



Why are donors increasingly funding the budget ?

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Outline

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1. Introduction

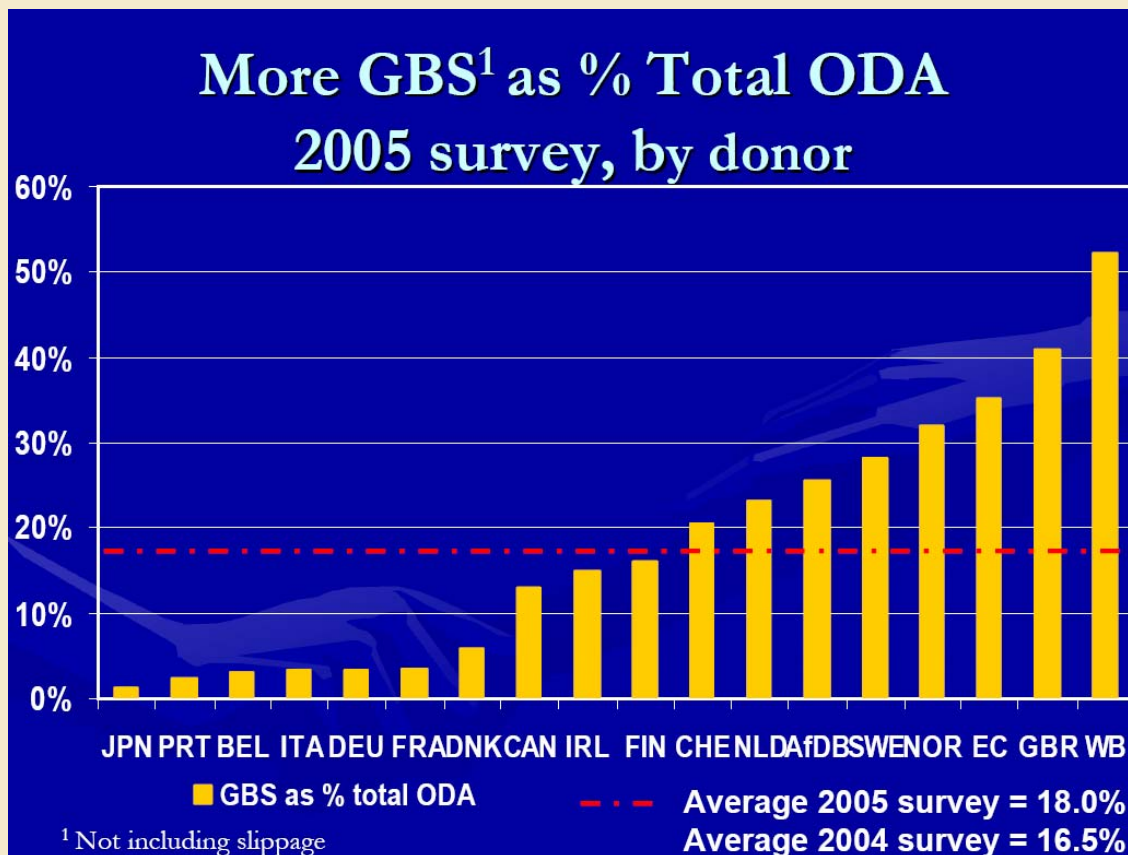
Definition

- budget aid (strict)
 - aid paid into the Treasury account of the recipient government
 - executed according to national procedures
 - without any financial earmarking ('ciblage')
- budget aid (broad)
 - deliberate blending of donor and government fiscal resources
 - some financial earmarking allowed (sector, level)
 - eventually limited exceptions to national procedures for execution

'New' budget aid

| | |
|---------------------------------|---|
| Time period | Since the advent of the new aid approach around 2000 |
| Major objective | Structural poverty reduction |
| Where | Aid-dependent low-income countries |
| Recipient condition for success | Political will to reform policies and institutions, implying a.o.: <ul style="list-style-type: none"> • pro-poor policies • PFM reform • role for CS in monitoring |

Importance of GBS to 16 African countries 2004



Source: SPA

Average 2006 survey = 13,1%

Disbursed GBS/BoPS as percent of GDP, 2005 and 2006 surveys compared (SPA 2006 survey)

| | 2005 survey | 2006 survey |
|-----------------|----------------|----------------|
| Benin | 1.93% | 1.74% |
| Burkina Faso | 3.61% | 3.61% |
| Ethiopia | 5.52% | 0.18% |
| Ghana | 4.14% | 4.16% |
| Kenya | N/A | 0.84% |
| Madagascar | 2.87% | 2.98% |
| Malawi | 5.40% | 6.30% |
| Mali | 1.50% | 2.23% |
| Mozambique | 7.56% | 5.28% |
| Niger | 3.41% | 3.24% |
| Rwanda | 10.29% | 8.37% |
| Sierra Leone | 9.97% | 7.88% |
| Tanzania | 3.98% | 4.95% |
| Uganda | 5.10% | 3.50% |
| Zambia | 7.63% | 1.90% |
| Average | 4.75% | 3.61% |

2. Budget aid as a response to perceived aid failure

In particular, projects have come under fire

- because 'micro-managed' by donors

Where has project aid failed most ?

- in aid-dependent, low-income countries
- especially, but not exclusively, in SSA

What are the major sins of donor micro-management of projects ?

- Selfishness
 - donors satisfy their own accountability needs at the expense of development effectiveness
 - they 'poach' scarce staff and recurrent resources
 - they undermine overall policy coherence
- Naivety
 - donors harbour the illusion that they can bypass a weak state and bring sustainable development results

3. The DAC 2005 Paris Declaration

- Starts from the premise that 'by-passing governments' through donor micro-managed projects is NOT the solution
- Urges recipient countries to improve their
 - policy priorities
 - PFM systems
 - procurement systems
 - results orientation
- Urges donors to react by increasingly aligning and harmonizing their aid
- Budget aid is the 'flagship' among aid modalities when it comes to alignment

4. Why would budget aid be more successful than other modalities ?

- Government 'owns' the reform agenda
- Donors support champions of change
- Aid strengthens the state in its development function:
 - budget
 - technical assistance
- Donor pressure for results through
 - policy dialogue
 - conditionality
- Yet much depends on recipients and thus on donor selectivity

The chance of success of the new aid approach critically depends on recipient governments

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

5. Conclusion

- The new aid approach focuses on making the state more effective and development oriented
- This constitutes an attempt at political and institutional 'piecemeal engineering'
- And requires pumping money in the system
- This poses considerable risks to any donor
 - reputational risk
 - fiduciary risk
- But if successful it has a bigger impact than any other aid modality



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