



Overseas Development
Institute

New Budget Support – from imposed conditionality to a Performance Agreement ?

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GBS from imposed conditionality to a Performance Agreement?

- The evolution of thinking on conditionality.
- Some problems in applying the new approach
- A possible way forward: what we think we know
- Some continuing uncertainties – what we don't yet know

Conditionality – the old approach: Structural Adjustment

- ❑ 1980s & 1990s Structural Adjustment Loans of WB & IMF disbursed only upon completion of pre-specified policy & institutional reforms :
 - Macroeconomic stabilisation & Market Liberalisation
 - Parastatal restructuring and privatisation
 - More rarely.....
 - Budget reforms, eg. allocations to social sectors
 - Institutional reforms, eg. improvements to procurement practices.

Where and how did conditionality work ? ...Evaluation conclusions

- ❑ Domestic political considerations are the prime factor in determining economic and institutional reform
- ❑ Where there is domestic support for externally supported reforms, conditionality appears to work..
- ❑ BUT...In general, domestic political considerations have proven immune to donor pressures.
- ❑ And many Governments learned how to ‘play’ donors because:
 - Donors are under pressure to disburse and have proven willing to do so, even where conditions are not met.

New approach builds Partnerships based on ownership

The Virtuous Circle:

Govt **ownership** means...

- Govt responsibility
- Therefore accountability &...
- Pressure for results
- Hence better policies, better public spending and service delivery, better government

What do donors need to do?

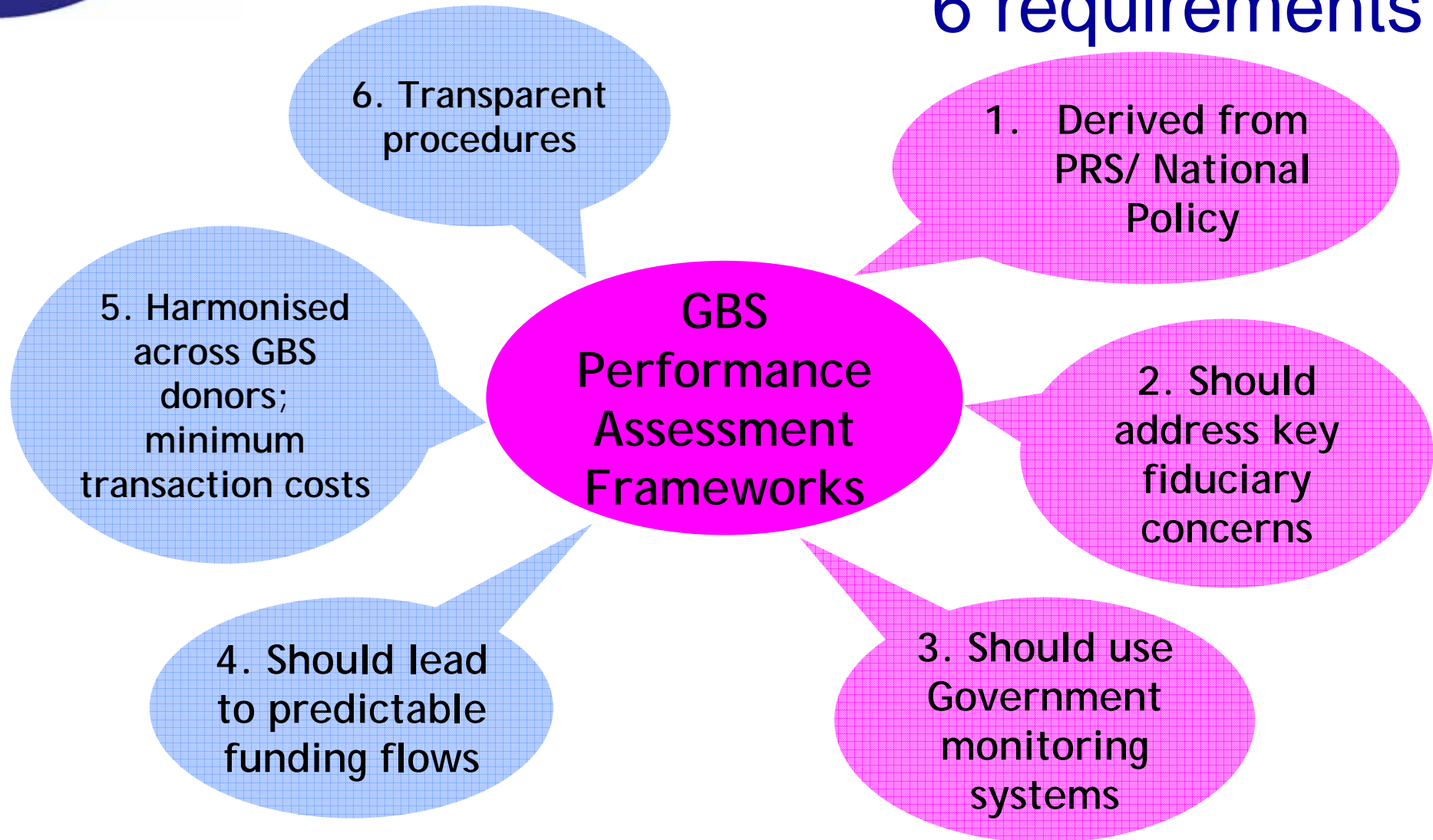
- Support good governance & institutions
- Use dialogue effectively
- Focus on Government development policy and development results
- Provide support to capacity development

SECO approach to Budget Support is a good example....

Our Budget Support is based on a relationship of mutual trust, underpinned by a consensus on basic issues and backed up by a strict audit on progress.

- ❑ Agreement on a development + reform programme
- ❑ Performance and results monitored
- ❑ Consequences of failure to comply with programme must be transparent + addressed through agreed procedures
- ❑ Policy dialogue with Donors must not undermine obligation of accountability to citizens
- ❑ Key capacity gaps are identified and addressed.

“New” Performance Assessment Frameworks for GBS should meet 6 requirements



Where do the typical problems occur ?

1) Disagreements over Policy

- No real Political commitment to National Policies or to the PRS.
- Or where there is commitment, policies not precise or well focused.
- Or they may not be ambitious enough to achieve real reforms.

Common response = use of PAF or PRSC matrix as an alternative policy framework

But this brings new risks:

- MoF technocrats may buy into this but will other stakeholders?
- Encourages Donors to push their agendas.
- Hence Ownership lost & thus the framework for accountability.

Where do the typical problems occur ? 2) Measurement problems

- ❑ Should focus be on Outputs or on Outcomes?
 - Focus on outputs more precise and measureable + influences policy more directly.
 - Focus on outcomes leaves more policy space for Government
 - But results do not derive so directly from Government actions
 - And if policy wrong, outcomes may never improve !
- ❑ Special problems over Governance issues, Corruption & (less so) PFM, procurement

Need to balance transparency/ precision over indicators with sense of bigger picture.

Where do the typical problems occur ?

3) Consistency in Donor behaviour

- ❑ GBS arrangements often involve many donors, eg 14 in Tanzania PRBS, 17 in Mozambique, 10 in Ghana.
- ❑ Donors do not have consistent approaches either to the assessment of progress or to the mode of disbursement: This leads to excessively large PAF matrices and multiple assessment processes.
- ❑ Donors also need to satisfy domestic constituencies, who do not always understand the GBS process well.

Greater efforts need to be made to inform domestic constituencies and to develop greater coherence across donors.

What we think we know: a possible way forward

- ❑ Primary aim of Budget Support is to provide funds for established Govt programmes focused on needs of poor.
- ❑ A secondary objective is to support improvements in systems (PFM, procurement, etc) and policy.
- ❑ PAF matrix must preserve this balance, i.e. focusing on whether basics of government are working and providing predictable funds in response.

This implies more attention to adherence to underlying principles and to “due diligence” requirements.

- ❑ Where improvements are sought, the focus should be on small number of achievable changes for which there is support.

Too many GBS donors forget how little influence they have on policy and institutional reform.

Where we need to learn more: which Performance Incentives are effective?

- ❑ 80 – 90 % of GBS should be predictable funding for the budget.
- ❑ Extra money can be offered in response to performance:
 - Resources (sub-tranches) linked to completion of specific policy actions, eg ‘trigger actions’ in Ghana
 - Variable tranches whose value increases with improvements in service delivery outcomes, eg EC arrangements in Mozambique, Tanzania, etc

Not yet clear how effective in promoting changes in performance.

- ❑ This is especially because obstacles arising from lack of political commitment often intermingle with capacity constraints.

What does appear necessary is a focus on a small set of achievable changes, where there is some political support.