

Budgets not projects: a new way of doing business for aid donors

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Development assistance is changing fast. Around half of all aid to some countries now takes the form of un-earmarked contributions to the national budget. Both projects and sector programmes are becoming less important in terms of funding flows, and the total number of projects is far less than in the past. The change reflects a strong trend in thinking about the costs and benefits of different forms of aid.

As well as displacing projects and sector support, the current wave of general budget support (GBS) is different in purpose from previous forms of 'programme aid'. In the forms of food aid, balance-of-payments support and direct budgetary assistance, programme aid has been important at various times in the past. But it was generally used to bridge specific financial gaps or to bolster governments' commitments to policy reforms agreed with the IMF or World Bank. Today, in contrast, GBS is meant to rebuild countries' capacities to decide and implement policies for themselves. This follows a long period in which this capacity has been weakened by a combination of bad political leadership, intrusive yet ineffective conditionality, and the building of parallel structures by project funders.

GBS is the aid counterpart of the Poverty Reduction Strategy Paper, the initiative of the World Bank and International Monetary Fund designed to nudge borrowing countries into setting their own development agendas. Its purpose is to support countries in implementing their PRSPs, and to do so in the framework of a medium or long-term partnership. Although there are other ways donor country programmes can be aligned with PRSPs, supporters of GBS maintain that it is the best choice whenever circumstances permit.

GBS in Uganda

- 55% of aid takes this form, with some residual earmarking.
- GBS donors participate actively in sector working groups and other fora.
- Health planners claim big increases in efficiency and outputs as a result of the redirection of project funds into the budget.
- Political issues are still interfering with the reliability of funding.

A team from ODI and Oxford Policy Management has been examining GBS in Uganda, Mozambique and Andhra Pradesh, India.

At a first level of change, GBS is supposed to empower government in relation to donors, while reducing transaction costs and improving the predictability of funding flows. At a second level, GBS is believed to improve the capabilities of the state (by using and focusing remedial attention on national systems) and to strengthen processes of democratic accountability (e.g. by enabling more effective parliamentary scrutiny). A further hypothesis is that these changes will lead in due course to improved government performance and hence economic growth and better outcomes for poor people. Initial testing suggested that, while plausible, the critical linkages are not automatic but call for supporting changes that are only likely to arise from national political processes. Greater predictability of donors emerged as important but problematic under current conditions.

The most important findings, however, were about the limited degree to which stakeholders have internalised the rationale of 'new' GBS. Among donors other than DFID, there was a tendency to alternate between an old-fashioned faith in conditionality and a rather rootless rhetoric about partnership. There is an urgent need to clarify the 'rules of the game' governing the new GBS agreements.

A search for applicable analytical models found these not in the theory of contracts (as in the cases of conditionality and partnership) but in the theory of firms or clubs. In the terminology of Albert Hirschman, GBS agreements should be conceptualised as a multi-

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stakeholder ‘club’, where membership entails inter-connected rights and obligations governing ‘exit’, ‘voice’ and ‘loyalty’.

There are practical implications. There need to be arrangements for consultation that allow donors influence (voice) commensurate with their commitment to a

relatively open-ended policy agenda. In return for voice, some limitations on exit – on the speed or timing of any withdrawal of funding – must be in place. Not least important, participants should make a good prior assessment of the costs, benefits and risks of the arrangement, including all the relevant political factors.