

Budget Support and Budget Certification: Is it the way forward?

Comments on Paul Collier's Proposal

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Summary of my Comments

- The record on budget support is not a bad one – the main problem is perceptions
- Alternatives to BS are high cost, unsustainable, and no less risky for disbursing the high aid volumes donors have committed to provide
- Budget support donors do not ignore weak PFM, but have used budget support to address the issues
- Defining a satisfactory approach to certification may be impossible, but
- Budget support can be designed to manage the risks

The Donor Responsibility to Provide Budget Support

- Governments were persuaded to build education and health systems that can only be sustained with large amounts of donor cash
- You cant efficiently deliver the required volumes of support through projects or through direct NGO support
- Withdrawing budget support will mean collapse of services, exactly as happened in the 1980s when private finance dried up
- We have to honour the commitment!

Budget support does not ignore weak PFM – but helps to improve it

- Budget support has been used from the start as a vehicle to monitor and strengthen PFM systems
- Almost always accompanied by a PFM improvement plan
- Scrutiny of the whole budget places limits on fungibility:-
 - Hold Govt accountable for moving resources towards pro-poor programmes, e.g. Uganda PAF
 - Facilitates a more explicit reaction to misallocation, e.g. DFID publishes when money is suspended and why, reduced BS by the amount Malawi spent on presidential jet.

What would we certify, and How?

- Problems are normally with performance and compliance, not with systems
- Finding out how a system actually performs is a major research task, needs e.g. PETS and procurement audits
- The existing international process through PEFA took years to develop but does not yield objective or comparable data in sufficient depth for 'certification'
- Improvement is not linear, and requires continual attention to sustain it

What criteria?

- Politicians:- absolutists, not a penny can be stolen, clearly unrealistic
- Economists:-
 - provide BS if it is the most cost-effective way to deliver services, including allowing for leakages;
 - Improve PFM by addressing incentives, systems, capacity but
 - Use the marginal net benefit criteria:- spend less than £1 to save £1 of leakage
- On economic criteria, it would be used in far more countries, not fewer

What standards have to be achieved?

- Large scale corruption:- one allegation and you fail?
- Do you fail if a sound PFM system approves the president's jet?
- How do we react to different aspects of Patrimonial politics:
 - Legal but undesirable pork barrel politics?
 - Ambiguous interference in allocation of jobs, misuse of office?
 - Suspected but unproven corruption in e.g. procurement?
- What about petty corruption that takes time to control and cant be eradicated entirely, what level is acceptable, is it the same everywhere?
- Absolute standards, or evidence of a commitment to build capacity and improve performance?

Who judges?

- IMF:-
 - A macro institution
 - Neither ROSC nor PEFA go deep enough
 - Dependent on existing primary sources
- Accountancy firms:-
 - Biggest risk to them is a corruption scandal in a country they ‘certified’
 - They have an incentive to set the bar high
- General point:-
 - It is about managing an aid relationship, not certifying PFM and turning on auto-pilot
 - No alternative to designing aid instruments to manage the risks
 - Aid donors **are** the right people to do this – not agents who don’t have to live with the consequences of their verdicts

Is there an alternative to BS?

- Projects cant deliver the same volume of resources without incurring even higher costs:-
 - Huge management costs if setting up parallel systems to resource geographically dispersed health and education systems;
 - Multiple accounting systems increase the fiduciary risk;
 - Scaling up alternative provision raises a host of issues and is only a major part of the solution in the long term
 - Making services dependent on off-budget support from donors is highly risky – and will cause stock-outs and deaths when support gets interrupted
- Only budget support builds a sustainable system

The solution:- design budget support to manage the fiduciary risks

- Budget support is not one instrument:-spectrum from simple transfer of GBS through to earmarked sector support using Government systems but with additional procurement, accounting and audit safeguards
- Examples of measures to manage risk that have been used:-
 - Procurement guidelines, prior scrutiny of decisions, mandatory use of agents in extreme cases
 - Shorten the fund flow – from MOF direct to facility bank account
 - Use community accountability through information and redress
 - Advance and replenish based on FMRs – directly provides incentives to account properly, no disbursement without evidence of how funds are actually being used
 - Monitor the system through PETS and internal and external audits
 - Earmarking to protect vulnerable budgets

Final Thoughts

- I agree with Paul that ‘the right action is not to bury the problem but to deal with it.’
- Well designed budget support tries to deal with the PFM issues
- Anything else by-passes the problem with serious negative consequences