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## **RECONCILING ALIGNMENT AND PERFORMANCE IN BUDGET-SUPPORT PROGRAMMES: *WHAT NEXT?***

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## **Abstract**

*This paper reviews the current state of the debate about policy alignment and performance assessment, focusing particularly on the troublesome relationship between budget-support Performance Assessment Frameworks and PRS annual progress reviews. It argues that further advances in alignment will be achieved only if more explicit attention is given to the recipient side of the relationship and the reasons why Annual Progress Reports do not have the qualities donors expect. Until this is done, there is a case for simplifying PAFs but not for making them more results-based. PAFs should build country ownership by including only the sorts of conditionalities that are likely to work, and combining these with a multi-level selectivity and complementary actions to address missing preconditions for aid effectiveness.*

## **1 Introduction**

Aid alignment and development performance are friends, not enemies. In principle, there is no reason why they should be in need of the reconciliation suggested by our title. And yet friends do fall out. Sometimes, they need to be reminded of why they are friends, and warned against ephemeral enthusiasms and superficiality. Our starting point in this paper is that the discussion about alignment in budget-support programmes is moving towards a point where some serious reconciliation efforts may be required. We need to remind ourselves of the foundations of the current aid-reform agenda, and offer some sympathetic warnings about some of the initiatives currently being considered.

The paper addresses the challenge of programmatic alignment (between budgetary aid and country policies). It is not centrally concerned with systems' alignment, although the argument has some implications for that debate. Nor are we much concerned with harmonisation (among aid donors) as a distinct issue. We are mostly concerned to address a specific set of problems that have arisen at the interface between the annual monitoring of PRSPs and the joint Performance Assessment Frameworks (PAFs) being used by budget-support groups as the centrepiece of their conditionality. We are also concerned to place this issue in its proper context. That implies giving some attention to a broader set of problems in the way the alignment challenge has come to be defined in countries with PRSPs.

The rest of the paper has five sections. We start in Section 2 with the broad problem of PRSP alignment. The more specific issue, about PRS monitoring and PAFs, is introduced in Section 3. The following two sections then review in turn what is wrong with PRSP Annual Progress Reports (APRs) and the current debate about PAFs (including PRSC policy matrices). We then suggest an alternative way of seeking a reconciliation between performance and alignment, and conclude by considering the implications of the argument.

## **2 The broad problem: PRSPs as a two-sided deal**

Aid alignment is not an end in itself but a means to an end. The final objective towards which the whole harmonisation and alignment effort is oriented is better performance in meeting poverty-reduction objectives and the MDGs. Equally, when countries perform better aid alignment becomes easier to achieve. There is a clear mutuality behind the two objectives, so long as both are correctly understood. However, misunderstandings can and do occur.

### ***Background***

The association of alignment with better performance has a solid empirical basis. Behind the international community's endorsement of the alignment agenda lies a substantial body of systematic research and accumulated experience suggesting that what has come to be called the "ownership" of poverty-reduction policies is a critical variable influencing effectiveness. Neither the traditional approach to conditionality in programme aid nor the typical practices associated with projects have been easy to reconcile with a high degree of country policy ownership. This

has weakened development effectiveness in general and aid effectiveness in particular. New approaches were needed. Various strands of thinking contributed to this conclusion. Several of them came together in the PRSP initiative of 1999.

The 1999 idea was that PRSP processes might generate poverty reduction policies with some significant country ownership, which donors could organise around, thereby reducing the need either for conditionalities imposed from the outside or for donor-driven, separately-managed projects. Different actors supported the PRSP initiative for a different mix of reasons (Christiansen, 2003). But most agreed that it held out good promise as the solution to *two* interconnected but distinct problems in the typical aid relationship – on the one hand, the donor tendency to act in ways that undermine country policy ownership; and on the other, the weak impulse to assume ownership of policies (particularly policies of a coherent, results-oriented sort) on the part of many poor-country governments.

The point of insisting on an open and participatory PRSP design process was to try to get a significant level of country commitment to doing what is locally considered necessary to achieve poverty-reduction results. That in turn would provide a framework in which donors could reasonably be put under strong pressure to alter their behaviour in ways that would further enhance both country ownership and development effectiveness. Experienced practitioners knew that this would be quite a difficult trick to pull off, but it seemed worth a try, particularly in view of the shortage of good alternatives.

### ***An emerging imbalance***

Stated in the simplest way, our concern in this paper is that the two strands in the argument that made PRSPs worth a try are in danger of getting detached from each other. We have reached a point where everyone agrees some correctives are needed to the way alignment is approached. However, understanding of the issues and options is being hindered by a lack of balance in the attention being given to the two sides of the alignment relationship.

Quite rightly, donors are increasing the pressure on each other to improve the quality of aid. There are useful efforts to monitor the degree to which aid harmonisation and alignment are occurring, both across the whole field of ODA and in respect of budget-support programmes in particular (DAC, 2004; SPA, 2005). The monitoring surveys are, quite rightly, intended as a source of peer pressure as well as a means of tracking what is happening. There has also been some exploration of the factors within donor agencies that weaken organisational and personal incentives to implement harmonisation and alignment principles (de Renzio, 2004). This points to specific actions that have been undertaken by some donor organisations and could usefully be adopted by many more.

The survey results so far are not very encouraging about the pace of change in respect of the alignment of budgetary aid with country policies and systems. Both donor and government representatives tend to think that donors could do quite a bit better. We agree. Nothing we say below is meant to suggest that any less emphasis should be placed on improving donor practices. However, we think this

agenda will make faster progress if there is more clarity about what should count as good donor behaviour, particularly in respect to policy alignment. This issue cannot be addressed if only the donor side of the relationship is in the picture.

Donor deficiencies in respect of alignment are now well documented. On the other hand, nothing equivalent is available, in the public domain, about whether the country-side conditions for successful alignment have come closer to being met. In many countries, the PRSP initiative has resulted in some measure of improvement in the quality of public policy processes. But observers on the ground know that PRSPs are still quite far (even in the best of cases) from delivering policies of a coherent, results-oriented sort that reflect the authorities' true preferences and genuinely govern what they do.

This is known but is not documented as explicitly and systematically as one might expect, partly because of the restraint than the Bank and the Fund have imposed on themselves in assessing PRSPs.<sup>2</sup> From the wider political-science literature, on the other hand, we know several relevant things.

It is clear, for example, that African PRSP countries typically have highly balkanised administrations, with little policy coordination at cabinet level and downwards, and almost no actually functioning mechanisms for rewarding or punishing ministers or officials on the basis of the performance of their departments. It is also well established that with a few marginal exceptions, voters do not assess candidates and governments in terms of general programmatic principles or performance standards. That does not mean that they are not interested in obtaining the kinds of benefits that PRSPs promise to provide (decent schools, clear water, jobs, etc.), but only that informal networking and patronage are perceived as more likely ways of getting them than demanding better general standards of public service.

For the anglophone, francophone and lusophone parts of sub-Saharan Africa, it is only necessary to dip into the relevant literatures to get confirmation of the fairness of these generalisations.<sup>3</sup> Yet the debate about PRSP experiences tends to be conducted as if we were ignorant of these essential facts about the functioning of political systems.<sup>4</sup> The consequences can be unfortunate. For example, in the absence of clear evidence to the contrary, donor debates at headquarters and international levels tend to slip into the heroic assumption that aligning with the country's PRSP is *ipso facto* alignment with a serious country commitment to achieving a set of widely-shared results objectives.

### ***Connecting with theory***

The same thing can be stated in more theoretical terms. The fundamental *raison d'être* of aid agencies – it has been argued – is to mediate between diverging preferences between donors and recipients (Martens, 2004). The underlying

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<sup>2</sup> The PRSP literature is now vast, but it is almost exclusively devoted to 1) assessing processes, or 2) content analysis of the documents.

<sup>3</sup> Good overviews are provided by Chabal and Daloz (1999) and van de Walle (2001, 2005)

<sup>4</sup> Some useful efforts to inject more political realism into the assessment of PRSP experience are synthesised in Piron (2004) and Dijkstra (2005).

reason for both conditionality and ring-fenced projects is that donor and recipient interests may overlap but do not, in general coincide. This is why the aid relationship is usually thought susceptible to analysis as a principal-agent problem. The non-aligned preferences, information asymmetries and power relationships that characterise the principal-agent relationship in aid have been shown to be essential to explaining the typical set of perverse consequences generated by the standard instruments of aid delivery.

Put in these terms, our concern is with a worrying tendency in current aid-policy debates to talk as if the principal-agent problem were a thing of the past. That is, rather than seeing in the PRSP initiative a promising avenue for moderating the more seriously negative features of the principal-agent interaction, an assumption is slipping in that the nature of the relationship has already changed.

Over-use of the word “partnership” is a particular symptom of this tendency. In the case of budget support, there is a strong case for thinking that in some countries the donor-government relationship has entered a new phase, in which it cannot be analysed in purely contractual terms. New concepts are needed to express effectively the explicit and implicit rules of the game in the budget-support “club”. However, partnership implies a high level of overlapping preferences and a low level of power disparities that cannot usually be assumed (OPM/ODI, 2003). Development partnership is a worthy aspiration, not an established fact. To speak otherwise is to foster a convenient diplomatic fiction, not to engage in analysis.

Increasingly, donor agencies are taking a more rigorous look not only at their own incentive structures (e.g. Martens, 2002; Ostrom, 2002) but at the politics and political economy of the countries they work in. There is a growing recognition that improving aid quality is at least partly about understanding better what makes countries tick, politically and socially, and how aid figures in this. This type of close analysis, drawing on relevant theory, is what is needed to make good sense of the obstacles to better aligned and more effective aid. Unfortunately, most of this work is either pitched at quite a general level or simply not available in the public domain.<sup>5</sup> Nonetheless, it is no less relevant than the political economy of the donor side of the aid relationship to thinking about the next steps towards alignment.

### **3 The particular problem: PRSP APRs and budget-support PAFs**

A useful way of pinning down the above concerns is to look closely at a particular current manifestation of the problem. The issue that we want to examine is important in its own right. In fact, it could be considered the fulcrum of the current debate about programmatic alignment. The issue is what sense to make of the widely observed lack of correspondence between the process and content of the

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<sup>5</sup> The second category includes the country studies undertaken in the last few years for DFID’s “drivers of change” programme, Sida’s “power analyses” and the range of exercises on the political economy of reform and macro-social analysis undertaken at the World Bank.

PRSP annual review mechanism and the process and content of the joint review of budget-support operations.

### ***What was supposed to happen but hasn't***

One of the things that PRSPs were supposed to deliver was a monitoring system generating annual progress reports (APRs) which could be used by budget-support donors as the basis for regularly assessing the utilisation of their aid. PRSP monitoring systems would provide governments with an important new source of policy learning. For governments, parliaments and civil-society stakeholders, they would also provide a mechanism for greater policy accountability. In time, donors would increasingly be able to rely on these domestic learning and accountability mechanisms, so that they would no longer have any good reasons for requiring additional reporting by government or separately-negotiated conditionalities.

PRSP monitoring arrangements haven't quite delivered these things, even in the best of cases. APRs are poorly integrated into country processes and do not seem to be a strong focus for domestic stakeholders wishing to hold governments to account (Driscoll, 2005; Driscoll et al., 2005). This is partly about timing and other process issues, but it seems also to be about the content of the review and the APR document. Donors, for their part, are unconvinced that the APR is yet a robust alternative to their own reporting systems. They are not prepared to use it as a basis for disbursement decisions (SPA, 2004, 2005).<sup>6</sup> Instead, they have focused their attention on working jointly and with governments on elaborating an agreed policy matrix or Performance Assessment Framework (PAF) that is broadly identified with the goals of the PRSP but quite different in character from the APR. This is the basis for quarterly or twice-yearly reviews that run parallel to the production and discussion of the APR (Chiche, 2004).

Those among the donors who are most committed to the Rome/Paris alignment agenda (DAC, 2003; High-Level Forum, 2005) tend to have a bad conscience about this. Although PAF matrices are usually said to be "derived from" the PRSP, in many cases it is hard to demonstrate that they are not additional. When PAF reviews are put alongside PRSP Annual Progress Reports and compared, what is most striking is how different they are, not just in content but in form. PAFs tend to be very long lists of prior actions and other policy measures,<sup>7</sup> with target dates for their completion. APRs, on the other hand, contain a good deal of descriptive reporting on activities undertaken during the past year and some indications of intentions for the coming years.<sup>8</sup> But they are only *systematic* about

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<sup>6</sup> According to the 2004 SPA survey, an overwhelming majority of budget-support donors now regard annual PRSP reviews and progress reports as insufficient for their information needs. The proportion considering PRS reporting inadequate rose from 57% in the 2003 survey, to 71% in 2004 (SPA, 2005: 50).

<sup>7</sup> The total number of indicators (including conditionalities, benchmarks, prior actions and monitoring indicators) contained in the matrices varies between 19 (Malawi) and 100+ (Tanzania and Uganda) according to Chiche (2004).

<sup>8</sup> This is how we would characterise the "review of key policy measures undertaken last year" and "to be undertaken next year", which the 2004 SPA survey (2005: 10) found to be included in most and the majority of surveyed APRs. This sort of reporting is notoriously easy to

a limited list of “PRSP priority indicators”, and these are mostly measurable inputs, outputs and outcomes – not policies or actions.

### ***Policy matrices: for and against***

A familiar type of rationalisation of this situation from the donor side is the one originally developed by the Bank in relation to PRSCs. This says that the PRSP provides a reasonable framework for donor monitoring and conditionality but is not sufficiently *operationalised* to serve this purpose on its own. The PRSC/PAF matrix provides some of the necessary operationalisation. It is emphasised that the matrix is agreed jointly with the government, so that the measures in it should not be regarded as old-style adjustment conditionalities. Indeed, the government’s commitment to them may be no less real than its commitment to the content of the PRSP. And it is more valuable because it is more concrete and time-bound.

Another donor view, mainly but not necessarily only outside the Bank, is that this thinking leads to excessively intrusive donor practices. It leads to donors’ micro-managing government policies. Those in the NGO world who take the view that the economic policy prescriptions typically offered by the Bank and the IMF are mistaken if not malign regard this as doubly dangerous, a new way of foisting bad policies on weak countries (e.g. Nyamugasira and Rowden, 2002). However, even those among the donors who actually agree with the IFIs about what the policies should be, at least in broad terms, express several worries about the way policy matrices are likely to work in practice.

According to this argument, governments everywhere need room for policy experimentation and scope for adjusting generic reform ideas to country circumstances, including political circumstances.<sup>9</sup> They are unlikely to get this space under the hot-house conditions of donor design and review missions. Yet if governments are not given a chance to work out policies for themselves, even if they “agree” a set of policy actions, their real ownership of them may be little more than was the case when conditions were simply imposed.

Worse than that, by getting as thoroughly inside the national policy process as they now do, budget-support donors have lost the independence of judgement they had when the aid relationship was conducted at arms’ length. For example, Harrison (2001) describes how the power dynamics and rules of engagement have changed in countries such as Uganda and Tanzania where budget-support groups have entered into a “post-conditionality” relationship with governments.

In these countries, donors now have a much deeper involvement in the policy process, through budget-support groups, sectoral working groups, technical assistance and so on. This allows them to steer the policy process from within, rather than from outside. Harrison argues that this is potentially a threat to the quality of poverty-reduction efforts, because donors acquire vested interests in

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manipulate and very hard to use to hold anyone responsible for actions not taken, or not taken on time. This is what we mean by contrasting it with a systematic approach.

<sup>9</sup> The new recognition now being given to the institutional diversity of successful economic growth models (e.g. Rodrik, 2003) reinforces this concern.



the current policy regime and this creates perverse incentives. When things go wrong, their reluctance to blame themselves along with the government will tend to interfere with sound judgement. Thus, under a “post-conditionality” regime the donor tendency to fudge the question of what is not working and why may be expected even more marked than it was under arms'-length conditionality.

These worries and dilemmas were very evident in the budget-support group in Tanzania while the joint evaluation of the Poverty Reduction Budget Support programme (Daima/ODI, 2005) was going on in 2004. Interestingly, views about how the PAF should be adjusted differed among the consultants in the evaluation team as well as among the donors. This suggests that the issues are not simple and the way forward is not obvious.

### ***Which way forward?***

The principles are clear enough. We need an approach that is based on a robust understanding of the political economy of both sides of the aid relationship in PRSP countries. We need a view on what should count as alignment in budget-support programmes that takes into account not just what we know about the *donors'* capacity for tokenistic and self-serving adjustments, but also a realistic assessment of *country* policy processes and their shortcomings.

We certainly do not have that at present. As a result, there is a good deal of *ad hoc* adjustment and pragmatic fudging. This is disorienting and demoralising for all concerned, including recipient governments. In many cases, government officials welcomed PRSPs on the understanding that they would provide a means of reducing donor interference. Instead, they have found themselves faced with regime for operationalising and monitoring the PRS that is not just intensive but the subject of continuous debate.

On the face of it, the most coherent and attractive set of proposals on the way forward is the one put forward by the European Commission. This favours the restriction of policy-based conditions to an essential floor of fiduciary safeguards and a significant shift in disbursement decision-making towards ex-post conditionality focused on results (policy outcomes). An optimal combination of predictable funding flows and results' orientation is pursued by providing Commission budget support in two tranches, a fixed one based on a minimal standard of macro-economic management (the country is on track with the PRGF, etc.) and a variable one whose level is decided ex-post in the light of an analysis of expenditure efficiency and social-service outcome indicators. Although the approach has not yet been applied for an extended period in more than a handful of countries, it is clear in principle, strongly advocated and beginning to be empirically documented (Adam et al., 2004; EC, 2003, forthcoming 2005).

There is growing interest among budget-support donors in the variable-tranche approach, as a means of avoiding damaging interruptions of funding. Several bilaterals, including DFID (2005), are also attracted by the prospect of minimising policy conditionalities by focusing on joint assessment of results. They are showing increasing signs of adopting large parts of the EC thinking about the conditions for successful aid partnership.<sup>10</sup> Not only that but they are urging the Bank to do likewise (*ibid.*).

There is some possibility, therefore, that the EC approach will prevail for lack of a coherent alternative way of salving donors' bad conscience about the alignment agenda. That is, PAFs will become not just shortened and prioritised (as in Mozambique in 2004) but distinctly "lighter" in terms of policy specifics and much more results oriented. Would that be a good way to go? We think that is very doubtful under present conditions.

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<sup>10</sup> Although with an additional concern to set a floor in terms of human rights conditions.

The next two sections of the paper explain why we take this view. They deal in turn with:

- ❑ why exactly PRSP monitoring and APRs are not working as hoped; and
- ❑ why adjusting budget-support PAFs towards a results-based conditionality is not a wise way of proceeding, or the only viable one.

We conclude by suggesting an alternative approach to PAF reform that would be more robust, more likely to be agreed and more likely to work.

The whole argument that follows is an appeal to recognise the crucial role of leadership and politics in the recipient country in determining the degree to which the Rome/Paris agenda is capable of being implemented. It is a plea for donors to stop believing that what they do is the crucial determinant of what happens in countries they assist.

#### **4 PRSP monitoring: why it is not working**

The current discussion attributes several negative features to budget-support PAFs – excessive length, over-elaborate content, intrusiveness and tendency to promote “micro-management”. Streamlining, results’ orientation and an approach that protects “country policy space” and keeps donors out of the driver’s seat are the corresponding positives that seem attractive to many. But these are loaded terms. The degree to which they are applicable depends of the nature of the country situation and the constraints that imposes. What counts as excessive intrusiveness or sufficient streamlining can surely not be settled without taking a view on the degree to which the government is capable of handling these matters on its own, or would want to do so if given sufficient space. More specifically, these matters cannot be settled apart from an assessment of the country’s PRSP and the associated mechanisms for reporting and tracking progress.

##### ***What is the problem with APRs?***

We have already said that PRSP APRs and PAFs are very different in form. We now need to probe the reasons for this difference. We have also said that APRs are not fulfilling well any of their putative functions. In particular, donors do not yet feel able to put all their eggs in the APR basket when it comes to disbursement decisions, which is why PAFs exist. But what exactly are the reasons donors have for this hesitation? We do not discount for a moment that donors may be simply unwilling to change their practices in the way the alignment agenda requires. However, APRs are also widely considered to be insufficient instruments to align with.<sup>11</sup>

On the evidence of the SPA survey, sometimes the problem is the relatively straightforward one that the donors base their financing decisions on the country’s performance in meeting macro-economic targets agreed with the IMF. These may be in the APR but the APR is not the principal vehicle for their

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<sup>11</sup> The following paragraphs draw freely on Driscoll et al. (2005: 17-21) and indirectly on Booth (2005) and Booth and Nsabagasani (2005).

dissemination. Other times, the questions are more about the reliability and/or the timeliness of the data that are made available on the results indicators that are in the PRS monitoring matrix. That is, APRs are often judged to be insufficient because the institutional arrangements for PRSP monitoring, on which they rely for data and data-analysis, are perceived to be weak – unreliable or dysfunctional.

Often, however, the worries expressed by donors who have made a strong commitment to aid alignment are not just about data. They are about something more fundamental in the set-up of the PRS monitoring. Usually, the problem is rooted in the content of the PRSP itself. Box 1 illustrates the range of reasons cited by bilateral budget-support donors in Africa in explaining why they cannot base their financing decisions on the APR. The first quotation, from the Swiss respondent in Burkina Faso, is indicative of the more fundamental type of concern just mentioned.

As Box 1 confirms, it would be wrong to see the limitations of APRs as being of only one type. However, we wish to argue that it is unwise to devote most attention to the deficiencies of data-collection systems in thinking about what is wrong with APRs. Data systems do need to be improved but this is a long-term task, and one that is likely to prove extremely challenging for both technical and “political economy” (vested interest) reasons. The main focus, at this point, should be on the way APRs reflect the limitations of the PRSPs on which they are based, and in particular their failure (to a greater or lesser extent) to specify clearly the policy actions that will be undertaken in order to meet the government’s intermediate and final objectives in respect of poverty reduction.<sup>12</sup>

PRSPs typically do not have the equivalent of a well-worked Logical Framework matrix. They usually have some form of “monitoring matrix” and sometimes these are referred to as Logframes. But they seldom have the full scope of a Logframe – from inputs all the way to final outcomes and impacts, with a clear articulation of how the required effects will be produced in between and an effort to record assumptions and risk factors. Usually, they are heavily skewed to the outcome end of the results chain. Indicators are specified for the more easily measured impacts, outcomes and outputs, but not usually for financial inputs (because the PRS is not costed) and almost never for specific, time-bounded policy actions to be taken.

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<sup>12</sup> Once again, the issue is not whether APRs contain reporting on policy actions taken, with some reference forward to plans for the next year, but whether actions are clearly specified in advance, with a definite rationale in terms of objectives, so that the monitoring can be rigorous and reasonably fool-proof.

### **Box 1: Why the APR is not adequate for budget-support financing decisions**

**Burkina Faso:** "The PRSP has not been operationalised in the required way, by identifying the priority policies and actions to be taken, and it lacks an analytical link between the actions and the indicators for measuring the progress made towards the objectives of the PRSP. Also, late delivery of the monitoring indicators for the sectors that have them (budget management, health and education) made it impossible to integrate the results and their analysis into the progress report." (Switzerland)

**Ghana:** "Financing decisions are not based on the information from the APR. They are based on the information distributed on the progress on the benchmarks in the MDBS-policy matrix. Although this matrix serves as a proxy for the GPRS, some of the benchmarks that have been defined are measured in terms of execution of a policy action that is not necessarily proposed in the GPRS" (Netherlands)

**Ghana:** "Annual Progress Report is improving but questions remain about quality of some data. Also, timelines on submitting draft and preparing final report do not leave sufficient time for Development Partners to fully analyze data and comment on validity. This situation is partly related to process timelines of World Bank. Annual WB/PRSC contributions are made on basis of performance as demonstrated in APR. PRSC needs to go to board in July which means that APR process can sometimes be hurried. However, the release of the Canadian payment is based on the participating donors' consensus that a) we are satisfied with the IMF decision with respect to the PRGF programme which is releasing the base payment and b) we are satisfied that the GoG has met all the triggers as defined in the policy matrix for the performance payment." (Canada)

**Malawi:** "PRS report was only on first half of 2002/03, and was not very informative. Much improved report covering full FY 2002/03 was presented in spring 2004. However, the new report was too late to be useful, and also the information on budget implementation was still insufficient." (World Bank)

**Malawi:** "Malawi has only published one PRS APR (for 2002/03) to date and has yet to firmly establish the APR process. However, note that budget support financing decisions to date have NOT been linked to APRs, only to Malawi's status with the IMF PRGF." (UK)

**Malawi:** "Too late, too low quality. In addition, our budget support is not explicitly linked to PRS APR." (Norway)

**Mali:** "Few commitments to systematically improving public financial management. Insufficient information on sector policy indicators." (France)

**Mali:** "Report is late and not sufficiently precise for assessing real achievements." (Sweden)

**Rwanda:** "The APR did not contain sufficient information on the macroeconomic situation, the budget or the education sector. We have used other government sources for all of this extra information. We do not expect it all to be adequately covered in the APR." (UK)

**Rwanda:** "Detailed data regarding performance under the Rwanda's PRGF arrangement with the Fund, not included in the PRS Annual Progress Report, are required for consideration by the IMF's Executive Board." (IMF)

*Source:* SPA (2005: 52).

### ***What lies beneath***

The nature of the PRSP's monitoring matrix might seem a rather technical matter. However, this is the technical manifestation of the more profound fact that PRSP processes were fairly general "visioning" exercises in most countries. The documents reflect a lack of clarity about the specific policy actions and intermediate results that are being pursued, and therefore there is uncertainty about which changes would be worth monitoring on a regular basis. In most

countries, these weaknesses stem from the long-term processes that have undermined whatever capacity once existed for effective policy-making. Without getting into details, the erosion of the capabilities of the senior civil service by the poisonous combination of economic decline and political corruption is an obvious factor. So is the way aid, during the structural adjustment period and since, has contributed further to emptying the policy and planning functions in recipient countries by delivering pre-determined policy packages.

PRSPs have been getting better, particularly where well-run joint working groups have been operating at the sector level. It could be argued that an innovative sector policy, capable of being expressed in a well-worked Logframe, is a precondition for a sound PRSP. This does mean that in some cases “second generation” and “third generation” (Uganda) PRSPs are more sophisticated in the respects that concern us here. But this takes time and many weaknesses endure. Given these features of the parent planning process, it is hardly surprising that annual reviews of progress in implementation turn out to be rather insubstantial.

In some respects the typical set-up of PRS monitoring has added to the biases created by the content of the PRSP. International influences have played a part here. At the Bank, it is still customary to refer to the monitoring of PRSs as “poverty monitoring”, as if to suggest that the impact end of the results chain were overwhelmingly important. The EC’s interest in pegging some of its budget support to results has created new pressure to focus on outcome measurement. Anyway, PRS monitoring offices typically have their origins in the poverty monitoring efforts launched in the early or late 1990s, and are institutionally quite separate from any arrangements for tracking implementation of cabinet decisions or ministerial work plans.

Given this background, it is perhaps surprising that APRs have been as good as they have been. At least in Tanzania and Uganda, the reports have made real efforts to report progress on as many links as possible in the chain from PRS inputs to final impacts. However, in both cases the attention to the input end of the chain could only have been relatively descriptive and unsystematic, because for most sectors there was no formally recognised Logical Framework or similar statement of the intended actions and chains of causation (Booth, 2004: 20). Systematic treatment has been reserved for the list of PRS Indicators agreed in the early days of the PRSP process (under the influence of the HIPC initiative). Those were rates and ratios measuring or serving as proxies for impacts, outcomes and, in a few cases, standard sector inputs (numbers of teachers, etc.).

There is some dispute about whether the typical “PRS Indicators” are sufficiently sensitive to capture year-on-year changes that are relevant to assessing the quality of policy. Enthusiasts of results-based budget support insist that they are. But it is certain that this is not the main thing that donors and other stakeholders want to know about on an annual basis in order to judge whether PRSP implementation is sufficiently on track to deserve continued support. They want to know what the government has *done*. Moreover, they will not be satisfied by an administrative description of relevant activities (workshops held, etc.). What is of interest is policy actions undertaken with a view to solving specific problems or removing definite obstacles preventing the realisation of PRS objectives.

### ***The way forward for PRS monitoring***

Until this problem is addressed, it is hard to see PRS monitoring serving the purpose assigned to it in PRSP theory – that of facilitating the alignment of aid with country systems and country-owned policies. A recent innovation in Uganda is relevant. The 2004 version of Uganda’s PRSP, the Poverty Eradication Action Plan (PEAP), is accompanied by a Policy Matrix, listing actions to be taken by the government and other stakeholders, as well as a monitoring matrix of the previous type. It is unclear at this point how much use will be made of the Policy Matrix in future annual reviews of Uganda’s PEAP.<sup>13</sup> However, it points a way forward that could usefully be followed in other countries when they undertake their next PRS revision.

In short, it may well be possible over time to bring PAFs and APRs closer together, as required by the alignment agenda. But this cannot happen by only changing the PAF end of the relationship. The challenge of reducing the gap between budget-support PAFs and the annual monitoring of PRSPs is unlikely to be met if it is not attacked from both sides. It is certainly unrealistic to assume that budget-support donors will unilaterally give up their interest in policy; so, the gap will be most effectively closed if the PRSP becomes more of an action plan, preferably with a full Logical-Framework structure.<sup>14</sup> Therefore, APRs need to change, which in turn implies better PRSPs and more effectual PRSP processes or equivalent.

Donors can certainly be directing more of their influence to making those things happen. For example, the donors who are providing technical assistance to PRSP management and monitoring offices (e.g., UNDP) could be doing more to remedy the thinness of the action content in PRS monitoring. Aiming to develop something comparable to Uganda’s PEAP3 Policy Matrix would be a sound medium-term objective in most cases. However, it is essential to recognise that the obstacles to this happening are primarily political, and if change comes it will involve a political process.

### ***The politics of PRSP strengthening***

From the argument above, we conclude that PAFs exist, and they have the detailed action-oriented content that they do, because PRSPs and the associated monitoring systems might be expected to but do not. It is also essential to

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<sup>13</sup> The institutional arrangements for annual monitoring are in a state of flux following the launching of a new National Integrated Monitoring and Evaluation Strategy (NIMES) and other initiatives (Booth and Nsabagasani, 2005). However, an annualised version of the 3-year PEAP policy matrix has now been prepared, suggesting that serious use may be made of it (Sudharshan Canagarajah, pers. comm.).

<sup>14</sup> Some readers see our advocacy of Logframes as conflicting with our insistence that policy processes in PRSP countries are embedded in political systems. However, what we are advocating is not the particular technical instrument, but the principles it embodies (relating means to ends, anticipating risks, etc.), which do not seem inherently alien to the political level of policy debate. Others think that knowledge about “what causes what” in development is so limited as to make the whole idea of a PRSP Logframe absurd. We disagree.

appreciate that the reasons for this state of affairs are not technical mistakes. They reflect deeply embedded institutional factors.

For example, weak engagement by parliamentarians and civil society organisations in the APR process can be explained in part by the general constraints that have affected participation in PRSP processes. They include resource and capacity shortages and – rather more importantly – weak traditions of transparency and accountability. There is hardly any culture of evidence-based policy making inside government in many PRSP countries. This is related to the observation already made that the political contest in parliament and during elections is not very much based on generalised performance standards.

Because politics is mostly about personalities and patronage, not about issues, it is not the case (as implied by some of the alignment discourse) that there is a ready constituency for “holding the government to account”. This has to be regarded as the main reason why PRS processes have not led to an upsurge of accountability to citizens. The fact that PRSPs do not lend themselves to a worthwhile tracking of performance is both a cause and a consequence of the systemic lack of demand for policy accountability generated by the political and social institutions of the countries.

Both donor staffs and visiting consultants tend to underestimate, or at least not to recognise publicly, the true weakness of the domestic demand for performance and the political realities that lie behind it. This may have something to do with the nature of their interactions with government, which take place mainly at the senior technical levels and involve limited contact with the politicians who call the shots. Unfortunately, this blind spot tends to extend to both PRSP enthusiasts (who are taken in by their own ideology on the power of participation) and academic and NGO critics who blame PRSPs for promoting donor-led technocratic decision making at the expense of domestic politics (Craig and Porter, 2003; Gould and Ojanen, 2003). Both sides exaggerate the ability of external initiatives to transform the way national political systems work.

## **5 Reforming PAFs: towards results-based conditionality?**

Most of our reasons for doubting that a more results-based approach would be appropriate for PAFs have already been stated or hinted at. In summary:

- donor staff on the ground generally wish to know what the government has *done* since the last review before reporting that PRS implementation is on track;
- PRS APRs don't usually provide that because they are systematic only about “priority indicators”, which tend not to include policy actions;
- underlying this is the fact that PRSPs tend to have truncated Logframe structures at best;
- so they are objectively in need to the kind of “operationalisation” that PAFs provide;
- thus, both the focus on policy actions that characterises PAF and the donor unwillingness to rely on APRs have their origin in the characteristics of the typical PRS;



- these characteristics reflect the political conditions that shape the scope and character of policy making in the typical PRS country.

In short, there are solid grounds for PAFs to stay focused on the policy actions that need to be undertaken to meet PRS objectives.

### ***Dissecting the case for results-based conditionality***

This raises the question why the idea of shifting towards results' monitoring (even if it requires a major investment in improving the quality and availability of results' data) seems so attractive to so many. We offer two explanations. One is that many have fallen victim to some simple *non sequiturs*, which have gained credibility by sheer repetition and lack of contestation. The other is a particular application of our thesis, stated in more general terms earlier, that donor staff and consultants frequently misunderstand in quite a serious way the politics of policy in PRSP countries.

The following is the typical syllogism:<sup>15</sup>

- it is established that policy ownership matters for effectiveness;
- the traditional form of policy conditionality prevents ownership from developing, and is anyway often inflexible/dogmatic in content;
- therefore, we need a form of conditionality that incentivises government to develop its own policies;
- this can be achieved by focusing conditionality on progress in meeting shared outcome objectives.

This argument is logically loose at several points. First, it does not follow from the proposition that the traditional form of policy conditionality was bad for ownership that the focus on policies is the source of the problem, so that focusing conditionalities on something else is the solution. Second, there is no reason to restrict the alternatives to a different form of conditionality (why not consider the now standard alternative of greater selectivity?). Third, and rather more substantively, the incentive effects of focusing on results are asserted but not backed by any kind of argument from evidence. They represent, at best, an act of faith.

On the first point, it is worth reminding ourselves that the research literature on adjustment lending was not comprehensively damning about policy-based conditionalities. What came in for particular criticism was the performance of complex reform measures where these lacked significant domestic support. It is not clear that conditionalities that are aligned with the policy preferences of significant political constituencies in the country necessarily do badly, especially if they involve simple, self-contained actions of the flick-of-a-switch type. Without looking more closely, we should not be assuming that PAF actions are "traditional conditionalities" in the above sense.

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<sup>15</sup> This is based on the argument of the report on the Burkina Faso conditionality reform pilot exercise for the SPA (Zongo et al., 2000), which has been reiterated in most subsequent EC statements.

On the second point, it may be that the EC is not attracted by the type of selectivity at the inter-country level that was mooted following the original Burnside and Dollar research on aid effectiveness (World Bank, 1998) and has since been adopted in initiatives such as the Millennium Challenge Corporation. But selectivity is not just an option when deciding which countries to assist. It is also applicable in deciding which countries to support with budgetary aid (as opposed to sector common baskets or projects). And most relevantly for the present argument, it can be applied to what specific measures are selected as prior actions or performance measures to be included in a budget-support PAF.

For example, if it is the case that the donors and the government have fundamental disagreements on a particular proposed measure, there would be a strong case for leaving that particular measure out. There is certainly no logic that requires that because *some* of the policy content of a PAF is never likely to be owned by the country that *all* of the policy content should disappear. As suggested below, this needs much more research.

The third point is that the EC assertion about incentives arising from results' monitoring is implausible on the basis of an extremely large body of research on political systems and policy processes in poor countries. We develop this argument in the next subsection.

### ***Political naivety of results conditionality***

It is conventional to concede that assessing performance by results is problematic in a couple of respects. First, it is unreasonable to penalise a government for the effects of factors outside its control, such as a drought or a collapse in the price of a key export crop. Second, there are time-lags in implementation which imply that the most recently observed changes in outcomes may not be attributable to the most recent policy actions or resource inputs, even assuming all the data are available and reliable. Hence, holding the government to account for the observed results will often be quite difficult.

The conventional response from advocates of the approach is that it is the quality of the policy dialogue that matters. The donor is expected to approach the performance data in a non-mechanical way that recognises all the genuine difficulties of attribution, and discounts the effects of exogenous shocks, but also reinforces the general idea that the results are what matter and it is up to the government to find for itself the best way of getting them. A conventional rebuttal points out that this kind of flexibility, while very necessary once one goes down the road of results-based disbursement, works against important objective of predictability in funding flows.

So far, so good. However, the standard treatment of the attribution and accountability difficulties associated with results conditionality does not go far enough. The approach is shot through with unjustifiable assumptions about the nature of the aid relationship and its political basis in particular. First, there is an implicit assumption that the preferences of the donor and the recipient are aligned moderately well at the level of results, even if they do not have the same

ideas about policy. On this assumption, the recipient has no strong reason to subvert the intentions of the donor when it comes to defining policy actions. Unfortunately, the notion donors and recipient governments (the politicians) are in closer agreement on final objectives than on ways of getting there is only superficially persuasive. Of course, politicians are in favour of better health and education outcomes for poor people, like everyone else; they may even sincerely espouse this as an objective. But that is not the test; the test is whether in practice they choose actions that would promote that objective over actions that correspond to any one of the other objectives they have as participants in a particular sort of political and social system.

Second, the argument implies a picture of the recipient government as a well-coordinated, rational actor, such that policy dialogue with it has real incentive effects where it matters. As we have already said, however, this does not correspond to the picture provided by political science. Under the conditions described in this literature, it is quite bizarre to suggest that a focus on results gives a government “a strong incentive” to improve its policies. Even less persuasive is the suggestion that the use of outcome indicators serves to hold the government accountable before its electorate (Zongo et al., 2000: 5).

Under the actual conditions of African politics and public administration, the only accountabilities that have any chance of being effective are those where attribution is utterly straightforward and the time-lags non-existent. When well specified, policy actions and other inputs meet these criteria; some outputs may do; outcomes will do so almost never. It might be different if the government were working with policies which had all the features of a well-worked Logframe and which were the subject general agreement. Then some tracking back of poor results to the actions and persons specifically responsible might be possible. But that is to assume that a host of well-known problems have already been solved.

Under present conditions, therefore, it would be irresponsible to abandon the current approach to PAFs in favour of results’ monitoring. If giving governments more room for policy innovation were really likely to lead to the flowering of national development initiative that the EC argument implies, there would be hardly any principal-agent problem and barely a need for conditionality of any sort. But the world is not yet like that.

## **6 The alternative**

Instead of pretending that there is a close congruence between donor and recipient interests, so that “micro-management” can be safely abandoned, budget-support donors should be paying attention to learning about what parts of the policy-action monitoring are producing useful results and what parts are not, and why. Our general position is that a way forward should be sought in three areas:

- ❑ identifying policy and process conditionalities that are more likely to work because they are built on and serve to buttress policy options adopted by (sections of) government, with support from outside government;

- ❑ a greater selectivity, both in the choice of budget-support partners, and in the selection of policies that are to be advanced by means of budget support; and
- ❑ more deliberate and coordinated use of complementary measures to help create the conditions for wider application of the budget support modality.

### ***Conditionalities that are more likely to work***

There has been very little systematic study of these issues during the relevant time period.<sup>16</sup> Views about the effectiveness of conditionalities of different sorts are still mostly based on an era of arms' length adjustment lending that is now past in many countries. As Killick has argued (2004), this is one of a number of components of the current aid policy agenda that is in grave need of a stronger empirical basis. What this calls for is systematic research, and not just evaluation. The current round of GBS evaluations includes some thematic work on PAFs that will be relevant, but it was not set up to fill this gap in our understanding.

What would be the hypotheses that such a research programme might test? Nothing we have said implies any reasons to doubt the finding from the research on adjustment lending that externally-imposed policies tend to fail, especially where complex institutional reforms are concerned. One implication is that conditionalities should not be multiplied without good reason, which creates a *prima facie* case for thinking that PAFs containing 100-plus items cannot be good and that both streamlining and consolidation of conditionalities are strongly to be advocated.

This research also suggests that emphasis should be placed on desirable policy measures that, as well as being easy to implement, benefit from some degree of real commitment on the government side. This may be because they are in the PRSP (when it is thought that this benefits from some political backing), because they have the active support of the President or a significant section of the political leadership, or because they may not yet command official support but have been the subject of a genuine internal policy debate, creating a real potential for policy change.

These seem to be the conditions under which PAFs and PAF reviews have served to stimulate policy action in countries like Mozambique, Tanzania and Uganda.<sup>17</sup> It is not necessary that the actions are the subject of a *consensus* within government. Indeed, if that were the case – if real preferences were fully aligned – there would be no need for any degree of conditionality. It is enough that the president is in favour (e.g., perhaps, President Mkapa and the simplifying of the issuing of business licences in Tanzania in 2003/04). Where the support is

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<sup>16</sup> However, Koeberle et al. (2005) provide an excellent overview of the issues and the state of debate.

<sup>17</sup> They are also suggested by the findings of the last generation of research on adjustment conditionality as represented by Killick (1998). Killick saw a residual role for just two types of conditionality – a “pro forma” conditionality, which simply smoothes the path of agreed policy reforms, making them more orderly and assured, and a limited application of “hard core” conditionality, where it serves to “tip the balance” between reformers and opponents of reform within the government (ibid: 188-89).

at the senior technical level, such as Permanent Secretaries in ministries of finance, they do seem to have been able to use PAF/PRSC prior actions to whip their colleagues into line or make things happen on time. But the condition for that seems to be that those officials have had presidential protection. The conditionalities would not have worked in the same way in the absence of this factor.

Another important element is the willingness of the donors – and most particularly the Bank’s Country Director – to employ a *style* that is sensitive to the political acceptability or otherwise of particular policy actions. This seems well-supported by the experience in Tanzania (IMG, 2002) and Uganda in recent years. It may well include a willingness to lend support to policy proposals that are not first-best solutions in terms of current international thinking but are feasible and command a growing local consensus. All this may have some of the dangers that Harrison associates with a “post conditionality” approach (compromised judgement), but if it works to get good, or good-enough, measures implemented, that trade-off might be acceptable.

Although research is needed to confirm these hypotheses, waiting for it to be done is not an option in trying to get a better handle on the challenge of alignment. It will therefore be necessary to go for the next best thing – a serious collective reflection on actual experience in each country with a budget-support programme.

In a number of countries, there is already quite a rich body of experience to draw on. Given typical rates of staff turnover, the main concern is not that there will not be enough evidence but rather than it has not been recorded and “institutional memory” will be quickly lost. We would therefore propose that this is an urgent task to be undertaken without delay. It would be a serious mistake to rush headlong in the direction of a “light” PAF and results conditionality before having taken at least some elementary steps to bring together some conclusions on what has worked and what has not in the recent past.

### ***Selectivity and complementary actions***

Our suspicion is that a serious enquiry into the above topics would lead to an at least partial vindication of some forms of policy conditionality under some sets of circumstances. If that were to prove not to be the case, the only other option is some form of selectivity. Selectivity is usually thought about narrowly in terms of choosing among countries, but it doesn’t have to be.

Selectivity in GBS management could consist of a decision to focus only on policy actions that have enough domestic support for conditionality to work in the way described above, and to exclude others from the scope of the budget-support operation. That would not necessarily mean ignoring them altogether, especially if the actions in question are thought to be among the critical preconditions for better developmental performance. It might mean – for those donors that are allowed to do so – engaging actively in the public intellectual life of the country with a view to shifting public opinion in a new direction. This is one

of several ways in which greater selectivity should imply complementary action to work on the conditions that make selectivity necessary.<sup>18</sup>

For example, it seems to us unlikely that a sensible approach to institutions for agricultural growth in Tanzania is going to be achieved by technocratic policy dialogue in the margins of the PRBS review. The whole climate of opinion in the country on issues such as this, where not only ideology but also important vested interests are involved, is very far from what modern research-based knowledge would suggest as a sound basis for policy. New sources of intellectual conviction as well as political arguments of quite a fresh sort would be required to create the essential ingredient of country policy ownership. PRBS donors should simply decide to pursue this crucial topic by other means.

It is entirely possible that in some countries, this sort of selectivity of focus would rapidly reduce the PAF to an extremely slim affair. That too should probably be countenanced (e.g. in Malawi right now). The option of not doing budget support at all, even if there is a PRSP, should also be on the agenda wherever there is no real coincidence of objectives or potential for domestic accountability. And, of course, where policy debate of any kind is possible because basic freedoms are not respected in the country, the donor agenda has to concern itself with helping to alter some of the political fundamentals.

### ***Getting to grips with politics and the state***

Finally, it is time to reopen the debate about aid selectivity among countries and see if it can be given a new twist. Country selectivity has got a bad name for two reasons. First, it seems morally distasteful to deny aid to countries with abysmal policy regimes and very poor populations, given the evidence that aid brings benefits of some kinds to some degree whatever the policy regime. Second, the criteria currently in use for distinguishing between “good” regimes and “bad” are the subject of considerable debate. Even supporters of the various measures for assessing governance standards concede that they are only weakly grounded the lessons of international development experience. They therefore provide an insecure basis for selectivity by donors, especially the sort of coordinated selectivity that would make a substantial difference to funding flows.

Both objections have, however, begun to be addressed in recent contributions. For example, Lockwood (2005) makes a compelling case for focusing aid policy more deliberately on what he considers the key missing ingredient of poverty reduction in Africa, the developmental state. He argues that the first objection could be handled by separating country assistance into the provision of a floor based on need alone, and a variable component allocated selectively (but in a coordinated way, not by one donor acting alone). After making the point about the shortage of robust selectivity criteria, Lockwood is led down a path leading back

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<sup>18</sup> Killick’s (1998) plea for an intelligent *combination* of encouragement of country ownership, selectivity, technical assistance and efforts to change the country-level intellectual climate, remains as relevant as his defence of a residual use of conditionality. It has to be recognised that this approach risks promoting incoherent policy packages and creating sequencing disorders. Such possibilities would need to be taken into account in selecting the mix of conditionalities and topics to be addressed by other means.

to outcome-based measures. For the reasons given, we think this particular step is a mistake. However, Lockwood's plea for a radical reconsideration of these issues remains compelling, as well as supported by other recent work (e.g. van de Walle, 2005).

The elements of an alternative approach are still being formed. Along with the coordinated and well-publicised selectivity advocated by Lockwood and van de Walle, recent suggestions include the construction of a new type of "compact" between the international community and forces within countries that are committed to the long-term objective of constructing a developmental state. Where such forces can be identified, the contents of the compact would be negotiated in a strategic process "backward mapping" from the agreed final objective, rather than based on current conventional wisdoms about good governance (Ghani and Lockhart, 2005). The requirements for such an approach to work are quite stringent. Many of the details are still being worked out. However, this is the kind of radical proposal that merits discussion at this point alongside the more immediate tasks in trying to reconcile alignment and performance in budget-support programmes.

## **7 Conclusion**

It is time to be reminded that PRSPs are a two-sided deal. The deal is that if countries come up with viable, locally-owned policies to deal with poverty, they will be entitled to get a less intrusive form of international support, delivered in a more helpful form. It is correct for the donor community to keep up the pressure on itself to improve aid quality, including alignment with country systems and policies. But there is a danger of slipping into a simplistic understanding of the policy-alignment challenge in which the rather substantial deficiencies of real-world PRSPs and their monitoring systems are ignored. Symptoms of this danger, we have suggested, include the use of words like "partnership" in ways that imply we are already in a situation where there is no principal-agent problem – in other words, where power differences have disappeared and the preferences of donors and recipients coincide perfectly.

An important manifestation of this problem is the current discussion about the relationship between budget-support PAFs and PRS annual reviews and progress reports. We have observed that PAFs and APRs tend to differ in both content and form. This is rightly seen as a difficulty in the context of the Rome/Paris commitments on alignment. But although there are some real worries about the practices of budget-support groups around PAFs, it would be a serious mistake to seek the solutions only on the PAF side of the relationship. A key obstacle is that APRs have not delivered the robust tracking of performance against a plan that would be required to make PAFs and their review unnecessary. The APR problem, moreover, is not so much a lack of technical monitoring capacity; in the typical PRSP country, it is much more a matter of the absence of bureaucratic and political commitment to a rigorous, goal-oriented policy-making process. There are only a few things that budget-support donors can do about this, but they should at least be taking it into account as a major dimension of the alignment problem.

These being the circumstances, we have argued that reforming PAFs to make them more results-oriented is absolutely the wrong thing to do. At best, this would be an act of faith, based on no clear evidence that results monitoring incentivises better policy thinking. At worst, it flies in the face of abundant political-science research into the causes of inferior policy-making and weak accountability in poor countries. Our argument implies that a focus on policy measures that are agreed to be conditions for achieving better results is one of the things that are *good* about current PAFs, and one of the things that are unfortunately missing from most PRS monitoring matrices.

This does not mean that we are in favour of heaping large volumes of policy content into PAFs. Conditionalities do need to be streamlined and consolidated. They also need to be employed much more carefully than in the adjustment era, taking into account the objective of encouraging country policy ownership and the available evidence on the types of conditionality that have some chance of working. These strictures imply using a limited form of conditionality in conjunction with greater selectivity – about what to include in the PAF, about when to provide budget support and about what countries to assist above the minimum demanded by humanitarian considerations. Importantly, budget-support donors should also be taking measures to complement this multi-level selectivity. They should be prepared to participate actively in the country's intellectual life, to help create the conditions in which essential but complex policy measures have some chance of being implemented consistently and with conviction.

The most important practical implication of this argument for budget-support groups is the urgency of undertaking some systematic learning about what seems to have worked well and what seems to have worked badly during the several years in which PAFs and/or PRSC matrices have been in operation. Ideally, this should take the form of a new generation of research studies, as proposed by Killick. But failing that, donor groups should agree to undertake their own exercise, and do it while the leading actors are still in post and institutional memories are still fresh. The object would be to provide an evidence base for applying condition selectivity, and to suggest ways of strengthening local policy processes or engaging with opinion formers.

There is another and more difficult challenge, which is to make a real difference to the quality of the development policy-making that gets reflected in countries' PRSPs. We are not inclined to argue that the restraint that the Bank and the Fund have shown in dealing with the content of PRSPs is mistaken. Even though, in the HIPC phase especially, there has been a great deal of second-guessing of what is likely to be acceptable in Washington, this restraint has increased somewhat the chances of heterodox and locally-adapted policy proposals getting some airing. That is a positive thing. But being restrained about content should not imply making excuses for flabby, inconsequential thinking about how to address the problems that lie behind an abysmal poverty-reduction performance.

Knowing how to play this depends on an excellent understanding of the local political context. We do not think the way to raise the level of policy debate in a country is to make rude and ill-directed speeches at diplomatic cocktail parties. Donor interventions of this sort need to be respectful, targeted and sustained, as



well as well informed about the country's political economy and culture. There is now a minor international industry producing country-level political analysis and political economies of reform for different donors, including the Bank. As we have said, however, most of this is not in the public domain. That is wrong. It is time for understanding of the obstacles to the emergence of effective developmental states in poor countries to come out of the closet. It should become an explicit component of the framework in which budget-support and other aid agreements are negotiated and made public. Anything less is an affront to the poor people that are supposed to be the beneficiaries of this support.

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