



Position Paper on Budget Support

**by AGEZ (Working Group for Development Co-operation),
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International Development)
and Austrian EU Platform of Non-Governmental Organisations**

Brief version

1) Introduction

International development co-operation shows a clear tendency towards budget support, a modality of programme aid applied by donors, in order to support a plan or a policy programme of the recipient government through direct contribution to the budget. The aid is handled through public financial management, public procurement and accountancy channels. So far, Austria has no experience with budget support, however, some pilot projects are envisaged.

In theory, some of the aspects of the budget support approach seem to be positive in the eyes of the Austrian NGO-umbrellas, e.g. the possible strengthening of public structures in developing countries. Yet the present consultation offers a rather diverse picture, as many NGOs have their doubts as to the framework conditions and the concrete implementation of this concept.

Budget support must not be made at cost of NGO-cooperation. In order to guarantee an effective contribution to poverty reduction and co-partnership of the beneficiaries, any budget support measure must strengthen decentralized structures and promote civil societies' capacities for political participation and monitoring.

The present position is the result of experiences made with budget aid and a consultation of NGOs, experts and selected donor representatives carried out in Mozambique, Uganda and Nicaragua on the basis of questionnaires and interviews¹.

¹ An additional evaluation was made in Burkina Faso using personal interviews, informal talks and impressions from a journey in August/September of the current year.

2) Project aid – budget support²

Budget aid is considered a meaningful measure for achieving macro-economic targets or for realizing comprehensive infrastructural programmes. It is generally acknowledged that there is a need for better co-ordination, public institution building and an overview of all aid flows into a country. However, the practical implementation seems to be still far away. From the NGOs point of view, budget support is only one among many other mechanisms, while the choice of the appropriate financing instruments must depend on well defined goals. Such a procedure must not be reversed in order to accelerate the turnover of large funds.

For all persons consulted, **corruption** is the omnipresent issue. The fight against corruption is a main concern to be considered independently from budget aid, it is also seen as an extremely difficult and tedious task.

Project support is considered as the appropriate way to achieve quick and measurable results at local level and to implement a pro-poor policy, because frequently government presence is missing or co-operation impossible, due to the lack of a well-functioning **decentralization**. The hope that marginalized regions and sectors would benefit from budget support in first place seems to remain a mere theory.

3) Chances and dangers³

- **Direct budget support supposedly strengthens ownership.** In reality, the disbursement of budget aid is tied to numerous conditions. There is also the risk that the donor community⁴ might gain more influence over the policy making of the partner country. From the results of the consultation it became very clear that ownership from the part of the government remains a “window dressing” exercise geared at satisfying donor’s demands.
- **Improving policy coherence.** The recipient country will gain a better overview over the total amount of resources available. The allocation of the funds will be tuned according to the needs of the respective ministries and the Treasury Department. The funds will be explicitly utilized for poverty reduction. However, such a procedure incurs the risk that institutions with little experience and concern for development, such as the Treasury, will determine the agenda leading to a domination of financial over social issues.
- Through the improved co-ordination among donors any fragmentation or creation of parallel structures will be eliminated. This might increase the danger of **depending on bigger donors** who are the true decision makers concerning the use of the funds.
- **Harmonization and alignment.** The donors harmonize their procedures and bring their activities in line with the priorities formulated in the national development

² See the results of the consultation.

³ This chapter relies mainly on the experiences from the various donors. See the respective bibliography in the long version of the position paper.

⁴ In the present text we use the terms “donor“ and “recipient“ countries for lacking other terms. Kindly read the terms under quotations marks only, as the transfer of resources from the “South” to the “North” is still higher than vice versa.

programmes of the partner country. In the best case, they renounce to the application of their own systems. Simultaneously, such a measure requires stepping up capacity building in the recipient countries, which might bring about a positive influence on efficiency, accountability and governance.

- **Decreasing transaction costs** are often hoped for and serve as a pro-budget support argument. However, decreasing costs might not occur at all and only shift from various sectors and regional bodies towards the centre, due to costly coordination procedures and structures. There is hardly a decrease in the costs from the donor's part, while the costs of the partner country might be reduced due to the harmonization of the processes.
- **Predictability** of aid is very important for countries exposed to external financial constraints. Experiences made so far have proven that the reliability of aid disbursements will hardly improve through the introduction of budget support. The European Commission tries to counteract this risk by disbursing a mix of fixed and variable tranches. In many developing countries, budget support forms a substantial part of the domestic budget, therefore a **long-term perspective** is needed in order to guarantee sustainability.
- **Corruption, fiduciary risk** and bad financial management are the most alarming issues within the context of budget support. According to an IMF-study, the efficiency of budget support relies heavily on the institutional framework and the democratic structures prevailing in a country. In order to raise the efficiency of budget support measures in countries where there is a high level of corruption, the IMF recommends to tie the latter to institutional reforms or to grant budget aid only upon the realization of institutional reforms.
- **Transparency and democratic control:** ownership and transparency require an ever growing transfer of control to local structures and local civil society. In order to achieve this, access to relevant information is needed, together with efficient democratic structures and a well grounded civil society. In many of the countries concerned these conditions are only existing at low level.
- Monitoring and ensuring the sustainability of the results would require a strong **civil society**. There is the danger (in the North as well) that NGOs are no longer taking the initiative but becoming mere contractors, fulfilling government orders. Civil society must be empowered to have a say in the budget planning of the respective government (including the contributions stemming from budget aid), to assess and to criticise budget policies.
- In the present consultation, **decentralization** is considered insufficient in all of the countries. Neither ownership nor the funds as such are trickling down from government level to local level. The situation is even worse in **marginalized regions** and for **marginalized sectors**: they **benefit less** from budget aid than from project aid, according to almost all persons consulted in Nicaragua. In Mozambique, Uganda and Burkina Faso the hope for increased decentralization is diminishing and seen as a mere theory so far.
- Any **shift in donor policy** from project funding to budget support might endanger the sustainability of on-going projects and programmes.

Many positive effects from budget support will only be brought about on a mid-term or long-term basis. Nobody can tell for sure whether the expectations will be met at all. The advantages hoped for will not occur automatically, they rather require permanent monitoring, technical assistance and a political dialogue.

4) Country-specific results of the consultation

Mozambique

Most of the persons interviewed consider budget support to be positive. Within the concrete country context, non transparent decision making by the government, lack of support for low level structures and a scarce public presence are cited as being the main problems. People fear that the funds get stuck on the top level.

All persons interviewed see corruption as a big issue, together with a lack of capacities, a weak public and fiscal administration and centralism. Even though in theory, extremely marginalized sectors might benefit from budget support under the condition that funds were allocated to the social sector, decentralization worked and basic needs were covered, the majority of the people consulted do not believe those conditions would be fulfilled.

Conclusions Mozambique

- Budget support and project funding must complement each other.
- Decentralization of decision making and implementation structures as well as fund allocation and accountability must be promoted. The funds must be disbursed to the provinces and decentralized levels according to well defined criteria, and actually get there.
- Civil society must actively participate in the dialogue between donors and government and have access to the funds. Civil society's capacities must be fostered.

Uganda

Half of Uganda's domestic budget stems from donors, half of which is direct budget support. Due to co-operation at government level it becomes more difficult to reach the people directly. The government does not have the capacity to administer the high financial volume in an appropriate way. Furthermore, prevailing corruption and the squandering of high amounts of money without measurable results are criticised. NGOs consider that they are hardly involved in the planning process. However, all persons interviewed have a rather positive attitude towards budget support, as coherence and co-ordination are promoted. Yet as budget support only gets to the upper levels, a pro-poor focus will always require simultaneous project funding. On the other hand, projects don't have an impact on public structures which must be promoted as well.

Conclusions Uganda

- Priorities have to be geared to the needs of the poor, thus requiring enhanced participation of civil society.
- The budget process as a whole must become more transparent, decentralized and accessible to a broader public.
- Corruption must be counteracted with more determination.

Nicaragua

Within the specific country context of Nicaragua, almost all persons consulted disapprove of budget support, for manifold reasons: The funds don't get to the place where they are most needed, bureaucracy uses up most of the resources. Budget support strengthens political polarization and authoritarian tendencies of the government and weakens democracy, the gap between the rich and the poor keeps widening. There is no intention to take poverty reduction measures, as the government is not accountable and no pressure is exerted from the part of civil society. The key questions are transparency and poverty reduction which are not tackled at all. Furthermore, corruption is expected to go up.

Conclusions Nicaragua

Under the prevailing political circumstances in Nicaragua, the NGOs reject budget aid as long as the above mentioned weak points are not eradicated.

5) Specific questions concerning Austria

According to the Federal Ministry for Foreign Affairs, the Austrian Development Co-operation will implement pilot programmes in one of the focal countries per region, such as Mozambique, Nicaragua, and Cape Verde. Austria is planning to concentrate on sector funding as this implies the chance to become one of the relevant donors. The process launch will depend on already existing sustainable structures .

Before this launch, the NGOs demand clarification of the following basic issues:

- Does the Ministry for Foreign Affairs/ADA (Austrian Development Agency) have the necessary competence and capacity to realize the respective country analyses?
- Is Austria capable of attaining a budget share which might be called relevant?
- Is there any guarantee that reliable and long-term partnerships from the NGOs will not be endangered but actually used in a positive way?

6) Conclusions: Demands, recommendations from the NGOs directed towards the Austrian Federal Government and the Administration

The budget support approach is a positive one, insofar as it might strengthen public structures in developing countries. Budget support might improve the co-ordination among donors; their joint and well targeted activities might promote reforms, they might achieve the creation of accountable public structures and more responsible ownership for the recipient's government. In theory, budget support has many positive aspects, hardly anybody rejects it right away. But the NGOs are doubtful as to the general conditions and the concrete implementation of this concept. The practice is deviating from the ideal due to the high corruption risk and favouritism which presently might hamper any budget aid endeavours.

Therefore AGEZ, the Austrian EU-platform and KOO call upon the Austrian government to fulfil the basic requirements for budget support in Austria as well as in partner countries:

- Budget support should be only launched in Austria with a **long-term perspective and as part of a pertinent mix of mechanisms** if the preconditions in the partner countries are fulfilled.
- Budget support must be accompanied by a **substantial raise in the budget of the Austrian Development Co-operation** and improved capacities of the respective bodies. Budget Support must not weaken well established co-operations with counterparts in civil society.
- Budget support must go hand in hand with a **strengthening of civil society**, as this is the only way civil society can demand accountability for the use of public funds.
- Budget support must be linked to **decentralization** and a simultaneous capacity building within local administrative structures, in order to guarantee **ownership** also at grass-root level.
- Austria should concentrate exclusively on **sectors or geographical areas** where **country experiences** already exist. It should make use of its **experiences in cooperating with civil society and NGOs** and consider these a **comparative advantage** within the donor community, and contribute with its know-how in this area.
- Austria should concentrate on a **few countries**, where the **basic conditions** are given, such as a proven commitment to poverty reduction, co-operation with civil society, human rights and working democratic structures, the struggle against corruption and sufficient capacities. These preconditions should be based on an independent evaluation and go beyond World Bank and IMF criteria. Another precondition is the transparent **disbursement of funds** at all levels.
- Any traditional conditionalities, e.g. for economic policy, must be rejected. Instead, a **policy dialogue** and an agreement on **mutual obligations with civil society** participation should be laid down.
- In all countries where the above **preconditions do not prevail**, any development co-operation measures should be channelled **via civil society, NGOs, international institutions or special funds**, rather than via public structures. However, special attention must be given to a high level of donor co-ordination.
- According to the consultation made by AGEZ, KOO and EU-Platform, the appraisals of budget support from the part of local civil societies show that the basic conditions in Nicaragua do not exist there, while in Mozambique and in Uganda they exist to a limited extent only. As concerns Burkina Faso there are serious objections to budget support.

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