Budget Support in Fragile Situations

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This study aims to provide an evidence basis for the provision of budget support in fragile states. The study sits at the intersection of three main sets of issues: fragility, budget support, and accountability (with a particular focus on the role of, and space for, civil society in holding government to account). The study provides insights into the rationale, challenges and kinds of conditions applied to budget support to fragile states; the effects of budget support on spending and delivery of basic social and agricultural services, as well as on the experiences of parliaments and civil society/communities in the study countries with regards to the ability to hold governments and donors to account for public spending.

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ABBREVIATIONS AND ACRONYMS

AAA	Accra Agenda for Action
ACP	African Caribbean Pacific
ADF	African Development Fund (of the AfDB)
AfDB	African Development Bank
AIAF	Afghan Interim Authority Fund
AOB	Aid-On-Budget
ARTF	Afghanistan Reconstruction Trust Fund
AsDB	Asian Development Bank
BOP	Balance-Of-Payment
BS	Budget Support
CAFS	Conflict-Affected and Fragile States/Situations
CAP	Common Approach Paper
CAR	Central African Republic
CAS	Country Assistance Strategy
CD	Capacity Development
CDD	Community-Driven Development
CIDA	Canadian International Development Agency
CPC	Core Priority Country
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organisation
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DBSL	Development Budget Support Lending
DFID	Department For International Development
DIP	Democratic Institutions Programme (in Ethiopia)
DPL	Development Policy Lending
DPO	Development Policy Operation
DRC	Democratic Republic of Congo
EC	European Commission
ECDPM	European Centre for Development Policy and Management
EDF	European Development Fund
EDR	European Development Report
EFA	Education For All

EU	European Union
FDI	Foreign Direct Investment
FS	Fragile States
FS principles	Principles for Good International Engagement in Fragile States and Situations
FSF	Fragile State Facility (of the AfDB)
FTA	Financial Transparency and Accountability
FY	Fiscal Year
GB	Great Britain
GBS	General Budget Support
GDP	Gross Domestic Product
GMR	Global Monitoring Report
GOE	Government of Ethiopia
GPN	Good Practice Note
HD principles	Principles and Good Practice of Humanitarian Donorship
HDI	Human Development Index
HIPC	Highly Indebted and Poor Country
HLF	High Level Forum
HQ	Headquarters
HR	Human Rights
IDA	International Development Agency
IDD	International Development Department (of the University of Birmingham, UK)
IEG	Independent Evaluation Group (of the WB)
IFI	International Finance Institutions
IMF	International Monetary Fund
INCAF	International Network on Conflict and Fragility
INGO	International Non-Government Organisation
IOB	Institute of Development Policy and Management (at the University of Antwerp)
LG	Local Government
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MDTF	Multi-Donor Trust Fund
MFA	Ministry of Foreign Affairs

MIC	Middle Income Country
MOU	Memorandum Of Understanding
MS	Member State
NAM	New Aid Modalities
NGO	Non-Government Organisation
NL	The Netherlands
NSA	Non State Actors
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
ON	Oxfam Novib
OPC	Other Priority Country
PBA	Programme-Based Approach
PBA	Performance-Based Allocation
PBO	Policy-Based Operation
PBS	Protecting Basic Services (programme) (in Ethiopia)
PD	Paris Declaration
PFM	Public Finance Management
PIU	Project Implementation Unit
PNG	Papua New Guinea
PRBS	Poverty Reduction Budget Support
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Sector Capacity Building Programme (in Ethiopia)
PSD	Private Sector Development
SA	Social Accountability
SBS	Sector Budget Support
SBSiP	Sector Budget Support in Practice
Sida	Swedish International Development Agency
SSA	Sub-Saharan Africa
SWAp	Sector-Wide Approach
TA	Technical Assistance
TF	Trust Fund
TOR	Terms of Reference

UK	United Kingdom
UN	United Nations
UPs	Underlying Principles
US	United States
USAID	United States Agency for International Development
WB	World Bank

Budget Support in Fragile Situations – Overall Study

1. Introduction

1) This study aims to provide an evidence basis for Oxfam to develop its position on the provision of budget support (BS) in fragile states (FSs). The study sits at the intersection of three main issues: fragility, budget support, and accountability (with a particular focus upon the role of, and space for, civil society in holding governments to account). The main questions to be addressed are summarised in Box 1 below.

Box 1: Main areas of focus of the study

1. Budget support to fragile states in general: rationale, challenges and kinds of conditions (focus, ex-post or ex-ante, quantified or not), including differences with non-fragile states.
2. Effects of budget support (or lack thereof): effects on spending and delivery of basic social and agricultural services, and contributing factors; effects of budget support (or accompanying measures) on PFM, transparency and accountability, and contributing factors.
3. Accountability in fragile states: experience of parliaments and civil society/communities in the study countries with regard to ability (capacity and 'space') to hold government and donors to account for public spending, including budget support; extent of country ownership; effectiveness of donor support to accountability strengthening (focus on social accountability).

2) The study, undertaken by Mokoro consultants commissioned by Oxfam, is based on a wide-ranging literature review. It draws upon Mokoro's involvement in a number of earlier studies related to budget support, aid effectiveness more broadly, and/or fragility,[1] and three small-scale country studies in Burundi, DRC and Ethiopia. The principal limitations with this study are due to the limited time/resources for primary data collection and analysis. Secondary data also proved to be elusive. Further limitations arose from the consultants' partial involvement in, and uneven treatment, of the three countries selected as cases for the study.[2] Finally, in including Ethiopia among the country cases, the study was not as focused on the specific needs of post-conflict countries and whether and how GBS can meet those as might have been the case. (See Annex 6 for further details).

3) Overall, the topic is vast and complex. Considering the limitations just outlined, the study cannot be expected to have comprehensively addressed all of the issues at hand. Thus, the study highlights lessons learnt and offers reflections but does not venture into recommendations. The study also provides direction for further investigation and will be useful to nurture Oxfam's internal process of reflection. The study, however, does not represent Oxfam's position.

4) This report is structured as follows. After this introduction, the second section clarifies the terminology used and the context for the study. Section 3 presents an overview of the provision of budget support in fragile states,

focusing on donor policies and practice. Section 4 focuses on the practice of budget support in fragile states based on an analysis of aggregate (recipient) country level data. Section 5 triangulates sections 3 and 4 through a review of the findings from the three country case studies. Section 6 concludes by revisiting the study questions, proposing possible good practices and offering a few reflections for Oxfam. Section 6 is an executive summary.

5) The report is supported by a number of important Annexes. These focus respectively on: fragility; aid terminology; individual donors' policies and practices in relation to the provision of budget support in fragile countries; flows of external financing to fragile states; an analysis of the internationally available data on budget support in fragile countries, and country-specific evidence. Some of the Annexes reflect the work undertaken in the preparatory phase of the study (which was submitted as a preparatory paper to Oxfam in November 2010). Other annexes present new analyses. The full country case study reports are available separately.

2. Terminology and context for the study

6) This section clarifies the terminology and reviews the context for the study. First, it focuses on fragility. It then turns to review the salient features and findings about the provision of budget support generally/ in non-fragile countries, as the backdrop against which the remainder of the study analyses the provision of budget support in fragile situations.

2.1. Fragility

Scope of the study in relation to fragility

7) Fragility is most often associated with a state's incapacity to discharge its core/basic functions, owing to lack of capacity and/or will to do so. Conflict is understood as being often both a cause and a consequence of fragility. Beyond this broad understanding, the expression 'Fragile State' or 'fragile situation' (FS) encompasses a wide range of extremely varied and often rapidly changing situations. The huge variability of (state/country/situation) 'fragility' is now recognised, although the expression continues to be used as a shortcut.[3] Linked to this variability, there are many lists[4] and various ways of categorising fragile states.[5] These lists and typologies do not fully overlap because they respond to different criteria in defining fragility, and different objectives/concerns in relation to action by external parties (e.g. foreign policy/security vs. development agendas).

8) This paper uses a list and a typology reflecting the purpose of the study (whilst recognising the drawbacks of this approach too). The study focused primarily on low-income countries (Quantitative analyses aimed to focus on a 'short list' of countries considered profoundly fragile according to most existing lists ('recent fragility'). The qualitative country studies and further desk-based review of countries' experience sought to look at a longer list in order to also capture possible lessons from earlier episodes of the provision of budget support in situations of fragility.[6] Box 2 summarises the scope of the study in relation to fragility. Further details are found in Annex 1.

Box 2: Scope of the study in relation to fragility

'Short list' - For the quantitative analysis, the study considers a list that takes all Save the Children Conflict-Affected and Fragile States/CAFS (2010) that are also found on the WB 'fragile situations' list (2011) and within the first 40 worst rankings on the Foreign Policy state failure index. This captures various aspects of fragility (conflict, poor service delivery, poor governance reflected in poor policy and institutional capacity and/or authoritarian politics). This approach also avoids counting countries that were fragile some time ago but should be excluded from the quantitative analysis focused on 'recent fragility'. We added Niger and Guinea Bissau (recent troubles) and Yemen (a strange omission in the Save the Children list[7]); we removed Iraq as a MIC.[8] The short list includes: Afghanistan, Burundi, CAR, Chad, Congo, Côte d'Ivoire, DRC, Eritrea, Guinea, Guinea Bissau, Haiti, Liberia, Nepal, Niger, Sierra Leone, Somalia, Sudan, Timor Leste, Yemen, and Zimbabwe.

'Longer list' - For all the qualitative aspects, the study draws on examples from a wider range of countries so as to be able to draw lessons from older fragility situations, even though a number of these countries no longer figure on most current lists of fragile states. This list, in addition to those included in the 'short list', includes the following countries: Angola, Cambodia, Ethiopia, Kenya, Lao PDR, Madagascar, Mauritania, Myanmar, Occupied Palestine (oPt), Pakistan, Rwanda, and Uganda.

Typology – Based on work explained in Annex 1, the study uses two main typologies: (i) the main cause of recent fragility and (ii) the direction of the country's recent trajectory. One first distinction emerges between conflict-affected countries and countries affected by broader governance-related fragility (weak policies and institutions and/or authoritarian politics). A second distinction is drawn between countries experiencing a downward trajectory of increased fragility (deteriorating situations), countries on an upward trajectory (post-conflict/transitional situations, moving away from fragility), and countries that appear to be 'stuck' ('status quo').

9) There is never a perfect categorisation or list, whatever the topic. In this case, as different causes of fragility are typically closely interlinked, any categorisation will be controversial. The tables in Annex 1 illustrate the difficulties around ranking or categorising countries in relation to fragility. In reality, the labelling/ranking/categorising process is necessarily subjective, as well as highly politically sensitive. As a result, views rarely converge except for in exceptional cases (e.g. of Somalia as a failed state). In the end, only country-specific analyses can be fully satisfactory. This study has been constantly confronted with this high degree of country specificity which results in different responses by donors. It is an extremely important point for Oxfam to bear in mind when considering what position to take on the issue at hand.

10) One of the controversies around lists and typologies is reflected in the fact that the study's long list includes a number of countries that no longer feature in many lists of fragile situations, but which Oxfam Novib (and a number of other stakeholders) still consider as fragile. Usually, this is linked to the nature of the regime holding power. Typically, the aid partnership in these countries is fragile too, in the sense that the relationship between the government and the (Western) donor community is tense. One such country is Cambodia.[9] Another is Ethiopia – which is one of the cases selected for this study and is discussed below.

11) Turning to the country cases, the principal cause of fragility in Ethiopia for the last five years is authoritarian politics. In DRC and Burundi, the analysis based on secondary data suggests that fragility is mainly still due to conflict. However, for DRC this notion was challenged by a number of stakeholders who met during the fieldwork. The stakeholders stressed that DRC would still be extremely fragile even without conflict, and that its current fragility owes much to a very long history of misrule with no clear sign of a 'clean break with the past'. The country is vast and different factors of fragility combine in different ways in different regions. In Burundi, fragility is mainly conflict-related, but this is deeply interlinked with the fragility in DRC and in the region as a whole.

12) Burundi might be considered as being on an upward trend, although the Oxfam team which carried out the case study found a deteriorating situation. DRC is characterised by status quo, and the fieldwork and recent literature highlight an increased sense of frustration with the lack of progress. This was certainly the view donors expressed to the country case study team. Ethiopia is a much debated case. Looking at the MDGs, it is considered a success story in a number of recent analyses[10], and it has been identified as having the fastest upward trajectory in Sub-Saharan Africa in terms of positive change in the Human Development Index between 1980 and 2010. It has graduated from many lists of fragile countries. Yet, the record of the regime in place is uncertain in

terms of political and civic rights, and it certainly is an example of a fragile donor/government partnership. This is also the case in DRC, where there is arguably a far worse record of human rights abuse and far less development progress to show both over the long-term and the recent past. DRC is one of only two countries in the world in which the HDI is lower in 2010 than it was in 1980.

How are donors supposed to engage in fragile situations?

13) Three major frameworks regulate the way in which donors engage with aid-recipient countries: 1) the Paris Declaration/Accra Agenda for Action (PD/AAA) – based on the notions of aid partnership, country ownership and government leadership; 2) the 'Principles and Good Practice of Humanitarian Donorship' ('HD principles') – based on the principle of impartiality and neutrality and; 3) the 'Principles for Good International Engagement in Fragile States and Situations' ('FS principles') – aimed at ensuring that all aid focuses on, and helps address, the country's fragility[11].

14) The last two frameworks are directly relevant in fragile situations, whereas the applicability of the PD/AAA agenda in those instances has been questioned. A number of studies hold that some principles are less relevant than others: for example, weak capacity or commitment may mean that alignment under government leadership is not feasible or desirable. This is important because, over time and in the eyes of many, budget support has come to represent the pinnacle of achievement in the PD/AAA agenda. If this agenda is seen to be less applicable in fragile states, questions are raised about the relevance of budget support. This is indeed precisely the question which led Oxfam Novib to commission this study.

15) In reality, the different aid frameworks often coexist in a particular country but in tension, or delinked from one another (OECD 2010). There is a tension between humanitarian aid which often bypasses governments and development aid, which is premised on working with/through governments. There is an acute dilemma between adhering to the humanitarian principles of impartiality and neutrality or providing aid to support nascent government structures in the transition out of conflict, when the same government is not neutral and contributes to harming the population. Often, donors do both – as is the case in DRC. Even when the dilemma is not as clear as in DRC, the different logics, frameworks and associated aid instruments that coexist but are not linked to each other, both at HQ and country level, prevent donors from finding ways to finance transitions in a steady and reliable manner (OECD 2010h).

16) This and other weaknesses in the way aid is provided in fragile situations (e.g. insufficient attention to context ,avoiding exclusion pockets in aid flows, and poor predictability) are being investigated and monitored through international processes involving a number of fragile countries' governments. Work is also under way to better understand what 'do no harm' should mean and how best aid can support state- and peace-building. But, these processes are in their infancy and have yet to demonstrate that they will result in better aid effectiveness in fragile countries[12].

17) One basic weakness is that, although donors claim to pay increasing attention to fragile situations, the data shows that it is not balanced across countries. Patterns of donor engagement in fragile situations are further analysed

in sections 3 and 4 below – but to summarise, there are a number of 'donor darlings' that have been a focus for numerous donors for some time, and are usually relatively 'better stories' of upward trajectories (see Box 3). Whereas those countries identified as donor 'orphans' (e.g. CAR and Myanmar) are typically on a status quo or downward trajectory.

18) Among the three case studies, Ethiopia is the closest to an 'aid darling' in that a large number of agencies are active in the country in spite of the difficult aid partnership. This is a response to the country's needs, but also because donors are attracted by the government's effectiveness in delivering certain types of results. Yet, in per capita terms, Ethiopia is still under-aided when compared to the average SSA country. Burundi and DRC are more on average in terms of the number of donor agencies; agencies are not motivated in the same way by the desire of being actors in a success story. Burundi is well-funded on a per capita basis, as is often found in small countries and/or populations. In contrast, DRC is also under-funded like Ethiopia.

Box 3: 'Aid Darlings'

Aid has long been recognised to be concentrated with the few and, as a result, the terms 'aid darling' or 'donor darlings' and, by contrast, 'donor orphans' have been coined:

"Two-thirds of IDA's assistance to Africa goes to only six countries. Also, assistance to fragile states is highly concentrated in a few countries – the "donor darlings". (Alexander, N. 2010; this paper was presented to African Finance Ministers and Directors from the IMF and World Bank).

"The pattern of aid distribution across countries is insufficiently co-ordinated… This pattern generates inefficiencies and inequities. The resulting geographical gaps and overlaps between countries results in 'aid darlings' and 'aid orphans'. 'Darlings' are not fully symmetric with 'orphans', however; they may remain under-aided in absolute terms, or in important areas, yet involve large numbers of small donors, entailing high fragmentation costs. (Rogerson, A. and Steensen, S. 2009 – OECD development brief).

The term is used regularly by practitioners. For example: "Mozambique is known as a 'donor darling', in that there are lots of agencies that flock to work here" (DFID, Neil Squires: http://blogs.dfid.gov.uk/2008/12/a-paradox-too-little-money-but-too-many-donors/). It is important to note that a country's status can shift between these two categories, e.g. Uganda and Rwanda. Both of these countries have been dropped from the list of 'aid darlings'. This can happen due to disagreements between the country's government and the donors, or can be the result of external trends amongst donors or decisions to focus aid elsewhere.

2.2. Budget Support

Scope of the study in relation to Budget Support

19) Budget Support (BS) is one of a number of types of 'programme aid', a term which catches a wide range of different types of non-project aid. This is illustrated in Annex 2. This study focuses on General Budget Support (GBS), which is one of two types of direct budget support. The main characteristics of direct budget support as a financing modality are that: 1) funds are channelled directly to partner governments; 2) they are not linked to specific project activities, but rather aim to finance the government budget and; 3) they are used through government allocation, disbursement, procurement, accounting, reporting and accountability systems. GBS is supposed to differ from Sector

Budget Support (SBS) by focusing on the country's development/poverty reduction framework as a whole and/or the macroeconomic and fiscal framework, whereas SBS focuses on one sector. GBS is also supposed to differ from other forms of programme aid found in fragile and non-fragile countries (including debt relief and balance-of-payment/BOP support) in ways that are explained in Annex 2.

20) A number of recent studies have shown that demarcations between types of programme aid (notably between BOP, GBS and SBS) are not as neat in practice as theoretical definitions suggest. For instance, debt relief differs from BOP/budget support aid types, as it does not entail a transfer of funds from the donor agency to the recipient country. As with both BOP and budget support, debt relief can provide financing to the budget. Like BOP support and unlike budget support, this is not automatically the case, and the calculation of whether and how much budget financing results from debt relief is not straightforward (see more about this in section 4.3).

21) Adding to this complexity, donors also use aid instruments which, although not considered direct (general/sectoral) budget support, disburse large-scale financing into the government budget, thereby insulating the donor funding against some of the risks entailed with direct budget support. These include a range of different forms of sectoral/thematic basket funds, which can be quite similar to SBS but with derogations from the government mainstream PFM systems (and that some donors do call SBS, others not). Multi-Donor Trust Funds (MDTFs) are a form of basket fund, and they too can be very different from each other, An MDTF can act as a budget support donor, channelling funding into the government budget, or channelling funds to third parties, or to both.

22) Reflecting these less than neat demarcations, the terminology is evolving. Donors and experts are now using terms like 'GBS look-alikes' (IEG 2010), 'budget aid' (CAP 2010), or 'flexible aid' (IOB 2010) to more easily categorise instruments that may differ in other respects, but do result in relatively direct funding to the government budget and do not operate like projects.

23) Over time, the concept of budget support has also expanded in another way. Budget support is typically seen to be more than just a financing instrument. It is a package of inputs including also policy dialogue, a conditionality framework, and accompanying capacity development measures, as well as a commitment on the part of donors to provide more aligned and better harmonised support. Moreover, GBS is premised on the state having the lead role in multiple ways, and on the fact that the government and donors are willing and able to engage in a partnership form of relationship.

24) These are key features when looking at the relevance of GBS in fragile states. GBS aims to empower the state by giving it control over the use of the resources provided by external actors, against the assurance that the government will use these funds in line with development priorities identified through consultation with the country's population and endorsed by donor partners, and subject to check-and-balance processes through the country's accountability systems. Clearly, there is likely to be a difficult match between these features of

GBS and the conditions found in many fragile situations. Section 3 reviews donor policies in light of this difficult match.

Expectations of Budget Support

25) As noted in the OECD DAC 2006 evaluation of General Budget Support, expectations from GBS are extraordinarily wide-ranging. They include: improving donor coordination, harmonisation, and alignment with partner country systems and policies; lower transaction costs; higher allocative efficiency of public expenditure; greater predictability of funding; increased effectiveness of the state and public administration as general budget support is aligned with and uses government allocation and financial management systems; and improved domestic accountability through increased focus on the government's own accountability channels (IDD et al 2006). The evaluation framework unpacked (through a 'causality map') the ways in which GBS (as a package of inputs) could produce these results, through three main channels: flows-of-funds effects, institutional effects, and policy effects.

26) By the mid-2000s, a number of donor agencies had committed to increasingly use budget support – and GBS as the 'purest' form – in 'good performer countries' where benefits could be expected to be significant[13]. Ten years ago, there was also a sense that there might be a trajectory from project to basket funding to SBS to GBS. However more recently, there has been a shift away from the idea that budget support might supplant all other aid modalities in any country. There is currently more talk about judicious mixes of complementary instruments and portfolio approaches. It is also no longer thought that basket funding is necessarily a good step toward SBS - sometimes it means that a country gets stuck there forever (Williamson et al 2008). It is also no longer seen as an oddity to have GBS and SBS programmes simultaneously in the same country even for the same agency; on the contrary (IDD et al 2006, Williamson & Dom 2010).

Effectiveness of Budget Support[14]

27) These shifts are related to a better understanding of, and increasing evidence about, what budget support is good at and what it is less good at.

28) The GBS evaluation of 2006 noted that in five of seven case countries (including Rwanda, Uganda and Mozambique, considered as fragile in some analyses), access to more stable resources for the government to use at its discretion had been accompanied by some improvements in public finance management. There had been some positive effects on allocative and operational efficiency of public expenditures and on coherence, harmonisation and alignment of aid. Negative incentive effects, which aid can have on the functioning of the state (e.g. reduced domestic revenue mobilisation efforts or increased corruption), had been avoided. There was evidence of increased GBS-supported expenditure on basic services and increased quantity of services provided. Evidence of GBS-related improvements in the quality of services or access by poor people was more difficult to identify. At that point, GBS had had no discernible effect on the empowerment of the poor. The processes surrounding the provision of GBS could reinforce domestic accountability in some instances. Also, it was found that the foundation for domestic accountability was strengthened by passing more funds through government budgets, making them subject to national accountability processes.

29) The evaluation highlighted that:

- even for the longest established budget support relationships, the timescale was too short to realistically expect some of the higher level results to be visible (e.g. changes in accountability, empowerment of the poor);
- the fact that no, or a limited, effect had been found did not mean that this effect could never be found – in other words, the logic was not demonstrably false;
- GBS was assessed against standards much higher than those usually used for other types of aid;
- even though GBS had not met all the very high and broad-ranging expectations, no other aid modality had demonstrated a similar potential to support countries' strategies as a whole.

30) A number of more recent studies support this initial set of findings. A review of sector budget support in practice in ten sectors/countries (including five sector cases in Rwanda, Mozambique and Uganda) found the same type of increased expenditure and provision of 'pro-poor' services. SBS was also effective in reorienting funding to the service delivery levels (schools, health centres). But, it had not been effective (that is, no more than other types of aid) in relation to service quality (including 'pro-poorness') (Williamson & Dom 2010). The study contends that this is due to a generalised lack of attention, on the side of both government policies and strategies and SBS programmes, to the 'missing middle' in service delivery; that is, the process for managing frontline service providers, such as the actual delivery of services, human resources management and incentives, and the accountability for service provision.

31) A recent independent evaluation of the World Bank PRSCs from FY2001 to FY2008 shows that Poverty Reduction Strategy Credit (PRSC) flows were highly concentrated on a few 'good performers' – including Uganda and Rwanda. Whilst in other countries, the PRSC series did not 'take off' - like in Ethiopia, although the PRSC was replaced by a GBS 'look-alike' as shown in the case study. Generally, PRSCs were found to have worked well in terms of processes (e.g. strengthened country ownership, more pro-poor service delivery). They had delivered reforms in PFM systems, though this was limited to the 'easier areas'. And effects of PRSCs on overall governance and corruption were an issue of debate. Growth and poverty reduction outcomes were unclear (WB IEG 2010). An EC cross-country investigation of the relationship between levels of GBS provision and country performance found that high GBS recipients had performed better in relation to MDGs and the HDI, but stressed that this is about association, not causality (EC 2010c).

32) So, all of these studies converge to highlight that budget support may be effective in strengthening PFM and in focusing government budgets onto policy priorities (and so, typically, onto funding more service delivery). However, even in 'good performer countries', its effects on broader systemic reforms and 'deeper' systems, such as systems of accountability, are less clear. Box 4 below demonstrates this point about accountability a little further (as it is a focal area for this study) and provides some background against which GBS effectiveness should be examined in this regard.

Box 4: Budget support and accountability – An overview

The issue of whether budget support has the potential to, and does in reality, strengthen accountability needs to be explored in the context of the evolution of the past decade in relation to aid management. The discussion also needs to be cognisant of the complexity of countries' accountability systems.

In relation to the first point, after a first few years with a narrow focus on partnerships between donor agencies and recipient countries' government executive branches, the 'PD/AAA agenda' has now integrated the notion that domestic accountability is critical for development effectiveness. Hence, effective aid is aid which strengthens both mutual accountability and domestic accountability. There is implicit recognition that this may often be harder to do in fragile situations. However, the international dialogues around fragility mentioned in ¶16) above are beginning to engage with this issue. They highlight that building stronger states requires building stronger societies; aid in fragile situations should pay attention to, and find ways of, supporting the definition of a sustainable 'social contract' between the state and society as a cornerstone in the transition from fragility.

Budget support has raised both new expectations in relation to strengthening domestic accountability (identified as a potential result of budget support in the GBS 'theory', see ¶25) above), and new challenges. In practice, results are mixed. GBS was found to strengthen countries' PFM, and thus the basis for accountability (IDD et al 2006). But there typically has been insufficient attention to the interaction between budget support and domestic accountability processes. In particular, budget support rarely included specific support to key 'demand-side' accountability actors, namely, countries' elected bodies and civil society – which therefore had remained weakly equipped to oversee the budget and the use of budget support (EU 2010). There has also been a lack of attention to within-sector accountability for service delivery (Williamson & Dom 2010).

Some budget support donors have provisions that would help to start addressing these weaknesses. But ,they have not been systematically applied. For instance, the UK clause that foresees setting 'aside 5% of all budget support funds to strengthen mechanisms for making states more accountable to their citizens' (DFID 2009b)[15]. Or, they have been found challenging in practice. For example, the EC has strong clauses of engagement with non-state actors (NSAs) in the Cotonou framework, but has often faced tensions in trying to apply them, given the intrinsically political nature of NSAs, their diversity, and issues of legitimacy within the NSA 'system'. In countries where the partnership between the government and the EC is difficult and/or where trust between the government and civil society organisations is low, entry points for donors to support strengthening domestic accountability are typically hard to find, or may run against the government's preferences (ECDPM 2010).

33) Unsurprisingly, in view of the reasons outlined in this section, the link between the provision of general budget support with high level outcomes, such as growth/ poverty reduction performance is tenuous across countries.

3. Budget support to fragile states – Overview of donor policies and practices

3.1. Rationale/motivation

34) On the one hand, the rationale for GBS may appear to be even more compelling in fragile states. In these situations, state-building is supposed to be at the core of effective donor engagement, and GBS has been found to be a potentially effective instrument in terms of strengthening various government capabilities (see section 2.2). Even if this does not summarise what state-building is all about, it is critical (see e.g. Oxfam 2010). Using government systems avoids duplication and ensures better aid alignment to government priorities, and may be considered all the more crucial when government capacity is extremely weak. On the other hand, using GBS is premised on a number of (explicit and implicit) assumptions that may not be valid in fragile situations.

35) The most basic assumption is that working through and with government is a relevant strategy. As just noted, GBS is premised on the state having the lead role in multiple ways. Yet, in fragile situations, there are all sorts of questions raised: on the one hand, about the state's capacity and/or commitment to poverty reduction and, more basically, its ability to discharge its core functions, and its legitimacy. On the other hand, there is often doubt about the capacity of non-state actors/society to hold the state to account, or their willingness to even recognise the state in the first instance. As noted above, when working through and with government means working with individuals or institutions who harm the country's population (violent/prolonged political conflict stalling development, repressive/authoritarian politics, human rights violation, military operations), there is an ethical dilemma. In such circumstances, aid can be seen as contributing to this harm (as stated in the title of a 2010 report by Human Rights Watch on "aid fuelling repression" in Ethiopia, HRW 2010).

36) However, there is no reason why GBS should be the only type of aid to raise this dilemma. The basic question is whether working through and with the government is legitimate. This is an intensely political decision to make, as is the higher level decision of giving or not giving aid to a specific country and how much. (The political nature of these decisions, in turn, leads to massively unbalanced ODA flows to fragile countries, see section 4).

37) GBS is typically perceived as a more political instrument than others, as it 'carries with it a connotation of full support to a government, regime and even party in power' (IOB 2010). Yet, working with and through government through an MDTF like the Afghanistan Reconstruction Trust Fund (ARTF) or through education and health NGOs, or UN-implemented projects providing services to the population, which government would normally be in charge of providing, is supporting the same government. Fungibility means that, even with these alternative instruments/channels, the donor money is more likely to be used for what it is intended. The same money substitutes money that would have had to otherwise come from government budget, freeing up the equivalent amount for the government to use for other purposes – including the very activities that donors try to distance themselves from. Had the donor money not been put

through GBS channels (due to a lack of government commitment), donors may well have used an alternative channel, and any type of aid can be seen to contribute to 'maintaining the status quo'.

38. Cognisant of this, the OECD DAC states that *political conditionality should not be specifically linked to budget support or any individual aid instrument, but should rather be handled in the context of the overarching policy dialogue between a partner country and its donors* (OECD 2006b).

39. If it is deemed legitimate to work with and through government (and in some large countries there can be little alternative to deliver services 'at scale'[16]), the next questions relate to policies, systems and capacity. GBS has been used by donor agencies which believe in the approach that to strengthen a system (including policy-making), it is better to use it, see where it leaks, and then fix the leaks. This of course does not hold if there is no system, or if the systems are equivalent to a 'tonneau des Danaides' (bottomless pit). But, even in less extreme cases in fragile situations, stark questions arise about the extent of policy and system alignment which is feasible and legitimate.

40. Firstly, there may be no policies to align with, or only policies that are found to be of questionable relevance (though external actors should be wary of thinking that they know better what is and is not relevant). Secondly, there may be a trade-off between putting aid-on-budget, which can more easily be 'captured' for illegitimate uses by the government vs. bypassing country systems, which further undermines both the external actor and the government's legitimacy. The trade-off between predictability and effectiveness (and conditionality is supposed to strengthen the latter) is also starker in fragile countries (than in non-fragile ones). This is even more so with budget support which, when given 'at scale', makes the state's core functions vulnerable to cuts that may arise more easily than with other aid modalities.

41) These questions are further discussed below. At this stage, it is enough to say that donors usually struggle with these issues. The result is a wide range of attitudes with regard to using GBS in fragile situations and an array of nuances in rationale and motivation for those who do – as summarised in the next section and in Table 1 below.

3.2. Existing donor policies on key issues

42) Donors face a number of issues when they consider the provision of budget support in fragile states, or actually provide such support. Some of these issues are generic, i.e. they would apply to any country. Others are more specific to fragile situations. Donor agencies have different and variably detailed policies in relation to budget support in general. There is no recent compendium of this[17]. They also have different and variably detailed policies in relation to engaging with fragile countries. A number of donor agencies have specific policies, strategies, guidance (including DFID 2010j, World Bank 2005, AfDB 2008, EC 2008 and DANIDA 2010). Other agencies focus on fragile situations in the context of broader policy documents. These documents can include fairly detailed guidance on these situations - like the Netherlands in its 2007-2011 policy document on the country's development cooperation (MFA 2007, now replaced by the new government's intention, MFA 2010). There is, however, no inventory

of such documents, and no readily available analysis of commonalities and differences.[18]

43) There seem to be few agencies with guidance specific to budget support in fragile countries, apart from guidance developed in 2009 by the EC (EC 2009j). DFID's overall guidance makes explicit references to budget support. At the end of 2010, the WB, AfDB and EC finalised a 'common approach paper to the provision of budget aid in fragile situations'. This was eventually authored by WB and AfDB staff; the EC contributed throughout the process and endorsed the paper's positions. The paper is not authoritative guidance: "in lieu of legally-binding, signed statement of principles, the CAP should present a number of recommendations, including from a donor coordination standpoint, for the respective institutions to consider independently" (see 'Common Approach Paper on the provision of budget aid in fragile situations' by AfDB & WB, 2010, hereafter referred to as CAP 2010).

44) This is the background against which this study attempts to review donor policies on key issues related to the provision of budget support in fragile situations. This review was constrained by the lack of secondary data to draw upon, and the limited time to undertake primary data collection and analysis. The review focused on 'budget support donors'; that is, agencies that are using general budget support relatively extensively in non-fragile countries (thus excluding countries like France, Belgium (policy preference for SBS), Japan and USA). The study's findings concerning budget support donors are summarised in Table 1 below.

45) The table does two things: (i) it distinguishes between generic issues related to the provision of budget support (2nd column) and issues specific to fragile situations (3rd column); (ii) it draws commonalities and differences between donors' positions in relation to a number of important design and implementation features of GBS (outlined in the 1st column headings). This is supported by further details (on an agency-by-agency basis) in Annex 3. Moreover, the table and the discussion which follow also draw on evidence from the countries studied for this work (which is further outlined in section 5, see executive summaries of the country case study reports in Annex 6). Furthermore, evidence is derived from literature on other countries (among others, see the 'pen portraits' in Annex 6), as well as from the consultants' direct involvement in some instances of provision of budget support and/or fragile countries.

Table 1: Key Issues in Providing Budget Support in Fragile Situations – Donor policies

Key Issues	Issues related to GBS in general	Specific issues in fragile states (specific challenges and specific added value)
Rationale for GBS	Typically **different complementary rationales all apply at the same time** • Alignment with country systems • Funding poverty reduction/development through the budget • Building capacity and strengthening domestic accountability by using and focusing on country systems. There is some variation between donors concerning their key areas of focus: on macro-fiscal framework (for the Banks, EC) vs. mainly poverty reduction/ development/ MDGs (for EC and bilateral donors). The EC has a specific MDG-contract budget support instrument for 'good performers' (which it started in 2008 in seven countries: Burkina Faso, Ghana, Mali, Mozambique, Rwanda, Uganda, and Zambia; no new countries were added in 2009).	**Two main types of rationales for budget support:** 1. *One-off operations including 'emergency' support* – these are not used by all donors; DFID does not do this (but may strongly endorse others doing so as a priority, e.g. in DRC). This method is used by the development banks and the EC ("short-term support to stabilisation and rehabilitation", CAP 2010); SIDA considered it in 2009 in Liberia and Cambodia as a response to international crises. The model aims to: • Clear arrears, operations aimed to pave way for IMF full re-engagement (see section 4); • Achieve macro-economic stabilisation, often linked to broader stabilisation, i.e. support to political, security and social stability, e.g. in DRC (WB, AfDB, EC: are using one-off operations to avoid "serious deterioration of economic situation and political equilibrium", CAP 2010: "stabilising the macro-budgetary framework and allowing the state to carry out basic functions, to cement its legitimacy and contribute to maintaining political stability"). 2. *Longer-term engagement* – This can happen early post-conflict, although there are not many examples (Rwanda, Sierra Leone, Mozambique). DFID was a prime mover in Rwanda and Sierra Leone (against policy at the time, which has since shifted), EC joined and development banks have also joined in ("medium-term support to development or reform policy", CAP 2010). The aim is to: • Send a message of support to new government • Seize windows of opportunity (argument used by bilateral donors and EC)

Key Issues	Issues related to GBS in general	Specific issues in fragile states (specific challenges and specific added value)
	Some bilateral donors do only/mostly SBS (e.g. Belgium)	• Strengthen the "state's limited financial capacity to ensure at least minimum provision of its basic functions". With a gradual move to development objectives (EC); greater policy and system alignment whilst developing systems and capacities at the same time (DFID); supporting the longer-term endeavours of peace and state-building (CAP 2010). Explicit support is provided to basic governance sectors (security, justice) through a focus in budget support dialogue (particularly in the CAP, EC guidance), but no example can be found. CAP 2010: The EC also feels that longer term engagement contributes to strengthening capacity by channelling aid through national systems.
Mix of instruments	**Portfolio of complementary instruments. Technical justification**: GBS (macro-fiscal reforms, cross-cutting reforms, PFM), SBS (in-depth sector dialogue), projects (infrastructure, TA, pilots, support to civil society). *Also political pragmatism* (GBS is politically vulnerable). **BS explicitly preferred modality for some donors** (e.g. EC, 2010 annual report), others use a lot but don't have an internal target **Under evolution** in several European countries; as donor domestic political scrutiny becomes tighter, the use of or prerequisites for BS are changing over time, e.g. Norway, as Parliaments and civil society demand greater scrutiny.	Other (than GBS) there are **modalities which are identified as complementary, or alternative when alignment is not feasible/desirable**: e.g. shadow alignment (to mirror government systems rather than work 'through' them. Such modalities are however still seen as support to government, and this may be an issue). Bottom-up alignment (community-driven development/CDD) may complement 'through government' modalities, but also be the only modality (e.g., in Zimbabwe before the coalition government). Finally MDTFs, of which some disburse into government budget (additional fiduciary devices insulating donor funding from certain risks so 'buffer') (DFID, WB are using this modality for large flows in some countries). **Emerging ideas of complementary 'budget aid' instruments** (CAP 2010), some disbursement of budget financing on a reliable and predictable basis (e.g., in Afghanistan the ARTF: has no policy reform conditions, funding recurrent spending). Other modalities are developed to address one-off issues (e.g., one-off macro-economic stabilisation budget support); others supporting reforms (though also supporting budget, but presumably on a smaller-scale as links to reforms makes them vulnerable to delay).

Key Issues	Issues related to GBS in general	Specific issues in fragile states (specific challenges and specific added value)
'Type' of general budget support	**Various forms and designs continue to prevail** in spite of commitment to harmonisation: • Annual, annual series, multi-annual • One or several tranches • Fixed tranches only or fixed and variable tranches	**Similar lack of harmonisation in designs** as for non-fragile countries, except in few cases (Sierra Leone MDBS, Rwanda). There seems to be a less clear-cut distinction between BOP/budget support as countries often need both. Banks sometimes mix import-related BOP/BS in one operation. This, and EC targeted budget support, may lead to sub-optimal attention to government budget as a whole, mainly in one-off operations. The EC guidance on budget support in fragile states recommends caution in the use of variable tranches (weaker capacity hence higher risk of unpredictability whilst at the same time this is more damageable in those states); in particular, they should not be used in one-off operations and should rather be linked to a move from those to medium-term developmental operations. However, examples of such a move were not found (Rwanda and Sierra Leone were immediately 'developmental'; in DRC, there are only one-off operations funded from an exceptional resource envelope, no clear transition plan). SBS is not encouraged either, for reasons linked to weak policy capacity (2007 EC SPSP guidance). GBS can however be 'targeted' (reimbursing identified and audited budget expenditure) to mitigate risks when PFM systems are very weak. At the same time, eligibility criteria still include 'PFM ultra-basics' to be 'in place' and so, when to use targeted GBS and when not is not made entirely clear. The EC 'targeted budget support', as is found in DRC for instance, is in fact similar to the ARTF in that it uses reimbursement modalities. Yet, the ARTF, whilst having a much broader scope than the DRC programmes, is not referred to as GBS. DFID seems to suggest that they would only use multi-annual design, though this may still mean annual approvals (as is the case in Ethiopia currently). DFID sees SBS as potentially more appropriate in some cases (in contrast with the EC position). The WB and AfDB use a wide range of different designs in terms of tranching.

Key Issues	Issues related to GBS in general	Specific issues in fragile states (specific challenges and specific added value)
Eligibility/ entry conditions/ risk assessment	**Threshold approach vs. flexible assessment?** Typically case-by-case assessment following guidelines; yet audits of how guidelines were followed revealed instances of non-application Usually focus on PFM systems but no threshold GBS evaluation recommended more attention to assessing political risks (see below)	**Wide range of policies among 'budget support' agencies** **Budget support not possible in fragile countries** for some donors including Germany, and the new government of the Netherlands (100% U-turn compared to previous position which was more akin to DFID), Canada (although MDTFs are used to finance emergency/reconstruction/stabilisation needs). **Position of favourable 'in principle' for some donor agencies** (i.e., their prerequisite: a 'legitimate regime'); they make a case-by-case judgment based on strong risk assessment; emphasis on political analyses (EC 2009j, CAP 2010). DFID's 2010 position (based on 'evidence of success' in Rwanda and to some extent Sierra Leone): Use of (medium-term) budget support **where large development benefits likely outweigh high risks; little state capacity but commitment; sufficient government stability.** Examples: Burundi ruled out (not stable enough); Afghanistan: ARTF (MDTF), not budget support; Southern Sudan: intention to move towards SBS in health. WB, AfDB, EC (CAP): *Support* **'gradual improvers'**. EC: uses political, social and economic analysis to assess the relevance/feasibility of BS beforehand. Emphasises the importance of trends[19]. If ok, general eligibility criteria adjusted for fragile countries: progress with PRSP process, rather than implementation; 'PFM ultra-basics' in place; BS can be provided to restore macroeconomic stability (thus not a prerequisite, with IMF endorsement). Risk assessments seem (implicitly) to be different for one-off operations as compared to operations intending to be medium-term. This is held to whether, for one-off operations, developmental risks are nil or limited as they are 'policy light' operations (and fiduciary risks are limited to particular operations). By contrast, for medium-term operations, there may be higher developmental and reputational risks.

Key Issues	Issues related to GBS in general	Specific issues in fragile states (specific challenges and specific added value)
Conditionality and performance measurement	Need to respect **ownership** while promoting reform **Transparency** to promote accountability **Conditionality as an 'incentive'** to promote reforms (Banks/lenders) vs. *conditionality as 'signaling device'*, measuring progress in implementing agreed policies (bilateral donors, EC?)	Crucial to **avoid over-ambitious conditionality** which may lead to volatile support/block disbursement, yet not always happening in practice WB: **Tension between objectives of one-off operations** (policy light, fast disbursement, seen with mixed feelings) *and budget support role as reform-promoting instrument*. The WB finds it hard to uphold general conditionality standards[20]. Cases of broad conditionality coverage in operations in fragile countries (including 'sensitive areas') are less effective than more focused operations. Detailed, weakly owned conditionality trying to make up for low capacity and lack of specificity in government policies (e.g. CAR, Niger, Burundi) are not effective (negative assessment of these operations by IEG, vs. positive assessment of Haiti's more focused operation). EC cautions in using variable tranche (not used in emergency operations). Guidance suggests to maybe use conditionality/political dialogue on SSR, DDR or civil service reform (if linked to macro stability) DFID notes ***'trade-off' between demanding performance and predictability/'do no harm'***. Sierra Leone is an example where the conditionality framework was expanded too quickly with a negative knock-on effect upon budget financing, service delivery and government stability (see section 4).

Key Issues	Issues related to GBS in general	Specific issues in fragile states (specific challenges and specific added value)
Use of political conditionality	**Two schools of thought: Budget support as technocratic instrument** (political dialogue kept separate) (Banks/ lenders, EC) **vs. budget support as techno-democratic instrument** (BS dialogue to include political dialogue and conditionality) (a number of bilateral donors). Debate high on many agendas. GBS evaluation (2006) recommends more attention to political risks, ex ante; IOB study (2010) recommends 'selectivity' rather than political conditionality (as vaguely defined political 'underlying principles' are interpreted as formulaic and meaningless); suggests that willingness of donor to 'play tough' depends on recipient country's "strategic value". Increase in number of budget support freezes on explicitly political grounds in past five years (Ethiopia, Uganda, Nicaragua, Honduras, Rwanda, Mozambique): Sign that donors replace selectivity that they failed to apply earlier/at entry point, by ex post 'weeding out a few bad apples'? (Hayman 2010)	**Same issue arising more starkly** as many fragile states have poor human rights (HR) track records. **Multiple issues**: 1. Which human rights should be considered/what's the trade-off? 2. Should budget support address (more than other aid instruments) the "big ethical issue" and (try to) influence governments to improve civic/ political HR track record? 3. Should BS not be given (but other aid 'through government' continue to be given) when (i) governments do not have a (sufficiently) 'clean record', or (ii) there is no demonstrable commitment to improve it, or (iii) the situation with regard to civic/political HR is deemed to be deteriorating but socioeconomic HR continue to improve? **Positions vary amongst donors**: relative agnosticism (support to "legitimate regime" for WB, AfDB, EC in CAP); budget support must remain a technical instrument (EC guidance); no BS in fragile countries (Germany, CIDA); no BS to countries where "evidence of corruption, human rights violations or poor governance" (Netherlands, Dec 2010); extent of government legitimacy matters to decide through/not through government, more broadly than budget support only (DFID); Danida may "work with states criticised for violations of human rights" if there has been progress from earlier situation. **Implicit importance of 'strategic value' of recipient country in whether donors "play tough" or not**. This political economy factor applies anywhere but maybe more prominent in fragile countries. On the one hand, principled reasons for playing tough may be more difficult to ignore (e.g., poor human rights record); on the other hand, the strategic value of certain fragile states is very high, although this may be for different reasons (security: Afghanistan, Ethiopia; economic interests: DRC). As a result, how donors address the issues above (1 to 3) is likely to be highly variable as individual donors' attitudes in a specific fragile country depend on each donor's 'real motives' for engagement in that country.

Key Issues	Issues related to GBS in general	Specific issues in fragile states (specific challenges and specific added value)
Predictability of disbursement (year-on-year/short-term and within-year)	Sticking to conditions (performance) vs. pushing government to have to call on domestic borrowing… BS programme **designs are more often supposed to avoid within-year cuts** except in extreme situations; greater attention to cash flow issues and early disbursement. EC variable tranche still an issue in these respects in many instances, but relatively small	**Short-term predictability is even more essential** in FS given the higher instability risks (e.g. if salaries are unpaid), this becomes more the case if government fiscal space is reduced and/or budget support is a significant proportion of budget financing. But such predictability **does not necessarily exist**. In Sierra Leone/DFID 2007: DFID gave priority to PFM/transparency-related conditions, this led to the suspension of BS resulting in threat to macroeconomic stability, a challenge to weak budget process, public services deterioration, possible 'regime change' signals. Although, on the whole BS was deemed positive as a step toward transparency was made. Example of DRC (case study): donors committed support, but late to be disbursed (EC, Belgium through WB). Existing guidance (EC 2009j, CAP 2010) pays attention to predictability but does not refer explicitly to 'no-within-year cut'.
Longer term predictability – length of commitments	Supports medium-term planning and budgeting but **many donors continue to not engage medium/long-term or may stop budget support engagement abruptly** (e.g. Netherlands at the end of 2010 in 4 countries including Rwanda, the latter on political grounds, less so in other countries but 'pragmatism' in budget cut situation). Only EC does 6-year MDG contracts (see above)	Medium-term predictability is said to be potentially less important in the first instance as often FS do not have medium-term planning. However, if budget support/'budget aid' finances core recurrent costs on a large-scale, **medium-term predictability/ reliability is important, yet not always ensured.** The role of one-off operations is not clear (e.g. DRC, one-off in principle but in practice needed to be repeated). e.g. annual decision-making DFID/Ethiopia and DFID/Sierra Leone; Netherlands unilateral decision of stopping budget support in Rwanda; DRC one-off financing decisions, no plan for 2011 in spite of continuing needs; vs. ten-year phasing out plan for ARTF in Afghanistan. CAP highlights importance of medium-term perspective but statement of intent (not practice yet) (CAP 2010). Under the circumstances, **unclear if budget support can be effective in addressing typical "transition issue" in post-conflict situations** (OECD 2010). Did play a role in Rwanda, Sierra Leone and Mozambique for instance, but not in DRC, Côte d'Ivoire, CAR because of one-off nature of operations. Unclear whether GBS has this potential in Burundi under current country circumstances.

Key Issues	Issues related to GBS in general	Specific issues in fragile states (specific challenges and specific added value)
Predictability general	**Governments need predictable financing for development** (expansion of services etc.); donors rarely commit for more than 3 years	Governments typically **need financing for immediately pressing stabilisation needs** (reconstruction, financing maintaining minimum services/basic core functions, arrears clearance etc.), gradually moving towards development starting with service delivery expansion from often a very low basis – hence the needs **remain high far into the post-conflict period**. This is **difficult to reconcile with a lack of medium-term thinking** in many cases (in government policies and donor engagement) and with tightly conditional budget support.
Support to capacity development	**Various assessments found that most often the focus is on PFM reforms**, *with some success*. Insufficient focus on decentralisation and civil service reform. Yet, **capacity development appears to be the least well thorough input in the GBS package**. Difficulties occur in donor coordination, lack of overall government CD strategy. With SBS there is a lack of attention to “missing middle” in service delivery (process for management of frontline service providers, the actual delivery of services, human resources management, and the accountability for service provision) and role of incentives.	**No specific guidance other than recognising the critical need for capacity development**, starker than in non-fragile countries (e.g. DFID, EC, Danida, SIDA). DFID: engagement in (medium-term support to poverty reduction) budget support should always be accompanied with capacity development. WB: usually large-scale TA support to PFM reforms when engage for medium-term too (and in parallel to one-off/emergency operations as in DRC). EC: budget support should always be accompanied by institutional capacity development support. Issues of lack of attention to ‘missing middle’ and weak coordination likely to be pronounced due to weak government capacity including in the coordination of donors (visible in e.g. DRC PFM reform strategy). CAP 2010 insists that (any type of) GBS be seen as opportunity to strengthen “the capacity of recipient countries by channelling aid through national systems”; in order for this to happen, GBS should be part of a package (evidence-based policy dialogue, analytical work, technical assistance, capacity building activities as well as financial transfers). These are intentions and the CAP review recognises has not happened sufficiently in past practice.

Key Issues	Issues related to GBS in general	Specific issues in fragile states (specific challenges and specific added value)
Accountability	Using country systems is expected to contribute to strengthening domestic accountability – in particular when derogations are minimal. Evaluations have found **positive cases though usually limited effects** (e.g. IDD 2006 Mozambique GBS, SBSiP 2010 Rwanda education, Uganda and Tanzania LG SBS) More focus should be put on strengthening parliaments and CSO analysis of budget (EU 2010), as well as all-round accountability for service delivery (Williamson & Dom 2010). Donors often find it difficult to engage with 'civil society' as a genuine partner, for a variety of reasons (ECDPM 2010).	**Need to support even weaker domestic accountability, due to weaker capacity and institutions, and 'fragile society'**. This resonates with a more general recognition of the need to pay greater attention to non-government stakeholders, to strengthen state-society relationships. This should occur as part of the state and peace-building processes and donor support to these ('definition of a sustainable social contract as a cornerstone in transition'). However, *in* **practice it has been difficult to do** (OECD 2010r). The EC guidance on the provision of budget support in fragile situations is silent on accountability issues; very cautious in relation to the involvement of civil society/NSAs in joint reviews of multi-annual GBS programmes; and silent in relation to their involvement in short-term programmes (EC 2009j). The CAP (CAP 2010) is more audacious. It stresses that state building/legitimacy depends on improving domestic accountability. This, in turn, requires a multi-pronged strategy and diversified mechanisms, calling on and **supporting non-government actors, strengthening formal accountability institutions and improving transparency in key areas of decision-making and revenue collection**. The CAP suggests that these areas could be explicit targets of budget support operations (e.g. through the BS dialogue and conditionality framework). In addition, it says, "**there may be merit in exploring the ways in which civil society and parliaments can be more involved in the design, implementation and monitoring of key elements of BSOs, to strengthen the relationship between the state and its citizens.**" Emergency/on-off operations are less likely to be used to try and strengthen domestic accountability and civil society engagement (as found in DRC). In instances where 'space for civil society' is an issue and government-donor partnership is fragile, there is a **perceived (donor) dilemma** between strengthening/establishing dialogue with government and **mutual accountability relationship, and strengthening domestic accountability** and engaging with civil society. e.g. DRC. Ethiopia is a case where donors use budget support (Protecting Basic Services/PBS programme) to work in less controversial areas (social accountability for service delivery).

3.3. INGOs' discussions

46) The literature reviewed for this study suggests that major INGOs have yet to outline a clear position in relation to the provision of budget support in fragile countries specifically. Indeed, the study was commissioned by Oxfam Novib as an input into their internal process of defining such a position. This section reviews what the study found about current INGOs' discussions. Of note is the fact that INGOs' try to advise or influence donor decision-making. This is quite different from the decision-making position in which donors find themselves. Accountability vis-à-vis the recipient countries for the decisions finally made will be with the donors, not the INGOs.

47) The initial scepticism of INGOs with regard to general budget support (found in the mid-2000s and seen in e.g. Action Aid 2006) has gradually evolved toward more nuanced positions. Major INGOs, such as Oxfam, support it strongly under certain circumstances (see e.g. Oxfam 2008; Oxfam 2009a; Oxfam 2010). This is based on evidence (cited in INGOs' papers) that at least in a number of cases, GBS was shown to be effective in terms of improving service delivery. However, even Oxfam highlights risks, especially of unpredictability. And it is clear from Table 1 above that some earlier concerns of INGOs, arising from the weak design and effects of GBS with regard to accountability (see e.g. Action Aid 2006), have not been fully addressed.

48) INGOs are more hesitant when it comes to general budget support (GBS) in fragile situations. The potential for it to be an effective way of (re-)building the state as an indispensable element of the transition out of fragility is recognised by some. Oxfam most clearly draws the link between support to moving out of fragility, strengthening accountability, and the provision of aid that builds the state and, specifically, budget support. Oxfam argues that, "no matter how fragile the country, the goal of building effective state institutions and active citizens has to remain at the heart of development goals'. This requires 'innovative ways to strengthen the state for taking its responsibilities to deliver services and uphold the rights of its citizens, coupled with an approach that supports citizens to hold their government to account." (Oxfam 2010). Oxfam cites Rwanda and Sierra Leone as examples of weak states where budget support has been provided with success.

49) But for this to hold, budget support should be given only to governments 'that can demonstrate a strong commitment to fighting poverty and upholding human rights' (Oxfam 2010, thus highlighting budget support as a possible instrument in the 'high commitment' category of DFID). There are also concerns that budget support should not be given to governments unable or unwilling to implement inequality reducing policies. The risk is that budget support would simply entrench inequalities in those cases – which in themselves are factors of fragility (McDonald and Jumu 2008 for Christian Aid). Budget support is not the only type of aid which builds the state; 21st century aid must look "to different ways to fortify state capacity in complex situations" (Oxfam 2010).

50) In any event, to unfold its potential of strengthening accountability, according to Oxfam, budget support to fragile states must absolutely be accompanied by specific measures to this effect on both the supply and demand side. Thus, the need for: (i) capacity development measures, "linked to tight

criteria for improvements in transparency, accountability, PFM and the control of corruption," and (ii) "greater resources for watchdog institutions and civil society to monitor the government's activities" - a portion of aid should be dedicated to strengthen their capacity to do this (Oxfam 2010).

51) As seen in Table 1, there seems to remain a quite wide gap between INGOs' expectations/ advice, and donor practice in this respect. However, the (AfDB & WB (and EC)) Common Approach Paper opens up a space in which INGOs' lobbying for greater attention to accountability in the provision of budget support in fragile situations (including on the demand side) should resonate more than has been the case to this day. The CAP is a strong basis for INGOs to remind these donors about their intention of doing better.

3.4. Current discussions

Lines of divide in the 'theory' of budget support in fragile countries

52) From the review above, a number of 'lines of divide' emerge in the positions of donors and NGOs about the use of budget support in fragile situations. First, some donors (EC, Development Banks) believe that GBS can be relevant for both short and longer-term objectives: short-term early stabilisation 'policy-light' programmes can have a role, and donors can move to support to more medium-term objectives through a more programmatic approach with more policy content at a later stage (which is defined mainly as arrears having been cleared and IFIs being 'back'). Ideally, the short-term operations should be part of a 'stabilisation package' (CAP 2010). Other agencies (such as DFID, which has been a steady advocate of GBS wherever possible), believe that using GBS makes sense only in support of more medium-term objectives.

53) Another line of divide is between donors who believe that there are some prerequisites to the provision of GBS. Some believe in the use of entry conditions ahead of committing to GBS with a country, while others believe in the 'trajectory' approach (i.e. it is the trajectory which counts) and therefore use relatively low or flexible eligibility criteria. Those donors, who see GBS as a tool to strengthen systems (including accountability, through the use of the budget support process in decisions made about aid), are more likely to consider the provision of GBS in fragile states – provided that they are on an upward trajectory, however low the starting point. Yet, this begs the question whether those fragile countries' with trajectories starting from a much lower point might need a different type of GBS altogether.

54) A third 'fault line' applies to all types of situations/countries, fragile or not, but may be more of a dividing factor in fragile countries in which political governance is more often a vexing issue. Some donor agencies (and non-donor stakeholders) believe that GBS is, and should be, used as a political instrument to try and coax governments into 'better' political governance (e.g. greater respect for human rights). This is the 'techno-democratic intervention theory' (IOB 2010); a view held by some EU Member States. Others (e.g. so far the EC) argue that budget support is, and should remain, a technical instrument, such as in the 'technocratic intervention theory' (IOB 2010) (see EC 2009j). In this perspective, which also resonates with the OECD guidance evoked in ¶38) above, other mechanisms should be used to support the political dialogue (e.g. the Cotonou

dialogue). Still, others have adopted a relatively apolitical discourse linked to their apolitical mandate (WB, AfDB), but may be confronted by challenges raised at Board level.

55) Finally, there is no consensus as to whether GBS should be used as a policy reform incentive instrument (development banks) vs. an instrument to support policy implementation. No donor has explicitly stated that the latter is a 'good enough' goal for budget support. But, there are examples in which budget aid is used in this way; as in Ethiopia, where the PBS supports policy implementation recognising that it is unlikely to reform or change Ethiopian Government policy in a number of areas at which GBS traditionally aims. Moreover, several reviews/ evaluations found that GBS was more effective in supporting policy implementation and fine-tuning operational policies than in trying to push for major policy reforms, which should remain primarily an internal political process (IDD et al 2006, Williamson & Dom 2010). These findings resonate with the school of thought which argues that 'conditionality does not work' (when conditionality is used as a carrot-and-stick instrument rather than a device signalling progress on agreed measures). This debate between reform vs. support role of GBS is not restricted to the provision of budget support in fragile countries.

Consensus: 'high risk, high return' but...

56) There are, however, areas of relative consensus between donors. First of all, there is a consensus that engaging with the state/government, and in particular, using budget support is legitimate/feasible when the country's trajectory is somewhat 'upwards' (DFID, EC, Banks). There is recognition that, 'resources should support legitimate regimes' (AfDB & WB 2010). However, there is an appreciation of the difficulty of assessing legitimacy. Therefore, there is a call for deepening the understanding of the political economy in country contexts ('bringing in political savvy', IOB 2010), and a consensus on the necessity of comprehensive risk/benefit analyses going much beyond the mere process of assessing eligibility (DFID, AfDB & WB Common Approach Paper, EC). These must include an assessment of the risks of non-intervention and/or of working outside of the state (deterioration of socio-economic and political situation, undermining the state's legitimacy and capacity).

57) Work is under way to better distinguish the types of risks to be assessed and managed in fragile situations (and more generally). This work is particularly relevant to the issues that donors confront when they have to assess whether or not to use budget support in fragile countries and in what ways. It is proposed that risks should be disaggregated between contextual, programme and institutional risks (institutional meaning for the donor agency). This typology, alongside others already established[21], could help to clarify whether the risks identified are risks for the donors, the government, or the country at large (which links up with the 'do no harm' issue). However, this does seem to be a relatively technocratic way of looking at risk assessment and management, whilst these are typically intensely political and politicised processes (on the donor side). It is unclear whether this approach will be able to drain the passion out of the debate around 'budget aid' (and notably, around whether and why it should be a political instrument compared to other types of aid).

58) In reality, GBS has often been held hostage by contextual risks or affected when these types of risks materialised (for instance, systemic corruption or violation of human rights). This has impacted GBS much more than other aid modalities. The rationale for this is not clear, for if risks are contextual, they arguably affect all types of aid (as we note in ¶36) above). Yet, even aid experts who are less directly involved in the 'aid game' seem to think that the political nature of GBS is inescapable. And, accordingly, they propose quite drastic solutions as to when GBS should and should not be used.

59) For instance, the IOB (at Antwerp University) first states that donors should question the legitimacy and relevance of their democratic governance prescriptions "when evidence shows that there is not one road from fragility to 'Denmark'". However, presumably thinking that this is unlikely to happen, they also advise that, rather than hoping that the techno-democratic route will work, donors should use "more flexible aid modalities" only for "recipient countries where governments are sufficiently capable and are actually pursuing the kind of pro-poor and/or democratic results that donors wish to support". By being selective, donors ensure sufficient common ground with the partner country, and there should not be a need to call on political conditionality. Thus, they say, "selectivity should precede policy dialogue and is a condition for its success" (IOB 2010). Others support these views. Hayman, for instance, analyses recent episodes of suspension or cutting of GBS programmes as evidence that when donors failed to be selective ex ante, they use these episodes to 'weed out a few bad apples' (Hayman 2010).

60) However, this study argues that confining this discussion to the use or not of 'GBS' is misleading and insufficient. When donors want to remain engaged through the budget, because it is the only way to achieve critically important objectives or maintain good progress towards these, they find ways of using GBS under a different name. The Protecting Basic Services (PBS) programme in Ethiopia is a clear case of this (see section 5). There, donors suspended GBS, but 'flexible aid' continued to flow to the budget and even increased. Thus, it is not correct to say that donors weeded that type of support out. This example also shows that what matters is how donors assess the trade-offs between various types of risks (that they face or that arise more generally from the provision of budget support in fragile situations). In Ethiopia, PBS donors ranked the developmental risk of halting the progress made in service delivery very high.

Risk assessment and management

61) Guidance on risk assessment and management in providing budget support in fragile situations (as opposed to the same in non-fragile countries) is scarce and recent (EC 2009j and CAP 2010). Those documents that do exist are very much stated as intentions rather than practice emphasising the importance of political analyses and of context specificity. In terms of practice, there is no readily available overview that would analyse how donors have done in terms of addressing the 'high risk' of GBS in fragile countries specifically, and what best practices emerge from this. The evidence found in the literature reviewed for this study is summarised in Table 2.

Table 2: How donors manage risks in the provision of budget support in fragile situations

Type of risk and of mitigating action by donors	**Treatment specific to fragile countries?**
Additional risk assessment/ analysis	Political/context analysis (EC 2009j, CAP 2010). Applied unevenly (e.g. EC GBS programme documentation in DRC and Burundi does not reflect deep analytical work) and reactively (e.g. aid distortion study in Ethiopia prompted by allegations). Broad governance analyses difficult to use (e.g. in Ethiopia).
Management of fiduciary risk of GBS	
• Earmarking	Found in non-fragile states as well (e.g. Mali education SBS, Tanzania health SBS - see Williamson & Dom 2010a)
• Traceability	Found in non-fragile states as well (same examples)
• Using trust funds	A number of analyses suggest a concentration of use of country-specific MDTFs in fragile countries (Scanteam 2010, Ball & van Beijnen 2010)
• Providing balance of payment support only	At least for AfDB, it seems true that BOP support is provided more in fragile countries. But further analysis would be needed to assess to what extent the instruments avoid generating budget financing (and how, e.g. imports in kind, or counterpart local currency used for AfDB projects not through government budget, like WB seems to do too). In DRC, AfDB used BOP but part of it was also budget support. It seems that BOP and budget support are less clearly demarcated in fragile countries.
• Reimbursement modality (e.g. EC targeted general budget support)	This is a strict form of earmarking and traceability, but it can be done for very large parts of the budget. It seems to be used mainly in fragile situations (e.g. Afghanistan ARTF for most of the recurrent budget, Nepal education basket fund, DRC for teachers' salaries and other very specific 'core budget expenditures'). However, the WB also uses it in Cambodia (in a decentralisation support programme channeling funding through the government budget). Further analysis would be required to assess how specific this modality is to fragile countries (and which types of).

Management of political risk	
• Providing small amounts	Not clear that donors do this (e.g. sizeable EC programmes in Burundi and DRC, very sizeable programmes of EC, DFID and Banks in Ethiopia), though some bilateral may do this more (e.g. Irish Aid in Ethiopia).
• Providing one-year programmes/ commit one year at a time	Yes, frequently done in fragile countries. But this study did not assess how frequently this may also be done in non-fragile countries. Both DFID and EC use longer-term instruments, including in some so-called fragile states (notably Rwanda and Uganda, and also Yemen and Sierra Leone for DFID). The EC instrument (six-year MDG contract with identified and committed budget allocation) is more binding than DFID “long-term partnership MOU”.
• Graduated response mechanisms	This study did not find cases in which an explicit graduated response mechanism is in place. Recent examples point to continuation of ‘all or nothing’ approach (e.g. Netherlands cutting GBS in Rwanda at end of 2010)
• Finding another ‘label’	PBS (Ethiopia) is an example (block grant component is decentralised GBS). This study did not find any other example as clear as this.
• Additional analyses	Not systematically in practice, analyses not easy to use explicitly.
Support to accountability mechanisms	There seems to be less such support in GBS programmes in fragile countries/ situations (or in ‘look-alike line ARTF, see Annex 6). As the DRC case shows, donors face or perceive higher difficulties in ‘convincing’ the government of the relevance of such support. The PBS in Ethiopia is an example of initial government resistance which appears to gradually diminish; and which in addition shows some positive results, including in terms of mitigating reputational risks for the PBS donors (see section 5).
Support to/management of weak capacity	
• Light policy content of some DPOs	Yes, but the opposite happens too – See Burundi (WB overloading conditionality framework to compensate for lack of capacity and specificity in government policies). Moreover, donors sometimes expand the policy content too fast (e.g. Sierra Leone, see Annex 6).
• Additional capacity development measures	Does not seem to be systematically the case at least for emergency GBS but also in medium-term operations (e.g. Burundi). However in Ethiopia, the PBS has specific capacity/system development components.

62) The analysis in Table 2 does not suggest any clear pattern. There are a few counter-intuitive insights like the fact that donors do not seem to pay more attention to capacity strengthening measures or to support to accountability mechanisms when they provide budget support in fragile situations. One reason may be that the scope of the capacity or accountability challenge may seem quite daunting, and it is easier to call on other types of risk mitigation measures (such as derogations to country systems) even though these are known to be less effective in the long-run.

63) It is also noteworthy that whilst political analyses are recommended in, for example, the EC guidance on the use of budget support in fragile states and the CAP, as has been found more generally they are often difficult to use in the form of a frank dialogue with the government. In such instances, donor coordination and frank dialogue among themselves would seem to be all the more important and be a risk mitigating measure in itself. Yet, country case studies suggest that the more fragile the situation, the harder it is for donors to coordinate, because of often deep divergences of their views in how they "read" the situation (see DR Congo case study in particular).

4. Budget support in fragile situations in practice – Aggregate analysis

64) This section presents an aggregate analysis of the practice of provision of budget support in fragile situations, covering all those in the study's lists. The analysis is mainly based on cross-sectional data from various international databases, country evidence from the case studies and 'pen portraits', and from the literature reviewed for this study. (Section 5 then draws on the country case evidence systematically). This section is supported by detailed analyses found in Annex 4 and Annex 5. Budget support is just one of many types of external resources reaching fragile countries. It is therefore important to form an idea of the trends in the overall financing of these countries. As such, this is reviewed first. The remainder of this section focuses on general budget support.

4.1. Aid flows to fragile states

65) Between 2005 and 2008, aggregate flows of various types of external resources (including, for instance, remittances and Foreign Direct Investment) directed to or reaching fragile states increased – but this was slower than aggregate domestic revenue envelopes (see Figure A1 in Annex 4). Within these various flows, net ODA to fragile states (excluding debt relief) also increased but not visibly faster than for non-fragile states (see Figure A2 in Annex 4).

66) Since 2008, the global food, financial and economic crises have affected these trends on both the donor and the recipient sides (in ways that will be difficult to reconcile). On the recipient side, the crises had direct effects on many governments' revenue raising capacity, which puts core spending at risk. It has been estimated that ODA flows should increase by 20% just to protect core spending in fragile countries (OECD 2010h). On the donor side, some countries pledged not to cut aid (e.g. the UK), but others have started reducing their ODA budget (e.g. Irish Aid).

67) ODA, both development and humanitarian, has also been increasingly concentrated on a handful of fragile countries (including Afghanistan, Sudan and **Ethiopia** for both) (see Figure A3 in Annex 4). This results in a highly imbalanced pattern of aid per capita, unrelated to countries' needs or the levels of fragility or stability (e.g. in 2008, $8 in Nigeria against $668 in West Bank and Gaza). Among the case study countries, aid per capita in 2008 was $25 in **DRC**, $41 in Ethiopia and $63 in **Burundi** (see Figure 4 in Annex 4).

68) A number of countries are estimated to be at risk of declining aid in the future (including Chad, Côte d'Ivoire and Liberia). For another group of countries, aid flows have been highly volatile (including Timor Leste, Rwanda, Guinea Bissau, Liberia, **Burundi**, **DRC** and Côte d'Ivoire). Some countries depend on a very small number of donors and are thus vulnerable to policy changes in those countries. This includes Afghanistan, in which ODA flows are very high but few donor countries contribute significantly. Another example, often mentioned as a 'donor orphan', is CAR. The country has a relatively small number of donors and, in contrast with Afghanistan, none are engaged on a big scale. Note that despite this, per capita aid in CAR ($53 million) is higher than in **DRC** and **Ethiopia**.

69) Lack of integration in the ways in which donors engage in fragile states (see ¶15) above) results in their inability to finance transitions from immediate post-conflict (with humanitarian and peace-keeping assistance typically dominating) to stabilisation and development (with programmable aid taking the relay) in a steady and reliable manner. This is further complicated by the fact that countries typically do not follow linear transition trajectories and each country has its own trajectory. So, whilst transitions have been financed relatively smoothly in Sierra Leone, **Burundi** and Afghanistan for instance, this is not the case in **DRC**, Haiti, Timor Leste and Sudan (OECD 2010i).

70) It is important to note that there is no readily available analysis of the role of budget support in transition financing. This is one of the topics that the International Network on Conflict and Fragility (INCAF) of the OECD has undertaken to examine in the coming months[22]. In this context, the sections below piece together the analysis that has been carried out within the time and resource constraints of this study.

4.2. Budget support to fragile states: How much and where

71) The analysis in this section includes all countries in the study's short list (see Annex 1). It is supported by detailed analyses found in Annex 5. Financial data (on actual disbursements) is from the OECD database on Official Development Assistance. The data unfortunately does not give a full or 'true' picture of the provision of budget support in fragile countries. There are a number of reasons for this, related largely to the categorisation of aid in the reporting and recording (see Annex 5 for further explanation).

72) One key constraint is that the data does not allow differentiation between Balance-Of-Payment (BOP) and general budget support. It is therefore impossible to draw firm conclusions about the importance of general budget support - as distinct from BOP support due to the specific focus of budget support on government budget/ spending and PFM system. Therefore, without case-by-case analysis of individual programmes, it is also difficult to draw definite conclusions about how GBS (as opposed to BOP+GBS) affects the group of countries concerned. In the analysis below, what is referred to as 'general budget support' or 'GBS' (between hyphens) therefore includes both BOP and general budget support (but not sector budget support, even when only virtually and broadly earmarked).

Financial importance of 'general budget support' in fragile countries

Table 3: 'General budget support' to fragile countries (2002-09)

2002-9 Disbursements in current US$ millions	Net ODA	Net ODA excl debt	GBS	Debt actions	Humanitarian aid	GBS/ ODA	Debt actions/ ODA	Hum aid/ ODA	GBS/ Hum aid
Afghanistan	25.854,77	25.785,14	484,15	119,92	3.567,49	1,9%	0,5%	13,8%	13,6%
Burundi	3.091,20	2.991,66	420,02	1.252,99	710,71	13,6%	40,5%	23,0%	59,1%
Central African Rep.	1.113,39	1.069,64	191,80	641,81	168,58	17,2%	57,6%	15,1%	113,8%
Chad	2.823,94	2.785,60	118,43	137,80	957,06	4,2%	4,9%	33,9%	12,4%
Congo, Dem. Rep.	18.067,64	10.098,23	1.047,86	8.430,76	2.474,73	5,8%	46,7%	13,7%	42,3%
Congo, Rep.	2.812,82	537,33	81,18	2.320,98	74,72	2,9%	82,5%	2,7%	108,6%
Cote d'Ivoire	4.980,86	960,94	572,32	4.139,34	345,38	11,5%	83,1%	6,9%	165,7%
Eritrea	1.728,84	1.728,84	23,53	0,00	504,80	1,4%	0,0%	29,2%	4,7%
Guinea	1.924,62	1.619,17	69,89	493,31	110,37	3,6%	25,6%	5,7%	63,3%
Guinea-Bissau	839,39	752,87	74,25	156,57	40,29	8,8%	18,7%	4,8%	184,3%
Haiti	4.407,74	4.297,55	244,98	940,07	653,57	5,6%	21,3%	14,8%	37,5%
Liberia	3.313,46	2.606,44	367,44	1.022,17	668,95	11,1%	30,8%	20,2%	54,9%
Nepal	4.341,39	4.297,33	102,87	236,58	257,44	2,4%	5,4%	5,9%	40,0%
Niger	3.973,15	3.628,61	454,14	1.769,46	227,42	11,4%	44,5%	5,7%	199,7%
Sierra Leone	3.132,99	2.824,88	509,96	1.161,70	307,66	16,3%	37,1%	9,8%	165,8%
Somalia	2.951,15	2.949,77	1,41	9,02	1.817,34	0,0%	0,3%	61,6%	0,1%
Sudan	12.557,50	12.553,09	222,14	52,08	7.170,50	1,8%	0,4%	57,1%	3,1%
Timor-Leste	1.721,70	1.721,70	55,49	0,00	63,05	3,2%	0,0%	3,7%	88,0%
Yemen	2.308,83	2.214,60	10,29	163,14	94,96	0,4%	7,1%	4,1%	10,8%
Zimbabwe	3.051,66	3.049,27	0,37	4,09	1.072,57	0,0%	0,1%	35,1%	0,0%
TOTAL	104.997,04	88.472,66	5.052,51	23.051,78	21.287,61	4,8%	22,0%	20,3%	23,7%

73) Table 3 shows that GBS/BOP is a small proportion of total aid received by the group of fragile countries in the study's short list; 4.8% of total ODA (including debt actions) for the period 2002-2009. In comparison, the proportion of ODA received by the same countries as humanitarian aid is 23.7% overall, thus four times greater than the 'GBS' level. However, there is significant variation between countries; 'GBS' represented 17.2% of the total net ODA to CAR between 2002 and 2009 and 16.3% in Sierra Leone, compared to nil in Zimbabwe and Somalia. 'GBS' represented more than 10% of the total 2002-09 ODA flows in six countries: **Burundi**, CAR, Côte d'Ivoire, Liberia, Niger and Sierra Leone. Figures 1 and 2 further illustrate the variable, but overall small importance of 'GBS' relative to other types of aid across the fragile countries considered here.

Figure 1: 'GBS' in fragile countries: a relatively small proportion of ODA'

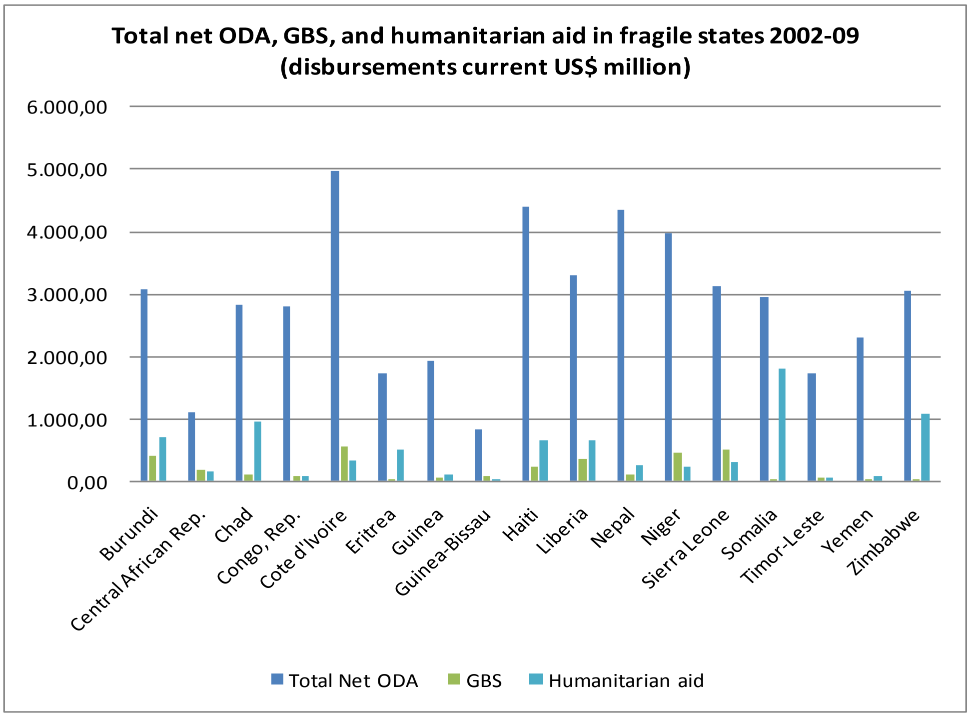
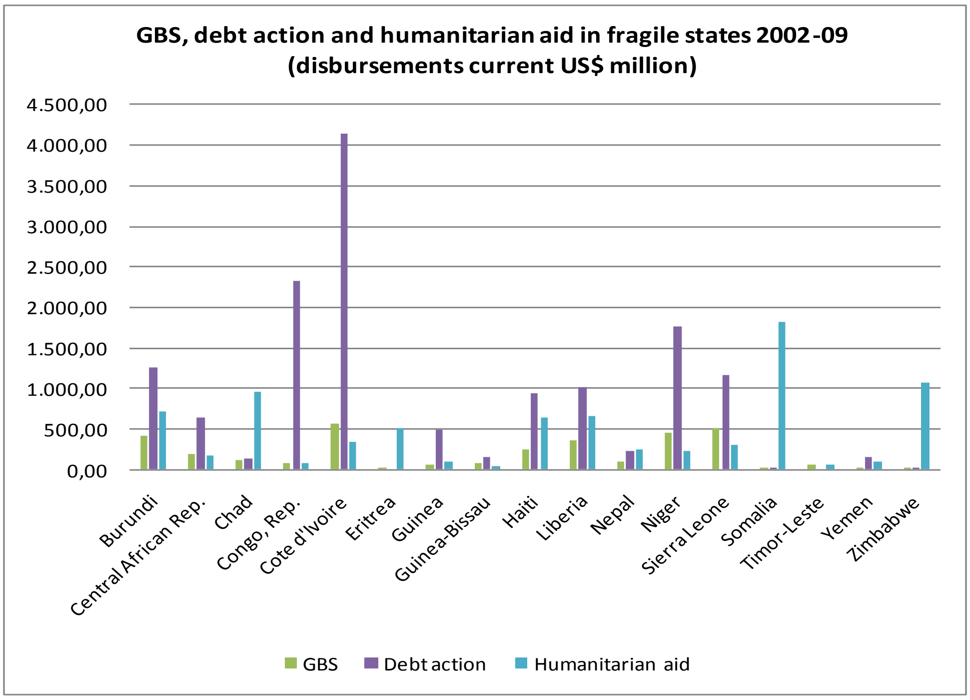


Figure 2: 'GBS', humanitarian aid and debt actions: Highly Variable patterns



74) For those few fragile countries (see Figure 1) that received relatively high levels of GBS, the levels are comparable to those of known high budget support recipient/ donor darling countries such as Benin, Burkina Faso, Ghana, Mozambique, Rwanda, Tanzania and Zambia (for further analysis see Annexes 4 and 5). This is illustrated in Figure 3 below – although non-fragile states receive higher levels of budget support on average, the disparity is not perhaps as marked as one would expect. Figure 3 also shows that GBS as a proportion of total net ODA varies quite significantly among fragile countries.

What is markedly different, however, is that in the non-fragile countries considered here, 'GBS' has typically been on a relatively steady upward trend, whilst in this small group of fragile countries studied within this report, 'GBS' levels show no such upward trend. This is illustrated in Figure 4, which also highlights that in fragile countries year-on-year variations in 'GBS' levels are significantly more pronounced.

Figure 3: 'GBS' levels in selected non-fragile and fragile countries

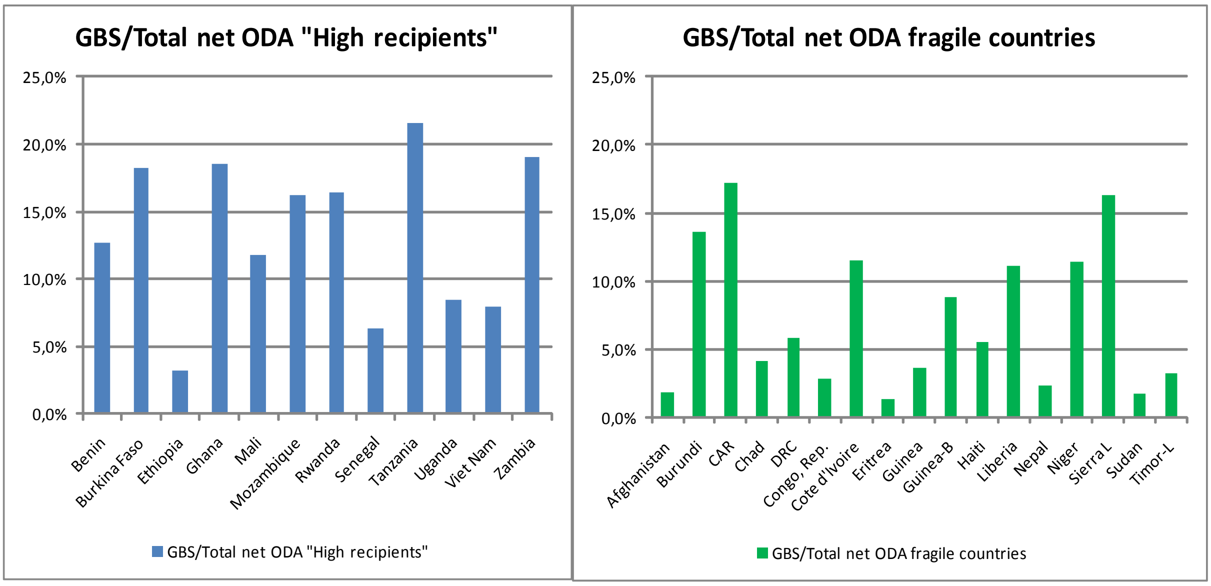
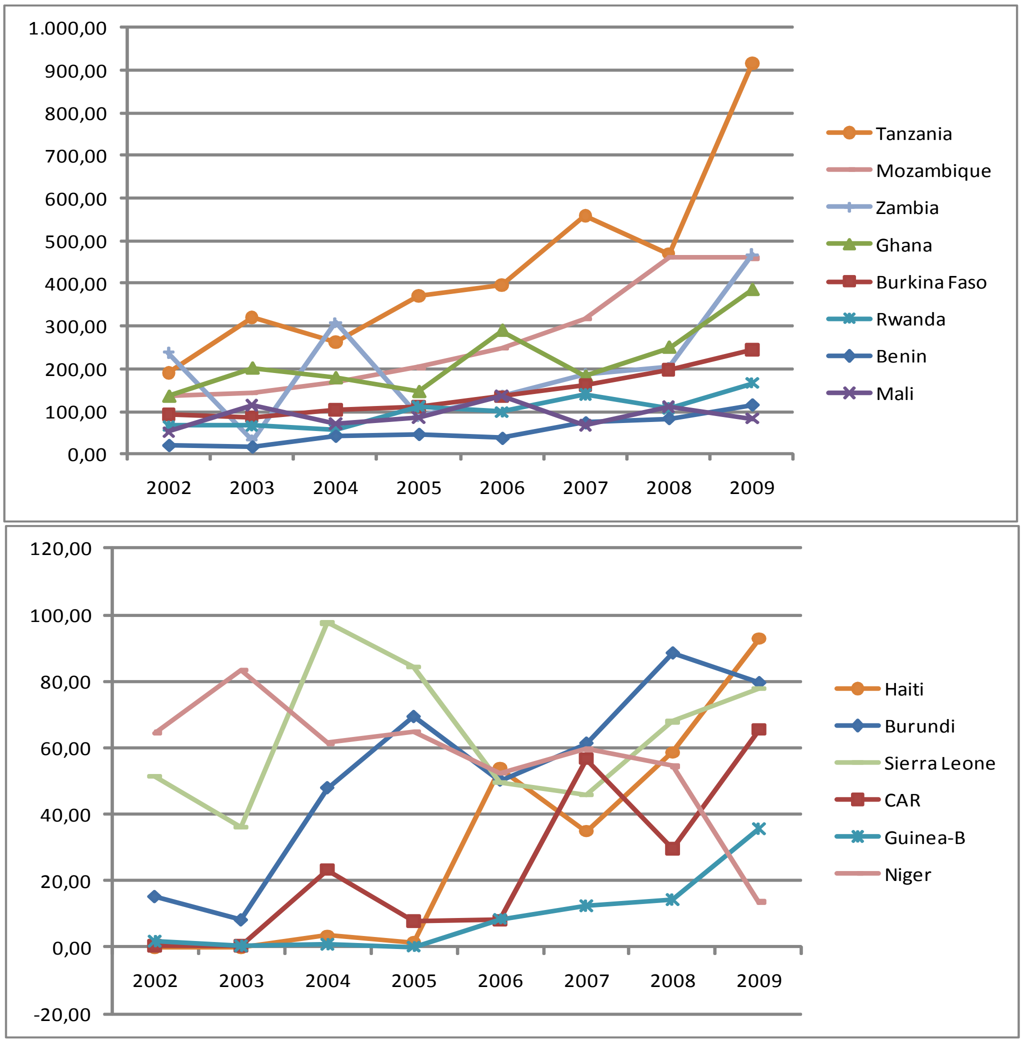


Figure 4: Trends in 'GBS' (2002-09) in selected non-fragile and fragile countries



75) Extreme caution is required in comparing countries, since the type of 'GBS' that they receive differs widely from one country to another. As a result, Figure 4 provides an impression of trends rather than a picture of exactly the same type of GBS across countries. To assess this would require a programme-by-programme analysis which was not feasible in the context of this study.

Where is GBS used and not used

76) The study team assessed whether any pattern could be found with regard to the use/non-use and importance of GBS in relation to countries' fragility status and progress in development. This analysis covers all fragile countries in the study's long list (see Table 14 in Annex 5). The conclusion is that there does not seem to be any pattern.

77) It is not possible to see a pattern linking the use/non-use and importance of 'GBS' to a country's fragility status (see Annex 1). 'GBS' is not used in three cases of most severe 'conflict-related' fragility (Afghanistan, Southern Sudan and Somalia) of which in two, conflict is endemic (Afghanistan and Somalia). But, in both Afghanistan and Southern Sudan, donors do work with/through the government and, in Afghanistan, they use a modality very similar to GBS (ARTF recurrent window, see next section). 'GBS' is also not used in countries where

fragility is not mainly conflict-related. In the case of Zimbabwe, the reasons for this are clear (no 'legitimate government' until the Global Political Agreement); yet, they are less clear in, for example, Yemen. It seems likely that the lack of pattern is due in part to the large variety of donor policies with regard to the provision of budget support in fragile countries.

78) There also does not seem to be any link between the use and importance of 'GBS' and the countries' development progress measured either by long-term change in HDI or prospects of achieving the MDGs. First, there is massive disparity in the study's list of so-called 'fragile countries' when comparing their development status and progress. Just taking the three country cases for this study, at one end is **DRC** - one of only two countries in the world where the Human Development Index in 2010 is lower than in 1980 (with Zimbabwe, also on this study's list). At the other end is **Ethiopia** - the fastest 'mover' in Sub-Saharan African, i.e. the country with the largest change in HDI between 1980 and 2010 in this region (and 11th fastest 'mover' across all countries in the world). **Burundi** is not far from Ethiopia. Both started from very low bases. The study's short list of fragile countries also includes Nepal, which is the fastest 'mover' of all countries in the world.

79) The presence (or not) and levels of 'GBS' in this highly heterogeneous group of 'fragile countries' is unrelated to their performance in terms of long-term change in HDI. Reviewing shorter term past trends in HDI is not more conclusive. Among the fragile countries that received 'GBS' between 2002 and 2009, some do not show more improvement than in previous decades (e.g. Haiti, CAR). In others like **Ethiopia,** there is accelerated progress in the last decade, which as the desk study shows, is a period during which total ODA in **Ethiopia** increased very significantly; 'GBS' (including the Protecting Basic Services programme) had an important role in allowing the scale-up of aid. In contrast, in a number of other fragile countries (e.g. Liberia) where the HDI has made a U-turn in the past decade, the end of large-scale armed conflict in large parts of the country is the most plausible factor underpinning this trend .This probably applies to the case of DRC where, as noted above, the HDI in 2010 is lower than in 1980, but the trend downward has at least stopped in the most recent years. In Burundi, there is a slight acceleration in HDI improvement in the past decade. Whether this is related in any way to the provision of budget support would require more analysis than was feasible in the country study.

80) There also seems to be no pattern linking the provision of budget support and that of humanitarian aid one way or another, which suggests that there is no link between the provision of budget support and either greater stability or greater needs[23]. This supports INCAF's findings that there is no discernible pattern in financing transitions.

81) Bringing together this study's findings and INCAF's findings on 'transition financing' (OECD 2010h), it is noteworthy that Sierra Leone, **Burundi** and Afghanistan, the three countries in which transitions were better supported by external aid, are also countries in which GBS has been provided on a relatively large scale - or something akin to it. With the ARTF disbursing large-scale recurrent financing in the budget in Afghanistan, see below. Unfortunately the group of countries in which INCAF studied transitions more closely does not include Rwanda – which is known for having attracted substantial GBS early in

the post-conflict period (UK from 1998 onward). Among the study country cases, **Ethiopia** was past the stage of post-conflict transition when GBS, relayed by the PBS (Protecting Basic Services programme), became important in the ODA flows.

82) Donor documentation suggests that in 2008/10, a significant part of general budget support to fragile states (and more generally) was a response to emergency needs in the context of international food/financial/economic crises. This may not qualify as support to an 'upward' transition from a post-conflict situation. However, as the case study in **DRC** shows, this type of 'emergency BS' can be very important to just maintain a country on its trajectory of transition and prevent it from relapsing into greater vulnerability.

83) These issues, related to the types of the general budget support provided in fragile countries, are further explored in the next section.

4.3. A variety of rationale and modality mixes

84) There is great variation between the programmes defined by donors as budget support and these are extremely different from one country to another. 'General budget support' is also found to coexist with other types of 'flexible aid' in ways which also vary much from one country to another. (see ¶22 for what is meant by 'flexible aid'). The donors' 'actions related to debt', counted as ODA, are reviewed below as one of the types of 'flexible aid' found in some fragile countries. This section also briefly looks at Multi-Donor Trust Funds (MDTFs) which in some cases provide 'flexible aid' very similar to GBS. Sector Budget Support is not reviewed, as it is strictly impossible to track it in the way financial data is reported and recorded in the OECD database[24].

'Actions related to debt'

85) 'Actions related to debt' (including debt relief) are considered to be part of a country's ODA flow. INCAF found that debt relief constituted 17% of total ODA to fragile countries in 2008, a considerably higher proportion than that found for developing countries in general (6%). The data above supports this. Table 3 shows that 'actions related to debt' represented a very high proportion of total ODA between 2002 and 2009, four times that provided by 'GBS' for the countries as a group. For a number of the countries in this study's short list, actions related to debt represent well over 50% of the total ODA over the period. Several of these were also among the high 'GBS' recipients (CAR, Côte d'Ivoire, DRC, Niger). This suggests that in those countries some of the 'GBS' may have been provided to clear domestic arrears and re-establish a healthier macro-fiscal situation (which is typically one of the requirements for countries to qualify for full debt relief under the HIPC initiative). INCAF also found that despite donor assurances to the contrary, some substitution is occurring (OECD 2010i).

86) Counting debt actions as ODA distorts the picture somewhat as they do not represent flows of cash to 'recipient' countries. Debt relief may provide additional 'fiscal space' for the beneficiary countries, but typically in fragile countries, the debt is not fully serviced. Therefore, this fiscal space may not be as large as is often thought. This is the case in DRC for instance, where the HIPC debt write-off of US$13.4 billion has been estimated to provide extra fiscal space amounting to US$ 100 to 200 million per year. Generally the fiscal space actually created is very difficult to estimate. Furthermore, the literature reviewed for this

study is not conclusive on the effects of debt relief on developing countries including in relation to the HIPC objective of pro-poor budget orientation.

Different rationales and types of general budget support

87) The analysis of aggregated data converges with the review of donor policies (in the previous section) and the findings from the three case studies (see next section) to show that donors seem to have two fairly distinct types of rationales and objectives when they use 'GBS' in fragile countries; hence, there are two broad categories of programmes. Emergency, 'policy-light' operations (often conceived as 'one-off' even though in reality they may not be so) on the one side and, on the other side, more policy-oriented operations aimed at providing support over a longer period of time (even if commitments are still made on an annual basis). In this sense, the 'Common Approach Paper on the use of budget aid in fragile situations' (CAP 2010) has only endorsed existing practice.

88) With regard to the first type, the EC highlighted in its 2007 guidelines that general budget support could be used for emergencies (EC 2007a). The development banks have a long tradition of doing this. This is not specific to the 'fragile situations' studied here but linked to these agencies' objectives of addressing macroeconomic instability where it occurs. Among the three country cases of this study, this type of general budget support was used in the **DRC** in 2009 and 2010 by the EC, WB and AfDB, alongside BOP support by the IMF (note that the latter is reported on the OECD database but not the EC, WB and AfDB programmes).

89) The 'policy light' nature of this type of emergency operation may well be more specifically linked to their use in fragile situations. It is not possible to ascertain this across the board. It certainly was the case that the GBS programmes in DRC were extremely policy light. Too much so, the study suggests, even bearing in mind the necessity of not overloading the agenda if, as in this case, the main objective was fast disbursement of resources needed to protect core budget spending. Also in DRC, the donors' concern of maintaining macroeconomic stability was underpinned by fears linked to the country's broader fragility (e.g. broader social and political instability) and by their desire to see the country reach the HIPC completion point – viewed as a critical milestone on the country's trajectory out of fragility. These types of rationale might be relatively common in the provision of 'emergency budget support' in fragile countries.

90) With regard to the second type, using budget support as a more policy-oriented instrument raises the question of whether to use it to incentivise policy reform (which is typical of the development banks' practice). Or whether it should be used to support the implementation of existing/agreed policies. The data (see Table 14 in Annex 5) suggests that this has indeed remained an outstanding question. This is not specific to fragile countries (see ¶55) above, and Table 1). But fragile countries are more severely impacted by funding disruptions if reforms get stalled or delayed when GBS is used as a policy reform instrument. In addition, policy capacity is weaker which makes it harder to ensure that the reform agenda is based on sufficient policy ownership.

91) Examples like Sierra Leone and **Burundi** illustrate the tension between GBS as a means of providing predictable funding and the same GBS as a reform instrument. These and other cases suggest that using GBS as a policy reform instrument in fragile situations should be done with extra care to avoid 'stop-and-go' aid flows. In **Burundi**, the government's weak policy capacity led the World Bank to try to compensate this lack of capacity through numerous, detailed and prescriptive conditions including in 'sensitive policy areas'. Yet, this finally backfired in delaying the Bank's operation.

92) In this respect, in **Ethiopia**, the third country case for this study, the Protecting Basic Services (PBS) programme is definitely an example of effective support to the implementation of existing, strongly government-owned policies (of decentralised service delivery). As such, the PBS embodies a shift in how donors have positioned themselves in relation to policy and contrasts starkly with the earlier generation of GBS programmes that were trying to promote policy reforms, and indeed failed to do so in a number of 'no-go zones' on the policy agenda (see next section, and Annex 6).

93) The type of GBS used (one-off vs. medium-term, and reform incentive vs. support to implementation) is likely to be an influential factor in explaining whether GBS leads to results and what type of results. However, ascertaining any link and assessing whether GBS of a certain type works better and in which cases and why is not feasible without knowing a lot about each GBS programme that would be included in the study scope. There is no readily available analysis to answer these questions. In this study, this analysis was done for the three country cases, and is presented in section 5 below.

Multi-Donor Trust Funds

94) MDTFs are increasingly becoming an important source of funding in some (but not all) fragile states. There is a great deal of variation between MDTFs, some of which provide pooled humanitarian aid or operate like large sources of investment project funding (e.g. in Southern Sudan). Others bear a close resemblance to general budget support, like the Afghanistan Reconstruction Trust Fund 'recurrent window' which disburses into the government budget systems to finance core recurrent expenditures (on a reimbursement basis). They are not reported as such in the OECD database.

95) Unfortunately, there is no single source of data which provides: a summary of all MDTFs; which fragile countries receive support through MDTFs; what type of MDTF(s) and whether or not this is combined with general budget support, and which donors favor them and for what reasons. In addition, no study was found which would systematically analyse the extent of alignment of the different MDTFs with countries' PFM systems and compare this with GBS (which is fully aligned although one could challenge this in the case of instruments like the EC 'targeted GBS').

96) Based on the literature reviewed, one of the rationales stated by donors for choosing to channel their assistance to fragile countries through MDTFs is that 'existing modalities did not meet their objectives' and, in particular, 'Budget Support and SWAp programs could not be used in situations with weak state institutions and procedures' (Scanteam 2010). Yet, the literature also highlights weak national capacities as one of the obstacles for MDTFs to deliver fast. In

other words, the issue of low national capacity does not go away. In turn, this raises the question of whether it is effective to establish huge and capacity-demanding MDTF machineries rather than spend an equivalent amount of energy to develop/strengthen government systems. MDTFs, like the ARTF which does this because it works through the government recurrent budget systems, do not seem to be the majority. This is also an issue which is not investigated in depth in the work reviewed.

97) The literature also highlights that one of the reasons donors use MDTFs is the comfort that they draw from the reliance on a third party with strong fiduciary and risk management frameworks. This is particularly the case for WB-managed MDTFs. Yet, the same donors want MDTFs to be set up and disbursed quickly. This is increasingly recognised as being incompatible, as the very same rules and procedures which give donors comfort are major reasons for MDTFs to be slow. The Scanteam study argues that donors should either 'accept the limits of the current business models' (notably in terms of speed of delivery) or 'create a new and differentiated business model for fragile and conflict-affected countries', including 'an alternative fiduciary and risk management model' (Scanteam 2010). However, this then raises the question of why higher risk MDTFs would be preferable to GBS (which the Common Approach Paper argues, is 'high risk high return') (CAP 2010).

98) In the literature reviewed, the emphasis is very much on accountability to MDTF donors – which in itself is revealing. A systematic review of the question of accountability to society was not found. With regard to WB-managed MDTFs, it seems that they do not typically provide more space for non-government stakeholders than budget support. This study's review of the ARTF suggests that one of the weaknesses was an apparent lack of effort to strengthen/create lines of domestic accountability for spending within the ARTF recurrent window (see Annex 6).

99) To conclude, a consensus seems to be emerging that MDTFs may have a role to play in processes aimed to gradually 'bring aid on budget' in fragile countries (International Dialogue Working Group on Aid Instruments 2010). But country experiences of their effectiveness are very different, and need to be better understood from the recipient country's perspective.

Mixes of 'system-aligned' instruments

100) The review of the data put together for this study does not identify a pattern in terms of mixes of 'system-aligned' instruments in fragile countries (and the role of GBS in these mixes). Nor does it show a link between a country's fragility and the instruments used. However, this conclusion must be seen in light of the fact that the differences between types of aid and instruments are less prominent in reality than they are in theory. The blurring between BOP and budget support is one example of this. Another is the way in which MDTFs are sometimes an alternative to GBS and, in others, a way to deliver GBS.

101) For instance, there is less difference between the ARTF 'recurrent window' (an MDTF which provides 'budget aid' in Afghanistan) and the GBS programmes used in DR Congo than the 'labels' suggest. In some respects, the ARTF (which is not considered to be GBS in donor documentation, see pen

portrait in Annex 6) has certain characteristics which make it more likely to achieve objectives usually expected from GBS, than the DRC GBS programmes:

- Both programmes reimburse made expenditures – and actually the type of 'targeted general budget support' used in DRC is less flexible than the ARTF as it reimburses a narrower set of budget expenditures.
- In terms of fiduciary 'comfort', both programmes rely on 3rd party control of the reality and eligibility of the expenditures claimed for reimbursement – and this control is stricter in the GBS programmes in DRC (expenditures are reimbursed once audited) than in Afghanistan (expenditures are reimbursed once they are checked by the MDTF financial agent).
- Because of its cross-sector nature and its large scale, the ARTF recurrent window is more likely to have a systemic effect of strengthening the PFM systems of the Afghan government (an effect typically expected from GBS, and which the literature says was obtained in Afghanistan) than the narrowly targeted and one-off GBS programmes in DRC (which the case study found were only loosely focused on PFM reform).

102) In **Ethiopia**, MDTFs are used in multiple ways (see ¶21 above). Most MDTFs in Ethiopia are big basket funds for large multi-donor programmes which are variably system-aligned. Some MDTFs channel harmonised forms of earmarked and traceable 'sector budget support look-alikes' for objectives like food security and cross-sectoral public sector capacity development. There is also an MDTF for the PBS budget support component, which acts as a PBS donor. Indeed some of the PBS donors disburse directly into the consolidated account of the government. But others do not and use this MDTF as a pooling mechanism which in turn disburses in the consolidated account. In this way, the MDTF also acts as a 'buffer' allowing them to 'keep transactional distance', which is important for home constituencies. (Neither the PBS MDTF, nor the donors disbursing directly operate on a reimbursement basis).

Is there a conclusion?

103) The Common Approach Paper on the use of 'budget aid' in fragile situations states that donors need to 'consider more systematically the choice and complementary nature of policy-based budget support lending and grants as well as other instruments to support recurrent expenditures such as MDTFs' (CAP 2010). The paper seems to suggest that the way forward is to use MDTFs like the ARTF (or the PBS) to support policy implementation, and GBS to support policy reforms. In other words, MDTFs (with mechanisms addressing fiduciary risks) would provide the stable and reliable financing needed for the government to fulfil its basic functions/ provide a minimum amount of basic services. This is a need which emerges as soon as donors agree that working with the government is a relevant strategy, and as the Afghanistan example shows, may continue to exist long into the transition, recovery and reconstruction process. Policy-oriented GBS could then be used as an incentive, with this (potential) additional 'flexible' and 'on budget' funding supports other (less 'core') expenditures.

104) While the CAP is a significant step forward (as a harmonised position by two large BS providers and a third one endorsing it), it could have gone further in drawing clear links between objectives and instruments. It is important to

distinguish three different objectives (which can be relevant all at the same time or not): a) macro-fiscal stabilisation; b) restoring basic functions, and c) incentivising policy reforms; and then to tailor 'budget aid' instruments specifically to the objectives. It is suggested that:

To respond to macro-fiscal stabilisation needs in cases of externally-induced emergencies, there is a premium on rapidity and therefore perhaps policy 'lightness'. The degree of 'lightness' should depend on how much policy/budget dialogue is already in place when the emergency situation occurs. Rapidity will entail using existing channels. This can involve an MDTF if one is in place, or targeted budget support (reimbursing identified and auditable budget expenditures) if PFM/ budget systems are weak and donors cannot justify the use of GBS by reference to the budget as a whole. If fiscal stabilisation needs are actually recurrent in nature (because they are at least partly internally-induced and unlikely to be addressed without assistance, in the short to medium run), there is a case to call a spade a spade, transition as rapidly as possible out of the 'emergency support' misnomer, recognise that the support provided is actually of the type b) evoked below, and build a focus on the budget as a whole, gradually if need be.

To help maintain/restore basic state functions (and at a later stage in the transition period, support the implementation of 'consensus' policies), there is a premium on reliability and predictability, and on exploiting the systemic capacity development effects of large-scale flows as well as possible. For this, the instruments used should be as aligned as possible with the country's systems (or with what these systems should look like), and there should be carefully designed accompanying capacity development actions. There should be a focus on PFM/budget and accountability systems, with a premium on strengthening budget allocation and monitoring systems. Using 'buffers' like reimbursing systems or other derogations to address fiduciary risks judged to be unacceptable should be done carefully, as derogations typically weaken systemic effects. Linking this type of support to sector policy dialogue is sensible. This should not aim to revolutionise sector policies, but should provide feedback on policy implementation as inputs for further policy development to be taken forward in other ways.

To provide incentive for reforms, there is a premium on policy dialogue, carefully calibrating the size of the incentive flows (compared to the 'predictable flows' of the b) type), and focusing on developing country's policy capacity. There is no reason why these programmes should use instruments different from those used in b) above. In the consultants' views, in fragile situations it does not make sense to use c) if b) is not in place.

105) The CAP leaves open the questions of how best to use 'emergency budget aid' to transition from a) to b) above, and more generally how to transition from instruments/mixes which could be adequate in the immediate post-conflict period, to instruments/mixes adequate for the 'post-post-conflict' period (Ball and van Beijnum 2010). We return to these issues in section 6, to be able to draw on findings arising from the country cases. These clearly show that transition issues are very important and emerge several times on a country's trajectory and, yet, they are usually addressed rather 'reactively'. For instance:

- In Ethiopia, the current transition question is 'what next after PBS or together with it'. Donors started to address this question only when the 2010 election was over with the relatively predictable result of returning power to the EPRDF, and when the next (very ambitious) plan of the government emerged. It would have been feasible to think ahead of this moment and prepare scenarios to be activated depending on the outcome of the elections. Based on the likelihood that if the EPRDF continued (one scenario), the government's ambition would be high.
- In DRC, the question now is how to transition from 'repeated emergency' toward more developmental GBS. Yet, the process of donors discussing this is stalled. Even in the shorter term, it is hard to understand how donors, who provided GBS in 2010, did not imagine that financing needs would arise in 2011 (the year of elections that they say they will support) and why they did not prepare for this.
- In Afghanistan, donors and government have agreed to 'phase out the ARTF' by 2020. But it is not entirely clear whether this means an increase in investment funding from the ARTF (as is currently happening), or an overall tapering down of external financing (as seems to be the objective of the incentive programme, see Annex 6).

5. Budget support in fragile situations in practice – Country cases

106) This section triangulates the findings of sections 3 (donor policies) and 4 (practice as it emerges from an aggregate analysis of recipient country level data) with those arising from the country case studies undertaken for this study: Burundi, DRC and Ethiopia. Indeed, the previous sections starkly highlight the need for case-by-case analysis, although it is recognised that this approach has limitations too. In particular, cases can seem to be so specific that they defy typologies which could form a basis for generalisation. In this study, resources allowed three country cases to be studied, not to the same level of depth and not by the same team. The Burundi case study was carried out prior to the other two before the start of the study and by a team from Oxfam Novib. In addition, in the time available, the consultants undertook to draw a small number of country pen portraits to complement the analysis. These have been drawn for Afghanistan, Central African Republic (CAR), Nepal and Sierra Leone.

107) This more in-depth country evidence is used in three ways:

- In an analytical comparison of the provision of GBS and the effects found on the ground in each country;
- Individualising each case, i.e. summarising the most salient findings related to the provision of GBS, for each country;
- Finding variations and commonalities across the cases.

These analyses are presented in turn below.

108) This section is supported by Annex 6 which gives some background information about the different processes and scopes for the three country cases. It further presents the studies' main findings in the form of the executive summary of each study report (the full reports will beavailable separately), and provides the pen portraits as a basis for further work, should Oxfam Novib wish to take this forward.

5.1. Analytical comparison of GBS provision and effects in Burundi, DRC and Ethiopia

109) Table 4 below systematically compares the three country cases, using the analytical framework used in section 3 (to look into donor policies) to describe the GBS programmes found on the ground. The table also includes an analysis of the effects of the GBS programmes which it was possible to identify, in terms of sector results, PFM system strengthening, and strengthening of accountability. It can be read both, from top to bottom to follow one country's case; or across to compare countries across features/dimensions and identify similarities and differences in the provision of GBS and the effects that this had, in the three countries.

Table 4: General Budget Support in Ethiopia, DRC and Burundi

Key Issues	Ethiopia	DRC	Burundi[25]
Context	In1991, the fall of the Derg Marxist regime signaled the beginning of basic economic liberalisation, although this is short of the prevalent neo-liberal capitalism of today. **Very poor country**; strong growth in past 7 years; GDP/capita in 2008 up by 40% from late 1990s, but still among lowest in world. Fastest HDI change in SSA between 1980 and 2010. Four to six MDGs achievable. Strong access policies and pro-poor budget; decentralised service delivery. Eritrea peaceful secession in 1993, border war from 1998-2000 with aid disruption. **New Constitution**: Federation of Regional States (1995); district decentralisation (2002/3) **'Complex political transition'**: Strong opposition showing in 2005 election, government's violent handling of post-election demonstrations (civilian deaths), clamp down on opposition, further withering away of opposition (factional disputes); 2010 multi-party election return to 'de facto one-party state' (for GOE, result of successful socio-economic policies). **Strong GOE policy & planning ownership**; closely linked to the ruling party's policy-making processes, i.e. tightly aligned plans	**Continuous instability 1991-2002**, following much longer period of decay of state institutions and service delivery structures under Mobutu; two 'continental wars' precipitated by 1994 genocide in Rwanda, killing (mostly indirectly) according to some people 5 million people in DRC and displacing many. Peace agreement in 2002 but 'the East' still highly volatile. **Unstable politics**: Transition unity government 2002/3-2006; multi-party elections 2006, Kabila government, wide and disparate coalition. Next election 2011. Constitutional revision just approved: single majority presidential election. Donors 'will support process', despite opposition crying foul. Calendar for this process is not fixed. **One of the world's poorest countries**. One of two in which HDI in 2010 is below 1980 level. Africa's lowest infrastructure level (with Somalia). No MDG is achievable by 2015. Slow PRSP implementation. Multiple uncoordinated planning frameworks. Extensive natural resource exploitation - mostly illegal - and fuelling violence. With reforms, DRC could obtain revenue at ten-fold the current level. Economy mostly informal, concentrated in cities, at borders	**Peace agreement 2000 (Arusha) after decades of civil war/violence; instability continued**; multiparty elections 2005; next elections in 2010 disavowed by opposition; de facto 'return to one-party state'. Limited scope for independent media and civil society; human rights violation and repression of information about them. Rising (perceptions of) corruption (inaction on well-known high profile corruption cases). **Progress on social indicators;** *Burundi 17th fastest mover in HDI change between 1980 and 2010*; but there are concerns on quality. **Fragility:** mainly **conflict-related**, though fragility also significantly **influenced by regional conflict and resource exploitation in neighbouring DRC**. Also seems to be a fragile partnership between donors and the Government. Donor coordination overall judged to be poor by donors themselves; hampering ability to deliver strong political messages. *GBS donor coordination through Secretariat in Ministry of Finance, also focusing on PFM reforms and involving non-budget support donors like DFID.*

Key Issues	Ethiopia	DRC	Burundi[25]
	at all levels. Processes more consultative since 2002/3 (PRSP). PRSP/national development planning processes merged. **No Consensus:** Donors remain torn between celebrating the successes in Ethiopia in terms of development progress and berating it for its shrinking political space. **Fragility is political but also structural** in other ways (diversity, acute poverty, narrow economic basis). Fragile aid partnership. Donors' in an 'ethical quandary' (sticking to principles, or considering that 'consequences matter more than principles')	and around natural resource sources. **State is authoritarian with high levels of corruption and human rights abuses** Massive HR violations in East. Regular incidents of civil/political HR violations. **Fragility: factors differ in different parts of country**. DRC would be very fragile even without conflict, main issue is poor governance. Fragile partnership due to donors' frustrations, government aloofness, lack of mutual trust, donors' utterly variable readings of the situation, and donors' variable mixes of political/ economic/ development agendas. Economic interests play huge role (see below).	
Rationale for GBS	**GBS (2003/4-05): Harmonisation**, support to PRSP (2002/3) and pro-poor budget, combined with incentive for economic reforms (WB, AfDB). The latter not successful. **GBS stopped in 2005: response to severe political deterioration**. **Rapidly replaced by** the Protecting Basic Services' programme: *budget support virtually earmarked for decentralised service delivery* in regional/district budgets through government fiscal transfer system. Rationale: avoid harming vulnerable through **protecting core budget aid flows to maintain significant progress in**	**Macro and fiscal stabilisation**: Pre-2009 BOP support not studied in detail but overall same rationale. 2009-10 'general budget support' programmes (WB, AfDB, EC): aimed to maintain macro stability framework in response to international crises and in run-up to HIPC completion point after several years of the post-decision point process being completely stalled (pre-election spending spree, post-election tensions). Sought to protect core recurrent funding. **Very high risks of non-action (social and political stability**).	*GBS provided early post-conflict (with humanitarian aid and no/little other ODA)*[26] GBS 2005 onward: **rehabilitation/stabilisation, support minimum state service delivery, 'high risk of non-action'** (all); incentive for economic and PFM reform, *yet 're-engagement programme'* (WB); *EC also focuses on PFM*[27] Belgium, UK, US do not provide GBS: too sensitive politically and for the UK Burundi example of 'too volatile' government. *Statistics show Belgium & France provided GBS throughout since 2002*[28][29].

Key Issues	Ethiopia	DRC	Burundi[25]
	service delivery. Built-in focus on strengthening local systems of accountability for service delivery. **Non-budget support components allow donors to be PBS donors without providing budget support**. PBS donors providing budget support vary in how they present this to home constituency/Board (PBS is project for WB and EC; budget support for AfDB; budget support 'with a difference' for DFID).	EC and AfDB presented 2009-10 programmes as GBS/development policy lending. WB did not though modality similar (reimbursing identified, made and audited budget expenditures). DFID did not provide GBS (HQ policy is no use of 'emergency one-off' operations) but recognised necessity and endorsed other donors doing it.	
Mix of instruments	Aid instruments characterised by varying degrees of alignment with government decentralised set-up, mandates and fiscal transfer system. *GBS/PBS fully aligned* ('pure' "Channel 1"), up from 4% (2004) to *14% (2008) of total ODA*, harmonised support by 11 donors including 8 'PBS budget support donors'. Growing number of *large multi-donor programmes* channeling funding through *hybrid* Channel 1 (using MDTFs to pool donor funds). Use of government systems but funding strictly earmarked and traceable, hence parallel systems. In this way, they resemble earmarked/traceable SBS.This modalitity is used in education, health, food security, capacity building and watsan areas. In addition there are *various forms of project*	*Humanitarian, development and peace-keeping assistance all growing* since 2002/3. '*GBS'* 5.8% of total ODA over 2002-9 period though *erratic* (none most years, highly concentrated over the last two to three years) (OECD stats): mostly BOP; 'emergency' budget support of 2009-10 (see below) not reported in OECD database. *Mostly third-party executed projects* (specialised national or international 'implementing agencies', NGOs, private companies), with variable degrees of engagement with government structures through variably 'embedded Programme Implementation Units' but usually financial management and procurement outsourced. Even so, corruption of project aid known to be a massive issue.	*Humanitarian aid & GBS in first post-2000; humanitarian aid rose to 2005 (substitute to other ODA as no confidence in government capacity) then decreased; other ODA incl. GBS rose throughout 2000-10* though flattening in 2009-10; aid has been volatile *(shocks)*[30]*.* GBS ranging from 21% to 27% of total 'on budget' ODA (2007-09). *OECD stats (GBS/BOP): ranging from 13% to 17.5% of total OECD-reported ODA for same years; 3.5% to 19% over 2002-09 period and average 13.6%.* *GBS, non-SBS basket funds (education, starting in health), projects*. Proportionally, use of country systems dropped from 2006 to 2008, as did aid-on-budget[31]. *Government: projects undermine state-building*[32]*.*

Key Issues	Ethiopia	DRC	Burundi[25]
	aid (some multi-donor; USAID fully through NGOs) which can nonetheless be strongly aligned with government policy/strategic frameworks.	Some evolution toward (i) more multi-donor financing and (ii) more aligned project systems but DRC 'decades behind with regards to aid modalities and partnership generally. MDTFs but so far not large-scale.	
'Type' of general budget support	**Medium-term support**. Varied in focus and forms. **Focus***: GBS* focus on comprehensive PRSP agenda (MDG, growth, governance), **incentive for reform. PBS has a narrower focus** on the 'MDG agenda' (pro-poor service delivery, local accountability), **support to implementation** of ***'consensus policies'***. Ongoing debate about relevance/desirability of 'return to GBS' to fill **perceived gap in dialogue on structural economic reforms** (EC, AfDB). **Form:** GBS - PRSC series for WB, equivalent for AfDB (stopped in 2005); EC, DFID multi-year programmes (halted in 2005). PBS: multi-year in intent; WB, AfDB, EC have multi-annual PBS programmes; DFID too but makes annual commitment within multi-annual framework. Variable for other donors.	***'Emergency' supposed to be one-off, though budget financing needs are unlikely to disappear in short-term***). No planned further support after ongoing/committed support for 2009-10. 'Targeted GBS' for EC and similar modalities for other donors, i.e. reimbursing identified, made and audited budget expenditures, selected for relative ease in establishing audit trail: teachers' salaries, government utility bills. *Loose* policy connection to para-statal reform for the latter (WB/AfDB); **no policy connection/dialogue** associated to GBS focus on teachers' salaries (all programmes) despite ongoing planning processes and major developments in education sector (including pre-election Presidential decision regarding removing user fees for the 1st three years of primary education). **Blurring of modalities GBS/BOP**. Some 2009-10 'GBS programmes had BOP components. Earlier BOP programmes may have generated budget financing (or local	*Not studied in depth by Oxfam. Seems to be a* **mix/ intermediary between 'one-off emergency' and 'medium-term support'** *(design leaning toward the latter but rationale as reported in interviews toward the former). EC used two (9th and 10th EDF) multi-year programmes; also V-Flex financed one-off additional allocation in 2009 under same framework as ongoing GBS programme[33]. WB annual DPLs (not PRSC even though PRSP supposed to be in place).* NL, Norway through WB.

Key Issues	Ethiopia	DRC	Burundi[25]
		funding for ongoing donor projects, like AfDB).	
Eligibility/ entry conditions/ risk assessment	**GBS: as per each donor policy** (for non-fragile countries). **Political risks** weakly assessed and **wholly under-estimated**: 2005 political crisis took all donors by surprise. Flurry of donor-led 'governance assessments' as political risks suddenly identified; not used explicitly/in dialogue with GOE. PBS presented as project (by e.g. EC, WB) so explicit logic of eligibility disappears. **No explicit political governance conditions in PBS framework** (see below). **But** political governance concerns, usually raised outside 'core' of in-country PBS donors, regularly **emerged in new funding approval processes***.* PBS donors have had to respond to these concerns with **more politically-focused 'risk assessment' processes, but it is very reactive,** i.e. driven by need to respond to criticisms. This has led to tensions in dialogue with the GOE.	Donor GBS programme documentation shows **some (rather superficial) political analysis** (not quite as strong as outlined as desirable in e.g. EC 2009j). **Approval** discussions (in-country offices/HQ) revolved around **political governance and economic issues.** **Risk of non-action perceived as outweighing other risks***.* EC used normal GBS eligibility criteria adapted for fragile states (as per CAP 2010): progress in PRSP <u>process</u> rather than implementation; <u>ultra-basic</u> elements of PFM system in place; macro stability as an <u>objective</u> rather than prerequisite if GBS endorsed by IMF. Throughout 2003-2010 period **BOP/GBS provision intimately linked to HIPC process** *a*nd government seeking re-engagement of IMF. Consideration of risk and consequences if this was not achieved (no full donor re-engagement) likely to have played an important role to declare eligibility.	*Not studied in depth by Oxfam.* **Risk on non-action perceived as outweighing other risks**. *EC applies general GBS eligibility criteria[34].*

Key Issues	Ethiopia	DRC	Burundi[25]
Conditionality and performance measurement	**GBS: Harmonised policy matrix based on PRSP** result matrix; each GBS donor selecting specific measures in matrix. Conditions as 'incentives for reforms', did not work in 'no-go zone' areas of economic reform (hence delays/funds cut down) and failed too in political governance area (as shown by 2005 events and GBS being stopped). Regular joint review of progress in implementing policy matrix measures, including budget execution review. **PBS: Support to strongly-owned policies through four/five GOE-donor jointly agreed 'principles'** aimed to ensure 'fair' and effective functioning of fiscal transfer system and strengthening of fiscal transparency and accountability (FTA) and social accountability (SA) at local level. **Adherence to principles assessed every 6 months** and review of progress in implementation (budget execution, progress in sector indicators, progress in agreed FTA and SA work plans). **Review process has opened up** to sub-national governments', Parliament and Regional Councils' and to some extent civil society involvement.	**All 2009-10 GBS programmes 'policy light':** no link with policy dialogues, budget execution or PFM reform. Ex-ante conditions focusing on minimising fiduciary risks mainly through reimbursing modality (audited expenditures). WB had to restructure programme due to ineligible expenditures but seemed misunderstanding and not intentional misuse/corruption. Audit-detected weaknesses said to have been acted upon (EC) but no publicly available report. Accompanying measures (ex-post conditions) linked to para-statal reforms: no publicly available report on whether conditions were met. Accompanying measure about further timeliness of teachers' payment in AfDB programme not monitored and did not happen: payments continued to be untimely (to this date). No such conditions in similar WB and EC programmes. EC: no specific conditions, no variable tranche. Various **stakeholders** (including education government officials) **regretted that GBS was not 'better used'** (such as link with 'gratuité' policy: monitoring of accompanying measures like regularity of payments to teachers/ schools, conditions/earmarking of 'fresh cash' for use in education sector etc.)	*Not studied by Oxfam. EC used variable tranche including in 9th EDF. In ongoing programme: PFM indicators in 2009; same + social sector indicators in 2010; AfDB reports having used conditions on monitoring budget shares for pro-poor spending. WB: Inappropriate use of economic reform conditions in sensitive areas (including liberalisation of coffee market with insufficient prior sector work), use of non-critical conditions, conditions too detailed and prescriptive trying to overcome lack of government capacity*[35].

Key Issues	Ethiopia	DRC	Burundi[25]
Use of political conditionality	**GBS was stopped (2005) as a unilateral response** to severe political deterioration, in the course of an ongoing GOE-donor discussion on strengthening the governance area in the GBS policy matrix. GOE stressed lack of clear rules of the game. **Bilateral donors oppose resuming GBS due to perceived lack of progress in political governance** (2010). **This suits GOE well to a point**: GOE stated it does not want a return to GBS and that it favors PBS, but will need extra financing for large-scale infrastructure investment that it has planned. PBS has **no explicit political conditionality** (the fairness principle verifying that there is no political bias in the fiscal transfer system has become irrelevant with 2010 election results as there is no longer any opposition-led district). But PBS donors' **choice of supporting/not supporting 'budget support' component** reveals each donor's position with regard to current political governance climate (e.g. CIDA, Netherlands are not budget support PBS donors; Ireland is; Sweden is not PBS donor at all). **There were delays in transitions** (signing of PBS2 in 2008/9, replenishment of PBS2 in 2010) despite 'satisfactory', linked to	**No explicit political conditionality**. No use of implicit conditionality during GBS operations, as they are 'one-off' or quick disbursement ones. But **use of implicit political conditionality in approval process** of EC GBS by some EU member states, who opposed for several months approving the 2nd programme owing to concerns over human rights (e.g. assassination of well-known human rights activist and journalist); mixed with economic interest related issues (alleged 'sense of general deterioration of economic governance'). *GBS* **was used as economic sanction** in WB-government dispute over mining contract affair. Through IFC, WB is a stakeholder of a mining company which was allegedly mishandled in government-led mining contract review/ renegotiation process. WB (alone among donors) took this as 'proof of very serious setback in economic governance' and froze disbursements, including 2010 GBS programmed financed by Belgian government through WB MDTF. Dispute stated to be reason why HIPC completion point was declared achieved just <u>after</u> country's 50th anniversary of independence.	*Not explicit in EC documentation, nor in WB documentation. EC documentation suggests hesitations and late disbursements by Norway and Netherlands in 2009 though does not explain why.* CSOs met all were of the opinion that donors should link GBS to political conditionality (not specifying what this might mean). Donors have mixed views, including, for some, that GBS should remain a technical instrument. Political dialogue outside GBS (US, Belgium) seems to be more effective at times. Overall poor coordination prevents donors from sending strong messages. *Netherlands was again uncertain to disburse GBS in 2010 (Oxfam Novib recommended it should not).*

Key Issues	Ethiopia	DRC	Burundi[25]
	political governance issues (2008/9 emergence of new CSO law considered repressive by many; 2010 allegations of political use of aid in run-up to election, HRW report Oct 2010).	*CSOs* have **divergent views** about the wisdom of **linking GBS to political governance/human rights issues**. All those met were of the view that donors needed to be more serious about corruption. **Donors have mixed views** on use of political conditionality *too* (e.g. EC statement that 'Sweden is dreaming').	
Predictability of disbursements (year-on-year/short-term and within-year)	**GBS has not been predictable over the short-term** i.e. year-on-year and within-year predictability: GOE has been late or not metconditions in 'no-go zone' economic policies which led to delays, and WB PRSC funding was reduced twice. GBS was terminated abruptly, linked to 2005 political events. The level of unpredictability of GBS has influenced GOE's position against a return to GBS. **PBS has been more predictable year-on-year/ short-term** although not fully due to delays linked to political governance issues (mentioned above). AfDB, least 'political' PBS donor, got new funding approved faster which avoided negative effect on macro-fiscal framework in context of international and national crisis. This was endorsed by other PBS donors. Within-year budget planning remains hampered by lack of reliability in PBS within-year disbursement schedule.	In some ways not relevant/impossible: GBS was used as '**ad hoc' budget financing responding to 'unplanned' needs prompted by crises**, and (except for AfDB) was financed from emergency/ crisis facilities. Predictability was poor: '**committed' support** has sometimes **taken very long to be actually disbursed;** linked to donor (political and economic governance) reasons mentioned above hence possibly/likely disrupting budget financing plans of the government. Not clear how budget financing projection system takes account of GBS. **Year-on-year predictability very weak**. By end Nov 2010, there was no concrete plan for filling the budget financing gap in budget 2011 (known, and likely to have been under-estimated).	*Not studied by Oxfam. Poor predictability (in more general trends of aid shocks reported above). Bilateral donors' hesitations seem linked to (implicit?) political conditionality. WB late disbursements linked to slow progress with reforms (see above, WB conditionality judged to have been inappropriate). Same study states late disbursements led government to reduce spending or borrow domestically, with negative impact on services and the wider economy[36].* Basket funds have been slow in disbursing too. Recent reforms in procedures but too early to judge.

Key Issues	Ethiopia	DRC	Burundi[25]
Longer term predictability – length of commitments	**Has remained poor**. PBS programmes are two/three years at most; several donors use annual commitments within multi-annual 'pledged' programme. **No certainty on form/focus of 'flexible support' in medium to long-term** (PBS? GBS? Combination? Others?). **Most donors willing to remain engaged (pro-poor commitment,** support to developmental state, considerations of regional stability), but **will not commit for long-term.**[37]	**No medium/long-term predictability**. Emergency support. By end 2010/early 2011 donors (including currently non budget support donors like DFID) were debating the relevance of developing a 'feuille de route' for discussion with government. This would outline a set of reforms necessary for donors to be able/willing to transition to medium-term budget support (to policy development/ implementation). It would be part of strengthening high level dialogue with Government, judged to be very weak/ ineffective, and should start with stronger in-depth analysis of and dialogue about budget execution. No consensus among donors so 'feuille de route' process stalled. **Forthcoming election massive risk** hence 'GBS feuille de route' process may be stalled until after this.	*EC multi-year programmes. WB annual, as well as bilateral contributing donors. Overall, rather poor. No analysis of donor plans for future.*
Support to capacity development	**PBS has strong systemic effects on local PFM systems**, supported by **built-in capacity development components:** Financial Transparency and Accountability (FTA, now part of overall PFM reform programme of GOE), Social Accountability (SA), and new M&E component in PBS2. See below for more on FTA and SA components. **Many GBS/PBS donors also support separate large-scale multi-donor CD**	**No support to CD directly linked to GBS,** except some TA for one-off, HIPC-related tasks in AfDB programme. Small systemic effect: EC pre- and post-audit system for GBS-targeted expenditure said to have been useful in identifying specific weaknesses and addressing these. **Donors support separate CD operations**. EC and WB have large-scale PFM support operations, including support to Parliament	*See above and below. Support to PFM reforms (EC, presumably WB); support to NSAs (EC, other donors). Not studied.* Mention of support 'available but not taken/used, for Parliament.

Key Issues	Ethiopia	DRC	Burundi[25]
	operations: PSCAP (government public sector capacity development programme), Democratic Institutions Programme (DIP) and various facilities/ programmes supporting civil society. Weak links between PBS and these other initiatives.	(EC).So far, this has not been linked to GBS programmes. Also separate support to civil society, including by non-BS support donor; unrelated to GBS. Extremely weak administrative capacity at sub-national levels, donor decentralisation support in some (not yet all) provinces, but massive needs, and un-harmonised scope, design and modalities among different donors/programmes; unrelated to GBS.	
Results in social sectors and agriculture	**Spectacular progress** in education & (to a lesser extent) health, watsan, rural access/ communication and electrification. Strongly supported by GOE pro-poor budget allocation ('most pro-poor budget in Africa', DFID 2008), access/investment policies, comparatively effective administration/ service providers, decentralisation, equity-oriented and relatively robust fiscal transfer system, and comparatively strong (disciplined) PFM systems. **Concerns about quality**, addressed by some of the hybrid Channel 1 programmes mentioned above. **Progress in agriculture/food security is less evident.** Structural transformation of economy needed but will be slow, and require resources other than support for core recurrent funding (large-scale infrastructure development, urbanisation, private sector development). **GBS/PBS contributed to social sector**	**GBS not designed to directly support sectors**. **Focus on macro stability**: goal achieved in short-term; moreover, stated government commitment to maintain stability as pro-poor 'public good'. GBS helped achieve this (funding) but major incentive/policy driver was HIPC process and now IMF programme. **Focus on protection of core budget priorities**: goal **not achieved.** No indication of better budget execution that would respect stated priorities more, in 2009 and 2010. Draft 2011 budget fail some stated priorities: e.g. reduced health budget, insufficient allocations for sub-national core recurrent costs. Longer term trends: some increase in government provision of basic services since 2005/6, linked to upward trends in 'pro-poor spending', but sector-by-sector trends very volatile. GBS 2009-10 not negligible as budget	**Sector strategies**, **increasing budget allocations**, access policies in education (e.g. fee free primary education) and health (e.g. fee free health care for children and pregnant women); concerns about quality[38]. Other PRSP priorities are not reflected in budget (e.g. very low share for agriculture). **Large/unknown proportion of aid 'off budget'** hence impossible to hold government and donors to account for spending as a whole, and to ascertain link between stated priorities, actual spending, and results. *Contribution of GBS not analysed: 'may have helped'.*

Key Issues	Ethiopia	DRC	Burundi[25]
	progress through additional funding, said to be 'well spent' (like GOE funding). PBS further contributed through strengthening decentralisation framework including initial progress in strengthening local accountability for service delivery (see below), and drawing attention on service delivery in a more focused manner than broader GBS.	financing share (similar to estimated HIPC savings), but **no link with sector policies or stated budget priorities, no attention to budget execution as a whole, and poor budget execution**, mean GBS budget financing effect did not go beyond its overall macro/fiscal stabilising effect. GBS provided support to HIPC process hence **indirectly contributed to HIPC sector results**: three sector strategies developed as basis for future policy dialogue (education, health, agriculture). Wide range of views on desirable policy focus for GBS in future: social sectors vs. agriculture/rural development vs. strengthening the local state vs. security stabilisation instrument through focus on army pay.	
PFM	**PFM systems comparatively robust and disciplined implementation**, reforms under way since late 1990s at all levels, strong government commitment. **GBS contributed marginally** (through conditionality). Main contribution to reforms was unrelated project from late 1990s to 2007/8. **PBS contributes** to PFM strengthening **in a more focused manner** than GBS, emphasising especially transparency and accountability. Support to supply-side, i.e.	**PFM systems extremely weak**. Initial reforms in 2002- 4 putting basic systems in place but PEFA 2007 shows dire situation. ***Lax implementation of rules*** a major issue. Budget execution constantly interfered by 'higher order priorities' taking precedence over stated priorities, un-regulated use of emergency spending procedures, and significant proportion of budget executed completely outside of regular disbursement/accounting systems. **HIPC triggered 'progress around process'**: PFM reform strategy recently approved,	*EC 10th EDF GBS programme includes envelope for various TA, notably to support PFM reforms. In 2008 PFM reform strategy reported to be under elaboration.* **PFM system strongly centralised** (French tradition); low execution rates, including for 'poverty reduction' budget spending hence partly offsetting increasing budget shares. Ongoing reforms but more to be done. Donor attention focusing on processes without checking content/quality (e.g. existence of financial report without checking quality).

Key Issues	Ethiopia	DRC	Burundi[25]
	strengthening capacity of local governments to provide adequate and understandable budget information (FTA component: strengthening regular budget execution reporting, development and rollout of templates for 'lay person budget', training of local councilors and CSOs etc.); and demand-side (social accountability pilots, now being expanded, including use of local budget analysis tools etc.). **Planning and budgeting** supposed to be **participatory at local level**; Councils at all levels supposed to scrutinise plans, budgets and execution, with involvement of 'membership-based CSOs' at local level. See below for assessment of effectiveness. **PBS contributes directly** to strengthen these systems, through FTA and SA components.	reasonably strongly owned by government, prepared in consultation with civil society (some CSOs complain about weak representativeness and lack of access to and means for reform implementation follow-up). Some recent substantive progress too: e.g. reduction of use of emergency spending procedures. But **PFM reform a very long haul commitment**. Donors, including all GBS donors, ready to support strategy though link between PFM strategy implementation and (future) GBS yet to be worked out. **Greater budget transparency & strengthening citizens' budget monitoring** is focal area under **PFM reform. Some progress**: slight increase in Open Budget Index, training of officials by CSOs, flurry of CSO budget work – against backdrop of strong tradition of secrecy around budget. Parliamentary scrutiny weakened by political polarisation and weak information basis.	**Budget preparation and execution lack transparency** (no report available on website) and space for civil society to engage; Parliament not given time to scrutinise budget and no execution report. *No analysis of direct contribution e.g. through conditionality content.*
Accountability	Background: **GOE's concept of 'good governance'** (grounded in revolutionary democracy, consensus on top-down policies through participation and discussions led by enlightened party elite) is **at odds with western donor 'model'**. Reduced Accountability: Closing down of pre-2005 election 'democratic' political space. Introduction of CSO law in 2009 which	Background: '**Formal civil society' intensely politicised** hence polarised ruling coalition/opposition. Continuous allegations of cooptation one way or the other. Low trust among CSOs and between CSOs and government. Multiple government/donor-led 'civil society structuring initiatives' weakly coordinated and undermined by usual allegations of cooptation and lack of	**Little accountability around budget** (see above, PFM). Lack of space for engaging during preparation, no information on execution, for public at large. Key documents not easily accessible, administrative culture of 'no information to the public'. **Parliament has typically limited time to scrutinise budget and no access to**

Key Issues	Ethiopia	DRC	Burundi[25]
	prevents CSOs with above 10% foreign funding to work in human rights/civic education areas. **Accusations** (HRW, in-country opposition) **of political use of public resources including aid** (e.g. access to jobs, services, assistance denied to known opposition supporters), refuted by GOE. **Donor study led to agreement with GOE to strengthen safeguards in programmes around accountability**, including PBS. But donors recognise programme safeguards unlikely to be effective at individual level. **Need to strengthen broader 'appeal systems'** (Ombudsman etc.), as the Democratic Institutions Programme (DIP) supposed to do but weakly effective so far. **PBS support to accountability**: 1. Systemic: through using government systems 2. Specific FTA and SA components (supply- and demand-side) 3. Attention/outreach to elected bodies in design/ review processes, information 4. Conditionality framework strengthening both domestic and mutual accountability. FTA initially slow, now taking off, good progress and buy-in. PBS support to SA initially even slower, GOE reluctant. May be changing as SA pilots show positive changes	representation.. **Parliament intensely polarised** too. Factional struggles within the coalition are not rare. Weak role in national development planning process. PRSP not approved by Parliament. Wide-ranging consultative process with 'civil society'; CSOs selected by government sit on PRSP sector/thematic groups, but issues of representation prevail in all processes. Donors very cautious. In tri-partite relationship, **donors present** themselves as caught in **dilemma between pushing for strengthening domestic accountability** and upsetting government on one side, **and strengthening their dialogue and mutual accountability** on the other side. Some believe that state-society relationship is easier to change at local level first, but there are no resources allowing state structures to deliver local development, and doing this at scale would be a massive undertaking. **Normatively sanctioned tradition of administrative non-transparency**, changing though slowly (see above). Civil society budget activity, flourishing, but affected by internal factionalism, lack of coordination (including among donor support), and mistrust between CSOs and government as for all activities.	**budget execution reports.** Technical capacity limited; capacity available (Cour des Comptes analysis of draft budget) not used. One-party Parliament since 2010 may further reduce scrutiny. Inspecteur Général reportedly ineffective. **CSOs reportedly do not know about GBS conditions** so cannot be effective in monitoring. No analysis of role of CSOs/civil society in e.g. education basket funding mechanism. *EC support to NSA through 9th and 10th EDF dedicated programme but no specific focus on strengthening budget capacity (focus on decentralisation and 'good governance'); documentation suggests poor coordination among donors supporting civil society[39].*

Key Issues	Ethiopia	DRC	Burundi[25]
	in service delivery, which GOE is committed to. Next phase: larger-scale but still weak link with GOE accountability systems and notably elected local Councils. **GOE accountability systems: in principle elaborated at all levels**. At federal/regional levels technical capacity of legislative/representative bodies has strengthened over time. But these are now 'one-party' hence limited debate, weak challenge function generally. Among aid programmes, PBS most systematic in informing/consulting these bodies. At **local levels, party loyalty is a limitation** as well but **less so than at higher level**. Issue-based politics is more possible. But severe limitations of technical capacity and operational means and (see above) local discretion limited as needs much beyond means. **SA tools/processes could make a difference**. Local planning/budget preparation also supposed to be participatory. However, various constraints including limited funding hence 'needs' always vastly over available resources, which undermines participatory and SA logic. Through FTA and SA and outreach to elected bodies **PBS (i) has opened a space for collaboration between GOE and CSOs** even in post-2005 and CSO law context; (ii) has **begun to contribute to change**, on a small-	**GBS programmes, earlier BOP programmes, HIPC process have all contributed very little to support civil society demand for greater accountability**. First, generalised lack of comprehensive information. Linked to a point to 'ad hoc' nature of GBS programmes (hence for instance, no mention of GBS when EC consulted civil society for country programme development in line with EDF guidelines). But, hard to get GBS documentation even for study team. Highest sensitivity from EC, linked to difficulties faced 'at home' to get approval for EC 2nd GBS programmes. Transparency around GBS appears to have been caught in perceived dilemma between mutual and domestic accountability. Fair to stress again that donors find it difficult to know how to engage with civil society considering huge internal legitimacy/trust issues on civil society side, hence CSOs would need to start addressing these first. **GBS programmes did not have any direct link** with civil society and/or demand-side accountability (conditions, policy focus, etc.). HIPC process similarly did not focus squarely on strengthening Parliament's/civil society's role in demanding accountability from government in an institutionalised manner (beyond one-off surveys etc.).	

Key Issues	Ethiopia	DRC	Burundi[25]
	scale, **relationships between people and service providers and government service delivery machinery**. Further progress will depend on longevity of PBS; strengthening FTA and SA components and links with (i) GOE accountability systems and (ii) other processes/programmes of support to civil society.		

5.2. Individualising the cases[40]

110) In this section, the focus is on individualising the cases, considering each country in turn.

The provision of general budget support in Ethiopia

111) In **Ethiopia**, GBS/PBS flows became important when there was an acceleration in the country's remarkable trajectory towards the MDGs (hence progress in meeting people's socio-economic human rights). This progress is largely due to the commitment of the government of Ethiopia (GOE) and to relatively robust systems to build upon. However, some credit can be given to the Protecting Basic Services (PBS) programme, which had flow-of-funds and system strengthening effects linked to its design, focusing 'in the right way' on (some of) 'the right things'.

112) GBS was first used as an incentive instrument, which failed, and as a political instrument, which failed as well. The PBS programme which 'replaced' GBS continues to be GBS in many ways. But it differs from it by: (i) the name, which matters as it has allowed the instrument to be less politically loaded, although not totally insulated from (legitimate) political governance concerns. (As noted in Table 2, this was a way of managing, 'ex post', the political risks associated with the GBS label) ; (ii) a shift away from the reform incentive logic to a focus on supporting the implementation of consensus policies; (iii) due to the consensual nature of the programme, its effectiveness in strengthening the decentralised service delivery systems associated to these policies.

113) The PBS prompted progress in strengthening systems of local accountability for service delivery on both the supply and the demand sides (which resonates with Oxfam's position, see ¶50) above), and it provided a space for collaboration between government and CSOs in an otherwise tense environment. Partly due to the fact that activities are recent and have been small-scale, these effects have been small so far, but they have scaling up potential.

114) This does not address the 'big ethical dilemma' (that some observers highlight more than others). In brief, are donors doing the right thing in continuing to engage with a regime whose commitment to civic and political rights is disputed and which agrees with some form of accountability as long as this does not challenge its firm grip on the country (which the ruling party believes is necessary for further progress)? As explained in ¶36) above, there is a question as to why addressing the dilemma should be done by PBS, which has demonstrated its superior effectiveness to deliver on some other goals, and not other aid instruments. In the case of Ethiopia, this question relates clearly to the big issues raised in Table 1, notably which human rights should be prioritised and why.

The provision of general budget support in the Democratic Republic of Congo

115) The **Democratic Republic of Congo (DRC)** stands as an example of the extreme opposite. Donors do not have the comfort of believing that the government will deliver rapid progress at scale any time soon. The government capacity is extremely weak, systems are barely in place after decades of inattention/diversion, and the government's commitment to development is

uncertain at best. Politics is fractious and unstable, largely thanks to practices which undermine the country's development potential (institutionalised corruption, violence/continued conflict linked to natural resources exploitation). It is difficult to imagine what might trigger a 'clean break with the past'.

116) In the consultants' view, the 'big ethical dilemma' is extremely significant in the case of DRC: Are donors doing the right thing by continung their engagement with the government?If 'consequences matter more than principles', the emergency GBS which has been used may be seen as justified; it avoided greater instability which could have unravelled and harmed even more people. In any event, even if donors would not provide GBS, they have (for the time being) decided to engage with the government. And in doing this, it makes sense to see how to engage **through** it, if this can bring additional benefits over other types of aid. However, in order for this to happen, budget aid (including emergency budget support if more of this is provided) should be better used than has been the case so far.

117) In-country stakeholders (including CSOs) are divided about the importance of transforming budget aid into a political instrument. For the reasons explained in ¶36) and in line with the OECD guidance (see ¶38) in section 3), this study argues that this is not the way to go, in DRC, or elsewhere. However, there is a strong case for the next generation of budget aid to be much more closely linked to a dialogue on the budget as a whole and to the monitoring of the implementation of the PFM reform strategy. With regard to the policy focus, there are pros and cons to each of the broad ideas that in-country stakeholders evoked (social sectors, rural development, decentralisation/ strengthening the local state, security). Any policy focus and dialogue would need to be very realistic in its expectations.

118) First and foremost, GBS donors ought to strengthen transparency around the GBS programmes, making it clear to the government that systematic information to civil society and Parliament is a basic prerequisite. The case study report argues that, in addition, it would be feasible to engage in a tripartite (civil society, government and GBS donors) relationship, for instance of joint monitoring of a specific consensual policy/programme like the gratuité of primary education. Like the PBS in Ethiopia, this would aim to strengthen accountability around concrete actions expected from the government (new fund transfers to schools) and, which budget aid, by its nature, would support.

The provision of general budget support in Burundi

119) **Burundi** is a less clear cut case. In some respects, the political context in the past five years has been less stable than in both DRC and Ethiopia. With a more stable regime and maybe more of a sense of government commitment than there is, there would be a case for donors to think about GBS less as a policy reform instrument and more as an instrument to support policy implementation, whilst building policy capacity alongside GBS. This would allow the capacities needed to operate government systems rather than basket fund systems to be built.

120) As for switching aid from GBS to basket funds, aside from the fact that there is no guarantee that aid will be used more effectively, the idea that it would send a strong message is partly misguided. It may do so for home constituencies,

but there is evidence from other countries that it does not for the people in the country. If they think donors should stop supporting the regime, switching from one to another aid channel is not likely to be seen as sufficient (there are people in Ethiopia who strongly argue that donors should not have replaced GBS by the PBS).

5.3. Finding variations and commonalities

121) This section turns to finding variations and commonalities across the country cases. It uses additional evidence from the pen portraits in Annex 6 when relevant.

Country and aid contexts

122) The analysis shows how important context is when examining aid, and not just the current context, but also the historic context. Whilst all three countries have experienced conflict historically, the reasons for their fragility expand beyond this and in all three, fragility is multi-causal, but in different ways. In all three case studies, the country's ethnic diversity is an important factor, even in small Burundi. In Ethiopia, the PBS design recognises this, indirectly, as it respects the government's equity-oriented fiscal transfer system, and donors have indicated their desire to work with the government to strengthen it.

123) All three countries are are also politically fragile, although in different ways. In Ethiopia, this is linked to the seemingly increasing rigidity of the regime, its strength on the surface (compared to a weak political opposition) but uncertain legitimacy underneath. In DRC, this is because politics are intensely fragmented and polarised to the point that it is unclear whether political transition could happen smoothly. There is no tradition of a government serving its people and, in this respect, the legitimacy of the regime in place is not strong. Burundi is politically fragile for much the same reasons as DRC. The smaller scale of the country does not make the challenges less stark.

124) In turn, political fragility seems to breed fragile partnerships both between government and donors and amongst donors. The reasons for this are related not only to whether or not the country is making developmental progress, but are more deeply seeded, as the case of Ethiopia illustrates well. This type of fragile partnership is also found in countries, such as Rwanda and Afghanistan. Partnerships become fragile when donors get disappointed with the government. As developments in Uganda in the past few years and months suggest, no partnership is protected from this.[41]

Rationales of donors to provide (or not provide) budget support

125) With regard to the rationale for budget support, there is no common pattern across particular donors. For example, the UK has found Burundi too risky for budget support. At the same time, whilst it did not provide budget support in DR Congo, the UK endorsed the need for it and the provision by others. It has also provided/is providing a high volume of (PBS) budget support in Ethiopia. Until recently, the Netherlands assessed the situations in Burundi and DRC in just the opposite way: the Netherlands provided GBS in Burundi, but it is not among the 'budget support PBS donors' in Ethiopia. So, it is clear that donors look underneath the 'fragility label' when they decide to provide

GBS or not. Donors appear to make different assessments, as the cases of the UK and the Netherlands show. Multilateral agencies are found to have provided GBS in all three countries, but for very different reasons across countries (see Table 4 above), and in very different ways, too.

126) Donors provided budget support in a much more coordinated manner in Ethiopia than in DRC and Burundi. This suggests that, even if the Ethiopian government is not particularly interested in aid management, it's traditionally (comparatively) strong administrative systems and strong policy ownership have facilitated (pushed?) donor harmonisation.

127) There is also no common pattern across fragile states as to the when GBS should be used, how much and what type of GBS is required, as already noted in section 4. Thus, Burundi (and Sierra Leone, see pen portrait in Annex 6) received relatively large-scale flows of GBS rapidly in the post-conflict period as a means to help them recover. This did not happen in DRC, and when GBS was used, donors used a very different type of GBS in DRC too (targeted budget support actually, not pretending to focus on the government budget as a whole). It is not clear that systems and capacities were even weaker in DRC than in Sierra Leone. But the size of the country and the sheer lack of infrastructure made system strengthening a much bigger challenge.

128) In comparison with the small and erratic 'GBS' flows in DRC, it is noteworthy that Afghanistan, a large and topographically difficult country as well, received large-scale budget aid very rapidly through the ARTF 'recurrent window' (see Annex 6.[42]. One reason may have been the comparatively stronger systems and capacities in place in Afghanistan when donors engaged in 'development cooperation' (more or less at the same time as in DRC). The main reason, though, is in the very different strategic importance of each country. The resources which have been spent to make systems work in Afghanistan, so that channelling large-scale aid money became feasible, have certainly been vastly superior to those spent to this day in DRC. The reasons for this have little to do with development and/or human rights (EFA GMR, forthcoming). However, even from a cynical perspective, which recognises that eventually it is donor countries' interests that matter, there could be a case for much larger aid flows in DRC too. From this perspective, there is a need for finding ways to address DRC's political fragility , to ensure access to its economic potential in a more sustainable manner. Large-scale flows of 'flexible aid' may be an element in a strategy to do this. Used well, these could bring developmental benefits[43].

GBS as a political instrument and the implications

129) In all three case study countries, decisions around whether or not to use (general) budget support have been more highly politicised than for other forms of aid (e.g. humanitarian/project aid). This has occurred despite the fact that in Ethiopia and DRC political conditionality has never been explicitly laid out (and despite the OECD guidance mentioned in ¶38) above). In Ethiopia, there was a very serious political incident which led to the halt of GBS. But as donors wished to remain engaged (arguably for a mix of developmental and regional stability motives), they rapidly found a substitute (see above). Although this substitute is not fully insulated from the politicisation of the decisions that need to be taken at higher levels, the donors concerned have so far resolved the ethical dilemma that the negative consequences arising from disruption of PBS flows would outweigh

any benefit that might be obtained through sticking to principles. In DRC and Burundi, donors faced different issues. In Burundi, there is a 'plan B' (switching to basket funds), however, it is not clear that there was or is one for DRC. It is also not clear why the EC approved a GBS programme for DRC when a number of EU Member States had been initially strongly opposed to it.

130) In Ethiopia, donor political governance concerns were, to some extent , addressed through other means (e.g. the Democratic Institution Programme and various supports to civil society; or the Cotonou dialogue between the government and the EU). However, stakeholders recognise that this is insufficient (the Cotonou dialogue is said to be dysfunctional, for instance). In DRC and Burundi, it does not appear that the overall dialogue is an effective instrument, linked to the overall weakness of the aid partnership in these countries.

131) As a corollary to the politicisation of the decision-making around GBS, a wide variety of aid instruments are used in all three countries. This may be inevitable to some extent and could have value in line with the idea of portfolios of aid instruments to spread risks and exploit their potential complementarity. However, there does not seem to be a well thought-through strategy behind this diversity – even in Ethiopia where, arguably, the aid architecture is the most sophisticated out of the three case study countries. Overall, it seems more difficult to achieve alignment and harmonisation in contexts in which donors are highly sensitive about risks, as they have different approaches to address risks, that they also typically do not perceive in the same way (see Table 2 in section 3 above).

132) Afghanistan offers a different type of story. As noted above (see ¶128), the massive influx of aid since 2002 was clearly driven by the political/security interests of donor countries. This led to aid flows increasing four-fold between 2002 and 2009. The rapid development of the Afghan Interim Authority Fund (AIAF) was driven by the political imperative of finding ways to funnel through aid resources quickly and effectively. The ARTF took the relay seamlessly and through its recurrent window has successfully provided large-scale 'budget aid' to the Afghan government for many years. But, as it does not bear the GBS label, this has never attracted the level of focused attention paid to GBS in Ethiopia for instance, in spite of the Afghan government's disputed human rights record. This may be due to donors and home constituencies/boards having different levels of expectations from different recipient countries' governments, but the influence of such types of factors is never explicit.

Implications with regard to budget support predictability

133) The predictability of aid in general and of GBS and GBS 'look-alikes' has not been good in any of the three countries. This is in spite of the literature highlighting that lack of predictability has an even worse impact in fragile countries than in non-fragile countries. In Ethiopia, with PBS, short-term predictability has been better. However, whilst the donors state that they want to remain engaged and they know that large-scale assistance will be needed for a long while, they have not committed for the long-term. Through the PBS, donors have committed for the medium-term of 2-3 years, although certain donors have to take annual decisions within a pledged multi-annual programme. In DRC, there is no such medium-term commitment; by the end of 2010, the planned

process for donors to discuss GBS in the medium-term with government was stalled. In Burundi, the EC has a multi-annual programme, but all other GBS donors appear to take annual decisions.

134) Arguably, the complexity of the political transition under way in Ethiopia and the reputational risk of being seen to be involved if it departed too much from what is deemed 'acceptable', is the main reason for continued donor myopia. This extends beyond GBS/PBS, although there remains an overall sense that donors are there to stay, one way or another. In DRC and Burundi, donors do not seem to have a clear long-term plan of engagement. In DRC, this is not helped by the existence of multiple planning frameworks and agendas and the fragmented nature of both government and donor politics.

Effectiveness of budget support

135) Budget support seems to have had limited success in pushing policy reform in these fragile countries. However,it has demonstrated effectiveness in supporting the implementation of certain policies in Ethiopia, the one country where there was enough 'detailed' consensus about these policies (in spite of not having an agreement on the whole policy agenda).

136) **Sector results** - Budget support has had very varied effects in terms of results in social sectors and agriculture. This is due in part to the diverse focus of GBS programmes in the different countries. Ethiopia stands out as showing significant progress in the social sectors. As explained above, non-GBS/ PBS factors were very important (access policies; commitment; relative strength of government systems), although credit can also be given to the design and focus of the PBS. The country was also much further ahead on the transition away from post-conflict than both DRC and Burundi, even if it remained politically complex (or fragile in the eyes of some). This was initially overlooked by donors keen to 'move on' (Ethiopia was deemed at some point to be one of a group of countries led by a 'new generation of African leaders').

137) In DRC, the focus of GBS was not on supporting sectors but on macro stability, which was achieved. The associated goal of 'protecting core pro-poor spending' was not fully achieved (see Table 4). The study team argues that it would have been feasible to be slightly more ambitious in relating GBS to sector results (linking the provision of targeted budget support focusing on teachers' salaries, to monitoring the implementation of the new 'gratuité' policy and of associated new budget measures, for instance). Expectations should have remained very modest, but a tangible link between budget support and even a much limited number/scope of sector objectives would have paved the way for a transition from emergency to a more policy-oriented form of budget support (in the sense of supporting/strengthening existing policy). It might also have helped to (legitimately) build a constituency around GBS, including amongst Congolese civil society.

138) In Burundi, measuring effects has not been easy, as the same sectors also get funding through sector-focused instruments (though the study did not assess the proportional financial importance of these flows). In Nepal, good sector results are found in the social sectors too, and they also have only had sector-focused instruments for a few years (see Annex 6).

139) **PFM strengthening results** – A similar pattern emerges for the effects of GBS on PFM systems. Ethiopia is the only one of the three countries in which a strong PFM reform programme was being implemented which GBS then PBS supported (PBS in a more focused manner). PBS has had systemic effects and also included specific capacity/system development measures focusing on accountability (both upward and downward) for budget execution and service delivery. In DRC,there was no direct/systemic link between GBS and the development of the PFM reform strategy or any other ongoing PFM strengthening measures. Systemic capacity development effects were limited due to the narrow definition of expenditures eligible for reimbursement. On a small-scale, the pre- and post-audit system of the EC is said to have helped to identify issues that were addressed by the government. In Burundi, the focus on PFM was through conditionality and separate TA operations, but the results are not documented in the literature reviewed, or in the Oxfam case study.

140) In both DRC and Burundi, corruption is said to be a serious issue but was not addressed as such in the GBS programmes. In DRC, all CSOs consulted in this study thought that GBS donors ought to be tackling corruption (in contrast to their divided views about the use of GBS as a political instrument in relation to government human rights record). In DRC, budget execution is severely distorted compared to the budget stated priorities. But GBS was provided to reimburse a narrow range of easily auditable expenditures and did not focus on budget execution more broadly (as is done for instance, de facto, through the 'recurrent window' of the ARTF in Afghanistan).

141) Sierra Leone provides an example of a country in which, alongside the provision of TA to strengthen PFM systems, GBS donors used conditionality to incentivise the PFM reforms. This was a quite different approach to that in Ethiopia, where donors assess the overall progress made with an agreed work plan and decide on this basis whether the progress is sufficient to justify a satisfactory conclusion of the PBS review. In contrast, in Sierra Leone, donor conditions pick out a number of selected actions and if one action is not carried out, even if there is good progress elsewhere, this is not considered to be sufficient to justify disbursement. It is not clear that this is a more effective way of supporting a PFM reform process holistically. On one hand, it is argued that the measures picked out as conditions are most important and, so, the costs of getting them achieved through withholding GBS are justified. On the other hand, it is rather difficult to estimate whether the benefit of this particular measure being taken at this particular point in time would actually outweigh the real costs incurred, including negative effects on service delivery.

142) **Accountability strengthening effects** – In all three countries, the state's accountability systems are not strong. In Ethiopia and Burundi, this is partly because representative bodies are dominated by MPs of the same party as the executive that they are supposed to hold to account. As a result, political loyalty strongly limits the way in which these bodies can and do fulfill their challenge function. However, in Ethiopia at the local level, elected councils do show a willingness to address issues raised by their constituency in some instances, but their capacity is typically severely limited. In DRC, it is almost the opposite situation; the functioning of the Parliament (and Senate) is characterised by deep political polarisation, which does not allow the kind of evidence-based

discussion which should prevail for the challenge function to be meaningful. In all three countries, the difficulty of holding government and donors to account for aid spending is heightened by the fact that large volumes of aid are 'off budget', and information on both the government budget and aid is generally hard to obtain.

143) Against this backdrop, Ethiopia is the only country in which (i) some measures focusing on strengthening accountability are specifically part of the budget support programme design and (ii) this has led to some tangible results. These are small-scale and the measures focus on non-controversial accountability dimensions and do not address the much broader issue of accountability for 'good political governance', and commitment to (civic/political) human rights, etc. Nonetheless, there is some evidence that the progress made has the potential to pave the way for deeper change in the relationship between the state and the society. The PBS has also established systematic information/consultation links with the representative bodies of the government.

144) This stands in contrast with the lack of transparency around GBS programmes in DRC, and the absence of any accountability strengthening measure in the GBS programme designs. In this way, GBS programmes failed to take advantage of the timid, but real openings on the sides of both government and civil society side in relation to promoting greater transparency (e.g. commitment to budget transparency in government PFM reform strategy, flurry of budget activity by CSOs).

145) Similarly, in Afghanistan, the ARTF design does not include measures that seek to strengthen accountability links between the government and society, in spite of the importance of the ARTF in financing basic service delivery through the government recurrent budget. In this way, the ARTF is a missed opportunity to address what is said to be the "biggest missing link in the reconstruction process" (OECD 2010b), that is, the lack of functioning formal mechanisms for dialogue between society and the government. With so much aid funding, the government's primary accountability has been to donors, and donors have not done much to change this (see Annex 6).

146) Nepal is an interesting example of a country in which donor objectives may not always fit together. Donors in Nepal have shifted from GBS (which represented 34.4% of the total ODA in 2007) to large-scale 'sector budget support' programmes financed through pooled funds supporting SWAps in an increasing number of sectors. This started in health and education and is now being replicated in other sectors, like social protection. There is a sense that this shift contributed to better sector results, thanks to the more focused nature of this type of support. Yet, this has also resulted in an increasing number of additional monitoring requirements; for example, monitoring of derogations to the mainstream PFM systems that were not used with the GBS programmes. In turn, this is reported to have decreased government's ownership over expenditure, which arguably weakens the basis for domestic accountability (see Annex 6).

6. Conclusions

147) This section does three things. First, it draws on the analytical streams in sections 3, 4 and 5 above, to answer the questions asked in the TORs. Second, some good practices are identified. Third, a small number of reflections are offered, as well as suggestions for areas for further work.

6.1. Challenges, potential and effects of GBS in fragile countries

Rationale and main challenges

148) The first question asked in the TORs was to review the provision of budget support to fragile states in general and to examine the rationale and challenges (as compared to non-fragile states). The study found that there are two broad rationales leading to very different types of GBS programmes:

- **Emergency, supposedly one-off stabilisation programmes**: This type of GBS is not typical of fragile states and was used in many non-fragile countries hit by macro-economic crises in the context of the international crisis in 2008-2010. But programmes may be more 'policy-light' in fragile countries. They may also respond to fragility-specific concerns (e.g. risks of broad socio-economic and political instability, and the aim to maintain the country's post-conflict transition trajectory).
- **More policy-oriented programmes aimed to support the country's transition over a longer period of time**: In some cases, these started to be provided very early in the post-conflict period, to support the restoration of basic state functions. The rationale, similar to that in non-fragile countries, is to put the government in the driving seat of the country's trajectory out of fragility and to strengthen the state's capacity through a mix of systemic effects and complementary inputs (including policy dialogue and capacity development measures). In some countries, this has been done through 'flexible aid' modalities which closely resemble GBS (without the 'label') in terms of flow-of-funds arrangements or support to policy/capacity development or both.

149) In both types of programmes (though perhaps more with the second), GBS has the potential to strengthen the legitimacy of the state. Therefore, the challenge for donors is, to assess whether the current power-holders are legitimate country leaders. A commonly used yardstick is the government's 'commitment' (weak capacity is problematic, but somewhat less so than lack of commitment). However, this raises the question of: 'what should they be committed to?' There is consensus that it is about 'commitment to development'. But the next question is: how is this measured? Notably, does this include a commitment to 'good political governance' and what does this mean?

150) Where the state is authoritarian or party to violence against some of the country's population, deciding whether it is legitimate to engage/continue to engage with this country's government (and what to do if not), is not easy. In countries where there is progress with socio-economic rights, the dilemma is whether it is legitimate to prioritise this progress over other (civic/political)

rights and/or to what extent it is acceptable to rely on 'progressive realisation' of the latter. In countries where there is little or no progress on socioeconomic rights, the risk and consequences of more harm arising from greater instability if the government was not supported must be considered. One approach is to say that donors should resolve this type of ethical dilemma by looking at the consequences of their decisions ('consequences matter more than principles'). But beyond the fact that consequences are never easy to predict, it is not clear that everyone agrees with this approach.

151) This study adopts the OECD position that there is no good reason why GBS should embody the way donors address these dilemmas, any more than other types of aid that work with or through government. Confining the debate to the provision of GBS and transforming GBS into the only real political aid modality is misguided. However, the study shows that, in practice, donor decision-making processes (linked primarily to how donors respond to the 'commitment' questions) are more intensely politicised for the provision of GBS than for any other aid modalities that work with/or go through government.

152) This, in turn, may have a number of rather negative consequences. First, it may lead donors to engage through GBS look-alikes instead of GBS, in order to avoid the 'political tag'. This is not transparent. Moreover, there is evidence that it does not fool those in the country who think that donors should not support the regime. Tagging GBS as a political instrument also means that donors may forego the use of a type of aid which is flexible in nature and has the unique potential to support a country's transition out of fragility. Indeed, flexibility is cited by the OECD as a critical element toaddress the typical 'transition financing' faced by many fragile states (OECD 2010h).

153) Another critical challenge in fragile countries is that aid partnerships are typically fragile, both in terms of the relationship between the government and donors, and that amongst donors. This stems from the recipient countries' political/governance fragility and the fact that donors are usually not in agreement on how to 'read' it and how to respond to it.

154) Moreover, donors' own non-developmental interests are large (as shown by the concentration of ODA in a handful of fragile countries) and this is very likely to undermine their supposed state-building goals. Indeed, the weight of these external interests can further upset the already weak domestic processes of negotiation between various groups that are so critical to 'build the state'. Moreover, diverging/competing interests amongst donor partners may further aggravate divisions amongst them as a group and make coordination more difficult, precisely in those countries where it is the most needed.

155) Donors struggle with these issues. There is little guidance specific to the provision of GBS in fragile countries and existing guidance is very recent (EC 2009j and CAP 2010). The result is a wide range of donor attitudes (policies and practice) with regard to using GBS in fragile countries. And when it is used, there is an array of nuances in rationales for its use and a wide range of designs for both GBS and GBS 'look-alike' instruments across donors in one country and across countries for the same donor.

156) This study shows that, presumably as a result of the donors' uncertain approach to GBS in fragile countries, GBS has been far smaller than other forms of ODA (notably compared to humanitarian aid and 'actions related to debt'). In the few fragile countries in which GBS (including BOP support) has been significant, it has been volatile and erratic. Budget support has been unpredictable in the short-term even though predictability is arguably even more important in fragile countries, as there are fewer alternatives to fill resource shortfalls. It has been unreliable as a medium-term financing source, which is hardly compatible with objectives such as supporting the restoration of the state's basic functions. Very different types of GBS were provided in different countries, or in one country at different points in time. These points must be taken into account when assessing the results of the provision of GBS in fragile countries (see below).

GBS programme design (including conditionality)

157) Other challenges such as weak systems/capacities are more acute than in non-fragile countries. When a government's capability is stronger (like in Ethiopia) or develops rapidly (like in Rwanda), there can be good results from the provision of GBS in spite of the country's 'fragility'. But both countries are also examples of virtuous circles; GBS was provided when capacity was weak and, as a result, contributed to further strengthening the capacity. The question then arises as to how to initiate this type of virtuous circle? This is further discussed below.

158) There is no readily available analysis of donor conditionality, generally, and in fragile countries. The evidence reviewed in this study suggests that the way in which conditionality is used depends more on the rationale/objectives of GBS than on the status (fragile or not) of the country. When the objective is to act fast, conditionality tends to be light. When the rationale is more policy-oriented, there is a tension between using GBS as an instrument to incentivise policy reform, or to support the implementation of existing, non-controversial policies. This tension is not specific to non-fragile countries. But it may be more acute in fragile countries as weaker policy capacities make it more difficult to ensure that the policies promoted through reform incentive instruments are genuinely owned.

159) Corruption is a big issue as well. It is often associated with fragility (see, for instance, donor positions in Box A4 in Annex 3). However, the data shows that issues of corruption and how to deal with it are not at all specific to so-called fragile countries. To take just a few cases, the Transparency International Corruption Perception Index ratings over time shows that Senegal, for instance, not mentioned anywhere among fragile states, received increasingly worse scores from 2000 to 2010. Yet, this does not seem to lead donors to challenge the provision of budget support in this country, to the same extent as it does in Burundi, for example.[44]

160) More generally, the study found that donor approaches to deal with the challenges, and specifically to assess and manage the risks of providing GBS in fragile countries, are not harmonised. Among the risk mitigation/management measures found, only a few seem to be used more typically/frequently in fragile countries. Measures which have been identified as important in the (recent and scarce) donor guidance, such as in-depth political analyses and stronger

accompanying capacity development actions, do not seem to have been systematically used thus far. OECD donors are working on ways to better distinguish various types of risks as a basis to better assess them. But better identification/assessment of risks will not automatically bring consensus on how to deal with them, especially for 'contextual risks' which will bring everyone back to the dilemmas discussed above, stemming from recipient countries' political fragility.

161) The evidence reviewed in this study suggests that there is no pattern in the mixes of different 'system-aligned instruments' found in various fragile countries. This study argues that emerging guidance on this (CAP 2010) does not yet fully clarify the links between different types of objectives that donors may have when they consider providing 'budget aid', and the type of instruments that need to be developed to respond to these needs:

- The distinction between 'emergency macro stabilisation' vs. medium-term policy-oriented rationale/objectives is not sufficient. It is important to distinguish between externally-induced and internal macro imbalance. Both may require **rapidity**. However, if instability is partly internal and likely to re-appear, and/or if macro-fiscal stability is obtained through drastically curtailing the government's fiscal space, GBS donors should be realistic about the recurrent/medium-term nature of the support which needs to be put in place.
- The trade-off between GBS as a reform incentive vs. policy implementation support instrument is artificial to some extent, and will not be resolved by using different **financial arrangements**, but rather by recognising the nature of the trade-off in terms of **objectives**. In fragile situations where **state functions** need to be **restored**, the prime objective should be to **support** this; it does not therefore make sense to start with policy reform incentive instruments.
- The distinction between MDTFs and GBS is also not always clear-cut. What matters is that, if large-scale flows of aid funds are provided to support the state's basic functions to meet financing needs that are recurrent in nature, they should (i) be **predictable** and (ii) be used to strengthen government systems as much as feasible, hence be as **aligned** with the government's (recurrent) budget systems as possible. Using an MDTF may still result in 100% alignment, if it is used simply as a pooling mechanism. An MDTF may also be used to bring extra comfort to donors through risk mitigation measures. In these cases, the MDTF at least ensures that these measures are harmonised.

162) It is extremely important to clearly articulate which objective(s) is/are being sought in a particular fragile state through the delivery of ODA. Is it: (i) a response to externally-induced macro instability; (ii) a response to internal macro instability/the need to expand fiscal space; (iii) support to restoring basic state functions and at a later stage gradually expanding their reach/scope; or (iv) support to further policy development? Aid instruments should be designed to best fit the objectives that donors seek to achieve in a particular country at a particular point in time. Several types of needs may coexist and require a mix of different types of support.

163) In addition, in fragile contexts the needs may change more quickly than elsewhere, as the situations are typically found to evolve rapidly (e.g. resumption of economic growth after a period of stagnation or even contraction.), or they may also change brutally (see, for instance, the upheaval in Timor Leste in 2006). Donors should be proactive and try to anticipate these evolving needs, as well as the adjustments in objectives and instruments/mixes of instruments that will be required – developing scenarios for this ahead of the time when changes are required. This ability to adjust objectives and instruments has, in turn, implications in terms of adequate donor staffing, reactivity andflexibility, at the country level. It also calls for donors to continuously monitor and update the analysis of risks and opportunities that should underpin their country portfolio as a whole (i.e. beyond GBS).

Sector and PFM results and contributing/hindering factors

164) Bearing in mind what has been said above on the insignificance and unreliability of GBS flows in fragile countries, this section answers the TOR question about the effects of GBS in fragile countries in relation to sector results, PFM strengthening, and contributing/hindering factors.

165) In terms of results overall, there is no pattern linking the provision of 'GBS' to countries' development trajectories in the long or short-term. One must note the massive disparity in the study's list of so-called fragile countries which includes countries that made the fastest progress in HDI between 1980 and 2010 at one end, and the only two countries in the world where the HDI in 2010 is lower than in 1980, at the other end.

166) Firstly, 'emergency' GBS should not be assessed against objectives that it does not have. In the emergency programmes studied more closely, there were no objectives related to sector results or PFM strengthening. Judging emergency programmes against what they actually aimed to do, the evidence shows that in a number of instances they contributed to re-establishing macroeconomic stability. This is widely held as one cornerstone of a country's transition out of fragility. The sustainability of this type of result depends on the same mix of commitment and capacity as discussed above. But leaving a country's economy to further unravel, because there is no guarantee of a government's long-term commitment to macro stability, may be very harmful for the poor in the short-term.

167) From the limited evidence in DRC it seems that emergency GBS programmes are not always used to their fullest potential even bearing in mind the need to avoid 'overloading the agenda' to allow rapidity of action. In particular, greater attention to the budget as a whole, and to basic issues of budget allocation and execution, seems warranted. Better budget data and analysis could feed into sector policy development in sectors where this is moving ahead. This would enable some links to be established between emergency GBS and sector processes, which in some cases may make sense. In DRC, it would have made sense to link the provision of 'targeted budget support' focusing on reimbursing teachers' salaries to the existing education sector dialogue. GBS donors could and should have taken this opportunity to look at whether and how the government translated its commitment to fee-free education in budgetary terms. Not doing so was a missed opportunity.

168) Based on evidence from the other few country cases, GBS had positive effects on sector results and PFM strengthening in Ethiopia, the one country where: (i) these were explicit objectives; (ii) GBS supported existing and strongly owned policies and a PFM reform strategy that was already being implemented and; (iii) it complemented this with a specific focus on accountability (see below). This story is similar to that of Rwanda (see e.g. Oxfam 2010). In these countries, results in relation to service delivery in the social sectors and to PFM strengthening compare well with results in 'non-fragile countries' as evaluated/reviewed in the OECD evaluation of GBS (IDD et al 2006) and the SBSiP review (Williamson & Dom 2010).

169) It should be noted that in countries like Ethiopia, Rwanda or Afghanistan, where GBS or look-alikes are an important source of financing for the government budget, these results are vulnerable to the lack of predictability often affecting GBS. Yet, the study found evidence that donors providing GBS in fragile situations do not necessarily put predictability as a high level priority. Again, the case of DRC is an illustration of this; after two years in which some (targeted) budget support was provided to help address a budget financing gap, donors had no plans for the 3rd year, even though it was unlikely that the gap would be closed without severely restricting the government's fiscal space.

The provision of GBS and accountability in fragile states

170) This section turns to the TOR question about the ability (capacity and space) of parliament and civil society/ communities in the countries studied to hold their government and donors to account for public spending. This includes looking at the impact of budget support; the extent of country ownership; and the effectiveness of donor support to civil society with the aim of strengthening demand-side accountability. It is important to note that, firstly, (based on quite limited evidence) GBS in non-fragile countries has been found to be insufficiently focused on these issues and partly as a result of this, GBS's effects on domestic accountability systems have been weak. Secondly, GBS in fragile countries has been small-scale, erratic and unreliable, and this must have had implications upon its actual effects. There was no readily available overall analysis of country-level evidence related to these issues.

171) Domestic accountability systems are not simply formal mechanisms or instruments but also "*relationships involving power dynamics across state and society, and patterns of attitudes and behaviours affecting all actors*". Accountability relationships evolve through deep changes in norms and expectations (IDS 2011). In fragile countries, the state is fragile, civil society is fragile and the relationship between them is fragile. Therefore, domestic accountability systems cannot be other than fragile. In some countries, the type of accountability which Western donors are talking about has never existed. As a result, it is not a matter of re-establishing systems, but of evolving 'better', less harmful systems.[45] The provision of (any type of) aid makes these matters more complex. Under these conditions, with GBS being just one type of aid among many others, expectations about its effects in relation to strengthening domestic accountability should be very realistic.

172) The country case studies show that only in one of the three countries - Ethiopia - GBS included specific components aimed to modestly contribute to strengthening domestic accountability systems around local budgets and

decentralised service delivery. Although this did not address the issue of all-round 'democratic accountability' there is evidence that it is changing government and citizens' expectations of each other. As a result, there is the potential of slowly bringing about bigger change. GBS is also providing space for collaboration between the government and civil society in an otherwise tense climate. In this country, the availability of information about GBS (and other large-scale aid programmes) is comparatively good.

173) These components were built into the GBS design in Ethiopia when donors had to find ways of demonstrating to their home constituencies/boards that, in spite of the country's (newly revealed) political/governance 'fragility', their aid 'through government' would be used for legitimate purposes. Thus, it was in response to a crisis. But there is no reason why this type of engagement that aimed to strengthen accountability in relatively non-controversial areas could not have been done with the earlier form of GBS, and could not be tried elsewhere. However for this to work, the bigger accountability issues may need to be addressed somewhere other than through the GBS dialogue (as indeed advised by the OECD), so as not to clutter the space in which collaborative relationships are sought.

174) With the exception of the PBS in Ethiopia, transparency concerning GBS programmes in fragile countries seems to be poor. One reason for this was that donors did not want to 'rock the boat' of an already fragile partnership with the government when there was little trust between the government and civil society, as is often the case in fragile countries. Civil society may also be difficult to engage with when it is crisscrossed by issues of legitimacy, representativeness and politicisation. Yet, making greater transparency about GBS programmes a prerequisite to providing GBS seems to be warranted.

175) In DRC, this lack of transparency was also said to be linked to the 'politically sensitive nature' of GBS. In other words, information was scarce everywhere so as to avoid home constituencies/boards hearing messages to the effect that GBS should not be granted on political grounds. This study argues that 'this is not about GBS' but about engaging with a recipient country's government, or not. Being more candid about this and depoliticising GBS in donor countries' public opinion may well be indispensable for GBS to be used to greater effect in relation to strengthening service delivery, PFM systems and domestic accountability in fragile countries (and elsewhere).

6.2. Emerging good practices

176) In situations where donors decide that it is legitimate to work with the government and feasible to work at least partly through it, GBS has value. It is flexible, which is useful in transition situations as noted earlier. It also has potential for systemic capacity development and legitimacy building effects, linked to it being as aligned as feasible. In these cases, the following emerge as good practices:

- Support the restoration of basic state functions and the implementation of 'consensus policies' on a large-scale before or separately from incentivising more sophisticated policy development;

- Avoid overloading the policy agenda, especially if the prime objective is rapidity;
- In macroeconomic stabilisation programmes, push for greater attention on fiscal effects;
- In any type of GBS programme, focus on the government budget as a whole (allocations and systems);
- Put priority on (and resources for) building capacity for, and transparency in, budget allocation decision-making and in reporting on budget execution;
- Use the focus on the budget to provide feedback on policy implementation in sectors where policy development is further ahead; and in others, to raise issues needing policy attention in those sectors;
- Support systemic effects of large-scale flows of aid channeled through government systems by specific capacity development measures directly linked to the focus of the GBS programme;
- Use agreed principles and joint work plans rather than 'carrot-and-stick' conditionality;
- Work on both supply- and demand-side accountability capacity, focusing on practical measures linked to the context-specific consensual objectives of GBS (e.g. in Ethiopia, where accountability around decentralised service delivery has been included);
- Use this type of non-controversial accountability strengthening as a building block for bigger change – talk about it!;
- Strengthen information around GBS programmes, in country and at home;
- Do a proper risk/benefit analysis of using the country's PFM systems, with a view to designing 'system-aligned' aid instruments which may or may not be GBS, but would be better capable of using country systems to the fullest possible extent by knowing them better;
- Be proactive in assessing risks, opportunities and evolving needs; develop scenarios and instruments/mixes of instruments/graduated responses tailored to the various possibilities, ahead of critical times/events.

177) The label should not matter. There is no reason why this set of good practices could not also be used with types of aid which are not or are not called GBS but resemble it, as they provide 'budget aid' under fairly flexible terms. For example, in Afghanistan this might mean seeking ways of building a stronger focus on accountability for service delivery in the functioning of the ARTF recurrent window. In Nepal, this could mean opening up sector support programmes and associated dialogue to civil society and making this more of a prerequisite to the Nepalese government.

6.3. Reflections

178) This section offers a few reflections that INGOs, like Oxfam, may want to take into account as it considers its position with regard to the provision of budget support. Presumably the objective of having a clearer position is to be

better able to lobby donor agencies. Lobbying can be both at a general level and about specific countries. In both cases, full account of the complexity of the issues at hand should be taken into account.

General level

179) First, there is the question whether it is legitimate to maintain a 'political tag' on GBS, or if greater transparency about the real depth of 'ethical dilemmas' would be more appropriate. In line with broad OECD guidance, the authors of this study argue that when an ethical dilemma arises in a country, donors making the political decisions about how to address it should consider their engagement as a whole, beyond GBS (and in full cognisance of the country context). If this is agreed, INGOs have a role in depoliticising GBS, as today they are often the first to politicise it.

180) In elevating the dilemma to a level 'beyond GBS', INGOs would be better able to hold donors more broadly accountable. This would include being a watch-dog on how donors' non-developmental interests interfere with (political) decision-making about ODA and development. For example, if they abandon the approach of a political tag for GBS, the INGO community could push donors to be more transparent about what the dilemmas are and to give better information to home constituencies.

181) This is the only position that is fully consistent with the demand for greater transparency about GBS programmes in recipient countries. In this demand, INGOs could start by insisting that donors simply implement existing policies, such as the UK clause to set 'aside 5% of all budget support funds to strengthen mechanisms for making states more accountable to their citizens' (DFID 2009b). The Common Approach Paper regularly mentioned in this study also explicitly commits the WB, AfDB and EC to pay greater attention to accountability in GBS designs, which INGOs could refer to (CAP 2010).

182) This position would also enable INGOs to demand from donors that when they do provide GBs, they do this 'well'; thus, upholding the good practice principles of predictability, looking at the overall budget of government, donor coordination, minimising derogations etc.

Country specific

183) Taking full account of a country's unique context is critical in defining a position about whether it is legitimate and on balance better (because 'consequences matter more than principles') to engage/continue to engage, or not, with the government of this country at this specific point in time. A great deal of care is required. INGOs should uphold very high standards and demand transparency from themselves when they 'make-up their mind', and from donors in the way they reach their decisions.

184) Where/when GBS is being used, INGOs should push for donors to seriously assess the feasibility of adopting the set of possible good practices evoked above, and offer practical insights about how this can be done in countries in which they have their feet on the ground.

6.4. Gaps and future areas for research

185) This study has highlighted a number of areas in which further work and study would be beneficial in relation to the provision of 'better aid' in fragile states. These have been drawn out of the text and listed together for ease of reference.[46]

186) First, there is no single source of data that provides an overview of all MDTFs, which would enable analysis; to examine, for example, which countries receive ODA (on a significant scale) through MDTFs and which do not; what type of MDTF(s) are used across countries and, in particular, the extent of alignment of the different types of MDTFs with countries' PFM systems and how this compares with GBS; whether and how support through MDTFs is combined with GBS; which donors favour the use of MDTFs and for what reasons, etc. Further to these questions, what about fragile countries in comparison to other MDTF-receiving countries?

187) More generally, while this study has focused on GBS and on the broad (and vague) category of "fragile states" (in line with the study TORs), it would be useful to both broaden and narrow down the analysis; broadening by analysing mixes of aid instruments, and narrowing down by focusing on post-conflict countries. The objective would be to document the mixes found "on the ground" and their effectiveness, and try to outline the type of mix that would have the potential of better addressing the specific needs of post-conflict countries. This should include an analysis of whether SBS might have the potential to be a step towards GBS (for instance, in DRC it might have made sense to conceive the "targeted GBS" programmes more as SBS operations). It should clearly link the issue of 'transition financing' mentioned in the study, and address the question of whether and how GBS and other types of 'system-aligned' instruments can have specific roles in transition financing.

188) This analysis is not easy, as it would require distinguishing between types of aid in ways that are not done in the international cross-country databases. This study was already limited by the fact that the OECD-DAC data on ODA does not differentiate between GBS and BOP. In addition, the OECD DAC database also does not require donor countries to separate out SBS, and also does not provide a way of knowing when ODA is provided through an MDTF. This would constrain the possibility of doing cross-country analyses. An alternative would be a case-based approach which would carefully select a set of (post-conflict) country case studies (ideally more than three), based on identified criteria of relevance such as presence/absence of various types of 'system-aligned' aid, type of country trajectory, etc. The case studies would have to start by an inventory of types of ODA modalities found in the country going beyond the usual OECD DAC categories and building the data based on a programme-by-programme analysis.

189) Donor conditionality, generally and more particularly in fragile countries, has not been studied much beyond the level of individual donor agencies. An exercise is under way (in the run-up to Busan) which looks at this issue. However, this seems to be done primarily from a donor agency's perspective (i.e. which types of conditions do different donor agencies use and why). It would be useful to complement this with an analysis of conditionality viewed from the recipient countries' perspective – and notably, an analysis of whether and how

the type and content of conditionality differ in fragile states and others. In line with the points above, it would probably be more useful to focus on post-conflict countries but simultaneously look at conditionality beyond its use in budget support programme (see Annex 2).

190) Similarly, it would be useful to look at issues of PFM systems, and the assessments made (and not) and what they tell. Additionally, the results of reform programmes or assistance to strengthen them, in fragile (or post-conflict) states, and the link with aid instruments used (and not) in these countries, would be valuable. This information was not available when undertaking this study. The WB has commissioned a study of the history of PFM reforms in fragile countries to try and identify what worked and did not, and why, which should soon be available[47]. It is suggested to examine this (and other relevant material) with a focus on the implications for the use of aid instruments.

Annex 1: Scope of the study in relation to fragility

Lists of fragile situations for Oxfam Novib study

A1.1) The lists in Table A1 have been put together for this study. The 'short' list is based upon all of the Save the Children Conflict-Affected and Fragile states (2010) that are also included on both the World Bank's 'fragile situations' list (2010), and the first 40 worst rankings on the Foreign Policy index of state failure. So, these are the countries combining the three different sets of fragility criteria used by Save, World Bank and Foreign Policy. Niger and Guinea Bissau were then added due to their recent troubles, as well as Yemen now widely considered as fragile. Iraq was removed as an MIC. The longer list which is drawn upon in the qualitative aspects of the study includes countries with 'older' fragile situations. Some of these are no longer included in most lists of fragile states (e.g. Ethiopia and Cambodia) – but are still considered as fragile by a number of stakeholders, including Oxfam Novib, in relation to the authoritarian and/or corrupt nature of the regimes holding power. These countries are also usually engaged in an uneasy partnership with western donors.

Table A1: Short and long list of fragile countries for the study

Quantitative analysis (‘short’ list)	**Qualitative analysis (long list)**
Afghanistan	Afghanistan
	Angola
Burundi	Burundi
	Cambodia
CAR	CAR
Chad	Chad
Congo	Congo
Côte d’Ivoire	Côte d’Ivoire
DRC	DRC
Eritrea	Eritrea
	Ethiopia
Guinea	Guinea
Guinea Bissau	Guinea Bissau
Haiti	Haiti
	Kenya

	Lao PDR
Liberia	Liberia
	Madagascar
	Mauritania
	Myanmar
Nepal	Nepal
Niger	Niger
	Occupied Palestine (oPt)
	Pakistan
	Rwanda
Sierra Leone	Sierra Leone
Somalia	Somalia
Sudan	Sudan
Timor Leste	Timor Leste
	Uganda
Yemen	Yemen
Zimbabwe	Zimbabwe

Attempts at categorising fragile situations

A1.2) Table A2 below sets the cause(s) of a country's fragility against what change it has experienced over the last five years. This aims to highlight the dynamism of fragility as well as the potential for multiple (and interlinked) causalities. The table was constructed by cross referencing a number of sources. It uses the countries' recent history and stability as categorised by the Polity IV Country Reports Series[48], cross referenced with the World Bank's worldwide governance indicators[49] and the Mo Ibrahim Foundation index of African Governance (2008/09). These three sources and the authors' knowledge of the countries' context and recent history were used to categorise each country in terms of the (principal and other) cause(s) of its current fragility. A temporal element was added, in recognition that fragility is dynamic and countries are always moving along a (non-linear and reversible) trajectory.

A1.3) From the full matrix including all of the countries on the longer list outlined above, a number of other tables have been drawn up. These highlight not only the complexity of each national context and the controversy around putting countries into categories but also the frequency with which conflict occurs as a primary cause of fragility. What is also difficult to ascertain is the sequencing of the causality. For instance, whilst Cambodia and Rwanda have experienced very violent conflict they are no longer post-conflict countries in the same way that the DRC is today. In Rwanda and Cambodia, conflict is no longer a direct cause of today's fragility. However, the legacy of conflict lives on in the psyche of the people and in the nature of the current politics. It is, therefore, very difficult to ascertain what exactly causes these countries' fragility. This difficulty holds for many countries.

A1.4) More generally and unsurprisingly given the complexity of fragility, producing and using this typology provokes controversy. The act of putting countries into boxes results, whether or not it is meant to, in comparisons being drawn. Immediately one starts to question why such different countries can be found in the same category or box. This serves to illustrate, both the level of subjectivity that comes into such analysis but also the difficulty of defining fragility in a meaningful manner which works across all contexts.

Table A2: Matrix of fragility – Causes and Status over the past five years

	Primary Reason for Fragility					
Current trajectory (in last 5 yrs)	**Conflict**	**Colonial legacy**	**Natural resources**	**Economic stagnation**	**Poor Policies and weak institutions, authoritarian politics**	**Pockets of fragility**
Downward	**Occupied Palestine** **Afghanistan** **Chad** Haiti **Kenya** **Pakistan**	Pakistan	Chad	Haiti Zimbabwe	**Haiti** **Niger** Kenya **Madagascar** **Mauritania** **Myanmar**	Pakistan (regional instability)
Status quo	**DRC** **Guinea Bissau** **Somalia** **Sudan** Eritrea Ethiopia Lao PDR **Rwanda** Nepal CAR	DRC Somalia	DRC Sudan Zimbabwe	CAR	**CAR**) **Nepal** **Yemen** **Zimbabwe** **Ethiopia** **Lao PDR** **Uganda** **Eritrea** Rwanda	Yemen Uganda
Upward	**Burundi** **East Timor** **Liberia** **Congo** **Sierra Leone** **Ivory Coast** **Angola** Cambodia	Burundi East Timor Ivory Coast Angola	Sierra Leone Angola		**Guinea** **Cambodia**	Guinea

A1.5) Countries are placed in a category according to their primary reason for fragility (the name of the country is then highlighted in red), but other causes are also included where relevant. In this way a country can clearly be found in more than one column in the matrix.

A1.6) The tables that follow are taken from the overall matrix. Table A3 categorises countries on the basis of only the main cause of fragility (for the past five years) as highlighted in Table A2. This shows that whilst the causes of fragility can be numerous and inter-related, if pushed to designate a principle cause (assuming that the judgements made in the overall matrix are 'correct' – which is challengeable as categorisation is inevitably subjective), there are two causes that come out above all the others: conflict on the one hand, and poor policies and weak institutions and/or authoritarian politics on the other hand. This could be a useful way of discriminating between fragile situations in some parts of the analysis, in the final study.

Table A3: Fragile states and the primary cause of their fragility

Conflict	Poor Policies and weak institutions, authoritarian politics	Other causes
Afghanistan	Cambodia	
Angola	CAR	
Burundi	Ethiopia	
Chad	Eritrea	
Congo	Guinea	
DRC	Haiti	
East Timor	Lao PDR	
Guinea Bissau	Madagascar	
Ivory Coast	Mauritania	
Kenya	Myanmar	
Liberia	Nepal	
Occupied Palestine	Niger	
Pakistan	Rwanda	
Sierra Leone	Uganda	
Somalia	Yemen	
Sudan	Zimbabwe	

A1.7) In contrast, Table A4 categorises countries according to all the reasons for fragility identified in Table A2 that is, main and other causes. Many countries are found in the two columns of the table, which suggests that in terms of analysis this is not likely to be a very useful way of discriminating countries. Highlighted in green are a number of countries which are typically not/no longer on most lists of fragile countries and where arguably, the main issues for donors looking at whether to provide budget support or not are related to a fragile partnership between them and the government. Some other countries in that second column could qualify for this nuance too.

A1.8) Finally, Table A5 shows a categorisation only in terms of direction of trajectory (over the past five years), which has been used as a discriminator in some parts of the analysis for this study. (The analysis has actually shown that there does not seem to be a clear pattern between use of GBS and type of trajectory and type of primary fragility cause).

Table A4: Fragile states and the reasons for their fragility

A1.9) Key: primary causes (in bold fonts), other causes (in italic fonts), countries that are in both lists are highlighted in yellow.

Conflict	All Others
Afghanistan	*Angola*
Angola	*Burundi*
Burundi	**Cambodia**
*Cambodia**	**CAR**[a]
Chad	*Chad*
Congo	*DRC*
DRC	*East Timor*
East Timor	**Eritrea**
Eritrea	**Ethiopia**
Ethiopia	**Guinea**
Guinea Bissau	**Haiti**
Haiti	*Ivory Coast*
Ivory Coast	**Lao PDR**
Kenya	**Madagascar**
Laos PDR	**Mauritania**
Liberia	**Myanmar**
Occupied Palestine	**Nepal**[a]
Pakistan	**Niger**
*Rwanda**	*Pakistan*
Sierra Leone	**Rwanda**
Somalia	*Sierra Leone*
Sudan	*Somalia*
	Sudan
	Uganda
	Yemen
	Zimbabwe

*In both of these countries the conflict is old and yet would be seen by many to still influence to some degree the 'fragility' of the country.

[a] In both Nepal and CAR conflict is a key part of their fragility but it is hard to say whether it is the primary cause.

Table A5: Trajectory of countries termed 'fragile states'

Upward	Status Quo	Downward
Angola	CAR	Afghanistan
Burundi	DRC	Chad
Cambodia	Ethiopia	Haiti
Congo	Eritrea	Kenya
East Timor	Guinea Bissau	Madagascar
Guinea	Lao PDR	Mauritania
Ivory Coast	Nepal	Myanmar
Liberia	Rwanda	Niger
Sierra Leone	Somalia	Occupied Palestine
	Sudan	Pakistan
	Uganda	
	Yemen	
	Zimbabwe	

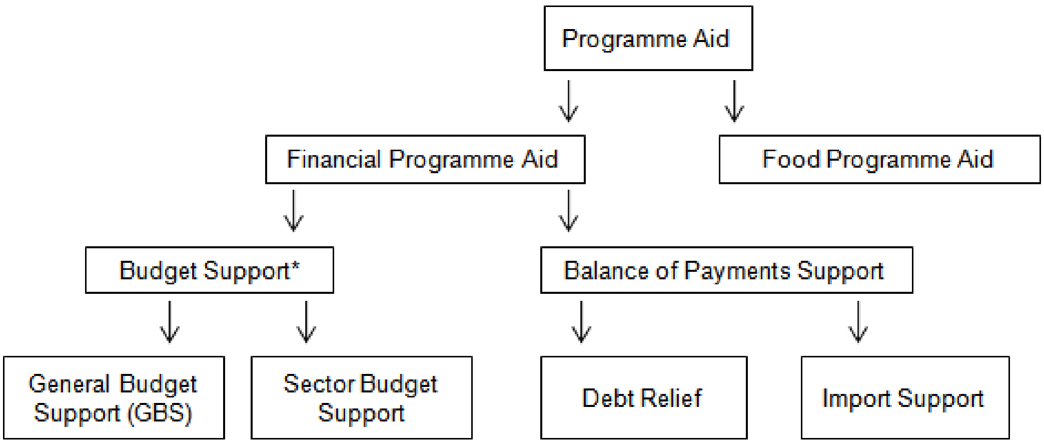
Annex 2: Aid definitions and terminology

Budget support, balance-of-payment support and debt relief

A2.1) All three (BS, BOP and debt relief) are different forms of 'programme aid':

Box A1: Hierarchy of programme aid

Programme aid can be divided into food aid and financial programme aid. Financial programme aid includes both budget support and balance of payments support (such as debt relief and import support). Budget support in turn can be divided into sector budget support and general budget support (GBS).



*Referred to as direct budget support in the *Evaluation Framework*

Source: TOR and Evaluation Framework: IDD, Mokoro et al, 2006

A2.2) There are a series of distinctions which are made within the Programme Aid hierarchy:

Are the external resources provided in the form of **foreign exchange** or **food aid**?

Are the resources converted into local currency? If so, is the resulting local currency made available to the government as **budget support** or is it retained by the Central Bank as would be the case with **Balance of Payments** support?

Is the conversion into local currency direct (which is generally the case in countries with convertible exchange rates) or is it indirect, as used to be the case with General Import Programmes when foreign exchange could only be used for eligible imports and when the conversion process was tracked?

In the case of Direct Budget Support, is it General or Sectoral Budget Support? (see below for more on this)?

Debt relief may be considered a hybrid of the above categories. It is a type of programme aid (and it is counted as ODA as it reflects the fact that a donor agency foregoes the transfer to itself that would have occurred otherwise) but does not entail a transfer of real cash from the donor agency to the recipient. However, it has a local currency effect in the future, due to the savings in debt servicing costs which are made possible. The amount of real savings made is not straightforward to determine (see Box A13). The use made of these savings may or may not be earmarked.

A2.3) One important difference between debt relief on one side, and BOP and BS programmes on another side, is that for debt relief a specific recipient country does not 'compete' with other countries to get more funding. In contrast, BS and BOP programmes are within a country's resource allocation which is decided through mechanisms in which the country is, inevitably, in competition for the donor resources with other countries. In addition, BOP and BS programmes compete with other uses of the donor funds within the country's envelope.

A2.4) In countries with convertible exchange rates both programmes called BOP or BS can provide financing for the government budget. However, BOP support does not always do this as the local currency generated when foreign currency is bought by local economic actors can be used for other purposes including boosting international currency reserves that the IMF advises the country to hold, and/or importing directly goods bought on the international market, and/or reducing the domestic budget deficit. BOP support and BS have different (though linked) focuses. In BOP programmes the focus is on the macro-economic framework and sometimes also on the list of imports that will be financed. In GBS the main focus is on the government budget.

A2.5) The general characteristics of **budget support** as a financing modality are that it is channelled directly to partner governments using their own allocation, procurement and accounting systems, and that it is not linked to specific project activities. All types of budget support include a lump sum transfer of cash; differences then arise on the extent of earmarking and on the levels and focus of the policy dialogue and conditionality.

GBS and SBS

A2.6) **Sector Budget Support** is distinguished from **General Budget Support**. However, there is no overall consensus on the definitions of GBS and SBS. The OECD DAC and the EC considers that SBS focuses on a specific sector, but to qualify as budget support SBS funds cannot be 'really' earmarked. In other words, they can be 'virtually' earmarked, but must remain fully comingled with the government domestic resources (they cannot be separately traceable). Yet many other donors consider modalities using real earmarking as SBS. As found in the 2010 SBSiP review (Williamson & Dom 2010a) in reality there is a wide array of modalities called SBS. In addition, as already noted in the 2006 PGBS evaluation (IDD et al 2006), in practice the demarcation between GBS and SBS is not as tight as the definitions below would suggest. There are cases where GBS programmes focus on a number of sectors with fairly in-depth focus on sector policies, which would better be called multi-sector BS programmes and do not resemble much to other GBS programmes focusing exclusively on the macroeconomic and fiscal framework and/or on arrears clearance for instance.

The OECD definitions[50]

A2.7) ***Direct budget support*** is defined as a method of financing a partner country's budget through a transfer of resources from a donor to the partner government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures. Funds transferred to the national treasury for financing programmes or projects managed according to different budgetary procedures from those of the partner country, with the intention or earmarking the resources for specific uses, are therefore excluded from this definition of budget support (Source: OECD 2006, Harmonising Donor Practices for Effective Aid Delivery, Chapter 2, Vol. 2). This definition also includes sector budget support provided and general budget support.

A2.8) ***General budget support*** is a sub-category of direct budget support. In the case of general budget support, the dialogue between donors and partner governments focuses on overall policy and budget priorities. (Source: Adapted from OECD 2006, Harmonising Donor Practices for Effective Aid Delivery, Vol. 2, Chap. 2: Budget Support).

A2.9) ***Sector budget support*** is a sub-category of direct budget support. Sector budget support means that dialogue between donors and partner governments focuses on sector-specific concerns rather than on overall policy and budget priorities (Source: Adapted from OECD 2006, Harmonising Donor Practices for Effective Aid Delivery, Vol. 2, Chap. 2: Budget Support).

The EC 'definitions'

Box A2: EC definitions of GBS and SBS

Area	General Budget Support	Sector Budget Support[1]
Financing Modality	Budget support: the transfer of resources to the National Treasury, where these financial resources are used in accordance with the public financial management system of the partner country.	
Objectives	Support to the national development or reform policy and strategy	Support to a sector programme policy an strategy
Policy Dialogue	Focus on the national development or reform policy and strategy. For example, support to an Association Agreement, or a PRSP	Focus on the sectoral development and reform policy and strategy. For example, support to an education sector programme
Typical features	Focus on: (i) national objectives which can cover key sectoral objectives in so far as they are fundamental to the national development or reform policy and strategy; (ii) improving or maintaining macroeconomic stability; (iii) improving overall public financial management; (iv) improving the budgetary framework to address national policy and strategy objectives (iv) oriented to the use of "results/outcome based" performance indicators	Focus on: (i) improving sector performance; (ii) improving overall public financial management, but paying particular attention to sector specific issues (iii) macroeconomic framework in so far as it is important for the achievement of sectoral objectives; (iv) improving the budgetary framework for the sector (iv) the use of "results/outcome" based performance indicators, but also paying attention to the results chain from "inputs" to "outputs" to "results/outcome"

Source: EC 2007b

Earmarking and traceability

A2.10) *Earmarking* concerns the way that aid is *justified* against certain public expenditures in the country's budget. Earmarking can be broad or narrow. Broad earmarking may involve justification of aid against overall sector expenditures, or the development budget for a sector. Specific earmarking involves justification against specific budget lines.

A2.11) *Traceability* of aid means that aid funds are *separately identifiable* in the expenditure classification of the country's budget and in the financial reporting/accounting systems. Both earmarking and traceability curtails discretion on the use of aid resources. Traceability typically entails the use of derogations from the government mainstream PFM systems (e.g. special accounts, separate reports, budget carry-overs). (Williamson & Dom 2010a)

Predictability

A2.12) A series of studies are currently ongoing, commissioned by the OECD Task Team on Aid Predictability and Transparency in the run-up for the High Level Forum of Busan. One of these focuses on predictability of aid. It aims to produce a series of donor predictability profiles. A synthesis will then be drawn together which will highlight good practices from across the donor profiles. The task team hopes to increase awareness concerning donor practices and their constraints (both political and technical) on projecting aid in the medium-term. It also aims at the high level forum to increase awareness amongst donors of good practices which provide accurate and reliable annual and medium-term aid projections. The predictability framework from which the following definitions are extracted is still in draft format[51].

A2.13) **Predictability** – In general, the degree to which a correct prediction or forecast of a system's state can be made either qualitatively or quantitatively. Aid is predictable when partner countries can be confident about the amounts and the timing of aid disbursements. (OECD 2006, p22). Predictability has several dimensions.

- **Volatility** refers to fluctuations around a trend. Aid is *volatile* when fluctuations in aid flows are large, relative to the volume involved (OECD 2006). Aid may fluctuate but still be predictable if the fluctuations can be foreseen. A difference between actual and anticipated disbursements does not necessarily demonstrate unpredictability – if it is due to well-known and clear conditionality not met, then it was predictable that disbursements would not match commitments. Predictability is more difficult to measure directly than volatility, and in practice measures of volatility are often used as a proxy indicator of unpredictability.
- **Reliability**: The extent to which partner countries can rely on donor pledges/ commitments being translated into actual flows is a major element of predictability. Reliability is related to the existence of clear rules governing aid disbursements. If rules are clear then aid is more predictable – variations between what was anticipated and what actually occurred can be explained with reference to the rules in operation.
- **Transparency** is important for reliability, since accurate prediction is hampered if the rules of the game are obscure. Thus the timely availability of information on expected future aid flows, with the appropriate degree of detail, is an essential element of predictability

A2.14) **Time horizon** – We follow the DAC harmonisation guidelines in their classification of the different time frames over which predictability may be considered:

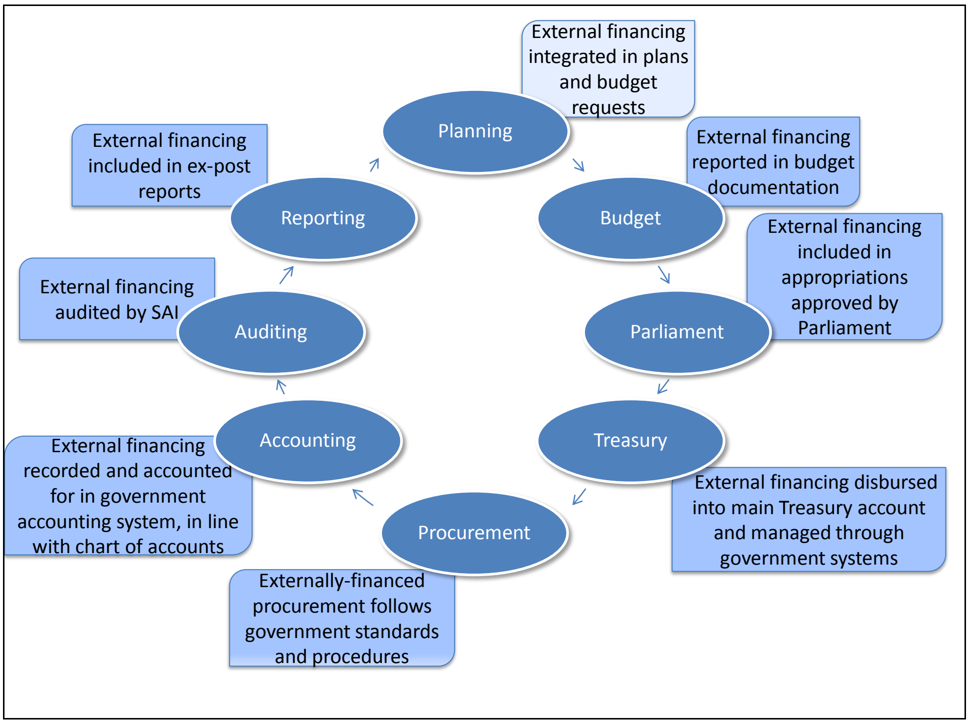
- Long-term (more than five years)
- Medium-term (two to five years)
- Short-term (less than two years)
- In-year predictability is an important element of short-term predictability.

Aid-On-Budget

A2.15) In 2008 a DFID-financed study for the Collaborative Africa Budget Reform Initiative (CABRI) and the Strategic Partnership with Africa (SPA) explored the issue of putting donor aid on recipient countries' budget. Entitled "Putting Aid On Budget", the study included ten country case studies in sub-Saharan Africa[52], and developed a set of good practice guidelines for donors to use country budget systems. Based upon the study GTZ published a good practice note in 2009 in order to help distil the lessons for aid agencies and partner countries. The note highlighted how aid can make more effective use of country budget systems at all points in the budget cycle, insisting that **all** types of aid can be put 'on budget' - meaning by this, on the (PFM) system of the partner country.

A2.16) A partner government's PFM system is commonly disaggregated into a number of components which can also be conceived of as the different stages of the full government expenditure cycle, from planning to reporting and auditing. The concept of Aid-On-Budget can be linked to the different components of the PFM system as in the diagram below (forthcoming OECD/DAC and Mokoro). Aid is fully 'on budget' (or on PFM system) when it is uses **all** of the components of the partner government PFM system. It is partially 'on budget' when it uses some of the components but not all. Aid-On-Budget would respect all of the steps described in Box A3 below.

Box A3: Aid-On-Budget and PFM cycle



Source: Chiche 2010 for OECD (forthcoming)

Conditionality

A2.17) A conditionality task team has been set up under the OECD-DAC in order to look more closely at the commitments made by donors as part of the PD/AAA. The task team, made up of representatives from partner countries, civil society and donors, commissioned a study to document and assess the policies and practise of donors concerning conditionality. The first phase of this work is currently in draft format and will lead into a second phase in which lessons learnt and good practices will be sought from partner countries and CSOs. The outputs of these two phases will feed into the High Level Forum 4 in 2011.

Annex 3: Donor policy and practices about budget support in fragile situations

A3.1 This Annex reviews donors' positions underpinning the provision of budget support in fragile situations. It starkly highlights how different these policies are, with rather little common ground between them. The review also highlights that donor positions are currently in a state of flux. For a number of donors this is in response to recent changes of political majority in a number of donor countries and following a more general trend stressing the importance of 'value-for-money' and of tangible results to justify development assistance to home constituencies/Boards. The Annex includes an analysis of major lines of divide underpinning these differences and evolutions, and a summary of a paper recently published in which AfDB, WB and the EC attempt to outline a common position

Selected donor policies related to BS in FSs

A3.1) Box A4 summarises the policies of a few bilateral donors in relation to the provision of budget support in fragile situations. Separate sections focus more in depth for a number of agencies considered as 'big general budget support donors' namely UK/DFID, WB, AfDB and the EU/EC.

Box A4: Selected bilateral donors' policies related to BS in FSs

Canada - Countries affected by violent conflicts and fragile states do not satisfy all the conditions for a Performance-Based Allocation (PBA), but might nevertheless require urgent support for peace-building, reconstruction or accelerated reform. The risks in these countries may be overridden by the strategic importance of a strong and immediate donor response. Support under these circumstances will require that special safeguard and monitoring mechanisms be put in place to ensure that funds are used for intended purposes. Such situations could rely upon the use of multilateral trust funds to manage the funds involved. (CIDA 2009)

Germany - Budget support is out of the question in countries that are deemed unreliable/ untrustworthy, and in countries that do not sufficiently meet the general conditions. For example those that score low on the governance front, due to poor governance or poor government performance and/or insufficient willingness to reform. In such cases Germany would encourage alternative instruments should be considered. (Mokoro 2008)

In the case of fragile states, harmonisation is considered to be extremely important, whilst alignment is thought to be less relevant in most cases since systems and procedures in many countries do not meet the required minimum standards. (Ashoff, Guido et al. 2008: p.32).

Sweden - Sida recognises that in fragile states "democratic structures, systems and capacity are often weak and interventions tend to be poorly coordinated". Nevertheless in such circumstances it stresses the importance of promoting "broad ownership, alignment, harmonisation etc. in relation to relevant actors, is just as important (if not more so)". Sida would assess the use of budget support in fragile states in the same way that it would in other countries (Sida, 2008: p.16). Sida would seek in the design of a PBA in a fragile state to balance capacity development, reform and regular operations thus adapting the PBA to the particular context. In the consolidation of Sida's partners, fragile states and conflict affected partners have been included as a priority group for Swedish aid. The OECD-DAC peer review has recognised that this new focus for Sida will require new staffing needs and incentives and longer term predictability for partner countries (2009).

Netherlands - In 2006 MFA had indicated that it was starting work on developing an overall policy for its engagement in fragile states, building on its active engagement in the DAC Fragile States Group. In the event a separate policy did not emerge. But the overall policy statement for Dutch development cooperation for the 2007-2011 period features a detailed outline of how the Netherlands would strengthen its policy focus on 'security and development' in a number of countries corresponding to a profile where this had been assessed as a priority (MFA Netherlands 2007). The list of these countries included Burundi and DRC while Ethiopia and also Rwanda, Mozambique and Yemen were in the category of countries where the focus would be on accelerating the achievements of the MDGs.

The Netherlands had a very progressive view of budget support, describing it as "the most effective form of aid since it ensures that recipient countries assume responsibility for implementing their own development agenda and contributes to a better alignment of aid with policy and systems of partner countries", (OECD DAC, 2006). Therefore under this rationale the Netherlands was until early 2010 providing budget support to Burundi (classified as a 'security and development partner') as they felt that budget support could be used to strengthen state capacity and prevent further decline. It is noteworthy that in contrast, the Netherlands did never provide budget support to Ethiopia and still does not.

However, with the recently formed coalition government (2010) the country's approach to BS generally and in fragile situations is changing drastically. In EU level meetings, the new government made clear that it was against the use of budget support in countries where basic requirements in good governance, human rights and corruption are lacking (this is mentioned in the government coalition agreement). This is stated in a letter to the Dutch Parliament that the new government issued in December 2010 to 'outline the development cooperation policy', and further statements are very clear: "General budget support is of only limited applicability, since it requires an adequate degree of trust, based on shared political views. Sometimes, this trust is lacking, leading to a stop-go policy that undermines effectiveness. General budget support will only be provided if circumstances in relation to corruption, human rights and good governance allow. This means that far less use will be made of this instrument" (MFA 2010).

The implications are that the Netherlands will restrict its use of budget support, as it has already started doing by halting its GBS programme in Rwanda in December 2010 and cutting the development cooperation budget allocated for budget support programme in 2011 by one third (MFA 2010). It will also push for the EC to show more restraint in using budget support, voting against BS (in EC committees) when countries do not meet the said requirements – as is also indicated in the letter to the Parliament. The new position suggests that the use of budget support in certain types of fragile states will be out of the question – more particularly those which this study categorised as fragile mainly because of broad governance issues (as opposed to conflict). When exactly a government crosses the 'trust' boundary is not explicitly defined. The policy is also not clear cut with regard to the use of sector budget support, which the letter suggests might be more acceptable where general budget support is not.

Budget support in FSs for the UK

A3.2) Under the previous Labour government the UK was at the forefront of thinking about and the action in engaging in 'fragile and conflict affected states/situations'. DFID produced a large amount of analytical work, actively supporting multi-donor analysis, policy and guidance development processes, and effectively increasing its support to fragile countries.

A3.3) DFID believes that budget support may be effective in reinforcing and building effective states: "while risks of delivering budget support may be high in many fragile states, possible benefits are also likely to be high and so PRBS may well be an appropriate way to deliver aid, provided risks are well managed" (DFID, 2008). DFID uses BS in a number of FSs. Its approach has developed on the back of cases considered as successes in countries like Rwanda and more recently Sierra Leone where "efforts to rebuild the state concentrated on governance reforms and a bold political decision was taken to use budget support, although out of step with DFID thinking about work in fragile states" (DFID, 2008). In 2009/10 DFID had BS programmes in Niger, Sierra Leone and Nepal, as well as Cambodia, Ethiopia, Pakistan and Rwanda (DFID 2010a). (A number of these were sector/thematic BS; the distinction is not clear cut from the data available).

A3.4) But the use of budget support is not a 'blanket' position. Recent guidance on 'working effectively in conflict-affected and fragile situations' (DFID 2010j and associated topical notes) mentions four main forms of alignment in fragile states. These range from working fully through government systems through budget support on one end, to working with some government and some non-government actors, not directly through and not fully with the state but through shadow and bottom-up alignments (see more below), with MDTFs an in-between modality. The guidance also outlines an approach to make decisions about which forms of alignment are not mutually exclusive and can be appropriate in different contexts – summarised in Box A5.

Box A5: Different alignment forms in different situations – DFID guidance 2010

Some or little state capacity but no commitment – work with and if necessary outside the state (with UN, NGOs, LGs and possibly reformist elements in central government), trying to maintain focused policy dialogue on some technical issues; shadow and bottom-up alignment are possible options.

Commitment but little capacity – opportunities to work through the state within an agreed government/ donor overarching strategic framework. BS should be considered, including through an MDTF if necessary, together with large investment projects, security reforms etc. Contract UN and NGOs but on-budget.

A3.5) The guidance contrasts Rwanda and Sierra Leone as examples of some success with budget support, to Burundi where the political environment has been too volatile to consider it. Both Rwanda and Sierra Leone are countries where the UK has invested significant sums of money as budget support and both are seen as transitioning out of fragility. Security has returned in both cases and indicators on human development are improving. In DFID's own words " In Sierra Leone, while risk analysis was weak, the decision to provide budget support was judged correct in providing support to a new and fragile government" (DFID 2010:p.13). It is however, noteworthy that some other donors have opposite positions, providing budget support in e.g. Burundi but not in Sierra Leone (e.g. until recently the Netherlands).

A3.6) DFID does not believe in the 'one shot' budget support operations that some other donors develop and implement (see below). DFID feels that such support 'may not deliver all the benefits associated with a more predictable, longer-term commitment, such as serving as a platform for dialogue on reform or improving budgeting and planning. Moreover, this approach can also fail to lead to sustained improvements in government service delivery if not accompanied by capacity development support to priority sectors'. DFID also suggests that SBS may be more effective in some cases because it enables a more focused policy dialogue at sector level and easier links with sector capacity development programmes.

A3.7) DFID's guidance also characterises other modalities that can be useful in fragile situations, as summarised in Box A6.

Box A6: MDTFs, shadow- and bottom-up alignments – Alternatives or complements to BS

MDTFs can disburse straight into the budget on a reimbursement basis. They therefore provide a form of budget support even in countries with poor fiduciary standards, financing recurrent expenditure to promote recovery and state- and peace-building. MDTFs can also be a platform for coordination; and a platform for policy dialogue as well as an opportunity to strengthen planning and budgeting capacity of government, when they include a basket of untied funds for allocation through a joint planning process. They can also finance service delivery through multiple providers. They offer a way for donors to pool political and fiduciary risks and to 'approach jointly complex state-building processes'. [The ARTF in Afghanistan is the 'textbook example']. But they can be over-ambitious and unrealistic in their design and lead to unacceptably slow disbursement. [In Southern Sudan this has been the case for a WB-managed investment MDTF. DFID established its own alternative modality after years of delay].

Shadow alignment is an option when government legitimacy is under question but it is desirable to mirror government systems to be able to shift to real alignment when it is feasible. In some cases it is feasible to leave to government the policy-making and regulatory role. But there may be a tension even so, if this is seen as supporting a repressive regime or, allowing a situation of crisis to continue by addressing only symptoms. Shadow alignment should always be decided with other UK agencies (in charge of the political and security agendas of the UK).

Bottom-up alignment through Community-Driven Development programmes can be an alternative, or complementary to 'through-state' modalities. CDD can help rebuild links between communities and the state depending on how it is designed/the circumstances. Caution is needed against idealising 'the community', and against CDD programmes becoming government-like machineries on their own. [The Yemen Social Fund for Development is a typical example of an efficient modality, effective in its short-term goals, but raising sustainability issues as it is not integrated in government budget (hence e.g. no teachers for schools); government budget is sidelined as an instrument for policy, as 'the most effective channel for development finance' is not the budget but the Fund]. The literature elsewhere stresses that to have positive impacts on the state-citizens relation CDD needs to be conceived as part of a broader governance reform strategy aimed at improving institutional performance and accountability.

A3.9) So on paper, DFID presents a nuanced and balanced approach, resonating with the recommendations of the OECD that in FSs, a single funding channel (whilst appealing in some ways) is not realistic as there are many different needs and not all can be covered with one instrument (OECD 2010h). The guidance also goes some way to clarify the assumptions behind each type of funding instrument. This should help to ensure better coordination among instruments and to avoid disruption in service delivery – although this all depends on how the guidance is practically applied. Southern Sudan may be an example of how difficult this is in practice. MDTFs and other service delivery funding mechanisms, including that of DFID, have proliferated over time; rationalisation among them has thus far not happened. At the same time DFID is trying to transition from its 'through 3rd party' mechanism to a SWAp in health (Oxfam b + personal communications + DFID 2010k].

A3.10) DFID is also mindful that budget support provision and 'do no harm' should be reconciled. This is not always easy as shown by the example of Sierra Leone where in 2007, government failure to meet a transparency-related condition led DFID 's decision to suspend BS. This posed a threat to macro-economic stability, severely tested an already weak budget process, and led to deterioration of public services It may also have contributed to the fall of the ruling party by sending a 'regime change' signal shortly before a national election. On the other hand, according to DFID, the fact that the condition (publication of audited public accounts) was ultimately met was "considered an important step towards responsible and accountable government." (DFID 2010c)

A3.11) The guidance suggests the use of a portfolio approach combining different instruments, and the necessity of flexibility allowing to move forward as well as 'slide back' into 'lower alignment modes' when this is required. This was done in Ethiopia for instance, where GBS was replaced by a form of decentralised budget support with stricter fiduciary safeguards and demanding requirements for transparency and local accountability system development.

A3.12) When looking at DFID practice two further points are worth noting. Firstly, there seems to have been an explosion of problematic cases leading to programme changes or other measures that affected budget support reliability. In

2008/9 there were three such cases (with only Cambodia as a 'fragile situation'); in 2009/10 there were ten such cases including Niger and Nepal SBS, Cambodia (again) and Sierra Leone. Secondly, there does not seem to be a straightforward link between a country's degree of fragility (admittedly this is subjectively defined) and the proportion of total UK aid channelled through budget support. For instance in 2009/10 Sierra Leone, Pakistan, Ethiopia and Malawi were all receiving between 55% and 60% of total UK aid through budget support, following a sharply decreasing trend (from 2007/8) for Ethiopia and slightly less so for Malawi, an upward trend for Sierra Leone, and fluctuations for Pakistan.

A3.13) This section is based on an analysis of DFID Annual Reports for 2008/9 and 2009/10 and is supported by the Table A6 below.

Table A6: Percentage of BS used by DFID in different countries over time

	2007/8	2008/9	2009/10	Comments (*)
Ethiopia	80%	68%	57%	Decentralised BS (PBS), governance (DIP), safety net (PSNP), health
Malawi	62%	65%	59%	General PRBS + Health
Niger	0%	0 - 28%	29%	2008/9: Decision about Niger unexpected?
Rwanda	73%	69%	75%	General PRBS + Education
Sierra Leone	25%	42%	55%	
Cambodia	11%	0%	0%	Delayed due to lack of progress in land management reform with a backdrop of broader corruption concerns
Nepal	58%	46-17%	9%	2008/9: Unexpected shortfall beyond the year?
Pakistan	63%	46%	59%	General PRBS + Health + Education + reconstruction

(*) Based on first-hand knowledge, three of the programmes counted as budget support in Ethiopia provide strongly earmarked and traceable funding which other donors do not consider as budget support. There may be similar cases in other countries.

Budget support in FSs for selected 'Development Banks'

A3.14) Typically, whilst most bilateral donors provide budget support (i.e. direct financing to the government budget), development banks do both balance-of-payment support and budget support operations, depending on the circumstances (see Annex 2 for definitions).

World Bank budget support in fragile situations

A3.15) From a financing perspective, the World Bank classifies fragile and conflict-affected countries into: (i) those receiving only IDA resources through the Performance-Based Allocation (PBA) system; (ii) those qualifying for exceptional post-conflict allocations; (iii) those qualifying for exceptional allocations upon re-engaging with IDA after a prolonged period of inactivity; and (iv) those in 'non-accrual' status (with payment arrears of more than six months). The WB updates annually a list of 'fragile situations'.

A3.16) The Good Practice Note (GPN) on Country Assistance Strategies (CAS) in fragile states offers four approaches across the spectrum of fragile states (WB 2005):

- Deterioration: An interim strategy may focus on stemming the decline in governance and social services and contribute to multi-donor conflict-prevention efforts, with limited new financing.
- Prolonged crisis or impasse: An interim strategy may focus on maintaining operational readiness for re-engagement and providing economic inputs to early reconciliation dialogue and small finance through non-government recipients for local development and service delivery.
- Post-conflict or political transition: An interim strategy may focus on rebuilding state capacity and accountability and delivering rapid visible development results, providing funds from the IDA exceptional allocations.
- Gradual improvement: A full CAS is advisable and may focus on building state capacity and accountability to boost support for reform. It can provide moderate IDA allocations.

A3.8) The World Bank policy framework allows it to provide budget support in fragile situations, through what is called 'Development Policy Operations' (DPOs). There is no guidance on the provision of budget support explicitly linked to the types of situations just outlined. Although in the recently published Common Approach Paper the WB endorses the position that 'budget aid' should be reserved for 'gradual improvers' and to 'support legitimate regimes' (AfDB & WB 2010, later referred to as CAP 2010). In practice there seems to be two types (and more sub-types) of budget support instruments used in fragile situations, which differ in their objectives and designs. These are summarised in Box A7, with a few country examples. Our review of practice also suggests that there is no straightforward link between the cause of a country's fragility and the type of budget support instrument used. This may be explained in part by the fact that country situations evolve quite rapidly.

Box A7: Different uses of WB budget support in fragile situations

The Bank uses budget support even in 'post-conflict or political transition' situations (before 'gradual improvement'). When a quick response is required even though 'there may be insufficient country capacity to adequately address design considerations or develop a strong policy programme with stakeholder consultations. In such circumstances, DPOs are justified on an exceptional basis' [Mokoro, OPM and CSEA, 2010]. This type of 'one off' operation is used for arrear clearance, a frequent situation in early post-conflict/transitional countries, and for rapid responses to both fragile and non-fragile countries affected by exogenous crises. Between FY06 and FY09, 'one off' DPOs were provided to four countries (CAR, Côte d'Ivoire, Liberia and Togo) that had stopped receiving BS from donors but sought support mainly to clear arrears to the WB and other creditors so that, donors could re-engage.

However, there does not seem to be full consensus about this use of DPOs. On the one hand, the IEG has evaluated as satisfactory the 'Re-engagement and Institution Building Support' DPO in CAR, which facilitated an IMF medium-term supported programme and two additional DPOs from the Bank (WB IEG 2010). In Togo arrears were cleared against endorsement of an Interim Strategy and since then the WB was able to approve three non-DPO programmes, and supported Togo to prepare its Interim PRSP (IDA 2009a). On the other hand, a WB operational review highlights that these DPOs had 'very limited and light policy content', illustrating 'a tension inherent in the use of DPOs for clearing arrears' (OPCS 2009).

In other cases the Bank's DPOs in fragile situations are less 'policy-light'. The Bank's focus in fragile and conflict-affected states has often included support for service delivery, most frequently in the education and health sectors. DPOs in Sierra Leone and Burundi have supported efforts to align the budget with the PRSP and, in particular have monitored budget shares to health and education (Sierra Leone), or pro-poor expenditures (Burundi). DPOs to fragile states have dealt with weak PFM systems and have helped to provide significant PFM assistance through parallel TA projects (OPCS 2009).

Beyond these generalities, DPOs in FS vary widely in terms of breadth of coverage (including whether or not they include conditions in 'sensitive areas') and design (programmatic as in the series of annual single-tranche PRSC operations, or not).

So for instance, the Burundi FY07 DPO was weakly linked to government policy intentions due to changes in government [DFID had decided against BS as seen above]; to compensate for lack of capacity the programme had very detailed conditionality. Therefore it was weakly owned by government even though it was also heavy on sensitive area conditionality. This DPO was actually given as an example of poor 'criticality' and inconsistent design in the WB 2007 review of conditionality. In contrast in Haiti, the government signed for a 2nd (non-programmatic) DPO in FY07 which was given as an example of good practice, as it narrowly focused on a broadly endorsed PFM action plan, and sound management of public enterprises rather than privatisation. The programme also supported the publication of CSO reform monitoring reports to enhance transparency. (This did not prevent the then-government to go down in 2008). Niger is another example in which detailed conditionality was trying to make up for low capacity and 'lack of specificity in PRSP and other government documents' (WB 2007). The DPO was later on caught by unforeseen political developments.

A3.18) Box A7 above suggests that risks/benefits are assessed in two fairly distinct ways in the 'one shot' arrears clearance/quick response DPOs and the others. In the former type, engagement is motivated by a specific factor (facilitating re-engagement or maintaining the macroeconomic stability necessary for continued engagement). The risk is limited, especially with arrear clearance, as if things go wrong, the Bank could still decide not to re-engage. Decisions on how to handle DPOs (and engagement as a whole) are more difficult to make once the Bank is fully re-engaged.

A3.19) In 2005 the Bank/IMF Development Committee approved a number of principles that the two institutions would apply to their conditionality, namely: ownership, harmonisation, customisation, criticality, and transparency and predictability. (The treatment of predictability is 'light touch': the principle is mainly about transparency and how this is supposed to facilitate predictability). The 2007 conditionality review [WB 2007] analyses the 57 DPOs approved in FY2007 against the principles. Overall the report is fairly positive though in some notable cases the executive summary hides a much more nuanced analysis in the main text, revealing differences of opinions among stakeholders and in particular, between donors and CSOs, in the case study countries in which interviews were conducted.

A3.20) The evidence outlined in relation to fragile countries in Box 7 above also suggests that in countries where risks are perceived to be high (CAR, Burundi, Niger), the Bank's conditionality principles may not be adhered to. In particular, ownership may be weak, and criticality may be contradicted by attempts at compensating weak capacity with an over-specified conditionality framework, as happened in Burundi. In total, there were only thirteen DPOs in fragile situations out of the 166 reviewed in the 2009 operational review (excluding DPOs provided in Rwanda and Pakistan, not considered as 'fragile situations' in the review). Table A7 below highlights that in many of these countries conditionality was applied in 'sensitive areas'. In a number of these countries it is unclear that the recipient government would have the required policy capacity to be able to develop strong policy ownership in these areas.

Table A7: Coverage of WB DPOs in FSs in FY06-09

									Sensitive areas			
	No DPOs received	Single tranche?	Fiscal stabilisation	Fiscal management, PFM, audit, fiduciary	Decentralisation	Transparency & governance	Education and/or health	CS/ Public Admin reform	Private sector regulation	Business Climate	Financial sector reform	SOE reform
Afghanistan	FY07	X		X			X	X	X		X	X
Burundi	FY07			X			X		X	X		X
CAR	FY07,08, 09	X	X	X		X				X		
Côte d'Ivoire	FY08	X	X	X		X			X	X	X	
Haiti	FY07			X			X	X				
Lao PDR	FY06,07, 08	X	X	X			X		X	X	X	X
Liberia	FY08	X	X	X		X						
Sierra Leone	FY07	X		X	X	X	X					X
Togo	FY08	X	X	X		X			X		X	

A3.9) The same review notes an explosion in the number and volume of DPOs in FY09 (they tripled in volume compared to the annual average for FY06-FY08) as the WB responded to the multiple (fuel, food, finance) global crises affecting a large number of countries. However, this is unlikely to have benefited FSs and even seems to have contributed to crowd them out, as shown by a decreasing share of IDA resources flowing to fragile situations from FY07 to FY09 (see Table A8 – commitment data for both DPO and non-DPO funding for all IDA countries and Fragile States only) (IDA 2009a). Another factor to consider in explaining this trend is the large spikes when arrears are cleared, for example FY08 in Liberia, Togo and Côte d'Ivoire.

Table A8: Declining IDA commitments for fragile states?

Commitments US$m	FY04	FY05	FY06	FY07	FY08	FY09
Total IDA	9.035	8.559	9.446	11.752	11.235	13.995
Total Fragile States	1.899	1.470	1.350	2.083	2.233	1.395
Share IDA resources to FSs	21%	17%	14%	18%	20%	10%

A3.10) In relation to other modalities, the WB notes that some fragile countries get large resource flows from MDTFs – For instance in Afghanistan, Solomon, and Timor Leste MDTF flows are larger than resources flowing from the Bank. In CAR, the Gambia, Liberia in FY08 and Guinea Bissau and Haiti in FY09 the governments received more than one third of their external resources through TFs. (IDA 2009a). There is not much analysis of these MDTFs, although other documentation clearly shows that they are very different from one country to another. As noted above some of these MDTFs, like the ARTF in Afghanistan, disburse into the government budget like a budget support donor would do. Others hardly use any government system at all. The Bank just notes that 'some MDTFs have not met expectations' (presumably referring to South Sudan) and, there is need to carefully manage expectations and to ensure that both government and the Bank have 'sufficient capacity to support implementation' – this sounds a bit like a chicken and egg situation.

Other Development Banks

A3.11) The **Asian Development Bank** has guidance for the relaxation of business processes for fragile states but not specific to its policy-based lending (budget support). There is no specific policy for BS in FSs. The relevance and feasibility of BS is assessed on a case-by-case basis. The AsDB has provided BS to countries exhibiting aspects of fragility (e.g. Cambodia, Nepal and Afghanistan).

A3.12) The **African Development Bank** (AfDB) has an explicit set of policies and operational guidance related to fragile states. It is also in the process of harmonising its position on the provision of budget support to fragile states with the WB and the EC (Common Approach Paper, see below). The main features of AfDB policy relevant to budget support in fragile states are summarised in Box A8.

Box A8: AfDB policy and institutional framework for Budget Support to Fragile Countries

Additional resources for fragile states – The Bank had a Post-Conflict Country Facility providing support to arrears clearance until 2008, when a new Fragile State Facility (FSF) took over this function and a number of others. This coincided with the AFDB 2008-2012 strategy which announced a greater focus on fragile contexts.

The FSF manages a dedicated fund which can provide additional resources to eligible 'post-crises/transitional' countries for three things: (i) top up of their regular (performance-based) allocation from the ADF; (ii) arrears clearance; (iii) limited additional technical assistance (e.g. seconding senior staff to governments). Countries must meet 'key conditions for consolidating peace and security' (peace/post-crisis agreement; recognised functional/ transitional government 'broadly acceptable to local stakeholders and the international community') and be affected by a significant extent of destruction of the economy (economy contracted by more than 10% of real term GDP/capita since 1990, and country in the bottom quintile of the HDI index at the time of the assessment). The government must have demonstrated commitment to reforms (macro; public sector management, enabling environment for private sector development (PSD); transparency and accountability; PFM).

To be eligible for arrears clearance the country should also have an agreement with AfDB or other International Financial Institutions (IFIs) and be eligible for HIPC; the country will have to contribute 1/3rd of the resources needed but this can be financed by other donors.

Use of budget support in fragile states – The Bank's general guidelines for budget support do not prevent the use of BS in fragile states. The FSF operations can use any Bank's instruments including budget support. The Bank can decide to provide a closely monitored BS operation to post-crisis/ transitional countries with governments committed to reform, weak/declining revenue, and when rapid response from the international community is judged crucial to maintain momentum for reforms and reviving service delivery. These must be provided in a partnership with other donors, and have safeguards and controls and performance indicators.

A3.25) It is important to note that, in its overall portfolio of policy-based lending (equivalent to the WB DPOs), the AfDB has shifted relatively late from macro-focused balance-of-payment to a greater use of budget support (which it calls

Development Budget Support Lending/ DBSL). When it has shifted it is usually through joining other donors who are already engaged with this type of government budget-focused instruments. The Bank's guidelines for DBSL were issued in 2004. A recent draft inventory suggests that in the early 2000s the AfDB had a large number of presumably BOP programmes focusing on structural adjustments, in fragile countries (e.g. in Chad, Guinea, Sierra Leone, Ethiopia, Niger). Then a number of budget support programmes were identified in the post-2005 period.

A3.26) In 2008, countries potentially eligible for additional resources from the FSF were identified as Burundi, CAR, Comoros, DRC, Côte d'Ivoire, Guinea Bissau, Liberia, Sierra Leone and Togo, among which those in bold would also be potentially eligible for arrear clearance funding. A number of these countries have indeed accessed FSF resources or are in the process of doing so. Among these, Burundi accessed FSF resources for the AfDB 2008-2011 country strategy paper; a DBSL programme focusing on economic reforms and governance support was recently approved following two previous such programmes. In contrast, in DRC the AfDB has approved in 2009 a budget support 'Programme d'urgence d'atténuation des impacts de la crise financière' which was financed from the country's regular allocation). This seemed to be more of a 'one shot' operation with 'policy light' content than in Burundi. In CAR the AfDB used balance-of-payment support for a number of years as fiduciary risks were deemed too high for BS operations. In Sierra Leone the AfDB is part of the multi-donor budget support arrangements with the WB, EU/EC and DFID. It is in Rwanda that the AfDB provided its earliest budget support operation to a fragile country, in 2004 (AfDB 2008a, AfDB 2008b, AfDB website, Mokoro, OPM and CSEA, 2010b).

A3.27) A retrospective of the AfDB policy-based lending (BS and BOP) over 1999-2007 shows that, somewhat counter-intuitively, the share of a country's policy-based lending in its total AfDB funding is inversely proportional to its policy and institutional performance as measured by the AfDB that is, better performers get comparatively less budget support resources (AfDB 2008b). The data available is not detailed enough to analyse what this might imply in relation to fragile countries (which are likely to overlap significantly with the lower performance countries hence to have benefitted from proportionally higher DPL envelopes).

A3.28) An important question concerns the type of DPL operations which were implemented in such countries. Considering the period of the retrospective it is likely that a large number of DPL operations in fragile states were BOP rather than budget support. We found (through the case studies and personal communications) that in some such countries they continued to use what appears to be a hybrid BOP/budget support. E.g. in DRC AfDB in 2009 had a 'general budget support' which was designed as both BOP support (with attention to specific imports) and budget support (with attention to what was done with the counterpart local currency in terms of budget financing). This may apply more generally to AfDB portfolio of 'BOP/BS' in fragile countries. The observation above that worse performers attracted proportionally more GBS/BOP support than better performers (for whom this was perhaps support closer to the 'regular'

BS design) remains therefore relevant, and suggests that AfDB may use a different mix of objectives for these operations, in different types of context.

Budget support in FSs for the EU/EC

A3.29) The EC is well-known for its principled stance in favour of budget support, 'a matter of trust' (Michel, L. 2008). The EC uses both general budget support (GBS) and sector budget support (SBS). It mainly uses un-earmarked and non-traceable SBS, which makes it very similar to GBS except for the policy focus which is supposed to be cross-cutting for GBS and sectoral/thematic for SBS (see Annex 2 for more about this). However, the EC guidance also foresees the possibility of using what is called 'targeted budget support' i.e. a modality through which financing is provided to reimburse expenditures made by the government for a set of specific budget lines that are precisely identified in the programme documentation (e.g. teachers' salaries for a specific month) and audited (usually on a sample basis) before budget support is released. This modality is a 'second best' choice, justifiable mainly when PFM systems are not sufficiently robust; there is no explicit link between targeted budget support and 'fragility' in the existing official guidance.

A3.30) The realisation that fragile states raise particular challenges with regard to the use of budget support appears to have come quite late. This is illustrated by the extremely scant reference to the issue of fragility in the EC 2007 budget support and sector policy support programme guidelines (EC 2007a, EC 2007b). None of the two sets of guideline mention fragility. The only situation envisaged is post-conflict, which is mentioned once or twice in each document. The GBS guidelines allow the provision of GBS as 'short-term support for stabilisation and rehabilitation' for post-crisis countries (including post-conflict) and countries facing particular financial difficulties or short-term fluctuations in export earnings, as well as 'medium-term support to development or reform policy'. The guidelines do not distinguish between short vs. medium-term GBS programmes in any other way. The SPSP guidelines actually seem to discourage the use of BS in fragile and post-conflict situations, highlighting that in such contexts, 'projects can be a valuable modality to support starting sector programmes'.

A3.31) However, the EU has moved on since 2007 firstly with, a Communication from the Commission (2007) outlining an 'EU response to situations of fragility' (with some emphasis on 'orphan fragile states' and forgotten crises) (Communication of the EC 2007). In 2009 the first European Development Report (EDR) was published, this focused on 'Overcoming fragility in Africa' (EC 2009a). Interestingly, the EDR (which is not EU/EC official policy) seems to be more cautious than the Communication when it comes to budget support and working through the state. This is illustrated by the following extracts from each:

- EC Communication (2007): 'In complement to projects and depending on the sources of fragility, BS may also be used to address urgent financing needs, consolidate key State functions (PFM) and maintain social stability (payment of salaries or imports financing). It can also effectively influence the political dialogue on security sector reform, disarmament, demobilisation and reintegration or civil service reform when they have an impact on macroeconomic stability.'

- Summarised from EDR (2009): BS can be a very challenging option (in fragile contexts), as state institutions are incapacitated or illegitimate. Even in more democratic contexts governmental legitimacy may be short-lived and it is difficult to implement long-term policies through BS unless there is close monitoring. Moreover, if the state does not yet have the capacity to provide social services moving too fast from humanitarian assistance towards BS leaves a humanitarian gap. In certain circumstances it is advisable to 'separate the different functions of government: policy formulation from allocation and monitoring of funds. Separating the task of setting long-term development policy goals from implementing policy measures will make implementation independent from immediate political pressures and avoid commitment problems'. However, 'change in governance would be needed to implement long-term policies efficiently.'

A3.32) This debate about the relevance/feasibility/effectiveness of budget support in fragile situations is recognised by the Commission, which has included this topic as a question in the ongoing consultation on the future of EU budget support (EC 2010a).

A3.33) The key issues upon which the public are consulted are as follows (EC 2010a):

- Political governance and the role of political dialogue: Should BS operations (especially GBS) be designed to reflect commitment to underlying principles, and how (use of political conditionality; different for GBS and SBS)? How can BS processes be consistent with political dialogue whilst maintaining focus on policy dialogue? How can donors respond to deterioration of commitment whilst protecting the development benefits and predictability of BS?
- Role of policy dialogue, conditionality and links to performance and results – Among other questions, should EU introduce minimum PFM requirements?
- Domestic and mutual accountability – How to strengthen…
- Programming of BS and its coherence with other instruments – Criteria for how much? Is it better to have one single BS instrument or are there advantages and which ones in having GBS and SBS? How to strengthen consistency and practical coordination?
- Strengthening risk assessment and dealing with fraud and corruption: Measures to mitigate risks, responses when instances of fraud?
- Budget support in situations of fragility: Should BS be used in FSs and how?
- Growth, fiscal policy and mobilisation of domestic revenues: Design of BS to strengthen focus on these areas?

A3.34) In parallel, the EC has elaborated its own guidance with regard to the provision of budget support in fragile situations (in the form of a methodological annex in the existing EC GBS guidelines). Key highlights from this guidance are in Box A9.

Box A9: Draft EC guidance on budget support in fragile situations

In certain circumstances, and after a political, social and economic, and risk analysis (additional to the regular eligibility assessment), BS may emerge as 'the most appropriate instrument' (or even 'the only means') for: 'avoiding serious deterioration of the economic situation and the political equilibrium, underpinning stabilisation, and strengthening the state's limited financial capacity to ensure at least a minimum provision of its basic functions'. Budget support can be used in contexts in which there is an overall EC stabilisation strategy, made up of political, diplomatic, security, state-building and development instruments and actions.

The use of budget support is premised on the idea that the country is emerging from a crisis. Whilst there are windows of opportunities in all phases (typically: emergency → peace-building → macro-economic stabilisation) it may be difficult to mobilise BS at the very early stages (but it may be feasible to channel support through a trust fund, or provide earmarked short-term BS like France). BS can be used 'as a clear message of support for the country's emergence from crisis' when stabilisation emerges as a prospect, to help the country to clear arrears (with links to the HIPC process). BS can also be used once arrears are cleared and IFIs are back, to contribute to stabilisation by increasing revenue for e.g. social needs, facilitate cash flow management, reduce domestic debt etc. PFM reinforcing and macro-stabilisation remain chief objectives, but the focus may gradually increase on social indicators. This phase can go far beyond the HIPC completion point as long as there is a risk of backsliding.

If opportunities and feasibility are assessed to be positive, eligibility should be assessed as per the regular GBS guidelines, with the following nuances: (i) Demonstrate the 'ultra basic elements' of a PFM system in place (improved PFM may be an outcome rather than a pre-condition); (ii) Access to an IMF programme or a letter from IMF confirming there is a stability-oriented macro framework; (iii) Demonstrate that a national development policy or strategy addressing fragility challenges is being developed (instead of it being 'in place and implemented').

The draft guidance further stresses that:

1. FSs are by definition high risk for all aid but the cost of non-intervention may be higher and BS offers an opportunity to deliver a rapid and joint response to needs. The draft guidance does not refer to the issue of 'do no harm'. However, the draft recognises that withholding or restricting aid may be counter-productive in terms of the impact it has on a state's governance.

2. Objectives must be limited and clear especially in the very early operations.

3. Various ways of mitigating risks include the use of targeted budget support (see above), annual programmes until macro visibility is better, specific conditions, and policy dialogue.

4. BS should always be accompanied by institutional capacity development support (PFM, PRSP development and support to BS programme implementation).

5. There should be annual wide-ranging reviews.

A3.35) The EC has at the same time participated intensively in the discussions which preceded the issuance of a 'Common Approach Paper on the provision of budget aid in fragile situations', by the WB and AfDB (CAP 2010). Interestingly, while draft versions suggested that the EC would be among the institutions authoring the paper, in the final version this is not the case, although the paper makes clear that they had a key role in producing it and support the paper's position. Presumably this change is linked to the fact that as an institution the EC is currently engaged in a broader debate about the future of EC budget support and it would have been premature to author a paper before this debate and the associated public consultation is closed.

A3.36) The EC is indeed, accountable to the European Union (EU) and it's Member States (MSs). In contrast to the development banks the EU has a political and security mandate in addition to its development mandate. This raises the challenge of how to articulate the recipient government/EU policy and political dialogues, and of the role of budget support in this. This is currently a critical point of debate, with deeply divergent views amongst Member States and between EC and some MSs. Along the line of divide identified in a recent study, highlighting that different donors hold two quite different, technocratic vs. techno-democratic, intervention theories for budget support, (IOB 2010).

A3.37) This topic of the use of budget support in relation to political objectives has also been taken up in the ongoing public consultation mentioned earlier. Whilst the consultation rightly outlines this as a separate question from that of the relevance of budget support in fragile states, there is a risk that the two sets of issues will become conflated. This may not be helpful to either topic. Indeed the first question should be examined in relation to all types of recipient countries. Whereas focusing on political issues when looking at the issue of the provision of budget support in fragile states will lead to overlooking a number of other critical challenges.

A3.38) The questions on the two topics are summarised below.

- Political governance and the role of political dialogue: should BS operations (especially GBS) be designed to reflect commitment to underlying principles, and how (use of political conditionality; different for GBS and SBS)? How can BS processes be consistent with political dialogue whilst maintaining focus on policy dialogue? How can donors respond to deterioration of commitment whilst protecting the development benefits and predictability of BS?
- Budget support in situations of fragility: should BS be used in FSs and how? [summarised from EC 2010a].

A3.39) The EC guidance reflects the EC position (hence not necessarily that of the EU/MSs) that:

- the dialogue covered by the general conditions for budget support enables the EC to take a stance on key development issues that are not strictly related to budget support but in practical terms can be closely related to the country's budget (e.g. demilitarisation and reintegration of ex-combatants, security sector reform);
- issues of economic governance such as the management of natural resources (mining etc.) or civil service reform could be discussed in the course of the annual BS review;
- 'budget support must nevertheless remain a technical – rather than a political – response to a situation of fragile stability'.
- however annual reviews, 'while keeping separate the political dialogue as such', can lead to programme suspension or amendment 'if the conditions for its continuation are no longer met'.

A3.40) In practice in 2008 the EC provided BS in Burundi, CAR, Comoros, Guinea Bissau, Haiti, Liberia, and Sierra Leone (the latter as a member of the multi-donor budget support arrangements). The EC has also provided, in 2009, targeted budget support in the DRC, through a single-tranche instrument. This was initially planned to be a one-off emergency operation and was indeed financed by a broader EC 'emergency facility' (to respond to the 2008/9 multiple global crises). However, the EC has now prepared and has just got approval for a second such 'emergency budget support' programme, to be disbursed in 2010, again financed from an emergency facility.

A3.41) Retrospective reviews of these BS programmes have been carried out internally but are not available. As a result it is not possible to rapidly identify among the programmes those that are 'one-off' from those that have longer-term objectives, and from where they are financed (regular countries' allocations vs. 'emergency facilities').

Different 'intervention theories' and other major differences

A3.42) The differences in donors' policies with regard to the provision of budget support in fragile situations are underpinned by a number of major 'fault lines'.

A3.43) First, a recent study by the Institute of Development Policy and Management (IOB) highlights that donors can be categorised into two groups, which posit quite different 'intervention theories' for budget support. Their study, focusing on five (anonymous) donor agencies, reveals a number of other major differences (IOB 2010). This is summarised in Box A10.

Box A10: Is budget support political and should it? IOB's views

In the Budget Support and Policy/Political Dialogue: Donor Practices in handling (political) crises of the IOB (2010), different donors are found to hold two very different BS intervention theories:

the 'technocratic road' in which BS should be concerned with service delivery and capacity building whilst democratic governance issues are dealt with elsewhere, by/with other people and using different sticks and carrots;

the 'techno-democratic road' positing that BS cannot be confined to technocratic issues and the BS dialogue cannot be artificially insulated from the political dialogue.

The 'techno-democratic road', they argue, carries the risk of over-burdening the agenda. Moreover, typically, BS is not used proactively/in a thought-through strategy but reactively/as a stick when things go wrong. More fundamentally, one must question the legitimacy and relevance of donors' democratic governance prescriptions when evidence shows that there is not one road from fragility to 'Denmark'.

However, there seems to be a consensus that, BS has a strong symbolic and political connotation of supporting a government/regime/party in power. It conveys a message of trust in the government and its policies. Indeed this is an argument used by some donors to support BS provision in FSs as it helps to strengthen the state's legitimacy. However, budget support is also a risky business, and one in which it is difficult to attribute results, so it raises an accountability challenge for donors.

The donors surveyed have different mixes of eligibility criteria. The existence of a sound 'development plan' and a minimal quality of PFM systems are criteria for all five. Three out of five pay attention to the macro framework and a different set of three to the quality of economic governance/corruption. Four out of five pay attention to human rights/democracy, with explicit reference to human rights for two. IOB proposes to distinguish democratic vs. technocratic governance, as opposed to the oft-used by donors but vaguer distinction between political and technocratic, in which it is difficult to categorise corruption. For IOB, corruption and the rule law should be categorised as technocratic governance issues. Thus, in line with this typology four of the donors they surveyed pay attention to democratic governance issues specifically, in assessing a country's/government's eligibility for budget support.

Eligibility criteria seem to serve a dual purpose of developmental assurance and support to the donor's domestic political accountability agenda. Some donors have specified benchmarks (transparency and predictability), others not (flexibility). Some re-assess criteria annually; others only at programme preparation, then government performance is monitored through the BS M&E system.

For all five donors it is HQ which has the final say on engagement and suspension. Donors have very different definitions of breach of 'Underlying Principles' (UPs) (fundamental/extreme reversal vs. deterioration vs. no progress). Political UPs are extremely vague, normative and not negotiated, and as such, just 'illusions'. Recipient governments (correctly) interpret them as formalistic and standardised.

The study analyses two recent cases of BS suspension. In Mozambique the trigger was the 2010 presidential election; in Zambia a large-scale corruption scandal (political vs. technocratic issue according to IOB typology). In both cases the event was the trigger but there was a much longer period of growing donor frustrations/ disappointments about a wider agenda, with no forum for donors to express this (because what is not in the BS result framework becomes 'untouchable'). As a result, the agreements reached to resume support went much beyond the specific area which triggered suspension. In both cases governments were shocked by donors' announcing that there had been a breach: they didn't see it coming. Also in both cases donors failed to reach out to local stakeholders who, as the donors' reaction was unilateral and poorly communicated, even started criticising donors (for external interference etc.).

A3.44) IOB draws a number of conclusions that are worth bearing in mind, as follows:

- First, the case studies show that donors' attitudes are influenced by the 'strategic value' of the country. When countries do not have too much strategic value, donors 'dare to play a very tough game'. In contrast 'donors that do have strategic concerns soft-pedal on a lot of fundamental shortcomings in the governance area'.
- Secondly, IOB suggests that donors should be selective and ensure that they use "more flexible aid modalities" for "recipient countries where governments are sufficiently capable and are actually pursuing the kind of pro-poor and/or democratic results that donors wish to support", (IOB 2010: p.53). Therefore, by being selective donors ensure sufficient common ground with the partner country, and there should not be need to call on conditionality. Thus, they say, "selectivity should precede policy dialogue and is a condition for its success".
- Third, although IOD advocates for a more politically savvy approach in policy dialogue (because ultimately, all governance issues and reforms are political), they also stress that the policy dialogue has its limits. 'Reconfiguring the state-society relationship is a lot more ambitious than, say PFM reform, and therefore, needs a very sophisticated understanding of the local context and requires a time horizon that stretches far into the future'.

A3.45) Adding to this complexity linked to the nature of general budget support, is the fact that donors found in any one fragile country have typically very different motives for engagement there, and different and even in instances divergent political and security interests. In Afghanistan all donors have a security agenda (though they differ in how it is balanced with the political and developmental agendas). But in other countries things are less clear (think for instance about the UK in DRC vs. the UK in Zimbabwe; France in DRC vs. France in Côte d'Ivoire; the UK vs. France vs. Belgium in DRC). Donors have different mandates.

A3.46) One other pattern emerges with donors being separated into: (i) those who seek to use GBS to change policies in partner countries, on the one side; (ii) those who use GBS as a means of providing reliable funding for existing policies and activities that have been agreed, leaving major policy changes to more subtle and intrinsically political and endogenous processes. (There are of course other donors that sit somewhere in between these two views).

A3.47) Thus, a donor's view on the use of BS in fragile states is influenced by their interpretation of the purpose of budget support as incentive for policy change vs. support to policy implementation. In some ways if GBS is considered a means of changing policies then it makes good sense in fragile states where there is so much to change. Whereas those holding to the idea that it is primarily about supporting current 'good' policies may struggle in a fragile context to find any such policies to support. Yet, wanting to change things in fragile contexts may be dangerous: the locally appropriate way forward may not be something for donors to work out, and national stakeholders, including the government, often need time to be able to work it out by and for themselves.

Divergences, or emerging common approaches?

A3.48) As this annex has shown there is no common donor approach towards budget support in fragile states. The (incomplete) review above depicts a fairly confused situation. Three main lines of divide have emerged:

- The use of GBS for both short and longer-term objectives that is, short-term early stabilisation 'policy-light' programmes and at a later stage (which is defined mainly as arrears having been cleared and IFIs being 'back') support to more medium-term objectives through a more programmatic approach with more policy content (EC, Development Banks), vs. the use of GBS only for longer term objectives (DFID)
- The use of BS as a political instrument ('techno-democratic intervention theory' – development banks and apparently the EC) vs. the use of other mechanisms (e.g. the Cotonou dialogue) to support the political dialogue (some EU MSs; DFID is not entirely clear about this).
- The use of BS as a policy reform incentive instrument (Development Banks) vs. a policy implementation support instrument. No donor has explicitly stated the latter as a 'good enough' goal for BS. But there are examples in which BS is used in this way, and this ('implementation support') has been found by several evaluations/reviews to be a more effective manner of using GBS (IDD et al 2006, Williamson & Dom 2010, OPM et al forthcoming evaluation of AfDB policy-based lending) – It is fully in line with the school of thought strongly arguing that 'conditionality does not work' (when conditionality is used as a stick-and-carrot instrument rather than a device signalling progress on agreed measures).

A3.49) But there are also areas of consensus. For instance there is an implicit consensus that engaging with the state/government, and in particular using budget support, is legitimate/feasible when the country's trajectory is somewhat 'upwards' (DFID, EC, Banks). There is recognition that, 'resources should support legitimate regimes' (AfDB & WB 2010) and, in DFID documentation in particular, an appreciation of the difficulty of assessing legitimacy. Hence also, a common call for deepening political economy understanding of country contexts (what IOB calls 'bringing in political savvy'). .There is also a consensus on the necessity of comprehensive risk/benefit analyses going much beyond the mere process of assessing eligibility (DFID, AfDB & WB Common Approach Paper).

This includes an assessment of the risks of non-intervention and/or of working outside of the state (deterioration of economic and political situation, undermining the state's legitimacy and capacity).

A3.50) In this regard, INCAF has undertaken work on the types of risks that donors working in fragile situations (and more generally) should distinguish when they think about risk management. This work seems particularly relevant to the issues that donors confront when they have to assess whether or not to use budget support in fragile countries and in what ways. INCAF proposes that risks should be disaggregated between contextual, programme and institutional risks (institutional meaning for the donor agency). This could usefully complement other established or emerging typologies of risks (e.g. developmental; financial/ fiduciary; non financial; and reputational risks, Chiche, M., 2010 for OECD), and help to clarify, notably, whether the risks identified are risks for the donors, the government, or the country at large (which links up with the 'do no harm' issue). One thought which comes to mind is that GBS has often been held hostage by contextual risks or affected when these types of risks materialised (systemic corruption or violation of human rights for instance) in ways that were not applied for other aid modalities, and the rationale for this is not clear as arguably, if risks are contextual they affect all aid.

A3.51) A recently published AfDB & WB Common Approach Paper (CAP 2010) reflects some of these tensions and highlights areas of consensus. See Box A11.

Box A11: Emerging common AfDB- WB approach?

One-off operations may be justified. However, based on an understanding that 'budget aid' should be more than financial transfers with a narrow focus on PFM, they should be a key element of a package geared to support transition to resilience (macro stabilisation, restoring state's basic functions, cementing state's legitimacy, supporting peace- and state-building, strengthening capacity through using country systems).

Greater consideration should be given to the potential for complementarities between different 'budget aid' instruments. For example, policy-based budget support (with a policy development and reform agenda), balance-of-payment support (which when tied to import expenditure BOP allows better monitoring of expenditures and 'is therefore less susceptible to fiduciary risk'). And finally, MDTFs (supporting recurrent spending hence providing resources for the government budget even when fiduciary risks are considered very high[53]). Combining different budget aid instruments would enable the negative consequences resulting from cutting disbursements from one mechanism to be avoided.

Budget support programmes should consider focusing on non-traditional areas that are important to foster stability and state legitimacy and critical to restore trust between citizens and state (e.g. security, rule of law and justice; domestic revenue mobilisation). They should also seek to engage at sub-national levels with a view to redressing horizontal inequalities and reach rural/underserved areas.

State-building/legitimacy depends on improving domestic accountability. This requires a multi-pronged strategy including diversifying mechanisms (calling on and supporting non-government/civil society actors), strengthening formal accountability institutions, and improving transparency in key areas of decision-making and revenue collection (e.g. natural resource management). Some of these areas could be made into the explicit targets of BS operations.

Source: (AfDB & WB 2010).

A3.52) The final version of the CAP recognises that the three agencies are unlikely to reach a fully harmonised position, perhaps further illustrated by the EC dropping out as an author between the draft and final versions. The CAP also shows that there is a way to go to move from current practice to the proposed 'good practice'. So for instance, 'in practice, decisions of engaging have been political and characterised by the undertaking of stand-alone operations. In most cases BS operations were not planned initially but became a reality because of the opening of a window of opportunity'. Analyses paid lip service to root causes of fragility and concentrated on risk to donors. Budget support volumes were not defined through assessment of needs or absorptive capacity so there is no rationale behind differences such as CAR getting an average of 2% GDP as BS between 2001 and 2008, against 13% GDP in Burundi, 9% in Sierra Leone and 6% in Guinea Bissau (CAP 2010).

A3.53) The paper highlights that 'budget aid' has been used in countries with very weak fiduciary systems (e.g. Afghanistan, CAR, Haiti). It also recognises that when the 'carrot-and-stick' type of conditionality for budget support is used the risks of aid volatility are higher in fragile situations and when aid is volatile the effects are more severe than in less fragile situations. This was indeed seen in a number of countries where delays in disbursements occurred (CAR, Burundi, Guinea Bissau and Sierra Leone). These countries had to reduce spending or borrow domestically, with negative implications in terms of higher interest rates, crowding out of private sector, and debt sustainability. Hence, the call for thinking about using complementary 'budget aid' which would allow pursuing both policy reform and policy implementation support objectives simultaneously, but with different instruments operating side by side.

A3.54) It may well be that this document becomes an umbrella which draws in what will continue to be quite diverse approaches by different donors.

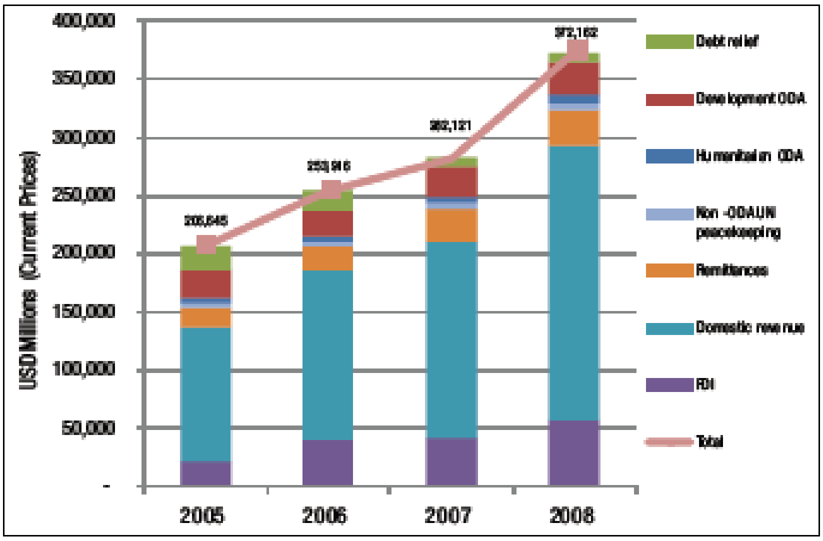
Annex 4: External financing flowing to fragile states

Aid flows important and growing but unbalanced

A4.1) Following the growing attention to fragile situations, a significant volume of work has been undertaken to monitor whether action is following rhetoric. Among others, since 2005 the OECD International Network for Conflict-Affected and Fragile situations (INCAF) monitors if financing trends are reflecting this attention in an annual report analysing flows of external resources to fragile states. This includes ODA and other important flows directly affected by developing countries' (non-development) policies (e.g. Foreign Direct Investment and remittances). The 2010 report (OECD 2010j) considers a list a 43 countries and territories in its analysis. This list includes all of the countries in this study short and long lists except Cambodia, Lao PDR and Mauritania ('graduated').

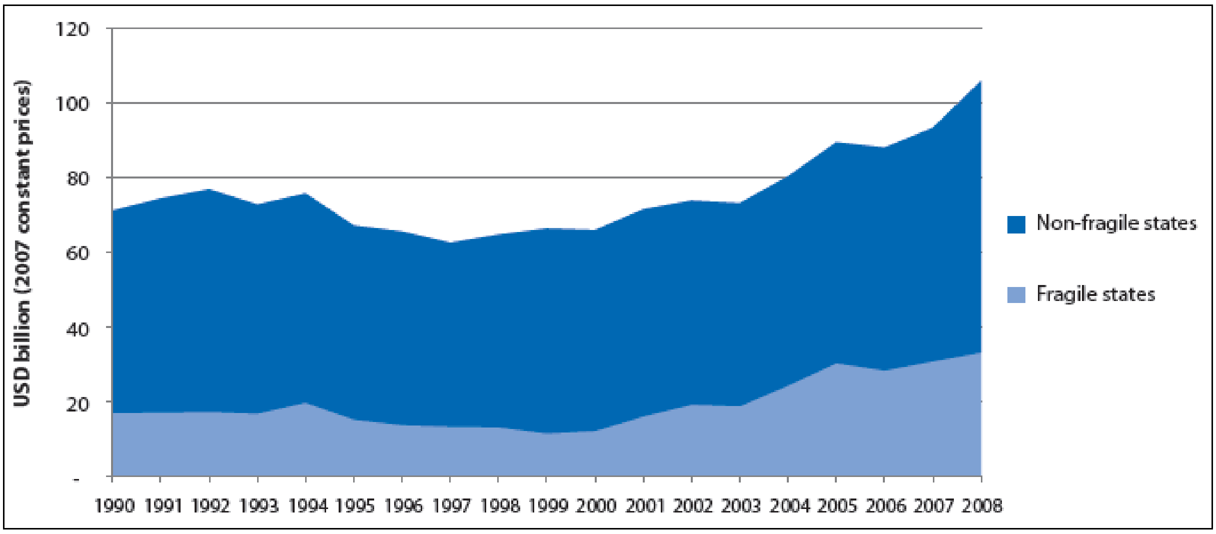
A4.2 Extracted from INCAF 2010 report, Figure A1 below shows that between 2005 and 2008, aggregate flows of external resources to fragile states have increased. However, at aggregate level countries' domestic revenues have increased much faster and actually represent the largest proportion of the increase in the overall envelope of resources available to them. This is linked to the rather good economic growth rates in that period. It is clear that this trend will have been significantly affected by the combined economic and financial crises which hit hardest in 2009, for which the analysis is not yet available. In turn, Figure A2 shows that net ODA (excluding debt relief) to fragile states did indeed increase between 2005 and 2008 and over the longer term (since 1990), but not visibly faster than for non-fragile countries.

Figure A1: Summary resource flows to fragile states (2005-2008)



Source: OECD DAC database, WB Development Indicators database, WB Migration and Development data, IMF Regional Economic Outlooks 2009, UN Annual Review of Global Peace Operations (2010)

Figure A2: Net OECD DAC ODA (excluding debt relief) to fragile states, 1990 to 2008



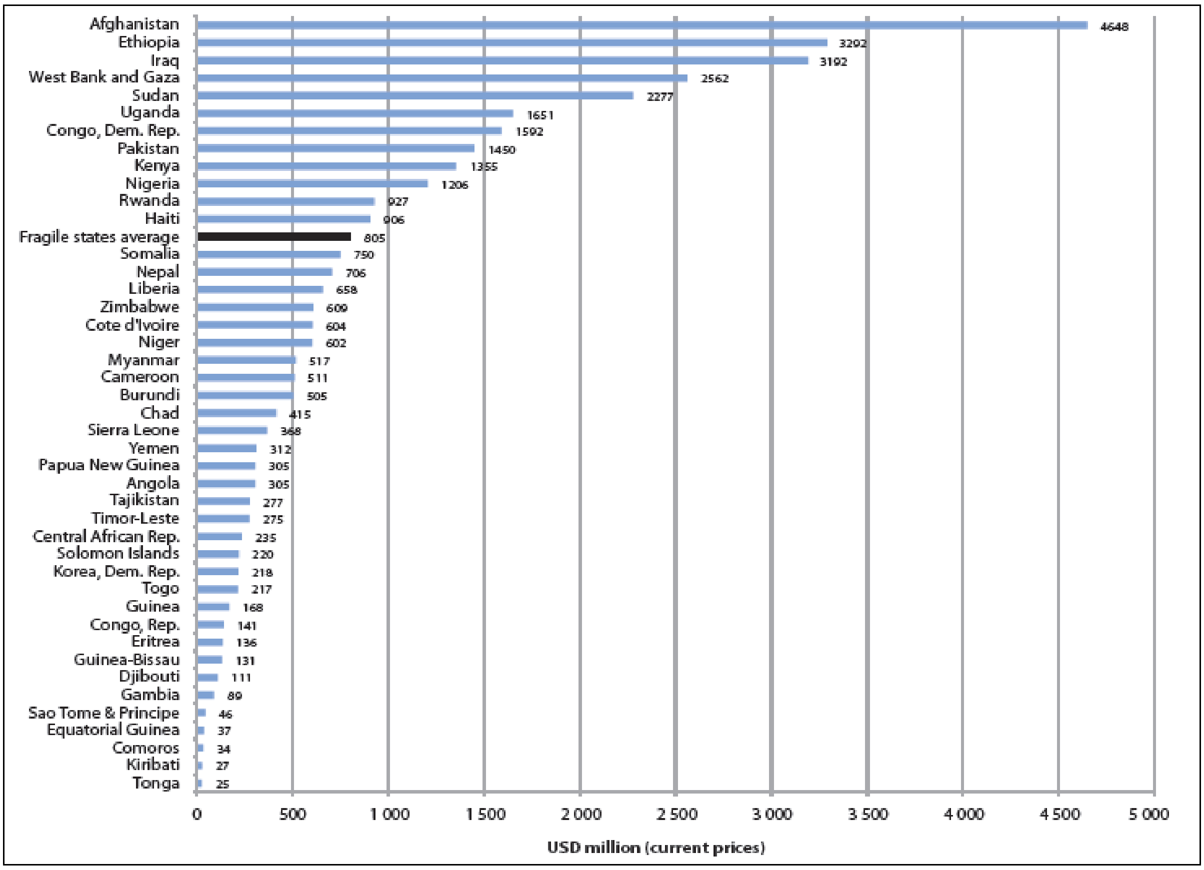
Source: OECD DAC database

A4.3) ODA spent in fragile countries is also increasingly concentrated on a few countries. For instance in 2008, 51% of ODA flows were concentrated on just 6 of the 43 countries considered in the INCAF 2010 report (Afghanistan, Ethiopia, Iraq, West Bank & Gaza, Sudan and Uganda). This imbalance is illustrated in Figure A3. In addition, the growth in ODA flows over 2005-08 is also highly concentrated; in other words, the same countries have attracted more and more resources over time. As a result, per capita ODA is highly unbalanced and unrelated to either needs or levels of stability, as shown in Figure A4. ODA per capita is ranging from $8 in Nigeria to $668 in West Bank & Gaza or more typically and excluding outliers such as very small countries, from e.g. $25 in the DRC and Nepal, to $95 in Rwanda and Haiti (2008 data).

A4.4) Humanitarian aid has also focused on a few countries. In reality 50% of it is long-term (provided for more than 8 years) and goes to a few large countries in crisis having moved in and out of conflict and/or other forms of large-scale vulnerability over past decades (Sudan, Iraq, DRC, Afghanistan, Ethiopia and Somalia). Most other flows of external resources (FDI, remittances, aid from non-DAC countries) are similarly heavily concentrated on very few countries (OECD 2010j). Aid from the Arab States focuses on Iraq, Afghanistan, Pakistan and Sudan. China provides large-scale infrastructure lending in Angola, Nigeria, Ethiopia and Sudan (and DRC – the Sino-Congolese Cooperation Agreement signed in 2009 is not yet captured in INCAF data).

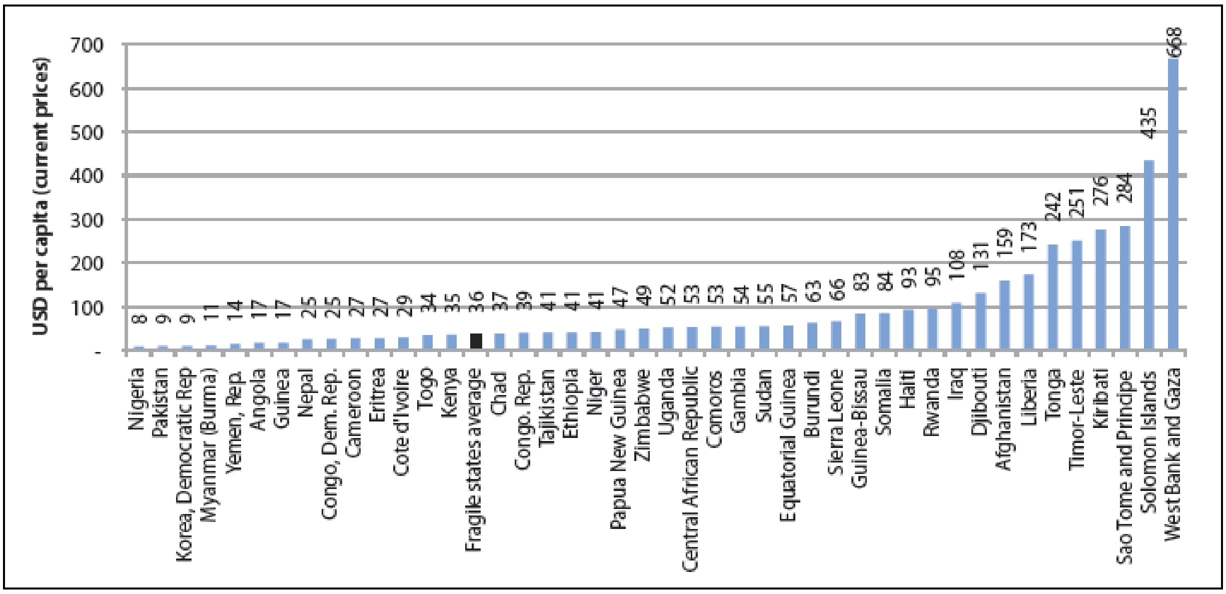
A4.5) So, given this unbalanced pattern, three sets of countries need attention. First, (based on data from a survey of donors' financing intentions and projections) half of the 43 fragile countries considered face prospects of declining aid (these include e.g. Chad, Côte d'Ivoire, Liberia). Second, a number of countries have experienced highly volatile aid flows (aid shocks in Liberia, Rwanda, Guinea Bissau, Timor Leste, Burundi; year-on-year volatility in DRC and Côte d'Ivoire). Third, there is a group of countries in which a very small number of donors provide most of their aid (including Afghanistan, Côte d'Ivoire, Iraq, Korea, Liberia, PNG and Togo for instance).

Figure A3: Highly concentrated aid to fragile states in 2008, by country



Source: OECD DAC online database, accessed November 2009

Figure A4: Aid per capita (2008)



Source: OECD DAC online database and World Bank World Development Indicators (WDI) database, accessed November 2009.

A4.6) The INCAF also stresses that the global crises of 2008/9 affected FSs more than initially thought, in multiple ways and with direct effects on government revenues, thus putting core spending at risk. This was compounded by pressure on ODA from within the developed countries, thus raising new risks of vulnerability and instability (e.g. per capita GDP growth had declined from 2008 to 2009 in 27 countries out of the 43, and stagnated in many others). INCAF estimates that just to protect core spending in fragile countries in the prevailing context of declining other sources of financing, ODA flows should increase by twenty percent. More recent Oxfam research found a $65 billion dollar hole in the budgets of the poorest countries, and further research by Unicef has made similar findings. Forty four percent of developing countries are expected to contract aggregate government spending in 2010-11.

A4.7) Whilst several donor agencies did establish emergency facilities for the countries most affected, these also covered non-fragile countries with very large economies which absorbed a very significant part of these additional resources (especially from IMF and Development Banks). Moreover, there has not been an assessment of whether the volume of emergency resources did match the needs.

Financing the transition: a challenge

A4.8) Because of the segmentation of donor engagement policies noted elsewhere in this report, financing the transition from immediate post-conflict (when humanitarian and peacekeeping aid is typically dominant) to stabilisation and development (when non-humanitarian, more programmable aid should take the relay a few years later – when all goes well), has been a vexed issue. Donors have yet to address this although it is now better understood. The first difficulty resides in the fact that often the different logics (e.g. partnership ODA vs. neutral humanitarian aid) apply all at the same time in any one country (e.g. there is no doubt that a different approach is required in the East of the DRC and other parts of this vast country). But they are very different and intrinsically difficult to reconcile, mainly because 'in principle' they reflect and rely on a change of level of engagement with the state (van Beijnum et al 2009a, OECD 2010i).

A4.9) One contributing factor arises from the way donor agencies (and most INGOs) are organised, with humanitarian and development engagement modalities and financial aid managed by different structures in the same organisation. In spite of attempts at better coordination and bridging the different logics, institutional and individual incentives play against these efforts. This is further complicated by the fact that few countries follow a linear transition. Many countries move sometime for a long time up and down on a 'fragility trajectory' (as is the case for a number of the countries in the 'status-quo' category in Annex 1). Others experience setbacks and shocks in the 'upward trajectory' on which they seemed set to move away from immediate post-conflict (see e.g. the violent crisis in Timor Leste in 2006).

A4.10) The way aid is managed is not suited to respond to the challenge of accompanying individual countries' highly specific transition trajectory This is vividly illustrated in a recent report on 'financing the transition' by INCAF (OECD 2010h). Looking at a few specific cases based on this report and the various country reports produced under the 'monitoring FS principles' process (OECD 2010g), one can see that for instance:

- From 2000 to 2007 there have been reasonably smooth (thus far) transitions in Sierra Leone, Burundi and Afghanistan, in which humanitarian and peacekeeping aid decreased at the same time as net development ODA increased. This is interesting because, as is further analysed in Annex 5, these are three countries in which there has been types of budget support or 'GBS look-alike' (like the Afghanistan ARTF, see Annex 5) with genuine development objectives (i.e. other than arrears clearance or other emergency purposes).
- In contrast, in DRC and Haiti all three flows of funds (peacekeeping, humanitarian and development) have been on upward trends ever since 2000 – and development aid has been the most volatile of all three flows, with peaks and troughs.
- Timor Leste was characterised too quickly as a post-conflict country, with donors turning their attention away from critical humanitarian, peace and state-building concerns prematurely. This premature shift is said to have played a big role in the 2006 backlash. In CAR there is a similar concern that donors are moving prematurely away from humanitarian aid and do not compensate with commensurate levels of development aid. In these countries the transition appears to be financially un-assured.
- In Southern Sudan both humanitarian and net ODA flows have been on a sharply upward trend since 2000, although with a decrease in net ODA between 2005 and 2007 – which is at least partly explained by highly unrealistic expectations about the speed at which government capacities could be built to operate a large-scale WB-managed investment MDTF. Further analysis of Southern Sudan with MDTFs is found in Annex 5.

A4.11) INCAF notes that there has been a dramatic increase in the volume of resources flowing to 'transition countries' through MDTFs and that this may well be a good thing if MDTFs prove to be flexible enough – as has been the case in Afghanistan thus far, but not in South Sudan (OECD 2010h). But there is otherwise no systematic analysis of the role and effectiveness of different aid instruments in INCAF's work so far and among others, no specific analysis of the role and effectiveness (potential and actual) of this general budget support in financing transitions.

A4.12) This is set to change as the International Dialogue process initiated with INCAF's support has established a Working Group on Aid Instruments which has just started working (first meeting in November 2010, International Dialogue WG on Aid Instruments 2010). The WG has set itself for priority to focus on instruments and approaches that would 'help to gradually move from external implementation of aid towards using country systems and bringing aid on budget'. It highlights that phased approaches are likely to be required, entailing the 'strategic use and sequencing of different financing instruments and modalities' supporting 'gradual shifts' towards putting aid 'on budget'.

A4.13) Annex 5 analyses further the role that general budget support has played in fragile/transitioning countries thus far, based on the analysis of primary data which it has been possible to carry out within the time/resource constraints of this study.

Annex 5: ‘General budget support’ in fragile states

A5.1) This Annex explores the importance of general budget support in fragile states as an element in the total ODA flowing to them. The focus is on the short list of 'fragile states' (see Annex 1). Data covers the period 2002-09 and is based on actual disbursements (rather than commitments) in current US$ prices. All data is extracted from the OECD DAC database (accessed in January 2011).

Data issues

A5.2) The data has a number of severe limitations which it is important to take into account:

- Those donors who are not formal OECD members have lower reporting requirements. Some such donors are major providers of budget support e.g. EC and the Development Banks and this is likely to impact overall figures.
- Sector budget support is not captured by the OECD-DAC budget support data yet when SBS is only “virtually” and broadly earmarked and government strongly owns the policies financed, the difference with GBS in terms of budget financing is actually minimal.
- The data relies on the donor categorising its aid. This is not always consistent across donors. In particular, what donors report as budget support (or not) varies, sometimes even for different donors’ contributions to the same (multi-donor) programme. One same donor agency may also not be consistent in what it reports. For instance, there are substantial differences between the country-specific ‘GBS’ flows for 2007 in the OECD database data (which this study uses) and what is found for the year 2007 in the Paris Declaration survey report of 2008.
- In fragile situations donors use alternative modalities such as MDTFs. Recent reviews show that while these modalities share some overall common characteristics, they also differ from each other significantly. Some, like the ARTF recurrent window in Afghanistan, behave in ways that are very similar to GBS – but are not reported as such in the OECD database (note that in contrast, donors certainly reported the ARTF as budget support in the Paris Declaration survey).

A5.3) Underpinning the last two points is the fact that donors are influenced by (donor-specific) political economy factors in the way they report on their aid. In some cases a donor agency may voluntarily prefer not to classify as GBS something that is very close to it but would raise polemic if it was ‘highlighted’ as such (like the Protecting Basic Service programme in Ethiopia, which EC and WB call ‘project’ and which does not appear in the OECD database as GBS at all). In other cases a donor, wanting to show progress in implementing the Paris Declaration, may classify programmes as budget support (especially sector budget support) even when it is narrowly earmarked and traceable and not all donors would call it this way (e.g. as DFID does for some of the thematic multi-donor programmes in Ethiopia). This particularly applies to sector budget support which is not recognised at all in the OECD database but is 'counted' in the Paris Declaration monitoring survey.

A5.4) The most critical weakness with regard to the purpose of the study is that the OECD database does not distinguish BOP from general budget support. Whilst (as explained in Annex 2) BOP support does not focus primarily on the government budget, some BOP support does do this to a certain extent (although this is less likely to have been the case in the early 2000s). For instance, in DRC BOP support from the IMF was linked to the HIPC process and the HIPC triggers included PFM and budget restructuring measures, so arguably even BOP support should have had an indirect effect on some of the aspects that this study investigates. Yet most often this effect would be indirect at best. To make matters more complicated, as mentioned in the report (Table 1) in fragile countries the demarcation between BOP and budget support is not clear cut (e.g. some donors have BOP and budget support components in the same programme). Moreover, the shift from BOP-like support to more GBS-like support has occurred at different points in time in different countries for different donors. In the remainder of this section the flows reported as 'general budget support' in the OECD database have been called BOP/BS or labelled 'GBS' under hyphens to draw attention to this issue.

A5.5) The tables below displays successively:

a) Net ODA defined as the sum of grants, capital subscriptions and net loans

b) Net ODA excluding debt

c) General Budget Support, which combines flows of BOP support and BS as explained above

d) Humanitarian Aid, included in net ODA

Actions related to debt, included in "Net ODA" (a) above) but excluded for "Net ODA excluding debt" (b) above), and comprising: Debt forgiveness; Relief of multilateral debt (grants or credits to cover debt owed to multilateral financial institutions, including contributions to Heavily Indebted Poor Countries (HIPC) Trust Fund); Rescheduling and refinancing; Debt swap (for development or not); Debt buy-back (purchase of debt for the purpose of cancellation) and other actions such as training related to debt management.

Table A9 Net ODA disbursements (including net debt) for 2002-09 (current US$ million)

Year	2002	2003	2004	2005	2006	2007	2008	2009	Total
Afghanistan	1.287,73	1.590,70	2.303,10	2.817,89	2.955,78	3.964,60	4.865,08	6.069,89	25.854,77
Burundi	171,99	227,76	364,04	363,96	430,79	475,33	508,50	548,83	3.091,20
Central African Rep.	60,24	51,22	109,75	88,52	133,56	176,81	256,44	236,85	1.113,39
Chad	229,23	252,35	336,76	380,02	288,07	357,58	418,70	561,23	2.823,94
Congo, Dem. Rep.	1.174,95	5.416,90	1.918,81	1.881,45	2.197,07	1.356,38	1.768,52	2.353,56	18.067,64
Congo, Rep.	57,66	69,15	115,48	1.425,48	258,28	118,68	485,13	282,96	2.812,82
Cote d'Ivoire	1.067,72	253,67	160,52	91,21	247,14	171,02	623,28	2.366,30	4.980,86
Eritrea	225,79	316,57	264,85	349,21	125,79	158,25	143,61	144,77	1.728,84
Guinea	253,82	254,29	278,49	198,14	169,52	228,09	327,60	214,67	1.924,62
Guinea-Bissau	60,04	150,44	76,39	66,03	87,02	122,32	131,62	145,53	839,39
Haiti	155,77	212,77	298,58	425,59	581,60	701,59	912,15	1.119,69	4.407,74
Liberia	55,16	106,93	213,24	222,44	260,40	700,79	1.249,46	505,04	3.313,46
Nepal	342,52	466,58	425,09	424,13	526,55	605,32	696,56	854,64	4.341,39
Niger	300,25	461,21	547,17	519,96	526,05	541,75	606,72	470,04	3.973,15
Sierra Leone	383,12	337,08	376,29	339,67	347,46	545,29	366,82	437,26	3.132,99
Somalia	146,83	173,69	198,68	236,95	390,95	384,14	758,26	661,65	2.951,15
Sudan	301,06	613,18	991,93	1.823,22	2.044,13	2.111,51	2.383,58	2.288,89	12.557,50
Timor-Leste	219,05	175,03	161,24	184,76	209,07	278,27	277,54	216,74	1.721,70
Yemen	213,82	233,58	250,60	289,46	280,04	236,17	305,47	499,69	2.308,83
Zimbabwe	198,83	186,97	187,05	372,72	278,24	478,67	612,42	736,76	3.051,66

Data extracted on 24 Jan 2011 15:26 UTC (GMT) from OECD.Stat (http://stats.oecd.org/index.aspx)

Table A10 Net ODA disbursements excluding net debt for 2002-09 (current US$ million)

Year	2002	2003	2004	2005	2006	2007	2008	2009	Total
Afghanistan	1.284,73	1.590,70	2.303,10	2.817,89	2.955,78	3.906,19	4.858,38	6.068,37	25.785,14
Burundi	171,55	227,35	310,86	354,35	415,91	471,28	505,27	535,09	2.991,66
Central African Rep.	58,18	49,57	108,14	87,05	127,33	171,79	235,52	232,06	1.069,64
Chad	224,91	235,84	332,45	378,06	286,47	350,10	417,53	560,24	2.785,60
Congo, Dem. Rep.	1.048,55	587,30	1.033,33	1.264,04	1.199,32	1.119,88	1.638,42	2.207,39	10.098,23
Congo, Rep.	51,89	65,75	110,92	28,14	-15,95	110,19	121,73	64,66	537,33
Cote d'Ivoire	351,86	79,81	94,56	79,94	221,94	161,41	614,53	-643,11	960,94
Eritrea	225,79	316,57	264,85	349,21	125,79	158,25	143,61	144,77	1.728,84
Guinea	227,42	239,21	234,55	187,68	166,06	225,28	171,53	167,44	1.619,17
Guinea-Bissau	55,85	77,78	75,74	65,44	79,41	122,10	131,22	145,33	752,87
Haiti	155,64	212,62	298,43	425,45	565,53	634,27	907,15	1.098,46	4.297,55
Liberia	53,51	106,93	213,24	222,44	260,40	687,90	683,75	378,27	2.606,44
Nepal	327,20	457,61	424,93	419,68	523,14	603,83	691,22	849,72	4.297,33
Niger	293,16	338,37	386,63	497,12	498,69	540,29	605,40	468,95	3.628,61
Sierra Leone	354,58	305,37	368,23	335,92	311,70	345,41	366,68	436,99	2.824,88
Somalia	146,57	173,45	198,46	236,77	390,80	384,01	758,15	661,56	2.949,77
Sudan	300,64	612,75	991,54	1.822,92	2.043,90	2.111,33	2.383,46	2.286,55	12.553,09
Timor-Leste	219,05	175,03	161,24	184,76	209,07	278,27	277,54	216,74	1.721,70
Yemen	199,44	224,39	248,46	223,13	279,16	235,48	305,02	499,52	2.214,60
Zimbabwe	198,83	186,97	187,05	372,72	278,14	476,83	612,34	736,39	3.049,27

Data extracted on 24 Jan 2011 15:26 UTC (GMT) from OECD.Stat (http://stats.oecd.org/WBOS/index.aspx)

Table A11) ‘General Budget Support’ (BOP/BS) disbursements for 2002-09 (current US$ million)

Year	2002	2003	2004	2005	2006	2007	2008	2009	Total
Afghanistan	3,38	55,08	59,35	38,86	47,06	191,35	43,25	45,82	484,15
Burundi	15,16	8,15	47,91	69,32	50,19	61,32	88,45	79,51	420,02
Central African Rep.	0,38	0,57	23,32	7,75	8,14	56,70	29,50	65,45	191,80
Chad	46,05	17,64	5,69	31,68	16,36	1,01	..	..	118,43
Congo, Dem. Rep.	543,64	74,73	91,26	51,52	3,60	0,70	..	282,41	1.047,86
Congo, Rep.	0,04	..	11,64	13,13	49,78	..	1,92	4,67	81,18
Cote d'Ivoire	235,85	0,24	0,08	..	35,26	..	0,01	300,88	572,32
Eritrea	..	..	..	23,53	..	..	..	..	23,53
Guinea	19,05	8,19	..	..	0,02	10,53	27,67	4,44	69,89
Guinea-Bissau	1,76	0,36	0,95	0,16	8,53	12,41	14,38	35,70	74,25
Haiti	0,00	0,00	3,51	1,24	53,89	34,94	58,62	92,77	244,98
Liberia	0,47	..	0,07	..	1,26	..	343,52	22,12	367,44
Nepal	10,39	9,98	15,19	13,62	21,00	32,69	..	..	102,87
Niger	64,55	83,38	61,41	64,87	52,35	59,53	54,41	13,64	454,14
Sierra Leone	51,31	36,00	97,49	84,19	49,68	45,75	67,83	77,72	509,96
Somalia	..	..	..	..	..	..	..	1,41	1,41
Sudan	..	27,08	0,25	62,14	125,52	..	4,07	3,08	222,14
Timor-Leste	8,27	11,90	16,11	9,09	2,50	..	0,89	6,73	55,49
Yemen	0,07	8,71	0,06	0,03	1,42	..	..	..	10,29
Zimbabwe	..	0,03	0,17	0,00	0,16	..	0,01	..	0,37

Data extracted on 24 Jan 2011 15:16 UTC (GMT) from OECD.Stat (http://stats.oecd.org/WBOS/index.aspx)

Table A12) Humanitarian Aid disbursements for 2002-09 (current US$ million)

Year	2002	2003	2004	2005	2006	2007	2008	2009	Total
Afghanistan	515,53	360,10	258,94	315,27	364,22	301,54	841,49	610,39	3.567,49
Burundi	34,69	70,18	93,95	138,91	116,71	92,81	81,92	81,55	710,71
Central African Rep.	0,30	1,55	3,16	7,17	7,07	46,50	60,95	41,88	168,58
Chad	0,68	5,07	69,43	110,17	83,55	160,05	230,62	297,49	957,06
Congo, Dem. Rep.	96,82	138,55	170,00	321,79	356,89	356,55	508,29	525,84	2.474,73
Congo, Rep.	8,12	8,56	4,49	40,65	3,94	5,59	2,49	0,88	74,72
Cote d'Ivoire	2,16	22,88	36,10	69,90	52,67	48,02	87,18	26,48	345,38
Eritrea	25,06	98,56	91,70	160,70	37,06	31,63	29,48	30,61	504,80
Guinea	14,21	15,40	14,80	23,13	14,18	15,26	6,46	6,93	110,37
Guinea-Bissau	2,18	3,28	0,94	27,72	1,99	0,55	2,17	1,46	40,29
Haiti	0,04	5,27	43,00	172,42	64,11	39,82	187,09	141,81	653,57
Liberia	17,90	51,85	148,78	110,53	129,85	100,04	73,19	36,80	668,95
Nepal	8,04	6,16	13,61	23,66	31,11	46,24	64,75	63,88	257,44
Niger	1,58	1,29	2,82	62,89	54,87	26,99	38,38	38,60	227,42
Sierra Leone	86,20	63,60	41,63	35,27	35,76	25,99	13,57	5,63	307,66
Somalia	52,25	47,08	70,90	126,21	267,53	245,60	556,41	451,37	1.817,34
Sudan	133,47	223,02	613,40	1.132,24	1.167,38	1.249,57	1.376,75	1.274,67	7.170,50
Timor-Leste	3,25	2,36	2,05	3,73	20,55	15,58	10,72	4,82	63,05
Yemen	0,49	0,20	0,49	5,86	3,97	6,18	20,17	57,60	94,96
Zimbabwe	42,39	33,20	34,78	61,43	73,46	145,57	320,63	361,10	1.072,57

Data extracted on 24 Jan 2011 15:17 UTC (GMT) from OECD.Stat (http://stats.oecd.org/WBOS/index.aspx)

Table A13) Actions related to debt 2002-09 (current US$ million)

Year	2002	2003	2004	2005	2006	2007	2008	2009	Total
Afghanistan	44,13	..	..	..	..	59,46	14,89	1,44	119,92
Burundi	3,40	3,28	89,02	24,36	42,48	30,95	50,57	1.008,94	1.252,99
Central African Rep.	9,00	8,52	7,75	7,14	11,96	17,54	45,41	534,48	641,81
Chad	19,36	34,24	20,14	19,18	14,06	17,11	7,31	6,41	137,80
Congo, Dem. Rep.	177,38	4.813,39	1.063,04	670,94	1.035,85	291,83	174,82	203,50	8.430,76
Congo, Rep.	28,87	3,40	4,56	1.410,26	268,45	12,45	366,57	226,41	2.320,98
Cote d'Ivoire	529,97	215,38	119,70	55,56	61,01	41,04	39,06	3.077,62	4.139,34
Eritrea	..	..	..	..	..	..	..	..	0,00
Guinea	42,70	36,24	71,09	32,00	30,74	27,61	201,72	51,22	493,31
Guinea-Bissau	11,03	80,21	8,99	9,57	16,96	7,02	10,02	12,76	156,57
Haiti	0,62	0,73	12,93	0,78	17,80	66,85	7,18	833,17	940,07
Liberia	9,93	..	..	..	..	12,88	870,55	128,80	1.022,17
Nepal	15,68	9,41	0,64	34,30	31,70	21,16	118,23	5,46	236,58
Niger	27,92	147,46	214,03	65,05	1.282,96	11,24	11,03	9,76	1.769,46
Sierra Leone	43,64	83,96	42,06	22,36	220,66	745,40	0,14	3,49	1.161,70
Somalia	1,73	1,53	1,12	1,08	1,06	1,12	0,71	0,67	9,02
Sudan	2,82	3,32	3,69	3,92	3,42	2,62	1,60	30,70	52,08
Timor-Leste	..	..	..	..	..	..	..	..	0,00
Yemen	14,06	10,15	15,78	74,82	17,11	8,78	21,23	1,20	163,14
Zimbabwe	..	..	..	..	0,10	2,01	0,08	1,90	4,09

Data extracted on 24 Jan 2011 15:17 UTC (GMT) from OECD.Stat (http://stats.oecd.org/WBOS/index.aspx)

Importance of 'GBS' in ODA in fragile countries

A 5.6) Table A14 visualises the importance of 'GBS' in fragile countries by comparing on a country-by-country basis the total 'GBS' flows for the 2002-09 period to the total flows of net ODA, net ODA excluding debt, debt actions, and humanitarian aid. This has been computed for each country in the study's short list of fragile countries.

Table A14) ODA, BOP/BS ('GBS'), humanitarian aid and debt actions (2002-09)

2002-9 Disbursements in current US$ millions	Net ODA	Net ODA excl debt	GBS	Debt actions	Humanitarian aid	GBS/ ODA	Debt actions/ ODA	Hum aid/ ODA	GBS/ Hum aid
Afghanistan	25.854,77	25.785,14	484,15	119,92	3.567,49	1,9%	0,5%	13,8%	13,6%
Burundi	3.091,20	2.991,66	420,02	1.252,99	710,71	13,6%	40,5%	23,0%	59,1%
Central African Rep.	1.113,39	1.069,64	191,80	641,81	168,58	17,2%	57,6%	15,1%	113,8%
Chad	2.823,94	2.785,60	118,43	137,80	957,06	4,2%	4,9%	33,9%	12,4%
Congo, Dem. Rep.	18.067,64	10.098,23	1.047,86	8.430,76	2.474,73	5,8%	46,7%	13,7%	42,3%
Congo, Rep.	2.812,82	537,33	81,18	2.320,98	74,72	2,9%	82,5%	2,7%	108,6%
Cote d'Ivoire	4.980,86	960,94	572,32	4.139,34	345,38	11,5%	83,1%	6,9%	165,7%
Eritrea	1.728,84	1.728,84	23,53	0,00	504,80	1,4%	0,0%	29,2%	4,7%
Guinea	1.924,62	1.619,17	69,89	493,31	110,37	3,6%	25,6%	5,7%	63,3%
Guinea-Bissau	839,39	752,87	74,25	156,57	40,29	8,8%	18,7%	4,8%	184,3%
Haiti	4.407,74	4.297,55	244,98	940,07	653,57	5,6%	21,3%	14,8%	37,5%
Liberia	3.313,46	2.606,44	367,44	1.022,17	668,95	11,1%	30,8%	20,2%	54,9%
Nepal	4.341,39	4.297,33	102,87	236,58	257,44	2,4%	5,4%	5,9%	40,0%
Niger	3.973,15	3.628,61	454,14	1.769,46	227,42	11,4%	44,5%	5,7%	199,7%
Sierra Leone	3.132,99	2.824,88	509,96	1.161,70	307,66	16,3%	37,1%	9,8%	165,8%
Somalia	2.951,15	2.949,77	1,41	9,02	1.817,34	0,0%	0,3%	61,6%	0,1%
Sudan	12.557,50	12.553,09	222,14	52,08	7.170,50	1,8%	0,4%	57,1%	3,1%
Timor-Leste	1.721,70	1.721,70	55,49	0,00	63,05	3,2%	0,0%	3,7%	88,0%
Yemen	2.308,83	2.214,60	10,29	163,14	94,96	0,4%	7,1%	4,1%	10,8%
Zimbabwe	3.051,66	3.049,27	0,37	4,09	1.072,57	0,0%	0,1%	35,1%	0,0%
TOTAL	104.997,04	88.472,66	5.052,51	23.051,78	21.287,61	4,8%	22,0%	20,3%	23,7%

A5.7) The data shows that BOP/BS represents less than 5% of the total net ODA (including debt actions) for this group of fragile countries. For the group as a whole humanitarian aid and "actions related to debt", of similar orders of magnitude, are four times larger than the 'GBS' flow. However, the composition of net ODA (and the respective importance of 'GBS', debt actions and humanitarian aid in it) varies tremendously across countries. 'GBS' represented 17.2% of the total net ODA to CAR between 2002 and 2009, and 16.3% in Sierra Leone, against nil in Somalia and Zimbabwe. 'GBS' represented more than 10% of the total 2002-09 ODA flows in six countries (Burundi, CAR, Côte d'Ivoire, Liberia, Niger and Sierra Leone).

A5.8) The following notes can be made for each country listed in the table:

- Afghanistan: BOP/BS and debt actions very small in total net ODA
- Burundi: BOP/BS not negligible compared to humanitarian aid and debt action (debt action very large in 2009)
- Central African Republic: BOP/BS larger than humanitarian aid; debt actions much larger
- Chad: BOP/BS same order of magnitude as debt action, small in total net ODA, humanitarian aid much larger

- Democratic Republic of the Congo: Very large debt actions (especially in 2003; no cash transfer); BOP/BS negligible compared to this, total net ODA and humanitarian aid
- Republic of Congo: BOP/BS same order of magnitude as humanitarian aid, both insignificant in total ODA and compared to debt actions
- Cote d'Ivoire: BOP/BS same order of magnitude as humanitarian aid, both small in total ODA and compared to debt actions
- Eritrea: BOP/BS very small in total ODA; humanitarian aid almost one third of net ODA
- Guinea: BOP/BS smaller than humanitarian aid and much smaller than debt actions, negligible in total ODA
- Guinea-Bissau: BOP/BS larger than humanitarian aid; debt actions double of GBS
- Haiti: BOP/BS smaller than humanitarian aid and much smaller than debt actions, small in total ODA
- Liberia: BOP/BS not negligible in total ODA though half humanitarian aid and much smaller than debt actions (most debt actions in 2009)
- Nepal: BOP/BS negligible, less than half debt action and humanitarian aid, both similar order of magnitude
- Niger: BOP/BS not negligible, double humanitarian aid, though much smaller than debt actions
- Sierra Leone: BOP/BS not negligible, significantly larger than humanitarian aid, but half of debt actions
- Somalia: Large humanitarian aid (almost two third of all ODA)
- Sudan: Large humanitarian aid
- Timor-Leste: BOP/BS insignificant, same order of magnitude as humanitarian aid
- Yemen: BOP/BS insignificant
- Zimbabwe: BOP/BS insignificant.

The graphs on the next pages illustrate the tables above, first for all of the short list fragile countries, then for a selected sub-set of countries excluding Afghanistan, DRC and Southern Sudan in which ODA flows are vastly larger than for the other countries. In all three countries the BOP/BS flows for the 2002-09 period have been small (less that 6% of the total net ODA disbursements) although in the DRC the proportion of what is reported as "general budget support" on the OECD database is not negligible – but it includes a large amount in 2002 which was actually BOP support (see country case study report). The exclusion of these outliers allows seeing better what happens in the other countries of the study short list.

Figure A5 ODA, debt actions, 'GBS' and humanitarian aid (2002-9) in fragile countries

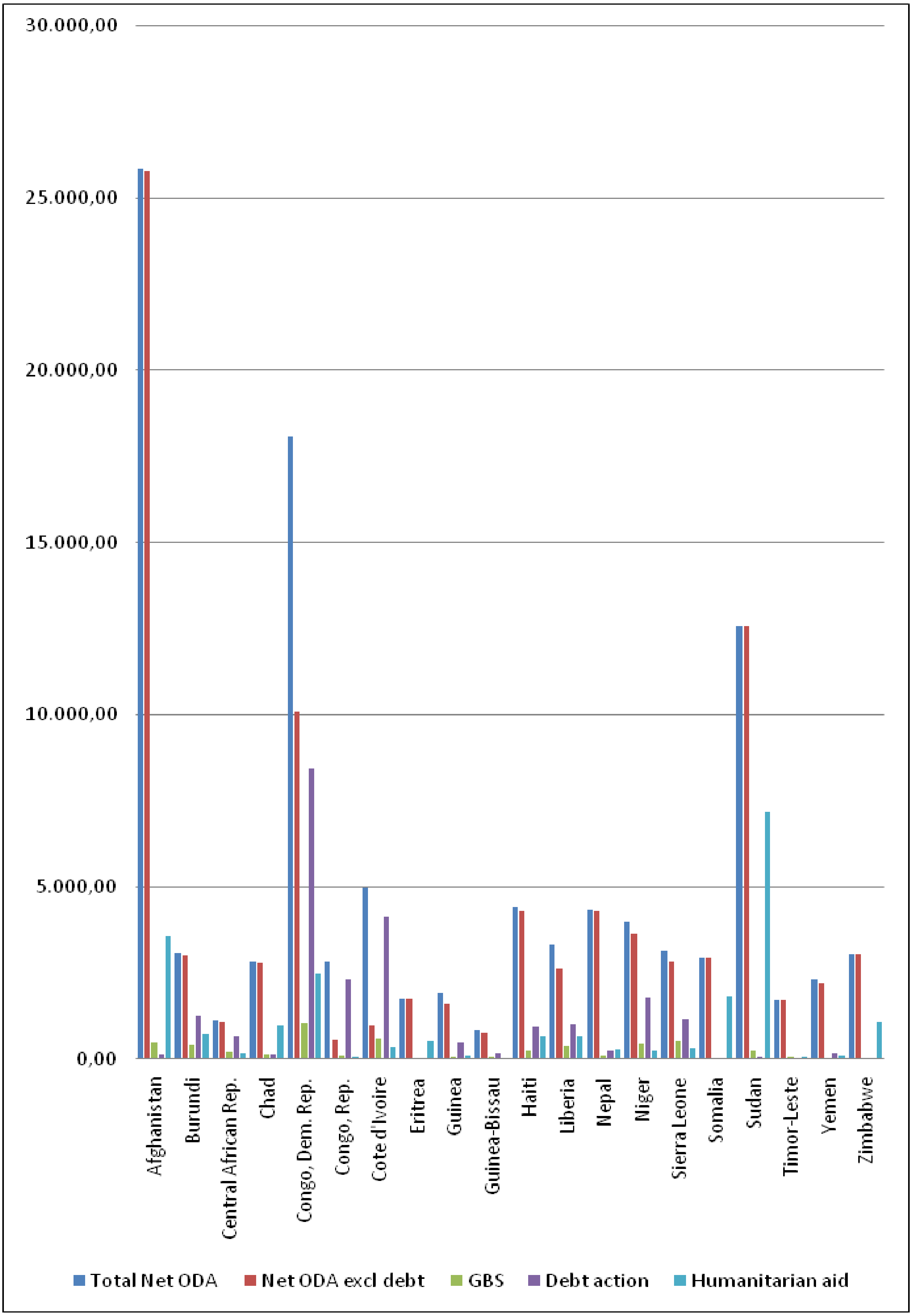


Figure A6 Total net ODA, 'GBS' and humanitarian aid (2002-09) in fragile countries

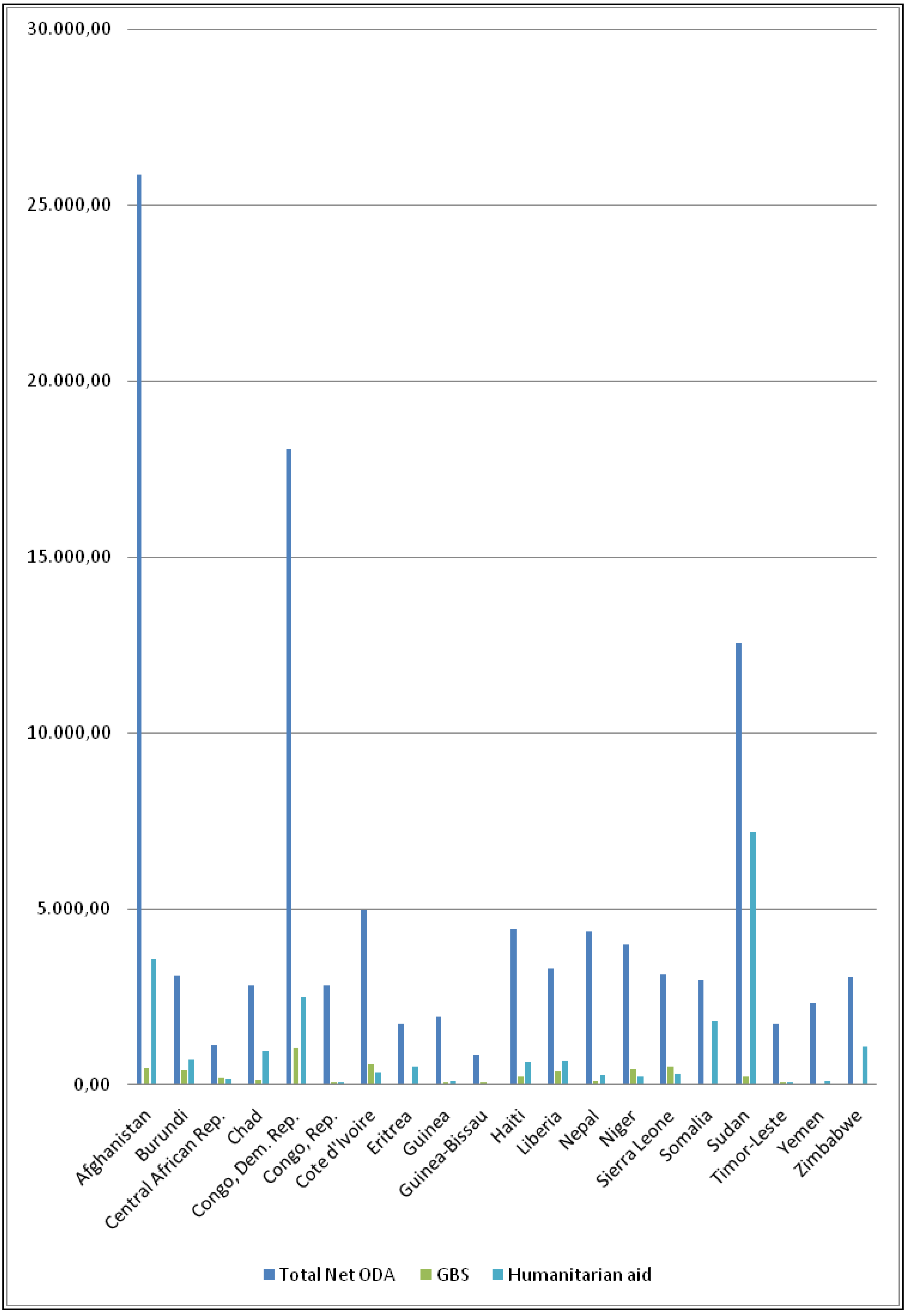


Figure A7 'GBS', debt actions and humanitarian aid (2002-09) in fragile countries

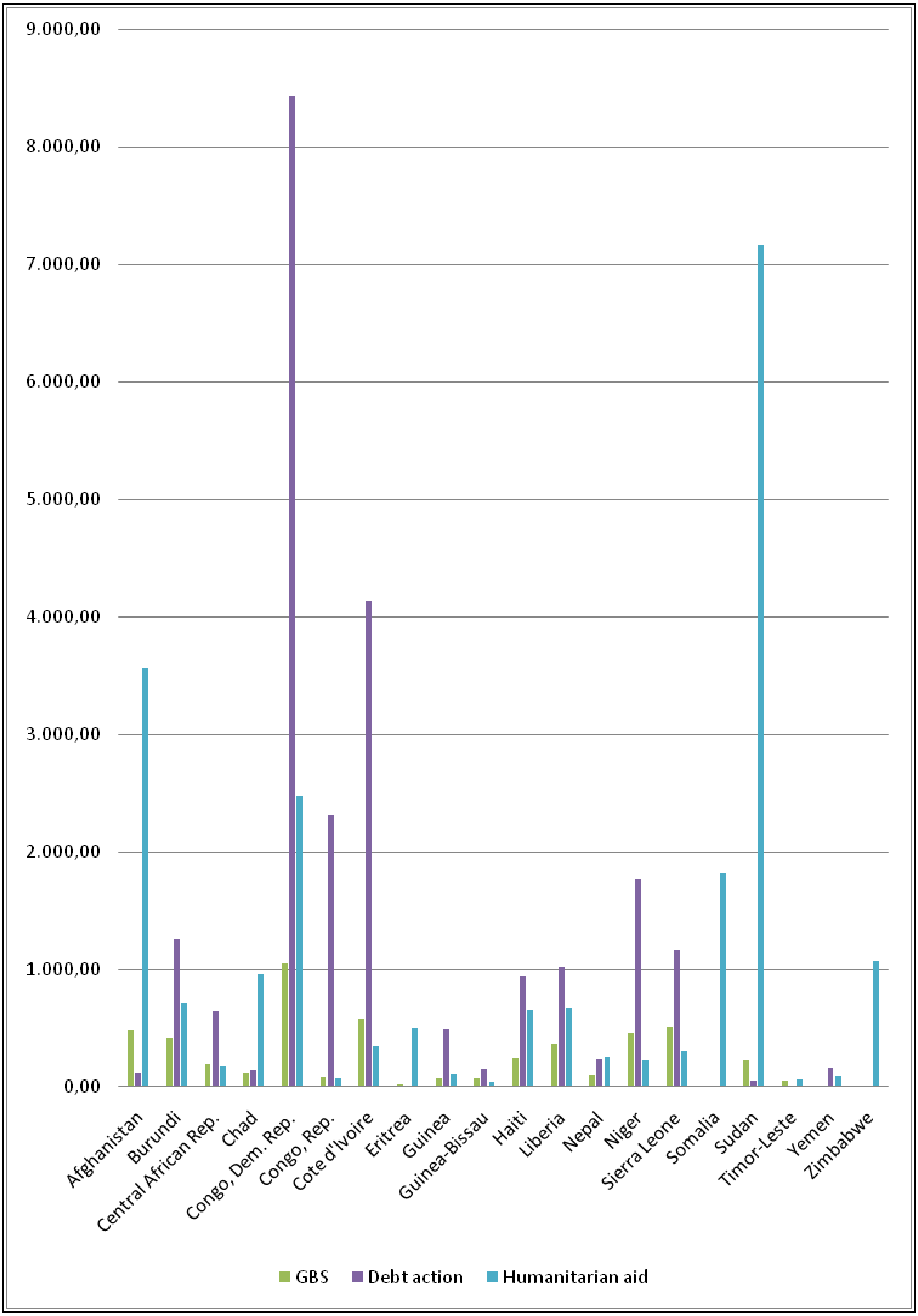
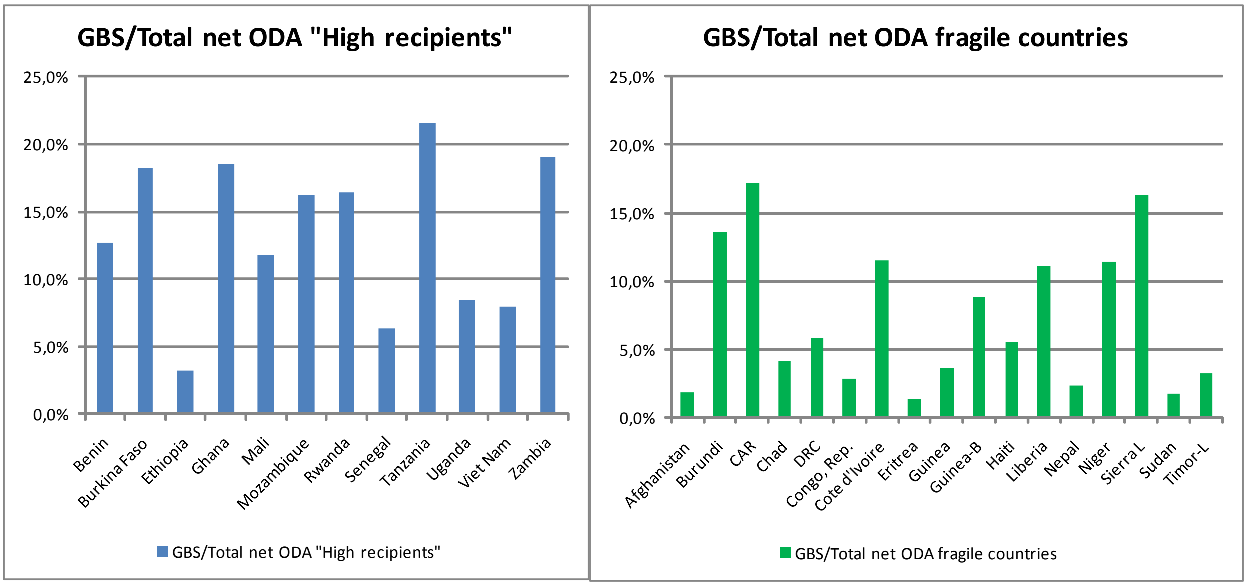


Figure A8 'GBS' (BOP/BS) relative to total ODA and other types of aid in selected fragile countries

A5.10) Figure A9 below compares the 'GBS' proportion of net ODA in fragile countries with that in countries known to receive substantial budget support and/or to be (or to have been) 'donor darlings' in some respect. This shows that in those fragile countries in which 'GBS' flows were significant (Burundi, CAR, Côte d'Ivoire, Liberia, Niger and Sierra Leone) the proportion is in fact comparable to some of the high budget support recipient/donor darling countries.

Figure A9 'GBS' as a proportion of total net ODA in high recipients and fragile countries (2002-09 disbursements)



A5.11) However, knowing some of the detailed country stories behind the data one can see the limitations of analyses based only on the data even more clearly. Two examples among the high recipient/donor darling countries are Ethiopia (see desk study report for this study) and Uganda. In Ethiopia, the PBS is not categorised as general budget support in the OECD database. However, as the desk study for Ethiopia argues PBS actually functions in a way that is very much like GBS: PBS donor funds flow into the federal government budget and are then comingled with the government un-earmarked transfers to regions and districts. For Uganda it is very likely that a number of donors do not report their budget support through the Poverty Action Fund as GBS, whilst it was considered as such by e.g. the OECD 2006 evaluation of GBS (IDD 2006). This explains the apparently relatively low proportion of total net ODA flowing to these two countries as GBS.

A5.12) Similar stories are highly likely to exist behind the data for all countries. As noted above, the aggregation of BOP support and GBS is particularly problematic. However, to ascertain precisely what was BOP vs. budget support and whether BOP support was linked (and to what extent) to objectives similar to those of budget support would have required a programme-by-programme analysis of all programmes for all of the countries considered. This was clearly outside of what was feasible within the time/resource constraints of this study. A quick analysis of which donors gave 'GBS' as reported in the OECD database shows that the 'GBS profiles' (BOP/budget support balance and objectives) are likely to be very different in e.g. Burundi (with 'GBS' from Netherlands, Norway, EC since 2006, 2007 and 2005 respectively, and 'GBS' from IMF since 2004) and Côte d'Ivoire (where France and the EC gave 'GBS' in 2006 only, whilst the rest is accounted for by the IMF in 2002 and 2009). Gaps in the data are clear too, e.g. there is no mention of the GBS disbursements of the EC, WB and AfDB in DRC in 2009.

A5.13) It is therefore impossible to draw firm conclusions about the importance of general budget support (**distinct** from BOP support by its prime focus on PFM and government budget) in total ODA and how this relates to GBS effects in the group of countries concerned, without further case-by-case analysis. Due to the lack of data at global level on recipient countries' budgets, this study could also not provide data and analyse the share of domestic revenue or total budget financing that 'GBS' represented in fragile countries.

MDTFs and debt actions

A5.14) Two types of aid stand out as requiring attention in this study because of their financial importance in fragile countries and their role/nature as they can provide 'flexible aid': the Multi-Donor Trust Funds and (ii) debt relief/actions related to debt. These are reviewed in turn in this section.

Multi-Donor Trust Funds/MDTFs

A5.15) **Multi-Donor Trust Funds/MDTFs** have emerged as an important and much talked about modality in relation to how donors can and do engage in fragile countries and especially in transition situations. However, the use of MDTFs is highly country specific. Whilst MDTFs are very important in some countries they are less so in others. Experience with their effectiveness also varies considerably (see e.g. the 'textbook cases' of Afghanistan and Southern Sudan).

A5.16) **Variety of objectives and designs** - MDTFs are also very different to each other. Important factors include their prime focus, their timeframe (and in particular whether they are supposed to address short-term needs or focus instead or as well on longer term needs), their governance structure (e.g. the extent and nature of involvement of national stakeholders, government and others) (Ball and van Beijnum 2010) and as a specific point within the latter, the extent to which they use country systems.

A5.17) On this last point, in themselves MDTFs are only an instrument of donor coordination and do not imply a higher degree of use of recipient country systems than any other modality. They are particularly interesting in the framework of this study because donors appear to 'join in' as they see MDTFs as a risk pooling mechanism, but this at the same time may allow some of them to move further towards using recipient country systems than they would have done so by themselves (as in Nepal with AusAid using the education MDTF, see Nepal pen portrait in Annex 6 and personal communication to the consultant). In some instances MDTFs may be a way for a donor agency to bypass their own procedures which would not allow them to use recipient country systems to that degree, so they 'delegate' the management of funds to the MDTF.

A5.18) In fragile states, MDTFs therefore sometimes represent a useful intermediary step for donors to use recipient country systems while not moving all the way to GBS and indeed some MDTFs are very similar to GBS, like the Afghanistan Reconstruction Trust Fund recurrent window which disburses into the Afghan government budget. Others are designed as investment instruments, like the WB-managed MDTF in Southern Sudan and the investment window of the ARTF (see Box 12 below). These use procedures akin to donor projects. Yet other MDTFs, usually managed by UN agencies, are used for humanitarian action or specific purposes like army demobilisation. In the past few years there has also been a growing number of MDTFs managed by private companies contracted by the funding donors. Box A12 below presents a few facts on some well-known MDTFs in fragile countries, as illustrations of the variations found on the ground.

Box A12 MDTFs in selected fragile countries

Through its 'recurrent window' the WB-managed **Afghanistan** Reconstruction Trust Fund (ARTF) provides large-scale financing for the government recurrent expenditure (including salaries of 250,000 civil servants all over the country). Funds flow through the government budget procedures. This instrument, taking over from an interim fund established immediately after the fall of the Taliban, was initially intended to be in place for a few years. Its lifetime has been extended to 2020 as it was realised that building domestic revenue raising capacity would take considerably longer than first envisaged. However, a gradual phasing out process has been agreed and flows from the ARTF recurrent window have started to decrease. They represented around 15% of the recurrent government budget in 2009-10, down from just less than 50% in 2003-4. Since 2008 an Incentive Programme has been developed to reward domestic revenue raising efforts and reforms to support this gradual phasing out process. In parallel, the ARTF investment window, which operates under more projectised modalities and had a slower start, is increasing as a proportion of the national development budget: it represented 15% of it in 2004-5 and was up at 30% in 2009-2010, reflecting the increasing capacity of the Afghan administration to manage the required procedures.

The WB-managed MDTF in **Southern Sudan** is an example of 'reverse sequencing' (donors trying to support longer term development first. Then having to revert to humanitarian aid modalities, and now moving from there to transition financing). Like the ARTF investment window the WB MDTF was designed as an investment instrument to support development priorities. It operates under WB project modalities and foresees an extended role of government structures. The mismatch between existing capacity and management requirements and unrealistic expectations as to how fast capacity could be established significantly delayed its operations, affecting negatively the financing of the transition away from humanitarian aid (OECD 2010h). As a response other funds proliferated to provide much needed flows of funds for more immediate humanitarian and transition needs (one of which, established by DFID, is managed by a private company). Whilst this was understandable this response was uncoordinated and resulted in additional transaction costs which in some sense undermine the rationale for pooled funding (Ball and van Beijnum 2010). A streamlining process has been undertaken but does not seem to be proceeding easily (Foster 2009).

In **DR Congo** there are several (comparatively smaller) MDTFs. These include recently set up multi-donor funds managed by private companies or NGOs to finance media and civil society support programmes. The 'Pooled Fund', managed by OCHA/UNDP to implement a joint Humanitarian Action Plan focusing mainly on the Eastern part of the country, has been in existence for a longer time. There is no consensus on its effectiveness, and not all humanitarian aid flows through it. Recently an MDTF managed by the MONUSCO has also been set up to support the government stabilisation plan for the East of the country (the STAREC). This MDTF presents a number of interesting features: it is aligned on the STAREC; government structures are involved in setting funding priorities, developing and approving project concept notes and approving project proposals; it includes a small window for capacity building of the provincial authorities; non-contributing donors participate in the MDTF processes; it includes a 'rapid approval' procedure for urgent needs in parallel to the mainstream approval process. However, problems have already arisen due to lack of coordination between this new instrument and the Pooled Fund operating in the same areas, as the two Funds are coordinated by different UN bodies (Ball and van Beijnum 2010).

The Protecting Basic Service in **Ethiopia** is implemented through several WB-managed MDTFs for the different components (see desk study report). The largest is the 'block grant' MDTF which channels the funds from some of the PBS donors into the budget where they are comingled with government resources to be transferred to Regions and districts. Some other PBS donors disburse directly into the budget for the same purpose, and so the MDTF acts as one (instead of several) 'budget support donor'. Thus, like the ARTF the PBS MDTF is used by some donors as a 'buffer'. Unlike the ARTF the PBS 'block grant' MDTF does not reimburse already made (and checked) expenditures. But PBS donors regularly carry out extensive reviews of regional and district budget execution reports before deciding about further disbursements.

A5.19) **Financial importance** - In terms of financing flows there is some evidence in donor documentation of the growing role of MDTFs (see Annex 3). However, there is no overview that would assess this systematically and allow a comparison with GBS in fragile countries. To give an order of magnitude, one recent study looking at MDTFs managed by the WB in fragile and conflict-affected countries (Scanteam 2010) highlight that:

- Between FY04 and FY09 the total of the resources allocated to fragile situations in the WB portfolio, combining IDA and MDTF resources, increased from US$2.2 billion to US$3.2 billion
- There was a marked shift in the balance of IDA vs. MDTF resources. In FY04 IDA resources (US$ 1.9 billion) was complemented with US$304 million from MDTFs. In FY09 this was reverted and allocations from MDTFs (US$1.8 billion) surpassed IDA allocations (US$ 1.4 billion).
- IDA allocations to fragile countries **decreased** both in absolute terms and share-wise, between FY04 and FY09 (as noted in Annex 3 this is likely to have been due at least in part to the allocation of vast sums of money for counter-crises measures in non-fragile countries).

A5.20) Note that the data includes MDTFs for emergency situations (e.g. Aceh, Haiti) and the Iraq Reconstruction Trust Fund but excludes the MDTFs managed by the UN agencies. Country-specific Bank-managed MDTFs are also usually implemented with and to some extent through governments, as per the Bank's policy preference, which is not necessarily the case for UN-managed MDTFs.

A5.21) **Why MDTFs over other types of aid** - Addressing the question of why MDTFs emerged as a 'preferred aid modality' (vs. others which in principle allow working with/through government as this is the implicit scope of the study), the Scanteam study highlights that '*existing aid modalities did not meet their objectives*' and in particular '*Budget Support and Sector Wide Approach programs could not be used in situations with weak state institutions and procedures*'. However, the Scanteam study and other work reviewed do not analyse systematically these issues of weak national capacity, systems and institutions and rely (as per their TORs) on donor perceptions. It is striking to find that whereas these factors are identified as major reasons for donors to adopt MDTFs, weak capacity of national authorities (combined with the Bank's rules and procedures) is also mentioned as one of the major reasons why MDTFs may under-perform in relation to expectations.

A5.22) In other words, the issue of low national capacity does not go away. In turn, this raises the question of whether it is effective to establish huge and capacity-demanding MDTF machineries rather than spending an equivalent amount of energy to develop/strengthen government system. There is some evidence indeed, that intermediary steps in the path toward greater use of country systems can become 'stumbling blocks' (Williamson et al 2008). MDTFs like the ARTF which does this because it works through the government recurrent budget systems do not seem to be the majority. This is also an issue which is not investigated in depth in the work reviewed.

A5.23) Other reasons for donors to favour MDTFs over some other options were identified. These relate to donor political economy. Each of these reasons was shown to have implications which were found to have affected negatively the performance of existing MDTFs in specific cases. This is summarised in Table A15 below.

Table A15 Why donors chose to finance fragile countries through (WB-managed) MDTF

Donor reason	Potential/real disadvantage
MDTF donors' ability to retain decision over allocations to selected fragile countries and priorities (through involvement in MDTF governance), compared to funding IDA through the 3-year replenishment cycle and pretty much abdicating this ability to influence allocations.	Unpredictability of MDTF funding as MDTF donors therefore usually finance them based on administrative decisions taken within the context of approved annual budgets
MDTF donors' ability to fund an MDTF from different budget lines, hence allowing 'bridging' between the different engagement frameworks mentioned elsewhere in this study	Same as above
MDTF donors' greater visibility and the feasibility to retain influence in the specific countries they finance even with limited field capacity	This may lead to micro-management and abuse of 'preferencing', undermining the effectiveness of Bank's management and the (donor and donor/ government) partnership on which MDTFs are founded
Donors' comfort in relying on the Bank stringent fiduciary and risk management frameworks	This is **incompatible** with the same donors' desire for MDTFs to be set up and disburse quickly.

A5.24) The Scanteam study therefore concludes that MDTF donors need to balance their requirements for MDTF management and their expectations of MDTF performance. They cannot at the same time choose to finance fragile countries through Bank-managed MDTFs because of the fiduciary/risk management comfort it gives them, and blame the rules and procedures which give them this comfort. The study argues that together, the Bank and MDTF donors should look into the issue of risk acceptance and risk management in fragile countries and either 'accept the limits of the current business models' (notably in terms of speed of delivery) or '*create a new and differentiated business model for fragile and conflict-affected countries*', with the Bank developing '*different procedural frameworks*' including *'an alternative fiduciary and risk management model'*.

A5.25) Accountability – In the literature on MDTFs reviewed in this study the emphasis is very much on accountability to MDTF donors – which in itself is revealing. A systematic review of the question of MDTFs' accountability to society was not found. With regard to WB-managed MDTs it seems that MDTFs do not typically provide more space for non-government stakeholders than budget support. INGOs and NGOs may be contracted as implementing agents, but the role of civil society in holding MDTF decision-makers (including the national government) to account for their decisions and the MDTF spending appears to be limited. This study' review of the ARTF suggests that one of the weaknesses was an apparent lack of effort to strengthen/create lines of domestic accountability for spending within the ARTF recurrent window (see Annex 6).

A5.26) To conclude, MDTFs may represent an interesting modality for transition situations but country experiences with their effectiveness are very different (and need to be better understood from the recipient country's perspective). A consensus is emerging that they may have a role to play in processes aimed to gradually '*bring aid on budget*' (International Dialogue Working Group on Aid Instruments 2010); this need not mean that one single instrument can 'do it all' as long as different instruments work under a common strategy (Ball and van Beijnum 2010). This stream of thinking about MDTFs also resonates with the conclusions reached by the WB and AfDB (and endorsed by the EC) in the Common Approach Paper on the use of 'budget aid' in fragile situations, that there is a need to '*consider more systematically the choice and complementary nature of policy-based budget support lending and grants as well as other instruments to support recurrent expenditures such as MDTFs*' (CAP 2010). But MDTFs will not more than any other modality, by themselves address issues of weak capacity of national governments and accountability to countries' civil society.

Actions related to debt

A5.27) **Debt relief and more generally 'actions related to debt'** are counted as Official Development Aid (debt relief is considered as a form of programme aid as seen in Annex 2). INCAF found that debt relief constituted 17% of total gross ODA to fragile states in 2008, a considerably higher proportion than that found for developing countries in general (6%) (OECDi 2010).

A5.28) There is considerable variation among countries. In 2008 debt relief was dominated by Iraq (US$ 6.6 billion), Republic of Congo (US$ 363 million) and Liberia (US$ 555 million); at the other end of the scale most of the countries studied by INCAF received less than US$ 2 million of debt relief. Looking at the 2002-09 period DRC had very high levels of "actions related to debt" in 2003 and 2004 and so over the period this represented 47% of the total ODA reported in the OECD database (see Table 12 in this Annex). Other countries (in the study short list) which had very high proportions of "actions related to debt" include Côte d'Ivoire (83% of total ODA), CAR (58%), the Republic of Congo (83%) and Niger (45%). "Actions related to debt" are less important in Sierra Leone and Burundi but still represent much higher proportions of ODA (37% and 41% respectively) than BOP/BS.

A5.29) One first issue is whether debt related actions are additional to other types of assistance, or not. In principle they should: donors have committed to this in various fora. However, INCAF's analysis suggests that this commitment comes under pressure as donor countries experience the pinch of the international crises. Eleven out of the 23 DAC countries showed dropping levels of net ODA excluding debt for 2009 compared to 2008. From the recipients' point of view, Angola, Equatorial Guinea, Eritrea, Guinea, Guinea-Bissau, Papua New Guinea, São Tomé and Principe, Timor-Leste, Tonga and Yemen had lower net ODA excluding debt in 2008 than in 2000, in real terms.

A5.30) Such substitution is clearly problematic and more generally, counting debt actions as part of ODA has a distorting effect on countries' ODA profiles, because these actions (which as just explained are of much variable importance from one country to the other) do **not** represent flows of cash from donor agencies to countries. As part of a recovery package, debt relief (a subset of the 'actions related to debt') is a significant gesture as well as an enabling factor for access to other finance and for the full reengagement of the international financing institutions. However, from the perspective of the partner country, it is different from other ODA flows.

A5.31) Debt relief may generate 'budget savings' (i.e. costs that governments must no longer incur as outlays from the budget, thus releasing funding for other uses), but only to the extent that the debt would have been serviced. In many fragile countries bilateral debt is not serviced for many years and so there are no savings for this part of debt relief. In a country like DRC this means that the 'fiscal space' which is actually created by debt relief (estimated to be between US$100 and 200 million annually) is small when seen in light of the very considerable amounts of debt written off as DRC reached the HIPC completion point (US$ 13.7 billion) and is also considerably smaller than the very high levels of "actions related to debt" recorded for this country (US$ 8.4 billion, see Table 11 above). In some countries debt repayments actually cancelled have to be paid in a trust fund and this is then used for various purposes ranging from projects to covering specific recurrent costs, allowing a time lag between the savings to accrue and their actual use.

A5.32) Indeed the literature on the topic invariably concludes that finding out how much fiscal space debt relief has generated and is likely to generate in future is a complex undertaking. For retrospective analyses data limitations would be overcome only through time-consuming loan-by-loan data analyses. For prospective analyses, one should realise that the fiscal space that may be generated in reality depends on actual levels of domestic revenue and other sources of budget financing (new borrowing and development assistance). These can differ significantly from the projections made e.g. by the IMF in the course of the HIPC process. So in DRC for instance, the fiscal space generated by debt relief in the HIPC transition period (between decision and completion point) was much smaller than hoped-for, as the government did not uphold macroeconomic stability hence assumptions on other budget financing sources also did not hold (see country study report).

A5.33) Moreover, the literature reviewed is not conclusive on whether debt relief had the intended effects, including in relation to the HIPC focus on pro-poor spending. This is summarized in Box A13.

Box A13 Debt relief – No clear conclusion on effects

In a 2005 paper Kraay expressed scepticism about the actual effects of debt relief. He noted that 62 Low-Income Countries had benefited from $100 billion debt relief between 1989 and 2003, yet there was no evidence that this had affected level and composition of public spending, or raised growth, investment rates or the quality of policies and institutions in these countries. This was said to be understandable as debt relief was considerably smaller than other forms of aid (the analysis focuses on the pre-HIPC period). Johansson, using a broader group of countries and data for 1989-2004 (thus also pre-HIPC) disaggregate the potential effects (of $400 billion of debt relief) into two types, resource mechanism and incentive mechanism. She too found no effect, which she says is due to a combination of factors including moral hazard, new borrowing, and reduced flows of other aid.

In contrast, in a 2007 paper Dessy and Vencatachellum which analysed the past records of 14 African countries eligible to MDRI showed that past debt relief (1989-2003) had a positive effect on health and education public spending, but only in countries which had improved their institutions (measured from Polity data for 2002). Cassimon et al in 2008 do a comparative analysis of the fiscal response effects of debt relief in 24 African HIPCs, using data for a 1991 to 2006 period. They also found that on average for the 24 countries as a group, there were promising fiscal space effects: no sign that debt relief would crowd out domestic revenue collection, on the contrary; debt relief also tended to be associated with increase in current primary expenditure (but the paper does not analyse specifically the composition of this spending); it did not seem to have a lasting influence on investment but this was said to be the case for other aid modalities too. It was associated with a reduction in domestic borrowing.

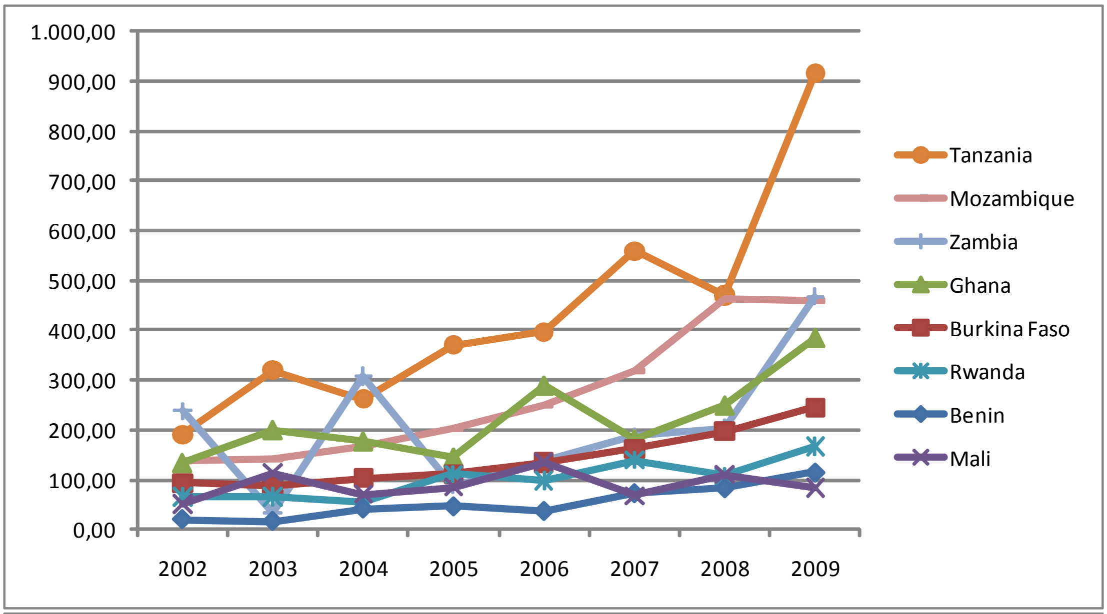
'GBS' trends

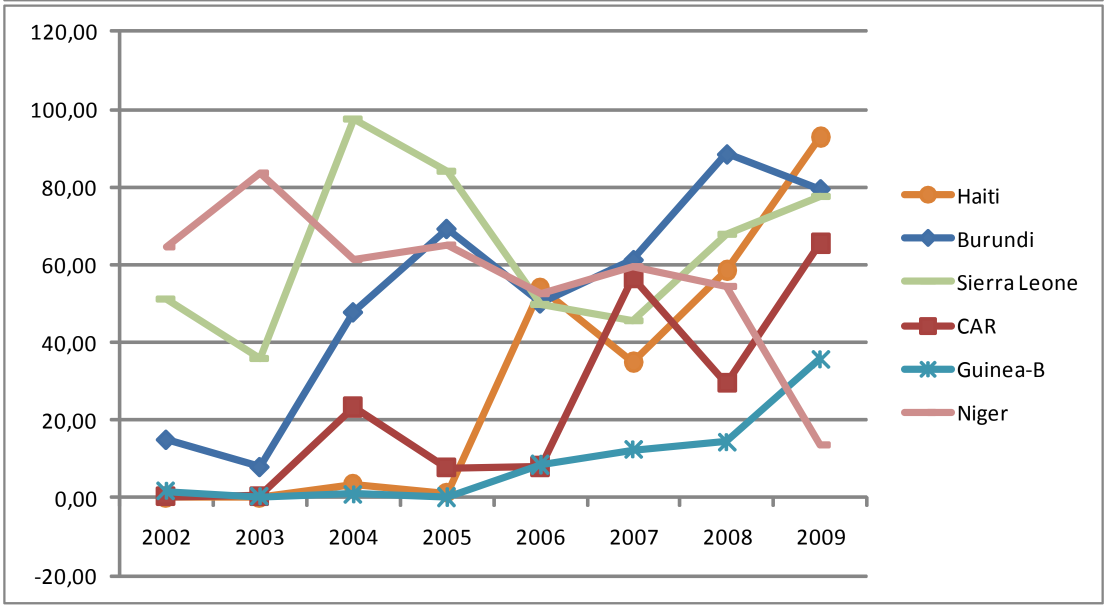
A5.34) Bearing in mind the limitations and caveats just outlined, this section analyses the 'GBS' flows in terms of trends over time and year-on-year variations. Figure A10 looks at trends for a sub-group of the group of 'high recipients/donor darlings' already mentioned above and a sub-group of the study short list of fragile countries. The reasons why some countries were not included in this analysis are as follows:

- Among the 'high recipient' countries
- Ethiopia – because the drop in 'GBS' hides the fact that PBS took the relay of actual GBS from 2005/6 onward
- Uganda – because the data may exclude some donors' contribution to the PAF which this study would consider as real GBS (not BOP)
- Senegal and Vietnam – because GBS is in fact not as important as in the remaining seven countries (less than 10% of total ODA)
- Among the fragile countries
- All countries in which 'GBS' was less than 6% of total ODA were excluded
- DRC because the high amount of so-called GBS in 2002 is actually BOP and also, there is no need of a graph to see that BOP/BS flows combined were much variable from one year to the next between 2002 and 2009, as shown by the data and also found in the case study
- Côte d'Ivoire because similarly the 2002 'GBS' flow was likely to be BOP support and there too, there is no need for a graph to see that BOP/BS flows were unsteady.

A5.35) The analysis, therefore, focuses on those countries in which 'GBS' has been relatively important and steady. Even so the difference between the two groups is very clear. In most of the 'high recipient' countries GBS increased relatively steadily over the period, with some ups and downs for some countries. Whereas in the six fragile countries in which BOP/BS support was relatively important and steadier (in the sense that there was no complete disruption for a number of years as for DRC or Côte d'Ivoire), no such upward trend is visible and year-on-year variations are significantly more pronounced than for the group of 'high recipient/donor darling' countries.

Figure A10 Annual flows of 'GBS' in high recipient countries vs. fragile countries





Pattern of use/importance of GBS and fragility status

A5.36) Looking again at both the 'high recipient/donor darling' and (short list) fragile countries and using the typology of fragility drawn in Annex 1, Box A14 below shows that it is very difficult to make sense of the data when one does not know the story behind. Any pattern in the use of 'GBS', its importance and its steadiness, in relation to whether a country is fragile or not and the main factor of fragility, is very flimsy.

Box A14 **Proportion of 'GBS' in total ODA, steadiness of 'GBS' flows and fragility status**

	GBS/Total net ODA	Year-on-year steadiness of flows	Fragility Status
High recipients			
Benin	12,7%	Steadily upward	Not fragile
Burkina Faso	18,3%	Steadily upward	Not fragile
Cambodia	2,0%	Disrupted twice in 2002-09 period, very small	No longer fragile (WB); long list (study)
Ethiopia	3,2%	Disrupted in 2005/6 but PBS not counted	Not fragile (WB); long list (study); case study
Ghana	18,6%	Steadily upward	Not fragile
Laos	3,2%	Disrupted once in period, now upward but still small	Not fragile (WB); long list (study)
Mali	11,8%	Unclear trend, ups and downs	Not fragile
Rwanda	16,4%	Upward overall with troughs 2004, 2006, 2008	Not fragile (WB); long list (study)
Senegal	6,4%	Unclear initially, now upward	Not fragile
Tanzania	21,5%	Steadily upward, large increase in 2009 (emergency disbursement of AfDB)	Not fragile
Uganda	8,5%	Unclear trend, but may not count all PAF funding	Not fragile (WB); long list (study)
Viet Nam	7,9%	Ups and downs, large increase in 2009 to counter crisis?	Not fragile
Zambia	19,0%	Ups and downs but steadier upward last 4 years with 2009 counter-crisis?	Not fragile
Short list fragile countries			
Afghanistan	1,9%	Very small in total ODA and unsteady	Fragile; Conflict main cause
Burundi	13,6%	Relatively important, no clear trend	Fragile; Conflict main cause
Central African Rep.	17,2%	Relatively important, not steady	Fragile; Other causes
Chad	4,2%	Downward and now nil (BOP not replaced by GBS?)	Fragile; Conflict main cause
Congo, Dem. Rep.	5,8%	BOP, nothing for 3 years, emergency BS in 2009	Fragile; Conflict main cause
Congo, Rep.	2,9%	Very unclear	Fragile; Conflict main cause
Cote d'Ivoire	11,5%	BOP (2002), little during conflict, BOP or BS (counter-crisis) in 2009?	Fragile; Conflict main cause
Eritrea	1,4%	Negligible	Fragile; Other causes
Guinea	3,6%	Negligible and unsteady	Fragile; Other causes
Guinea-Bissau	8,8%	Negligible and unsteady	Fragile; Conflict main cause
Haiti	5,6%	Relatively steady since 2006, counter-crisis increase in 2009?	Fragile; Other causes
Liberia	11,1%	Significant but concentrated in 2009: emergency BS? BOP?	Fragile; Conflict main cause
Nepal	2,4%	Disappeared? BOP not replaced by GBS?	Fragile; Other causes
Niger	11,4%	Downward since 2003	Fragile; Other causes
Sierra Leone	16,3%	Ups and downs throughout 2002-9, no clear trend upward	Fragile; Conflict main cause
Somalia	0,0%	Not applicable	Fragile; Conflict main cause
Sudan	1,8%	Very small, presumably BOP in 2005 and 2006?	Fragile; Conflict main cause
Timor-Leste	3,2%	Very small, not clear what this is	Fragile; Conflict main cause
Yemen	0,4%	Very small, not clear what this is	Fragile; Other causes
Zimbabwe	0,0%	Not applicable	Fragile; Other causes

A5.37) At best it is possible to say that:

- Donors seem to have responded to the international crises in 2009 by increasing GBS in a few stable and good performer countries (Tanzania and Zambia)
- Some of the non-fragile countries display relatively steady upward GBS trajectories (including the two just mentioned, and Ghana) but not all.
- The GBS trajectory is not steadily upward in Mali, Senegal, Cambodia (budget support halted on grounds of lack of progress with land management reforms) and Ethiopia (although if PBS was counted the GBS trajectory would be strongly upward, see desk study). In Rwanda, the troughs reflect moments of tension between the government and budget support donors because of government specific decisions/actions related to the Rwanda-DRC border situation.
- It is not possible to link the use/non-use of 'GBS' to countries' status in relation to the main factor of fragility. This may not be surprising considering the difficulty of disentangling factors of fragility as explained in Annex 1. Donor agencies face this difficulty when they try to establish whether or not they should give budget support and for what. Moreover, as the country studies illustrate abundantly, donor agencies differ widely in their interpretation of the same country situation. This was particularly visible in the DRC.
- In the most severe situations budget support is not used, like in Southern Sudan, Afghanistan and Somalia, all three with conflict as the main factor of fragility. However, in the first two countries donors work with the government and in the case of Afghanistan they work through the government budget with the ARTF recurrent window. This is clearly not feasible in Somalia where there has not been a functioning government for many years, as reflected by the high proportion of aid which is humanitarian.
- Yet 'GBS' is also not used in situations where conflict is <u>not</u> the main fragility factor, notably in Zimbabwe, Eritrea and Yemen. Explanations are likely to be different in each case. From the consultants' (limited) knowledge of these countries' situations and the literature reviewed, donors did not use budget support in Zimbabwe because the government was until recently not considered as legitimate. In Eritrea this may rather be explained by a general uncertainty about how to engage with this country. In Yemen donors channel large flows of funds through a 'Social Fund', which has become like a parallel government administration.
- In (conflict-affected) Timor Leste where the post-independence government has usually been regarded as legitimate there was for some years a UN-managed MDTF which in some ways was a substitute to 'GBS' but unlike the interim fund established before the ARTF in Afghanistan, did not make the transition as a government-managed instrument.

A5.38) In other words and to repeat what has been said earlier, without a case-by-case analysis of aid flows it is very difficult to make sense of the data. The large variety of donor policies with regard to the provision of budget support in fragile countries, as explained in Annex 3 and elsewhere in this report, is probably a major factor in explaining this lack of a pattern.

Link between 'GBS' and 'results' in fragile countries

A5.39) Table A16 below pieces together the data and information that it was possible to review in the context of the study for all countries in the study long list. On this basis it presents a snapshot on each country's fragility, aid level, importance of 'GBS', composition of aid/ mix of modalities, HIPC status, and a sense of the country's progress in terms of development. Related to fragility the table displays the status in the WB consolidated list of fragile situations for 2011 and also uses the typology established in Annex 1. The aid level is measured by the ODA per capita in 2008 (OECD 2010h). The data on the importance of 'GBS' and composition of aid/mix of aid modalities draw on the previous sections, the country case studies and the literature review. Development results are measured through the rank of the country in the Human Development Index 2010 and the long-term trajectory of change of the country in that respect (United Nations 2010), as well as information on prospects of reaching the MDGs (from the United Nations MDG monitoring website, http://www.mdgmonitor.org/index.cfm). The HIPC status is drawn from the latest IMF report on the implementation of the initiative (IMF 2010). The duration between decision and completion points is given in days (estimates based on number of months).

Table A16 Fragility, 'GBS' and development in fragile countries

Oxfam Novib long list[1]	Status on WB fragility list 2011	Fragility status (Annex 1)	End of conflict/ Peace deal	Comments on fragility	Aid per capita 2008[2]	GBS' (OECD data + other qual sources)	Other modalities?	Comments on ODA or BS	HDI rank 2010	Long term change in HDI	Comments on devt	No. MDG on track as at Jan 2011 [7]	HIPC status	Decision point	Completion point	Interim period (months)
Afghanistan	Post-Conflict	Conflict	Ongoing	Taliban fall; Bonn Agreement 2001; Elections 2004 & 9	159	Yes: GBS very small but ARTF recurrent window is 'GBS look-alike', gradual phasing out but still 15% recurrent budget in 2009-10	MDTFs: ARTF (plan to 2020), $1.7bn recurrent 2002-9; $0.75m investm 2002-8. One other relatively large MDTF; peace-keeping; humanitarian aid; debt actions very small	USAID largest donor (45%); ARTF serves as coordination mechanism	155	From 0.307 in 2005 to 0.349 in 2010	70% MDG indicators with data off-track	5 (WB assessment 2 in Sep 2010)	Full	1-Jul-2007	1-Jan-2010	900
Angola	Post-Conflict	Governance (conflict?)	2002	27 years civil war	17	No	No info	No info	146	From 0.349 in 2000 to 0.403 in 2010	No info	2 and off-track on poverty	Not			
Burundi	Post-Conflict	Governance (conflict?)	2001	Power sharing govt	63	Yes, 13.6% of 2002-9 ODA (NL, Norway, EC, IMF)	SBS/basket funding education (Belgians)	GBS' roughly 2/3 of humanitarian aid but not negligible	166	From 0.181 in 1980 to 0.282 in 2010, 17th fastest improving		3 (WB Sep 2010 assessment)	Full	1-Aug-2005	1-Jan-2009	1230
Cambodia[3]	Graduated since 2009	Governance	1998	End of Vietnam occupation (KR 1975-79)	Not available	WB, DFID, Japan, EC: small scale (2% total 2002-9 ODA)	SBS educ (EC), decentralised BS 'look-alike' (WB, 'commune fund')	Suspended since 2008 on governance concerns	124	From 0.385 in 1995 to 0.494 in 2010		3 and 1 achieved	Not but MDRI			
CAR	Reengaging	Governance, regular coups…	2008	National unity govt in 2009	53	Overall significant 17.2% total 2002-9 ODA but erratic. AfDB, EC, WB: clear arrears (partly); 2004-09: btwn $10 and 67m/year	Debt relief (CP 2009); MDTFs for humanitarian, peace-building and demobilisation, 'GBS' larger than humanitarian aid for 2002-9	Erratic ODA (-14% to +117% year-on-year change); BS all annual programs		From 0.265 in 1980 to 0.315 in 2010, very slow change	One MDG 'possible' (gender)	None and 2 off track	Full	1-Sep-2007	1-May-2009	600
Chad	Yes no detail	Conflict?	Ongoing	Ongoing	37	4.2% total 2002-9 ODA; nil since 2007	Humanitarian aid 33% total 2002-9 ODA	No info	163	From 0.269 in 2000 to 0.295 in 2010	No info	1, but 5 off-track	Interim	1-May-01		
Congo	Post-conflict	Conflict?	1997-9	Full scale civil war in those years	39	Negligible	Humanitarian aid negligible, debt actions very large	No info	126	From 0.426 in 1980 to 0.489 in 2010, very slow change	No info	One, very little info	Full	1-Mar-2006	1-Jan-2010	1380
Côte d'Ivoire	Post-conflict	Conflict	Crisis 2002-7	Again in full-blown crisis	29	Yes, 11.5% total 2002-9 ODA: EC, France in 2006 only, IMF in 2002 & 2009	No info	No info	149	From 0.350 in 1980 to 0.397 in 2010, very slow change	No info	None and 2 off track	Interim	1-Mar-2009		
DRC	Post-conflict	Both (conflict)	2002	Lusaka, election 2006	25	Yes - WB, AfDB, EC, Belgians 2009-10 (see case study); IMF 2002 & 2009; 5.8% total 2002-9 ODA	A number of purpose-specific MDTFs - including recent 'stabilisation' one in East; humanitarian aid twice 'GBS'; debt actions 47% of 2002-9 ODA!	Large recipient, especially incl debt actions (no real cash); under-reporting of GBS 2009 other than IMF, in OECD database	168	From 0.267 in 1980 to 0.239 in 2010. One of only two countries with negative change	Slow, little data available	None and 3 off track	Full	1-Jun-2003	1-Jun-2010	2520
Eritrea	Post-conflict	Governance	2000	End border war	27	No	No info	No info	Not ranked	Not assessed	No info	Not assessed	Not			

Oxfam Novib long list[1]	Status on WB fragility list 2011	Fragility status (Annex 1)	End of conflict/ Peace deal	Comments on fragility	Aid per capita 2008[2]	GBS' (OECD data + other qual sources)	Other modalities?	Comments on ODA or BS	HDI rank 2010	Long term change in HDI	Comments on devt	No. MDG on track as at Jan 2011 [7]	HIPC status	Decision point	Completion point	Interim period (months)
Ethiopia	Not on list	Governance	1991 fall of Derg; 2000 end of 1998-200 war with Eritrea	Endemic armed violence in Somali; moved from conflict to fragile partnership on governance grounds	41	Yes. OECD-reported only 3.2% total 2002-9 ODA	Several 'SBS' (see desk study); PBS largest component (decentralised BS) GBS look-alike	If PBS is counted much more significant proportion of GBS in ODA; counting SBS even higher, but no analysis available	157	From 0.250 in 2000 to 0.328 in 2010. Fastest changing in SSA	Significant progress in access to social services; double-digit growth 2003/4-2009/10	5 (4 according to WB assessment Sep 2010)	Full	1-Nov-2001	1-Apr-2004	870
Guinea	Yes no detail	Governance		Junta since 2008	17	Little: 3.6% total 2002-9 ODA, no info	No info	No info	156	From 0.323 in 2005 to 0.340 in 2010, slow change	No info	None and 2 off track	Interim	1-Dec-00		
Guinea Bissau	Yes no detail	Conflict?	1994-98	Civil war, election 2000, coup 2003, P shot 2009, election	83	Yes (EC) – Arrears clearance ?	No info	No info	164	From 0.278 in 2005 to 0.289 in 2010, slow change	No info	2	Interim	1-Dec-00		
Haiti	Reengaging	Governance		Duvalier, several coups including 2004; elections 2006	93	Yes: 5.6% total 2002-9 ODA; IMF + EC since 2006	GBS' much smaller than humanitarian aid and debt actions. WB GBS (see IEG review) not reported on OECD database	No info	145	Around 0.405 throughout period 2005-2010; no change	Cumulative effects of natural disasters and weak governance	One but 4 off track	Full	1-Nov-2006	1-May-2009	900
Kenya	Not on list	Conflict	2007/8	Election clashes	35	Yes: 7.8% total 2002-9 ODA with huge year-on-year variations	Large basket funding in e.g. education (see FTI evaluation 2010)	Extremely erratic, nil in 2006 and 2008; up again in 2009 (counter-crisis?)	128	From 0.404 in 1980 to 0.470 in 2010, very slow change	No info	One, and off track for poverty indicator	Not			0
Lao PDR[4]	Not on list	Governance		Started opening to outside world in 1990s	Not available	Yes: Small, 3.2% total 2002-9 ODA; EC, WB, AsDB; medium term (WB PRSO)	No info	Not steady; interrupted in 2005 and 2006 but not sure WB PRSO reported on OECD database	122	From 0.354 in 1990 to 0.497 in 2010, pretty fast change	No info	3	Not			0
Liberia	Post-Conflict	Conflict	2003	Taylor down, elections 2005	173	OECD-reported 11.1% total 2002-9 ODA IMF only 2008. No report of other donors yet EC doc mentions GBS 2009	Sector pooled funding mechanisms (education, health, infrastructure); GEMAP (now closed) to in parallel strengthen economic governance and accountability	GEMAP struggled to build critical capacities but said to have been instrumental in promoting accountability and good fiduciary standards	162	From 0.295 in 1980 to 0.300 in 2010; effect of protracted conflict	No info	None and off track for poverty indicator	Full	1-Mar-2008	1-May-2010	780
Madagascar[5]	Not on list	Governance		Unrest in 2009, military-backed regime	Not available	OECD-reported 8.5% total 2002-9 ODA, increased in 2008, stopped in 2009	No info	No info	135	From 0.399 in 2000 to 0.435 in 2010	No info	2 but 2 off-track	Full	1-Dec-2000	1-Oct-2004	1380
Mauritania[6]	Not on list	Governance		Coup 2005 following 2 years of authoritarian rule; election 2007; coup 2008	Not available	OECD-reported 4% total 2002-9 ODA	No info	Not sure what 'GBS' is, v. small 2008 and nil 2009	136	From 0.337 in 1990 to 0.433 in 2010	No info	2 but 4 off-track	Full	1-Dec-2000	1-May-2002	510

Oxfam Novib long list[1]	Status on WB fragility list 2011	Fragility status (Annex 1)	End of conflict/ Peace deal	Comments on fragility	Aid per capita 2008[2]	GBS' (OECD data + other qual sources)	Other modalities?	Comments on ODA or BS	HDI rank 2010	Long term change in HDI	Comments on devt	No. MDG on track as at Jan 2011 [7]	HIPC status	Decision point	Completion point	Interim period (months)
Occupied Palestine (oPt)	Yes no detail	Conflict		'Low level' endemic	668	OECD-reported 4% ; start in 2004	MDTF financing core recurrent funding (TIM/Pegase), administered by private companies hence presumably not reported as GBS in OECD database		Not ranked	Not assessed	No info	Not assessed	Not			0
Myanmar	Not recipient	Governance			11	None	No info	No info	132	From 0.406 in 2005 to 0.451 in 2010	No info	2 and 1 off track	Not			0
Nepal	Yes no detail	Governance	2006 2008	Maoist insurgency brought down monarchy in 2006; elections 2008 – Nepal became republic	25	Yes according to DFID but likely to be SBS/SWAp support through refunding budget; OECD-reported 2.5% total 2002-9 ODA	Basket funding/SBS in several sectors (health, education, social inclusion)	No info	138	From 0.210 in 1980 to 0.428 in 2010. Fastest change across all countries	No info	1	Not			0
Niger	Not on list	Governance		Low level endemic conflict + 2010 coup	41	OECD-reported 11.4% total 2002-9 ODA incl France all along, EC all along except 2009, AfDB until 2007, IMF	Basket funding/SBS in a number of sectors (education, health); DFID considers as SBS	Total 'GBS' as OECD-reported twice humanitarian aid; relatively constant over period with drop in 2009	167	From 0.166 in 1980 to 0.261 in 2010; average pace of change	No info	2 but 5 off track	Full	1-Dec-2000	1-Apr-2004	1200
Pakistan	Not on list	Conflict		'Low level' endemic	9	Yes (WB, DFID doc); OECD-reported 12.9% total 2002-9 ODA	No info	No info	125	From 0.311 in 1980 to 0.490 in 2010; 10th fastest change	No info	1 and 1 off track	Not			0
Rwanda	Not on list	Not counted	1994	Moved from conflict to fragile partnership on governance grounds	95	Yes - multi-donor, MT, programmatic, started with DFID 1998. OECD-reported 16.4% total 2002-9 ODA	Also SBS in growing number of sectors, additional to GBS. Shift to budget support almost complete in education sector in 2010 (FTI evaluation)	Steadily increasing ODA; GBS upward with troughs in some years due to moments of tension in partnership	152	From 0.249 in 1980 to 0.192 in 1995 to 0.385 in 2010; fast change in post-genocide period		6 (4 according to WB assessment Sep 2010)	Full	1-Dec-2000	1-Feb-2005	1500
Sierra Leone	Yes no detail	Conflict	2002	UK intervention	66	Yes: DFID (2001 onward); EC (2004/5 onward); WB (2000 BOP, later GBS); AfDB; BS programmatic, 46-116m/year btwn 2002-09 (5-25% ODA). OECD-reported 16.3% total 2002-9 ODA, incl IMF	HIPC CP + MDRI 2006; large debt relief; over 2002-10 approx 3 times larger than BS; Two MDTFs: WB for infrastructure; UN Joint Vision; 'GBS' larger than humanitarian aid	DFID (largest donor, first GBS donor, against then policy) multi-annual initially, annual since 2005; WB annual since 2000; EC multi-annual. Under-reported in OECD database (WB, AfDB?). Year-on-year flows unsteady: conditionality expanded faster than capacity/commitment	158	From 0.229 in 1980 to 0.317 in 2010; average change, effect of war	On-track for three MDGs	3 and 1 off track	Full	1-Mar-2002	1-Dec-2006	1710
Somalia	Not recipient	Conflict		Ongoing	84	No	Humanitarian aid almost 2/3 ODA (2002-9)	No info	Not ranked	Not assessed	No info	Very little info				0

Oxfam Novib long list[1]	Status on WB fragility list 2011	Fragility status (Annex 1)	End of conflict/ Peace deal	Comments on fragility	Aid per capita 2008[2]	GBS' (OECD data + other qual sources)	Other modalities?	Comments on ODA or BS	HDI rank 2010	Long term change in HDI	Comments on devt	No. MDG on track as at Jan 2011 [7]	HIPC status	Decision point	Completion point	Interim period (months)
Sudan	Not recipient ????	Conflict	2005	Nairobi Agreement after more than 20 yrs war with North. Referendum under way	55	No (donor doc); OECD-reported 1.8% total 2002-9 ODA, almost all in one year (2006)	'Failed' WB-managed MDTF, other pooled funding, DFID would like to develop SBS in health; Humanitarian aid 57% total 2002-9 ODA	Southern Sudan marginalised and affected by conflict. Among lowest social indicators in the world (see Oxfam Jan 2011)	154	From 0.250 in 1980 to 0.379 in 2010 but for country as a whole	Dismal social indicators in Southern Sudan	Very little info				0
Timor Leste	Post-Conflict	Conflict	2000	Independence from Indonesia; serious unrest 2006	251	No	MDTF though not clear whether still in existence; seems to have substituted to GBS, like ARTF recurrent window	No info	120	From 0.428 in 2005 to 0.502 in 2010		2	Not			0
Uganda	Not on list	Governance	1986	Moved from conflict to exemplar partnership to fragile partnership on governance grounds	52	Yes. OECD database under-reporting	SBS in several sectors; project funding now increasing faster than budget support (GBS+SBS) (SBSiP review 2010)	High profile case of suspension studied in Rachel Hayman's paper (2010)	143	From 0.281 in 1990 to 0.422 in 2010; fast change post-conflict, not so in North		3 and 2 off-track (2 + 4 'progress' according to WB assessment Sep 2010)	Full	1-Feb-2000	1-May-2000	90
Yemen	Yes no detail	Governance		Current president in power since 1978; low level endemic conflict	14	No	Large 'Social Fund' (CDD)		133	From 0.358 in 2000 to 0.439 in 2010		2 but 3 off-track	Not			
Zimbabwe	Not recipient	Governance		Power sharing deal 2008	49	No	Much through NGOs in latest years before 'unity government'		169	From 0.241 in 1980 to 0.140 in 2010. One of only two countries negative change		Not assessed	Not			

Notes:

Colours have been used to highlight (i) in red: the two countries in the world in which in 2010 the HDI is below that in 1980: DRC and Zimbabwe; (ii) in amber: a number of countries in which the HDI has improved very little (e.g. CAR) or not at all (Haiti) between 1980 and 2010, measured by their rank at the bottom of the list of how fast countries did improve (United Nations, 2010); in green: a number of countries identified in the UN report as remarkable for their performance in improving the HDI between 1980 and 2010

[1] The OECD list of fragile countries considered in OECD 2010h includes 43 countries (15 countries not considered here including many small islands, Iraq, North Korea, PNG etc.). The OECD list does not include Cambodia, Lao and Madagascar.

[2] Aid per capita in 2008 excluding debt relief

[3], [4] and [6] Cambodia, Lao PDR and Mauritania graduated from WB list in 2009

[5] Madagascar is not considered in the OECD list

[7] Prospects of reaching MDGs as per WB assessment method referred to in joint IMF and World Bank report on HIPC progress (IMF 2010).

There is no pattern associating 'GBS' and 'results'

A5.40) A number of observations can be made. First, the list of so-called fragile countries is highly heterogeneous in relation to development progress. At one end it includes striking cases of countries which made among the fastest progress in human development (as measured by the UN HDI) over the past 30 years, namely Nepal, Pakistan and Ethiopia (respectively 1st, 10th and 11th fastest upward moving countries in the world) and others in which progress has been fast too (Rwanda from after the genocide, Burundi, Uganda, and Lao). At the other end it also includes countries in which progress has been very slow or there have been virtually no change (Haiti, CAR, Congo, Liberia), and the only two countries in the world in which the HDI in 2010 is lower than in 1980 (Zimbabwe, where the trend downward has not yet been reverted, and DRC where the downward trend has just been halted).

A5.41) Similarly in terms of MDG prospects, there are a number of countries in which none of the MDG goals is likely to be met and several are seriously off-track (CAR, Côte d'Ivoire, DRC, Guinea and Liberia) but also countries with much better prospects of 4 or more MDG goals likely to be met (Ethiopia and Rwanda). This analysis further highlights that countries included in the study long list (set in discussion with Oxfam Novib) display very different natures of fragility.

A5.42) In turn, and in the same way as it is not possible to see a pattern linking the use and importance of 'GBS' to a country's fragility status, there also does not seem to be any link between the use and importance of 'GBS' and countries' development progress measured by change in HDI or prospects of achieving the MDGs. So for instance, Pakistan made strides in raising the country's HDI and it does receive quite substantial flows of 'GBS'. But Nepal, which made even more impressive human development progress, does not get much 'GBS'; however, the story behind the data is that it received significant SBS/basket funding support to social sectors (see Annex 6). Similarly, Ethiopia too does not get much 'GBS' in spite of its impressive human development performance; however, the government gets substantial flows of 'GBS-like' funding in the form of the PBS (see desk study). At the other end of the scale, CAR and DRC both get relatively significant 'GBS' flows whilst they display dismal performance in relation to development. Zimbabwe similarly does poorly in relation to development but does not get 'GBS'.

A5.43) This lack of a pattern must be looked at in light of the absence of any link between individual countries' needs and/or (government) performance and the total assistance flowing to each, as noted by the OECD and illustrated by the wide diversity in ODA per capita. In a way, the lack of pattern in the use and importance of GBS is then not so surprising.

A5.44) Reviewing shorter term past trends in HDI is not more conclusive. Among the fragile countries that did receive 'GBS' between 2002 and 2009 some do not show more improvement than in the previous decades (e.g. Haiti, CAR). In others like Ethiopia there is an acceleration in the progress made in the last decade, which as the desk study shows, is a period during which total ODA in Ethiopia increased very significantly and 'GBS' (including in this country, the Protecting Basic Services programme) had an important role in allowing this scaling-up of aid. In contrast in DRC (and a number of other countries like Liberia), the end of large-scale armed conflict in large parts of the country associated with the resumption of structural development cooperation (with massive and increasing flows of ODA, much of it in the form of projects) is certainly a more important factor in the halting of the downwards HDI trend over the past decade, than any other. In Burundi there is a slight acceleration in HDI improvement in the past decade. Whether this is related in any way to the provision of budget support would require more analysis than was feasible in the country study.

A5.45) Reference can be made here to the EC study published in 2010 which shows an association between high levels of GBS, looking at different **groups** of countries, and progress on four of the MDGs and the HDI in the 2002-07 period in these groups (EC 2010c, also see ¶**Error! Reference source not found.** above). The study also compares countries' average annual progress rates in two periods, 1995-2002 and 2002-2007, and found a substantial improvement between the two periods (i.e. much higher rates in 2002-7). However, as clearly stated in the study, this is about association, not causality. Moreover, the approach of the study is quite different from that of the analysis done above, as are the samples of countries. The EC study is a typical quantitative cross-sectional analysis which does not focus on individual countries. In contrast, the analysis above is qualitative; it focuses on trajectories of **individual** countries and tries to see whether there is a pattern in the provision of GBS to individual (fragile) countries in relation to the individual HDI trajectory of each country in the group. Consequently, the results of the study and the analysis above cannot be straightforwardly compared, but they are not necessarily contradictory. It would certainly be possible that there would be association overall (as found in the EC study) but also, within the group of countries, a number for which individually the association would not hold. The (fragile) countries on which the analysis above focuses is precisely those for which the association at individual level might hold less (the data provided in the EC publication does not allow to see whether or not this is the case).

A5.46) What the studies try to say is also different. The EC study tries to see whether GBS might lead to better MDG/ HDI performance, and concludes cautiously that more work is needed to assess whether there is causality. The analysis above says that donors do not seem to take into account HDI performance when they decide whether to give GBS or not (in individual fragile situations) (¶0; the change (or lack thereof) in countries' HDI performance over time appears unrelated to the presence or absence of GBS, and where there is change a number of non-GBS factors may have played a significant role (¶0. It is noteworthy that the EC study does not unpack much the issue of the influence of non-GBS factors. Yet, taking for instance the change between the 1997-2002 and 2002-2007 periods, plenty of things make these two periods quite different and many of these are likely to have influenced countries' performance in relation to the MDGs and the HDI (for instance the abandon of drastic structural adjustment-related cuts in social sectors and the reverse i.e. much greater focus on them through the PRSPs and the MDGs; better growth rates etc.).

'GBS' is not straightforwardly associated with HIPC

A5.47) There is no straightforward relationship between 'GBS' and 'GBS look-alike' and HIPC status. The majority of fragile HPICs have reached the completion point (Afghanistan, Burundi, CAR, Congo, DRC, Ethiopia, Haiti, Liberia, Madagascar, Mauritania, Niger, Rwanda, Sierra Leone and Uganda), though with interim periods (between decision and completion points) ranging from 90 days in Uganda to 2,520 days in DRC. In the course of these transition periods all countries got OECD-reported 'GBS' or 'GBS look-alike' support (e.g. the ARTF recurrent window) or a mix of both (GBS then PBS in Ethiopia, GBS and PAF support probably reported as SBS in Uganda), albeit with much variation in the 'GBS' proportion of total ODA flows and in the steadiness of the 'GBS' flows.

A5.48) The country case studies also show that the nature of the link between budget support and the HIPC process varied. In DRC GBS was given to help to keep the HIPC process 'on track' as the government was confronted to macroeconomic difficulties linked to the 2008-10 international crises; in Ethiopia, GBS then PBS unfolded after the HIPC completion point was reached.

A5.49) Among the HIPC countries, few in the list are still 'outstanding': Chad (decision point in May 2001), Côte d'Ivoire (decision point in March 2009, ongoing events are likely to derail the process significantly) and Guinea and Guinea-Bissau (both decision points in December 2000); they all receive some OECD-reported 'GBS', though not significant and/or not steady.

The type of 'GBS' varies and this may matter in relation to 'results'

A5.50) The 'GBS' which is given in fragile countries is highly variable. Beyond the fact that the OECD data lump together BOP and budget support, programmes called budget support in donor documentation are extremely different from one country to another. The 'targeted budget support' programmes of the EC, WB and AfDB in DRC have very little in common with the Multi-Donor Budget Support (MDBS) programmes of the EC, WB, AfDB and DFID in Sierra Leone or the GBS programmes of the EC, Norway and Netherlands in Burundi. The PBS in Ethiopia qualifies as GBS much more than that found in DRC (even though some of the PBS donors do not call it this way).

A5.51) As explained elsewhere in this report (see Table 1 in the main report), donors seem to see 'GBS' programmes in fragile countries as falling into two broadly defined categories: emergency, 'policy-light' operations (often conceived as 'one-off' even though in reality they may not be so) on the one side and on the other side more policy-oriented operations aimed at providing support over a longer period of time (even if commitments are still made on an annual basis) (see CAP 2010). The DRC GBS found in the case study fieldwork (but not reported on the OECD database) is definitely a case of emergency, policy-light type. The programmes in Burundi and Sierra Leone, especially those in the latter years of the 2002-9 period, are more of the policy-oriented type.

A5.52) Both Burundi and Sierra Leone illustrate that with policy-oriented GBS there is a tension between using budget support as an incentive for policy reform (which is the way development banks see it) and using it to support the implementation of already agreed policies. That is, 'what is GBS for' and what types of conditions are effective. This question is not specific to fragile countries but those countries have fewer means to face the consequences of flow disruptions when GBS is used as a policy reform instrument and reforms get stalled or delayed. The use of GBS as a policy reform instrument thus requires extra care to avoid the lack of predictability associated with policy conditionality and clauses like 'no within year cuts' should become systematically used. Extra care is also required as policy development capacities are weaker in those countries and there is a high risk of donors taking the lead, and crowding out policy ownership but also driving 'off the shelf' policy packages insufficiently sensitive to the local context and local political economy.

A5.53) Hence for instance, a WB review of its budget support operations in Burundi noted that the Bank had not adhered to its standards of conditionality ownership by the government as it tried to push reforms in sensitive areas (WB2007). In Sierra Leone, in 2007 delays in meeting conditionality related to the publication of government audited accounts led donors to suspend GBS payments. DFID recognised that this had negative consequences, including on service delivery, but concluded that the long-term benefit of enhanced transparency resulting from the fact that the government had finally met the conditions was outweighing these. In contrast, the PBS in Ethiopia embodies a shift in how donors have positioned themselves in relation to policy. It definitely is a programme supporting existing and strongly government-owned policies (of decentralised service delivery), in contrast with the earlier generation of GBS programmes which were trying to promote reforms in 'no-go areas' and failed to do so (before being suspended in the post-2005 election period, see desk study report).

A5.54) The way to deal with this tension is left to some extent outstanding in the WB-AfDB(-EC) Common Approach Paper. However implicitly, the CAP emphasis on the potential complementarity between budget support and MDTFs suggests that these donors may well envisage situations in which MDTFs like the ARTF (or the PBS) are used to support policy implementation whereas GBS is used to support policy reforms. MDTFs would then provide the stable and reliable financing needed for the government to use as support to its recurrent budget (a need which emerges as soon as donors agree that working with the government is a relevant strategy, and as the Afghanistan example shows, may continue to exist long into the transition, recovery and reconstruction process). GBS could be used as an incentive and this (potential) additional 'flexible' and 'on budget' funding can support other less 'core' expenditures.

A5.55) The type of 'GBS' (i.e. whether it is 'policy light' or policy-oriented, and if so, whether it is used an incentive for policy reform or to support policy implementation) is likely to be an influential factor in explaining whether GBS led to results and what type of results. Ideally one would want to find whether 'GBS' of a given type 'worked' better or less well and where/when/why. Carrying out this kind of assessment would require a case-by-case review, including in-depth analysis of the design and implementation of the GBS programmes found on the ground, for each country which one would want to include in the study. No such analysis was found. In this study this has been done for just three countries, which are very different to each other but also very different from all others found in this study's short and long lists.

A5.56) To conclude, given on the one hand, the variety of situations in which 'GBS' is provided and the absence of apparent link with any of the factors explored here (fragility, development/HIPC performance) and on the other hand, the variety in the types of 'GBS' provided, it would be un-justified to want to draw 'across-the-board' conclusions about the effects of 'GBS' in relation to service delivery improvements. Apart from case-by-case studies this cannot be done. The only information that can be used to respond to these questions in the TORs will therefore have to come from the three case studies undertaken in the context of the study, and whatever country-specific literature gives as information. The latter was exploited to the extent possible but is very scattered.

Annex 6: Country case studies and pen portraits

A6.1) This Annex follows on the conclusion reached in Annex 5 about the limitations of analyses based on cross-sectional data and the need to investigate the issues raised in the TORs country by country. This study included three country case studies, selected by Oxfam Novib. In addition, the consultants selected a small number of countries for which some time and resources were allocated to read more extensively and draw 'pen portraits' in addition to the general literature review which yielded some but scattered information on a country-by-country basis. Table A17 below summarises the status of these different pieces of work. The rest of the Annex includes the executive summaries of the DRC and Ethiopia case studies which were done by Mokoro, and four pen portraits.

A6.2) The TORs of the study were initially envisaging country case studies in Burundi, DR Congo, and Niger. In the event, Oxfam Novib decided to change and focus on Ethiopia instead of Niger. In accommodating Oxfam's decision (about which the consultants had some reservation), the study somewhat lost the focus that it could have had on conflict-affected and post-conflict countries (like Burundi, DRC and Niger), facing the very specific issue of being potentially on a trajectory requiring quick interventions, and on the question of what adaptation may be required to GBS for it to meet this specific need. In contrast, countries like Ethiopia pose a different type of challenge: the same issues as in so-called non fragile states, maybe a bit more acute (corruption, non respect of human rights, weak systems). So they test the overall principles of GBS but do not raise the same question as the post-conflict countries. For this reason the study recommends (in section 6.4) that further work should be done on the issue of GBS (or better aligned aid modalities) in post-conflict countries specifically (as opposed to the vaguer category of 'fragile states').

Table A17 Overview of country specific work

Country	Modality	Scope of data
Burundi	Preparatory work, field work and case study report completed by Oxfam Novib separately, without involvement of Mokoro and before the TORs for the study were fully finalised	Secondary data (limited) and primary data from interviews including one week of fieldwork and 23 interviews of civil society, donors and one government official in Burundi
DRC	Preparatory work and case study report completed by Mokoro; fieldwork led by Mokoro with a member from Oxfam Novib	Secondary data (extensive) and primary data from interviews including one week of fieldwork and interviews of civil society, donor and (4) government stakeholders in Kinshasa (total 11 days work; 18 meetings including discussions with 5-15 CSO representatives in three meetings)
Ethiopia	Literature review and desk study report completed by Mokoro	Secondary data, including access to a lot of 'grey literature' given Mokoro's long standing engagement in this country on consultancy and research work (total 13 days work)
Afghanistan	Literature review and pen portrait completed by Mokoro	Secondary data, 1-2 days work

Sierra Leone	Literature review and pen portrait completed by Mokoro	Secondary data, 1-2 days work
CAR	Literature review and pen portrait completed by Mokoro	Secondary data, 1-2 days work
Nepal	Literature review and pen portrait completed by Mokoro	Secondary data, 1-2 days work

Burundi case study – Introduction and summary of recommendations

A6.3) This case study is one of the three case studies undertaken for an overall study on budget support to fragile states.[54] The overall paper, including the three case-study reports, aims to present an evidence basis to develop recommendations with regards to the provision of budget support in fragile situations. This case-study on Burundi, executed by Oxfam Novib, is based on desk study and on interviews with 23 people from the Burundian administration, the donor community and civil society.[55]

A6.4) In line with the Paris and Accra commitments on aid effectiveness, the EC and its Member States should, where circumstances permit, endeavour to channel two thirds of Country Programmable Aid through programme-based approaches (general budget support[56] and sector budget support,[57] donor basket funds[58]). The European Consensus further states that budget support should be the preferred modality where conditions allow and that their use 'should increase as a means to strengthen ownership, support partners' national accountability and procedures, to finance national poverty reduction strategies (…) and to promote sound and transparent management of public finances''.[59]

A6.5) Oxfam is in favour of budget support because evidence has shown that aid directly given to a government can **help build the capacity of governments** to deliver quality services for all, and it can help to promote ownership.[60] It reduces fragmentation and therefore administrative costs for the government.

A6.6) However, budget support cannot be implemented in all countries and in all circumstances.[61] This study demonstrates in the specific case of a fragile state, such as Burundi that even if progress can be achieved through general budget support in (for instance) improving access to basic services, other aid modalities (sector budget support, pooled funding) may be preferable.

A6.7) We conclude that due to the extreme poverty and economic hardships of the Burundian people, a continuation of provision of foreign aid to Burundi is crucial. However, we raise serious concerns with regards to General Budget Support (GBS) as an aid modality used in Burundi. Considering major issues of corruption, human rights violations, lack of transparency and weak administration Oxfam believes that donors working collectively and in consultation with CSOs, should set out a clear timetable for improvements in these core areas, with indicators and independent verification and if these are not meet, move tore-direct their budget support to alternative aid modalities in a smooth and predictable manner until demonstrable improvements are made on these issues. At no account should foreign aid be diminished or cut – it should just be channelled through different modalities, such as pooled funding, programme support and Sectoral Budget Support.

Main findings and reflections:

A6.8) Most stakeholders interviewed (including civil society representatives) indicated that it is important to build the capacity of the government and to ensure that aid helps to finance recurrent expenditures and financing of the priorities set in the Poverty Reduction Strategy Paper. But in the short-term most stakeholders indicated a preference for using alternatives (pooled funding or sectoral budget support) to General Budget Support.

A6.9) Budget Support donor countries currently continue to give BS to Burundi in spite of major violations of human rights and numerous high level corruption scandals in Burundi. General Budget Support is *perceived* (by the Burundian government and its people) as a political statement implying that donors agree with the main orientations of a government. This is harmful if government officials continue to violate human rights without any consequence and if the situation does not improve in spite of the political dialogue.

A6.10) Especially civil society stakeholders, but also some donors interviewed indicated that General Budget Support, more than other aid modalities, is perceived as a sign of political support to the Burundian government and that continuing the level of Budget Support currently provided - considering primarily the human rights violations, issues of corruption, and lack of transparency - is therefore not acceptable. Oxfam believes that if human rights are violated on a structural basis and there is no political will and action to improve the situation, the donor granting Budget Support should (when possible) shift to alternative aid modalities.

A6.11) Sectoral Budget Support (SBS) may give some political distance from the central government. A move away from GBS towards SBS may give the signal of a need to improve human rights and fight corruption, while still demonstrating a willingness to assist in improving state capacity and to ensure continued improvements in (for instance) the health and education sectors.

A6.12) Some stakeholders argue that General Budget Support should be stopped altogether (whilst always ensuring a careful process towards that), other stakeholders argue that General Budget Support should be maintained within a toolkit of aid modalities while leveraging all aid provided to stimulate the Burundian Government to implement the necessary reforms, fight corruption, increase transparency and better uphold Human Rights.

A6.13) Oxfam recommends that withdrawal of General Budget Support in cases of human rights violations and corruption should be preceded by a participatory process including discussion, clear indicators and timetables and an independent assessment to ensure that chances have been given to the government to improve its performance. This is to avoid unnecessary fluctuations in aid and to improve its predictability. According to our knowledge such a process has not taken place in Burundi. As indicated by several sources, donors are not very coordinated in how they approach Budget Support and this has already led to unexpected fluctuations in General Budget Support received by the Burundian government in recent years.

A6.14) One reason why some bilateral donors provide BS to Burundi is that it enables it to have a political dialogue with the Burundian government. However, the political dialogue has not been particularly effective, partly because donors seem to have been inconsistent and poorly coordinated, and have not consistently followed up human rights violations.

A6.15) BS donors have also been too lenient in ensuring that the conditions they have tied to their aid are being met, although there has been some improvement in terms of increasing pro-poor spending and realizing reforms. However, conditions regarding the improvement of Public Finance Management (PFM) are frequently not met by the Burundian government, and BS donors have failed to respond accordingly.

DRC case study – Executive summary

A6.16) This case study focuses on the provision of budget support in the Democratic Republic of Congo (DRC), as one of three case studies undertaken for an overall study on budget support in fragile states carried out by Mokoro Ltd for Oxfam Novib. The report includes an in-depth (considering the limited resources allocated for the case study) analysis of the country context, of the aid context (including an analysis of the aid partnership and of the major 'types of aid' found in DRC), and of the budget support programmes found in DRC in relation to their design, predictability, effects in terms of service delivery and PFM strengthening, and accountability. This executive summary focuses exclusively on the final section of the report, highlighting the key findings of the case study and a number of reflections which will provide inputs in the overall study.

Main findings

A6.17) The study shows that:

- The main factor driving structural, sector and PFM reforms thus far has been the HIPC process, attracting attention again once the political situation had stabilised after the country's first ever reasonably democratic elections in 2006, and not budget support 'in itself'.
- Budget support, in the form of policy light, **emergency support**, mobilised at short notice in the 2009-2010 context of international crises severely affecting the country, was an indispensable stabilisation factor allowing DRC to remain 'on track' and reach the HIPC completion point. As such it contributed to all the results that can be linked to the HIPC process.
- An estimated total of US$350 million of budget support was provided by four agencies in 2009-10. This represents around 5% of the (draft) total recurrent budget estimates for 2011, and is broadly comparable to the US$100-200 million of 'debt relief savings' that are estimated to accrue annually from the HIPC process.
- Budget support contributed **directly** to re-establish/maintain macro-economic stability, which is likely to have been a really important way of not further worsening poverty.
- Other results that budget support programmes sought to **directly** achieve, and in particular, the so-called 'protection of priority expenditures', are less clearly established. That is mainly because, in the way they were designed, the programmes were not very different from other financial programme aid: their engagement with the government budget **as a whole** was negligible.
- Budget support thus far was not **directly** used in relation to sector policy dialogue and only marginally in relation to PFM strengthening. Through reimbursing already made budget expenditures, conditions focused practically exclusively on tackling the high fiduciary risks.

- Budget support programmes seem to have been weakly monitored and/or little information is available to the general public and CSOs about the programmes and their results.
- Budget support did not **directly** support demand-side domestic accountability strengthening in spite of a flurry of 'budget work' initiatives more broadly. Donors presented the situation as a dilemma between strengthening mutual vs. (demand-side) domestic accountability.
- Budget support was not used as a political instrument. This is in line with the OECD DAC guidance on these matters although it is probably more a result of the nature of the agencies which provided budget support thus far. This 'neutrality' had to be fought for on the side of the EC.
- Budget support was used as an economic governance instrument of sanction: it was frozen by the WB in relation to a dispute linked to the Bank group's economic interests in the mining sector. This use was not part of a prior-agreed reward/sanction framework.
- Budget support has thus far not been part of the regular programming of donor agencies and has not been predictable.
- There are diverging views as to whether budget support programmes, even in their narrow form of emergency support, exploited well all potential opportunities in relation to sector policy dialogue, government budget and domestic accountability strengthening.
- Apart from overtly opposition-aligned stakeholders challenging the legitimacy of budget support in DRC at this stage, there was a sense that it ought to continue to be used.
- Yet there was no consensus about how this should be done, how fast donors should transition towards a more planned use of 'regular budget support' and how fast they should move to plan this transition, and what budget support should focus on. The longer these issues remain outstanding, the higher the risk that donors would have to fall back on emergency budget support as their only choice to avoid jeopardising the hard won (if limited as just described) gains.

Reflections

A6.18) The case study suggests that in DRC, the rationale for using emergency budget support has been totally different from that for using 'regular budget support' in non-fragile contexts. In the way it was designed, it responded to a combination of factors arising from the international crisis context and the country-specific fragility context.

A6.19) DRC is a country affected by both broader governance issues and conflict. Budget support has been used quite narrowly and through its rather 'basic' design, it has thus far 'skirted around' both types of fragility. This was sensible as the objective was to quickly disburse economic stabilisation funding. However, this would be less acceptable for an instrument aimed to support more predictably change over the medium-term, and which would be inscribed in the regular programming of donor agencies. At the same time, the study highlights an obvious risk of 'overloading the agenda' in relation to the desirable focus of budget support in the future.

A6.20) One of the challenges that donors face in using budget support is to agree about how the associated dialogue is positioned in the overall policy and political dialogue. As noted in a number of studies this challenge is more acute in fragile states: typically, the country's fragility often means that the partnership is fragile too, and donors may be tempted more than elsewhere to depart from the OECD DAC guidance that *political conditionality should not be specifically linked to budget support or any individual aid instrument, but should rather be handled in the context of the overarching policy dialogue between a partner country and its donors.* Moreover, in a number of donor countries and even in the EC this guidance is being increasingly questioned. At the same time, this is even more complex in environments like DRC which have a high strategic value (in this case, economic) for many 'donors' (including multilateral agencies, as found in the case study).

A6.21) The literature on budget support and the Consultant's direct experience elsewhere indicate that to evolve into a reasonably predictable instrument supporting change over the medium-term, budget support has to be focused on policy areas where there is enough common ground among a critical mass of stakeholders in DRC (government, donors and civil society). This need not mean closing eyes on areas where there is no common ground, but it is a case to think about how budget support can be used to gradually open up new areas of greater consensus, rather than wanting to embrace the whole scope of sensitive issues at once. As the programmes thus far were little known and discussed, an opportunity may have been lost to actually show that common ground existed around the importance of macroeconomic stability and of protecting priority spending.

A6.22) The study also highlights the need to think early about how emergency budget support might evolve. As things are by definition highly uncertain in a fragile environment, developing scenarios would seem to be useful. Finding an agreement holding for the medium to long-term will not be easy – as in addition to the country's fragility the donor group appears to be quite fragile too, and the partnership is certainly fragile. Donors may need to think about a transition phase in which they would use better what might still resemble to 'emergency budget support' but which could, as a 'transitional' form of budget support, focus on a few well-defined sector/PFM/accountability expected results.

A6.23) The DRC case study suggests that 'emergency budget support' designed and implemented as an economic stabilisation instrument with limited objectives can have value when it is linked to a bigger reform and incentive programme. But it also reveals the need for donors to pay more attention to the nature of the instrument and how to use it more strategically, even when its objectives should remain realistically limited. One of the rationales to provide budget support is that it focuses attention on the government budget as a whole. Emergency budget support in DRC did not do this so far and could have done more in this respect.

A6.24) Emergency/'transitional' budget support could be more effective if donors seized opportunities for sector policy development/dialogue and for strengthening domestic accountability, linked to the limited objectives that they have identified. This requires more lateral thinking and joint work across donor agencies' sectoral/thematic units and donor groups. In the case of DRC it would have been possible for the emergency budget support programmes, focusing on teachers' salaries, to be used in the sector dialogue and at the same time, to start engaging more robustly on the budget, and the study suggests how this might have been done.

A6.25) Donors also need to think about how budget support programmes could be at the forefront of the flurry of demand-led 'budget work' activities found on the ground – instead of being, as has been the case thus far, among the least transparent issues that CSOs try to grapple with.

A6.26) More fundamentally, using budget support as a medium-term and reliable instrument would require not only that it should be positioned vis-à-vis the country's fragility but also that donors overcome sufficiently their own fragility and the fragility of their partnership with the government – and make progress in addressing the fragility of their partnership with civil society.

A6.27) Indeed the study highlights that budget support programmes in DRC thus far have ignored the accountability strengthening dimension. Like for the sector policy dimension this need not be the case even with emergency or transitional budget support. There are many deep-seated issues on the side of civil society in DRC but a starting point would be for donors to better coordinate and agree on **one** strategy and shared entry points for dialogue with and support to civil society. As a prerequisite clear information should be provided on an institutionalised basis about budget support programmes and more broadly financial programme aid. This could be linked to donor support to government budget transparency activities and to the wide array of existing or emerging 'budget work' initiatives.

A6.28) This would also contribute to paving the way for involving CSOs in programme design and monitoring. Donors ought to clearly state, early in the (hypothetical) discussions about a medium-term strategy for budget support with the government, that strengthening demand-side domestic accountability in ways that are independent from the government will be part of all budget support programmes in future – looking at examples found in other 'difficult countries', thereby openly addressing the false dilemma between mutual and domestic accountability.

A6.29) Donors could begin to tackle this dilemma by focusing on opportunities linked to the specific objectives of emergency budget support, through measures foreseeing that CSOs would be systematically involved in both the ex ante verification of the conditions (i.e. the audits of the teachers' salaries for instance) and equally importantly the ex post monitoring of any government commitment (e.g. regularity of further payments of teacher salaries, or conditions that would stipulate specific use of the 'fresh cash' disbursed in the government budget as called for by a number of stakeholders).

A6.30) Donors should also think about enhancing understanding of budget support on both government and civil society's sides – as a prerequisite to many of the suggestions made above.

Ethiopia case study – Executive summary

A6.31) This case study focuses on the provision of budget support in Ethiopia. It is one of three case studies undertaken for an overall study on budget support in fragile states carried out by Mokoro Ltd for Oxfam Novib. The report includes an in-depth[62] analysis of the country context and the aid context. The report then turns to budget support as modality and how it has been used in Ethiopia. It looks particularly at the design of the programmes used and their predictability. It then explores to what extent budget support has had an impact upon service delivery, PFM strengthening, and accountability. This executive summary focuses exclusively on the final section of the report, highlighting the key findings of the case study and a number of reflections which will provide inputs in the overall study.

A6.32) The context in Ethiopia is vitally important in order to understand the need for aid flows but also to better understand the complexity of relations between the different stakeholders.

Context

A6.33) Ethiopia is the second most populous country in Africa with a population of 74 million (census 2007) which continues to grow fast (at 2.6% p.a. between 1994 and 2007, only 0.2% lower than in the 1984-1994 period). Over the centuries the country has been through a series of devastating famines and droughts which have led to mass food insecurity. Poverty affects a significant part of the population; in 2006/07 around 26 million people lived below the poverty line (Dom, 2009a). Agriculture accounts for 46 percent of GDP and nearly 85 percent of employment, it has grown at a rate of 13 percent per year since 2003/04 (Dom, 2010a). However, this economic dependence upon rain-fed, small holder agriculture makes the economy susceptible to shocks and uncertainty. Thus, the diversification of the economy away from purely agriculture and towards industry and services is key to the long-term economic stability of Ethiopia. But this will take time.

A6.34) In 1991 the Ethiopian People's Revolutionary Democratic Front (EPRDF) emerged victorious from a long civil war against the Marxist military regime known as the Derg, which had been in power since 1975 when they ousted the Emperor. The 1994/95 Constitution established Ethiopia as a Federal State comprised of nine autonomous Regions and two Chartered Cities with extensive powers and responsibilities related to regional development, and with fully-fledged three-branch governments. Regions/ Cities vary hugely in size, population number, development/poverty level and potential. Since 2002/03 the Government of Ethiopia (GOE) has rolled out a decentralisation policy giving extended basic service delivery responsibilities to the districts/ weredas. This programme of decentralisation has been an essential part of GOE's success in pushing forward their national policies and plans.

A6.35) In May 2005 the federal and regional elections resulted in a turning point in Ethiopia's democratisation process. The elections were fiercely contested and the opposition made significant gains which surprised all involved and particularly the ruling party. Following the elections the results were contested. This led to demonstrations which were violently handled by the Government and resulted in civilians' death, and were followed by a generalised clamp down on the opposition. The pre-2005 election unprecedented political space has not returned since.

A6.36) The Ethiopian Government has shown commitment to poverty reduction and to the achievement of the MDGs. It has also made progress on developing relatively "sound and transparent" public financial management systems (DFID, 2009: p.xi). The Government has increased its expenditure to public services particularly in health and education with gradual improvements in both sectors. The picture at national level however, hides significant variations in achievements across Regions and also within Regions (Dom and Lister, 2010) but this is not denied by the government. How to address the root causes of these disparities (that are mostly structural inequalities in endowment) is a very complex matter, and one which will require time to be resolved.

A6.37) Ethiopia has a long tradition of planning which developed under the Derg. When compared over time the EPRDF government's plans show a significant evolution. In the latest plan in particular, the government are starting to acknowledge the importance of moving beyond a model of growth based solely on agriculture transformation, and pay due attention to economic diversification and urbanisation as a key ingredient in this.

A6.38) Whether or not Ethiopia should be classed as a fragile state is highly contested. As for those who deem it to be fragile they typically do so because of the nature of its politics, and tend to overlook the multi-faceted nature of the country's fragility.

Main findings

A6.39) The study shows that:

- Following the end of the border war with Eritrea in 2000 and the finalisation of the PRSP (SDPRP) in 2003, donors wished to reengage and find ways of channelling the large flows of funds justified by the immense needs of the country. The World Bank (WB) and the UK started providing General Budget Support to Ethiopia. Several other donors joined rapidly. The WB PRSC I was approved in February 2004 as well as a number of other programmes.
- The Government and GBS donors organised a joint **Direct Budget Support** (DBS) process in which all programmes were aligned around one common policy matrix derived from the SDPRP, and set out a common review and dialogue process. Thus, budget support provided a welcome alternative for GOE after years of very large (and unpredictable) levels of emergency relief, which had contributed to significant annual fluctuations in aid flow. Budget Support was more predictable and brought donors together to better harmonise their inputs. It clearly facilitated the ongoing rapid expansion of basic services across the country.
- In 2005/6 there was an abrupt shift as donors felt that continuing to provide GBS was untenable due to the Government's violent and repressive handling of the post-2005 election events described above. Instead donors developed an alternative, the Protection of Basic Services (PBS) programme, of which the largest component provides budget financing comingled with government fiscal transfers to Regions and districts. The rationale of donors was indeed,

to protect the pro-poor gains in service delivery of the past few years. This report considers the PBS as general budget support 'with a difference', owing to its principle-based design and attention to local service delivery and accountability systems.

- The PBS is now in its second phase and has grown in size and influence. PBS has shown some impressive results in terms of service delivery and engagement at regional and local levels. It has successfully found common ground between stakeholders and has had some degree of success in bringing together civil society organisations (CSOs) and GOE around consensus policy areas and the strengthening of local systems for accountability for service delivery.
- Whilst Ethiopia's fragility is contested it is a clear example of a fragile partnership between the government and its western 'development partners'. Although Ethiopia has performed well on the implementation and government financing of pro-poor policies and has demonstrated strong governance in several dimensions, the complexity of the country's political transition and the role of the government and ruling party in it has affected the relationship between the Government and donors as well as INGOs. The partnership has never been easy but tensions came to a head with the 2005 elections and events that followed. The passing of a new 'CSO law' in 2009, seen by many as repressive, and a recent (2010) report by Human Rights Watch highlighting instances of use of public resources (including aid) for political motives have further strained relations.
- Beyond technical weaknesses in the partnership, donors remain torn between celebrating the successes in Ethiopia and berating it for its shrinking political space. Whilst there is no doubt that Ethiopia has made significant progress in the delivery of basic services hence addressing socioeconomic rights of the people, there are cries from within (from the opposition) and outside the country (the recent Human Rights Watch Report) about continued human (civic and political) rights abuses. This has resulted in an uncomfortable tension.
- The donors' 'ethical quandary' is unlikely to easily subside as the scale of the reported abuses has remained elusive to establish. Whereas, it is clear that levels of personal sufferings of many in Ethiopia are still very high and that aid can make a difference. This led some non-donor stakeholders to conclude that donors should base their actions on considerations that 'consequences matter more than principles' (Bevan 2010).
- There is no clarity on the future of 'budget aid' in Ethiopia. Whilst recognising that the PBS is 'working' for some development aspects, some donors talk about reintroducing GBS – which GOE does not wish. Other donors strongly oppose to this, on grounds of lack of progress in political governance – but do not seem to question the continuation of PBS.

Reflections

A6.40) This desk study highlights some of the uncertainty around whether or not Ethiopia can be categorised as a fragile state. It is therefore, a good example of some of the problems with such forms of categorisation. Ethiopia's fragility is political but it also relates to a series of other factors (deep-seated poverty, ethnic and geographical diversity, narrow economic basis) which compound its political fragility and one another. In some analysis it is suggested that these other fragility factors go some way to explain government's perception that it has to 'keep things under control', hence feeding into the political fragility. On the other hand, as a result of this context of deep-seated poverty on a vast scale and with a government that is pro-poor in its policy-making, Ethiopia may be seen as a prime candidate for budget support, in spite of its fragility.

A6.41) Indeed budget support has been used increasingly by donors in Ethiopia as they have sought to increase their aid flows and overcome the historically low level of external assistance. Whilst aid per capita remains under the Sub-Saharan Africa average aid flows have indeed vastly expanded and Ethiopia has become one of the world's largest recipients of ODA in the absolute. Budget support (and the PBS as one of its forms) has enabled this higher and somewhat more predictable and harmonised flow of resources to occur.

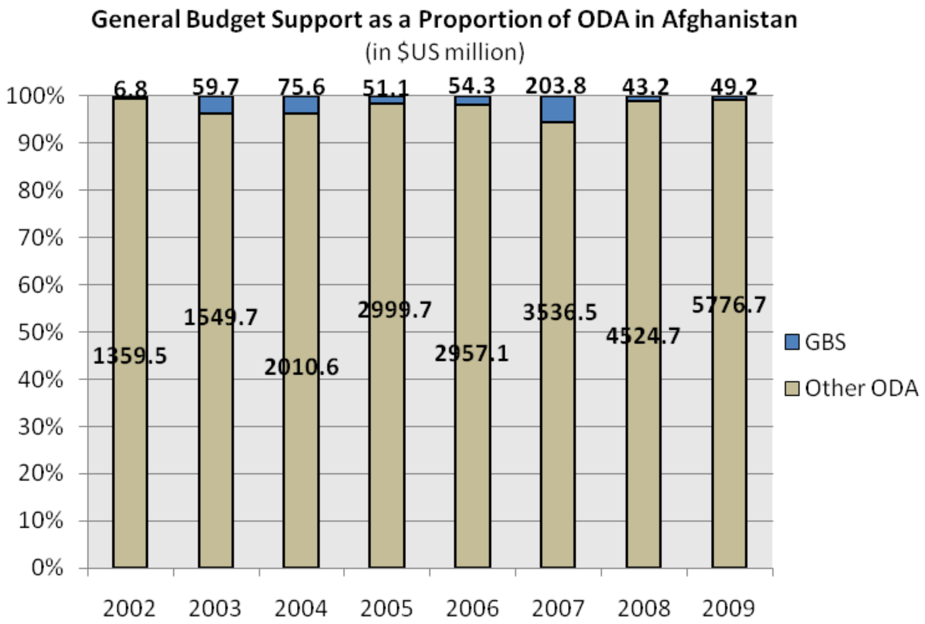
A6.42) Because of the complex political transition which does not fit western standards, donors remain torn between celebrating the successes in Ethiopia and berating it for its shrinking political space. GBS was ruptured in 2005/6 in response to dramatic political events, yet many of the donors chose to continue providing aid through a system which is similar in all but the name to GBS. This sends a strong message about what donors feel is effective in Ethiopia. Through carefully designed accompanying measures that could well be built in any GBS programme, the donor community in Ethiopia has found ways of using budget support in a way that is beneficial to most people in Ethiopia, directly through basic service expansion and potentially more fundamentally through contributing to change in the relationship between government and society, and yet also palatable to their HQs. The risk that aid is politically distorted is not totally eliminated, but this holds for any aid modality in a context in which the government is the main service provider, and taking account of the fungibility of any aid funding.

A6.43) One of the challenges in using budget support in the future (especially through the current PBS arrangement) will be how to maintain agreement amongst donors. Particularly as some are already looking to return to GBS. Holding coherence within the donor group is vital to harmonisation but also political voice with a Government who is reluctant to listen to donor advice. Moreover, the rules of the game are not yet clear in relation to what donors would do in case the political situation becomes 'unacceptable' again. There does not seem to be an example of a country in which these rules have been fully clarified.

Afghanistan pen portrait

Fragility Context: With ongoing conflict in Afghanistan it is to be expected that the country is extremely fragile. According to the State Fragility Index and Matrix 2009 Afghanistan is ranked joint 4th in the world in terms of fragility, performing poorly in all categories. The fragile context of Afghanistan is also captured by the World Bank Governance Indicators (WGIs) which indicate that Afghanistan is in the bottom 10% of the world for every indicator except Voice & Accountability where it's in the bottom 25%. Nevertheless, progress has been made since 1998 in Voice & Accountability and in Government Effectiveness.	**Brief recent history:** Since the fall of the Taliban in 2001 Afghanistan has yet to see an end to conflict. The Bonn Agreement of December 2001 formed an Afghan Interim Authority with Hamid Karzai as chairman that had the objective of determining the process for constructing a new government. A new constitution was adopted in 2004 that employs a presidential system of governance. Since then the country held elections in 2004 and 2009 both times resulting in Karzai being elected president despite widespread claims of fraud following the latter. Economic growth in Afghanistan has been strong since with an annual average of 13.2% between 2003 and 2009. However, this masks recession in 2007 (-0.22%) and extremely strong performance in 2009 (40.8%) indicating the lack of stability within the economy (World Bank, 2010a).
Socio-economic context: Decades of conflict have had severe consequences for development within Afghanistan. The 2010 Human Development Report ranked Afghanistan 155th out of 169 countries in the world in terms of human development with a life expectancy of just 44 years and 36% of the population living below the poverty line. Achieving the Millennium Development Goals will be a challenge for Afghanistan. A 2009 report cited Afghanistan as the country with the 'most scope for improvement' (UNDP, 2009/10, p.17) in Asia since more than 70% of the reported indicators are off track (unreported ones include poverty and education which probably haven't performed well). The government of Afghanistan has opted to add in a 9th MDG which is to 'Enhance Security' since it has been viewed as the Afghanis' greatest problem. Tracking progress on the 9 goals remains difficult due to the lack of available data.	**Aid landscape:** The volume of ODA to Afghanistan has expanded rapidly since 2002 when $1.37bn was disbursed. The figure for 2009 is over 4 times this at $5.83bn. This aid is sourced from a growing pool of donors in which USAID is the largest providing over 45% of the amount disbursed between 2002 and 2009. Other large donors present in Afghanistan include DFID, the WB (IDA) and the European Commission who make up a further 20%. The rest is allocated by a large number of other donors (OECD, 2010a). Significant areas of spending include social infrastructure & services (45.5%), economic infrastructure and services (20%) and humanitarian aid (16.1%). There is no division of labour policy amongst donors in Afghanistan so each can fund whichever sector they wish. However, there are a number of donor coordination mechanisms, amongst which multi donor trust funds (MDTFs) have been some of the most effective (OECD, 2010b).

Budget support volume[63]:



Who provides budget support and how?

As the graph in the box above indicates, general budget support (GBS) is not a widely adopted approach in Afghanistan. However, donors support national budgets through MDTFs, chiefly the World Bank's Afghanistan Reconstruction Trust Fund (ARTF) and the UNDP Law and Order Trust Fund for Afghanistan (LOFTA).

The first MDTF, the Afghan Interim Authority Fund (AIAF), was created by the UNPD at the request of donors with the establishment of the Afghan Interim Authority (AIA) in 2002. Its objective was to provide the AIA with resources to pay civil servants and provide basic public services so that their credibility and legitimacy was quickly established. This 6 month long operation (January - July) started the long-term reconstruction and development activities in Afghanistan which it handed over to the ARTF.

The ARTF was to exist until either two years after the election of a permanent government or by 30th June 2006, whichever came first: since then its end date has been extended to June 2020. The objectives of the ARTF are to i) promote transparency and accountability, ii) reinforce the national budget as the driving force behind alignment and promotion of national objectives, iii) reduce the burden on GoA whilst increasing capacity, iv) fund recurrent budget expenditure and v) provide an instrument for donors to fund priority investments (OECD, 2010c). The ARTF is administered by the WB although it is governed by a management committee of the UNDP, UNAMA, the ADB and the IDB which meet on a monthly basis to make decisions on proposed funding allocations. Donors contribute to a single bank account through which funding is then disbursed through one of two windows: the Recurrent Cost Window (RCW) and the Investment Window (IW). The former provides funds through the budget to cover the costs of government to ensure functionality and service delivery whilst the latter provides grants for national development programs in the development budget. As such, the RCW is very similar to BS and the IW is comparable to project aid.

Since its inception ARTF has disbursed $1.7bn (World Bank, 2010b) through the RCW (2002-2009) and $752m (OECD, 2010c) through the IW (2002-2008). The largest of the 30 contributors to the ARTF between 2002 and 2009 are the UK, Canada and the USA. Overall contributions are rising annually although donors are increasing the portion of their funding which is 'preferenced' (donor indicates a particular project to receive its funds) at a much greater rate. Rules have been set up so that donors are not able to preference more than 50% of their contribution unless they've made available sufficient funds such that the ARTF RCW obligation has been filled – ensuring that the priority RCW has sufficient funding.

Disbursements from the fund are based on criteria that the government has agreed upon in line with the broader fiduciary framework for public expenditures. The WB has employed a Monitoring Agent to examine the eligibility of expenditures although the RCW usually disburses around 100% of its annual allocation (OECD, 2010c).

An incentive program within the RCW was created in 2008 to encourage the government to increase domestic revenue collection and thus budget sustainability so that the RCW can make a phased out exit. Under this program there are three designated reform areas: Enhancing Domestic Revenue Generation; Improved Public Sector Governance and Enabling Private Sector Development. Each has a maximum disbursement of $15 million once all the benchmarks assigned to that theme have been reached (World Bank, 2009).

In addition to the ARTF the UNDP set up LOFTA in 2002 as a complementary fund which donors can use to fund security related activities that the WB's ARTF is not able to. The objectives of LOFTA are i) Payment of police salaries, allowances and benefit nationwide, ii) Procurement of non-lethal equipment, related fuel and maintenance costs, iii) Rehabilitation of facilities, iv) Training and v) Institutional development (UNDP, 2005). Since 2002 LOFTA has gone through 5 phases, each with amended objectives. In 2009 LOFTAs expenditure on Phase V was $258.6m (UNDP, 2009).

In Country Accountability of Budget Support

The Afghanistan National Solidarity Programme (NSP) created in 2003 is funded by a number of donors (Including the ARTF directly) and is an attempt to target rural communities promoting community driven development. A couple of the objectives of the NSP are: to facilitate the establishment of local institutions through elections and to create more linkages between local institutions and government. These activities create more of an opportunity for communities to engage with the national government, yet state society relations are regarded as the 'biggest missing link in the reconstruction process' (OECD, 2010b, p.10). This apparent lack of functioning formal mechanisms for dialogue between society and the government makes it hard for them to hold government to account for its actions let alone donors. With such a reliance on donors for funding there is less of an incentive for the GoA to foster mechanisms through which they are held accountable to their citizens. Furthermore, holding donors to account for their funding is incredibly challenging with the lack of aid transparency and 'little independent scrutiny' (Waldman, M., 2008, p. 3).

Conclusions

The ARTF has developed into one of the key mechanisms for donor alignment and coordination. It has been a vital funding source for the GoA in the absence of significant domestic revenues and has provided investment for vital services and infrastructure. The fund has maintained the legitimacy of the government through the use of government systems and promotion of ownership by the relevant ministries. Nevertheless, there is a movement towards greater preferencing amongst donors (which has never been ignored) both for sectors and geographical areas. This indicates donors' own interests rather than those of the GoA and often link geographical preferences to the locations of their military operations.

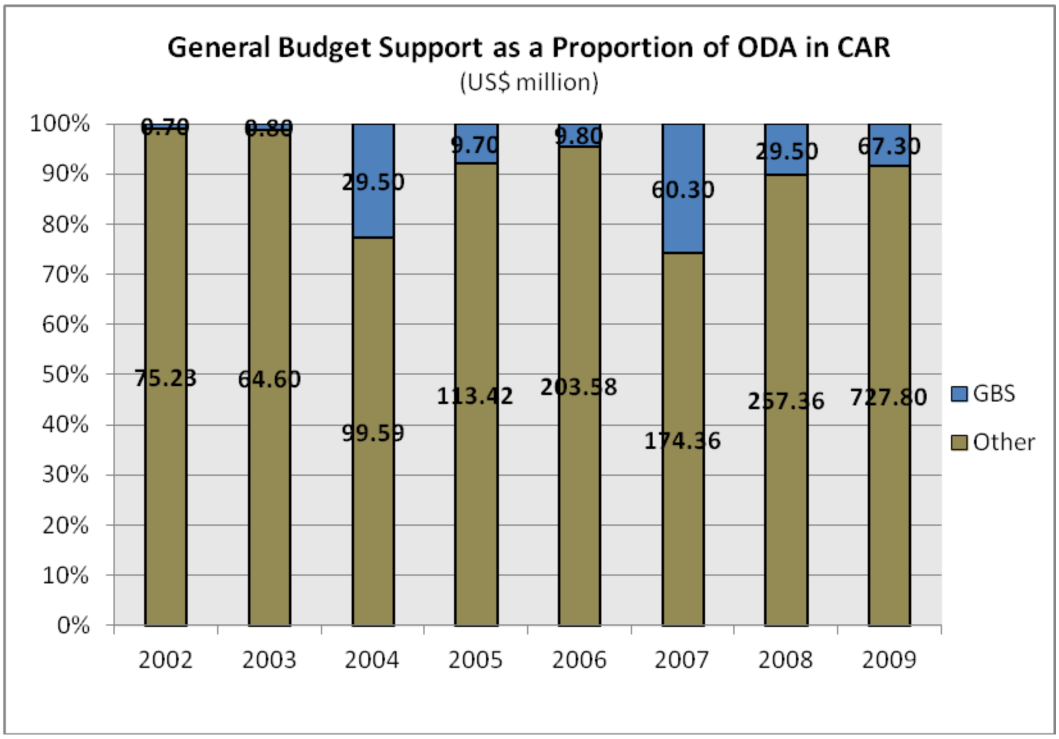
Good practice in BS:	Areas of weakness in BS:
Has provided a predictable source of income for GoA so that civil servants get paid and that basic service delivery continues.	The greater use of donor preferencing means that GoA ownership of the funding choice is undermined.
More than 50% of donor commitments to ARTF must be un-preferenced.	MDTFs disbursement mechanisms can be slow and complex.
The ARTF was set up in the context of the National Development Framework and then the National Development Strategy.	No apparent effort to strengthen/create lines of domestic accountability for spending within the ARTF RCW – management committee make allocation decisions.
Government plays an active role in the funding decisions and then the implementation.	

Central African Republic (CAR) pen portrait

Fragility Context:	**Brief recent history:**
CAR has been ranked as the joint 10th most fragile state on the State Fragility Index, performing poorly in all the categories and classified as still in a state of war (a much debated categorisation). The Worldwide Governance Indicators confirm the fragility of CAR with 'Political Stability', 'Government Effectiveness' and the 'Rule of Law' indices being well within the bottom 10% globally. The former and latter represent a decline in ranking of nearly 30% since 1996. Indeed, the only indicator to have improved since 1996 is 'The Control of Corruption' in which CAR moved up the ranking by about 10%. The Ibrahim Mo Index examines African Governance through multiple indicators in which CAR ranks 48th out of 53 countries. In this index CAR has made progress since 2000/1 in all of the categories and has performed particularly well in 'Participation and Human Rights' in which CAR is ranked in the top half of African countries. Nevertheless, CAR is not out of the bottom 5 for each of the other 3 indicators ('Safety & Rule of Law', 'Sustainable Economic Opportunity' and 'Human Development').	Following a successful coup in 2003 Francois Bozize declared himself president, dissolving the National Assembly and suspending the Constitution. A referendum in 2004 passed a new constitution and there were presidential and legislative elections in March 2005. In September 2006 rebel uprisings resulted in the Government losing control over regions in the northeast and northwest of the country. A Comprehensive Peace Accord was agreed by all parties in June 2008 which officially ended the violence. In 2009 a new coalition government was formed with the addition of opposition parties and former rebels. A degree of economic stability in CAR has only recently been achieved. Annual economic growth has remained positive, although low, since 2004 with an average rate of 2.6% (2004-2009) (World Bank 2010). This is a considerable achievement when looking back at earlier performance with severe recessions occurring regularly.
Socio-economic context:	**Aid landscape:**
The economic and political instability in CAR has translated into poor performance relating to human development indicators. More than 62% (in 2008) of the population live on less than $1 a day (UN 2010) and, correspondingly, the 2010 Human Development Report places CAR 159th out of 169 countries. Progress towards the Millennium Development Goals has been limited so much so that CAR has declared it that the only goal which may be 'possible' to reach is gender equality. One indicator is 'probable' (halving the proportion of the population without sustainable access to a safe water & basic sanitation) and another 'possible' (halt	Between 2002 and 2009 CAR has been disbursed a total of $1.92bn ODA from both multilateral and bilateral donors with the former making up 62.5% percent. Multilaterals operating within CAR include the WB (IDA) with 27.7% of total contributions, EU making up 11.4% and the AFDF 8.6%. The largest bilateral donor is France for which CAR is a priority country with a total ODA disbursement between 2002 and 2009 of $351.5m (18.3% of the total). The USA is the only other significant bilateral donor with $138.8m disbursed to CAR (7.2% of the total). No other donors (except the IMF) have contributed to more than 3% of the total aid to CAR.

and reverse the incidence of malaria). Every other indicator is 'impossible' to achieve by 2015 (IBID).	In his 2005 paper *An Index of Donor Performance* (Roodman developed a new measure of foreign aid – net aid transfers (NAT) – which removes the distortions of principle payments received on ODA loans and interest received on such loans (net ODA is net of only the former). Looking at this measure significantly reduces the amount of aid received by CAR between 2002 and 2008 to $865 million (2008 - updated data). Of the ODA disbursed to CAR the greatest percentage goes towards social infrastructure and services (23.9%). Within this category the governance sector receives the largest disbursement (9.7% total ODA) with education and health receiving 3.7% and 4.3% respectively. Donor Funding has been particularly erratic over the years with annual percentage change in disbursements ranging from 177% to -14%.

Budget support volume[64]:



Who provides budget support and how?

In line with total aid to CAR, annually general budget support (the only BS modality used in CAR) has varied in size considerably. Active BS providers are The World Bank (through IDA), the EU, France, AfDB and the IMF the majority of which have disbursed through annual programs rather than long-term agreements relating to BS volume and regularity.

In 2009 the IDA, EU, AfDB and France with IMF observing created a General Framework for

Budget Support to the PRSP which led to the adoption of a joint matrix of policy options based around the government's priority areas as well as planned donor support to related government PFM reforms. The WB and AfDB have created a joint Country Strategy Paper for 2009-2012 which is a significant step towards greater harmonisation within the international donors. There is not, however, any formal agreements relating to division of labour of donors.

The enhanced HIPC completion point was achieved in 2009 following the successful fulfilment of eight triggers. The use of such benchmarks tied to significant financial incentives initiated macroeconomic and structural reforms within CAR including 'improvement in effectiveness, transparency and accountability in public financial management' (AfDB 2009). As such, CAR received $578.2 million in debt relief and also qualified for further $342.8 million under the MDRI scheme (increase in gross ODA observable in the graph above). Yet, it is important to acknowledge that the size of these sums is only applicable if they create additional funds for the government of CAR.

CAR has received pooled funding through four mechanisms. An Emergency Response Fund (from 2007) received $5.7 million from Ireland, the Netherlands, Norway, Sweden and the UK and was expanded into the Common Humanitarian Fund (CHF) in July 2008 which has since disbursed $5.5 million unearmarked funds specifically to target the most critical humanitarian needs. The Peacebuilding Fund (from June 2008) is administered by the UNDP and focuses on i) Security Sector Reform - $4 million ii) promoting good governance and the rule of law - $3.4 million and iii) community revitalisation – $2.6 million. The regional Multi-country Demobilisation and Reintegration Programme (MDRP) (2002-June 2009) that is overseen by the WB has so far disbursed $9.8 million with several objectives: i) demobilisation of ex-combatants; ii) provision of reintegration assistance and iii) small-infrastructure rehabilitation to communities of return. (OECD 2010c).

In Country Accountability of Budget Support

An efficient Development Assistance Database run by the Ministry of Planning and a committee on aid spending comprising of a variety of civil society organisations, private sector representatives, donors and government have provided a degree of transparency around the spending of ODA (OECD, 2010a). Participation by a wide range of stakeholders improves the mechanisms for holding donors and governments to account. The framework document 'Plan de Consolidation de la Paix' outlines the responsibilities of individual international and national partners thus encouraging greater accountability for their actions.

Nevertheless, with only 36% of donor funding represented on the national budget (well below Paris Declaration 2010 target of 85%) the ability to achieve universal accountability may be limited (OECD 2010a). Moreover, the capital centric aid architecture has contributed to a detachment between the state and its citizens.

Conclusions

There has been a severe lack in supply of all forms of ODA as CAR makes the transition away from emergency aid to development aid. This has been made difficult since the decrease in humanitarian aid has not been matched by increases in development aid and transition plans have been 'absent' (OECD 2010a, p. 35). Furthermore, there has been a lack of predictability of the ODA that is disbursed to CAR (only 45% on tine and recorded by government (ibid)) as well as weak alignment of the PRSP to budget priorities. All of these factors have resulted in severe financing gaps in CAR.

With the ongoing prospect of renewed violence in parts of the country there has been varied success in maintaining a stable peace. This may have been accentuated by the centralisation of aid efforts on the capital perhaps to the detriment of these outer lying areas.	
Good practice in BS: Increased recognition of the importance of coordination amongst donors around CAR's PRSP and related efforts to align with it. Because of lack of donors, coordination in CAR has been relatively good.	**Areas of weakness in BS:** Has resulted in severely centralised aid programmes with little donor presence outside of Bangui – 80% of aid goes here despite greatest need being in other areas (OECD 2010b). Been too fast a movement towards development aid away from much needed humanitarian aid.

Nepal pen portrait

Fragility Context:

According to the State Fragility Index Nepal is categorised as moderately fragile. A particularly fragile rating was given to Nepal's 'Economic Effectiveness' which is classed as extremely fragile. Conversely, Economic Legitimacy was given the lowest rating on the fragility measure – 'no fragility'.

Nepal has seen a decline in five out of six of the Worldwide Governance Indicators since 1996 (the exception being Regulatory Quality). The poorest performing indicator has been Political Stability for which Nepal is within the bottom 10% of countries worldwide.

Brief recent history:

In 2006 Nepal emerged from a decade of civil war between government forces and Maoist rebels fighting for the abolition of the monarchy. Two years after a peace deal was signed in 2006 Maoists emerged as the largest party in parliamentary elections. As such, a Maoist-led coalition government dissolved the monarchy, turning Nepal into a federal democratic republic. This coalition government disbanded in 2009 and was succeeded by a coalition which excluded the Maoists.

Nepal has seen a slow, but steady, increase in GDP per capita PPP over the past 8 years despite being in a state of civil war until 2006. Remittances from emigrated workers are thought to have kept the economy going during conflict years as they comprised 25% of GDP. The rate has picked up since the end of the war yet Nepal remains one of the poorest countries in Asia (World Bank, 2011).

Socio-economic context:

Nepal has taken great strides in furthering human development in the past few decades; by HDI rankings Nepal has made the most improvement worldwide in its score since 1980. Primarily improvements have been made as a result of non-income components of the index such as health and education. Nevertheless, at 138th on the list and with more than 55% of the population living under the PPP $1.25 a day Nepal is one of the lowest ranked countries in the world.

Progress towards the MDGs has been mixed. Whilst some indicators are likely to be achieved, only the goal of reducing child mortality is on track to be met. With changes goals such as combating HIV/AIDS, malaria & other diseases, promoting gender equality and improving maternal health could also be attained (UN, 2010a).

Aid landscape[65]:

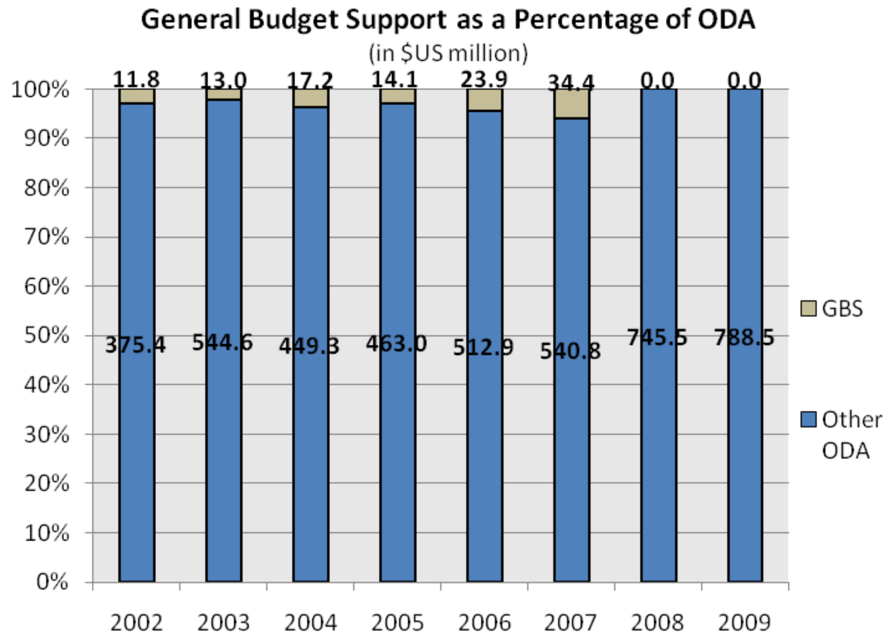
Since 2002, Nepal has received over $4.5bn worth of ODA. Nearly three quarters of this has come from bilateral donors; of which Japan, the UK and Germany are the largest donors providing 15%, 13% and 11% , respectively, of the total. Of the multilaterals the WB (through IDA) is the largest donor.

In his 2005 paper An Index of Donor Performance Roodman developed a new measure of foreign aid – net aid transfers (NAT) – which removes the distortions of principle payments received on ODA loans and interest received on such loans (net ODA is net of only the former). Using this measure of aid volume Nepal has received $3.6bn between 2002 and 2008 - $146 million less than represented by ODA data over the same period.

Social infrastructure and services have received nearly half of the total ODA disbursements since 2002. Within this category education has been the greatest beneficiary with nearly 14% of ODA

	over this period. Government & society and energy follow behind with 13% and 9.5% respectively.

Budget support volume[66]**:**



Who provides budget support and how?

As the graph above indicates, Nepal no longer receives general budget support; instead, sector budget support (SBS) in the form of pooled funds supoprts sector wide approaches (SWAps). The Nepal Health Sector Program Implementation Plan (NHSPIP, 2004-09) brought the first sector wide approach (SWAp) to Nepal. The education sector soon followed with its own SWAp and now more are planned for roads, rural water supply & sanitation and possibly agriculture (World Bank, 2008).

Nepal's health SWAp came into action in 2004 following the '*Nepal Health Sector Programme – Implementation Plan*'. The aim of the SWAp was to reduce transaction costs for the government of Nepal (GoN) by aligning to its health sector plan as well as strengthening harmonisation amongst donors. A joint financing agreement between the GoN, DFID and the World Bank whereby they would provide pooled funds to the sector was signed in 2005 with AusAID subsequently joining in 2009. Pooled funds are available to the Ministry of Health and Population to finance health budget expenditures; as such, this equates to SBS. The basket fund disbursed nearly $64million in 2009-10, the largest contribution of any donor (Pradhan, 2009). Pooled funding in the health sector has proven to be more effective than non pooled funds in terms of its absorption; chiefly due to the simplicity of spending the funds and the greater sense of ownership that the GoN has felt over it. In addition to SBS through pooled funds donors such as DFID provide technical assistance (TA) in order to improve capacity within the sector (DFID, 2010). This is especially necessary since only 5% of pooled funding is allocated to TA which restricts the efficiency and effectiveness of the funds (RTI, 2010).

Pooled funding, as SBS, for the education sector began in 1999 with the five year long sub-sector Basic and Primary Education Program 11 (BEP 11). The government, Denmark, DFID, European Commission, Finland, Norway and the World Bank all financed the basket fund. Subsequently ADB and UNICEF joined the group which became known as the pooled donors. Non pooled donors include JICA, UNESCO and World Food Programme (World Bank, 2007). Following this programme was the Education for All (EFA) project from 2006-2010 which maintained the previous SWAp, with the same donors providing pooled funds as well as AusAID who joined in 2008 (personal communication with AusAid staff in-country). The original budget for the EFA project was $654 million which was later revised up to $994 million of which donors contributed to roughly one quarter of the budget (World Bank, 2007). Government's financial management system was used during the SWAp which led to considerable progress being made in strengthening government financial management, in line with the donor and government agreed Action Plan. Disbursements of donor funds relied on trimester implementation reports which gave an account of financial and physical progress as well as information on procurement activities.

The School Sector Reform Programme (SSRP) is the successor to the EFA project and is also supported by SBS from the pooled donors. The SSRP covers five years from 2009/10 at an estimated cost of $2.63 billion with donors committing about $500 million (World Bank, 2009). Funds are used to cover both recurrent and capital expenditures, therefore acting similarly to SBS. The programme is aiming to eventually include the entire school sector yet the first years will concentrate on basic schooling. Wider objectives of the programme are to increase access and inclusion as well as the quality of schooling such that pupils are able to reach the required grade competencies. A joint financing agreement between pooled donors and the government sets out the SWAp operation. Disbursement of pooled funds for the SSR is similar to the EFA in that they are made given that sufficient progress has been made towards the annual education sector work plan and budget. Additionally, disbursement is linked to time bound targets agreed by the government and donors relating to entitlement, social inclusion and quality (DFID, 2010).

Further large financing institutions are the trust funds in operation in Nepal. The largest is the three-year Nepal Peace Trust Fund (NPTF) which is a government owned programme established in February 2007 to implement the Comprehensive Peace Accord. Donors to this include the government, DFID, Norway, Finland, Denmark, Switzerland and more recently the EU and Germany. The largest donor, by far, is DFIF which has contributed over $20 million to the cumulative total of $113 million (as of 15th May 2010) (Ministry of Peace and Reconstruction Peace Fund Secretariat, 2010). The NPTF funds are all administered by GoN agencies with the Ministry of Peace and Reconstruction responsible for the operation. The United Nations Peace Fund for Nepal (UNPFN) complements the NPTF by focusing on tasks that cannot be funded/implemented by the GoN. Contributions to the UNPFN come from DFID, Norway, Sweden, Canada, Denmark, Switzerland and the United Nations Peacebuilding Fund. Total expenditure of the fund exceeds $32 million, the largest spending going on the Rehabilitation of the Discharged project ($9.4 million) followed by the Mine Actions project ($5.1 million) (UN, 2010b).

Harmonisation and alignment of donors is well established in the Health and Education sectors around their respective SWAPs, especially pooled donors. The SWAp approach itself is based on the adoption of a common monitoring and evaluation framework common targets and reporting tools.

In September 2007 Nepal became a pioneering country for the International health partnership Initiative which aims to further harmonise aid funding from donors around a single national health strategy. The Napalese compact was signed in 2009 by AusAID, DFID, GTZ, UNFPA, UNAIDS, UNICEF, the World Bank and the Ministry of Health – fewer than signed up to the SWAp in health. Some signatories believe that this initiative has led to improvements in coordination and dialogue amongst donors whilst others see it as burden imposing further coordination requirements on the Ministry of Health, preventing it from taking the lead in the sector.

All donors in the education sector are coordinated by the Foreign Aid Coordination Section (FACS) of the Ministry of Education which convene on a regular basis for meetings.

In Country Accountability of Budget Support

Within Nepal there have been attempts to increase accountability of aid. Donors and the government, for example, prepared a Governance and Accountability Action Plan for the SRRP which aimed to establish good governance practices in GoN. Stronger governance mechanisms will reinforce the legitimacy of the GoN in the eyes of the people as well as improve government capacity. In a bid to increase coordination amongst all stakeholders the Nepal Development Forum (NDF) was created. It is a multi-sector forum which brings together all ministries and donors to discuss aid policy and priorities. Nevertheless, the limited ability of civil society (CS) to participate within the NDF[67] and the lack of a formal accountability mechanism restrict their ability to hold donors and government to account for their aid policies.

Nepal has a large number of CSOs in operation, resulting in a diverse civil society. Donors feel that CS is weak, yet do very little to address the problem; when they do grassroots levels are almost always missed out. Despite the large number of actors within CS, there is a certain degree of fragmentation making coordination and representation difficult. In addition to this, CS is becoming increasingly politicised with pressure for actors to align themselves politically to ensure survival in a country where political alignment is so important. As a result, engagement with CS is being made progressively harder for donors.

With greater GoN control of pooled funds for the SWAps has come an increased number of monitoring requirements and supervision which may be so tight as to inhibit progress and limit the extent to which GoN has real ownership over expenditure. In the health sector, Civil society is excluded from monthly external development partner meetings, the health group and the Health Sector Development Forum limiting the extent to which CS has the ability to influence donors' policy. Joint Annual Reviews take place twice a year and do include CS. They are headed by the Ministry of Health and have received mixed reviews. Some say it's a useful link between outcomes and budgets which has never been there before whilst others criticise them for their lack of productivity and how the system has been superimposed onto Nepal's own system (Schmidt, 2009).

Within health CS's voice is not very loud, further reducing the ability of citizens to hold both donors and government to account for their actions. When CS is consulted about policy (e.g. IHP+) it is usually at a late stage when drafts already exist and then only the larger organisations are involved.

Conclusions

In recent years Nepal has seen significant improvement in its human development – as seen by its improvement on the HDI ranking – which has been accredited to its improvement in health and education. As the two sectors receiving SBS there is an indication that the SWAp and donors' approaches have contributed to this success. Furthermore, through donor funded TA and the use of government systems PFM has been improving at the sector level. Indeed, the

Financial Management Improvement Plan (FMIP) under the EFA led to several key achievements which are to be built on during the course of the SSRP. Nevertheless, there are issues relating to coverage of the health and education improvements both geographically and by sex. Rural areas still lag behind their urban counterparts; particularly on educational attainment both for boys and girls.	
Good practice in BS: • Mutual agreement on sector plans around which disbursements are made. • Mutual accountability has been improving and there is a greater level of transparency	**Areas of weakness in BS:** • Small level of pooled funding budget assigned to TA reduces the extent to which capacity is built and how much can be absorbed by the respective ministries.

Sierra Leone pen portrait

Fragility Context:	**Brief recent history:**
The Polity Project ranks Sierra Leone (SL) 9th in the world on its State Fragility Index with a score of 19 out of 25. This is an improvement from the previous year's score with a reduction of 1 point bringing SL's classification down from 'extreme' to 'high' fragility. At the continent level the Ibrahim Mo index has consistently ranked SL below the African average on the composite governance assessment with a current ranking of 32 out of 53. However, there has been a particular improvement from the 2000/1 scores in the Safety And Rule Of Law indicator (19.8% = 19 places). The Governance Matters VIII looks at various governance indicators from 1996 to 2008; according to this report SL has significantly improved its Worldwide Governance Indicator (WGI) value for both Voice & Accountability and Political Stability/Absence of Violence. Nevertheless, for each of the four categories that make the WGI SL has never been out of the bottom four deciles. Indeed, for Government Effectiveness SL has struggled to stay out of the bottom 10%.	In 2002 SL emerged from a decade long civil war which claimed tens of thousands of lives and displaced 2 million people. Since then SL has managed to maintain a stable peace without the re-emergence of prolonged violence. The average annual growth rate over the 8 years leading up to and including 2009 exceeds 9%, indicating the economic progress SL has made. Nevertheless, the extent of the damage of the civil war means that SL still has extremely low levels of human development. In September 2007 peaceful democratic elections saw Ernest Bai Koroma elected president, taking over from Ahmad Tejan Kabbah who served 2 5 year terms. President Koroma publicly stated that his priorities are to improve energy supplies; strengthen the Anti-Corruption Commission; and increase employment. The recent global recession has hit Sierra Leone particularly hard in two ways: i) lower levels of remittances and ii) worsening terms of trade (AfDB/WB 2009). Both have negative repercussions for domestic income and expenditure prospects.
Socio-economic context:	**Aid landscape:**
Poverty is widespread in SL with 70% of the population living below the poverty line. Correspondingly, Human development in SL remains worryingly low; the 2010 HDI rank put SL 158th out of 169 countries. In terms of the MDGs, SL is on track to reach 3 out of the 8: i) achieve universal primary education, ii) promote gender equality & empower women iii) combat HIV/AIDS, malaria & other diseases. These 3 others are potentially achievable if changes are made: i) eradicate extreme poverty & hunger, ii) reduce child mortality	In 2009 SL received total of $436 million of ODA. Of this, the largest donor was the United Kingdom with a contribution exceeding $91 million, making up 32% of the bilateral total and roughly 14.5% of all ODA to SL. There are relatively few large donors in SL; the other three key donors are the EC, AfDB and the WB. Between 2002 and 2009 the greatest area of expenditure (30%) was in social infrastructure & services[69] with government & civil society, health and education comprising 54%, 16.7% and 10.3% respectively of this. The outcome of reaching HIPC completion point in December 2006 and the resultant qualification for the Multilateral Debt Relief Initiative (MDRI) became apparent in 2007 where debt relief exceeded 70% of the total ODA to SL which was

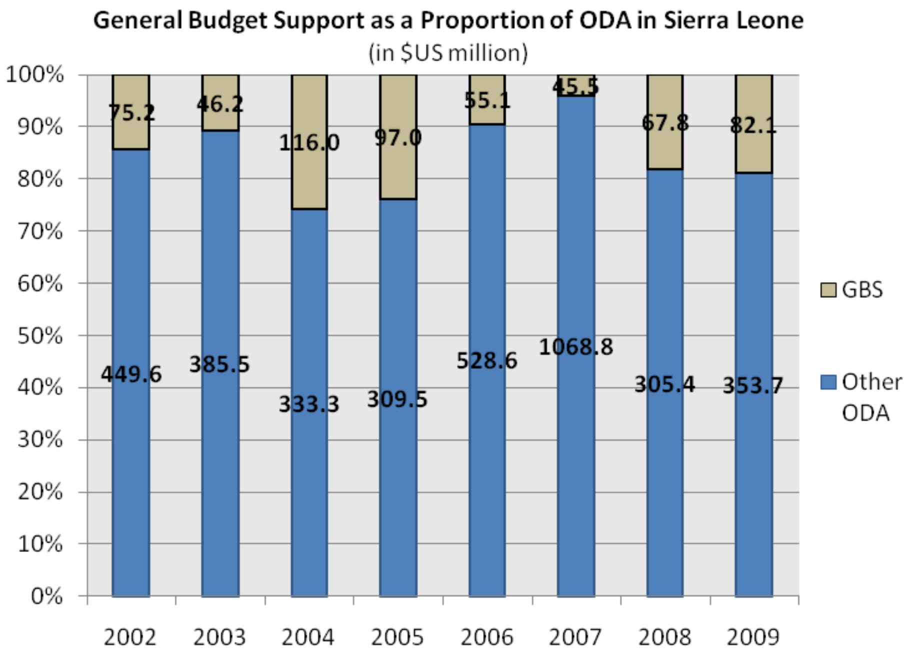
iii) improve maternal health.

The only goal SL is off target for is ensuring environmental sustainability. There is a lack of sufficient data to monitor the last goal: develop a global partnership for development.[68]

three times the size of the previous year's ODA allocation.

In his 2005 paper *An Index of Donor Performance* Roodman developed a new measure of foreign aid – net aid transfers (NAT) – which removes the distortions of principle payments received on ODA loans and interest received on such loans (net ODA is net of only the former). Looking at this measure significantly reduces the amount of aid received by SL to $2.668 billion between 2002 and 2008 (2008 - updated data) as the effects of the HIPC & MDRI initiatives are mitigated. Indeed, the gross ODA values in 2006 and 2007 overestimate aid to SL by $262 million and $804 million respectively and actually represent a decline in aid transfers from 2000 and 2001 levels.

Budget support volume[70]:



Who provides budget support and how?

In SL budget support (BS) is in the form of general budget support rather than sector budget support: as such, all further references to BS refer to general budget support.

Since the signing of a peace agreement in 2002 SL has received BS from a few major donors. The first long-term BS came from DFID with the aim of stabilisation when peace was established. Since 2005 the EC has been providing support through a Macroeconomic Budget Support arrangement. Both the WB and AfDB have provided Balance of Payments Support through a series of economic recovery programmes[71]. Initially BS was provided with the intention of supporting a weak government to maintain peace with strong engagement in security sector reform, by 2007 focus had widened towards service delivery and civil society.

In 2001 DFID committed to providing £30 million PRBS funds to Sierra Leone over a three year period. From 2005 one year agreements comprising of a fixed tranche of £10 million as well as a performance related tranche worth up to £5 million were used. As the first donor to provide BS after the conflict DFID's purpose was 'to improve the effectiveness of the government budget as the principal instrument for achieving poverty reduction and economic growth' (Lawson, 2007)[72]. The decision to provide BS went against DFID policy which advises greater use of projects to rebuild institutions and support service delivery rather than BS in post-conflict states (DFID, 2008). Indeed, the agreement was implemented without analysis as to whether the benefits would outweigh the costs: the main safeguard was SL being on track with the IMF PRGF programme.

From 2005 onwards DFID's objectives had specific emphasis on PFM with indicators being: i) achieving a stable macro-economic environment, ii) better government service delivery servicing the needs of the poor, iii) developing an effective, responsive and accountable government and iv) maintenance of peace and security (Lawson, 2007). The introduction of a graduated response mechanism brought about a greater emphasis on government performance (effectiveness, responsiveness and accountability) through using the achievement of benchmarks as conditions for disbursement (in addition to conditions attached to fixed tranche disbursements).

Since 2005, the EC has been providing PRBS to SL with the aim of supporting GoSL's poverty reduction efforts - specifically targeting improvements in health, education and public financial management (EC 2008). The original PRBS consisted of 3 fixed and 3 variable tranches, all of which had conditions attached. Fixed tranche disbursements were linked to conditions on macroeconomic and fiscal performance, PRSP implementation and evidence of GoSL commitment to improving PFM. The variable tranche disbursement conditions relate to PFM performance, social sector improvements and rural road maintenance.

The World Bank has funded the GoSL through its four Economic Recovery and Rehabilitation Credits (ERRCs) in 2000-01, 2001-03, 2003-04, and 2005-06 which provided quick-disbursing funds through BS as well as BOP support through single or multiple disbursement(s) upon the achievement of attached conditions (IEG World Bank 2010b). In the intervening years the WB has approved four annual Government Reform & Growth Credits ($10 million each) with disbursements made upon the fulfilment of prior agreed actions. As such, the WB has an 'all or nothing' approach to its provision of BS in SL and very much utilises ex-post conditionality (Eurodad, 2008).

AfDB has provided balance of payments support from 2001 through a series of three Economic Rehabilitation and Recovery Loans/Programmes (ERRL I, II and ERRP III). Despite not being disbursed as BS invariably a portion of the funding will support the government's budget. The first was a $14 million two-tranche loan to assist the GoSL in fiscal years 2001 and 2002 with the aim 'to finance part of the costs involved in the implementation of the policy reforms' (AfDB, 2003, p.4). ERRL II continued this with a focus on strengthening public financial management, reform of the public procurement system and civil service reform. Two tranches totalling 17.28 million UA were released in 2004 & 2005, both conditional on a number of actions by the GoSL and macroeconomic performance. ERRP III focused on the efficient use of public resources within a two-tranche budget support disbursement of 10.7 million UA in 2006. In 2009 AfDB has created an Economic Governance Reform Programme (EGRP) I which provides general budget support as well as earmarked budget support and technical assistance to PFM.

The WB and AfDB have created a longer term Joint Assistance Strategy for 2009 to 2012 which incorporates BS under its Pillar 1 using 'measures to help improve expenditure controls and transparency in public resource management' (AfDB/WB, 2009, p. 11). This new agreement has positive implications for both predictability and donor harmonisation.

In terms of harmonisation amongst donors, these four donors formed the MDBS partner's group in 2006 and have taken steps towards greater alignment of their respective BS programmes by striving to share indicators in the context of the jointly agreed Performance Assessment Framework (PAF). By 2010 all indicators used by the EC were the same as those used by DFID and there was a degree of overlap with those used by AfDB and the WB. Similarly to the WB and AfDB, DFID & the EC have formulated their own Joint EC/DFID Country Strategy for Sierra Leone which covers 2007-2012 for DFID and 2008-2013 for the EC.

As noted in a previous section, SL has benefitted from significant debt relief through the HIPC and MDRI initiatives. Another significant instrument for SL is Multi Donor Trust Funds (MDTFs) of which there are two: one run by the WB which supports efforts surrounding infrastructure and a second by the UN which supports the implementation of the 2009-2012 UN Joint Vision ($349 million). The MDTF approach is popular with the GoSL who are calling for greater participation in them (OECD, 2010).

In Country Accountability of Budget Support

Due to SL's dependence on BS as a form of financing, GoSL accountability has swung towards donors since meeting their conditions will ensure that their salaries are paid and that more resources are available. According to the Paris Declaration, donors are supposed to draw their indicators for disbursements from the PRSP, yet it appears that the PRSP itself is formed around donors own strategies. '*The World Bank had targets in their country strategy, and we incorporated these into the PRSP strategy… the European Commission had a number of targets so we incorporated those too*' (Eurodad, 2008, p.16). Nevertheless, the 2004 PRSP was put together with considerable CSO participation: it was coordinated by ActionAid Sierra Leone with financial support from DFID. There is a more positive view on SL's PRSP than on other African countries' with particular recognition of the wide consultation process undertaken.

There is a significant proportion of donor spending that is not channelled through the national budget. This makes it hard for GoSL to know where and on what the money is being, making it extremely difficult for them to hold donors accountable for their spending. In addition to this, without using national budgets the citizens of SL cannot hold government and donors accountable for decisions on aid allocation.

Due to a lack of government capacity and willingness there has been a lack of political space in which public debate can freely take place regarding policy and practice. The lack of participation in this process severely hinders the ability of civil society to hold the government to account for their spending. Indeed, most dialogue concerning these decisions goes on between donors and ministries in private. It is also the case that there is a lack of 'supply' of civil society groups. A number of working groups have been set up to monitor the PRSP process yet participation by CSO is limited, or not there. The most active CSO in SL is Enhancing Interaction and Interface between Civil Society and the State to Improve Poor People's Lives (ENCISS) which is, in fact, funded by DFID and managed by CARE. ENCISS's role has become somewhat confused as it stands somewhere 'between civil society and the state' so 'is not a CSO' (Eurodad, 2008, p.30). In order for the government to be held more accountable to the people of SL it's important that there is greater dialogue with civil society yet there does not appear to be enough CSOs for sufficient engagement to take place: greater donor focus on enhancing civil society's role and capacity would start to address this.

Conclusions

The initial provision of BS in order to stabilise the GoSL and to maintain peace has been successful: there has been no recurrence of violence following the Peace Agreement and there were peaceful, democratic elections in 2007. Nevertheless, once SL made the transition from immediate post-conflict state the objectives widened, as did the donor pool, resulting in a complex list of conditions which the government had to satisfy putting severe strain on capacity. This lack of capacity was illustrated in 2007 when GoSL failed to publish a backlog of five years worth of public accounts. This in combination with falling domestic revenue collection led to DFID, EC and the WB suspending BS as the budget went off track. Other BS programmes have been suspended over the years as well when GoSL failed to fulfil the respective conditionalities. To fill the financing gap GoSL has had to resort to domestic borrowing at times, with negative implications for debt sustainability. Further to this, if BS is

<table>
<tr><td colspan="2">stopped and GoSL resorts to domestic borrowing to finance public spending this increases the fiscal deficit, increasing the likelihood of the IMF not providing a favourable report and therefore causing other BS donors to stop their support. This has clear knock on effects for predictable public spending, basic service delivery and crucially for the poor citizens of SL.

One of the key objectives behind BS is strengthening PFM in SL. Significant steps have been taken by donors to encourage reform within GoSL and 'impressive' (Lawson, 2008, p. 19) progress has occurred in this area. To a degree the achievements are down to donors' use of BS yet the employment of TA in designing and implementing the reforms has also been invaluable.

Nevertheless, in terms of 'good governance' corruption and mis-use of public funds has been rife in SL due to the patronage system in place. As one would expect, support to reform of this within GoSL in low and change has been slow.</td></tr>
<tr><td>Good practice in BS:

Creating the MDBS group has led to a more harmonised approach to BS with more aligned conditions.

The BS used in the early stages of peace did stabilise the country and strengthen government systems so that violence did not break out again.</td><td>Areas of weakness in BS:

The continued failure of GoSL to meet performance related tranche conditions has led to donors attaching more conditions to the fixed tranche disbursements.

The movement towards donor accountability at the expense of domestic accountability.

Through imposing conditions on BS, GoSL focuses on fulfilling donors' conditions at the expense of other areas. This has significant consequences for policy ownership as well as public services without donor interest.

The threat/consequence of BS withdrawal has negative implications for predictability and therefore on budget planning.</td></tr>
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Finally, the topic studied (challenges and achievements of the provision of budget support in fragile situations) is vast and complex. This was a small-scale study which cannot be expected to have reached definite conclusions. It is our hope that the study's report is used as an input not only in Oxfam Novib's discussions but also in other ongoing discussions and streams of work on related issues. Suggestions to this effect are made in the report.

Notes

[1] Mokoro was/is involved in: (i) the OECD DAC GBS evaluation of 2006 (IDD et al 2006) providing the overall team leader and several members of the core team as well as country team leaders; (ii) the SBS in Practice review for the Strategic Partnership with Africa in 2010 (Williamson & Dom, 2010 various) providing the co-author of the synthesis report and good practice note and several country team leaders; (iii) the EFA Fast Track Initiative mid-term evaluation for the FTI Board (with a strong focus on aid effectiveness issues) providing the team leader, several members of the synthesis core team and several country team leaders; (iv) ongoing work on putting Aid-On-Budget for e.g. the OECD DAC; (v) ongoing work on predictability and on conditionality for groups preparing the forthcoming High Level Forum on the Paris Declaration; (vi) the ongoing evaluation of the AfDB Policy-Based Operations (forthcoming) providing the deputy team leader and several country team leaders. Mokoro was also involved in work on and in fragile countries through assignments in Sierra Leone, DR Congo, Palestine, Zimbabwe, Afghanistan, Ethiopia and many others. The Mokoro consultants who carried out this study were personally involved in many of these pieces of work.

[2] This study represents 56 consultant-days of work in total (including 13 days for the DRC full country case study and 16 days for the Ethiopia desk study). It is based on three cases out of a population of forty to fifty qualifying situations. This has to be compared with the much larger teams, longer/more interactive process, and proportionally larger samples for e.g. the GBS evaluation in 2006, or the review of SBS in practice in 2010. The study produced: (i) a preparatory paper for the overall study (Nov 2010); (ii) a preparatory paper for the DRC mission (Nov 2010); (iii) a full DRC country case study report, integrating the preparatory work (Jan 2011); (iv) a desk study report for Ethiopia (Feb 2011); (v) this report, which integrates all streams of work.

[3] It is increasingly agreed that (i) the term ‘fragile country’ or ‘fragile state’ has an undesirable labelling effect; (ii) fragility is characteristic of a situation in space and time, it does not necessarily correspond to a country (e.g. Mindanao in Philippines, Northern Uganda), and the degree of fragility is not static. A good number of agencies (including WB, EC and DFID) make a point of not using the term any longer and talk instead of fragile situations or countries in situation of fragility or, to stress the role of conflict, of ‘conflict-affected and fragile countries/situations’. However, the expression ‘Fragile States’ continues to be used as a sort of catch-all, while recognising the complexity behind it. (See for instance the INCAF work on ‘ensuring that fragile states are not left behind’ in terms of resource flows [OECD 2010j]). We adopt this practice in this study.

[4] Selected major lists: WB (no longer using the LICUS concept but fragile situations defined as countries which have either a ‘harmonised average CPIA’ country rating of 3.2 or less or the presence of a UN and/or regional peace-keeping or peace-building mission during the past three years – the ‘harmonised CPIA’ is a blend of WB and AFDB CPIAs); Foreign Policy Index of Failed States (2010), Save the Children list of Conflict-Affected and Fragile countries (CAFS) (2010); Brookings Index of State Weaknesses (2008). The EFA GMR 2011 will use a list of conflict-affected countries excluding other causes of fragility and within this list, low-income countries as a sub-list.

[5] Dom 2009 reviews a number of categorisations of ‘fragile situations’ found in the literature/used by various donor agencies. This is not clearer than the lists, and categorisations are drawn for different, interlinked but not fully overlapping purposes (causes of fragility, stage on recovery, donor engagement etc.) [Dom, C., 2009].

[6] The Education For All Global Monitoring Report team preparing the 2011 report which focuses on education and conflict has used the same approach of a short list for quantitative analyses and a longer list for qualitative analyses.

[7] In a recent conference on ‘How can PFM reforms help transitions out of fragility?’ (co-organised by CAPE in ODI and the IMF Fiscal Affairs Department) Yemen was characterised as a deeply fragile situations. See http://www.odi.org.uk/events/details.asp?id=2513&title=accelerating-transition-out-fragility-role-finance-public-financial-management-reform.

[8] The WB has evolved in its way of dealing with fragility. It no longer uses the concept of LICUS but fragile situations and defines fragile situations as those which have either a harmonised average CPIA (Country Policy and Institutional Assessment) country rating of 3.2 or less or the presence of a UN and/or regional peace-keeping or peace-building mission during the past three years (which allows capturing non-member or inactive countries or countries without a CPIA). The harmonised

CPIA is a blend of WB and AFDB CPIAs. Countries concerned are not necessarily low-income. See http://siteresources.worldbank.org/EXTLICUS/Resources/511777-1269623894864/Fragile_Situations_List_FY11_%28Oct_19_2010%29.pdf. The Save the Children list of CAFSs is found in their latest 'Rewrite the Future' report (2011), at http://www.savethechildren.org.uk/en/docs/The_Future_is_Now_low_res.pdf. The Foreign Policy Index of Failed States is at http://www.foreignpolicy.com/articles/2010/06/21/2010_failed_states_index_interactive_map_and_rankings

[9] Cambodia is considered to have graduated from fragility and is no longer included in the WB 2011 list of fragile situations. Yet at the same time this is a country in which donors engaged in a joint budget support operation (WB, Japan, EC and DFID/UK) have not been able to disburse further after the first tranche in 2008, for various governance-related concerns.

[10] See for instance http://www.cgdev.org/content/publications/detail/1424377/ and http://www.odi.org.uk/resources/details.asp?id=5058&title=ethiopias-progress-education-rapid-equitable-expansion-access

[11] The Paris Declaration on Aid Effectiveness was written in order to express consensus within the international community on the need to reform aid delivery and management and the way in which this should be done to achieve improved effectiveness and results. It is grounded on five mutually reinforcing principles: (i) partner countries' ownership over their development policies and strategies; (ii) donors' alignment on partner countries' national development strategies, institutions, and procedures; (iii) donor harmonisation of their action; (iv) focus on development results and; (v) mutual accountability for results between donors and partners. The 'Principles and Good Practice of Humanitarian Donorship' were endorsed in Stockholm, 17 June 2003 by Germany, Australia, Belgium, Canada, the European Commission, Denmark, the United States, Finland, France, Ireland, Japan, Luxemburg, Norway, the Netherlands, the United Kingdom, Sweden and Switzerland. The Principles for Good International Engagement in Fragile States and Situations were written as a response to growing concern about the lack of effectiveness of aid precisely where it matters most. The principles are as follows: Take context as a starting point; Do no harm; Focus on state-building as the central objective; Prioritise prevention; Recognise the links between political, security and development objectives; Promote non-discrimination as a basis for inclusive and stable societies; Align with local priorities in different ways in different contexts; Agree on practical coordination mechanisms between international actors; Act fast … but stay engaged long enough to give success a chance; Avoid pockets of exclusion.

[12] Reference is made to the process of monitoring the application of the 'Principles for Good International Engagement in Fragile States and Situations' (OECD 2010g and individual country reports) and the international dialogue on State and Peace-Building (OECD 2010r and individual country reports).

[13] General Budget Support is 'a preferred aid modality' for the European Commission. In some earlier papers it had set out a target of 50% of EC assistance to be channelled as GBS. In its latest report the EC states that in 2009, GBS commitments made up 35 % of all new budget support operations, and around 10 % of the new GBS operations were made to countries in fragile situations (a good number of the new GBS commitments were made to respond to the international food/financial/economic crises including in the fragile countries). In the same year the use of SBS rose and SBS represented 65% of all new budget support operations. DFID never had a target but has in practice been highly committed to Poverty Reduction Budget Support.

[14] The evaluations/reviews mentioned in this section were all based on 'contribution analyses'. Such analyses recognise that budget support is one among a range of factors contributing to any effect. Country case studies involve rich contextual analyses with a view to identifying other (domestic and international) contributing factors. The use of counterfactuals (e.g. what would likely have happened without budget support) and data triangulation allows evaluation teams to form a judgement on the magnitude of the respective contributions. In financial terms, budget support contribution can be considered to be proportional to its proportion of the government budget financing. But it remains true that the debate about whether there is a causal link between aid (more generally) and high level outcomes such as economic growth and poverty reduction, is not closed.

[15] Note that (revealing indeed the lack of systematic application of this provision thus far), the new Coalition Government of the UK has stated as an explicit priority that this should change in future. DFID business plan for 2011-2015 commits to "Use the aid budget to support the development of local democratic institutions, civil society groups, the media and enterprise" and to start with,

“develop and publish new guidance on implementing the commitment that up to 5% of all budget support should go to accountability institutions.”

[16] Ideas like ‘contracting out’ service delivery ‘at scale’ to various forms of third parties whilst the government retains policy making and regulatory roles have begun to be explored more systematically, based on practice thus far. Collier for instance, argues that Independent Service Authorities (ISA) operating at arms’ length from the government can be a particularly effective modality (in “Contracting Out Government Functions and Services – Emerging Lessons from Post-Conflict and Fragile Situations”, Partnership for Democratic Governance, OECD DAC 2009). Recently the OECD has published a handbook to guide the design of such schemes (“Handbook: Contracting out government functions and services in post-conflict and fragile situations”, Partnership for Democratic Governance, OECD DAC 2010). There was no time to review this literature in this study. There is still relatively limited evidence on the effectiveness of these approaches. It is important to realize that they are not necessarily easier to put in practice and not less demanding in terms of government capacity (if the contracted out parties are under contracts with the government i.e. if the intention is still to work with the government in the lead). There are also risks of undermining the legitimacy of the government. In other words, not more than any other approach is this one a ‘silver bullet’, which the authors of the two publications just mentioned indeed recognise.

[17] There is a growing number of multi-donor evaluations, studies on donor policies on specific dimensions of the provision of budget support or aid more generally (e.g. stock-taking of risk-taking attitudes, study on HQ guidance on SBS in relation to accountability in the SBSiP review (see Williamson & Dom 2010); ongoing work on predictability and conditionality for the forthcoming 2011 HLF). Some of this work is work-in-progress. Moreover, put together this does not cover all aspects of the provision of GBS. There is also a vast academic literature on aid, aid effectiveness, and budget support, which covers specific donor aid policy/practice areas usually for selected donor agencies. It was not feasible to review it all in the context of this study. Recent papers (e.g. IOB 2010 and Hayman 2010, including reviews of earlier literature) have been exploited by the consultants.

[18] The consultants checked this with INCAF. The International Network on Conflict and Fragility (INCAF) is a “unique decision-making forum which brings together diverse stakeholders to support development outcomes in the world’s most challenging situations. INCAF's four areas of work: 1. Fragile States Principles; 2. Financing and aid architecture; 3. Peacebuilding, statebuilding and security; 4. International Dialogue on Peacebuilding and Statebuilding. It is unlikely that INCAF would not be aware of an inventory of donor policies in relation to fragile situations if this had been done/existed somewhere. The consultants also checked with the team who prepared the Education For All Global Monitoring Report 2011, soon to be released, and which focuses on education and conflict.

[19] “The approach focuses on supporting trends of change rather than penalising the weakness of countries/systems directly related to fragility. Hence the great importance of trend assessment” (EC 2009)

[20] Ownership, harmonisation, customization, criticality, transparency and predictability: WB overall guidance on conditionality (WB 2007)

[21] E.g. developmental; financial/ fiduciary; non financial; and reputational risks (see Chiche, M., 2010 for OECD), also used by AusAid in emerging guidance on types of aid (personal research, documents not yet published)

[22] Personal communication with INCAF, Jan 2011

[23] Less humanitarian aid in a country (a possible indicator of some form of stabilisation more conducive for budget support) is not associated with more budget support; conversely, high levels of humanitarian aid (which some may say denote high needs) is also not associated with high levels of budget support.

[24] Donor reporting to OECD-DAC includes GBS as a category but not SBS. Depending on the donor, SBS may be reported as GBS (e.g. when it is not strictly earmarked and traceable as the first education budget support programmes of DFID in Rwanda, as an “education window” in the GBS programme) or as support to the education sector, alongside project aid in the sector. Therefore there is no way of knowing how much of the ODA given to different sectors is given through SBS and how much is given through other channels.

[25] Italics highlight information which does not come from the Oxfam study report, but has been obtained by the consultants based on literature review.

[26] See case study in OECD 2010h

[27] See http://ec.europa.eu/europeaid/documents/aap/2008/af_aap_2008_bdi.pdf: « Dans ce contexte économique, social et politique fragile de "post-conflit", les objectifs généraux de l'ABG au Burundi sont de (i) contribuer aux efforts relatifs au maintien de la paix et au processus de stabilisation et de réhabilitation économique et à l'amélioration de l'outil de GFP du gouvernement et (ii) contribuer à la mise en oeuvre des politiques et stratégies de développement du Burundi, mise en oeuvre du CSLP et réalisation des OMD. Les objectifs spécifiques sont de contribuer à (i) la stabilisation des finances publiques au niveau du budget, (ii) participer au renforcement institutionnel de l'administration et des services publics du Burundi, (iii) l'amélioration de la gouvernance économique et de l'efficacité des services publics à travers l'appui à la mise en oeuvre du programme de réforme de la GFP et (iv) l'aide à la mise en oeuvre des politiques de développement sectorielles nationales. »

[28] See OECD database at http://stats.oecd.org/Index.aspx?DatasetCode=CRSNEW

[29] DFID guidance on fragile states (DFID 2010j)

[30] See OECD 2010h and OECD 2010i

[31] Note that this took place in context of increasing aid hence in terms of volume may not have decreased.

[32] See Burundi country report in Dilli dialogue process (OECD 2010k)

[33] See http://ec.europa.eu/europeaid/documents/aap/2009/aap-spe_2009_ben_en.pdf

[34] See e.g. http://ec.europa.eu/europeaid/documents/aap/2008/af_aap_2008_bdi.pdf for EC 10th EDF GBS programme (2008-2013). Burundi had benefited from GBS under 9th FED too (76,92 M€), through a three-year programme and a bridging two-year programme to 2008.

[35] See World Bank 2007

[36] Common Approach Paper to the provision of budget aid in fragile situations (CAP 2010)

[37] Donors who have longer term instruments at their disposal do not seem to consider their use in Ethiopia (e.g. DFID ten-year MOU with e.g. Rwanda, Mozambique, Afghanistan, Yemen, Vietnam, Sierra Leone, Uganda and a few others; EC MDG contracts with Burkina Faso, Ghana, Mali, Mozambique, Rwanda, Uganda, Zambia).

[38] In the consultants' views the concerns expressed, while legitimate, reflect an unrealistic assessment of what might be feasible/what it is legitimate to expect in the Burundian context. The Case study written by Oxfam is still to be finalised and therefore this emphasis may change.

[39] See http://ec.europa.eu/europeaid/documents/aap/2010/af_aap_2010_bdi.pdf

[40] Tilly, an American sociologist, identifies four ideal-types for making comparisons. A purely individualising comparison treats each case as unique, while a purely universalising comparison identifies common properties among all instances of a phenomenon. Variation-finding comparisons examine systematic differences among instances, while the encompassing comparison approach "places different instances at various locations within the same system, on the way to explaining their characteristics as a function of their varying relationships to the whole system". In this study the individualising and variation-finding approaches could be used relatively easily to analyse the findings of the three country cases. Given the diversity of fragility situations and the lack of consensus on typologies, the universalising and encompassing approaches were deemed not feasible (at least in the context of this small-scale study).

[41] Uganda was once the country for which one might have believed that most aid would be provided through budget support. In the OECD DAC evaluation of GBS (IDD et al 2006) GBS in Uganda was said to be the most "established" (longest in place, and largest). Since then, things have changed quite significantly (and for instance, as shown in Figure 3 in the text, other countries like Tanzania and Zambia have now much higher proportions of GBS in total ODA flows than Uganda). There are several factors explaining this change, not least the fact that donors have regularly been disappointed with the political trajectory of the country (see the very mixed reactions to the last two presidential elections). Fiscal discipline, which in the late 1990s/early 2000s was a personal commitment of the President, is now breached regularly by his entourage. The trajectory is no

longer as promising, and the partnership with donors has become more fragile too, as a result of their disillusionment.

42 The ARTF recurrent window used to represent 50% of the government recurrent budget a few years ago. This proportion came down to 15% in 2009/10, which is still as large as the PBS in Ethiopia, and considerably larger than the GBS programmes in DRC.

43 This is the logic behind the Sino-Congolese Cooperation Agreement. The Chinese investment assistance is not flexible but it is used for things to which the government attaches great value (infrastructure development). Arguably, western donors could make a difference even with less massive aid flows, if they were ready to make this aid more flexible, using smart designs trying to engage around non-threatening accountability matters in the first instance.

44 Transparency International's Corruption Perceptions Index ratings over time for selected countries:

	2000		2005		2010	
	Rank	**CPI score**	**Rank**	**CPI score**	**Rank**	**CPI score**
Burundi	-	-	130/158	2.3	170/178	1.8
Ethiopia	60/90	3.2	137/158	2.2	116/178	2.7
Senegal	52/90	3.5	78/158	3.2	105/178	2.9
Tanzania	76/90	2.5	88/158	2.9	116/178	2.7

Note: All countries included in the corruption perceptions index are ranked in order (one being the least corrupt) based on their CPI score. The CPI Score -relates to perceptions of the degree of corruption as seen by business people, risk analysts and the general public and ranges between 10 (highly clean) and 0 (highly corrupt). Source: http://www.transparency.org/policy_research/surveys_indices/cpi

45 This is inspired by the Africa Power & Politics Programme research programme which aims to "discover institutions that work for poor people". That means exploring the kinds of political, economic and social arrangements that might enable countries of sub-Saharan Africa to make faster progress towards development and the elimination of extreme poverty. The APPP aims to identify ways of ordering politics and regulating power and authority that might work better than those now in place, on the basis of a careful and critical look at what has worked well in Africa itself in the recent and not-so-recent past. See http://www.institutions-africa.org/page/home and in particular, their paper on 'working with the grain' (http://onlinelibrary.wiley.com/doi/10.1111/j.1467-7679.2011.00527.x/pdf).

46 The consultants who researched and wrote this study, Catherine Dom and Anthea Gordon, would be pleased to discuss these suggestions in further detail with interested parties. They can be contacted through Mokoro Ltd, www.mokoro.co.uk

47 See Public Financial Management Reforms in Fragile and Conflict-Affected States: Providing Operational Guidance for Develoment Practitioners, at http://www.odi.org.uk/work/projects/details.asp?id=2230&title=public-financial-management-reforms-fragile-conflict-affected-states-providing-operational-guidance-development-practitioners, an ODI project funded by the World Bank.Project leader(s): Alison Evans
Project team: Milo Vandemoortele, Liesbet Steer, Matthew Geddes, Heidi Tavakoli, Dan Harris, Jacob EngelProject status: ActiveThis project will establish a library of stories illustrating 'Progress in Development' with three goals: (1) support advocacy for more effective development spending; (2) stimulate research into progress and its contributing factors; and (3) to draw lessons on how development can be achieved and supported.

48 Downloaded from http://www.systemicpeace.org/polity/polity06.htm

49 Downloaded from http://info.worldbank.org/governance/wgi/sc_country.asp

50 Definitions downloaded from 2011 OECD Survey on monitoring aid effectiveness on 23rd November 2010: http://www.oecd.org/document/19/0,3343,en_21571361_39494699_39503763_1_1_1_1,00.html#S

51 This is a study carried out by Mokoro Ltd.

52 All of the outputs of this study, carried out by Mokoro Ltd, can be found at: http://www.cabri-sbo.org/en/programmes/putting-aid-on-budget/19-putting-aid-on-budget-research

53 The draft CAP amalgamates MDTFs in Afghanistan, Iraq, Sudan, Indonesia, Timor Leste, and

oPt for instance, which in reality are very different types of instruments both in terms of objectives and design.

54 Study on Budget Support to fragile States for Oxfam Novib, by Mokoro ltd, forthcoming 2011. This case-study on Burundi was fully executed by Oxfam Novib, without involvement of Mokoro ltd.

55 Most of the interviews took place in September 2010.

56 Money paid directly to government coffers.

57 Money which is earmarked for a particular sector, usually through a line ministry.

58 Donors pooling their funds for specific projects.

59 Statement on EU development policy, the "European Consensus", 2005 http://europa.eu/legislation_summaries/development/general_development_framework/r12544_en.htm

60 Oxfam Briefing Paper. Fast Forward: How the European Commission can take the lead in providing high-quality budget support for Education and Health. Oxfam International. (May 2008)

61 As for instance concluded in European Communities 2008: Budget Support – A question of mutual trust, http://ec.europa.eu/development/icenter/repository/LM_budget_support_en.pdf (retrieved 14th October 2010).

62 Within the limited resources allocated for the case study.

63 Note that in the pen portraits the data (OECD database) on ODA and GBS is disbursements in US$ 2008 constant prices, while the data in Annex 5 uses disbursements in current US$.

64 Note that in the pen portraits the data (OECD database) on ODA and GBS is disbursements in US$ 2008 constant prices, while the data in Annex 5 uses disbursements in current US$.

65 Unless otherwise indicated all data from OECD (2010).

66 Note that in the pen portraits the data (OECD database) on ODA and GBS is disbursements in US$ 2008 constant prices, while the data in Annex 5 uses disbursements in current US$.

67 In 2008 permission was not granted for the NGO Federation of Nepal led report on aid effectiveness and CS to be presented at the meeting.

68 MDG progress from: http://www.mdgmonitor.org/country_progress.cfm?c=SLE&cd=694

69 Excluding debt relief which contributed to a slightly greater percentage

70 Note that in the pen portraits the data (OECD database) on ODA and GBS is disbursements in US$ 2008 constant prices, while the data in Annex 5 uses disbursements in current US$.

71 Lawson (2007) claims that SL received BS through a PRCS programme also co-financed by the AfDB yet this study found no evidence to support this - IEG World Bank (2010a) indicates no PRSC programme for SL

72 DFID project document that is quoted in Lawson, 2007

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For further information on the issues raised in this paper please e-mail **advocacy@oxfaminternational.org**.

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