

**Chairman's Summary of the meeting on
Budget Support and Fragile States
(9 May, 2011, 2pm-5pm)**

Chair: Marcus Manuel, Head of Budget Strengthening Initiative, ODI

Speakers:

Nicola Pontara, Senior Economist, World Bank

Catherine Dom, Principal Consultant, Mokoro

The ODI-hosted Budget Support meeting series encourages prominent researchers and policy advisers to discuss the key questions, themes and challenges surrounding Budget Support.

This, the third meeting in the series, reviewed the issue of Budget Support and fragile states, a growing priority for many bilateral and multilateral donors. It was an opportunity to showcase recent the latest research on this issue and discuss the World Bank-EU's Common Approach Paper (CAP) on Budget Aid in fragile states.

The meeting was chaired by Marcus Manuel and the presenters were Nicola Pontara and Catherine Dom.

Presentations

Nicola Pontara, World Bank

Nicola Pontara focused on the World Bank-EU's Common Approach Paper (CAP). He outlined the aims, main findings and recommendations of the CAP, its definition of fragile states and Budget Support, and its implications for World Bank development policy lending (DPL) in fragile states.

The CAP is a tripartite initiative to analyse and improve Budget Support operations amongst the World Bank, European Commission (EC) and African Development Bank (AfDB).¹ The main objective is to strengthen coordination to improve the effectiveness of Budget Aid as a means to help countries make the transition from fragility to resilience.

The CAP starts from the premise that donors often exhibit five key characteristics in fragile states.

1. They are risk-averse in their support
2. They tend to focus on short-term horizons with irregular flows of resources
3. Their policy content is overly standardised across very different countries (with limited variation for country context)
4. Their political economy analysis is poor
5. They often take a technocratic approach that does not tackle the underlying causes of fragility, focusing instead on fiduciary risks.

Nicola explained how the CAP defines fragile states and Budget Aid, with the term Budget Aid replacing Budget Support because it encompasses all support to the budget (Sector Budget

¹ The IMF was also actively engaged, given its important role in supporting macroeconomic stabilisation policies in the context of Budget Aid.

Support, General Budget Support, Balance of Payments support) and other modalities such as Multi-Donor Trust Funds (MDTFs).

He then focused on six main findings and recommendations of the CAP, as follows.

1. The rationale for Budget Support amongst the three donors was somewhat narrow in scope, often conceived as a transfer of resources alongside technocratic Public Financial Management (PFM) reform. The CAP recommends that future initiatives better articulate how Budget Support and other instruments, can go beyond support for PFM reforms and address the causes of state fragility, while maintaining the need to prioritise.
2. The predictability of Budget Support was low among the three donors, with operations characterised by single tranche (stand-alone) allocations and irregular disbursements. The CAP recommends that move towards a programmatic structure with a mix of financing modalities where possible. There should also be a 'plan b' in the event of non-compliance, precluding disengagement from the country by, for example moving to different modalities with more robust safeguards, such as MDTF support.
3. Budget Aid operations overwhelmingly interpret risk as *fiduciary* risk, while there are multiple types of risks in such operations. Donors do have different risk frameworks, outlying differing terms and concepts. The CAP recommends that donors develop common approaches to manage and pool risks, moving beyond fiduciary risk to include risks linked to politics and broader development, and, very importantly, consider the risk of not engaging in the first place.
4. Most prior actions in Budget Aid operations tend to look very similar across of range of different countries in terms of programme content, focusing on PFM, public sector and economic governance. While these areas are important, there is scope to consider other areas that are critical for peace and state-building such as security, justice, jobs – all of these to be underpinned by political economic analysis.
5. Results frameworks tend to overstate government capacity, have a high tolerance for built-in programme failure and lack focus on peace and state-building. The CAP recommends that donors gauge the contribution of Budget Aid toward peace- and state-building whilst doing more to support those areas.
6. There are varying modalities for donor coordination, including single vs. multiple tranches, prior action vs. outcomes. The CAP recommends the promotion of coordinated donor strategies of engagement based on non-legalistic, non-bureaucratic methods to strengthen working-level dialogue, an approach supported by recipient governments.

To conclude, Nicola summarised possible implications of the CAP on DPL within the World Bank, such as the need for a more realistic framework to measure results and more systematic consideration of a programmatic approach.

Catherine Dom, Mokoro

Catherine Dom presented the findings and issues emerging from a recent Oxfam Novib study on Budget Support in fragile states.² The study aimed to address broad questions on the provision of General Budget Support (including whether to engage and if so, on what terms) and contribute towards an evidence base to help Oxfam Novib define its position on whether donors should consider Budget Support in fragile states.

² Catherine emphasised that while the study will be used to inform the development of Oxfam's position on Budget Support, the views represented within the study (and her presentation) are not those of Oxfam itself.

Catherine outlined the 'big ethical dilemma' that donors face, according to Oxfam Novib when engaging with developing countries in general, and with Budget Support in particular: whether or not to give Budget Support when recipient government commitment to development is uncertain. Lack of commitment is often perceived, especially by constituencies in donor countries, as a more significant bottleneck to the achievement of development outcomes than lack of capacity. Lack of commitment, therefore, makes it more difficult for donors to engage with Budget Support in the countries concerned.

In addressing this dilemma, however, donors need to consider carefully what recipient 'commitment' entails and how this might be measured. But in particular, they need to be clear why Budget Support would differ from other aid 'through the state' and, therefore, why it should be the only type of aid for which recipient commitment matters.

Catherine explained that the authors of the study (but not Oxfam) had endorsed the OECD DAC perspective that Budget Support should not be more political than other types of aid. So donors that decide to engage with fragile states need to determine the particular value of Budget Support in fragile situations. The aim of Budget Support is always to empower the state, regardless of the theory of change. In a fragile environment, therefore, donors have to make a judgement about whether this is a desirable objective.

The study began by providing an overview of current donor policies, practices and approaches on General Budget Support in fragile states. It was clear from the analysis that a wide range of approaches were used by donors in fragile environments, with often limited or absent policy frameworks. At the time of writing the study, for example, of the donors examined only the EC had specific policy guidance for Budget Support in fragile states (see handout 1 for more details).

The study then analysed General Budget Support flows in fragile states (see handout 2 for more details). Even accounting for data issues, it revealed that General Budget Support tends to be small-scale as a percentage of Official Development Assistance (ODA) in many fragile states. But in a handful of these countries, such as Sierra Leone, Central African Republic and Democratic Republic of Congo (DRC) it is as large as in some of the highest General Budget Support-recipient 'non-fragile' countries.³ However, most non-fragile states have seen General Budget Support increasing over the last decade, while General Budget Support in fragile states has been very erratic and there has been no such upward trend. In addition, there is no correlation between the use/level of General Budget Support and the fragility of the countries or their recent or long-term Human Development Index trends.

The research included three case studies on Burundi, DRC and Ethiopia⁴ (see handout 3 for more details). The contribution of General Budget Support was measured in three ways; first, by the contribution to sector results, second by the contribution to PFM results and third by contribution to strengthening domestic accountability.

Examining DRC and Ethiopia, Catherine demonstrated why DRC performed relatively poorly against all three areas, while Ethiopia performed relatively well. This reflected the very different objectives and designs of the General Budget Support programmes in the two countries. In relation to sector outcomes, for example, Ethiopia's on-going General Budget Support operation had an explicit focus on service delivery and pro-poor/access government policies that had contributed to this strong performance. This had not been the case in the DRC, where General Budget Support operations had focused on short-term macro-economic stabilisation.

³ Based on total level of support between 2002 and 2009.

⁴ Catherine Dom's team carried out the DRC and Ethiopia case studies, while the Burundi case study was carried out in-house by Oxfam.

Catherine concluded by raising a number of issues, questions and suggestions for further discussion and to carry forward research, debate and practice. These included:

- whether donors should 're-label' Budget Support operations in fragile states (given the connotations of the label itself)
- the need to better distinguish the very different objectives that have underpinned General Budget Support operations in fragile contexts
- the need to tailor instruments – including General Budget Support and others – according to the objectives
- the importance of continuous assessment of the evolving risks in operations
- the need for greater focus on demand and supply-side accountability opportunities in General Budget Support operations in fragile states.

Discussion points

There was a general consensus that donors should establish better political economy analysis capacity, which should be used to guide Budget Support operations. Such analysis should inform operational decisions, including whether or not to engage in Budget Support operations in the first place.

In relation to extending the focus of Budget Aid to address areas related to justice, security and jobs, it was suggested that job creation should not be viewed exclusively as the responsibility of the private sector. Innovative approaches are required to address job creation and potential donor support for this area, particularly in relation to rural job creation.

Historically, General Budget Support has not directly addressed issues such as security and job creation, focusing instead on the delivery of key basic services such as health and education). Yet, new modalities such as the World Bank's 'Program-for-Results' (P4R) may facilitate greater support to such areas and, in doing so, help to address the underlying causes of fragility.

Donors are generally risk adverse and appear to be increasingly cautious about engaging in Budget Support operations in fragile states. But not engaging in fragile states has its own considerable risks. There are also high potential payoffs from involvement in fragile states and scope for many 'quick wins'. That said, participants had a sense that the aid community has been overly optimistic about what Budget Support can achieve, particularly in fragile environments, and that more realistic measures and results frameworks are required. Such frameworks need to take into account the probabilities of success and the recognition of 'good enough' governance.

The discussion also touched on broadening the scope of risk analysis and frameworks. It was felt that risk was often viewed from the perspective of the donor only, excluding a range of risks faced by the partner country. In addition, it was suggested that most political risk analysis (including measuring the commitment of governments to service delivery) was very difficult and, predominantly, backward looking. Incorporating a forward looking approach would be challenging. In terms of responding to risks, it was suggested that using a more portfolio based approach could address this in part, by allowing flexibility to increase/reduce certain aid modalities within the portfolio to reflect changes in different types of risk.

The rationale for different Budget Support operations was discussed in relation to the discussion of risk and there was general consensus that factors, beyond technical considerations (e.g. political factors) often influenced decisions to support fragile states through Budget Support.

Finally, in relation to the forthcoming High Level Forum 4 in Busan, Korea, it was suggested that there is a disconnect between the debate on general aid effectiveness discourse and the debate on fragile states, even though fragile states receive a significant proportion of ODA.

The discussion concluded by noting that continuing to share different country experiences on Budget Support will enable the design of more effective instruments and the development of a more joined up agenda on fragile states.