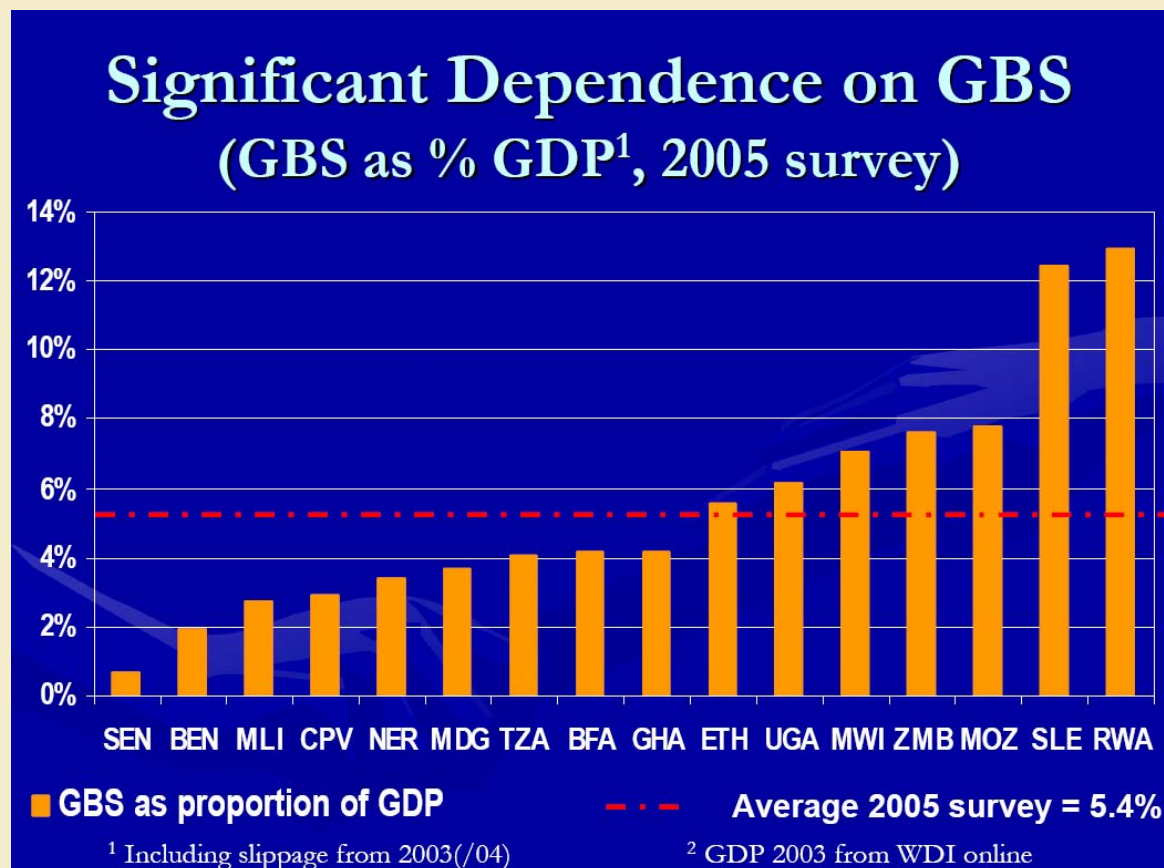
The big players



Use of GBS by individual donors



Importance of GBS for recipients



PRSP versus other initiatives

- Policy initiatives
 - Harmonisation and Alignment
 - MDGs
- Modalities
 - Global Funds
 - Millennium Challenge Account (USA)

5. Policy dialogue

	Structural adjustment (in practice)	New aid approach (in principle)
What is discussed	Economic reforms	Institutional reforms
Focus of reform	Inputs and policies	Outputs and results
Solutions suggested by donors	Standard recipes: 'Washington consensus'	No standard recipes
Negotiation style	Monologue	Dialogue
Actors on donor side	- IMF and World Bank - Mainly from HQ	- Multiple donors - Increased role for field representations

Other features of new-style policy dialogue

- Increasingly multi-donor
 - IFIs
 - other multilateral donors
 - bilateral donors
- Multilayered
 - macro
 - sectors where SWAPs
- Institutionalised
 - performance matrices (PAF)
 - PRSP annual progress reports (APR)
 - joint sector reviews
 - joints assessments (PEFA, PER,...)

We summarise our position as follows:

Policy Dialogue

- Will be in touch with an internal reform drive or not succeed
- Will be sensitive to opportunities for change or not succeed
- Will at times be tough or will not succeed

6. Governance in the new aid approach

A brief recap of the background:

- Widespread development failure
- Notwithstanding large amounts of aid
- And yet success stories do exist elsewhere
 - South-East Asian tigers
 - China
 - more recently India
 - Botswana, Mauritius

Perceived cause is governance failure

The failing actors are:

- government
- state bureaucracy

⇒ Many other factors are therefore only regarded as secondary causes of development failure:

- trade issues
- indebtedness, ...

Governance failures may have deeper roots

- Climate, colonial history, population density, cultural traits, ...



There is not much aid can do about these

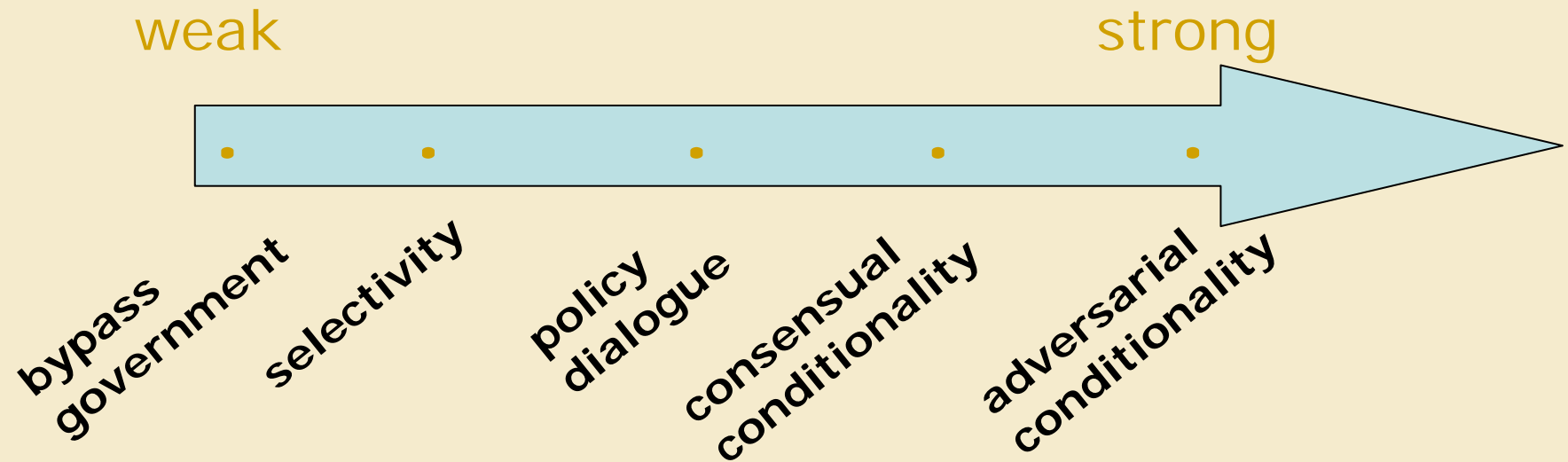
- But whatever its origin, poor governance responds to deep political forces, and becomes locked in (e.g. patrimonialism)

Addressing governance failures

- The new aid approach has the ambition to address such governance issues
- This boils down to some form of politico-institutional engineering
- This is a highly ambitious and a big gamble, but there seems to be no other option
- Except if you believe in the Poverty Trap theory (J.Sachs)
 - starting point: correlation between poverty and governance
 - interpretation: governance failure is a symptom, not a cause
 - more aid will address the issue, except for outliers
 - ⇒ strongly contested in the academic community

How donors deal with governance

degree of donor interference



→ Bypass government

- donors walk around the problem
- major instrument: donor-managed projects
- drawback: no sustainable results if governance failure is serious

→ Selectivity

- donors pull reform, but without domestic meddling
- no dominant instrument, but mainly budget support
- drawback: moral issue of donor orphans
- drawback: global negative externalities of failing states

→ Policy dialogue

- donors pull reform, actively support internal reform dynamics
- major instrument : generous and flexible budget support, TA

→ Consensual conditionality

- drivers of change are national
- donors lock in agreed reforms in contracts
- augments credibility of policy dialogue

→ Adversarial conditionality

- donors push reform
- major instrument : structural adjustment support
- some success with first-generation macroeconomic reforms
- does not work with second-generation reforms, because
 - political issues become even more important
 - donor conditionality lacks credibility
 - the aid incentive is not strong enough

The gamble of the new aid approach

- Hinges on the existence of a sufficient degree of commitment on the part of the government
- Yet only in a few cases is reform driven from the inside (Vietnam)
- In most countries commitment is superficial and opportunistic
- Or commitment is not shared by whole government, or only relates to certain domains, or unstable

The chance of success of the new aid approach

	High recipient commitment	Low recipient commitment
High recipient capacity	Strong	Unlikely
Low recipient capacity	Intermediate, but worth trying	Nil

Technocratic and political governance

- Essential in the following discussion is the distinction between technocratic and political governance
- In the end both must be addressed, in mutual reinforcing ways
- But alternative trajectories are possible and trade-offs exist between both forms of governance

Good Governance, Bad Governance

Political good governance

- Open and fair elections, political freedom and civil rights
- Respect human rights
- Well functioning judiciary, rule of law, access to justice
- Democracy enhancing initiatives, promotion of tolerance, active civil society

Technocratic good Governance

- Effective and efficient public sector based on meritocratic and Weberian administrative culture
- Sound economic policies and allocation of public resources, stability of regulatory framework
- Transparency
- Decentralisation and local capacity-building

Political bad governance

- No elections, no/limited political freedom, no/limited civil rights
- No/little respect human rights
- Judiciary highly dysfunctional, inaccessible, no/little rule of law
- Authoritarian system, repression of associational life, discrimination, exclusion

Technocratic bad governance

- Spoilsystem, inefficient public sector, ineffective, untransparent allocation public resources
- Bad quality policies, unstable regulatory framework
- Untransparent system, lack of accountability mechanisms
- Badly organised decentralisation, lack of capacities at local level

The 'What to do?' challenge for donors

- Push for technocratic reforms → a state that delivers
 - Which is a question of capacities, resources, clear rules and procedures, efficient management, tools, instruments

- Push for political reform → a state that opens up for citizen participation and control
 - Which is often about the creation of political competition (hence electoral space, a new legislation, legal framework for political parties, etc...)

- Often both approaches are institutionally split
 - Development co-operation versus foreign affairs
 - In Belgium, as in many donor countries, there is a tendency towards integration

Both are (partially) wrong ... yet also (partially) right

- Political reformers are wrong because of their dominant emphasis on formal electoral reforms
 - Can create anocracies, no guarantee for development
- Technocratic reformers are wrong because of their dominant emphasis on technocratic issues
 - Public sector reform tends to be not sustainable without political willingness
 - Political logic, upon which technocratic issues rest, remains untouched
- Yet political reformers are right because essentially it is politics that matters
- And technocratic reformers are right because through technocratic interventions gradual (political) change is possible

Ideal: a technocratic approach built on solid political analysis

- Why?
 - ‘Downstream’ engineering of reform cannot succeed without understanding what happens upstream, or, reform is a profound political process
 - Understanding upstream & downstream → identify agents and moments of change/opposition
 - Aligning reform to the domestic agenda in order to make it stick

Conclusion

- The new approach
 - seeks to achieve systemic effects
 - through selectivity, policy dialogue, conditionality
 - combined with generous and flexible aid
- This however requires from the donor
 - a solid knowledge of the context and a fine judgement
 - a clear strategic vision with regards to the long-term objectives
 - tactical sequencing of technocratic interventions so as achieve strategic objectives
- This poses great challenges for
 - relationship of aid agencies to executive board (multilateral)
 - relationship Dev Coop and Foreign Affairs (bilateral)
 - decentralisation towards field delegations

Thank you !

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