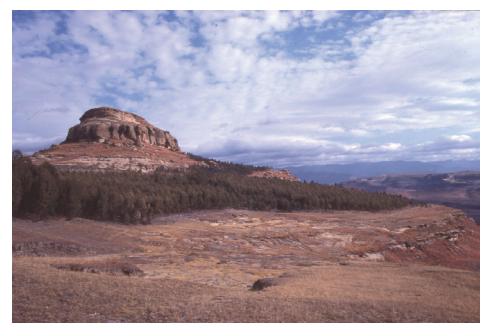


Changing aid delivery and the environment

Can General Budget Support be used to meet environmental objectives?

This paper examines how environmental objectives are pursued by donors in a context where aid delivery mechanisms are changing. Aid delivery has been transformed in recent years, with a progressive shift from project support to more upstream mechanisms – the so-called ‘programmatic’ approaches. At the same time there has been a relative decline in donor spending on the environment, and a reduction in the use of environmental advisers in country. The continuing lack of enthusiasm to address environmental issues in many countries is illustrated by the limited treatment of the environment in most Poverty Reduction Strategies (PRSs). As the PRS is an important process through which donors engage with aid-receiving countries, this leaves the development community poorly placed to deal with such concerns, at a time when climate change demands increasing attention to these issues. Natural environments, such as tropical forests, as well as ecosystems services, such as freshwater supply, are in global decline. The rural poor are amongst the worst affected by these changes. The question now being asked is therefore: how can donor support be best delivered to meet environmental objectives?

The environment is a complex policy domain. The state has a significant role to play in environmental management, on account of the externalities, market failures and complex transboundary and trans-generational issues associated with the environment. Yet, this role is often less clear than in other areas of government intervention. Unlike health and education, the position of the state can be ill-defined – and contested – when it comes to issues such as accessing, and benefiting from, environmental goods and services. This lack of consensus on



When can General Budget Support promote environmental objectives?

public sector intervention is particularly significant with regard to the environmental aspects of natural resource management.

Two issues concerning environmental management warrant particular attention in many aid receiving countries:

- The institutional set-up of the environment sector is often weak. The post-Rio period saw the creation of new ministries and/or departments of the environment to act as the focal point for government action. However, many of these agencies have remained chronically under-resourced. As a result, they have found it difficult to play the inter-sectoral coordination role required to address cross-cutting environmental issues.
- The technical and analytical capacity and tools for addressing environmental opportunities and challenges (e.g. strategic environmental assessment) remain at an early stage of development. They appear to be given lower priority than traditional economic planning tools (e.g. cost-benefit analysis) when it comes to making developmental decisions.

Key points

- General Budget Support (GBS) heightens dependence on domestic commitment to achieve better environmental outcomes.
- Other aid instruments, such as targeted technical assistance, can complement GBS.
- New analytical tools should be promoted if GBS is to provide additional opportunities to assist national environmental programmes.

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Changing aid instruments

Donor support to the environment is determined by the bigger picture of aid policies and aid delivery mechanisms. General Budget Support (GBS) has become an increasingly important aid instrument. Its main features include:

- a partnership-based provision of untied budgetary resources;
- a focus on nationwide policy processes (e.g. PRSs);
- a prominence given to institutional development objectives; and
- using predictable, transparent methods for external finance, working through government systems.

There is significant regional variation in the use of GBS. For example, the UK Department for International Development (DFID) spend on Poverty Reduction Budget Support varied between 27% (Malawi) and 81% (Rwanda) of total bilateral spend in 2004/05 for the nine sub-Saharan African countries where this type of aid instrument was used (Table 1).

There are strong arguments in favour of a move to GBS, including the need to improve the effectiveness of aid. The aid effectiveness agenda, laid out in the 2005 Paris Declaration,¹ suggests guiding principles for more effective aid delivery: country ownership, donor harmonisation, alignment with national systems, management for results and mutual accountability between donor and recipient. By channelling pooled discretionary funding directly into the national budget, GBS not only strengthens government ownership but also contributes to building a more comprehensive and coherent budgetary process and, thereby, to generating more efficient use of public resources (Lawson and Booth, 2004).

Certain preconditions need to be in place to fulfil the full potential of GBS, including a robust policy framework with clear policy objectives and priorities, a well functioning financial management system with sound rules and procedures, and transparent reporting and accountability mechanisms (IID and Associates, 2006). These conditions are difficult to verify in many developing countries. Therefore, the switch to GBS needs to be made slowly, being aware of the fiduciary risks and distributional imbalances that the move away from other forms of support might create. The aid effectiveness agenda should be interpreted as setting the direction for feasible improvements in the effectiveness of aid, rather than implying a sudden switch to those aid modalities that are thought to incorporate the principles of the Paris Declaration most closely.

Despite the growing prominence of GBS in donor discourses, other types of aid delivery continue to feature strongly. These include sector budget support, common basket funding and project support (including the provision of technical assistance). The difference between these instruments can be defined by:

- the level of earmarking (placing limitations on how aid can be used);

Table 1: The significance of Budget Support to total DFID bilateral aid for nine African countries in 2004/05

Country	Budget Support (£ thousands)	Budget Support as a percentage of total bilateral expenditure
Malawi	15,000	27
Zambia	13,198	43
Sierra Leone	12,000	44
Ghana	35,000	49
Uganda	35,000	57
Tanzania	65,537	68
Ethiopia	45,000	72
Mozambique	35,839	75
Rwanda	34,250	81

Source: Statistics on International Development 2005. DFID, London: <http://www2.dfid.gov.uk/pubs/files/sid2005/contents.asp>

- the use of financial management procedures (whether or not to use domestic public financial management systems); and
- the entry point and level of interaction (e.g. a line ministry, local government, or NGO).

Making the right selection between these different aid instruments has therefore become an important issue for donor organisations. Finding the right balance in a specific context will depend on an analysis of the advantages and disadvantages of using each instrument, whilst being aware of the principles which guide selection:

- to use domestic systems and procedures for delivering and managing aid whenever possible;
- to avoid policy conditionality and focus instead on the process of policy change; and
- to engage in policy dialogue with all levels of government and non-government players to strengthen the mechanisms of democratic decision-making.

Where General Budget Support can promote environmental objectives

The use of GBS offers a number of potential openings to assist national environmental programmes:

1. It creates the space to mainstream the environment as a development and growth opportunity (particularly in countries rich in natural capital) rather than only a risk to be mitigated.
2. It can reduce the financial pressure on environmental agencies by increased discretionary funding through the national budget.
3. It can strengthen budgetary discipline within the Environmental Ministry, through heightened oversight by the Ministry of Finance, thus increasing national ownership over environmental spending priorities.

4. It offers the prospect for broad system change through donor interaction with the Ministry of Finance and centre of government (e.g. raising the prospect of accelerating reform of the regulatory framework or introducing comprehensive environmental screening).
5. It suggests a role for Sector Working Groups (SWGs) to promote multi-sector policy dialogue and coherence. There are already examples of environment-specific SWGs in operation (e.g. Tanzania and Mozambique).
6. It raises an opportunity for more transparent decision-making on environmental matters (e.g. spending plans that are subject to Parliamentary scrutiny).

However, there are also a number of challenges. These include the need to ensure that effective mainstreaming of environmental issues is achieved right across government (Box 1). In addition, the impact of budgetary support can be limited by the existing policy framework and political interests (Box 2). Donor-set policy conditionalities have been used to influence the policy direction of government. However, there is evidence that policy conditionality has been largely ineffective in enforcing policy change (Killick, 2004). Domestic political considerations are the main determinant of the direction and pace of such reform. So, keeping the environment (and particularly contentious environmental issues) on the policy agenda may be difficult given other policy goals that have higher national priority, such as the emphasis on short-term economic growth as a strategy to achieve poverty reduction.

General Budget Support also presents new challenges for donor due diligence. Risks are likely to increase, or at least become more uncertain, because attribution of environmental impacts arising from GBS is likely to be far more difficult than with directly targeted project interventions.

What else should donors be doing?

Recognising these challenges, other mechanisms of aid delivery should continue so that donors can support environmental programmes in aid receiving countries effectively. A recently-completed ODI review² suggests continuing donor intervention in five key areas, requiring varying blends of aid instruments:

1. *Assisting with the clarification of mandates and institutional structures governing the environment.* The entry points into environmental policy-making and implementation need to be well understood so that donors can select the best modalities for working through them. Supporting the implementation of Public Environmental Expenditure Reviews (PEERs) can help to do this, as they provide the necessary tools for analysing in detail the sources and destinations of environmental financial resources (and influence). The use of such reviews is at an early stage and at present it is difficult to track down expenditures beyond the core environmental agencies. The use

Box 1: Environmental mainstreaming under General Budget Support in Mozambique

Mozambique is considered to have robust environmental legislation. The Mozambican PRSP includes the environment in its selection of poverty reduction priority actions and the PRSP policy matrix contains indicators and targets to monitor progress in the implementation of these priorities. Likewise, the GBS monitoring framework (PAF) includes three indicators on natural resource management: on access to land, small-scale irrigation techniques and the sustainable management of natural resources. Furthermore, there is an environment-specific Sector Working Group (SWG), including government representatives and donor agencies, which played an important role in supporting the Ministry of Environment (Ministério de Coordenação da Acção Ambiental – MICOA) during the preparation of the environment component of the PRSP.

Yet, despite these achievements, the implementation of environmental policies is slow. The prospects for strengthening capacity within MICOA seem limited, given the recent withdrawal of sector support by donor agencies. In addition to this, environment-related issues have been receiving relatively little treatment under the GBS policy dialogue framework. Other cross-cutting areas – gender, HIV/AIDS, governance and human rights – have all received more attention in the GBS framework than environment. Furthermore, the cross-cutting nature of this sector makes its management very challenging. MICOA simply does not have the political clout to coordinate other ministries that hold a mandate on the environment (such as agriculture, industry, energy or health).

of technical cooperation and specific earmarked funding are possible ways of supporting these exercises.

2. *Promoting multi-stakeholder policy debate.* This may be supported through the formation of Sector Working Groups. These are important new fora for identifying key environmental opportunities and risks. One challenge facing their successful functioning lies with securing the required political engagement to ensure that they have policy influence. Technical cooperation and specific earmarked funding (e.g. financial incentives) are two possible ways of assisting the functioning of these fora.
3. *Building analytical capacity within environmental agencies.* Environmental management is technically complex and demands considerable dedicated resources. Part of the capacity strengthening process involves improving the analytical competence of environmental policy-makers, advisers and practitioners. This suggests the need for technical cooperation to complement GBS, to foster the development of analytical capacity and inter-sectoral policy coordination. An early successful example of this has been in Tanzania, where DFID provided technical cooperation support to strengthen the integration of poverty-environment objectives in Tanzania's second PRSP.

There is also the need to provide tools that assess the environmental opportunities of proposed development. Strategic Environmental Analysis (SEA) is considered the most appropriate methodology to ensure that environment is incorporated into strategic decision making successfully. SEA is a formal environmental assessment of those policies, plans and programmes that are likely to have significant effects on the environment. It complements environmental impact

Box 2. Donor harmonisation around General Budget Support in Ghana

Multi-donor budget support is now the predominant aid instrument in Ghana, assisting the implementation of Ghana's Poverty Reduction Strategy (GPRS). Donor coordination efforts have been extensive, with support channelled through a joint Country Assistance Strategy, to which development partners contribute. A Memorandum of Understanding was signed in 2003 between the Government and nine of these partners to establish the joint approach. On the government's side, 15 sectors feed into this mechanism, with each sector ministry having an incentive to promote issues it feels need broad support. This tends to increase the complexity of the process. The Finance Ministry, which leads for the Government, is reluctant to include issues that contain any element of risk.

Efforts have been made to include an environment-related trigger within the Performance Assessment Framework (PAF), which is the set of policy reform measures and poverty reduction milestones used to assess progress of GPRS implementation and determine donor disbursements under the GBS modality. The significance of a trigger is that, were it to be agreed between the government and donors, further funding tranches under GBS would be conditional on its achievement. One such trigger has been included within the PAF 2006-2009, to ensure that financing is secured for the core functions of the Forestry Commission. At one point during the negotiations with the Ministry of Finance and Economic Planning (MoFEP) this trigger was removed but was put back after correspondence between the Finance Ministry and the sector ministry.

This discussion was no doubt influenced by recent research that highlighted Ghana's economic growth was being achieved only at a high cost to the environment. These costs have been estimated at approximately 6% of GDP, or around US\$520 million annually. Environmental assets such as forests represent major sources of revenue to elite groups in Ghana. This raises the risk of making firm, time-bound commitments on reform and therefore there are strong incentives to maintain the status quo. Securing the PAF trigger therefore represents a significant step in the reform process.



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assessment (EIA), which is an established methodology for assessing the impact of individual projects. Donors can support the development of SEA by advancing understanding of the technical elements of this type of analysis and by encouraging transparency, access to information, public participation and accountability.

4. *Generating political incentives for achieving better environmental outcomes.* In addition to supply side measures, there is also significant scope for strengthening the demand for better environment policies. One strategy is to support civil society groups with expertise in environmental issues. There is already capacity in many countries within civil society to address environmental issues, but this remains dependent – to a lesser or greater extent – on external funding.
5. *Strengthening country representation in international environmental processes.* Many countries are placed at a disadvantage in international proc-

esses due to a lack of capacity and knowledge on how to operate within such fora to advance their national positions. This applies with regard to the main multilateral environmental agreements, e.g. the Convention on Biological Diversity, the Convention to Combat Desertification, and the Framework Convention on Climate Change. Specifically targeted assistance may be an appropriate measure for donors to help strengthen national representations from developing countries in these processes. This, in turn, would act as a driver to support increased efforts to address environmental concerns at the national level.

Overall, it appears that the use of other aid delivery mechanisms and channels can complement General Budget Support to achieve environmental objectives. Technical assistance may be necessary to address specific capacity gaps within government. Standalone projects may be justified to pilot ideas where particular innovations need to be tested before their mainstreaming by government and when working outside government to support work on the demand-side of environmental policies.

The need for further enquiry

The use of General Budget Support is at an early stage of implementation, but there are concerns about its ability to address certain challenges associated with the environment. A number of areas warrant further research to gain a better understanding of how donor assistance can best pursue environmental objectives. The first is more detailed in-country diagnostic studies that analyse the nature of environmental problems which have had an impact on the poor. As part of such studies, there is the need to understand where the demand for reform originates. A review of successful experiences of major environmental policy changes would allow the main drivers of such changes to be identified – and determine whether donor funding facilitated such change or not. Second, the experience of Sector Working Groups should be documented and lessons learned of emerging best practice of these important multi-stakeholder fora. Finally, there is the question of what sort of donor in-house capacity is required to address the policy dialogue and influencing agenda that is part of the new aid system.

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