External Financing of Social Protection – Opportunities and Risks

Göran Holmqvist
goran.holmqvist@nai.uu.se

Nordic Africa Institute
Uppsala/Sweden
Social protection on policy agenda of low-income Africa:

• Affordability a concern

• Aid dependency high

• Aid large enough to make a difference in terms of magnitudes
Three requirements on aid/ three levels of accountability

• Political support in donors’ countries
• Credible aid contract
• Build on/avoid disturbing political ownership in partner countries
OECD policy guidelines on SP

• Stay aligned, build on countries’ own efforts
• Stay harmonized, joint financing mechanism
• Commit long-term financing

Two questions follow:
• Which aid modality? Time-bound aid for permanent costs...
• What if not enough ownership to build on?
If no ownership to build on?

• By-pass not an option
• “Small but important things” can be done
• But what about external financing brought to scale?

The question:

• Can aid incentives induce sustained changes of policies and institutions?
Conditionality rarely works...but could it work sometimes?

- **Inducing irreversible change:**
  transfers having a mechanism of self-reinforcement?

- **Process conditionality:**
  bet on effective domestic consultations?

- **Aid as commitment device:**
  paving the way for social contracts?
...but more realistically, if no ownership:

- Recognize limitations of aid to reshape political economies through financial leverage

- Rather: Support partners to do more of good things they already are doing
Building on partner’s own efforts

• Which aid modality? Time-bound aid for permanent costs...

• Project aid
• General Budget Support
• Sector program/Special budget support tranche/MDG contract model
• Cash on delivery-mechanism
“COD-aid”, or in other words:

- Retroactive financing
- Financing based on results, not inputs
- Financing matching increments above baseline, kept for X years
Require

- shared objective
- a result where quantity makes sense
- a baseline (rolling after X years)
- long-term contract (renewed every year in X year increments)
Financing by matching increments.
Assumptions: Partner expands 5 units/year, aid matches each expansion for five years until full coverage is reached (=100 units)
Partner financing affected by business cycles
Frontloading:
Donor matches 2:1 in first two five-year contracts

![Graph showing donor matches 2:1 in first two five-year contracts.]
Attractive features with COD-aid

- Burden sharing formula over time
- Predictability and flexibility for partners
- Hands-off approach by donors
- Clarity on what aid money has paid for
But....

- Not a formula to solve political economy problems in partner countries...possibly a formula to set the right incentives for donors
- It requires donors to be long-term, with flexible budgets (just like MDG-contract)
- Ideal set-up: Partner country defines its vision, sets up its COD-scheme and invites donors to join