

Budget support is becoming an endangered species: what Busan must do to save it

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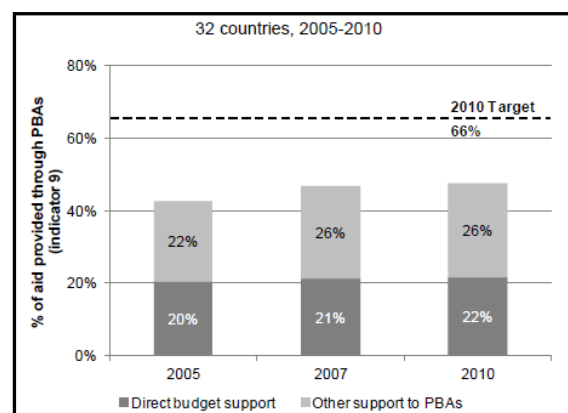
Developing country Finance Ministers arriving at the Busan High Level Forum on Aid Effectiveness in November may be surprised to discover that their favourite way of receiving aid – budget support – is fast becoming an endangered species: swept away by donor scepticism about good governance and budget accountability; and swallowed by the contemporary need to demonstrate that every dollar or pound of aid delivers demonstrable development results. These examples all come from ‘[Made to Stick](#)’, by Chip and Dan Heath. They come to mind because European development policy appears to be following precisely the opposite advice. Never mind three things being too many. The European Union appears to believe that thirty things are too few.

The evidence for this is not hard to find, on the ground or in donor rhetoric. Marcus Manuel of ODI has presented figures which show that the purest form of budget support, General Budget Support, has hovered at [under 2% of bilateral oda](#), with the figure rising to 3% if multilaterals are included. The EC, the UK and Sweden are outliers on the upside, with figures closer to 20%. A ‘second tier’ (Netherlands, Finland and Norway) come in at about 10%. Others are still in the game – the World Bank, for example, is introducing a new budget support-type instrument, [Programme for Results](#). Many donors, however, including the US and Germany, have very low figures.

There are other, less pure forms of budget support, like Sector Budget Support, which might boost these numbers. Figures are more difficult to obtain, but [the monitoring survey prepared for Busan](#) finds that the share of direct budget support in aid has stagnated since 2005, with only a modest increase in other

programme-based approaches (Figure 1). Results for this indicator of donor performance is worse than just about any other of the set agreed in [Paris](#) in 2005. (Statistical alert: the figures from the Monitoring Survey are higher than those cited by Marcus Manuel. I consulted [CAPE](#) colleagues at ODI and paste in their contributions at the end, to indicate how complicated this is (and how well-informed they are!)).

Figure 1: Percentage of aid provided through programme budget approaches



Formal and informal policy statements confirm the lack of enthusiasm in some quarters. For example, the [new German development policy](#), published on 3 August, contains only a guarded reference to budget support, calling for case-by-case reviews and insisting that the right conditions need to be in place for budget support to be considered. Even amongst the strongest proponents, the conditions for budget support are being tightened and the nomenclature changed. For example, the UK’s DFID has issued [new guidance](#), adding domestic accountability as a criterion for the granting of budget support (in addition to existing criteria, relating to the

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MDGs, respect for human rights and public financial management), and also suggesting (para 2.2.6) that budget support be re-named, to reflect the new emphasis on results, as follows:

‘Individual budget support programmes could be re-named to reflect the results we want to achieve (rather than the nature of the instrument). Thus:

- General Budget Support could be re-named: “*Growth and Poverty Reduction Grant*”
- Sector Budget Support could be re-named: “[name of sector] *Service Delivery Grant*” (e.g. “*Education Service Delivery Grant*”)
- General Budget Support in post-conflict States, where the objective is state-building could be renamed: “*State Building Grant*”
- Earmarked budget support to finance cash transfers and other social protection schemes, could be labelled: “*Social Protection Grant*”.’

At a [public event](#) which I chaired in Brussels on 13 July, organised jointly by ODI and Oxfam, Commissioner Andris Piebalgs was unambiguous about the risks involved in budget support, his words carrying particular weight because the EC has attached such importance to this form of aid. The [meeting report](#) summarises his comments as follows:

‘Commissioner Piebalgs began by explaining frankly why he considers the European public to be less enthusiastic about Budget Support than the development community and as a consequence, why it might be under threat. First, according to the Commissioner, democracy and human rights matter in development operations and with the background of the Arab Spring, the EC is under increasing pressure to justify support to regimes that have chequered histories regarding their commitment for such underlying principles. Second, corruption is a key concern and unless the recipient country has clear-cut measures or a commitment to fight corruption donors should not provide Budget Support, as donors will be vulnerable to taxpayers’ criticisms. Third, he raised concerns about the dependency of recipient countries on Budget Support and how this links with domestic resource mobilization. Fourth, related to the results agenda, he indicated that there is pressure for the effects of aid to be visible and traceable. This is more difficult to achieve with Budget Support as it

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forms part of the government’s overall resource envelope.’

Despite these reservations, Commissioner Piebalgs indicated that his eventual ambition is to increase budget support, not reduce it – from the present target of 25% to perhaps 50%. Presumably, the target will be embodied in the new Communication on development policy, expected in the autumn, following the [Green Paper consultation](#). But will Member States allow him to go that far?

Busan can help to shape future policy on budget support. It is notable, however, that whereas the topic is mentioned in the [developing country position paper for Busan](#), finalised in June, it does not appear explicitly in the latest [Summary by the Busan Chairs](#) on emerging areas of consensus.

That’s a pity. Budget support should not be allowed to fall off the agenda. Developing country finance ministers would miss it (as [Dr Samura Kamara](#) from Sierra Leone indicated at the Brussels meeting). So would development practitioners, as Commissioner Piebalgs suggested, and as is amply evident from the [series of meetings](#) that ODI has organised on the topic this year. That is not surprising. Budget support, especially General Budget Support, but also Sector Budget Support, delivers at scale, empowers developing country Governments, reduces transactions costs, and increases accountability.

What, then is the way forward?

First, it is important that budget support appear explicitly in the Busan agenda and also in the Busan outcome document. There is a good case for this, based on the targets originally set in Paris, and reaffirmed in Accra. The [Accra Agenda for Action](#) stated that donors should:

‘Avoid activities that undermine national institution building, such as bypassing national budget processes . . . and recollect and reaffirm their Paris Declaration commitment to provide 66% of aid as programme-based approaches. In addition, donors will aim to channel 50% or more of government-to-government assistance through country fiduciary systems, including by increasing the percentage of assistance provided through programme based approaches.’

Second, however, recipients in particular will need to recognise the pressures on developed country ministers and their concerns about potential diversion of funds. They will need to be well-briefed on the current debate about development results, which is

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sympathetic to the political process and institution-building, but insistent that results be demonstrated to sometimes sceptical taxpayers and publics. I have documented the latest thinking in a previous piece, about [Results 2.0](#). It is certain that results will feature prominently at Busan – as, indeed, will accountability.

Third, then, donors and recipients will need to work together to preserve the best of budget support – and, as the [Brussels meeting report](#) suggests, ‘reform the rest’. It seems to me that there is more to do here. For example, developed countries talk quite a bit about the conditions that should govern whether or not budget support can be provided. It would be interesting to know whether they are consistent among themselves. Also, it would be useful to know whether recipient countries agree with the various conditions and how they should be monitored. There is also more work to be done in demonstrating the impact of budget support in a results environment. For example, Ed Mountfield from the World Bank presented [interesting figures](#) at the Brussels meeting, showing that countries eligible for and receiving budget support-like lending from the World Bank had grown faster and made faster progress towards the MDGs than those that did not qualify. Can these results be generalised?

Fourth, there are interesting questions about who decides on eligibility and on possible suspension (as has happened recently to Malawi, [criticised by the UK Government](#) for poor economic management and governance). There is a link to the debate in Busan about mutual accountability and aid predictability. The EU could offer a model here, with the accountability and arbitration procedures of the [Cotonou Agreement](#), and the parliamentary oversight of the [EU-ACP Joint Parliamentary Assembly](#). The ACP itself could make a strategic contribution on behalf of all developing countries, by picking up this as one of its challenges for 2011: see my [challenge to the ACP](#).

To summarise, the Busan outcome document should:

- Reaffirm the value of budget support to developing countries, in its various manifestations (including general and sector budget support);
- Make an explicit link to the contribution that budget support can make to the results and transparency agendas;
- Celebrate innovation in budget support, including the World Bank’s new

instrument, but also many country-based experiments;

- Acknowledge that budget support is not suitable in every case, and lay out the conditions that pre-dispose to the use of different budget support modalities;
- Recall the Paris and Accra target that 66% of aid should be delivered through programme-based approaches – and note slow progress against the target;
- Specify in more detail the process by which countries will be declared eligible for different kinds of budget support, and the monitoring that will be put in place to underpin continued eligibility; and
- Insist on mutual accountability provisions, that will allow for arbitration and political accountability on budget support.

Here’s the thing about endangered species. Do nothing and the threat of extinction becomes a self-fulfilling prophecy. Ask the dodo. Alternatively, act decisively and a [species can be saved](#). Ask the bald eagle or the American bison.

The views presented in this paper are those of the authors and do not necessarily represent the views of ODI.

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