

# **PRACTITIONERS FORUM ON BUDGET SUPPORT** **MAY 5-6, 2005, CAPE TOWN, SOUTH AFRICA**

## **DISCUSSION POINTS BY LOUIS A. KASEKENDE DEPUTY GOVERNOR, BANK OF UGANDA ON BUDGET SUPPORT: CONCEPT AND ISSUES, AND JOINT MULTI-DONOR EVALUATION OF THE GENERAL BUDGET SUPPORT PAPERS.**

The experience of the past two decades of development financing has given us some key lessons that are covered in a paper by Stefan. These include:

- 1) Political commitment is stronger if the recipient countries define own strategies for reducing poverty and achieving the Millennium Development Goals (MDG's). This had laid the ground work for the introduction of PRSP's
- 2) Consultation needs to be strengthened and broadened right from inception to implementation. Stakeholders here include the private sector, parliaments and broader civil society
- 3) Widen accountability beyond foreign donors to include the domestic political institutions
- 4) The choice of instruments and appropriate mix of aid depends on a partner country needs and priorities, consensus on policies and capacity for implementation and specific donor objectives and constraints.
- 5) Lack of donor co-ordination and harmonization imposed a huge administrative burden on government, produced overlapping projects and achieved little sustainable development on the ground.
- 6) Reliance on country systems

## Results

- (1) Increased concentration of operations in a good policy environment – Country Policy and Institutional Assessment (CPIA) is used in IDA allocation; -US government used a performance based allocation for the Millennium Challenge Account (MCA); -most of the World Bank policy based operations have been largely directed to above average performers
- (2) The average number of conditions has been decreasing
- (3) For countries that have graduated from the first generation reforms, conditionality has shifted from short-term economic distortions to medium term institutional agenda.

On the second paper, I agree with the emerging consensus. Budget support provides a more effective approach to development assistance for countries that have a good track record and, a reasonably sound and institutional framework, including transparent budget and adequate financial management arrangement.

## ISSUES

- (i) Appropriate mix of instrument. I agree that we can maintain sector dialogue with budget support modalities BUT strengthened intra-government accountability is at times overplayed. Line ministries do not want to surrender to the Ministry of Finance the role of jointly determining priorities and budget allocations. This tends to violate the discipline imposed by budget support and increasing the tendency to accept assistance provided outside budget framework. Why do we

- (v) Macroeconomic implications
- Reduced flexibility in the budget in an environment of few instruments for macro-economic management
  - Impact of fiscal adjustment if the budget support is discontinued or interrupted
  - Competitiveness/Dutch Disease. The IMF/WB/Bilateral donors need to address the issue of orderly absorption.
- (vi) Predictability of aid disbursement
- This is expected to lead to more predictable resources
  - Agree that a stable macroeconomic environment provides a solid platform for growth even for post conflict economies
  - Budget support in an environment of limited flexibility in the budget
  - Identifying triggers for withdrawal
  - Protecting intra-year expenditures since budget support finances recurrent budget expenditures.
  - In the event of a withdrawal, it could force the country to resort to more expensive domestic borrowing.
  - The role of the Fund in providing signals to donors. We need to agree on what should drive donor decision-should it be change in policy or outcomes. There is need to de-link decisions to provide budget support from performance under IMF programs.
  - Individual donors reserve the right to delay disbursements based on partner countries performance on certain critical issues especially on Governance. Examples include corruption in Kenya, political transition in Uganda, macroeconomic management in Eritrea.
  - Need for better management to protect intra-year disbursements



bank programs. (There is a possible tension between CAS and donor sub-groups and lead role assigned to donors).

- Joint assessment of policies, priorities, program performance and fiduciary issues
- Consideration of the WB participating in a pooled arrangement with other donors, while identifying the role of the board and IDA deputies.

#### (xi) Country Systems

Agree that

- The use of country systems reduces the transaction costs;
- There is need to develop country systems and institutions to the point where they can be relied upon to meet agreed objectives
- A unified fiduciary and environmental safeguards arrangements are necessary.

There are however, some frustrations as noted by the author on page 22 and these include

- Costs could be higher due to start-up and co-ordination requirements
- Donor representatives raise the issue of minimum standards and the risks of diluting safeguards.

#### (x) Conditionality

- Greater harmonization of conditionality
- Reduced number conditions on operations
- Strengthened co-operation between WB and donors on one hand, and WB and the IMF on the other
- Shift to result oriented conditionalities