

Perspectives on Budget Support

Who's afraid of Budget Support?

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DISCUSSION PLATFORM***Perspectives on budget support in the post Accra era***

In Paris (2005) and in Accra (2008) developing countries and development partners jointly committed to improve the effectiveness of aid. Despite the strong consensus on key principles for improved aid, numerous unresolved issues remain. One such outstanding issue is the choice and mix of aid modalities.

Although donors remain free to choose their preferred aid modality, they also have committed to progressively use partner country systems. Some donors have opted for budget support as the best modality to fit this purpose. Others disagree. And in general, there are varying degrees of reluctance to shift to this aid modality in a meaningful way.

This paper is part of a series of discussion papers in which donors and key developing partners are invited to present their views on the use of budget support. It is hoped that this discussion platform provides a learning opportunity on the relationship between aid modalities and the implementation of the Paris and Accra agendas.

The views expressed herein are those of the authors and should not be attributed to ECDPM or any other party.

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Who's Afraid of Budget Support?

Introduction

The debate between those who would raise budget support to the rank of a panacea for poverty reduction, particularly in the name of aid ownership by recipient countries, and those who denounce it as the black hole of official development assistance, a true financial pit and catalyst for corruption, is far from over.

Up to now, the Luxembourg Development Cooperation has assumed a position of great prudence in this debate. Before abandoning the 'project' approach, or even complementing it by resorting to the budget support approach, a meticulous analysis of the pros and cons is in order, because political leaders are being asked to head into uncharted territory by committing to the path of 'financial support to macro-level policies and to government budgets to assist the recipient countries through a programme of policy in order to reform and implementation that promote growth and achieve sustainable reductions in poverty'.¹

The context in which the question is asked is not politically neutral. While important reference documents adopted at the international level – also by Luxembourg – such as the Paris Declaration on Aid Effectiveness (March 2005), the European Consensus on Development (February 2006) and the ACCRA Agenda for Action (September 2008) invite donor agencies to increasingly resort to country systems and new aid modalities – including budget support –, reluctance about this aid instrument as expressed by public opinion are regularly relayed by NGOs and by MPs during parliamentary debates.

In this context, it is useful to emphasize that the choice is fortunately not limited to either of these extreme alternatives, i.e. 'for' or 'against' budget support. A careful reading of the reference documents provides a reminder of the exact commitments we have undertaken (see section I). In addition, the legal environment and institutional and human management capacities in partner countries are key reference points for guiding any decisions in this area (II). Lastly, several real-life experiences – which fall outside the province of budget support but which are close to it in their design and implementation – could feed into the debate with a view to taking a responsible position (III).

1 International Reference Framework

In the *Paris Declaration* adopted in March 2005, when Luxembourg had assumed the presidency of the Council of Ministers of the European Union and in this capacity was negotiating the declaration on behalf of the EU, representatives of some 150 developed and developing countries, funds, programmes and non-governmental organizations adopted the resolution to 'reform their delivery modalities and aid management', among others. The Declaration invites northern partners 'to let themselves be guided in their choice of the most effective aid modalities by development strategies and priorities established by partner countries' and reminds us that 'increased use of programme-based aid modalities can contribute to this effort'. Broadly speaking, a commitment was made in 2005 to make greater use of partner countries' national systems: 'national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring'.

The Paris Declaration thus includes the commitment made by donor agencies and governments in particular to move from a fragmented system based on diverse projects towards a more pragmatic and effective approach – because better coordinated - for the sake

¹ Definition of 'direct budget support' given by the OECD Glossary of Statistical Terms.

of greater aid ownership by partner countries and of more consistent aid alignment with national priorities. However, the declaration does not particularly advocate a more specific and systematic recourse to budget support, yet the relevance of a partner 'programme-based' approach is emphasized on several occasions.

The *European Consensus on Development* makes a slightly more vigorous plea for budget support as such, yet not without qualifying that 'the use of general or sectoral budget support should increase as a means to strengthen ownership, support partner's national accountability and procedures, to finance national poverty reduction strategies and to promote sound and transparent management of public finances.'

The European Consensus, which describes for the first time a global European strategy for development cooperation, is made up of two parts: the first, which deals with 'the European Union vision of development' provides the political framework of the EU Member States for development cooperation, and the second, which deals with 'the European Community development policy', attempts to define the responsibilities of the Commission for the Community development cooperation budget, the management of which has been entrusted exclusively to it. Although this distinction is likely to escape the uninformed reader, it is advisable, however, to make reference to it and to remind ourselves that the identity of the key passages relating to aid modalities in both parts of this important document is no accident, but rather the result of an intense discussion, sometimes very animated and one in which Luxembourg played an extremely active role. The negotiated text reads as follows: 'development assistance can be provided through different modalities that can be complementary (project aid, sector programme support, sector and general budget support, humanitarian aid and assistance in crisis prevention, support to and via the civil society, approximation of norms, standards and legislation, etc.), according to what will work best in each country.'

In this text, enthusiasm for budget support is thus doubly dampened – on the one hand, through the reference to the principle of complementarity and, on the other, through the reference to the situation in the relevant country. This is all the more sensible, as some had implied that budget support was justified in their eyes particularly for guaranteeing a rapid disbursement of growing official development assistance, mainly with regard to the substantial portion of this aid entrusted to the management of the European Commission. In its final version, the European Consensus puts budget support on an equal footing with other aid instruments, also emphasizing the need to make distinctions based on the specific situations in partner countries.

The *Accra Agenda for Action*, which resulted from the follow-up conference three and a half years after the adoption of the Paris Declaration and which was adopted in September 2008 in the Ghanaian capital, states that 'donors agree to use country systems as the first option for aid programmes in support of activities managed by the public sector'. Here, one might detect a certain 'reversal of the burden of proof' in so far as donors will in the future have to explain why they continue to choose 'mechanisms for aid delivery exterior to country systems'. The essential point to be noted, however, is that the Accra Agenda for Action does not refer directly to budget support, preferring simply to remind donors of their commitment 'to provide 66% of aid as programme-based approaches' and 'to channel 50% or more of government-to-government assistance through country fiduciary systems'. This choice of terminology is hardly arbitrary. Could it already be symptomatic of a certain disillusionment on the part of those who had staked so much on budget support (after having tested its limits)? In any case, the formula selected has the advantage of facilitating a response using a range of instruments adapted to the great variety of situations.

2 Legal Environment and Management Capacities

It is particularly the diversity of the situations depending on partner countries which suggests an approach on a case-by-case basis for determining the opportuneness to resort to budget support, notably in accordance with the legal environment and institutional and human management capacities in the different sectors of each partner country. Similarly, the intensity with which a partner government politically expresses a desire to see a donor agency committing itself to budget support must also be taken into account.

The Luxembourg Development Cooperation has, for instance, never witnessed strong urges in this respect from a partner like Cape Verde which, according to its political leaders, is quite content with the sector-wide approach that the Luxembourg Development Cooperation is pursuing in the archipelago today.

The authorities of Burkina Faso, on the other hand, are very direct in expressing their preference for budget support, particularly during the annual partnership committees. Sensitive to this request, Luxembourg is carefully following – for the moment, as an observer – the follow-up mechanisms put in place by the government of Burkina Faso for discussing within a formal framework with donor agencies who deliver their aid in the form of budget support.

Other continents present other circumstances. In Vietnam, for example, Luxembourg's support can be meaningful only if it is provided in the form of precise contributions or support initiatives likely to bring specific added value. This has been, and continues to be, the case for projects involving hotel schools, for instance. It is also important to realize that if Luxembourg were to opt for budget support in Vietnam, such support would hardly be likely to make a difference and would literally be swallowed up like a drop in the ocean, given the extremely substantial needs and budgets (even sectoral) of a country of more than 83 million inhabitants.

In Nicaragua, it is almost distressing to observe the contortions to which those donor agencies having banked on budget support must submit today. Initially encouraged by the proactive involvement of the previous government in the international processes aimed at improving aid effectiveness, these donors certainly might have had legitimate reasons for opting for budget support. But since then, they have been fully exposed – much more directly than other donors – to the shrinking democratic space recently observed in Nicaragua. Should the tap hence be 'turned off', especially because the counterpart of budget support (i.e. good governance) has failed to materialize or no longer exists? Or should one persevere for fear of losing the political lever of influence that budget support can provide? A clear answer to this dilemma has still not been found in Nicaragua. The fact remains that the projects and programmes which are implemented there today outside the context of budget support and which benefit the poorest of the population can continue, even under more difficult conditions. On the other hand, the pro-democratic lever advocated by many as one of the key advantages of budget support is struggling to assert itself.

3 Real-Life Experiences

If the reader has understood that the authors do advocate prudence, this does not mean that they wish to portray themselves as the defenders of a fierce, narrow and all-out opposition to budget support. Today, budget support is at a crossroads: many find that it offers advantages that they deem indisputable, while others emphasize the risks it poses. It would be presumptuous to wish to claim with certainty who is right or wrong. A sustainable approach, one that can bring true added value on a large scale, will be permanently established only on the basis of the experience of the next few years.

It is against this backdrop that aid modalities that are close to budget support in their design and execution can be explored and even implemented in the form of pilot experiences without these modalities equating budget support per se. They are, after all, not designated as such. Reference is being made to basket funding, sector-based common funds and management capacity-building initiatives.

Despite not having opted for budget support up to this point, the Luxembourg Development Cooperation is taking its commitments as set out in the Paris Declaration seriously, particularly as regards the use of country systems consolidated by donors, the consolidation of public financial management capacities and the implementation of shared mechanisms by partners, as well as the simplification of procedures.

It is in this context that certain specific cases of cooperation mechanisms have been implemented, mechanisms that are innovative in terms of the means of the delivery of contributions in several partner countries. These contributions are paid into funds dedicated to activities in a priority cooperation sector under a type of management that observes the national procedures in place. Conventions negotiated specifically between the Luxembourg implementing agency Lux-Development and the respective partner set the framework of this new form of support. The clauses of these conventions specify, inter alia, that implementation responsibility lies with the partner and that the funds are paid out in tranches after justification for the use of the previous tranche, the funds being paid into an account opened especially for this purpose. All this is carried out in compliance with the partner's accounting system and under a guarantee by the partner as to the use of the funds. The responsibility for monitoring the use of the funds and the implementation timetable with respect to Luxembourg continues to lie with the Luxembourg implementing agency. This, no doubt, is one of the main differences observed with respect to budget support.

Such mechanisms have been implemented in Mali, for example, with the *Agence nationale d'investissement des collectivités territoriales* for financing water and health infrastructures and in Senegal with the *Centre régional pour l'eau potable et l'assainissement à faible coût* (CREPA). Even in Nicaragua, preparations for such a fund are currently under way with the Nicaraguan Institute of Tourism. The fund will support initiatives by SMEs active in the tourism sector.

In Vietnam, the Luxembourg Development Cooperation has chosen a slightly different path by working jointly with the European Commission and the Vietnamese authorities to establish a standard framework for potential future budget support in the health sector. Experience acquired previously by Lux-Development with the 'project' approach in the Vietnamese health sector is thus put to use, and the conditions for possible sectoral budget support are established without the Luxembourg Cooperation being obliged to pursue this direction. Should it decide to do so, it will be with a full knowledge of a management system that it will have contributed to establishing. If, on the contrary, it decides not to do so, the Vietnamese partner will still be able to turn the results of its current work to good account, either alone or with others.

Institutional and human resources capacity strengthening at the ministries of finance or at the ministries and the public services – right down to the local level – is also a worthwhile area for the Luxembourg Development Cooperation, particularly because of its relatively limited budgetary resources in the face of enormous funding needs for effective budget support, but also for responding positively to the requirements set out in the Paris Declaration for capacity building in developing countries in general. Such support for capacity strengthening benefits the partner country in a direct and sustainable way in that, in the end, it facilitates the improved organization of aid flow and management, be it in the form of budget support or otherwise. It thus falls within the scope of and – marginally in part, to say the least – therefore in support of budget support.

Conclusion

The international community and donor agencies in particular are still trying to find their marks with respect to the new aid modalities. Those who fully embraced budget support as the means of delivery to be favoured at all costs, remain few. The majority of donor agencies concoct more or less ingenious, or more or less pragmatic, mixes between the 'programme' approach and budget support. A good many of those who liked playing a more progressive role have become more prudent; some, it would seem, even regret having done so (or could these simply be the claims of scandalmongers?). In any case, it would be improper to wish to generalize in the case in point because although some developing countries – Burkina Faso, for instance – have done everything they can to make budget support pay in terms of poverty reduction, elsewhere funds have too often been disbursed and have had some effect, yet without the attempt having successfully benefited the poorest members of society, particularly with regard to the implementation of the goals of the Millennium Declaration.

And yet, despite these mixed results, there is no reason to be afraid of budget support. The primary concern should first be about finding the comparative advantage on the model of the guiding principle set out in the European Consensus, paired with a search for adequate supervision. A careful reading of the texts and international agreements that actors in international cooperation have signed will reveal that dogmatic opposition to budget support is hardly justified. The reality is more complex: no one is forced to implement budget support; all are free to judge when and where the conditions favourable to budget support converge.

In the light of past experiences – and in the light of modalities of support –, some might even be tempted to put forward the hypothesis that budget support constitutes one of the ultimate forms of cooperation in the traditional sense as long as the legal and regulatory environment is in place; supervision and monitoring are organized; management transparency has been assured; and the effects in terms of poverty reduction are tangible, real and sustainable. A real care by partner countries for good democratic governance and a sustained effort on their part to provide themselves with a tax base – the fruits of which will, in the long term, have to replace budget support – should in this same hypothesis constitute vital support factors to budget support. Indeed, in the long term, budget support – like cooperation in general for that matter – should not lead to a new dependence on external funding. The experience gained over the next few years will show whether this is really the case.

In an approach that, in the face of the challenges of globalization, will have to increasingly favour the 'development' component to the 'aid' component, development cooperation is an investment in a future that we wish to share. In this line of reasoning, the long-term transition to other forms of relationship (economic, commercial) and to other forms of exchange (academic, cultural, leisure) is not only desirable – it will also mark the end of traditional development cooperation as we know it. At the same time, it will show that the benefits of that traditional cooperation serve as a springboard to a better future.

With or without resorting to budget support.

It is in this spirit that we should continue to explore new aid modalities.

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