



The case for budget support and country-owned aid

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SUMMARY RECOMMENDATIONS

The UK is an international leader in delivering aid through budget support and in support of national development programs, which has helped deliver considerable development benefits. However significant challenges still remain for the UK in scaling-up such practices and making them a permanent feature of its aid program. UKAN therefore makes the following recommendations to the UK government in using such aid:

- ❖ **Provide stronger guidance to country offices on their use of the various aid modalities and the implications of reform commitments; monitor closely the progress of country offices in implementing these reforms**
- ❖ **Continue to deliver aid in the form of budget support to suitable countries and look for opportunities to expand this type of support**
- ❖ **Review the use of conditionality in the UK's budget support (especially alignment with WB/IMF conditions), with a view to better supporting ownership and focussing on the most suitable and critical conditions**
- ❖ **Widen the use of and strengthen agreements with recipients on the conditions for budget support and suitable processes for dialogue and review**
- ❖ **Work more effectively with other donors to deliver alongside budget support expanded support for accountability and capacity building of the financial management, M&E and other systems of developing country institutions**

1. Introduction

It is accepted that for countries to develop successfully their governments and institutions must have full responsibility for devising and implementing national policies under the scrutiny of their citizens. One of the most critical roles donors can play in supporting such processes is to deliver aid directly and predictably to national governments and institutions, who can then take the lead in managing its use.

Although the UK has in recent years become a global leader in delivering aid to governments and in support of national development programs, it is vital that it put in place policies to make these practices a permanent feature of its aid and continue to show global leadership in these areas. This paper presents UKAN's views on these issues and its agenda for reform of the UK's aid delivery.

2. Where does this aid reform agenda come from?

The 2005 Paris Declaration on Aid Effectiveness – signed by over 100 developing and developed country governments and international bodies - defines the core principles of effective aid as: **ownership** at the centre; donors **aligning** their support to country strategies and **harmonising** their procedures to reduce bureaucracy; as well **managing for development results** and **mutual accountability**. It also presents and commits donors a program of reforms for donors to put these principles into practice.

In order to support **ownership** and **alignment** the Paris Declaration commits donors to move away from funding a multitude of small projects (that are often controlled closely by donors, circumvent national institutions, difficult to coordinate and create significant administrative challenges) towards support for larger-scale

country-led national development programs. Such interventions are called “program based approaches” in the Paris Declaration and donors have committed to deliver 2/3 of their aid in such a way by 2010.

In an effort to promote **ownership** and **harmonisation**, the Paris Declaration also commits donors to increasingly deliver aid through government systems, such as those relating to financial management and procurement; called use of “national systems” in the Paris Declaration. Such an approach aims to help build the capacity of national institutions to lead development efforts.

3. How well are donors reforming their aid delivery practices?

In 2007, only 44% of OECD aid was reported to have been delivered through Program Based Approaches, only 47% used country financial management systems and only 44% used national procurement systems (OECD 2008). **The UK has performed better in these areas, with 62% of its aid delivered through Program Based Approaches, 66% using national procurement systems and 59% using national auditing systems (OECD 2008). However, this still left much UK aid outside Program Based Approaches and country systems.**

Another concern raised is that donors still use program support like projects, by earmarking their funding to specific budget lines and focussing their engagement around these narrow priorities (Mokoro/ODI 2009). This can end up negating the positive impacts of budget support on ownership, coordination and bureaucracy.

4. What is the role of budget support in improving ownership and aid effectiveness?

The aid modality that provides the most significant potential for building and sustaining country ownership and institutions, delivering mass increases in predictable development spending and encouraging donors to work together is budget support - delivering aid directly to the budgets of governments. This form of aid can also help to promote the accountability of governments to their citizens, by putting the focus on national institutions for delivering development assistance rather than donors.

Globally only 5-10% of aid is delivered in this way. However, the UK is the global leader in its use; **in 2008/9 it delivered 27% of its total bilateral aid and 39% of its bilateral aid to sub-Saharan Africa through budget support (DFID 2009b).**

Of course, delivering aid directly to a government’s budget requires donors to have sufficient trust in its accountability, development achievements, respect for citizens rights and level of governance, all factors that go into the UK’s assessment of the suitability of countries to receive budget support and their ongoing monitoring of performance (more in section 5).

5. Achievements of the UK’s budget support?

Budget support has been increasingly used by DFID over the last decade and a number of evaluations have identified significant achievements that it has contributed to, confirming many of the theoretical benefits outlined in Section 4.

Budget Support - Increasing government’s pro-poor expenditures

- During 1998/9 to 2002/3 Tanzania doubled per capita spending on PRSP priority sectors, with budget support contributing almost 20% of spending by 2004/5 (Lawson et al 2005).
- In Uganda Budget support contributed 31% of the real increase in public expenditures 1997/8 - 2003/4, when pro-poor expenditure increased from 17% to 37% of the budget (Lister et al 2006).
- In Rwanda budget support has helped the government to increase vital recurrent expenditures in health and as a result people’s use of health services has nearly doubled (NAO 2008).

As well as significant outcomes related to service delivery, it has also been documented that budget support and the capacity building and institutional support provided alongside it have helped make public spending more transparent and

accountable, build country institutions and build capacity of countries to generate their own resources (below).

Budget support and ...

...Public Financial Management - In Sierra Leone PFM reforms related to budget support contributed to improvements in 10 of 14 recognised measures of public expenditure standards during 2004-7, and improved auditing and procurement systems (Lawson 2007).

...revenue generation - Since 1998, DFID has provided funding and assistance for the establishment and strengthening of an independent Revenue Authority in Rwanda, which has contributed to improvements in its capacity and performance; tax revenues increased 3-fold 1998 to 2006; c50% of the national budget is now financed domestically; this was 35% in 2001 (DFID)

...government accountability - Since budget support was introduced in Ghana there has been wider participation of parliament and civil society in budget and policy processes; increased transparency; and strengthening of the Auditor General's role (Killick/Lawson 2007).

6. Challenges around the UK's budget support

One of the main concerns raised around budget support are the risks involved in delivering aid to governments – whose systems of accountability and capacity are still developing - which puts much of decision-making for spending and direct scrutiny in their hands and takes it out of the hands of donors.

These concerns are legitimate and it is therefore vital that steps are taken to lessen these risks. DFID already does a great deal to tackle these risks, through:

- Basing decisions on delivering budget support on assessments of government commitment to development, accountability, human rights and governance
- Sustained and focussed engagement with governments on spending and other policies through donor-government dialogue groups
- Supporting building of public financial management, other systems and oversight capacity
- Supporting regular assessments of developing country spending with other donors
- Supporting civil society, parliaments, audit bodies etc to hold government accountable

As highlighted by bodies such as the UK parliament and the National Audit Office, such efforts can always be strengthened and recent policy proposals to increase spending on accountability around budget support and undertake wider consultation on decisions about its delivery will also help deliver improved oversight.

However, it is important to note that analysis suggests budget support is no less open to corruption than other forms of aid (IDD 2006; p108-12) and that risk is something donors need to accept if they are to use aid to support development. In addition, with the risks around budget support come significant opportunities for supporting country led development and making aid more effective.

7. Budget support needs responsible and long term approaches

In recognition of the fact that the benefits of budget support come from supporting country ownership of development efforts, patient, long term engagement and transparent dialogue, it is important that the UK government ensures that:

- **conditionality on budget support – currently excessive, intrusive and undemocratic – is reduced, avoids economic areas and is focussed on areas most critical to accountability and development outcomes**
- **countries are fully informed of the conditions on which disbursements are to be agreed and a process for dialogue, review and decision-making where country performance is a concern**
- **any additional safeguards – e.g. performance tranches, ministerial sign-off, additional audits – are used carefully with full regard to obstacles they can cause**

8. Conclusion and recommendations

The UK is an international leader on delivering aid through budget support and in support of national development programs, which has helped deliver considerable development benefits. However significant challenges still remain for the UK in scaling-up the use of such approaches and making them a permanent feature of its aid program. UKAN therefore makes the following recommendations to the UK government in its use of such aid:

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