Overview of the debate

The last five years have witnessed:

- Disappointing experiences with both aid conditionality and with ‘projects’, which in many cases had been uncoordinated, commanded limited ownership by governments, and had not generated sustained impact;
- A wide commitment by donors to the Millennium Development Goals (MDGs) for poverty reduction, to be met by 2015, broad agreement on the OECD Development Assistance Committee’s principles to guide action towards meeting the MDGs, and an increased demand for accountability and for monitoring instruments to measure progress;
- Wide support for Poverty Reduction Strategy Processes (PRSP) and for Sector Wide Approaches (SWAPs), as a basis for donors to contribute coherently to budgets and processes designed by governments.

Key issues in decision making

Enthusiasm for a ‘programme’ approach to aid delivery, whether at sectoral or ‘general budget support’ (GBS) levels, has obscured the wide array of aid modalities that can be drawn upon to achieve balance in aid programmes. These range from projects using parallel systems at the ‘lower’ extreme, via sector support (whether off-budget via so-called ‘baskets’ or via budgetary support), to GBS at the ‘higher’ end. The table below summarizes the main features of these and other modalities.

Characteristics of main aid forms

<table>
<thead>
<tr>
<th>Modality</th>
<th>Conditionality</th>
<th>Earmarking</th>
<th>Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance of payments support</td>
<td>Macro</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Aid-financed debt relief</td>
<td>Macro and budget</td>
<td>Usually none</td>
<td>Government systems</td>
</tr>
<tr>
<td>General budgetary support</td>
<td>Macro and budget</td>
<td>None or nominal</td>
<td>Government systems</td>
</tr>
<tr>
<td>Sector budget support</td>
<td>Sectoral</td>
<td>On-budget to sector</td>
<td>Government systems</td>
</tr>
<tr>
<td>Sector earmarked</td>
<td>Sectoral</td>
<td>Off-budget within sector - usually basket funding</td>
<td>Blend of government and donor systems</td>
</tr>
<tr>
<td>Projects using govt systems</td>
<td>(Sector and) project</td>
<td>Project</td>
<td>Blend of government and donor systems</td>
</tr>
<tr>
<td>Projects using parallel systems</td>
<td>Limited: low government ownership</td>
<td>Total</td>
<td>Donor</td>
</tr>
</tbody>
</table>

Adapted from Foster and Leavy (2001)

GBS relies on governments’ own allocation, procurement and accounting systems, but recognizes that there may be a need to strengthen these. GBS, it is argued, lowers transaction costs, improves donor coordination and the predictability of aid flows, enhances the allocative efficiency of public policies, and enhances public sector performance and accountability (Ruffer and Lawson, 2002). GBS generally contains few elements of conditionality, and rarely earmarks donor contributions. Before GBS is provided, donors and governments must have agreed on rights and responsibilities in relation to the objectives of development cooperation.

The logic of GBS is incontrovertible: it seeks to support governments to respond to the needs of their citizens through public investments, by providing services, and by facilitating and regulating the private sector in ways that address poverty, the priorities and modalities ideally being identified through PRS processes. In these ways, governments’ ownership of development processes and accountability for delivering agreed products would be greatly enhanced. However, few governments are ready for the responsibilities which GBS imposes. So, although donors may wish to use the ‘highest’ modality that circumstances allow, there will often be a need to ‘blend’ modalities on a country-by-country basis. This key sheet asks what needs to be in place – both in-country and among donors themselves – for different aid modalities to succeed, and how the appropriate level or blend of modalities can be arrived at.

To decide on appropriate modalities requires consideration of:

- The degree of ownership and commitment by government and by civil society groups to the PRS, and the degree in which sub-national levels of government have been involved in PRS planning processes.
- Whether the PRS is realistic and consistent with sustainable poverty reduction and with the MDG targets.
- The types of role which the state perceives for itself. The prospects for GBS may not be favourable unless government minimizes its involvement in activities in which the private sector might normally be expected to engage, taking on instead an effective role as regulator and facilitator of the private sector, and as provider of public goods.
Choice of Aid Modalities continued

- The risk of any move towards GBS. Assessments of policy, developmental and (especially) fiduciary risk will identify a range of factors: corruption, government legitimacy and stability, the adequacy of budgeting and financial mechanisms, the likelihood of satisfactory development outcomes, and so on.
- The prospects for donor harmonization, including their willingness to contribute to GBS, and the readiness of governments and donors to contribute to the stability of funding, via e.g., medium-term expenditure frameworks.
- How progress in reaching development objectives as set out in the PRSP can be monitored and whether/how donors can provide selected support without exerting undue policy influence.

Where GBS is introduced, its precise format may be determined by specific requirements, considering the fact that government will not always be the most efficient channel for triggering change. For instance:

- **Strengthening implementation capacity**, perhaps especially where there are high rates of attrition due to, e.g., emigration or HIV/AIDS, or where responsibilities are newly decentralised. This may be undertaken by governments from GBS allocations without donor conditionality. In other cases, it may be necessary for donors to ‘tie’ certain allocations to specific types of capacity building.
- **Pilot-testing** new implementation arrangements – e.g., for planning and service delivery – poses similar questions: if government cannot relax its norms and guidelines in order to experiment, should donor or NGO pilot projects be undertaken as part of aid allocations? If NGOs are requested to do this, can they be relied upon to do so under conditions which governments can replicate on a wide scale?
- **Empowerment** of civil society organizations. If citizenship and ‘voice’ are weak, can the channelling of funds through government be relied upon to strengthen it? If alternative mechanisms – using NGOs, for instance – are necessary, how can direct funding by donors be arranged without alienating government?
- **Decentralization** Can central government be relied upon to allocate GBS fairly to local government? Can donors work directly with local government without alienating central government?
- **Monitoring** How can monitoring arrangements be set up, not only for purposes of control, but especially in order to generate learning, both at country and at donor level?

GBS also raises a number of wider questions that need to be taken into account, including:

- **Sustainability** Where, as in extreme cases, aid accounts for 50% of a country’s development budget, is GBS more likely than other mechanisms to exacerbate aid dependency? GBS can be used more easily to finance recurrent cost. Is the issue of long-term sustainability adequately addressed in the dialogue on GBS?
- **Knowledge** Donors used to have detailed knowledge of micro-macro relations by being physically present in sector (SWAP) work and practical projects. As this experience is gradually lost with the shift to GBS modes, how can donors regain their knowledge of what is happening in the field?
- **Fungibility** Where the contribution of a single donor is small, any aid modality it specifies is hardly relevant (except to the donor’s ‘home’ constituency), since the recipient can switch among other donor funds (and its own budget) to meet its requirements. Can the aid modalities question be approached comprehensively, not only at the policy level – i.e., the PRS framework – but also in the area of budgeting and implementation, by medium-term expenditure frameworks, public expenditure reviews, etc.?

Overall, whilst the logic of GBS is persuasive, flexible arrangements will be needed in many countries which allow ‘project’-type or sectoral activities to be pursued either within or outside GBS. They can usefully be organized so that, over time, such ‘blends’ of activities evolve towards GBS. An evolutionary approach allows time for donors and other stakeholders to upgrade the type of modalities they can offer. For as long as ‘blends’ are appropriate, each stakeholder can offer its piece of the ‘cake’ in the way it prefers or is best at doing. This option is particularly useful in order to engage NGOs (especially ‘advocacy’ types) and the private sector in the planning process in places where governments are unwilling or unable (lacking capacity, organization, or methodology) to organize civil society participation effectively.

**Key literature**


Key Sheets are available on the Internet at www.keysheets.org

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