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BUDGET SUPPORT AND POVERTY REDUCTION IN SOUTH ASIA

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South Asia's rapid growth over the past decade has highlighted both the opportunity and challenges in reducing poverty in our lifetime. There is no question that economic reforms, often supported by external assistance, contributed to the region's 6 percent average GDP growth. Sri Lanka began liberalizing trade and deregulating industry in the 1980s, India and Bangladesh in the 1990s, and Pakistan in the late 1990s and early 2000s. All four countries have seen acceleration in their growth. If present trends continue, South Asia will achieve the Millennium Development Goal of halving income poverty by 2015. But to significantly alleviate poverty—to reduce the number of people living on a dollar a day by 200 million, say—South Asia needs to increase its growth rate to over 8 percent a year.

I. South Asia's challenges in the early 2000s

Despite recent growth, many forms of human deprivation in South Asia remain deep. Notwithstanding numerous donor-supported vertical health programs, child mortality in India is stagnating. Malnutrition is pervasive in all countries. Some of Pakistan's human-development indicators are getting worse—from a low base: the median years of school completed by teenage girls is less than one. Even Sri Lanka and Bangladesh, which have made significant progress in human development, are facing serious problems with the quality and equity of education and health care.

In addition, the governance problems that have plagued South Asia are not getting better. Bangladesh continues to top the charts on worldwide corruption ratings. Afghanistan, Sri Lanka and Nepal face simmering conflicts that flare up from time to time. And governance problems lie at the heart of the diverging fortunes of regions within South Asia's larger countries. Bihar, for instance, has stagnated while most of the states of South India have grown at 7 percent a year; Punjab Pakistan is growing and improving human development while Sindh is mired in corruption and weak governance.

To achieve the higher growth rate, accelerate human development, and contain governance problems, the region is attempting "second-generation" reforms, which are proving to be politically much more difficult. Several Indian states are divesting loss-making public enterprises, and reducing untargeted subsidies, such as those on power and water for farmers—only to see incumbent governments lose elections. Pakistan and Bangladesh are privatizing banks, but with mixed results in Bangladesh. To improve service delivery by strengthening accountability to local citizens, India and Pakistan are devolving responsibility for health, education and other public services to local governments. The transition is proving to be difficult, with weaker local administrative capacity (and political interests) overcoming the benefits of greater accountability. From Afghanistan to Sri Lanka (alphabetically), the capacity of the public sector remains a major binding constraint to implementing these second-generation reforms in South Asia.

The World Bank has supported South Asian countries' strategy of poverty reduction through a mix of knowledge and financial support. The financial assistance, especially to support the "first-generation" policy reforms, has been in the form of budget support. As some of the countries move beyond first-generation reforms, the phase of old-style conditionality-based adjustment lending is also coming to an end. More recently, the Bank has increased the use of programmatic instruments, including Development Policy Credits, to address human development, such as education reforms in Punjab, Pakistan or secondary education in Bangladesh. Weak governance in some countries and regions in South Asia, as well as the difficulties in implementing second-generation reforms, such as in education, has led to a discussion of the pros and cons of budget support in South Asia.

This paper reviews the recent experience with budget support in South Asia. It argues that the challenges facing South Asia today strengthen, rather than weaken, the case for budget support, both in high capacity and low capacity reform settings. At the same time, the use of budget support raises certain new issues which will have to be addressed if we can help South Asians realize their dream of eliminating poverty in our lifetime. Indeed, one of these issues is to understand the different reasons why budget support makes sense in both high capacity and low capacity settings in the region.

II. Addressing South Asia's development challenges with budget support

How does budget support foster policy and institutional change in South Asia? The answers to this question depend on a number of characteristics of the region, of which two are fundamental. First, many parts of the region—such as the Punjab Province in Pakistan and several states in South India—have substantial administrative capacity relative to other countries at similar levels of income. But, in the large-country setting of South Asia, these better endowed regions co-exist alongside lagging regions, such as Balochistan, Bihar, and parts of Bangladesh, with huge concentrations of poverty and lower reform capacity. In short, South Asia represents both extremely strong and weak reform settings. Second, the presence of some form of democracy and the resulting political contestability make policy reforms and institutional change in the region intensely political. That party politics tends to be more clientelist than programmatic means that even reformers may lose elections.

In both types of reform settings, client ownership, deep local knowledge, and being able to make careful political choices with regard to the sequencing and pace of public sector reforms are critical to successful development outcomes. Client ownership is important in more mature reform settings because reformers are typically dealing with long-haul, second-generation reforms—such as the delivery of quality education services—requiring ideas, resources, and well-functioning core public sector management practices to sustain the process. In more fragile, low-capacity settings, there is first the need to assess whether *any* financial support (as opposed to knowledge support) is at all warranted. If the answer is positive, then client commitment and

ownership need to be strengthened together with a focus on measurable outcomes. For the reasons discussed in Section 1, budget support provides superior approaches for strengthening these attributes of client ownership, local knowledge, reform design and implementation that take account of its political nature, and the focus on measurable outcomes.

Supporting second-generation public sector reforms. By supporting the whole budget and the internal workings of the government’s policymaking and implementation apparatus, budget support first and foremost allows reformers to make choices for which they can justifiably be held accountable by voters and legislatures. This is in contrast to either investment projects that are typically added on to the domestic budget process, or to stand-alone technical assistance projects that focus on inputs and make it difficult to measure or sustain impact. Bangladesh has a long tradition of technical assistance projects designed to build capacity, but these have yielded mixed results because they have often been over-designed and inflexible, ad hoc and fragmented in their coverage, or have been implemented in the absence of institutional changes that might have produced better incentives for sustainable government performance¹. More recently, budget support in the form of two multi-sector Development Support Credits (and a third one in preparation) aligned with the Bangladesh government’s interim PRSP has improved the prospects for better performance in a number of areas, including the financial sector, restructuring state-owned enterprises, the energy sector, public administration, and governance. Indeed, these Credits are providing the justification for an Economic Management Technical Assistance Program that will build capacity in core institutions for economic and public management and contribute to better functioning of public administration across a broad range of sectors. Linking the policy reform agenda supported by the Credits with the technical assistance is expected to help address some of the policy and structural impediments necessary to realize the benefits of such technical assistance.

Focus on budgets that matter. If countries are to reach the Millennium Development Goals, they need to focus on policies and institutions that contribute to health and education outcomes. In large, federal countries, the responsibility for health and education is often devolved to subnational governments. Programmatic support provides incentives for reformers to focus on budgets that matter directly for growth and poverty alleviation. A series of policy-based loans to Andhra Pradesh and Karnataka states in India and the Punjab and NWFP provinces in Pakistan have supported each sub-national entity’s medium-term reform framework, particularly as it relates to the acceleration of human development and the provision of basic social services such as in health, education, and infrastructure.

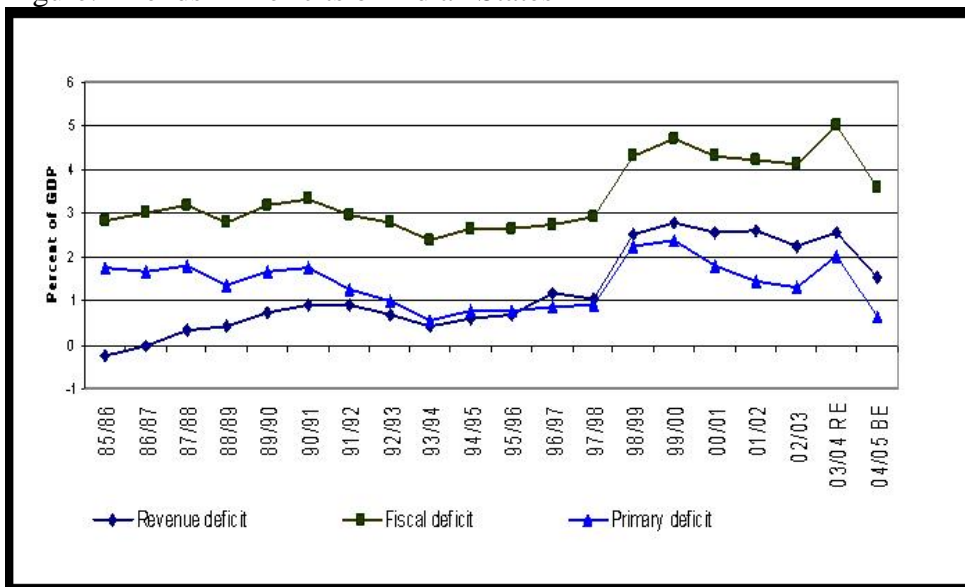
Budget support to sub-national entities in India has made it possible to focus on the poor fiscal situation of several Indian states. A slow secular deterioration in state fiscal performance over the 1980s and 1990s was driven into crisis by the pay awards of the Fifth Central Pay Commission. A sharp increase in spending alongside declining

¹ For a detailed discussion of project implementation experience, see “Taming Leviathan-Reforming Governance in Bangladesh”, World Bank, March 2002.

revenues led to much higher deficits and debt accumulation. Off-budget liabilities increased sharply. Real growth slowed or halted in priority spending areas such as education and health. The quality of spending also worsened as expenditures became more salary-intensive, especially in the poorer states. In response, a series of eight structural adjustment loans to five Indian states by the end of 2004 have sought to help these states. There are strong signs of improved fiscal performance in recent years (Figure). The intensified revenue effort appears to be paying off and the wage bill is being restrained. Interest costs are falling, in part through a debt-swap scheme, and liquidity has improved. Several states have performed well. Karnataka's fiscal performance in 2003-04 has been particularly good as it lowered its deficit considerably ahead of the targets originally set in 2001. Had the World Bank provided investment operations only during this period, it would be unlikely that the fiscal adjustment would have been achieved. Anyone who objects to this statement should be reminded that the Bank did provide investment lending only to these states during the period of rising fiscal deficits.

Flexibility. Quick disbursing budget support based on prior actions has provided a number of advantages in responding to complex, second-generation, public sector reforms that are dominated by political concerns. Such assistance has provided flexibility in terms of timing, has typically supported the government's own reform program, and has provided a learning process to understand better the political constraints to reform. In those instances where the politics of reform mitigated against their early adoption, analytical work done as part of a knowledge partnership underlying potential budget support has facilitated domestic debate and the creation of an appropriate climate for reform.

Figure: Trends in Deficits of Indian States



In India and Bangladesh, timing flexibility has been provided by a series of annual budget support operations including the Karnataka Economic Reform Loans (KERLs), the Andhra Pradesh Economic Reform Loans (APERLs), and the Bangladesh Development Support Credits (DSC). The timing and amounts of these loans have been adjusted to match the direction and pace of ongoing reforms. The APERL and the Nepal PRSC loan amounts have been adjusted to reflect reform progress. Banking privatization has been politically charged in both Pakistan and in Bangladesh. In Pakistan, the banking sector loan was made only after successful privatization, and the preparation of the third Bangladesh DSC has been slowed down because of slow progress on bank privatization.

More importantly, the flexible nature of the “new-style” budget support operations has incorporated an important lesson from new growth economics. The binding constraint to growth in a particular country can be very different from that in other countries, or even in the same country at a different point in time. Often, external actors do not know with precision what the binding constraint is. By designing the budget support operation around a flexible set of reforms, rather than around the “hard conditionality” of the past, donors are allowing for learning and adapting to circumstances. For instance, it was believed that governance was the binding constraints to growth in Bangladesh. Yet the country’s GDP grew at nearly 6 percent a year, and human-development outcomes fared even better. A strict conditionality approach that insisted on improvements in governance before any further budget support would have missed the opportunity to reinforce and strengthen some of the on-going reforms in Bangladesh. To be sure, governance may be the binding constraint now in Bangladesh, especially as it attempts to reach its PRSP target of 8 percent growth.

Ownership. Budget support operations in South Asia have provided a platform to map closely into the government’s own poverty reduction strategy. In Andhra Pradesh, the APERLs have been based on the government’s *Andhra Pradesh Vision 2020*, a twenty-year strategic vision statement for the state. In Bangladesh, Pakistan, and Sri Lanka, the Bank’s poverty reduction support credits are similarly mapped into the country’s equivalent of the Poverty Reduction Strategy Paper. In Sri Lanka, the PRSC2 has been delayed because the new government has rejected the existing PRSP, *Regaining Sri Lanka*. The Punjab Education Sector Adjustment Credit, and the second one in preparation, fully supports the three pillars of the Punjab Education Sector Reform Program: public finance reforms to increase public expenditures for education and other pro-poor services and ensure their fiscal sustainability; reforms to strengthen devolution and improve the fiduciary environment and governance; and education sector reforms to improve quality, access, sector governance, and public/ private partnerships.

Even where structural or sector adjustment credits have faltered, not been fully successful, or delayed, they have provided valuable opportunities for understanding the politics of difficult second-generation reforms, as in the case of education reform and textbook procurement in Bangladesh or power sector reforms in India. Finally, as in Tamil Nadu, the intense knowledge partnership and analytical work underlying the preparation of budget support operations have helped public debate on policy issues even as political constraints have stalled key reforms such as in agricultural power subsidies.

The contribution of this jointly conceived analytical work to public debate and its impact on the climate for reform hold the promise of faster convergence on difficult political issues and a joint understanding of the way forward that would be supported by future budget support operations. Indeed, the government of Tamil Nadu has so valued this work that it is formalizing the knowledge partnership with the Bank independent of whether or not a loan is made.

Strengthening public sector management practices. In several countries and states of South Asia, especially those with weak governance or low administrative capacity, core public sector management practices such as budget formulation, financial management, and procurement remain fragile. In these settings, budget support provides an entry point and creates ownership and incentives to initiate reforms. It focuses attention on outcomes that are often lost sight of in fragile settings. Equally important, it supports the sustainability of core public sector management reforms by helping coordinate them with sector reforms designed to implement poverty reduction strategies.

In Bangladesh, budget formulation remains problematic. An annual routine with little policy orientation, the budget process lacks a coherent strategic, medium-term framework in which sector policies are linked to resource allocation. A key constraint is the separate budget preparation process for investments (the so called development budget) and for recurrent expenditures (the revenue budget). The overall budget classification structure does not apply identically to investment spending, undermining the effectiveness of such expenditures and making it difficult to improve budget and service delivery outcomes. Through its Development Support Credits, the Bank is working with the Government on its public expenditure program to achieve priorities in health, education, infrastructure, and public administration. Similarly, in the North West Frontier Province of Pakistan, two structural adjustment credits of a series of three planned credits have supported upfront actions on public financial management and accountability.

An important aspect of the joint preparatory work underlying budget support operations in relatively difficult settings has been the willingness of all parties to remain engaged in policy dialogue and to search for solutions as problems emerge in implementation. Before the Bank initiated its Development Support Credits, there was a strong tendency in Bangladesh through the 1980s and 1990s for an “on-again, off-again” dialogue on strengthening core public sector practices. Intense dialogue around the preparation and approval of even multi-year adjustment credits gave way to a distinct absence of such dialogue once the credit was approved. Not surprisingly, many of these credits failed to achieve either their sector objectives or strengthen core public sector management practices (cite Jute Sector Adjustment Credit and Public Resource Management Adjustment Credit).

Scaling up human development. Budget and programmatic support for scaling up human development have provided incentives to governments to adopt holistic approaches to sector reforms focusing on the effectiveness of service delivery. Besides providing vital links to the allocation of resources for human development in the budget

formulation process, and in part because of these links and the need to make public expenditures more effective, this approach has brought welcome attention to both supply- and demand-side considerations in service delivery.

In Pakistan, under its Punjab Education Sector Reform Program supported by a series of three budget support operations, the government is reallocating public expenditures towards education and other pro-poor programs. Interestingly, the Punjab government informed the Bank that it would increase spending on primary education whether or not it got the World Bank credit. This led to some consternation at the Bank, as it meant that the Bank's finance would not be additional. Eventually, the benefits of prospective results on the ground outweighed the concern about fungibility, and the Bank went ahead with the operation.

Punjab is also implementing national initiatives on decentralization and the accompanying public management reforms using education as a leading sector. An indirect but important benefit is the strengthening of decentralization by increasing the role of districts and promoting accountability between service users (parents and students) and service providers (schools and teachers). To improve teacher accountability and performance, there has been a major policy shift towards hiring new, better qualified teachers with school-based term contracts. More than 30,000 contract teachers with appropriate educational qualifications have been hired so far. Prior to the reform program, 1,300 of the schools were "non-functional"--an empty school building without any students. Surveys show that after the recruitment and posting of contract teachers to these schools, 50 percent of the former non-functional schools have now become functional. Interim analysis based on the latest school census survey data from October 2004 is indicating an increase in enrollments of 13 percent in government primary schools in Punjab as compared to the annual 1.5 percent increase documented during the past decade. These findings have been validated through independent third-party surveys.

Even though most schools in Punjab have school councils, in practice they have been largely ineffective. The Government of Punjab is revitalizing school councils: a key watershed has been the direct provision of funds for development expenditures to school councils. In pilot districts NGOs have been hired to revitalize local school councils by increasing their level of involvement in a range of activities, such as helping to identify new infrastructure needs and monitoring teacher absenteeism. Besides providing free schooling to all children until matriculation (10th Grade) and providing free textbooks up till grade 5 (which has now been extended to cover middle school in the second year of the Program), the Government of Punjab is implementing a female middle-school stipend program in fifteen low-literacy districts to enhance access to education for girls. Under the program, all girls in grades 6-8 in government schools in the fifteen target districts receive a monthly payment as long as they maintain an 80 percent attendance record. Initial results are impressive, with about 20 percent increases in girls' middle school enrollment in the target schools.

Other countries in South Asia have also focused their education reform programs on demand-side issues with considerable success. Bangladesh has been a pioneer in increasing girls' secondary school enrollment. The Bank has been its main partner through projects that have provided cash stipends to girls and capitation grants to secondary schools based on their continuous enrollment. Under the first project, enrollment in project areas more than doubled from 462,000 in 1994 to slightly above one million in 2001. The second project, approved in 2002, is estimated to have reached an additional 1.5 million girls [check]. The third "project" was a budget support operation that, among other things, provided support for privatizing the procurement of textbooks--previously a major source of corruption in the country. Learning from these demand-side initiatives that seek to strengthen the accountability between service providers and clients, teacher absenteeism has now been made a condition for the second APERL.

Budget support operations are helping ameliorate thorny political constraints in moving forward with efforts to strengthen human development and service delivery. These constraints are often not specific to the education or health sector but nonetheless are an important impediment to reform. In several instances budget operations are addressing these constraints by generating relevant information that can inform the domestic debate on reforms and provide an entry point for transferring knowledge to other sectors of the economy. Nepal, despite the administrative limitations imposed by its Maoist insurgency, is moving forward with returning primary schools to local community control. The results-focused Nepal PRSC is helping make the case for this by systematically evaluating the impact of community management of schools and potentially demonstrating its value in conflict situations.

Budget support operations in Pakistan to support the Punjab Education Sector Reform Program are demonstrating the political potential and pitfalls of decentralization—the role of the full fungibility of funds in financial devolution, the importance of strengthening the monitoring and evaluation capacity of the government, and the use of performance indicators at local levels to allocate resources. The lessons from the education program on performance-based resource allocation have been adopted by the Punjab Provincial Finance Commission to move away from politically motivated ad hoc grants to rule-based awards in the province.

Finally, key elements of programmatic approaches derived from budget support operations are cross-fertilizing traditional investment projects. The \$500 million Bank credit for the Sarva Shiksha Abhiyan, the Indian National Program for Universal Elementary Education, has for the first time in India adopted a sector-wide approach in which external partners pool funds with the government, rely on the government's own rules and procedures in procurement and financial management, and work jointly in improving institutional capacity during implementation of the project. This is likely to enhance the development effectiveness of Bank support for this compact between the central government, Indian states, districts, and civil society to ensure that all children between the ages of 6 and 14 will eventually receive eight years of education in India.

Also in India, the Bank's second HIV/AIDS Control Project finances institutional strengthening by enhancing planning, management, implementation, and monitoring capacity at the national, state, and local levels, supports operational research and R&D, and encourages broad social mobilization through locally appropriate information, communication, and awareness campaigns. As knowledge follow-on, the Bank has supported analytical work on modeling the cost and consequences of HIV/AIDS treatment and prevention in India. The policies analyzed in this work have informed the Indian government's recently adopted AIDS financing policy and its plans to scale up of the existing treatment program, to optimize the mix of components in order to improve its cost-effectiveness, and to design monitoring and evaluation measures that provide outcomes feedback on program performance.

In a similar use of programmatic elements, the \$50 million Bank project assistance for Nepal's health sector program seeks to increase the use of essential health care services, especially by underserved populations. It is doing so by helping to develop and disseminate services standards, employ behavior change communication to affect care-seeking and the attitudes of providers, decentralize responsibilities and authorities to districts and communities, contract the private sector to complement public sector services, improve Nepal's planning, budgeting and fiduciary management, and closely monitor and evaluate the impact of these initiatives on access, utilization and coverage.

III. Challenges of budget support in South Asia

The increased use of budget support operations in South Asia, despite the preliminary indications that it is beginning to show results, is facing a range of problems that need to be addressed. The first has to do with budget support to second-tier, subnational entities in countries where responsibility is being devolved to the third tier. In Pakistan, for instance, education services are the responsibility of the districts, which receive transfers according to a formula determined by the Provincial Finance Commission (PFC). The Bank's Punjab education sector credit provides budgetary support to the provincial government. Because the PFC's awards were not performance-based (they were based on population and poverty, resulting in the lion's share going to the capital city district, Lahore), the Bank's credit stipulated that the additional financing be allocated to the districts according to a formula that had a small weight on performance. This led to the accusation that the Bank's credit was circumventing, and possibly undermining, devolution in Pakistan. In fact, the Bank's program seemed to be working so well that the following year, the PFC adopted the Bank's performance-based formula for its awards.

By contrast, a set of operations in Karnataka, India are not yet aligned. Karnataka is one of the states that is furthest along in implementing the 73rd Amendment to the Constitution, an amendment that devolves responsibility to the panchayat raj institutions (third, fourth and fifth tiers of government). Yet implementation is proving difficult because of weak capacity at these lower tiers of government. The weak capacity in turn is a result of the incentives facing these governments, which previously had no say in the allocation of public resources. To strengthen these institutions, the Bank is preparing a

loan that will provide budget support and capacity-strengthening to panchayats. However, this is an investment operation, since Karnataka already has a budget support operation that addresses other issues in the state. Moreover, alongside the investment operation that provides budget support to panchayats, the Bank is preparing a health-sector loan to the state that will pass the funds through the budgets of the panchayats, but these funds will be earmarked for health-sector expenditures. The panchayats will have no discretion over these funds. In short, while one loan is aiming to strengthen the lower-tier institutions by giving them incentives to allocate resources according to local preferences, another operation is earmarking the funds that the panchayats spend on a particular sector—and possibly weakening the incentives that the first operation is trying to strengthen.

Budget support operations to states are creating an additional difficulty because of the need for symmetry in treatment across states. These operations were initiated in India under the explicit policy that they go to “reforming states”. The idea was to create competition among states for these scarce loans, and thereby accelerate reforms in the states. One particular target of reform was power-sector subsidies, especially the policy of free power to farmers, which many states had introduced. The deeply political nature of these subsidies has led to problems in implementing the strategy of lending to reforming states only. Andhra Pradesh eliminated free power to farmers and received a World Bank budget support operation—only to have the Chief Minister lose the next election. His opponent ran on a platform of reintroducing free power and, when he was elected, did just that. The World Bank decided to suspend discussions on the next operation, even though the fiscal impact of the new policy was minimal, and the state was embarking on a large number of other “second-generation” reforms. The problem is that, since it is the same Country Director who deals with all the states in a federal country, there is a high premium on uniformity of policies, and consistency of dialogue. If Andhra Pradesh and Maharashtra were different countries, with different country directors, it would be easier for each country director to have his or her own view of the overall policy framework in the country, taking into account the underlying politics of the situation.

There is a related issue in Pakistan where, in contrast with the successful (so far, at least) budget-support operation for education in Punjab, the Bank is designing a traditional investment operation in education in Balochistan. The natural question to ask is why we are treating different states in the same federation differently? The answer is that many of the conditions for making budget-support operations feasible in Punjab (strong government commitment to reform, relatively good financial management practices, monitoring and evaluation capacity) do not exist in Balochistan. This begs the question of whether, in the absence of these conditions, an investment operation is likely to succeed.

The second area of difficulty has to do with weak governance, which we have argued above does not diminish the case for budget support in principle. In practice, certain problems arise. One is the response to crises or unanticipated events. The February 1st coup in Nepal caused many donors to re-think their strategy of assistance to

the country, including (where applicable) the strategy of budget support. On the one hand, if the reform program was on track, a case could be made to proceed with the budget support operation. On the other hand, in light of the royal takeover of the government, there is a question of whether reforms are still “owned” by the larger government. If parliament passes a bill that was part of the reform program, is it doing so under pressure, or as a result of genuine debate among the various stakeholders?

A similar issue arose in Sri Lanka in the wake of the tsunami relief operation. Typically, emergency loans of this type are budget support operations—because the whole point is to get the money disbursed as quickly as possible. However, in light of Sri Lanka’s history of ethnic conflict, and the fact that both Tamil and Sinhalese communities were affected, it was decided that this would be an investment operation—to ensure that the credit was allocated according to the needs of the two communities. Weaknesses in the government’s allocation mechanisms meant that emergency relief had to satisfy the various safeguard and fiduciary regulations of investment operations—even though Sri Lanka had a long history of budget support operations.

Perhaps the biggest difficulty for budget support operations comes from the effect of weak governance on the Bank’s authorizing environment, namely, its shareholders. In addition to the general view that, in countries with high levels of corruption, budget support is “pouring money down a rat-hole”, there are some specific donor countries where special-interest groups hold the country’s entire aid program hostage to budget support going to certain weak-governance countries. For example, in some small European countries, human-rights activists are lobbying and threatening to cut the whole aid budget unless the country stops giving aid to Bangladesh. Yet, to the extent that health and education are human rights, Bangladesh’s track record is much better than all other South Asian countries (except Sri Lanka). Recent events in Nepal are eliciting a similar reaction from donors—again while Nepal has been making significant progress in health and education indicators.

The general problem here is one of perceptions rather than reality. Of course, providing budget support to the country that Transparency International has labeled the most corrupt in the world “looks bad.” But if the decision has already been made to transfer *some* money to Bangladesh, then the question is: what type of instrument will produce the best results? As we have argued above, by focusing on the whole of the public sector, and providing incentives for economy-wide reform, budget support operations have a better chance of addressing the very governance problems that plague the country. If you include the evidence on fungibility of investment resources, then there is no difference in the actual use of external funds between the two types of instruments—only a difference in perceptions. Moving the debate from these perceptions to the reality of results on the ground is the biggest remaining challenge for budget-support operations in South Asia.