UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

DISCUSSION PAPERS

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No. 190
October 2008

UNITED NATIONS

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Acknowledgement: The author is particularly grateful to Ugo Panizza, Matthias Rau-Göhring and Lucais Sewell for their helpful comments and suggestions. The final version of the paper benefited from valuable contribution by an anonymous referee. The views expressed and remaining errors are the author's responsibility.

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UNCTAD/OSG/DP/2008/5

***JEL classification*:** F35, O19, O55

Contents

Abbreviations

AFRODAD	African Forum and Network on Debt and Development
APR	Annual Progress Review
BWI	Bretton Woods Institutions
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DDCI	Debt and Development Coalition Ireland
DfID	UK Department for International Development
EC	European Commission
ESAF	Enhanced Structural Adjustment Facilities
GBS	General Budget Support
GDP	gross domestic product
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IDD	International Development Department of the University of Birmingham
IDS	Institute of Development Studies
IEO	Independent Evaluation Office of the IMF
IMF	International Monetary Fund
LUC	Local Currency Unit
NORAD	Norwegian Agency for Development Cooperation
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PFP	Policy Framework Paper
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
SECO	State Secretariat for Economic Affairs, Switzerland
SIDA	Swedish Agency for International Development Cooperation
SPA-BSWG	Budget Support Working Group of the Strategic Partnership with Africa
USAID	United States Agency for International Development

BUDGET SUPPORT: A REFORMED APPROACH OR OLD WINE IN NEW SKINS?

Martin Knoll

Abstract

Multi-donor budget support is an increasingly important modality for aid delivery, comprising up to 30 per cent of central government spending in sub-Saharan African countries. While many donor institutions regard budget support as an improved method of developmental assistance, citing positive impacts on pro-poor spending and the quality of services delivered to the poor, the concepts of strengthened ownership and sovereignty at the heart of this new approach have not been fully implemented to date. This paper explores deficiencies evident in three areas: (i) the volatility of budget support funding remains high, undercutting national-budget sustainability; (ii) the non-BWI donor community is overly reliant on conditionality formulated by the World Bank and IMF, conditionality that is ideologically coloured and often inconsistent with PRSPs; and (iii) the process towards harmonization and alignment is slow and sluggish, complicated by donor concerns over visibility and influence as well as deficiencies in recipient financial management systems, a lack of transparency, and weak links between national budgets and poverty-reduction strategies. It is hoped that additional research in this area will facilitate the development of budget support schemes with greater harmonization and alignment, enhanced recipient ownership, and larger effects on poverty reduction.

I. INTRODUCTION

Budget support is on the rise, particularly in Africa. In 2005, 17 African countries received approximately US$2.6 billion in budget aid from the donor community (SPA-BSWG, 2006: 14). However, direct budget support as a form of programmed aid delivery is not a recent innovation. The International Monetary Fund has provided balance-of-payment support for decades. The World Bank has also funded developing countries' budgets within the framework of its structural adjustment lending programmes. Yet, according to many observers, the policy-based lending implemented by Bretton Woods Institutions (i.e. concessional loans with disbursement conditional upon the implementation of a policy menu) has been a painful and costly experience for developing countries. With the failure of the "getting the price right" policy approach advocated by the Washington Consensus and the increasing resistance of recipient countries to blindly subordinate themselves to IMF and World Bank conditions, the lack of a coherent and widely supported development policy became apparent (Rodrik, 2006: 974). The first step in solving this dilemma has been to acknowledge that *there is no unique set of rules* that determines development policy (World Bank, 2005a: 25). The second step has been to return ownership of the development process back to national governments. Recipient countries are now expected to formulate a nationally owned development strategy with which the donor community can align. In this context, harmonization, ownership, and alignment have become the new keywords in development cooperation and many donors consider budget support an instrument for delivering on the commitments made in Monterrey, Rome, Paris, and Gleneagles; in short, to provide scaled-up and effective aid to support a nationally owned development strategy.

In recent decades, however, there has been considerable re-labelling and re-phrasing with few changes made in the way business is actually conducted. This paper therefore asks whether it is indeed valid to speak of budget support as a new aid modality or whether it should instead be considered "old wine in new skins". To address this question, the present paper explores the extent to which a "new" aid modality has been implemented in relation to: (i) the significance and predictability of un-earmarked funding; (ii) the scope and scale of conditionality imposed on recipient countries; and (iii) the extent to which harmonization and alignment have been achieved thus far.

II. WHAT IS NEW DIRECT BUDGET SUPPORT?

In 1996, the Development Assistance Committee of the OECD (OECD-DAC) released its *Shaping the 21st Century: The Contribution of Development Cooperation Report,* which identified six quantitative development targets to be reached by 2015. This report, which influenced the formulation of the UN's Millennium Development Goals, called for recipient nations to draft national development strategies from which concrete and specific targets could be derived (OECD, 1996: 14).

The OECD's proposal was followed by the HIPC II Initiative in 1999. The preparation of a nationally owned Poverty Reduction Strategy Paper (PRSP) was made a precondition for participation in HIPC II (World Bank, 2000: 3). At its September 1999 meeting, the Development Committee – a joint ministerial committee of World Bank and IMF's Board of Governors – went a step further, endorsing the proposal that PRSPs be prepared in all low-income countries eligible for IDA loans (at that time 81 countries) and concessional IMF resources (IMF, 2007).

This development marked a fundamental shift in the procedures of conditional lending, at least on a formal level. Instead of imposing conditionality and demanding policy alignment from recipient countries, donors were now expected to draw their conditionality from a comprehensive, nationally elaborated strategy on development and poverty reduction. Previous policy-based lending instruments had focused on external and internal macroeconomic reform with specific conditionality focused on deregulation, privatization, and macroeconomic variables such as inflation and public-sector deficits. The IMF as well as the Bank had based their conditionality on the so-called Policy Framework Paper (PFP), which – as admitted by the IMF in 2002 – had primarily been a product of the Bank and the Fund.[1]

At the same time, the current system of aid delivery – with its wide variety of donor requirements and processes of preparing, delivering, and monitoring development assistance – was considered to generate unproductive transaction costs and strain the resources of partner countries. In many instances, the donors' practices did not match recipients' development priorities or systems, particularly in terms of budget, programme, and project-planning cycles as well as public financial management systems (World Bank, 2003: 1). The 2002 Monterrey Conference on Financing for Development and the 2003 Rome High-Level Forum on Aid Harmonization made both ownership and good governance a *leitmotif* for future development strategies. Furthermore, it was considered necessary to harmonize donor procedures to reduce transactions costs for recipient countries and to align donor programmes with nationally owned development strategies, as manifest in the PRSP and similar documents (IMF, 2002).

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[1] Boughton, 2002: 10. Although the PFP was supposed to be the country's own document, prepared by the authorities with the help from the staff of the Bank and Fund, in practice it was usually prepared largely in Washington with help from the authorities. That process continued to be applied through the 1990s under the Enhanced Structural Adjustment Framework.

With the realignment of the requirements placed on donors' systems for the provisioning of development assistance, direct support to central governments' budgets or to specific sectors appeared to offer a series of advantages. *First,* with budget-aid delivery untied, monies can be allocated according to national priorities – a substantive element of the ownership concept. Unlike project aid, budget funding makes the recipient government responsible for prioritization, planning and implementation. *Second,* compared to other aid-delivery instruments, donor harmonization is easy to achieve. Donors only have to agree on the conditionality, as well as the reporting, review, monitoring and disbursement procedures. Furthermore, if there is dissent on any of these issues – such as on existing fiduciary risks – then specific procedures (i.e. additional disbursal conditions on the donor's commitment) can be arranged. It is not necessary for donors to jointly decide how to allocate funds and what actions to prioritize, as these responsibilities lie with the recipient government. *Third,* by establishing harmonized conditions, the donor's leverage and control over the process is significant. This will be discussed in more detail below.

The OECD-DAC defines direct budget support as an aid modality in which foreign funds are transferred to a recipient treasury, managed and spent according to national budgetary regulations and priorities. This allows the government to assume responsibility over prioritization, planning, and implementation processes (OECD, 2006b: 17). Although the OECD-DAC does not explicitly refer to the issue of conditionality in its policy definitions, it is nevertheless clear that the policy *dialogue* between the donor community and the recipient country does not come without its costs (OECD, 2003: 28). The budget-support programme should be aligned with an operationalized version of the PRSP. Its conditionality should relate to the government's performance on service delivery to the poor. In addition, albeit to a lesser extent, conditionality is expected to aim at macroeconomic stability for the attainment of poverty reduction through enhanced economic growth (IDD, 2005: 6).

A. Scale and scope of general budget support: sub-Saharan Africa in focus

The 2007 General Budget Support Evaluation released by the International Development Department (IDD) of the University of Birmingham states:

> The novelty of partnership GBS (*i.e. new GBS)* as a major form of programme aid means that standard international data on aid are of limited value for charting trends in the types and levels of GBS flows (IDD, 2007: 8).

Despite these apparent shortcomings, the Creditor-Reporting System of the OECD-DAC does provide an indication of regional GBS-allocation patterns.[2] According to the OECD-DAC, sub-Saharan Africa (SSA) is the most important recipient region. Since 2000, 60 to 70 per cent of overall GBS funding consisted of disbursals to SSA countries.

As reported by the Strategic Partnership with Africa's Budget Support Working Group (SPA-BSWG), in 2005 more than US$2,650 million in GBS was disbursed to a group of 17 SSA countries.[3] Among this group of countries, the average share of GBS in total Official Development Assistance (ODA) between 2003 and 2005 has been significant and relatively stable at approximately 30 per cent.

[2] When cross-checking with disbursal data reported by the BSWG-SPA (see footnote below), it turns out that OECD-DAC data only depict the approximate scale and does not represent the exact figures. Furthermore, the data does not include the Poverty Reduction and Growth Facilities (PRGF) provided by the IMF nor those of the Poverty Reduction Strategy Credits (PRSC) provided by the IDA.

[3] The Strategic Partnership for Africa (SPA), established in 1987, is an association of donors and representatives from African countries working to enhance the quality and quantity of assistance to Africa. The SPA's Budget Support Working Group (SPA-BSWG) was set up in 2003 to coordinate and monitor current GBS programmes in 17 sub-Saharan countries. Data are drawn from the SPA-BSWG's Annual Budget Support Surveys from 2004, 2005 and 2006; see references.

With such a high share of GBS in overall ODA channelled to a considerable number of African countries, the dependence of national governments from the Budget Support scheme becomes apparent. In 2004, GBS funding significantly increased the size of central government budgets in Africa: by 11 per cent in Ghana, 14 per cent in the United Republic of Tanzania, 18 per cent in Uganda, and 23 per cent in Mozambique.

Table 1: GBS Disbursals in absolute and relative terms

Year	*2002*		*2003*		*2004*		*2005*	
Country	*GBS disbursals (Million US$)*	*Share of GBS in total ODA (Per cent)*	*GBS disbursals (Million US$)*	*Share of GBS in total ODA (Per cent)*	*GBS disbursals (Million US$)*	*Share of GBS in total ODA (Per cent)*	*GBS disbursals (Million US$)*	*Share of GBS in total ODA (Per cent)*
Benin	21.75	13.28	18.90	7.13	66.90	18.03	70.80	24.05
Burkina Faso	100.60	36.72	113.20	31.01	151.10	35.33	174.00	37.55
Ghana	103.32	25.19	355.30	67.66	315.90	16.55	368.90	36.09
Madagascar	111.48	68.90	94.40	22.99	157.40	13.07	130.20	18.52
Malawi	0.00	0.00	75.70	20.52	92.50	24.03	118.30	28.07
Mali	32.63	9.92	210.50	51.39	64.80	11.54	108.30	19.37
Mozambique	87.01	40.93	224.90	29.03	326.70	39.21	321.10	36.04
Niger	95.17	57.16	92.80	21.40	93.20	15.89	99.70	27.29
Rwanda	89.73	37.80	42.20	16.43	168.50	59.00	154.40	35.79
Sierra Leone	53.02	23.11	51.30	21.71	79.10	34.51	84.70	36.92
Tanzania (United Rep. of)	236.56	26.88	404.50	43.36	409.80	32.62	537.60	53.43
Uganda	239.28	53.94	308.00	49.95	321.10	41.92	239.00	32.57
Average		32.82		31.88		28.47		32.14

***Source**:* GBS disbursals according to SPA-BSWG; ODA data according to OECD-DAC.

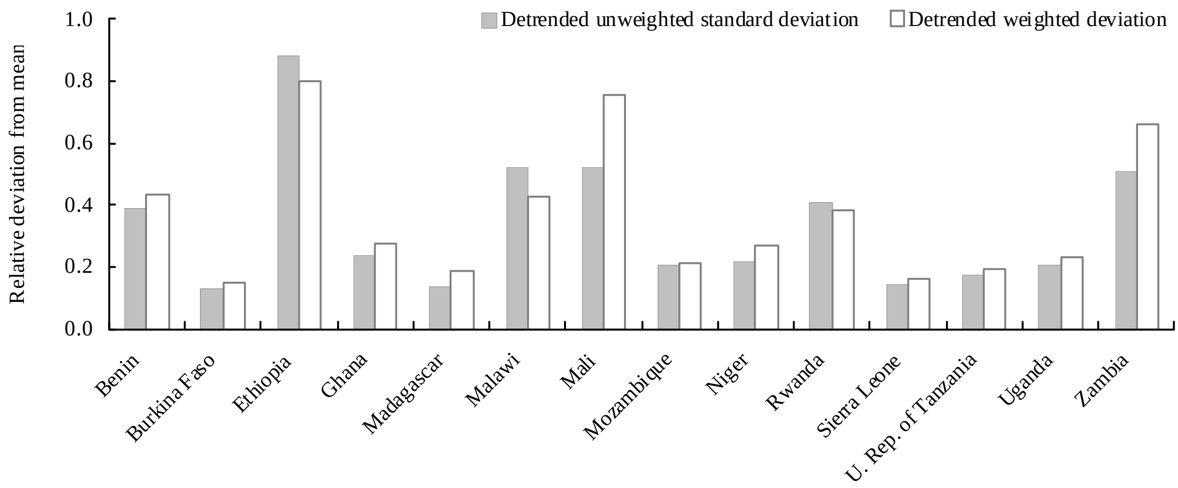
B. Volatility and predictability of general budget support

An important criterion for the quality of budget support is whether committed funds are disbursed in time, i.e. within the fiscal year for which they have been scheduled. Late disbursal or non-disbursal of pledged support is a major source of unpredictability for recipients. The resulting uncertainties for national-budget funding weaken the budget as an instrument for implementing the PRSP (SPA-BSWG, 2005: 29).

Despite repeated pledges made by the donor community to enhance the predictability of programme-based aid, GBS disbursal has remained volatile at the country level in recent years. Since 2003, SPA-BSWG has published data on GBS disbursed to its African recipient countries. The scale of volatility becomes apparent when calculating the standard deviation as share in average disbursal amounts. The results are displayed in figure 1. The white bars indicate the detrended, unweighted standard deviation, corrected for fluctuations from rising average disbursement. The grey bars indicate detrended and weighted deviations.[4]

[4] Negative fluctuations from the mean are weighted with itself as sudden contractions in disbursal are considered more harmful to fiscal and budgetary sustainability than positive fluctuations. Deviation is detrended from the average GBS-disbursal growth.

Figure 1: Detrended weighted and unweighted standard deviation for GBS disbursals



Source: SPA-BWSG annual budget surveys, 2003–2006.

Budget support to Ethiopia, Malawi, Mali, Rwanda and Zambia is subject to the highest detrended volatility. The data also show that Ethiopia, Mali and Zambia are worst affected by negative disbursal deviation.

This method of analysis does not allow for conclusions to be drawn concerning predictability, as the amount of funding initially pledged by the donor community is not taken into account. The OECD-DAC's Creditor Reporting System provides commitment and disbursement data for budget-support aid. Figure 2 summarizes disbursal and commitment aggregates for a twenty-country sample. In the upper chart, the grey bars indicate committed GBS funds, while white bars show disbursed GBS funds. The lower diagram graphs the respective share of non-disbursed funds.

This analysis shows that the gap between commitments and disbursments has widened in absolute terms, yet it has narrowed in relative terms. According to the data, with the introduction of the new budget-support modality, financing disbursement has increased to approximately 60 per cent. Consequently, the most aid-dependent countries in the world are facing significant volatility in untied budget-aid flows, which account for up to 30 per cent of central government financial expenditures.

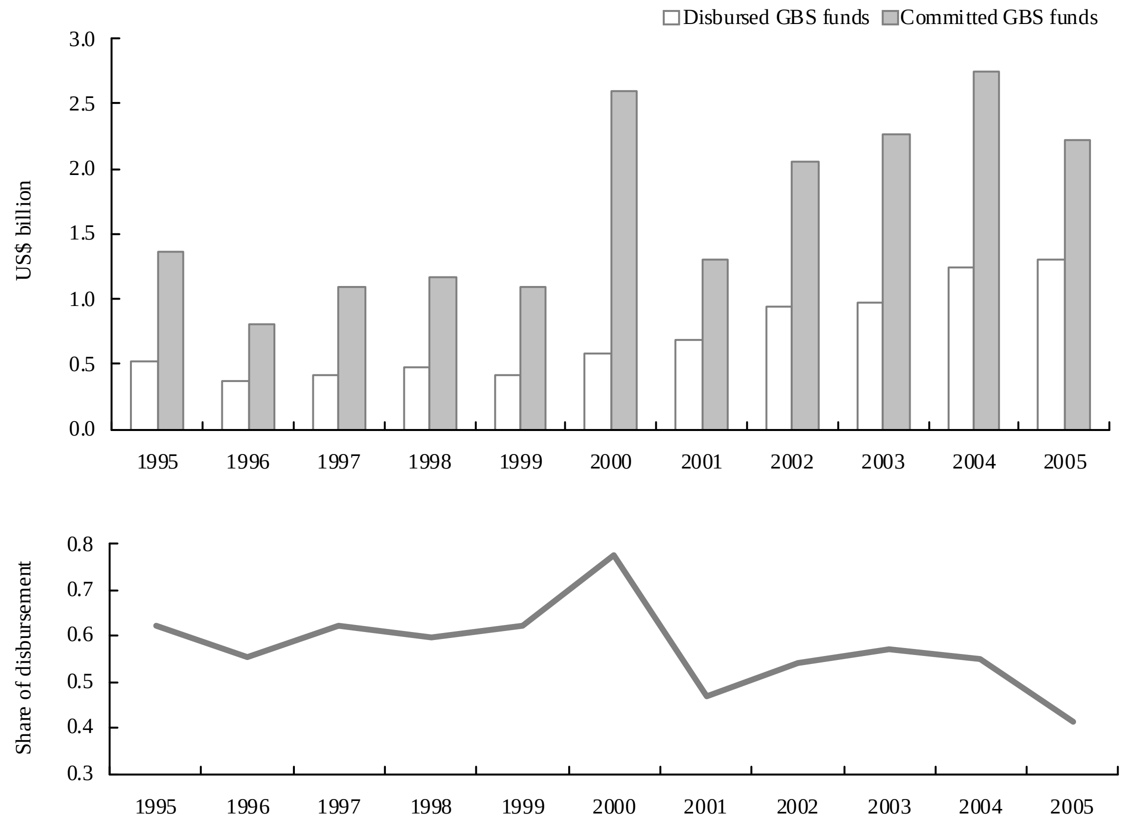
As central government receipts and expenditures tend to be recurring and predictably steady, adjustment to volatility in GBS flows and the non-disbursal of initially committed funds typically entails increased government debt. This is particularly true for recipient countries that are highly dependent on external funding. A regression analysis of committed and disbursed funds from data provided for 18 African GBS-recipient countries confirms the initially predicted negative effects of a sudden disbursal shortfall.[5]

According to the results of the cross-section regression, an initially committed but non-disbursed local currency unit (LCU) negatively affects central governments' budgets by approximately 0.7 LCU.[6]

[5] Included countries: Burundi, Burkina Faso, Cameroon, Cote d'Ivoire, Ethiopia, Ghana, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, United Republic of Tanzania, Uganda and Zambia.

[6] Please see Annex for estimation output and specification.

Figure 2: GBS disbursals and commitments in billions of US dollars and share of non-disbursed funds in commitments



Included countries: Benin, Burkina Faso, Burundi, Cameroon, Cape Verde, Côte d'Ivoire, Ethiopia, Ghana, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, the United Republic of Tanzania, Uganda, Zambia and Zimbabwe.

Similar findings are presented in a recent study on the predictability of budget aid based on experiences with eight SSA countries. It shows that recipient governments mainly address non-disbursement through higher domestic borrowing and external financing (Celasum and Walliser, 2005: 17). The average budget-aid shortfall amounted to 1.1 per cent of GDP and this shortfall translated on average into an increase of domestic borrowing by 0.8 per cent of GDP and a rise in foreign financing by 0.5 per cent of GDP.

However, the empirical evidence is weak for several reasons. *First*, the *new* budget support approach is a recent and developing modality that is subject to ongoing modification. *Second*, the available data only cover a very short time frame. *Third*, data-quality problems are evident, particularly in the case of the OECD-DAC's data. Consequently, the empirical results are not very robust and should be viewed with caution.

Nevertheless, empirical results obtained thus far all corroborate the view that the new GBS approach has not yet produced a reduction in volatility or increased predictability. Rather, data suggest that the currently prevailing lack of predictability has considerable negative impacts on fiscal outcomes in recipient countries. For this reason, minimizing volatility and reducing the share of non-disbursed funds must be the centerpiece of continuing efforts to avoid negative repercussions to debt sustainability. Furthermore, empirical data also emphasize the need to address the central question of why committed funds are not released.

Reasons for non-disbursement

On the basis of the SPA-BSWG country sample, the annual reports list several reasons for non-disbursement. Reasons for non-disbursement include: (i) government failure to meet conditionality; (ii) procedural delays in meeting government administrative-processing conditions on the recipient side; (iii) administrative difficulties on the donor side; and (iv) political problems on the donor side.

According to donors, the most common reason for late or non-disbursal is the recipient's failure to meet conditions (the indicated reason is 40 per cent of all cases in 2003). Funds were also frequently retained due to administrative or political difficulties on the donor side (31 per cent of cases). In 2004, government failure to deliver on conditionality remained the principle cause of disbursement (48 per cent), followed by the recipient's failure to complete administrative procedures on time (25 per cent). Disbursal retention for reasons on the donor side dropped to 13 per cent of all cases.

This descriptive approach evokes the impression that recipient governments can be primarily faulted for non-disbursement, as a failure to fulfil requirements appears to be the main cause of withholding. However, a closer look at the terms of the conditionality imposed on recipient countries delivers a more nuanced picture.

C. Conditionality and ownership

As discussed above, the key question as to whether this new aid modality can meet expectations depends greatly on how the donor community deals with the issue of conditionality. This issue must be evaluated within the context of the following two questions: *First and most importantl*y, has there been progress in the area of conditionality which does not contradict the imperatives of the ownership approach? *Second,* has there been a reduction in the uncoordinated multiplicity of conditionalities and an increase in donor harmonization?

As the largest and most influential donors, the BWI play a pivotal role in the formulation of conditionality. The partner countries and BWI agree on targets and triggers which serve as a benchmark for the conditions set by bilaterals, the EC, and regional development banks. In fact, many donors directly attach their disbursal decisions to those of the IMF or World Bank, while others use the BWI's terms and conditions as a minimal disbursal requirement.

The EC, for example, made the IMF's positive assessment a pre-condition for its own release of funds, which in 2005 amounted to a total of US$480 million for those 17 African countries included in the SPA-BSWG sample. In the same year, all but one EC budget-support funding scheme referred to an IMF programme, in most cases the PRGF (EC, 2005: 23, 62).

However, the picture among bilateral agencies is less consistent. For example, Norway's NORAD does not tie its disbursal decisions to the IMF's or the World Bank's appraisal, but strives for consistency in conditionality among the donor group (NORAD, 2006: 20). Meanwhile, SIDA (Sweden) directly or indirectly (via the EC) attaches its release decision to recipient compliance with PRGF conditionality, and makes decisions on a case-by-case basis (SIDA, 2004: 35). The Belgian budget-support scheme for Burkina Faso is attached to PRSC conditionality, while DFID (United Kingdom) draws its disbursal conditions from the PRSP (or from the terms of the PRGF, if those are considered consistent with the British approach). In the United Republic of Tanzania, DANIDA (Denmark) partly referred to PRSC prior actions but also took into consideration conditions directly from the PRSP.

These examples demonstrate the BWI's leading role in establishing conditionality. In this way, in order to answer the questions raised above, it is necessary to understand how the IMF and the Bank draw-up their conditionality.

1. The World Bank

To support the national PRSP, in 2001, the World Bank introduced its Budget Support Programme, known as Poverty Reduction Strategy Credit (PRSC). PRSCs are provided as concessional IDA loans to low-income countries. Depending on the World Bank's assessment of fiduciary risks, PRSCs are released in up to three separate disbursement tranches. Countries with a good track record often receive single-tranche disbursement. PRSCs are subject to a set of "prior actions" (i.e. conditionality must be fulfilled before a PRSC is approved by the World Bank's board). Furthermore, the aid programme is underpinned by conditionality triggering disbursal of the next tranche (e.g. PRSC I for the fiscal year 2004 includes conditionality that triggers disbursal of PRSC II in fiscal year 2005).

Because of broad-based criticism of the scope and the scale of conditionality applied by the World Bank's policy-based lending tools, the World Bank suggested in its Interim Guidelines on Poverty Reduction Support Credits that conditionality be reduced in areas critical for the success of aid programmes.[7] This recommendation was repeated in *From Adjustment Lending to Development Policy Lending: Update of World Bank Policy*, published in 2004 (cp. World Bank, 2004b: 32; World Bank 2005d). Quantitative research has suggested that the number of conditions per adjustment lending operation declined from 46 in 1992 to 14 in 2004 (Koerbele, 2003: 251).

However, a more detailed study commissioned by the *Debt and Development Coalition Ireland* (DDCI) on PRSC conditionality, conducted in 2005, shows that the trends are ambiguous. For a sample of 13 PRSC recipient countries the programmes included 13 prior conditions on average, with a minimum of seven and a maximum of 23 (Wood, 2005: 6). However, in order to reduce the number of prior actions and triggers, the World Bank now uses an increasing number of benchmarks or milestones to assess whether conditions (prior actions and triggers) are met. The number of benchmarks compared to the number of conditions is very high. According to the DDCI, the number of milestones per PRSC operation varies from 16 to 118, with an average of 49. Yet with a declining number of conditions and an increasing number of underlying benchmarks, recipients have found it more difficult to meet requirements. Furthermore, according to the DDCI, disbursement decisions have become more opaque, as the World Bank does not clarify which benchmarks have priority.

The majority of conditions concern the privatization of agricultural and state-owned enterprises, the encouragement of private-sector investment, public-sector management, public financial management, good governance and health. As the DDCI study states:

> Although the details of the reforms differ from country to country the overall thrust of reforms is more or less in the same direction: encouraging private sector investment; decentralising public service provision; private sector provision of basic infrastructure; liberalization of trade, privatisation of agricultural state-owned enterprises; reform of public financial management and accountability procedures (Wood, 2005: 7).

In a number of cases, the World Bank's conditionality still included privatization or public-private partnerships for public-service delivery, even though these measures were not part of the respective PRSP.[8] Privatization and public-private partnership demands are not explicitly identified as pre-conditions for disbursement, but have mainly been used as benchmarks. It is open to debate whether or not this should be interpreted as an attempt to camouflage a discredited policy approach for which the World Bank has come under pressure in the past. In summary, the number of conditions has only decreased *pro forma*, as benchmarking for conditionality has become more elaborate. The delivery of real ownership to create additional policy space for national governments remains very moderate.

2. The IMF

In 1999, the Executive Board of the IMF decided to transform its Enhanced Structural Adjustment Facilities (ESAF) into the Poverty Reduction and Growth Facilities. According to the IMF:

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7 On 9 August 2004, the Executive Directors of the World Bank approved the new Policy Directive 8.60 *Development Lending Policy*, which i.e. subsumed the Interim Guidelines on Poverty Reduction Support Credits (World Bank, 2004a).

8 Ghana: privatization of electricity supply; Senegal: PPP in health care; Guyana: privatization of water supply; Mozambique: privatization of telecommunications.

> […] the purpose of the new facility is to support programmes to strengthen substantially and in a sustainable manner […] balance of payments position and to foster durable growth, leading to higher living standards and a reduction in poverty. PRGF-supported programmes, like those of IDA, will stem from and be consistent with poverty reduction strategy papers […] prepared by the borrowing country and endorsed in their respective areas of responsibility by the Boards of the IMF and World Bank (IMF, 1999).

This was a clear and promising statement for more ownership and for increased harmonization efforts. However, findings obtained by evaluation and assessment work have been mixed. In 2002, three years after the reform of the ESAF, senior IMF staff suggested that the Fund was performing well with its new approach (see Gupta et al., 2002). A staff report based on 35 PRGF requests considered by the IMF's Board concludes that conditionality was streamlined with fewer structural conditions and a stronger focus on core areas of IMF expertise. According to the report's authors, the focus shifted from privatization and financial-sector reforms to fiscal management and fiscal transparency, with a strong decline in privatization conditions. Furthermore, in three quarters of the cases, PRGF were consistent with the interim PRSP (the preliminary version of the full PRSP in order to obtain eligibility for HIPC II) or full PRSP macroeconomic assumptions.

However, the 2004 and 2007 reviews of the PRGF aid delivery mechanism to sub-Saharan Africa, conducted by the Independent Evaluation Office of the IMF, came to somewhat different conclusions. According to the reviews, the design of conditionality is still not considered to be consistent with PRSPs. In both reviews, staff responses indicated that in most cases the PRSP did not provide the basis for PRGF analysis and design. Instead the PRGF served as the operational framework for PRSP implementation in terms of macroeconomic policies.[9] A synthesis report by AFRODAD on the impact of the PRGF on social services, which included a summary of experiences from four African countries, also contradicted the conclusions drawn by IMF staff in 2002 (cp. AFRODAD, 2006a).[10] The authors' findings were mixed: in some cases evidence could be found that the PRSP/PRGF process resulted in a clear focus of IMF conditionality and greater transparency, while in others, the new approach obviously did not lead to a major shift away from the ESAF style of conditionality.

To control fiduciary risks, there has also been a tendency to impose more and tighter conditions when previous fiscal and monetary results have been considered dissatisfying. In many cases, this tightening has produced adverse outcomes with regard to poverty reduction while also limiting governments' policy space. In Malawi and Zambia, the PRGF is considered to have led to a deterioration in social-service delivery to the poorest. This was caused in particular by limits imposed on the central government's wage and salary expenditures, which hampered the recruitment and training of additional staff in the education and health sectors. Universally applied conditionality – such as a cost-cap on wage and salary expenditures – can thus emerge as a stumbling block to poverty reduction.

In connection with the PRGF for Malawi, IMF staff demanded the privatization of *Commercial Bank*, which had been set up to provide loans to Malawian farmers. Privatization subsequently led to a closure of many small accounts, increasing the share of the population without access to banking. In Zambia, as well, privatization and the liberalization of the energy sector were conditions for the disbursement of PRGF funding in 2001.

In summary, within the scope of the PRGF the IMF has reduced the number of conditions attached to aid disbursement and now focuses more on core areas of IMF expertise. However, privatization, liberalization and other conditions which can adversely affect a government's abilities and efforts to

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9 IEO (2007): The IMF and aid to sub-Saharan Africa, chapter 2.
IEO (2004): Evaluation of the IMF's role in Poverty Reduction Strategy Papers and in Poverty Reduction and Growth Facilities, chapter 2.

10 Countries included: Ethiopia, Malawi, the United Republic of Tanzania and Zambia (see AFRODAD 2006b, 2006c, 2006d and 2006e).

reduce poverty remain part of the Fund's PRGF modality. The Independent Evaluation Office of the IMF and the AFRODAD country studies suggest that the PRGF process in many cases clashes with national PRSPs. It seems that PRGF programmess are still largely drawn up in Washington, leaving the promise of more ownership largely unfulfilled.

D. Harmonization and alignment

Beyond questions surrounding conditionality, it is of crucial importance to determine if there has in fact been measurable progress in harmonization and alignment. More specifically, efforts are needed to investigate whether donors have been able to harmonize procedures within budget-support groups and whether these procedures have been aligned with the recipients' development strategies, priorities, and procedures.

1. Harmonization

Two dimensions of harmonization will be considered for the purpose of this analysis: the *first* dimension relates to the quest for a set of commonly applied conditions and triggers; the *second* concerns the improved coordination of review and monitoring procedures between donors.

Surveys conducted by SPA-BSWG are the only source of data on current multi-country trends. According to these surveys, only 1 out of 10 sub-Saharan African countries receiving support from multi-donor groups achieved harmonization to trigger full disbursement (Ghana). Yet even in this case, the in-year disbursement schedule was not harmonized. In two cases (Benin and Madagascar) none of the conditions were commonly shared among donors. In three countries (Kenya, Malawi, and Uganda) less than half of the conditions served as a disbursal decision for the entire donor community.

Government officials in recipient countries expressed their dissatisfaction with the efforts made by donors to reduce and coordinate conditionality. Thirteen of 17 African HIPC governments indicated that the donor community had done a poor job of coordinating conditionality (SPA-BSWG, 2004: 58). Since 2003, overall recipient satisfaction with donor harmonization efforts increased. However, dissatisfaction with efforts to minimize the use of conditionality remained high throughout the observed period (SPA-BSWG, 2007: 98). Yet why do deficiencies in harmonization and the reduction of conditionality persist? The answer appears in part to have a political dimension.

A recent trend has been the significant ramping up of budget support under the leadership of the BWI. This substantially limits bilaterals in their freedom of action and ability to pursue their own policy agendas, unless they can enforce their conditions first or append their conditionality to that of the World Bank and IMF. The concern over lost visibility and influence has in several cases motivated an equivocal response. USAID, for example, which is generally not regarded as a strong proponent of GBS, suggests that the agency "should consider a minimal buy-in so the United States is a full partner in the donor-government dialogue" (Nilsson, 2004: 53).

In several countries, SECO (Switzerland) pursues a very similar approach (IDS, 2002: 77). As politically motivated buy-ins are not announced as such in the public realm, it is difficult to document their scale. This issue has also been raised in the United Kingdom. The authors of an ODI survey reported that DFID staff are concerned about the level of transaction costs, particularly in large budget-support groups where financial contributions are small and donors' pet topics are numerous (Booth, 2005: 20).

However, it seems that greater efforts have been made to coordinate technicalities between donors, such as the harmonization of monitoring and reviewing procedures, the coordinated provision of diagnostic- and capacity-building support, and joint mission formulation. According to the SPA-

BSWG's 2006 Budget Support Survey, in recent years recipient governments have judged donor reporting requirements to be increasingly harmonized and coordinated.

2. Alignment

A distinction must be drawn between two dimensions of alignment: (i) donor alignment with recipient-government objectives and strategies according to the PRSP; and (ii) donor alignment with the recipient government's budgetary, public financial management, and reporting systems (IDD, 2006: 40).

The PRSP is considered to be the reference point for strategy and system alignment. As highlighted in several GBS evaluations, the PRSP often does not provide an adequate framework for donor alignment. There are several reasons for this. *First*, PRSPs are often insufficiently operationalized; that is to say, they are not adequately translated into short- and medium-term strategies, and budget integration often remains weak. In addition, in many HIPCs the quality of public-financial-management systems does not permit the level of monitoring necessary. According to de Renzio (2006), approximately 90 per cent of African HIPC have failed to produce final audited accounts within 12 months of the end of the fiscal year. *Second*, because of the ambiguous relationship between conditionality and ownership, recipient countries may be reluctant to engage in little more than window-dressing, with a lack of commitment to operationalize poverty reduction strategies and make them open to revision.

According to some observers, the continuous failure to effectively reduce poverty also results from donor intervention that favours clientelistic political systems. Intervention thus helps to lend a respectable veneer to well established networks of patronage (see Lockwood, 2005 and Van de Walle, 2005). This complex mix of causes and effects complicates the analysis of the alignment process. In any event, both donors and recipients view the record of system alignment as deficient. A survey conducted by the ODI found that technical alignment with recipient reporting systems is low, mainly due to deficiencies in national reporting and reviewing mechanisms (Booth, 2005: vii).

At the center of nationally conducted evaluation procedures is the Annual Progress Review (APR) on the PRSP. According to ODI survey findings, the review mechanisms and associated documentation fall short of the required minimum quality, particularly in the case of sub-Saharan recipients. The main weaknesses specified by donors include: (i) the finalization and submission of reports with considerable delays, which prevents donors from receiving necessary information on time; (ii) the insufficient quality of reports, particularly the absence of details on budget planning and execution; and (iii) the poor quality of underlying macroeconomic analysis. Because of these deficiencies, many donors do not rely on the APR but instead demand additional information from government officials or draw on IMF expertise (Booth, 2005: 15). According to SPA-BSWG, in 2006, only 40 per cent of the agencies providing budget support to the sample of 15 African countries used the APRs as sole basis for their financing decisions (SPA-BSWG, 2007: 18).

In summary, several factors impede further progress in the area of alignment and donors continue to attempt to put their "pet topics" on the agenda. This leads donors to introduce additional conditions despite their modest financial contributions.

3. Transaction costs

Considering the limited progress that has been made in terms of harmonization and alignment, the dearth of evidence that transaction costs have fallen considerably is not surprising. Some observers even suggest that programme costs can rise over the short term for both donors and recipients. In its evaluation of five country studies, USAID found that transaction costs can jump considerably, particularly during GBS start-up periods (USAID, 2005: 10). From DFID's perspective, there has also been no observable decline in transaction costs. However, agencies in some countries forecast a possible fall in transaction costs over the mid-term (Booth, 2005: 35).

III. CONCLUSION

Multi-donor budget support is an increasingly important modality for aid delivery, particularly in Africa. Many governments are highly dependent on budget support, as it comprises up to 30 per cent of central governments' budgets.

However, the new period of strengthened ownership and sovereignty heralded by the donor community in the wake of the failure of "traditional" policy-based lending has only been realized in part. Not only is funding still relatively volatile vis-à-vis commitments, but it also remains attached to conditionality which is in large parts formulated by the BWIs. The donor community, which includes bilateral development agencies, the EC, and regional development banks, views recipient compliance with the terms of the PRSC and PRGF as a precondition for general budget support disbursal. This is particularly true for those institutions that lack a capacity for broad-based macroeconomic analysis. This signaling character of the BWI disbursal decisions could be positive if conditionality was consistently derived from recipient PRSPs and if the BWI would refrain from imposing ideologically-slanted conditionality and benchmarking. Examples of this ideological conditionality include demands for privatization and state withdrawal from market regulation.

As PRSPs only serve to a limited extent as a basis for the design and conditions of BWI policy-based lending instruments, ownership and policy space have not yet been achieved to a satisfying degree. Furthermore, with donor community alignment to the BWI, the leverage of PRSC and PRGF conditionality has increased significantly. The decision to withhold funds not only affects the PRSC and PRGF. It can also lead to a complete halt of all multi-donor budget support funding. When GBS comprises a significant portion of a national budget, governments may also display anticipatory obedience with respect to PRSP formulation. In addition, the movement towards increased harmonization and alignment has remained sluggish for various reasons. On the donor side, the apparent fear of losing visibility and influence prevents agencies from harmonizing conditionality and in some cases leads to the inclusion of additional "pet-topic" conditions. On the recipient side, harmonization and alignment are hindered by the poor quality of governmental PFM systems, such as a weak link between the budget and poverty-reduction strategy, a lack of budget comprehensiveness, as well as insufficient control mechanisms.

In the final tally, the "new" GBS approach has only yielded limited improvements to date. However, new GBS is a relatively recent modality and it may be too early to question the commitment of donors or ability of recipients to fulfil targets. An extensive reporting and evaluation effort will hopefully lead to improved programme designs, thereby enhancing continuity, ownership, and the capacity of programmes to reduce poverty.

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ANNEX

Dependent variable: Budget Surplus
Method: Pooled Least Squares
Date: 09/14/07 Time: 15:50
Sample(adjusted): 1996 2005
Included observations: 10 after adjusting endpoints
Number of cross-sections used: 18
Total panel (balanced) observations: 180
White Heteroskedasticity-Consistent Standard Errors & Covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP(-1)	0.025833	0.009122	2.831756	0.0052
DIF	-0.708759	0.145267	-4.879008	0.0000
Budget Surplus (-1)	0.949344	0.129287	7.342916	0.0000
Fixed Effects				
_BUR--C	-10008.19			
_BURK--C	-40951.61			
_CAM--C	-111056.8			
_CAP--C	-1126.606			
_COT--C	-175262.4			
_ETH--C	-1717.482			
_GHA--C	-691264.8			
_MAD--C	-113397.6			
_MALA--C	-2257.195			
_MALI--C	-40255.01			
_MOZ--C	-970136.5			
_NIG--C	-17141.60			
_RW--C	-1681.089			
_SEN--C	-88198.87			
_SIER--C	-2088.681			
_TAN--C	-150964.7			
_UG--C	-65354.04			
_ZAM--C	-185060.8			

R-squared	0.931303	Mean dependent var	-382871.5
Adjusted R-squared	0.922662	S.D. dependent var	978795.2
S.E. of regression	272199.4	Sum squared resid	1.18E+13
F-statistic	107.7764	Durbin-Watson stat	1.816627
Prob(F-statistic)	0.000000		

Note: Burundi (BUR), Burkina Faso (BURK), Cameroon (CAM), Cape Verde (CAP), Côte d'Ivoire (COT), Ethiopia (ETH), Ghana (GHA), Madagascar (MAD), Malawi (MALA), Mali (MALI), Mozambique (MOZ), Niger (NIG), Rwanda (RW), Senegal (SEN), Sierra (SIER), United Republic of Tanzania (TAN), Uganda (UG), Zambia (ZAM).

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