

The Country-Based Development Model and Scaling Up



The World Bank

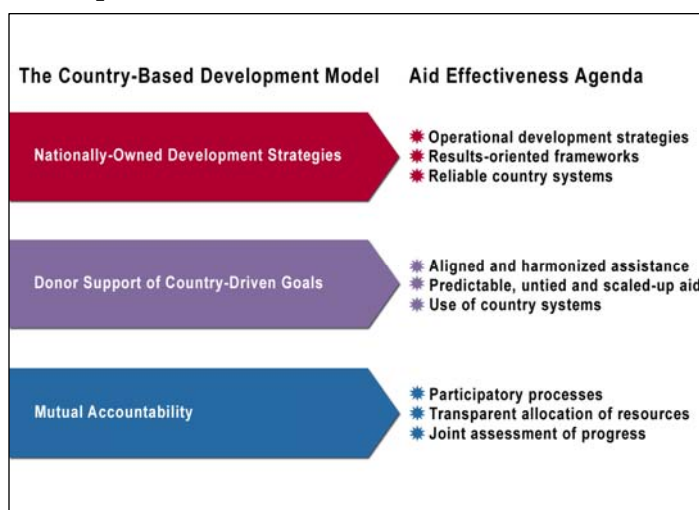
PREM Poverty Reduction Group
Number 2–April 2007

The Scaling Up Newsletter Series was introduced early in 2007 to chart international progress in achieving the commitments for scaling up made at Gleneagles in 2005 and to help identify opportunities for increasing aid at the country level. The first edition presented basic principles for delivering more and better aid and underscored some of the tensions inherent in the scaling up agenda. This edition considers the inextricable link between country-based development and scaling up, reviewing best practice at the country and donor levels. Future editions will report on results and resources meetings and will take a deeper look at systematic issues that must be addressed to successfully deliver scaled up aid and more rapid poverty reduction.

There is a broad consensus that the country-based development model presents the best prospect for sustained growth and poverty reduction in developing countries. By strengthening domestic policies and systems, uniting donors behind ambitious goals, and providing a framework for the mutual accountability of stakeholders, this model is also indispensable for realizing international commitments on aid effectiveness and scaling up.

The country-based development model comprises three intertwined and mutually reinforcing strands (Figure 1). The first strand consists of nationally-owned, results-oriented development strategies, linked to country systems. The second strand is based on donor alignment behind country strategies to deliver predictable assistance in a way which reinforces, rather than strains, country systems. The third strand encompasses the mechanisms of mutual accountability which ensure that both national governments and donors are responsible for meeting their commitments to country-based development.

Figure 1: Relationship between Country-Based Development and Aid Effectiveness



Developing countries and donors have actively endorsed the country-based development model as a vehicle for scaling up assistance and achieving results. The partnership between low and high income countries inaugurated in Monterrey in 2002 was reaffirmed in the Paris Declaration on Aid Effectiveness in March 2005. Months later, at Gleneagles, donors stated that their commitments to help meet the Millennium Development Goals (MDGs) would amount to a doubling of official development assistance (ODA) to Africa by 2010. Most recently, in November 2006 a Special Session of the General Assembly again called upon the international community to scale up aid flows to help countries accelerate progress towards the MDGs.

But a disappointing reality lies behind these worthy statements of intent. In 2006, overall ODA was down by 5.1 percent from 2005, while ODA to Sub-Saharan Africa (excluding debt relief) was static. Some of the best performing countries have seen their aid levels increase in recent years, as donors have become more confident that incremental resources can be absorbed and well spent. But even in these cases, scaling up has been far below targeted increases. To meet the Gleneagles targets, donors need to reward country performance more consistently while also supporting efforts to strengthen national strategies and systems in a broader set of countries.

Nationally-Owned Development Strategies

The first strand of the country-based development model rests on the design of nationally driven development strategies that are closely linked to key domestic institutions, such as budget, planning and monitoring systems.

Poverty-focused, comprehensive and results-oriented strategies place countries at the helm of their own development. As of March 2007, 51 countries have prepared national poverty reduction strategies (PRSs), of which 10 (Burkina Faso, Ghana, Malawi, Mauritania, Mozambique, Nicaragua, Senegal, Tanzania, Uganda, and Vietnam) have

completed fully revised “second generation” PRSs. PRSs have helped low-income countries to articulate their development priorities and to specify the policies, programs, and resources needed to meet their goals.

In fragile states, which have recently emerged from conflict or an unstable transition of government, the institutional demands of a full PRS approach may be too weighty. But even in these cases, the same principles of the country-based development model – national ownership of a comprehensive, results-oriented and fully operational plan – have been applied with great success. The transitional government which ran Haiti between 2004 and 2006 based a program for macroeconomic stability, economic rehabilitation, access to basic services and improved economic governance around an Interim Cooperation Framework (ICF). The ICF provided a timetable for interventions necessary to meet specific development targets. It has also paved the way for a full PRS, expected at the end of this year.

Public financial management (PFM) reforms are an essential part of nationally-owned development strategies, enabling the efficient and accountable use of resources. Among others, Cameroon, Ghana, Mali, Senegal and Tanzania have made major progress in budget formulation, execution and reporting.¹ An important challenge rests in linking national development strategies to key domestic institutions such as the budget. Tanzania has recently introduced a software tool – the Strategic Budget Allocation System – for allocating resources in accord with the priorities of its national strategy (MKUKUTA in Swahili).

Perhaps more important – and certainly more realistic – than rapid or sophisticated reforms to link planning and budgeting instruments, are gradual and carefully sequenced policies which build on existing processes. In fragile states successful reforms often begin with getting the basics right. The Haitian government has made the timely preparation, approval and dissemination of budgets a central objective of the ICF, as a first step to forging firm links between development priorities and resources.

While the first strand of the country-based development model rests on nationally-driven strategies and systems, donors play a crucial, supportive role. Working closely with other donors, The World Bank has helped to strengthen the analytical foundations of growth and poverty reduction strategies and has provided support for

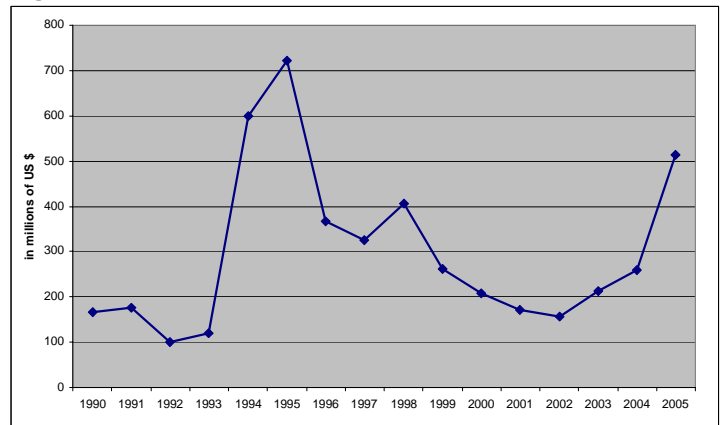
national systems, particularly in the area of PFM. The most challenging reforms require a gradualist and realistic approach. But a combination of domestic ownership and external support has already delivered promising results.

Donor Support of Country-Driven Goals

Donors’ responsibilities are particularly important within the second strand of the country-based development model, which encompasses the quality and quantity of development assistance. Trends over time demonstrate the growing complexity of the international aid architecture, with the number of donors per country rising from about 12 in the 1960s to more than 30 in the current decade. The proliferation of donors, especially if each pursues an independent agenda, risks weakening domestic development strategies and institutions – the essential elements of the first strand of the country-based development model.

High volatility and poor predictability of aid present further problems. Fragile states typically experience a dramatic increase in aid immediately after crises, followed by an equally dramatic drop in assistance a few years on. Figure 2 illustrates annual ODA to Haiti since 1990. It is not hard to imagine the damage inflicted on development policies and nascent institutions by the “go-stop-go” nature of these flows.

Figure 2: Total Net ODA to Haiti

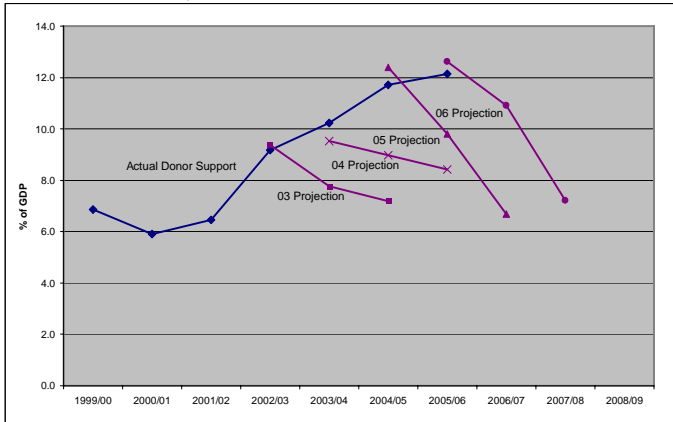


Source: OECD DAC

Even in much more stable states, poor predictability of aid can be a serious problem. In Tanzania, donors’ Medium-Term Expenditure Framework projections are regularly far lower than actual financing, particularly in the outer years (Figure 3), making it difficult for the government to effectively plan and execute investment projects and recurrent expenditures.

¹ According to HIPC Assessments for 2002-2004, PFM improved by 20 percent or more in these countries.

Figure 3: Total External Financing for Tanzania: Actual and Projected



Source: World Bank staff estimates

Among the commitments made at Paris, donors pledged to rely on domestic systems where feasible, suggesting that budget support, which is channeled through countries' fiduciary systems, would be a preferred mode of development assistance. But budget support can be unpredictable, since the quantity and timing of disbursements are often contingent on domestic considerations in donor countries. A good practice approach comes from Ghana, where external partners providing budget support have formed the Multi Donor Budget Support (MDBS) group around a common set of policy goals, consistent with the priorities of its Growth and Poverty Reduction Strategy (GPRS). Donors now inform the government of agreed funding levels a year in advance of budget formulation.

If donors are to make good on their promises to increase aid they need to support good practice more systematically. As both Figure 3 and Table 1 demonstrate, in Tanzania and Ghana, where the governments have worked hard to strengthen national development strategies and systems, donors have gradually scaled up their assistance. But the figures also suggest that aid levels are plateauing in these two strong performers, while an overall decrease of ODA in 2006 is clear evidence that country-based progress is not being rewarded across the board.

Moreover, where aid has risen, much of the increased flows are in the form of debt relief and project aid, as opposed to budget support (Table 1). Indeed, a recent survey monitoring the Paris Declaration finds only a weak correlation between the strength of country systems and

donors' willingness to use them.² Donors need to start increasing aid to countries well-placed to receive it and employ country systems where they are adequately strong, or they risk undermining countries' incentives to strengthen national strategies and institutions.

Mutual Accountability

Mutual accountability for development resources and results rests on a vast web of institutions, including the accuracy and availability of information, media freedoms, adequate monitoring mechanisms and participatory processes in both developing *and* donor countries. Here the focus is on just a few aspects of mutual accountability which impact aid effectiveness and scaling up: the costing of development needs and fiscal space analysis; the creation of common monitoring mechanisms; and the evolution of partnerships between developing countries and donors.

The operationalization of results-oriented strategies requires systematic costing of essential interventions, alongside estimations of available resources. Costing exercises have been completed in Ethiopia, Rwanda and Senegal, among other countries. With United Nations support, Tanzania has costed the implementation of MKUKUTA in priority sectors including agriculture, water, health and roads. The World Bank has engaged in fiscal space analyses in a number of countries, providing resource predictions which take dynamic economic variables as well as internal revenue, aid and borrowing projections into account. Alternative fiscal scenarios, which predict outcomes under different levels of assistance, have helped to assess the impact of scaling up on macro stability and development results. Ghana's most recent GPRS includes an initial costing of its development goals, complemented by a resource assessment which evaluates the macroeconomic and fiscal space for scaling up.

While monitoring mechanisms vary from country to country, best practices tend to build on existing systems. In multi-donor budget support countries, a common Performance

Table 1: External Inflows to Ghana 2003-2008

	2003	2004	2005	2006 ^e	2007 ^e	2008 ^e
Official ODA	1,003	1,155	1,280	1,566	1,561	1,642
Project Grants	361	413	499	581	732	688
Project Loans	173	224	241	315	250	324
HIPC & MDRI Grants	131	168	171	260	285	275
Budget Support	264	311	291	332	294	355
IMF Drawings	74	39	78	78	0	0
^e – estimate						

Source: Ghana JAS

² OECD "The 2006 Survey on Monitoring the Paris Declaration," March 2007.

Assessment Framework (PAF) can provide a concise and monitorable set of targets and indicators in priority sectors, drawn from existing national development strategies. In Mozambique, the PAF has helped to orientate the dialogue between the government and its development partners towards priority actions and results. Rather than creating a new set of indicators, Ghana's JAS draws on annual progress reports of the GPRS and preexisting mechanisms developed under the MDDBS system.

The 2005 Paris declaration provides 12 indicators for the aid effectiveness agenda, inviting developing countries to take the lead in periodically monitoring progress. Ghana recently created an Aid Harmonization and Effectiveness Matrix, monitoring actions taken by the government and donors to achieve each of the Paris indicators. Tanzania's JAS includes a monitoring framework which adapts the Paris indicators for country context.

In a number of settings, donor-led Consultative Group meetings are giving way to country-led forums for results discussion. In Ghana what once was a "periodic pledging session" is now an annual partnership meeting for reviewing GPRS results and external resource flows.³ In

the upcoming meeting in June of this year, the government and its development partners will assess a prioritized matrix against actual and projected resources. Progress under the Aid Harmonization and Effectiveness Matrix will also be discussed.

Final Thoughts...

This brief summary of country experiences indicates that the scaling up of aid is feasible in a variety of contexts. At various stages of economic and institutional development – even after emerging from conflict or major political upheavals – countries have committed to comprehensive, results-oriented and operational development strategies, donors have increasingly aligned their support behind country priorities, and stakeholders have accepted mutual responsibility for delivering resources and results. A window of opportunity has opened up for donors to fulfill their promises to increase development assistance to those countries which can best benefit from greater resources. It is time to convert promises to actions, or donors will risk weakening countries' incentives to accelerate economic and institutional reforms.

Noteworthy Dates for 2007

Selected Consultative Groups (CG)

Bolivia: CG June 2007

Ghana: CG June 2007

Rwanda: CG November 2007

Tanzania: Ongoing Development Partner Meetings
(next meetings April and May 2007)

Vietnam: CG June 2007

Upcoming International Meetings

IMF/World Bank Spring Meetings, Washington, April 14-15, 2007

IMF/World Bank Annual Meetings, Washington, October 19-21, 2007



PREM

Poverty Reduction and Economic Management
Poverty Reduction Group
The World Bank

Website: <http://www.worldbank.org/poverty>
For further information please email: askpov@worldbank.org

Number 2–April 2007

³ Ghana Joint Assistance Strategy, March 2007: 27