Partnership For Development In Africa : A Framework For Flexible Funding

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Introduction

1. This paper makes the case that achieving the development targets recently endorsed by the OECD donors will require a more flexible approach to development assistance, moving on from fragmented project approaches and coercive conditionality towards more general forms of support for the expenditure programmes of those Governments which demonstrate a shared commitment to the targets. It builds on research findings that aid works best where Governments are committed to sound policies for economic growth and poverty reduction, and suggests more effective approaches to working in partnership with such Governments. The ideas are not new: they have been much discussed in fora such as the Special Programme of Assistance to Africa (the SPA). However, fully implementing them will require significant changes in donor practice, and endorsement by G7 leaders will help to accelerate the process of reform.

The Budget Framework vs Project Approaches

2. The UK delegation to the first Bretton Woods conference in 1944 said IBRD loans should generally be used for “specific projects”. That term stuck and for 40 years investment projects, the “cutting edge of development”, were the primary focus of Bank lending and bilateral development assistance. Since 1984 programme approaches to policy reform and the provision of debt relief have been important aid mechanisms but projects still dominate development assistance. This seems odd when one accepts that fungibility means government spending decides where extra aid really goes. More effective aid needs better budget out-turns, not just better projects.

3. The project approach has a philosophy of control, of direction rather than partnership. It runs counter to developing countries taking responsibility for their own development. For African countries to take responsibility and deliver better policies, they should be in control of the domestic and external resources at their disposal. Their key institutions of government should work, particularly the civil service and the judiciary. Without adequate budgets, timely availability of funds and able, motivated public servants providing core public services, even the best policy intentions get undermined. Yet the dominance of projects, in which the donors control resource decisions, staff incentives, reporting systems, and procedures, prevents the systematic development of the public sector and public services in Africa. The resulting

proliferation of islands of excellence within oceans of under-provision creates inconsistent standards of performance. Perverse incentives lead staff to clamour to get more interesting jobs at higher pay on donor projects. By by-passing government systems because they cannot be trusted, projects erode the integrity of the very systems which need strengthening for development to be sustained. At the heart of this is the budget system.

4. Budget systems in Africa are weak, and so is the underlying budget framework.

- ⇒ Fiscal deficits are high and sector allocations, while improving under adjustment programmes, are insufficiently poverty focused. Too much is spent on (inadequate) salaries and capital relative to maintenance and operations. Yet when cuts are made, they are too often made to maintenance and operations spending.

- ⇒ There is scope for significant efficiency gains by re-defining the role of the state.

- ⇒ The budget process is fragmented and largely defunct. Budget planning is divorced from macro projections and unlinked to policy objectives. Capital projects are budgeted separately from the resources needed to maintain them. Budget implementation and cash flow management is weak.

- ⇒ The public sector has been considerably weakened by inability to retain skilled staff at low wages.

- ⇒ Financial controls and accountability frameworks are weak, allowing corruption to go uncorrected.

5. Some African governments are nurturing public service performance improvement programmes to address these systemic weaknesses from the inside. These increasingly advocate decentralised management reforms which link budgets to performance agreements based on policy objectives. But the provision of off-budget aid by donors to African governments undermines this approach, making implementation of coherent policies harder to achieve. It takes decisions on the use of funds away from managers, reducing their incentive to use budget processes. Until donor assistance systematically goes through the budget and utilises core public sector systems and structures, the way we provide aid will be part of the problem

rather than part of the solution.

6. Recognising these problems the UK supports a shift from projects towards providing aid to African governments through the government's systems, relying on Government to spend and account for the funds within a policy and expenditure framework which has been broadly agreed with the donors. Donor support might take the form of direct untied finance (programme aid) for policy reform and better governance, and sector development programmes (sector aid) for assisting priority sectors such as health, education, water and rural infrastructure. This proposed approach builds on the guidelines on public financial management endorsed by the SPA donor group, and in the process of being piloted in Tanzania and Uganda; and on substantial work by a number of donors and African Governments to develop and implement new approaches to funding key sectors.

Towards A Partnership Approach

7. The starting point would be for governments to develop a Medium Term Expenditure Framework (MTEF) setting out 3-year rolling expenditure plans and aid requirements. The MTEF would be consistent with the macroeconomic programme agreed with the IMF, and would provide the overall budget framework for sector development programmes. In most countries, the MTEF would need to be complemented by action to strengthen budget management. Government and donors would hold each year an explicit dialogue around the MTEF and budgeting and accounting systems. The aim would be to gain a broad consensus on expenditure priorities, on progress in implementing an action plan for improving financial management, and on how the programme can be financed, including the level and forms of external aid commitments which are needed. The proposed approach does not lose sight of the goal of combating poverty. On the contrary, by raising and intensifying the level of dialogue with partner countries, it allows donors to play an advocacy role for the poor where even in a democracy their interests might need boosting, for example in resource allocation and policy decisions.

8. The objective would be to move steadily towards a new relationship between Governments and their donor partners. Governments which enter the process in good faith and follow sound pro-poor policies and programmes would get more aid than those with weaker policies. There would be a more nuanced approach to conditionality. As an increased proportion of aid flows are given in programme form, it will be important to move away from

damaging stop-go forms of conditionality, especially as the research evidence suggests that effective aid requires genuine commitment rather than reluctant acquiescence to imposed conditions. This suggests that increased weight will be given to actual performance and evidence of ownership when considering commitments. The annual talks in the context of the budget cycle provide an opportunity to vary aid levels over time to reflect differences in performance, moving aid towards countries making good use of it at the expense of those who do not. The traditional on-track or off-track distinction suggests a railway metaphor: the new approach would seek to apply the brakes to aid flows when the reform train runs out of control or is on the wrong track, rather than derailing it by bringing all aid to an abrupt halt.

9. The approach takes a longer term view of the problem of aid dependency. There needs to be steady progress towards a longer term goal of reduced aid dependence, but recognition also that poor countries with low tax capacity and inadequate Government services will need continued external support, and can expect to continue receiving it for so long as they make serious efforts to implement sound policies and improved expenditure prioritisation and management. The focus should be on making optimal use of all of the resources available to finance development. This may mean higher recurrent budget deficits in the short term, to improve the balance between recurrent and development spending. This recognition does **not** imply an invitation to expansion of unsustainable spending programmes, but is a call for careful consideration of what is affordable in the medium to long term, given realistic assumptions about future aid flows, future economic growth and revenue increases, and the scope for rigorous prioritisation to release more funding for core programmes. This approach will need careful co-ordination with the IMF, to ensure consistency of assumptions as to the role of aid in the budget. It also carries the implication that donors should be willing to be more transparent as to their own future financing intentions, with longer term commitments where possible.

10. The approach provides an opportunity to overcome previously intractable problems, such as inadequate public sector salaries. Credible programmes for management development become feasible if more flexible donor finance permits progression towards adequate public service wages within a realistic time frame, coupled with rationalisation of staff numbers and the ending of ad hoc donor payment of incentives to staff. Technical assistance can also be better co-ordinated and prioritised under government-led common frameworks for institutional capacity building.

11. The main focus of discussion between Government and donors would

thus change in two ways: towards joint discussions with the whole donor community, and towards a broader perspective on the development strategy and how best to support it. Governments would present for financing from domestic and donor resources a macro-economic and governance strategy for better policies and public service performance, embodied in a medium-term expenditure framework with clear targets for improving macro-economic policies, government resource management and public service performance. Discussion with donors would become part of the regular annual budget cycle, as envisaged in the SPA public finance management guidance.

New Aid Modalities to Support Partnerships

12. The enhanced dialogue around the budget provides the framework for development of the sector programme approach which is beginning to spread in Africa. At sector level, Governments would set out sector policies and action plans which link objectives to the resources required and available to achieve them, and which set clear monitorable targets for service standards and resource shifts. Governments would implement; donors would commit to using common implementation arrangements which utilise government accounting, audit and procurement systems. Government and donors would combine their efforts in joint appraisal, monitoring, and reporting to reduce duplication and ensure better donor co-ordination. Donors would not themselves directly appraise individual projects, but would ensure that adequate capacity, procedures, and systems are in place to enable the sector managers to ensure that all spending proposals are based on sound analysis. Donors would seek financial accountability through government's own financial management system, but would also hold Government accountable for what is achieved: better policies, integrity and transparency in public institutions, more efficient and transparent government spending, better public services, and progress towards DAC indicators.

A Phased Approach

13. Of course, given system weaknesses, capacity constraints and the lack of clear commitment from some African governments, the transition towards making Government responsible for managing and accounting for external assistance would need to be introduced at a realistic pace. A gradual approach would build trust and confidence on both Government and donor sides. In particular, common implementation arrangements for accounting, audit and procurement would take time and capacity building to develop. Donors should sustain support through projects and parallel arrangements until government is ready, to prevent a dip in finance. The most important and

immediate task is to establish clear frameworks for expenditure priorities and sector policies and ensure all projects and programmes in sectors conform. The further shift to common arrangements which make use of the Government's budget and accounting framework, with minimal earmarking, requires donors to take the calculated but controlled risk of moving increasing proportions of their funds through the Government system as it demonstrates increased capacity to manage them.

Conclusions

15. These ideas are not new, and the principles command broad support at technical level within our aid agencies. The problem in applying them is that they require significant changes in the way in which donors work, at least some of which require political endorsement. There are consequences for donors, for example;

- in how we account for our funds;
- in willingness to enter longer term commitments, and in how we manage the disbursement profile of our aid budgets;
- in aid relationships which will become more collaborative and multilateral, with possibly lower visibility of national contributions;
- in resisting commercial and political pressures to support projects outside the framework;
- for our procedures under common appraisal, review and disbursement arrangements;
- for our institutional systems and structures, which will need to be flexible and responsive to Government needs;

16. In conclusion, we believe commitment by Ministers to the framework set out in this paper would allow us to start work on concrete action for the New Global Partnership for Africa, by making operational many of the undertakings in the Denver Communique.

⇒ It offers a focal point for more collaborative aid relationships based on deeper dialogue and enhanced long-term commitments to countries with sound policies.

⇒ Working through government means strengthening the partnership between government and its people, reinforcing democratic systems.

⇒ By putting partner governments in the management seat, flexible funding could bring about sustainable improvements in the systems and processes of governance. At the same time it would develop the skills of public servants.

⇒ Flexible financing allows substantial resource transfers to be disbursed quickly and effectively.

⇒ A co-ordinated dialogue on spending patterns and resource mobilisation backed by rewards for sensible resource shifts could reduce unproductive spending, enhance financial sustainability and improve access to public services for the poorest groups.

⇒ By shifting accountability from inputs to outcomes donors report to taxpayers on development indicators (DAC) rather than only on use of inputs.

⇒ Better co-ordination from common arrangements should free-up government capacity for systems improvements.

⇒ Disbursing through the budget gives donors the opportunity to negotiate targets for improvement in the probity and transparency of financial management and procurement systems.

⇒ The budget focus encourages effective audit and financial control and tighter accounting systems.