

Mokoro



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“Aid on Budget” Study Findings and Recommendations

Stephen Lister

Overview of Presentation

➤ **Aims**

- Present Aid on Budget study findings
- Seek CABRI's expert comments and feedback

➤ **Topics**

- Different perspectives and interests
 - among donors
 - on recipient government side
- What is the baseline?
- Where are potential gains?
- What helps to bring aid on budget?
- Recommendations for governments
- Recommendations for donors
- Recommendations for joint action

Donor perspectives and incentives

- Likelihood of putting aid on budget depends on:
 - Form of aid (grant, loan, TA, other aid in-kind)
 - Modality (budget support, project aid)
 - Aid partner (central/local government, NGO)

- But also depends on donor characteristics:
 - “reflectors” vs. “integrators”
 - Importance of “visibility”
 - Attitude to quality of public finance management
 - Flexibility

- Other factors:
 - HQ vs. in-country perspective
 - General vs. sector perspective
 - Career incentives of staff

Government perspectives and incentives

- Often conflicting interests and incentives on the government side, e.g.:
 - Finance vs. sector ministries
 - Centre vs. local government
 - Vested interests of project management units.
- Concerns may be about:
 - discretion over resources
 - reliability of disbursement through treasury
- An example: perverse incentives (for government and donors) when aid is included in sector budget ceilings.

What is the baseline?

How much aid is on/off budget?

□ Available data:

- Diagnostics becoming more rigorous (e.g. PEFA vs. HIPC Assessment and Action Plans); Paris Declaration monitoring is the only quantified cross-country survey (2005 data).
- But problems in consistency mean that comparisons across countries and over time are not reliable (see attachment for Paris Declaration summary across countries and donors).
- PEFA Indicators D1-D3 (also in attachment) also show weak scores.

□ Conclusions:

- Large volumes of aid are (still) off-budget.
- Budget support is (by definition) on budget; thus off-budget proportion of other modalities is often very high.
- Large (but sometimes puzzling) differences in donor scores.
- Lack of clear correlation between aid-on-budget and scores for quality of public finance management.
- For aid effectiveness, very important to look behind the percentages and consider the quality of aid capture at different stages in the budget process. (This is the focus of our case studies.)

Where are the potential gains?

- ❑ Budget support is automatically on budget in all dimensions. It makes sense for partner countries to create favourable conditions for (general and sector) budget support.
- ❑ However, budget support has limits, and project aid has been growing. The bigger challenge, therefore, is to bring project aid on budget.
- ❑ Need to consider quality of capture: timeliness, accuracy, and (above all) use of information about availability and disbursement of aid.
- ❑ Also need to prioritise:
 - Issues are more important in more aid-dependent countries.
 - More attention to sectors where substantial aid flows support public services.
 - Link to overall country strategy for reform of public finance management.
 - Recognise that technical solutions won't work unless incentives are right.

What helps to bring aid on budget?

- Main factors that deter donors (and other stakeholders) from putting aid on budget:
 - Weak planning process (poor costing of national strategies and government unwilling to prioritise).
 - Budget that lacks credibility – gap between budgeted amounts and actual spending.
 - Slow and unreliable accounting for public expenditure.
 - Unsatisfactory procurement process (although aid can be “on treasury” but not “on procurement”).
- Key factors for progress in bringing aid on budget:
 - Strong government leadership (especially from Finance Ministry).
 - Credible public finance management reform programme.
 - Effective dialogue between government and donors (at general and sector levels).
 - Donor commitment to strengthening government systems.

Recommendations for governments (1)

- Explicit aid effectiveness strategies should:
 - Link aid management strategy to strengthened public finance management reform (effectiveness of all resources).
 - Go beyond indication of preference for budget support modality, to specify good donor practices and standard government procedures for other modalities.
 - Include dialogue about the use and the additionality of aid funds (to reduce donor demand for earmarking and micro-management of donor funds).

Recommendations for governments (2)

- Key PFM reforms include:
 - Strengthen transparent medium term expenditure planning (to bring aid “on plan”).
 - Clear planning and budgeting calendar.
 - Better budget classification, including:
 - accurate identification of recurrent and capital expenditures (but moving away from separate “recurrent” and “development” budgets);
 - “source” codes to allow tracking of donor funds if required.
 - Single Treasury Accounts (and strict control of government bank accounts).
 - More timely reports and accounts.
 - Transparent and efficient mechanisms for funding sub-national governments.
 - More transparent budget documents:
 - to show aid sources of budget finance, and aggregate uses of aid;
 - to facilitate more meaningful parliamentary review.

Recommendations for donors

- ❑ Improve medium-term aid predictability.
- ❑ Support strengthened approach to public finance management.
- ❑ Improve understanding of government public finance management systems and factor this into early stages of project/programme design.
- ❑ Review agency-specific procedures and the extent to which they use regular government systems.
- ❑ Provide aid flow information linked to government FY, government planning and budget calendar, and government budget classification.

Recommendations for joint action

- ❑ Recognise importance of joint government-donor action (at general and sector level).
- ❑ Incorporate “aid on budget” objectives in country-led public finance management strategies.
- ❑ Strengthen Paris Declaration monitoring
 - set standardised and less flexible definitions at international level;
 - monitor proportion of project aid that is on budget;
 - continue country-level focus on use of government systems.
- ❑ Rationalise and cooperate on aid-related databases (but a database is not a free-standing solution)