

Neue Wege in der Entwicklungszusammenarbeit: Budgethilfe als effektiver Beitrag and die Millenniums-Entwicklungsziele?
Nouvelles voies pour la collaboration au développement :L'aide budgétaire – une contribution efficace aux Objectifs du Millénaire ?
New Paths for Development Cooperation: Budget Support as an Efficient Contribution to the Millennium Development Goals?

The Millennium Goals and Budget Support

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I Introduction

Achievement of the Millennium Goals will not happen unless developing country governments take responsibility for their actions: That's the "GLOBAL DEAL" concluded at the Monterrey conference.

Aid by itself cannot "buy" the MDG's; and particularly "one project (or village) at a time" will not make a dent, as it bypasses and ignores government policies and responsibilities.

Even in the most aid-dependent countries aid is a minor part of overall development finance. The way a country spends its OWN resources is much more relevant for the achievement of the goals. Instead of focusing narrowly on the use of aid funds, government and donors together need to monitor implementation of a country's development strategy as a whole. Moreover, given the comprehensive nature of the MDG framework and its inter-linkages, they cannot be achieved by isolated interventions. Aid provided in the form of budget support can make an important contribution to the achievement of national development objectives and the global MDGs.

II The MDGs

The world's two billion poor cannot afford to rely on the charity of the less than a billion people in rich countries. The achievement of the MDGs requires that governments in developing countries take full responsibility of the commitments that they made to their own populations when they signed up to the Goals. After all, the primary responsibility of achieving Goals 1 to 7 falls on these governments. It requires that they put in place the policies, programmes and budgets and that they improve their governance, transparency, and accountability so that they can achieve these Goals.

They are only likely to meet their commitments if they are held to account on their promises, and their actions or inaction at home, by their own citizens and their elected representatives, and not – as traditionally has been the case – by donors from overseas.

The MDGs are a comprehensive, wide-ranging set of inter-related Goals, covering many different aspects of poverty and underdevelopment:

- The MDGs, require a comprehensive response, because of their synergy: getting girls to school might require, not more schools, but improved access to water; to address poverty, country wide expansion of agriculture extension services rather than geographically limited projects may be needed.
- In particular, MDGs require the scaling up and improvement of essential public services across the board to reach the poorest and most vulnerable: often these do not require primarily capital investment (projects) but budgetary resources to cover recurrent costs.
- The importance of Goal 1, poverty reduction, for the achievement of the other goals, requires the economy as a whole to function, to deliver jobs and better livelihoods.
- Thus, the achievement of the MDGs requires governments to work, and to work across the board; and donors to be supportive of the governments' overall development strategies by allowing the assessment of trade-offs between different sectors, policies and types (investment/current) of expenditures within this overall strategy.

III Aid Modalities and "Accountability"

Donors claim they need to ensure that funding goes to the 'right' priorities, e.g. basic education or primary health care, rather than say to military funding or other such 'bads.' This logic, however well-intentioned, is based on a fallacy. Projects that aim at the 'right kinds of expenditures' still release governments of the duty to provide these services and so free up resources within the government which can be spent on lower priority 'bads.' By putting money into the budget, donors are forced to pay attention to what is happening in other areas and sectors, and have some say about how the overall basket of funding is allocated. They cannot turn a blind eye, as they can, when they are implementing projects.

As money is fungible, even ring-fenced aid cannot guarantee additionality: if the donor insists on building schools, while the recipient wants an opera-house, it can simply transfer the funds for this from its own education budget, that had been planned for building schools. So the "comfort" of ring-fencing for donors to ensure their Euros are well spent is an illusion anyway, as no external intervention can be isolated from the general context.

Furthermore, traditional aid practices have undermined governments' capacity to govern well: this is perhaps the single greatest lesson from the past 40 years of development. The stand-alone donor-led project approach to development undermines local capacities, and the chances of achieving sustainable development. It does so in the following ways:

- Donor projects and project/programme implementation units frequently create parallel structures and even actively poach the best and most talented staff from government Ministries.
- A raft of small, stand-alone projects implemented by different donors with different ways of working, different administrative, financial and reporting procedures, with a series of monitoring meetings, result in a massive and wasteful workload for development country governments, with already weak and fragile institutional capacity. Imagine a civil servant in the Ministry of Finance in Zambia with fragile and limited institutional capacity having to produce thousands of quarterly reports to all these different donors. Tanzania

- asked donors for 2 months a year “mission free”; today even in the Tanzania health sector there are more than 100 projects of less than \$1 million each.
- The end result is that governments do not have the time or the capacity to run the country, and the policies, programmes and budgets required for development and the achievement of the MDGs, let alone be accountable to their own citizens...

The recently published (2006) World Bank Global Monitoring Report summarizes that: ‘Over the past half-century, stand-alone investment projects have been the dominant response of donors to the dilemma of ensuring accountability in weaker-governance settings... But from a governance perspective the turn to wholly parallel, projectized arrangements is a conclusion of despair. Such projects substitute external for local accountabilities, thereby perpetuating weakness in national governance systems. They typically insulate themselves from day-to-day business (and rules) of the public sectors in the countries in which they operate; they establish independent project implementation units; set up their own procedures; offer salaries higher than those available in the civil service; and attract away the best talent, demoralizing those who remain...’

Project financing has been preferred by donors to ensure accountability to their own parliaments and taxpayers. The result has been to provide a false sense of security, while undermining the much more relevant need for developing country governments to be accountable to their own citizens and parliament. Aid projects, which are usually outside the budget and definitely not subject to domestic auditing systems, bypass any semblance of national accountability. Accountability, if any, is from the line Ministry exclusively to the donor. This has led to eroding the appropriate accountability of developing country governments to their own Auditors General, their parliaments, their citizens, and their civil society. Without such overall accountability, the Goals will not be achieved.

Budget support can help in securing this transfer of responsibility from donors back to the citizens in developing countries: it allows more ownership towards the budget and promotes government accountability, to their parliaments and civil society.

As a former Development Minister and more importantly, a former MP, I very much sympathise with the need for donors to be accountable to our taxpayers, and to concerns regarding corruption in many of our recipient countries. But these countries’ citizens, not least the poor, are the primary victims of corruption. Fiduciary risks should be assessed from the perspective of all stakeholders not just those of the donors. In any case, in the past, we rich countries have not been very active to eliminate sources of corruption, for which we have been responsible.

The recent (May ’06) Multi donor Evaluation on General Budget Support (GBS) “found no evidence that budget support funds were in practice more affected by corruption than other forms of aid’. On the contrary, GBS is an effective means to limit the scope for corruption given its proven contribution to the strengthening of public finance management. Indeed GBS is the first aid instrument (building on HPIC) that creates genuine incentives on both sides (donors feel they need more safeguards; recipients want to qualify for GBS) to care for and invest in improved public finance management, including procurement, domestic transparency and accountability.

Using government systems is key to improving them (as opposed to other aid modalities, which are either ineffective (supply driven T.A.) or debilitating (off budget projects, parallel systems). As, libraries full of earlier evaluations concluded (and inspired my move to GBS),

this recent one also confirms that: “separate disbursement systems for aid undermine accountability in the government system;... off budget funding arrangements and the multiplicity of non-government disbursement and procurement procedures operating in parallel have tended to weaken the government systems at the same time as complicating the fiduciary oversight of aid funds.”

The only real comfort that donors can give taxpayers that their Dollars/Euros/Francs are spent well, is the degree that they can monitor the recipient government expenditures at the aggregate level, and seek safe guards by help improving government disbursement and procurement systems as a whole.

Properly designed budget support is the only aid modality that allows donors to do so effectively. To a large extent budget support activities were built on the HIPC debt relief initiative, which conditioned debt relief to Poverty Reduction Strategies, basic fiscal discipline and improved public expenditure management. At the time I strongly defended this approach in debates with parts of the Jubilee movements, who demanded unconditional debt cancellation: it does surprise me now to hear some of these same groups advocating project aid, drowned in spaghetti buckets of strings attached...

Moreover, the move to budget support also prompted donors to actively seek ways to support and strengthen local accountability institutions (audit agencies, parliaments etc. [Utstein experience]).

In short budget support is not, as some suggest, just giving money to governments, no questions asked, to use just as they like. The approach aims to make governments more accountable, not less, for the effective use of all resources including both aid and domestic revenue. As the evaluation concluded, budget support, indeed, played central role in strengthening public financial management. And the overall conclusion of the evaluation which covered General Budget Support in seven different countries was ‘clearly positive’.

IV Budget Support and the MDGs: Focus on Results

Achievement of the MDGs requires donors to look at their contribution in the broader context of recipients countries’ own efforts. Budget support is the aid modality that can respond by far the best to this, as it is provided in the context of an overall government development strategy, e.g. a Poverty Reduction Strategy (PRS).

Many of the MDGs require the scaling up and improvement of public services, i.e. they require large-scale, long-term, predictable funding, which allows for the coverage of recurrent costs. They focus on those aspects of human development which can be improved through the enhanced provision of essential public services: for example, Goal 2, the provision of primary education; Goals 4, 5 and 6, the provision of health care; Goal 7, the provision of potable drinking water; but also for Goal 1, services that support agricultural development that is critical to poverty eradication. And the funding needed is primarily for recurrent costs, which only budget support can provide.

Budget support – both general support in the PRS context and sector budget support programmes – aim to link funding to results. In the short- to medium-term this means the measurement of outputs, such as service delivery. This, and the fact that budgetary support involves a mobilization of a large amount of money, means that budget support

programmes are best suited to – and in fact at the outset designed for – sectors where there is a need for large-scale funding for public service delivery.

Budget support responds to this need. Funding can be transferred to governments within the overall context of a PRS or sector programme and they can determine what it finances, whether recurrent or investment expenditures. The evidence from the recent evaluation mentioned above concluded that by supporting increases in PRS priority expenditures, it was possible to achieve an expansion in the provision of basic services, especially in education and health.

The MDGs are focussed on sustainable results: outputs and outcomes. The targets and indicators are almost exclusively focused on outcomes (e.g. reversing the spread of HIV/AIDS or tuberculosis) or on higher-level medium-term impacts (e.g. poverty rates, and child and maternal mortality).

By contrast ***traditional project approaches often failed to be sustainable: creating islands of paradise in oceans of misery, collapsing when the donor left.***

Even if projects reflected local priorities, as they were not embedded in government policies, programs and budgets, they failed to result in the kind of systematic changes which result in sustainable long term overall progress. Worse, projects have a bias for “visible” investments allowing photo opportunities for development ministers and plaques on the walls of schools or hospitals reminding future generations of “the solidarity of the Swedish/Dutch or whichever people”.

These are not often the highest priorities for governments which cannot afford recurrent costs such as the salaries of doctors or teachers, while they are supposed to pick up the tab, resulting in an ever growing claim on their budget for their recurrent costs. Often, the Ministry of Finance is not even informed of these in advance. (Mozambique '98! \$ 100 million of aid, Government not consulted; most of Ministry of Finance not even informed: HOW CAN THEY TAKE RESPONSIBILITY!!! The government's favourite project: DfID's help to clean up customs, which increased their own domestic resources with annual amounts higher than any individual donor allocation. Malawi's Education Minister had to organise a merry-go-round of teachers moving around across the country from school to school to show up when donors would come checking...).

Sub-Sahara Africa is littered with decaying unused primary school and health post buildings... The problem is donors' urge to have “visibility”: to show pictures of gleaming new hospitals or schools to their citizens at home. This must change. Donors must be prepared to show pictures of well-fed and happy children in classrooms, even if the classrooms are huts, and even if donors can not put their plaques on the walls. The ‘visible’ results of projects are likely to be very localised, and often for the short-term (while the project is underway). Usually, projects simply do not produce the systemic changes which result in sustainable improvements.

Budgetary support, as it focuses on better linking policy priorities to strategic expenditures planning and to implementation, is by nature results-oriented. It increases incentives for recipients to develop coherent strategies and plans, translate them into the budget, and monitor results.

Experience suggests that indeed budget support can lead to better allocative (resources allocated in accordance to priorities) and operational (improving value for money)

efficiency. Operational: as it enables to address the imbalance between capital and recurrent expenditure: including by allowing the government to meet its counterpart contributions and pay for recurrent costs of traditional aid projects, improving their efficiency. [Example from personal experience: Ghana, where real constraint in health is brain drain of doctors and nurses; budget support allows topping up of salaries to induce them to stay, which allowed me, in sector policy dialogue to raise my concern that malaria bed nets had the highest VAT: since, they are social marketed...

V SHOULD ALL ODA BE IN THE FORM OF BUDGET SUPPORT?

Budget Support is particularly relevant for countries that are significantly aid dependent. In other countries there are less problems in reconciling large aid flows with healthy development of state institutions (but as scarce aid resources should be focussed on poor countries, what are donors doing any way in countries that don't need external concessional resources to achieve the MDG's?).

Budget Support requires significant consensus on development strategy and trust among partners; it also requires macro stability and some elementary fiscal discipline. However, other aid modalities have not been very effective, let alone sustainable, in an environment lack these conditions either.

Moreover, country situations tend not to be black/white and the (promise of) budget support, as did HPIC, has proven to be a great incentive for improvements of poverty reduction strategies and public expenditure management in anything-but-perfect country situations.

In my view the only situations where stand-alone projects continue to be the only possible aid modality:

- Situations of conflict or emergency. In these cases, often the only way to provide much needed relief might be with projects, for example run through humanitarian agencies and NGOs.
- When there is an explicit desire to empower and fund specific groups outside of and independent of government, e.g. civil society groups, or the media.

VI CONCLUSION

In conclusion, budget support is not perfect, but if there is anything that we have learnt from the past 40 years of development cooperation it is that donor-led stand-alone project-based development cooperation hasn't worked. While budget support isn't perfect, it does build on this important lesson. Most importantly, its specific aim is to help get developing countries governments working, which is crucial to sustainable development and to the achievement of the MDGs. After all, it is not donors that develop countries, it is countries that develop themselves...

Let me conclude with summarising what goal 8, the Global Partnership, is really all about by comparing the division of tasks between donors and recipients with the division of labour between the driver and passengers in a car:

The recipient should be in the driver seat (ownership). Of course the drivers license has to be checked (decent policies, governance). The passengers (donors) help by paying for the fuel ("0.7%": when will Switzerland set the date to achieve this, as the rest of Europe did, or will the Swiss check still be in "the mail" by 2015?...) Passengers should also consider the cars suspension system (debt relief).

But passengers must keep their hands of the wheel; and they must not distract the driver with a cacophony of conflicting advice (donor driven hobbies and micromanagement). Paying for fuel should not be conditioned on which brand to use (no more tied aid and irrelevant conditionalities); and passengers should not read out different maps – one that shows distances in miles and the other in kilometers (coordinate and harmonise procedures). However, the passengers should not merely pay and sit back and relax: they must help clear the road for the driver. They should remove boulders and haul away fallen trees that obstruct the driver's path – particularly the boulders that the passengers have put there in the first place.

And let me be explicit here in Switzerland: not just the obstacles inherent to outdated aid modalities; more importantly the protectionism against developing country agricultural exports. Two thirds of the world's poor live in rural areas and depend on agriculture: as long as present rich country agricultural policies continue, they will not be able to lift themselves out of poverty and Goal 1 will not be achieved.

However, if both "drivers" and "passengers" live up to their responsibilities, as embedded in Goal 8 / the "Global Deal", we will reach our destination safely: the Millennium Goals by 2015....