

Aid, Budgets and Accountability

**CAPE Workshop 2005
– Summary Paper**

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Abbreviations

ASEAN	Association of South-East Asian Nations
CABRI	Collaborative African Budget Reform Initiative
CAPE	Centre for Aid and Public Expenditure
CCM	Chama Cha Mapinduzi (Revolutionary State Party, Tanzania)
CMI	Christen Michelsen Institute
CSO	Civil Society Organisation
DAC	Development Assistance Committee (OECD)
DFID	UK Department for International Development
FDI	Foreign Direct Investment
GBS	General Budget Support
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HIPC	Heavily Indebted Poor Country
IBP	International Budget Project
IFF	International Finance Facility
IFI	International Financial Institution
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
JAS	Joint Assistance Strategy
LIC	Low-Income Country
MDGs	Millennium Development Goals
MIC	Middle-Income Country
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organisation
NRM	National Resistance Movement, Uganda
ODA	Overseas Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PEM	Public Expenditure Management
PFM	Public Financial Management
PIU	Programme Implementation Unit
PRSC	World Bank's Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SAI	Supreme Audit Institution
SWAp	Sector-Wide Approach
TA	Technical Assistance
UN	United Nations
UNDP	United Nations Development Programme
WB	World Bank

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1. Introduction

For the aid system as a whole, the past year has been one of great opportunities, but also of important challenges. Significant increases in aid flows to poor countries have been promised by G8 countries in the wake of reports by the UK's Commission for Africa (2005) and the UN Millennium Project (2005), which indicated that reaching the Millennium Development Goals was still possible even in the least hopeful African cases. Principles for enhancing aid effectiveness have been agreed to by donor and recipient countries in the Paris Declaration on Aid Effectiveness (OECD/DAC, 2005), along with a series of indicators and targets for tracking progress. Following such principles, evolving aid relationships in many recipient countries with a better performance record and stronger institutions are increasingly relying on programmatic aid delivery modalities, such as sector or General Budget Support (GBS). This is meant to increase government ownership of aid-funded development policies and programmes, reduce the transaction costs associated with fragmented aid delivery, and strengthen domestic accountability. Ongoing concerns about the anti-developmental nature of politics and about endemic corruption in poor countries, however, undermine the case for increased support from rich countries. Recent events in Ethiopia and Uganda, for example, are clear evidence of existing contradictions.¹

As more resources are channelled to poor countries, and increasingly through modalities that rely on, or at least are compatible with country systems and procedures, budget processes become much more important as the main avenue to allocate and spend aid resources, but also to deliver on development outcomes. Public Financial Management (PFM) systems have therefore been an increasing focus of donor attention, as their strength and adequacy is assessed for fiduciary purposes before aid can be channelled via national budgets. The difficulties that have been encountered in the use of these new modalities, and in the implementation of PFM reform programmes, point to the need to better understand some of the underlying forces (social, economic and, most of all, political) which influence the budget process and drive reform efforts. Strengthening domestic accountability mechanisms through Parliaments, audit institutions and civil society has also become a more prominent objective of both donor and recipient countries.

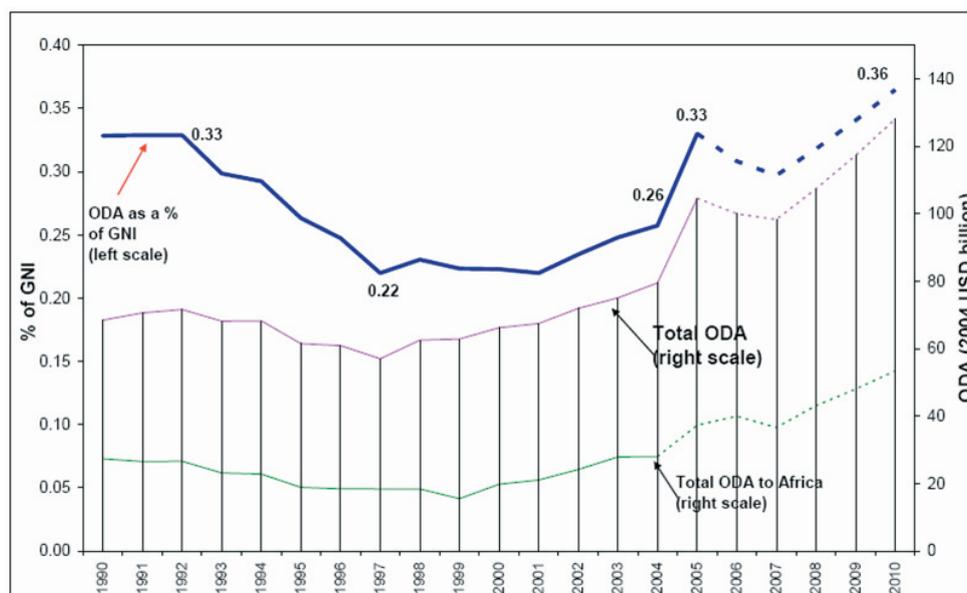
The workshop organised in October 2005 by the Centre for Aid and Public Expenditure (CAPE) at ODI brought together policy-makers from both donor and recipient governments, researchers, practitioners and NGOs to discuss these issues and some of the contradictions involved. This paper is based on the presentations and discussions at the CAPE workshop, but builds on these by surveying the more recent academic and policy literature. Its aim is to critically review ongoing debates about aid modalities and PFM reform efforts, and to assess the role of donors in promoting more robust budget systems and processes, which in turn could allow for channelling increasing aid resources through national budgets and strengthen domestic accountability channels. The focus on aid-dependent countries, where issues of donor coordination and aid effectiveness are more prominent, inevitably means that this paper mainly draws from sub-Saharan African cases and examples.

Chapter 2 looks at existing debates on scaling up and aid effectiveness, summarising the case for channelling aid through recipient country budgets. Chapter 3 reviews the existing evidence on the effectiveness of GBS as an aid modality, and of donor support for strengthening PFM systems in recipient countries, highlighting the limited impact of GBS so far, and some of the reasons for slow progress in PFM reforms. Chapter 4 addresses the contradictions related to the role of donors in shaping budget policies and reforms, given the predominance of domestic politics and the tensions created by deep donor involvement in recipient countries' policy-making processes. Chapter 5 looks at existing evidence on the importance of domestic accountability mechanisms around the budget process, including their limitations and the ways in which donors can support them. Finally, Chapter 6 draws some preliminary conclusions and offers suggestions for future applied research.

2. Recent trends in aid: building the case for general budget support?

Recent years have seen a reversal in the declining trend of Official Development Assistance (ODA) as a share of developed countries' national income. Not only has ODA started increasing again, but according to commitments made by G8 governments last year in Gleneagles, it is likely to almost double over the next five years from its average levels in the 1990s, with much of the increase going to sub-Saharan Africa (see Figure 1).

Figure 1: ODA from DAC members (1990-2005) and projections (2006-10)



Source: OECD/DAC (2006).

The possibility of such large increases in aid flows has sparked a lively debate on aid effectiveness and the issue of 'absorptive capacity'.² Given existing doubts on the effectiveness of past aid flows in promoting economic growth and reducing poverty, how can aid increases be managed in order to ensure their effective use?

On one hand, pessimists point to the potential negative consequences of further increasing the level of aid dependency of recipient countries, with the distortions it can cause.³ These range from macroeconomic imbalances to accountability distortions, and from lack of incentives for reform to mismanagement and outright corruption. There follows two possible approaches to a radical reform of the aid system.

The first approach stems from a critique of the aid system as one with limited competition, where multiple actors and objectives, and a general lack of transparency mean that performance is difficult to measure and often not considered important.⁴ Increasing competitiveness in the aid 'market' could come, for example, through the 'effective outsourcing of aid to "execution agencies"' (Klein and Harford, 2005: 16), separating the function of aid provision from that of implementation of aid-financed programmes and projects, overcoming some of the distorted internal incentives against performance.

An improved focus on performance, however, would mostly be based on better monitoring and benchmarking of agencies' performance:

We know that some donors give much more than others relative to income. We also know that donors are focusing aid less on poor countries and more on countries with strong institutions and good policies. [...] Yet we are still in the dark about which donors, or which projects, are achieving the best results. (Klein and Harford, 2005: 35)

Using lessons from private finance flows, the aid system could be more performance-oriented by 'generating the right incentives for those sending and receiving the money, incentives that are key to producing development results' (ibid.: 74). In this sense, according to Klein and Harford, the qualities against which aid flows should be measured are their *benevolence* (targeting poorest people in poorest countries through grants), the extent to which they are *monitored* (owners know exactly where they go), and the *knowledge* that they carry with them (such as advice and training with a view to sustainable results). The current characteristics of the aid system in many cases do not support these qualities, but a shift towards market-based mechanisms could be very useful in this respect. The provision of better information is a key aspect of such a challenge.

Better information on aid flows, and the use that is made of it, is at the heart of the second approach to aid reform. Recipient countries, including their civil societies, need to be put in a position to negotiate with donors on a much more equal basis, according to Action Aid's 2005 *Real Aid* report.⁵ The main problem with aid, so far, has been the fact that it is too 'supply-driven', with donor countries deciding levels, delivery modalities and conditions attached to aid flows, without enough care given to recipient needs and priorities. Recipient voice and choice are quite limited when it comes to influencing donor policies, and this calls for a better system to monitor mutual commitments, for example matching conditions for better governance in recipient countries with others on reduced volatility and better division of labour from donor agencies. Adequate mechanisms for reciprocal monitoring could ensure that such commitments are honoured, with civil society as an external watchdog.⁶

The response of aid advocates to these suggestions, which inevitably includes most donor agencies, is supported by work led by the Development Assistance Committee (DAC) of the OECD. It claims that a good part of the solution lies in the use of new aid modalities which rely on the use of national systems and procedures, as suggested by the commitments included in the Paris Declaration.

The general argument claims that some of the main determinants of aid effectiveness are government ownership of development policies and better donor coordination to reduce the transaction costs generated by aid management. Channelling resources through the recipient country's budget is a way of addressing both concerns at the same time. Two of the more important policy documents published in 2005 calling for large increases in aid, the reports from the Commission for Africa and the UN Millennium Project, both endorse such views, and call for more aid to be disbursed as untied support to national budgets.

In those countries with a good performance record and stronger institutions, providing direct support for the implementation of sector policies, or more generally to the national budget in the context of poverty reduction strategies, has therefore come to be seen as a way of addressing absorptive capacity issues for both donors and recipient countries, while at the same time strengthening domestic accountability mechanisms. Although this claim is supported by limited research evidence so far, it has gained widespread support, and has been reflected in donor programming in a number of countries, where aid flows are increasingly being channelled through GBS programmes.⁷ Surveys carried out for the Strategic Partnership with Africa (SPA) showed that total GBS was 25.7% of the total aid from SPA donors to a sample of African recipients in 2004, while in 2005 it went up to 27.8% of total aid. The simple average per donor has also increased from GBS as 16.5% of total aid to sample recipients in 2004 to 18.0% in 2005 (SPA, 2006). Recent DAC data show that GBS now amounts to about \$5 billion a year, which corresponds to about 5% of total ODA.

Relying on country systems and procedures, however, raises a number of questions regarding the robustness of such systems, and their capacity not only to avoid leakage and corruption, but also to actually deliver on poverty reduction objectives and respond to domestic accountability pressures. On top of existing short-term and long-term technical assistance, in recent years there has therefore been a proliferation of tools and methodologies for assessing the quality of PFM systems, of donor-supported reform programmes designed to improve such quality and ensure sufficient fiduciary safeguards, and of conditions linking GBS disbursements to improvements in PFM systems. What remains unclear is the extent to which the impact of such efforts has managed to prove the case in favour of GBS.

3. GBS and budget reforms in poor countries: the evidence so far

This section brings together current evidence about the impact of existing GBS programmes and the success of donor-supported PFM reform programmes, in an attempt to establish the extent to which the consensus regarding GBS as the preferred aid modality rests on solid ground.

As highlighted in a recent evaluation of GBS in seven countries:

There is a wide range of expectations from general budget support. These include: improved coordination and harmonisation among donors; 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 and Associates, 2006: S1)

The first evaluation of GBS carried out in Tanzania (Lawson et al., 2005), shows that GBS has been associated with a large growth in government discretionary spending and a major expansion in health and education services. However, a number of shortcomings were noted: (a) there were few signs of improved efficiency of public spending or of long-term obstacles to service quality being addressed; (b) the 'challenge function' in the budget process has remained weak, mainly for political but also for more technical reasons; and (c) the expected improvements in intra-government incentives and democratic accountability are not yet apparent.⁸

While outcomes have improved remarkably in respect of macroeconomic stability, investment and growth, at the same time poverty impacts remain uncertain for the last half decade, the most relevant period, because there has been no household survey since 2001. In summary, GBS in Tanzania has not generated all the positive effects expected of it, some of which are necessarily long-term. But the gains that have been made are important and would not have been so effectively facilitated by any other aid modality.

The more comprehensive cross-country evaluation of GBS programmes highlights the diversity of reasons that led to the adoption of GBS as an aid modality in different countries, and of arrangements that were put in place to manage it. Changes in the nature of dialogue and conditionality, considered inherent in the GBS modality, have 'tended to be gradual, to be present as an intention before [they are] realised in practice, and to be more significant in the eyes of the donors than in those of partner governments' (IDD and Associates, 2006: S3). Moreover, the vulnerability of GBS to political risk is seen as the result of inadequate analysis carried out before channelling funds through local budget systems.

Nevertheless, the evaluation found that GBS has supported increases in pro-poor expenditure, in allocative and operational efficiency, and in government discretion. It also contributed to strengthening budget processes, in particular by 'requiring sector ministries to engage directly in the national budget process', and government capacity in public finance management, despite the need 'for more systematic collaboration to support coherent national PFM capacity-building strategies' (ibid.: S5). To the extent that GBS has had 'greater penetration (by virtue of its duration, relative importance [...] and the sophistication of dialogue arrangements it supports and uses)' (ibid.:S6), it has also been more efficient in strengthening incentives for policy reform within government.

There are, however, a number of caveats which the study highlights. First of all, 'the continuation of parallel off-budget modalities undermines progress'. Despite the fact that GBS can only be seen as one of a range of modalities which donors can use, its co-existence with a large number of fragmented projects can significantly limit its positive effects.⁹ Secondly, the evaluation finds that 'technical solutions are not effective or durable without political commitment', and that GBS 'does not transform underlying political realities'. Although this might sound an obvious statement, its implications can be quite substantial, as is argued below.¹⁰ Finally, 'donors need to be careful that their accountability demands do not overshadow those of national institutions', and 'need to be

sensitive about becoming too intrusive' (ibid.). This issue will also be addressed in more detail in later chapters.

Similar issues are raised in a summary of five country studies carried out by USAID (2005). While recognising the perceived benefits of GBS in terms of country ownership and improved PFM, the study points out that donor harmonisation is proceeding much slower than expected, that transaction costs have in fact increased rather than decreased as a consequence of the introduction of GBS, and that GBS does not always strengthen democracy or public accountability.

A more critical view of GBS is presented by Unwin (2004), who claims that 'budget support, as the preferred means of delivering the economic growth and liberal democracy agenda is much more problematic than many working in donor agencies are willing publicly to acknowledge' (ibid.: 1512). Among the reasons for this are (a) the lack of predictability which comes from existing governance and fiduciary risks to which GBS is subject, (b) the incapacity of donors to recognise that African political systems are often not compatible with the sort of participatory processes and transparent administrative practices that form the basis for GBS, and (c) the fact that donors use GBS as a way of 'pushing money out the door' as their budgets increase while staff numbers are reduced.

These findings seem to point to some significant, albeit limited impact of GBS, but also raise issues related to the political vulnerability of GBS in case of governance crises, as has happened in Ethiopia and Uganda (de Renzio, 2006), and to the continuing weaknesses of PFM systems, which potentially allow for corrupt practices to go unnoticed (CMI, 2005). Existing evidence from budget reform processes somewhat supports the mixed picture portrayed above, highlighting the difficulties faced by countries undergoing PFM reforms, and by donor agencies supporting them.

Dorotinsky and Floyd (2004) have summarised some findings on PFM developments in heavily indebted poor countries (HIPC) since the mid-1990s. They find that while budget formulation has improved in a number of countries, budget execution and budget accountability are still very weak in the majority. Thus, less than 30% of the 20 surveyed countries had budget outturns which were close to the budget as adopted; and 90% of all the African countries surveyed did not produce final audited accounts within 12 months of the end of the fiscal year, rendering meaningful parliamentary oversight impossible. The authors also argue that more attention to institutional and governance arrangements are essential for designing and implementing PFM reforms. They note that:

Apart from tepid political commitment in some countries, the complexity of numerous initiatives (for example, an integrated financial management information system, an MTEF, activity-based budgeting, and performance management) quickly drains available capacity and slows all reforms. (ibid.: 207)

A more recent review of progress in 26 HIPC (IDA/IMF, 2005), based on 16 different indicators of the quality of PFM systems, found that PFM performance had shown a slight improvement overall between 2001 and 2004, though the extent of progress had been mixed across countries and indicators. These mixed results happened despite substantial donor support, with an average number of 7 donor agencies involved in PFM reforms in each country.¹¹

A recent World Bank evaluation, *Capacity Building in Africa* (World Bank, 2005), concludes that 'while there have been successes, Bank support for capacity building has encountered considerable difficulty in the area of public financial management'. The report criticises the frequent focus on reorganising government units and on sweeping, unfamiliar techniques such as performance budgeting which have been 'transplanted from outside the country' and 'depends on consultants for implementation'. The authors point out that capacity-building efforts can be undermined by difficult 'governance issues', including the non-implementation of agreed reforms, particularly in areas such as procurement and parliamentary oversight.

These critiques point to some flaws in the design of many donor-supported PFM reform programmes, which tend to give too much attention to complex technical solutions, and too little to existing constraints in terms of capacity, incentives and political economy factors. In a paper commissioned by the Public Expenditure and Financial Accountability Secretariat (PEFA),¹² Brooke (2003) suggests that:

Financial management reform should be considered as a series of realistic step changes ('platforms') defined in terms of what they enable by way of resource planning, deployment, control and accountability. [...] The role of the initial 'platform' approach should be focused on underpinning the basic means of dialogue upon which the new forms of aid depend [...]. Measures appropriate to this sort of platform will include establishing the integrity of very basic data and control systems, avoiding technical complexity and relying primarily on measures that require political support and mandate rather than capacities that are unlikely to exist at the beginning. (ibid.: 2)

In practice, this means scaling down the expectations of comprehensive PFM reforms, and concentrating on technical and political feasibility, even if this implies a higher degree of fiduciary risk in the short term.

Similar views were also expressed by a group of African senior budget officials (CABRI, 2005), who stressed how 'incentives are important when reforms are implemented. Only rules that can be enforced and institutions that will matter should be introduced', while 'a sophisticated system that gets it right on paper is often destined to fail in implementation' (ibid.: 16).

This brief survey of evidence and views seems to support the claim that the main reasons for slow progress in PFM reform could belong to three different but inter-related categories:

- Limited *capacity* within recipient governments to manage complex reform processes with highly technical components;
- Emphasis by supporting donor agencies on 'big bang' *approaches* which aim at introducing a number of reforms at the same time, without giving due attention to sequencing matters or to political and technical feasibility;
- *Political economy* issues determining government willingness to embark on different reforms.

In summary, overall existing evidence on the impact of GBS programmes and on the success of PFM reform efforts seems to at least partly undermine the case for GBS, highlighting the difficulties inherent in bringing about substantial changes in systems and patterns of public resource use in poor countries. There are various possible reasons for this. On one hand, in most cases the introduction of GBS has not been accompanied by a corresponding reduction in the use of other aid modalities, undermining some of its potential benefits. On the other hand, some of the key assumptions about the effectiveness of GBS are linked to the existence of a domestic drive for reforms leading to improved accountability and results-orientation.¹³ Questioning the existence of such drive in many recipient countries calls for a more nuanced view of the role of donors as 'change agents'.

4. The contradictions of ownership and conditionality: towards a more realistic account of donors’ roles in budget policies and reforms

The evidence presented in the previous chapter points to a number of contradictions in the emerging consensus on aid effectiveness, particularly with regard to the effectiveness of GBS as an aid modality, and its dependence on successful PFM reforms. Despite their emphasis on the importance of government ownership and donor coordination, hardly disputable in principle, GBS programmes and PFM reform efforts seem to have had limited impact on institutional change so far, raising doubts about the soundness of the consensus for directing future aid efforts. These contradictions have been picked up by a number of authors who, with different degrees of criticism of current trends in the aid system, question the role that donors are playing in supporting poverty-reduction efforts in aid-dependent countries.

Lockwood (2005) and van de Walle (2005), for example, claim that the root causes of poverty in many poor countries lie in the entrenched clientelistic nature of their political systems. In many cases, they argue, donor interventions reinforce these negative characteristics rather than contributing to the creation of more developmentally-oriented states. Many of the countries they analyse share a political system where formal democratic rules are often just a respectable façade for well-established networks of patronage that see the state not as a developmental agent, but as a source of the rents that keep the cogs of the clientelistic machine turning. In such systems, budget systems and processes are manipulated to serve this purpose. Low capacity, not only within the civil service, but also in the non-executive arms of governments and in civil society, is partly a result of economic stagnation, but also a consequence of the anti-developmental characteristics of the state, which prevents the development of a culture of accountability.

Aid, both authors argue, can play a positive role, but only if donors come to grips with the politics and incentives that currently prevail in these countries. Until today that has not been the case. By channelling aid mostly through governments, they have prevented healthy domestic accountability mechanisms from developing, potentially propping up anti-developmental regimes. By pursuing contradictory objectives and policies around selectivity and ownership, they have promoted what van de Walle calls ‘ventriloquism’, in which the donors make clear what their policy expectations are, and governments understand what they need to say and do in order to have continued access to foreign assistance. By addressing capacity building through the provision of expensive foreign technical assistance, such as in the case of PFM reforms, they have misunderstood the elusive nature of efforts to build institutional capacity.

Some of the arguments put forward by Lockwood and van de Walle are reflected in a study of the budget process in Malawi (Rakner et al., 2004), where the ‘theatre’ of respecting formal rules and procedures is coupled with the predominance of informal practices which determine the way in which budget resources are actually distributed, and which reflect the clientelistic nature of Malawi’s political system. In such an environment, donors managed to have little influence over budget policies or reform efforts, as a high level of mistrust between the government and donors created vicious circles of budget-support suspensions and reform reversals.

A study of Ghana’s budgetary system (Killick, 2005) reports similar findings. Even in a situation where the level of trust between donors and government is higher, budgeted expenditures are again described as a façade, characterised by large deviations which create systematic biases and allow for large leakages in allocated funds. ‘In an aid-dependent situation,’ argues Killick, ‘the façade is particularly important in order to keep the donors happy.’ Public-service reform efforts (including PFM reforms), in turn, ‘have largely been the brain-children of aid donors, leading to the usual complaint of weak political commitment’.

In the case of Tanzania, Kelsall (2002) traces a distinction between the ‘shop windows’ where government officials speak the language of ‘good governance’ for donors to hear, and the ‘smoke-filled rooms’ of the ruling party where the real decisions are made. He claims that ‘[donor-supported governance] reforms do not take place in an air-conditioned administrative bubble, isolated from

the political atmosphere. Some of them undermine the interests of significant sections of Tanzania's political elite. Where they do this, they tend to be resisted or subverted' (ibid.: 605). The liberal-rational approach to politics and public administration that donors promote and support, often clashes with the patrimonial and clientelistic politics that shape political incentives, especially at the local level. While these two types of politics are capable of co-habiting, patrimonialism still seems to dominate.

A slightly different argument is that presented by Harrison (2004), who examines the cases of Uganda and Tanzania, and talks about the development of 'post-conditionality' politics in these two countries. In selected better performing countries, Harrison argues, the relationship between donors (especially the World Bank) and governments has moved beyond the arm's length conditionality approach typical of structural adjustment programmes, to a 'post-conditionality' approach where donors are much more closely involved in policy-making, for example through the support they give to administrative reforms (including PFM reforms) in central ministries, and through the arrangements related to GBS operations. 'Within post-conditionality regimes, it becomes far less insightful to make distinctions between external and internal interests. [...] [Donor intervention] is not exercised solely through conditionality and adjustment, but to a significant degree through a closer involvement in state institutions and the employment of incentive finance' (ibid.: 77).

This new type of arrangement brings about a sort of mutual dependence between donors and state elites, whereby governments depending on high levels of donor funding do their best to comply at least formally with the reform agenda being promoted by donors, while donors get to use these countries as 'success stories' in international arenas, as a return on the political capital they invested in them. All of this, however, at the expense of a more genuine and transparent debate over reform agendas, and through the de-politicisation of domestic political realities through a generalised focus on 'participation' as a means of including the voices of domestic accountability.

Such description is supported by a recent study of the political economy of the budget in Mozambique (Hodges and Tibana, 2004), which recognises the crucial role played by donors in shaping budget policy and supporting reformers within government in modernising budget systems. Such influence, however, comes at the expense of weak domestic accountability institutions, which suffer from a lack of adequate capacity or of sufficient political clout and independency to keep government accountable for the way in which it manages public resources. Post-conditionality politics may have also forced donors to turn a blind eye on banking scandals involving members of the ruling elite, in order to maintain the overall image of Mozambique as a 'success story' (Hanlon, 2004).

The literature reviewed in this section paints a much more complex picture of donors' roles in promoting the effective management of aid resources through national budgets than that which is often portrayed in official documents. Two main points seem to emerge:

- Donors need to be much more aware of the *political economy factors* which underpin the behaviour of recipient governments, and of the potential impact of their behaviour on domestic political landscapes;
- Donors have largely overlooked the role that *domestic accountability institutions* have to play if sounder budget systems and policies are to emerge, and in some cases (especially in 'post-conditionality' situations) may have undermined them by taking over their legitimate role.

Chapter 5 therefore looks at the role played by domestic budget accountability institutions, and addresses the ways in which they can be strengthened.

5. The challenges of strengthening domestic budget accountability

The analysis in Chapter 4 points to the importance of strengthening domestic accountability institutions, not only as an end in itself as part of democratisation processes, but also as a necessary condition for improving the effectiveness of aid resources channelled through national budget systems. As Mfunwa puts it:

New modalities of delivering aid constitute a vast improvement over the past ways. [...] But at the same time these new modalities create new problems, including the possibility that donors engaging in programme-based approaches and budget support may actually be undermining internal democratic accountability. (2006: 3)

This chapter summarises existing evidence on the role played by parliaments, Supreme Audit Institutions (SAIs), and civil society organisations (CSOs) in promoting domestic budget accountability. It will also consider the extent to which donors may be able to build their capacity and enhance their effective functioning.

Parliaments

Parliaments play a very important role in keeping the executive arm of government accountable for the way in which it utilises public resources. Parliaments approve budget legislation, authorising governments to raise revenues and spend them on maintaining their apparatus and delivering services, and analyse audited accounts, verifying whether governments have in fact delivered on budget promises. In reality, however, their effectiveness varies, depending on institutional, political and capacity factors.

Among the factors shaping the role of parliaments are: (a) *budget calendars*, which determine how much time parliamentary committees are given to analyse budget proposals before approving them; (b) the constitutional definition of *amendment powers*, which state to what extent parliaments have the right to reject or amend budget proposals and reports submitted by the executive; (c) the availability and access to *technical advice* (such as the existence of a Parliamentary Budget Office) to support parliamentary analysis and decision-making on budget proposals and reports; and, finally, (d) the characteristics of *political regimes*, such as their presidential or parliamentary nature, the number of political parties in parliament, the dominance of the party in power in terms of majority votes in parliament, and so on.¹⁴ These various characteristics will determine the degree and significance of parliamentary intervention in the budget process, both at the approval and at the oversight stages.

A study carried out on patterns of accountability in Tanzania (Lawson and Rakner, 2005), found that Parliament's role in holding the executive accountable is currently not very effective. The formal measures to enforce accountability may be in place, but often the spirit of their intent is lost to the mechanistic approach with which they are applied. The structure of power is dominated by the Presidency, the Executive and the ruling CCM party, which now holds more than 80% of seats. MPs would need the right incentives in order to play a more meaningful role, both in terms of encouragement by their political parties, and of having the necessary information and resources. While improving the balance of power would imply legal and constitutional changes, there is much that could be done at the technical and administrative levels to remove the factors that constrain effective engagement of parliamentary committees in the formulation, adoption, oversight and control of the budget. These include: (a) increasing the time available for scrutiny; (b) providing more user-friendly information at an earlier stage of the budget cycle; and (c) providing advisory, training and research support so as to improve the technical capacity of MPs.

Similar findings exist for Ghana, where Killick notes:

Parliament has been unable to exercise effective scrutiny and control. Timetabling is part of the problem: the budget comes to it too late for detailed consideration. Another part of the problem is shortages of the supporting resources that would be necessary if Parliament were to be able

to do its job properly. It is unable to hire expert advisers and does not have enough information with which to do the job properly. In consequence of these deficiencies, Parliamentary scrutiny tends to be hurried, superficial and partisan. (2005: 2)

In a review of Latin American legislatures, Santiso argues that:

Capacity constraints and information asymmetries tend to explain why parliaments do not exercise their budgetary powers effectively, while governance constraints and the nature of executive-legislative relations tend to explain why they sometimes do not exercise them responsibly. (2004: 70)

This is an important point. Even if some of the systemic weaknesses which undermine the role of parliaments as a domestic accountability check on national budgets were tackled, this would not automatically lead to improved budget processes and outcomes, or to budgets that better reflect rational policy-making or a poverty focus. Politics, it can be argued, plays an even more important role in parliaments than it does within the executive, where a technocratic focus and bureaucratic processes compensate for Cabinet-level 'politicking'. As Schick warns, 'one scenario is for the legislature to reinforce fiscal discipline [...]; another is for it to undermine discipline by bombarding the budget submitted by the government with legislative amendments that trim revenues and boost expenditures' (2002: 15).

Recent years have seen an increased interest within donor agencies in supporting recipient-country parliaments as an avenue to strengthening domestic budget accountability, and also as a consequence of NGOs lobbying for greater involvement of domestic institutions in development policy. Donor support for parliaments has been limited to a small number of agencies focusing on technical support, and has been seen as a complex area, also because of the potential negative effects of electoral processes and shifts in institutional leadership. Manning and Stapenhurst (2002) claim that some factors for success of parliamentary support activities include linking legislative assistance to broader reform processes, and ensuring domestic political support to strengthening the legislature's role.

As this brief review has highlighted, support to parliamentary capacity for budget monitoring and oversight needs to stem from a clear understanding of the wider institutional and political context, which identifies the actual roles (positive and negative) that a strengthened parliament could play in promoting improved budget processes and outcomes.

Supreme audit institutions (SAIs)

SAIs are another important type of budget oversight institution. They take different forms in different institutional settings (Auditor-Generals, *Cours des Comptes*, Administrative Tribunals, etc.), reporting to either Parliament, the Supreme Court or an Audit Board, with the role of checking government accounts through audits in order to ensure (a) the proper and effective use of public funds; (b) the proper execution of administrative activities; (c) the development of sound financial management; and (d) the communication of information to public authorities and the general public through the publication of objective reports (DFID, 2005).

A review of the functioning of SAIs in Malawi, Tanzania and Uganda (Wang and Rakner, 2005) suggests that the institutional capabilities of the SAIs to carry out their accountability function are limited in all three countries. Limitations belong to four categories:

- *Mandate*. In some cases SAIs do not report directly to Parliament, or the scope of their audit is limited to certain categories of spending. The existence of off-budget donor funding also undermines the SAIs' capacity to adequately cover all government operations.
- *Capacity*, in terms of both financial and human resources. Capacity problems have increased in all countries by the introduction of integrated financial management systems in the government, performance audits and a multiplication of the number of audited institutions. However, the SAIs have been unable to keep up with some of the technical developments, including performance audits.
- *Autonomy*, again related to the lack of guaranteed and adequate human and financial resources. This means that the effectiveness of SAIs is limited by appointment and dismissal procedures, or by the need to lobby government or donors for necessary resources.

- *Relational resources*, in particular with Parliamentary Committees and with media and civil society. These are under-developed, and constitute another factor limiting the effectiveness of SAIs' actions in terms of ensuring adequate follow-up to their findings.

Stapenhurst and Titsworth (2001) highlight similar challenges, but add the need for a supportive institutional environment for SAIs to function effectively, including a good relationship with the ministry of finance, both in terms of supplying information and following up on recommendations, and the importance of linking into international audit knowledge networks and harmonising with international standards. Limited donor coordination and off-budget donor funding also remain a concern in ensuring the effectiveness of the audit function within budget processes.

Civil society¹⁵

Civil society involvement in budget policies and processes is a relatively new phenomenon, stemming from an emerging international consensus on the need for more transparent and inclusive budgeting processes, and for more civil society participation in development policy in general. Civil society budget work takes a number of different forms, including linking applied research and advocacy campaigns to the production of timely and accessible information on government budgets, training of grassroots groups, and monitoring budget implementation (IBP, 2001). While civil society budget monitoring is more common in middle-income countries, independent budget groups are now active in a number of low-income countries as well. This trend has become more apparent as donor countries have started providing specific support to CSOs to monitor the use of resources freed up by debt-relief programmes, and more recently through GBS.

The Uganda Debt Network, for example, has been quite successful at putting pressure on the government to improve budget implementation in some key service-delivery areas such as health and education, by training local monitors who check the implementation of government-funded contracts, and by reporting the results of such monitoring both in policy fora at national level and through the media (de Renzio et al., 2006). On the other hand, in Tanzania, Lawson and Rakner (2005) found that civil society is rather weak as a source of 'societal accountability', and has a modest role as a democratic check on executive power.

The capacity of civil society groups to influence government policies depends on a number of factors, which include:

- The nature and characteristics of the *political environment*, and the existence of more or less institutionalised channels for civil society involvement and participation in the budget process. Such opportunities may be created by processes of political transition, such as in the case of South Africa (de Renzio 2005b). Or they could depend on governmental initiatives, similar to the ones taken by the Brazilian Workers' Party (*Partido dos Trabalhadores*) in Porto Alegre and other municipal councils, where part of the investment budget was allocated on the basis of participatory budgeting processes which relied on civil society participation.¹⁶
- The degree of *transparency* and *access* to budget information, which determines the degree to which CSOs will be able to independently analyse and assess the government's budget policies and proposals. In a review of 36 countries,¹⁷ the International Budget Project found that two-thirds of countries regularly make available some of the key budget documents, but fail to release other essential information, and even then, access is limited and sometimes only granted upon request. Moreover, scores for the 'facilitating public discourse and understanding' category are much lower, revealing the reluctance of governments in actively promoting more openness in the budget process.¹⁸
- Internal *capacity* constraints, both related to the technical skills necessary for budget analysis, which may be in short supply outside the public sector, and to the necessity to link the results of such analysis to wider advocacy techniques, including building networks with other CSOs and with key officials within government and other institutions.
- In many cases, the existence of *donor funding*, which represents one of the few available sources of financing for CSOs to carry out budget monitoring and advocacy activities. The associated risk, however, is that of undermining the independence and credibility of the analysis, either because the authors may not want to be seen to criticise donor behaviour, or because they may be domestically accused of being on the donors' payroll.

This brief review of the role and experience of parliaments, Supreme Audit Institutions and civil society

organisations as domestic budget accountability institutions highlights some of the difficulties they face in carrying out their tasks effectively, and some of the limitations posed by the same political factors which constrain the role that donors can play in promoting a more effective use of public and external resources. Nevertheless, it also points to the potential constructive role that they could play, if only they had greater financial and human-resource capacity. This is an area that donors can contribute to, and which they have so far mostly overlooked.

6. Conclusions

Recent aid debates, linked to commitments by G8 countries to substantially scale up their development assistance programmes, have focused on ways to address some of the perceived underlying causes of low aid effectiveness. Donor responses have focused on the introduction of programmatic support modalities, such as sector and general budget support, aimed at increasing country ownership of development policies and programmes, reforming and strengthening planning and budgeting institutions, and correcting for distortions in accountability stemming from aid dependence. Available evidence to date, however, only partially supports the arguments made in favour of such shifts.

Recent assessments of the effectiveness of GBS as an aid modality point to some significant but limited impact of GBS on macroeconomic stability and government spending in priority sectors. However, they also highlight the rising transaction costs, due to the co-existence of GBS with other aid modalities, the vulnerability of GBS to governance crises, and the continued weakness of domestic accountability mechanisms, given underlying political dynamics. The evidence on the success of PFM reforms in a number of countries is equally controversial, pointing to both capacity and political economy constraints to reform in recipient countries, and to inadequate approaches promoted by donors, which overlooked sequencing issues and the technical and political feasibility of reforms.

The role that donors can play in strengthening government ownership, PFM systems and domestic accountability is therefore more complex than many are willing to admit. Different actors and interests play different roles in shaping budget policies and priorities. In aid-dependent countries, accountability mechanisms are shaped both by external factors, such as the influence of donors on budget choices, and by domestic factors, for example through the role played by parliamentary committees and civil society organisations. Formal processes and procedures can be in contradiction with informal forces, and institutional incentives defined by existing rules and regulations may not be mirrored by individual ones driven by personal interests and other factors.

For donor agencies in particular, but for recipient governments as well, a more frank debate about recent efforts to address the weaknesses of PFM systems, and about some of the contradictions that are intrinsic in the accountability frameworks that come with aid dependency, is necessary in order to better understand how to improve the structure of programmes designed to support the channelling of increased aid resources to poor countries, and to enhance their effectiveness. In particular, donors need to be much more aware of the political economy factors which underpin the behaviour of recipient governments, and of the potential impact of their behaviour on domestic political landscapes. This includes a better understanding of the role and functioning of domestic accountability institutions, including parliaments, audit institutions and civil society, and the promotion of better and more harmonised ways of supporting their work.

Future applied research supporting the findings of this paper could focus on a number of areas, including a more detailed analysis of the political economy factors shaping success and failure in PFM reform efforts, the promotion of a better understanding of domestic accountability mechanisms and institutions, and a more critical examination of how donors, and the aid system in general, are able to play a positive role in supporting successful reform efforts.

Endnotes

- 1 See, for example, CMI (2005) and de Renzio (2006).
- 2 See de Renzio (2005a).
- 3 See, for example, Moss et al. (2006), Killick (2004), or the more sweeping critique contained in Easterly (2006).
- 4 Easterly (2002) refers to the aid system as the ‘cartel of good intentions’. This section is mostly based on ideas contained in Klein and Harford (2005).
- 5 See also Rogerson and de Renzio (2005).
- 6 See de Renzio and Mulley (2006).
- 7 Rogerson (2005), however, also notes that increases in aid flows are likely to be channelled through a multiplicity of mechanisms, not necessarily in line with the principles underpinning GBS.
- 8 In particular, the study notes that ‘there appears little evidence of parliament’s scrutiny of public finances improving significantly since the expansion of discretionary funding in the budget’, and also that ‘doubts remain over the depth of [Tanzanian NGOs’ capacity] to challenge decisions over resource allocation. In summary, the evaluation did not find clear evidence of improving accountability to domestic stakeholders’ (Lawson et al., 2005: S6).
- 9 This point is also made in the case of Ghana by Quartey (2005), and is an important one in the sense that it further undermines the scope for enhancing domestic accountability, which is almost by definition limited to on-budget funds.
- 10 Williamson (2006) argues that in the cases of Uganda and Tanzania, high-level political support for PFM reform preceded the onset of GBS as an aid modality, highlighting how ‘the role of GBS in upgrading PFM systems was secondary to these [internal] factors’ (ibid.: 147).
- 11 The total spending of donor agencies on public-sector financial management jumped from \$6 m. in 1990 to \$150 m. in 1995, and \$800 m. in 2001 (OECD, Creditor Reporting System database, www.oecd.org/dac/stats/idsonline; in 2002 prices).
- 12 The PEFA secretariat has been set up with the support of a group of donors with the objective of developing a common framework and an analytical/diagnostic tool for assessing PFM systems in developing countries.
- 13 See Lawson and Booth (2004).
- 14 See Wehner (2004).
- 15 The LSE’s Centre for Civil Society defines civil society as referring to: ‘the arena of uncoerced collective action around shared interests, purposes and values. [...] Its institutional forms are distinct from those of the state, family and market. [...] Civil societies are often populated by organisations such as registered charities, development non-governmental organisations, community groups, women’s organisations, faith-based organisations, professional associations, trades unions, self-help groups, social movements, business associations, coalitions and advocacy groups’ (<http://www.lse.ac.uk/collections/CCS/>).
- 16 For more information on participatory budgeting, see De Souza (2001). In other towns across Brazil, however, where local governments were less open and responsive, civil society found it a lot more difficult to engage with the budget process (de Renzio 2005b).
- 17 See Gomez et al. (2005).
- 18 In some cases, despite a general lack of budget transparency, civil society organisations have been able to put pressure on governments to improve service delivery. For the example of Mazdoor Kisan Shakti Sangathan (MKSS) in India, see Jenkins and Goetz (1999).

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8. Appendices

Appendix 1: workshop agenda

CAPE Workshop 2005 Aid, Budgets and Accountability

3-4 October 2005
ODI, London

For the aid system as a whole, 2005 is a year of great opportunity, but one of great challenges as well. Many are arguing for a significant increase in aid flows to poor countries in the effort to reach the MDGs. New aid partnerships are being negotiated, based on more effective aid modalities and with an increasing focus on mutual accountability mechanisms.

As increasing resources are channelled to poor countries, and increasingly through modalities that rely on, or at least are compatible with country systems and procedures, budget processes become much more important as the main avenue to allocate and spend aid resources, but also to deliver on development outcomes. Public Financial Management (PFM) systems have therefore been an increasing focus of donor attention, as their strength and adequacy is assessed for fiduciary purposes before aid can be channelled via sector and general budget support programmes. Recent years have also seen an increasing number of PFM reform projects being designed and implemented. The difficulties that have been encountered in their implementation point to the need to better understand some of the underlying forces (social, economic but most of all political) which influence the budget process and drive reform efforts.

Different actors and interests play different roles in shaping budget policies and priorities. In aid-dependent countries, accountability mechanisms are shaped both by external factors, such as the influence of donors on budget choices, and by domestic factors, for example through parliamentary committees and civil society organisations. Formal processes and procedures often are in contradiction with informal forces, and institutional incentives defined by existing rules and regulations may not be mirrored by individual ones driven by personal interest and other factors.

For donor agencies in particular, but for recipient governments as well, a more frank debate about recent efforts to address the weaknesses of PFM systems, and about some of the contradictions that are intrinsic in the accountability frameworks that come with aid dependency, is necessary in order to better understand how to improve the design of programmes designed to support the channelling of increased aid resources to poor countries, and to enhance their effectiveness.

Following on last year's successful event, the 2005 CAPE workshop, to be held at ODI on 3-4 October, intends to address some of these issues by bringing together donor agencies, recipient governments, academics and practitioners, discussing recent findings and looking into future directions for policy-relevant research. The workshop will also reflect on the outcomes of the UN MDG Summit and of the WB/IMF Annual Meetings.

Day 1

(Morning session 10.00-12.30)

The 2005 agenda and beyond: delivery challenges for the aid system

The 2005 agenda will form the core of this session, with a focus on scaling up aid flows and the linkages to budgets and accountability relationships (mostly between donors and recipients).

- *Where are we with the 2005 agenda? Are substantial increases in aid flows likely to materialise? If so, what would be the implications?*
- *Is there a real momentum towards relying more on country systems? Are the DAC indicators on harmonisation and alignment adequate and sufficient?*
- *Are effective mechanisms for ensuring mutual accountability being put in place?*

Speakers:

- i. Andrew Rogerson (ODI)
- ii. Tim Harford (IFC)
- iii. Patrick Watt (Action Aid)

Chair: Simon Maxwell

Day 1

(Afternoon session 14.00-16.30)

Country-level issues I: the track-record of budget reforms

The aim of this session is to review the track-record of country-level experiences with donor-supported budget reforms, and the effects that these have had on budget systems and budget outputs.

- *What is the evidence on donor-supported PFM reform programmes? Have they delivered on their objectives? If not, why?*
- *Has the move towards General Budget Support contributed to PFM improvements in poor countries?*
- *What are the main domestic constraints to PFM reforms? What can donors do to improve their support to PFM reforms?*

Speakers:

- i. Phyllis Makau (Kenya/CABRI)
- ii. Bill Dorotinsky (World Bank)
- iii. Peter Brooke (Bannock)
- iv. Tim Williamson (ODI)

Chair: Andrew Lawson

Day 2

(Morning session 10.00-12.30)

Country-level issues II: contradictions in donor-recipient relationships

In this session, the discussion will move to some of the contradictions inherent in donor-recipient relations, including distortions in accountability mechanisms and the role of conditionalities.

- *What is the impact of conditionalities on accountability relationships?*
- *How does a possible increase in aid flows affect accountability frameworks?*
- *How can donors support PFM reforms without interfering extensively?*

Speakers:

- i. Stefan Koeberle (World Bank)
- ii. Lise Rakner (Chr. Michelsen Institute, Norway)
- iii. Graham Harrison (University of Sheffield)
- iv. Florence Kuteesa (PWC)

Chair: David Booth

Day 2

(Afternoon session 14.00-16.30)

Enhancing domestic accountability: the role of parliaments, oversight bodies and civil society

This session looks at domestic accountability mechanisms around the budget process, including parliaments and special oversight bodies, such as external audit and anti-corruption agencies. The role of civil society and the media will also be discussed.

- *What is the role of domestic accountability mechanisms around the budget process in poor countries?*
- *How can they be strengthened, including through donor support?*
- *What can be done to shift budget accountabilities so that governments respond more effectively to domestic agendas?*

Speakers:

- i. Andrew Lawson (ODI)
- ii. Rasheed Draman (Parliamentary Centre, Ghana)
- iii. Predrag Boskovic (Vice-Minister for Foreign Affairs, Serbia and Montenegro)
- iv. Warren Krafchik (International Budget Project, Washington DC)

Chair: Tony Worthington

Wrap-up session: pulling together lessons, looking forward

Appendix 2: summaries of sessions

Day 1, morning session

The 2005 agenda and beyond: delivery challenges for the aid system

Presentations

Simon Maxwell (Chair)

The aid landscape is undergoing astonishing transformations, as aid flows are set to increase from the current level of US\$50 billion to about US\$130 bn by 2010. The central question behind this workshop is how this increase in aid can be managed and what kind of aid architecture will be needed to ensure it is effective.

Andrew Rogerson

2005 has been a very significant year for the international aid system and volumes of aid in particular, at least at the rhetorical level. Gleneagles, the Paris Declaration, the UN MDG Summit in New York, the debt-reduction deal announced by the G8 and followed up by the IFIs, and trade negotiations in Hong Kong all point to a very important year for aid relationships, and for relationships between rich and poor nations in general.

In terms of scaling up aid the credibility of some of the pledges is in doubt, as are 'real' increases in aid volume (as opposed to accounting tricks). On that front, Technical Cooperation in particular is still a problematic issue, as it is likely to continue to increase without actually contributing to real growth in aid volume. Innovative financing options like the International Finance Facility (IFF) could offer some solutions, even though the issue of absorptive capacity of both donors and recipients remains.

There are both risks and opportunities embedded in the international aid system as aid flows increase. Among the opportunities, recipients may be able to acquire growing bargaining power because of greater aid availability, as illustrated by the case of Afghanistan. Other opportunities include donor commitments (at least in principle) to rely on national systems, greater transparency, and greater voice and choice among recipients (for example, Africa Partnership Forum). Looking at instruments and policies to deliver aid, we need to ask if GBS will continue to grow, noting that often times it runs counter to many entrenched political interests in the recipient country who thrive on projects.

It is also important to note the tension embedded in the current aid system between accountability and ownership. The current aid architecture does not deal with issues of long-term aid dependence, but such questions will have to be addressed one way or another. In terms of how aid is channelled, despite the obvious advantages of multilateral aid, there are some things which bilateral aid agencies can do uniquely which multilateral agencies cannot – and engaging more fully with politics is one of those things.

There are 'six tricks for 2006' that can be proposed:

- lower expectations;
- ensure minimally coherent allocations;
- put some aid out of easy political reach;
- make a decision on 'frontloading';
- figure out the UN's development role; and
- start governance reforms of the WB.

Tim Harford

First of all, looking at the structure of the aid market, we need to challenge the notion that the aid system is highly fragmented. On average, the typical aid recipient faces a three-way oligopoly, which means that the issue of the fragmentation of the aid system has been somewhat overstated. It is true, however, that with the inflow of aid the system is likely to experience in the next few years, aid fragmentation is bound to increase. But the argument could be made that fragmentation may actually be a good thing because it increases competition.

Why it is that the market for aid does not function like a ‘real’ market – why is it that one talks about lack of coherence rather than healthy competition? One reason is that a multiplication of donors (however healthy) can lead to recipient overstretch. This finding suggests that aid fragmentation is correlated with weakened governance in recipient countries (though we must remember that correlation is not causation!). Also, we need to remember that subsidised goods do not operate under regular market conditions.

The real issue of concern in the aid system hampering ‘healthy competition’ is the lack of information that recipient countries need to be able to make choices. This gets at the heart of the accountability of aid agencies. So far, aid agencies have not been very forthcoming in terms of providing thorough information about where their aid is going and how that aid has performed. But if the market for aid is to function more efficiently, better information is required.

One can compare aid to private sector flows (FDI), and look at three of the ‘positive’ effects of FDI: FDI can be *smart* because it promotes technological transfers; it can be *targeted* (for example, remittances are highly efficient because they reach the intended beneficiaries); and FDI can be *benevolent*, in the sense of providing benefits to the poorest.

Taking all of this into account, two scenarios for the future of aid can be outlined:

- A ‘Big Push’ scenario: all donors get together and create a common pool and if they don’t like what recipients are doing with the aid they pull out (this would be harmonisation taken to an extreme).
- A ‘Rise of Undergrowth’ scenario: aid agencies become dinosaurs and lose credibility and legitimacy; but many other alternatives become available (remittances, charity giving, FDI), and nobody misses the official aid industry.

Patrick Watt

Most of the argument is taken from the report *Real Aid: A Civil Society Perspective*. 2005 is such an important year for aid, at least rhetorically. But there are issues that have not changed with the 2005 agenda. Aid remains poorly targeted, for example; debt relief exaggerates levels of ODA; TA continues to grow and the tying of aid remains an unresolved issue after Paris; and coordination and predictability remain weak.

Why has progress been so slow in addressing the issues highlighted above? Bureaucratic inertia is part of the problem. The reform agenda has been disembodied and many key donors have not bought into it. In addition, institutions and incentives have been left unchanged, and downward accountability mechanisms remain absent, while upward accountability mechanisms are excessive.

There are four recommendations that can be highlighted to make aid more effective:

- establish recipient-country policies on the criteria to accept or reject aid (ranking donors in terms of the quality of their aid – for example, India);
- replace conditionality with mutual commitments;
- establish joint national and international fora to review progress in the aid relationship; and
- develop new mechanisms to make aid more predictable.

Aid increases will add pressure to produce better results, so there is a narrow window of opportunity for reform. The current asymmetries in the aid relationship are unsustainable and sit uncomfortably with the good governance agenda purportedly supported by donors. Accountability needs to be addressed at both the systemic and the country level. Finally, the reform effort has to be ‘re-embodied’.

Discussion

It is fine to give more aid and make donors more accountable, but how can donors ensure that governments are being held accountable for the money they receive?

Could aid agencies in fact be contributing to the creation of fragile states? We need to ask ourselves how it feels to be at the recipient-end of the aid relationship. The market analogy is dangerous because

the aid system is all about market failure. The importance of strengthening the capacity of recipient governments to manage donors needs to be stressed.

The aid system is not a system of competition among agencies to provide services but rather to reduce transaction costs. The structural characteristics of the aid system make it difficult to change.

The increased use of GBS may be good in certain countries. The issue is to identify which countries can make the best use of it.

There are three different typologies of mechanisms for reforming the aid system:

- market-based mechanisms (can recipient countries become empowered to make more informed choices and have the leverage to choose?);
- donor self-regulation (with the limitations these have exhibited thus far); and
- third-party regulation (ombudsman, etc).

In Uganda, there is a growing proliferation of funds to combat HIV/AIDS. While more money is undoubtedly becoming increasingly available at the macro level, at the local level the situation is very different. My brother-in-law who is in need of HIV/AIDS medication has not been able to get it, because aid is highly politicised once it gets to the local level and is not being distributed in the way it should. About the issue of competition in the aid system, how can recipient governments be made to take aid more seriously, especially in terms of living up to their good governance commitments?

While the aid architecture discussion has been more popular among academics until now, the changes envisioned by the 2005 agenda have made aid architecture issues much more relevant and practical. How can both donors and recipients be made 'smarter'? We need to better track and monitor the aid system. From the recipient perspective, there is a need for enhanced predictability and increased reliance on country systems. Recipients also need to become more discriminating clients, and they need to develop the capacity to better manage donors.

Aid architecture is an important matter for bilateral agencies, but a thorough discussion has only begun to emerge recently. On a different note, there are some positive examples of growing donor-recipient country cooperation to make aid more effective, in particular the Joint Assistance Strategies in Uganda and Tanzania. The Tanzania example in particular highlights the very strong leadership role that the Tanzanian government has played in managing the aid relations. A similar effort is under way in Zambia.

For France, debt-relief management beyond HIPC's is complicated and difficult to manage. However, one can look at the example of Mozambique in exerting leadership when dealing with donors: France had to put its debt-relief mechanism under a common donor basket after being pressured by the Mozambique government to do so.

The issue of governance and political will is a crucial one. There needs to be political will to fight corruption and the governance issue is crucial to understand why aid has failed to be effective until now: while levels of aid may continue to increase (as envisioned under the 2005 agenda), nothing will come from such increased assistance if recipient-country governments are not reformed. The answer is not to provide more aid but rather to ask how existing aid can be more effective so that it doesn't just evaporate through corruption. Therefore, aid should be scaled-up slowly.

One problem that recipient governments had was weak capacity – but how does one actually go about strengthening capacity? This is something the aid industry does not know how to do, though it does know how to weaken it. Debt relief can also be a problem, because it entails reducing transaction costs at the expense of essential accountability mechanisms. Transaction costs per se are not bad, and some transaction costs may be necessary for healthy competition.

One possible way to address corruption is through good public-finance management, and not necessarily by setting up the anti-corruption commissions that have sprung up everywhere. The issue of the transportability of models needs to be taken into account: just because the Westminster model has worked well in the UK does not mean it is bound to work just as well elsewhere. This may also apply to the Joint Assistance Strategy in Tanzania.

We need to be aware of the potential pitfalls of the MDG targets, as they may end up exposing poor countries to exceptionally high standards. We also need to focus on the primacy of the country level and of good governance. But may be there is very little that aid on its own can do about governance.

Aid agencies should provide audited accounts that are publicly available. The power of naming and shaming through the availability of information on aid performance is a very powerful tool to improve the way the aid system currently functions. That is what increased competition means.

Day 1, afternoon session

Country-level issues I: the track-record of budget reforms

Presentations

Andrew Lawson (Chair)

In the morning session, governance has been emerging as a key part of the problem. This afternoon's session takes the discussion to a more detailed look at experiences with budget reforms from different angles.

Bill Dorotinsky

The World Bank developed a special instrument to measure PFM systems, to indicate the relative need to upgrade them. This was developed within the context of the HIPC initiative to show how HIPC funds were being used. 15 indicators of the PFM system were developed. No systems needed no upgrading, so after 40 years of capacity building, what can we say about what is going on?

There are now data points over a period of time and we can see that there has been progress. Broad lessons have been learnt – a lot of work has been done on PFM and a lot more is known now than previously. But the lack of coordination and duplication of work is a heavy burden. For example, Niger had 10 assessments in one year. Overall there has been a greater focus by donors on diagnostics than on supporting the implementation of reform of country systems. This preoccupation has been to meet donor requirements. With the exception of the HIPC benchmarks, it is very difficult to track improvements. Diagnostics differ and there is no constant monitoring over time. This means it is very difficult to tell what is working in reforms and in capacity-building efforts, and what is not. The bottom line is that country systems remain weak.

Why hasn't there been more progress? Many donor practices have been unhelpful and there has been inadequate sequencing of reforms. For example, the Ukraine recently refused an MTEF as they were not ready for it yet. Georgia has requested that Programme Implementation Units are not used there – donors must use country systems. Africa is beginning to take ownership. There has been a fragmented approach to reforms with limited leadership in many governments. PRSP and PEM reforms are often kept separate. There has been limited monitoring of progress, due to capacity constraints. In essence, donors or consultants need a broad understanding of different systems in order to provide options to governments working on reform.

Another important issue is that of technical reform versus system and institutional change. Rwanda has decreased its budget gap. It now has regular financial reporting and uses this to manage public finances, but there is a need for realism regarding the achievable pace of change. In order to see progress there must be reasonable expectations.

The way forward is through a strengthened approach: the agenda needs to be country-led – this doesn't have to be very elaborate, it can simply highlight pressing problems. To support this, a donor-coordinated programme of support is needed. This is the most challenging area – there is no need for hundreds of different donor activities going on. A pool of shared information can support this. The new PEFA monitoring tool now has 28 indicators of country performance and three of donor performance. They recommend that monitoring is done every 3-5 years. In the WB we feel that countries should use the results themselves. This is a standard set of high-level indicators, not a diagnostic tool as it does not address why reforms are not working. Agreement on using this shared tool should enable credible monitoring of performance and programmes over time.

Phyllis Makau

What development needs to do is teach people how to grow bananas – sustainability of aid initiatives is a huge problem. Aid tends to ask people to buy bananas rather than grow them themselves.

The overall aim of PFM is that resources are allocated according to priorities, they are accounted for, and ultimately there is value for money. The essentials of budget reform are that there is country ownership and that the people are involved – there is a participatory approach. Governments are good at signing up to reforms in London or New York but real country ownership is the biggest problem

in Africa. Human-resource capacity is also a problem. Why have there been TA interventions for so long? There is a need to create internal capacity – often with TA, as soon as the consultants leave, the country is left back where it was in the first place, or even a step or two behind.

Incentives for effective budget reform need to be anchored in rules and regulations that remain the same even when the government changes. Too often there is constant change in the reforms when there is a new president. This is not good. South Africa's success can be attributed to the fact that there were clear rules in place for the reforms.

Regarding the sequencing of reforms, what works in one country may not work in another. Political involvement is crucial – without political engagement by senior politicians reforms will not work. Reforms are costly and often require additional resources – both human and financial. Development partners need to work with governments to build the necessary capacity for reforms. The rationale behind these reforms is to reduce the fiduciary risk in-country – it is not just about aid, it is about internal resources as well.

The Collaborative African Budget Reform Initiative (CABRI) seeks to bring together budget experts in Africa to share and learn about their successes and failures from each other. It began in December 2004 with an initial seminar in Pretoria. Many informal contacts are developed through the network too.

The key objectives of CABRI are: (a) ownership of the reforms through interactions with one another (also enabling budget officials to talk to donors with more knowledge and confidence); and (b) creation of capacity through country visits and opportunities to share and learn.

In any reform there are winners and losers. Losers immediately feel the impact and will have the greatest resistance to the reforms. On the other hand, it takes time to see the benefits so there are weaker voices supporting the potential benefits. But budget practitioners have to have evidence to demonstrate the potential benefits to those who will lose out.

The key lesson is the need to get politicians on board. This takes time – there is a need to provide examples of the potential benefits and illustrations of where such reforms have already been successful. One way of doing this is to bring in people of the same political level from other countries to explain it to them – presentations from people of their level from neighbouring countries can be very effective. Government needs to be regularly briefed. In Kenya a new classification system was recently introduced for the budget. They did not manage to brief the politicians in advance and they did not like the change. The benefits of the planned changes need to be demonstrated in advance with concrete examples. The highest people on the political side need to be reached for the reforms to be successful.

Tim Williamson

An evaluation framework for General Budget Support has been developed, and applied to a number of countries, including Uganda and Tanzania. The hypothesis was that if you provide funds through government systems these systems will be strengthened. GBS inputs are not just financial – TA, policy dialogue and capacity building are also included. Further hypotheses are that GBS will encourage and empower the government to improve the PFM system, as well as developing fiscal discipline, and improving allocative and operational efficiency. But it is difficult to discern the direct effects of GBS funds.

Aid flows to Tanzania and Uganda have been studied. Both countries have seen a similar shift from projects to programmes, but there is a difference in the level of aid dependency. In Uganda aid covers half of public expenditure with budget support about 15-30% of the budget, whereas in Tanzania budget support is about 20%.

GBS funds and PFM outcomes: GBS funds facilitated but did not create fiscal discipline. They provided space to clear arrears. It is long-term funding but with short-term volatility. GBS is in fact more volatile than projects.

An absolute increase and relative shift to GBS can directly improve allocative and operational

efficiency. But while PFM outcomes may improve due to GBS, the improvements are not automatic. A relative rise in GBS increases the potential impact of improvements in PFM systems on PFM outcomes because it increases the focus of institutions on the budget and there is more discrete funding.

In reforming PFM systems common and different areas of success were seen:

- both countries improved their macro-management;
- in Tanzania the accounting and legislative functions have been improved; and
- in Uganda budget formulation has improved.

Key factors behind such progress were that in Uganda there was strong leadership with the Ministry of Finance being supported by the President, while in Tanzania PFM was politically important. The role of GBS inputs was secondary in both cases – they had a supportive role, not a causative role.

In Uganda \$2.5 bn has been given as GBS over the past five years. This is a significant amount. Policy dialogue and conditionality has been more focused on government systems and capacity. There has been managerial pressure to keep up the pace of reform. Dialogue and conditions have not been particularly strategic and have often been hijacked by bigger issues. In addition there is a high turnover of donor staff which undermines the quality of the dialogue. Accountability can also be undermined as donors dominate the agenda. For example, in Uganda both Parliament and the donors rejected the budget but the press only covered the fact that the donors rejected it.

TA and capacity building have seen more focus on government systems and capacity. There are examples of the positive role that this has played – links to dialogue and conditions can improve effectiveness but this is not systematic.

Some of the implications of the study are:

- there is a need for a decisive shift to GBS;
- donors need to understand the political economy of reform better – they need to understand where there is political support for the reforms and where it is lacking;
- donors need to work on building mechanisms for political support where it doesn't exist – they can then use this to 'pick winners' in the dialogue (donors in Uganda often pick 'brick walls' for dialogue);
- there is a need to identify the effects of GBS funds; and
- there is a need to focus on supporting challenges to the budget where this is weak, without forgetting other aspects of the budget cycle.

Peter Brooke

Practitioners tend to know what is wrong, but the problem is how to change it. Technical change tends to be the least of the problems; the most difficult is the non-technical side – managing the process of change. Consultants can do something but its success is dependent on lots of other factors.

How can change be brought about? The idea is sequencing reforms through 'platforms'. All this means is that some things have to be done first. Issues to be looked at include constituencies and capacity. What constituencies for change do I have for this reform? And how much change can the organisation take?

Change needs to be broken down into manageable chunks. Part of the process is also about asking what things will look like when it is finished. Then this vision can be worked backwards. Each step adds value but builds on what went on before. Each step has something that support can be got for, and that brings about change in the PFM system. Each step is a stepping stone to the next.

Pillars of technical change are not enough. Every step needs to include: process development; capacity development; institutional development; and motivational development. Institutional development includes the relations between the Ministries and motivational development includes how people can be carried through the changes.

Examples of the application of this process include Russia and Cambodia.

Platform 1 could deal with initiating the production of data about objectives and results. There need

to be incentives in place to produce data. This is often seen as requiring a step back before going forward. Platform 2 can then deepen the basis for linking resources to performance. Often countries have already had different reforms in the past. For example, Cambodia has had lots of attempts at reform but MTEFs etc. are not sticking. In the Government no one takes the budget seriously. There is a need to build confidence in the budget. Key questions are: what can we achieve by when? And what are their concerns? For example, one concern is that Cambodia has just joined ASEAN and wishes to look good. They also want lots of GBS so want to make the donors happy. In Cambodia corruption is a serious problem, however the Government won't tackle this issue head on. Instead, they released the budget figures and streamlined the budget. They wouldn't have been comfortable discussing corruption directly.

Factors that assist in helping the process along include:

- government taking genuine ownership;
- government-donor dialogue at a strategic level (reforms can't be completely sequential – some things need to begin now to be ready for later stages);
- the main focus is on the next step – there is no need to blueprint the whole reform process in advance – every country is different;
- it is important that the achievement and impact of each Platform can be measured;
- if donors hand over to a Platform Approach they generally feel more reassured; and
- consultants producing a government strategy is not a good approach.

For Platform 3, things may take a long time, for example the introduction of an Integrated Financial Management Information System (IFMIS). But the Platform Approach avoids the danger of only focusing on this and nothing else – it helps you recognise what you are doing overall.

Donors and consultants can often become offended and want their work and pet project to be defined as Platform 1, but this approach tells you what you don't want to be doing at the beginning. For example accrual accounting is probably not a good idea in a developing country – as a matter of fact recipients are saying 'not now please' – and even the UK doesn't have such a system fully in place.

Discussion

A series of tools and ideas have been presented looking at practitioners' relations with (i) their political masters; and (ii) their donor 'masters'.

What are minimum standards that need to be in place for GBS? And how can diagnostics relate to this? Do the WB indicators show how good the budget is as a tool of policy implementation? Donors have learned about the importance of the PFM system but then seem to have gone overboard. The presentations seem to show that PFM is important but ... What are the benefits of PFM? More funds? Better policy impact? Aid seems to be like a 60-year-old car – we are fixing it too much – maybe we should just throw it out ... Corruption is also a problem. The Utstein Group just published a report on this. Budget support is awful where there is high-level corruption – it just gives more money to the wrong people.

PEFA assessments should be done every 3-5 years. Annually you wouldn't see much progress. Donors should spend time on building capacity rather than monitoring. They did not develop a rating system for PFM and they feel they have taken it as far as they can. It is extremely difficult to weigh the indicators for a rating system and very difficult to say what one simple rating really means. The HIPC indicators are a very simple approach. It would not be appropriate to use the indicators for minimum standards as they have not been designed for this. In specific country contexts there may be solutions that help capacity to be built, but structures such as 'you have to be a 4 or you don't get GBS' are not useful.

Anti-corruption is not in the PEFA indicators – the reason for this is it is very difficult to measure and is mainly done only through opinion surveys. PEFA instead creates pressures for the system to work well. Anti-corruption initiatives often simply seem to be 'PR' programmes with new institutions and civil society participation.

Minimum standards are very difficult to consider. The PEFA indicators are a useful tool, however. The danger with minimum standards is that governments will only focus on them rather than on the needs of their own country. The utility of the system is very important – this is not necessarily seen in the PEFA indicators. GBS put into a bad situation does carry the risk of making it worse – cases of where GBS programmes have gone too far in some countries have been witnessed.

Aid is fungible. GBS helps systems to be put in place. Project funds also effect corruption. In South Africa, if you are found to be corrupt and using government funds for your own means you are arrested and your property is taken away. In Kenya, you are arrested but your property remains your own – so when you come out of prison you can return to the life you had before. This sends the wrong message to those involved in corruption.

If the government is very corrupt you shouldn't provide any funds. Equally, funds should not be provided to NGOs either as they are also likely to be corrupt. The corruption issue is not a question of what type of aid. In Uganda, corruption has been found to be associated with the Global Fund. The political and technical environment for change is more important than just diagnostics and minimum standards.

The trajectory of change is more important than minimum standards. Is it possible to pull out of a country where PFM is okay but the direction of change is not good?

The Platform Approach is really obvious – but what are we trying to achieve? Value for money? Minimum standards? Reduced corruption?

Can we use the Platform Approach for development? Strategically sequence development states? An overall Platform Approach is needed for all reforms and state building.

Do PEFA indicators reflect recipient government concerns? Or is this not the aim of the PEFA? Reviews of PFM systems sometimes can be government-led initiatives, often driven by personalities. But there is still a need for independent review. How can donors ensure that reviews are really independent?

The EU and other donors have requirements for reporting on an annual basis – what can be done about this in light of Bill's comments on the need for monitoring only every 3-5 years?

PFM reforms only work with sequencing and with awareness of the political economy. Political support is vital. But an important question is: who are the actors? Who does the reforms? Who has the time to do the change management? External consultants like Peter? Phyllis and others seem better placed but are unlikely to have the time.

This is an issue of collective action. How can people take the time to understand the systems they are working with? Within donors there is increased pressure to deliver amounting aid – people's core business isn't changing. Their focus is on pushing money through the door.

PEFA indicators are not as good as good PFM analysis. Just because PEFA is aligned with the PAF doesn't mean that there is a good division of resources.

Regarding the Platform Approach and PEFA – they don't use the PEFA and there is then a danger of designing the reforms around it. After Platforms have been designed the PEFA is then used as a benchmark to monitor progress.

Regarding the question about who does this, it is based on light-touch work at a high level – basic sequencing etc. then stepping back. It is quite basic. It is more important that people have had experience of working in senior government than that they know the technical side of PFM. The aim is to get ministers in the room and engaged – there is no need for them to know the nuts and bolts.

Independent review is very important. What you need to avoid, though, is it turning out as just another diagnostic. There is a need to assess whether Platform 1 aims have been met or not – whether Platform 1 reforms are solid or not. Independent review can be very positive in moving the process forward. The definition of a Platform will change as well as you move forward. All countries have

different definitions and numbers of Platforms. For example, Vietnam has six but this is likely to break down as you go forward.

PEFA has avoided leading to action plans – the results are fed back to countries and donors and it is up to countries to develop their own plans. It is better to avoid an indicator-led plan of change.

On whether indicators reflect country concerns, at a seminar in Johannesburg in January, 20 African country representatives were asked what they wished to know and they agreed with the analysis. They wanted to know information in advance so they knew where their systems need fixing. Indicators aim to provide objective information – this is the aim of an independent-led assessment. All donors need to come together to agree donor principles. For the independent review they need to agree that this is their source of feedback. There is a need for a coordinated donor approach.

Regarding the EU need for annual reporting, they are trying to work through this – at the HQ level they have got them to agree that they don't need to focus on all indicators every year. Regarding change agents this is an important issue – where there are good change agents in the ministry they often get bombarded by donor visits. Where they are supported by the government there is more space for them to do the reforms.

PEFA can easily become a compliance issue, whereas this isn't the main point – it is about change. In Kenya there are 16 benchmarks but how do these change behaviour? Whether the budget reflects the PRSP priorities is the number-one benchmark in any country. Dreamers as change agents – need involvement all the way down. The move to a sustainable level of PFM system needs to occur all through the system. There is a need to simplify, to increase efficiency and to mobilise funds.

Day 2, morning session

Country-level issues II: contradictions in donor-recipient relationships

Presentations

David Booth (Chair)

The focus of this morning is aid and accountability. In this sense, debates about conditionality are central, and the debate is shifting. Ownership has assumed a central role, and donors have introduced different mechanisms to deal with these new issues. Opinions differ. NGOs push for different things, but largely for abandoning conditionality regimes. Academics interpreted the topic in different ways, including some of the panellists.

Stefan Koeberle

The World Bank faces various challenges, including in dealing with the IMF and the EC and their approaches to conditionality. Current debates around conditionality need to address a series of issues, such as those related to reconciling the tension between (a) country ownership and donors' need for fiduciary accountability; (b) predictability of resource flows and performance orientation; and (c) flexibility and results-focused, transparent implementation frameworks.

Conditionality plays an important role in the middle of these dichotomies. Conditionalities have shifted considerably. Over the past few years, the World Bank's approach has shifted from a focus on short-term adjustment to long-term measures, particularly related to improving public-sector governance (such as building PFM systems and Public-Sector Reform). Also, explicit conditionalities have been gradually substituted with more flexible benchmarks that do not determine disbursements and that are linked to governments' existing programmes of action.

Country ownership has been recognised by the Bank as an important principle, in policy and operations. Nevertheless, there is still a tension between 'country' and 'donor ownership'. Budget support and donor decentralisation have increased the scope for harmonisation, but put pressure on internal donor structures and processes. *Ex post* conditionality has allowed the Bank to be more responsive and flexible. However, ensuring that policy matrices linked to development-policy lending are kept short still constitutes an operational challenge.

The review of conditionality has led to the definition of five 'good practice principles':

- i. reinforce country ownership, assessing it through political economy analysis and looking for clear evidence of government support for policy change;
- ii. agree up-front on a coordinated framework to evaluate performance under the programme, promoting donor coordination and reducing transaction costs;
- iii. customise the accountability framework to country circumstances;
- iv. choose only critical actions for achieving results as conditions for disbursements, monitoring closely output and outcome indicators;
- v. agree on a transparent review cycle conducive to predictable and performance-based financial support.

Lise Rakner

The presentation is based on studies in Malawi, Uganda and Tanzania, on the budget process, the role of audit institutions in different countries and patterns of accountability in Tanzania.

Accountability is a complex term, whose definition is not easy. Accountability relations are key to effective PFM systems. Accountability requires (a) *transparency*, so that the actions of power-holders can be monitored by other institutions or the public; (b) *answerability* of power-holders, meaning the obligation to provide explanations for their behaviour; and (c) *control mechanisms* that prevent abuse of power and ensure that corrective measures are taken when and where necessary. Generally speaking, governance work has stopped at the level of transparency, and has not gone much further.

External accountability actors involve a number of different organisations, not only the donor category. The UN, NGOs and private firms/corporations also influence what goes on in a country.

Accountability mechanisms are based on international law, democratic principles and financial accountability in donor countries, and use mechanisms such as reporting, electoral monitoring, sanctions, conditionalities and shaming. But there is also growing support to domestic accountability agencies.

Evidence from Malawi, Uganda and Tanzania is useful in spelling out how such mechanisms have played out in different contexts. In the Malawi study on the budget process, there was a high division between the formal process and informal practices. PFM reforms were not implemented because they were felt as being imposed by donors. On-/off-budget support did not respond to local realities, but allowed for a fragmented and inefficient system to continue. Relations with donors were not based on partnerships.

In Uganda, PFM has advanced a lot because of the NRM's early focus on poverty reduction. Harmonisation and alignment have eased the capacity of domestic oversight. But as the political situation develops towards multi-party democracy, government commitment is coming under pressure.

In Tanzania, accountability institutions seem to be functioning, but mostly in a formalistic way. What's striking in Tanzania is the level of agreement between donors and the government, and the agreement on policy directions etc. Domestic politics still dominates, however.

We are left with some questions: does donor accountability undermine domestic accountability? In some cases, but not always. Malawi is a case in point, however. Furthermore, the primacy of domestic politics is an important factor, preserving domestic accountability. Donor support for PFM reforms is only effective when there is an internal support for reform. Political will needs to be there both at the top and in the bureaucracy, and needs to be sustained over time, otherwise donors have little power to influence 'backsliding'. Strict financial accountability is probably the best entry point. Finally, who holds donors accountable ('who guards the guardians')? In many cases, recipient countries get money even if they don't perform, which undermines aid effectiveness. Lack of institutional memory is part of the problem. But a reliance on 'donor gossip', rather than hard evidence, also compounds this. Sharing results of research is something that should be pushed for.

Graham Harrison

There are a few basic concepts that can help this analysis. Research on the World Bank and capacity building on Public-Sector Reform is the starting point. In some countries, while in the past the conditionality game led to lots of conflict, a different kind of politics of aid-giving has emerged, which can be called 'post-conditionality' regimes. Uganda, Tanzania and Mozambique belong to this category of 'governance states'. They can be distinguished because they have already gone through a series of structural-adjustment reforms, so much so that major macroeconomic principles have become generally accepted. Secondly, they have been growing more than the average, especially in SSA. Third, they receive lots of aid money. Lastly, very good relations have developed between donors and government officials, through a common worldview and a sense of shared interest.

Ownership is right at the heart of the politics of governance states. That's what makes aid work, because of reform-minded leadership and institutional strength. But there are four questions that need to be asked about ownership. First, the concept is still a constructed one. It is still underpinned by heavy dependence on external forces, promoting suasion rather than coercion, a more nuanced form of policy influence. Second, governance states are characterised by very similar policy documents and policy positions, despite their differences. In this sense, the international policy discourse is a very predominant one. Third, there is a clear difference between the formal policy world and real politics. Ownership, in this sense, is performative, theatrical, limited at the surface of policy discourse. Real politics, on the other hand, is based on logics of clientelism. Fourth, ownership needs to be disaggregated. Countries are not very useful units of analysis. Often, ownership is limited to a small group of technocrats.

Accountability is another difficult concept. PRSPs are often characterised by 'process conditionalities' linked to consultation processes with civil society. Often, such consultation processes are not really open to frank debate, since often they are limited to the PRSP framework. Many NGOs don't work according to a PRSP logic.

It is useful to look at this at a decentralised level. Recently in Tanzania there has been a real change in local government, which seems to reflect the existence of 'parcelised accountability' at the cross-roads between three parallel political processes. Local Government reform has provided equipment and resources to local administrations, which allow for a more rational approach to policy-making. In this sense, the governance agenda is working. Alongside this, district elections have become more important. Councillors are measured by how much money they are able to bring to their locality, and therefore pushing the Government to spend more, spend better. Finally, local clientelist networks are also part of local accountability mechanisms.

Florence Kuteesa

When you consider that about 50% of Uganda's budget is financed by aid, the process of defining the content of the budget is based on long negotiations with politicians, donors, and other players. Pressures come from many sides, sometimes in a complementary manner, sometimes not.

Where are the pressure points in budget-making? A budget is like a production line. First you need to define priorities and targets, then you allocate resources. If priorities are not clear, or if they are externally imposed (such as the MDGs), the process is already broken. When you are working on resource portfolios, donor assistance becomes key, but here donor priorities and modalities can create confusion. In order to have fiscal discipline, donor support needs to be brought on-budget and included in the MTEF. Finally, in order to achieve results, efficiency and effectiveness of public spending is key. The existence of parallel programmes and issues of efficiency are important in this respect. This area is one that is often missing from debates.

Conditionality in Uganda has been quite constructive, focusing on systems and gaps which are not being adequately addressed by Government. Often, without pressure from somewhere, systems would not improve. Conditionality should be seen as an agreed undertaking. The main problem comes when you try to have a comprehensive framework as more donors and sectors come on board.

Since 1986, Uganda has had a strong focus on eradication of poverty. Managing the pressures within the budget process has been based on a shared vision and commitment at all levels of leadership, from top politicians to bureaucrats, to parliamentarians. That in turn is based on a conducive environment, which can be promoted through training, awareness-raising, generating better understanding. The existence of predictable rules, such as 'partnership principles' for donor engagement, has been crucial for developing a trusting relationship and dealing with emerging issues. There have been lots of cases where donors shifted their position on funding modalities, and it took quite a bit of negotiating within Government in order to address the issue and enforce agreed rules.

Management of pressures also depends on technical capacity, not only within government but also outside it. For example, civil society engagement in the budget process has come a long way in Uganda, where CSOs nowadays are organised and follow the budget cycle.

There are also a number of contradictions emerging around the budget process: first, the macroeconomic management of increased donor funds; and second, the number of fragmented donor initiatives which can undermine ownership and effectiveness, as in the case of HIV/AIDS. GBS linked to priority areas can undermine budget flexibility and rationalisation, as ring-fencing certain sectors can create perverse incentives for budget integrity and comprehensiveness. Increasing budget inflexibility, generated also by statutory expenditures and interest payments, clashes with some global priorities and funding mechanisms. For example, past focus on primary expenditure can create bottlenecks once pupils reach secondary education age. At the end of the day, it all needs to boil down to being able to answer the question asked by your HIV-positive relative who lives in a rural area about the lack of drugs.

Discussion

What about the definition of ownership by the World Bank? If there is no premium on performance in recipient countries, can we say that there is real ownership of the poverty-reduction objective in donor countries?

Can we really say that everything has changed with regard to WB conditionality? In some cases, the total number of conditions and benchmarks is still elevated (230 in the PRSC for Honduras).

Can conditionality be used for the promotion of MDG-based development strategies?

Has conditionality really shifted to ex post models, given that many loans are still rolling programmes? At the same time, how can PRSCs be considered as adequate for addressing predictability, given that they are one-year programmes?

Ownership does not only mean consensus to reform. Also, we should not fall into the trap of considering that ownership lies only within government. The number of conditions can still be large, in fact, but in some cases that reflects dialogue with government, and the need to cover sector details which constitute a series of steps towards a specific goal. MDGs are fine as overarching objectives, what is more difficult is prioritisation and bridging short-term and medium-term measures. *Ex post* conditionality tries to steer away from a blueprint approach, to a more genuine assessment of progress that has been made.

Accountability is a useful concept which could lose meaning if not coupled with ‘for what’ and ‘to whom’. MDG-based strategies can be quite dangerous for national planning systems. In many cases, it all boils down to setting clear criteria and rules of engagement for donors.

Are there specific examples of external actors ‘crowding-in’ domestic accountability?

Prevalence of domestic politics shapes the usefulness of conditionalities. If domestic politics is pro-reform, there is no need for conditionality. If it is not, even if conditions are imposed, they will not work. Does that bring about a ‘theatre of policy dialogue’, where donors and elites talk to each other but skirt around the real domestic accountability mechanisms, where actual political decisions are taken? And if so, how can different rules of engagement be designed, that trigger virtuous cycles of interaction between external and domestic accountability systems?

Does ‘parcelised accountability’ exist at the national level, too? If so, which part of the ‘parcelised accountability’ system should donors engage with?

There are often tensions among donors on how to structure conditionality content and design. Bilaterals sometimes find themselves at odds with the World Bank, but without the means to properly influence it.

How does the differentiation among recipient countries feed into World Bank policy? Many countries believe that budget support should be about financing development activities in a system which can already guarantee minimum standards, and not on improving systems. This is where graduated response comes in. What does the Bank think about this? How does it engage with other donors?

Unpacking the concept of accountability has to rely also on the recognition that entry points for strengthening domestic accountability will vary from country to country.

In environments where domestic accountability systems are weak, in order to ‘tie politicians to the pole’, conditionality can be an effective tool if used properly. Unfortunately, it is often not. Expectations of domestic accountability institutions also need to be realistic. For example, in low-capacity environments, it probably doesn’t make much sense to ask audit institutions to carry out value-for-money audits.

The World Bank has gradually lost capacity to take a long-term perspective and engage with political and historical analyses. It also tends to focus prospectively on planning development interventions, often with a blueprint approach. History, on the other hand, points to a set of successful unorthodox development policies.

An important part of ownership is about being able to ‘say no’. From the donor side, this means recognising what is acceptable and what is not, without imposing measures which are likely to create resistance. It is also important to define accountability within a PFM perspective, in order to better engage with the different stakeholders.

Day 2, afternoon session

Enhancing domestic accountability: the role of parliaments, oversight bodies and civil society

Presentations

Tony Worthington (Chair)

The UK Parliament puts a lot of effort into accountability, but it is far from perfect. There is a lot of room for improvement, both in the North and the South. It is challenging for parliamentarians to engage with macro-economic issues; and to link that with the parliamentarian's key concern, i.e. their constituencies.

Andrew Lawson

The recent study on patterns of accountability in Tanzania sought to map actors around accountability and to do so both from a top-down and from a bottom-up perspective. There were some surprising findings: accountability does have an impact and more so than expected; but the way in which it works is complex. A rich analysis was conducted, looking both at institutional issues, as well as at the local level (ethnographic part of the study).

The main challenge was how to get from this rich analysis to policy recommendations. Firstly, there needs to be action both on the technocratic and on the democratic aspects of accountability. Technocratic is about getting the data, and aggregating and compiling it in a timely fashion. Democratic is about making budget data publicly available, creating more space for parliament to be involved in budgeting, etc.

Looking at a map of accountability relations (see presentation at www.odi.org.uk/PPPG/cape/events/2005_workshop/2005_workshop.html), horizontal accountability within the governmental realm was relatively well established. However, within this, the executive is dominant (relative to the legislature), and there was very little accountability to NGOs/civil society; civil society had little impact on policy-making.

Accountability through the electoral channel was very strong, MPs were very concerned about their constituencies; however, since Tanzania is a country with one-party dominance, MPs are also very beholden to the party structures (CCM) since they dominate who gets re-nominated as a candidate. The concern about local constituencies did trigger specific policy changes such as the abolition of local-level taxation.

Some of the key findings can be summarised as follows:

- not enough voices in the electoral channel due to the one-party system;
- the President is too strong;
- information published by Government is not user-friendly; and
- Parliament is not sufficiently powerful.

And some of the recommendations are:

- allow independent candidates to stand;
- allow more space for opposition parties;
- reduce the powers of appointment by the President;
- develop more user-friendly information (communication strategists to work on the presentation of budget information); and
- clarify responsibilities in following up on PAC recommendations.

Rasheed Draman

The findings presented are based on a meeting organised by the Institute for Policy Alternatives, bringing together parliamentarians and representatives of civil society from Benin, Kenya, Ghana, Niger, Senegal and Tanzania. How do national budgets reflect PRSPs, and what is the role of parliaments? A basic reality check recognises that there are huge weaknesses within parliaments in

relation to technical understanding; plus parliaments are sometimes given just one week to analyse and approve budgets (Tanzania, Niger, Ghana).

Linkages between civil society and parliaments in many countries are marked by mutual suspicion of uselessness and corruption, but where civil society and parliaments work together, there can be good results.

Multi-donor budget support: most donors have lost their traditional accountability mechanisms; but parliaments – and hence, domestic accountability – are still weak.

There are also improvements: in several countries a significant number of parliamentarians have lost their seats for not representing the poor (Ghana, Kenya).

Predrag Boskovic

Large amounts of foreign aid have flown to the Western Balkans over the past several years; comparatively more than the Marshall aid flows to Western Europe post-WW II, but with much less to show for it. There was a need to re-establish a control system.

Both the WB and GTZ offered projects to establish an SAI in Montenegro and the Government decided to go for the GTZ project. The actual execution of the project was done with the committee for budget and finance of the Montenegrin Parliament; they drafted a bill for establishing an SAI which was then also discussed publicly.

A dilemma: on the one hand the IMF was telling us to keep our administration small and wage bill down, on the other hand we were asked to establish many new agencies; the SAI as well as an anti-money-laundering agency, anti-corruption agency, telecoms regulation, etc.

The main lesson is that things can get improved even in a country with limited administrative capacity. The implementation of the bill still lies ahead, however – this October, the first report of the SAI will be presented to Parliament.

Overall, financial accountability has improved over the past 5-6 years, due to the SAI in combination with many other elements of reform around the budget.

Warren Krafchik

Civil society had traditionally been excluded from budgeting issues, but now this is changing. There are several important actors involved in the budget process: parliaments, media, civil society, judiciary, SAIs. With regard to legislatures and SAIs there have been sparks of progress. But some of the most exciting progress is on civil society gaining the capacity to influence budgeting. In the late 1980s, there were virtually no CSOs involved in budgeting. In 1997, IBP organised the first international conference on civil society and budgeting, with 50 people attending. In 2003, at the 4th international conference, 140 participants attended.

Currently there are over 100 CSOs engaged in budgeting work in over 40 countries. The movement originated in MICs and has moved to LICs. The first CSOs involved in budgeting were set up in large, decentralised MICs such as Brazil and India. In the 1990s, groups started in LICs around the issue of debt, PRSPs, human rights, and the allocation of debt relief. There is a broad range of organisations which are involved. It started with think tanks but has moved to more grass-roots organisations which have also brought in new methodologies (score-cards, etc.), and developed in different political systems, including authoritarian/semi-authoritarian (Indonesia, Azerbaijan).

CSOs can build commitment for trade-offs in budgeting and can tighten accountability. They can help in the governmental/legislative decision-making process by providing additional information which government would not collect. They can highlight good practices in parts of the country, and provide training for parliamentarians.

CSOs have also been involved in tracking funds (for example, Uganda and Zambia) from national governments to individual schools and hospitals not only via score-cards but also through monitoring

actual flows. CSOs can also help to build accountability by developing linkages with SAIs, by following up on the recommendations of SAIs to departments. Building budget literacy is the key to accountability.

Some brief examples of success stories include:

- In Mexico, under the Fox Government, maternal mortality rates were very high in rural areas. An NGO, FUNDAR, was commissioned to look at this. There were repeated rounds of monitoring and discussion, eventually resulting in a massive increase in budget allocation for this purpose.
- In rural India, peasants and workers unions recorded complaints by workers about not being paid for public works programmes. An organisation called MKSS went through the budget of these programmes at village hearings (line item by line item), and pressed for the workers to be compensated. This resulted in a much wider right-to-information movement.

What are the main challenges for budget groups?

- need for more and more reliable information;
- lack of information in particular on budget execution; and
- developing the mix of skills: budget analysis and advocacy (the latter may be even more challenging than the former).

What types of donor support would help to build more civil-society capacity in this area? Currently, there are 2-3 private donors and a few bilaterals active in this field. CSOs need multi-year funding to improve their skills over time, or some sort of 'GBS for NGOs'. CSOs need to develop into critical allies of government; and such relationships have to be developed over time.

Discussion

What about the linkages between CSOs and parliaments – in some cases they seem to be conflicting, in others more positive? How important are personal contacts in advancing reform agendas?

Personal contacts and contacts with the ruling party can be particularly important to get things going; once a new institution is established, it also gains its own momentum. Donors should not give money if a government is really on the wrong track; and audits undertaken by donors themselves are not good, and not very effective, as corruption has become more sophisticated (invoices and other documents are readily produced).

Civil society groups in Tanzania do not play a very important role for people to get their rights; people turn directly to MPs or local government officials according to research in Tanzania. However, the linkages between CSOs, parliaments and SAIs are definitely worth exploring further. The influence of donors is also remarkably limited; there are several studies on this showing that external agencies matter more on the margins; donors should not think that where there are governance problems they can fix them. In Malawi, donors have tried to stop funding several times, but this has only led to a build-up of domestic debt, and after 18 to 24 months, donors came back in.

In some countries, civil society and parliament networks were very fruitful; in Tanzania, the role is limited due to mutual suspicion. The State University of New York (SUNY) is currently running a programme which is aimed at bringing civil society and Parliament in Tanzania closer together.

There are many different countries where the monitoring of budgets by CSOs is established, albeit to different degrees. In Uganda, there are small groups of very active people doing impressive work in a number of regions. There are also thresholds; and CSOs in various countries find small steps into this work.

We talked a lot about the relatively more successful and better known cases (Tanzania, Uganda, Malawi) – what about Chad and similar countries? You describe success cases, but there are many countries also in Latin America, where things have not improved.

Some of the most difficult countries for civil society work are those in Central Asia. In the poor Latin American countries there has been some progress, for example in Nicaragua and in Guatemala, where some monitoring work has been developed. Developing budget literacy is the starting point

(i.e. understanding where and how the budget is being spent). Then, over time, you build up some capacity. In Mongolia, for example, while work at the national level continues to be difficult due to a lack of transparency, at the very local level there are some groups which are becoming active more successfully. There has also been progress in China: for the first time, think tanks with some links to Government are working on budgeting issues; they also interact with the Audit Office which was set up some years ago.

Canada has decided to reward countries with better performance on governance. It's a big challenge for development: countries like Chad and Sierra Leone desperately need help; but we have only limited resources to allocate, and it makes sense to allocate them where they will be better used.

Domestic accountability is about integrity; the time given to parliaments to review budgets is often very short; and the government can threaten MPs: if they don't pass the budget, they will not get their salaries in the next month. Also, it is important to think about the legal framework in the country: what happens when people are caught for stealing – do they go to prison and for how long; do they get to keep their property or not? What about different types of budgeting – are results-oriented budgets easier for accountability?

In Chad, civil society has replaced Government as the main service provider in many areas (schools, hospitals); channelling aid through CSOs which are providing services can be a good way of escaping the problem of corruption.

On Central Asia, donors are too complacent about countries which blatantly abuse human rights; in such a situation it is no wonder that CSOs don't dare to get involved in budget monitoring. Changes in the format are sometimes very welcome. In Tanzania, as part of the MTEF, output targets and summary presentations of performance were introduced; this was an improved basis for judging proposals for the following year. But performance-based budgets in the technocratic sense are often not the solution. A simpler way of giving broad performance description is better. However, there are not many good examples of this.

What about different aid modalities and domestic accountability, particularly SWAPs?

As long as SWAPs remain off-budget, they are also limited with regard to domestic accountability. In Uganda, for example, they were moved on-budget, so that the sectors would receive all their funding through the budget, and this became a positive process in the end.

In many African countries, you can talk about things much more openly than you could 10 years ago. In Kenya, a Government was voted out on corruption charges – this does give some incentive for the current Government to do better. Also, in Ghana the Government was voted out of power.

Appendix 3: list of participants

Patrick Watt	Action Aid	David Booth	ODI
Peter Boulding	Bannock Consulting	Karin Christiansen	ODI
Peter Brooke	Bannock Consulting	Verena Fritz	ODI
Geert Jennes	Belgium	Alan Hudson	ODI
Phyllis Makau	CABRI Kenya	Andrew Lawson	ODI
Henry Northover	CAFOD	Stephanie Levy	ODI
Lise Rakner	Christen Michelsen Institute	Simon Maxwell	ODI
Olivia McDonald	Christian Aid	Paolo de Renzio	ODI
Ole Winckler Andersen	Denmark	Alina Rocha Menocal	ODI
Caroline Rickatson	DfID	Andrew Rogerson	ODI
Julie Lynn	DfID	Debbie Warrenner	ODI
Frances Heeks	DfID	Tim Williamson	ODI
Anna Walters	DfID	Richard Carey	OECD
Tessa MacArthur	DfID	Robert Lloyd	One World Trust
Marc Raffinot	DIAL, Paris	Aarti Shah	OPM
Helen Tilley	Enterplan	Arabella Fraser	Oxfam
Geske Dijkstra	Erasmus University	Rasheed Draman	Parliamentary Centre
Predrag Boskovic	Foreign Affairs Vice-Minister, Montenegro	Ed Hedger	PKF
Sven Grimm	German Development Institute	Richard Williams	PKF
Stefan Leiderer	German Development Institute	Stuart Tibbs	PWC
Bianca Breteche	GTZ	Sheetal Vyas	PWC
Annette Kougebe	GTZ	Florence Kuteesa	PWC Kenya
Matthias Witt	GTZ	Göran Andersson	Sweden
Ana Vodopyanov	Hewlett Foundation	Sven Olander	Sweden
Robert Pollock	HM Treasury	Anna Hakobyan	Transparency International
Tony Worthington	Independent Consultant, former MP	Antoine Heuty	UNDP
Simon De-Lay	IDD Birmingham	Graham Harrison	University of Sheffield
Heidy Rombouts	IDPM Antwerp	Bill Dorotinsky	World Bank
Jean Luc Helis	IMF	Stefan Koeberle	World Bank
Warren Krafchik	International Budget Project	Vera Wilhelm	World Bank
Tim Harford	International Finance Corporation		
Fisseha Alazar	Irish Aid		
Justina Stroh	Irish Aid		
Bridget Walker Muiambo	Irish Aid		
Mitsuaki Furukawa	JICA		
Jiro Otsuka	JICA		
Toshifumi Serizawa	JICA		
Atsushi Tokura	JICA		
Yumiko Yamakawa	JICA		
Joachim Wehner	London School of Economics		
Ann Bartholomew	Mokoro		
Paul Zwetsloot	Netherlands		
Berit Fladby	Norway		
Svein Dale	Norway		
Ingrid Rasmussen	Norway		