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Toward Multi-Year Outcome Based Conditionality

The European Commission (EC) provides budget support since the beginning of the nineties. For ten years we used the traditional policy-based conditionality. We combined World Bank and IMF conditionality with some specific conditionality. At the end of the nineties, we decided to change our approach due to a number of concerns, namely, the high level of subjectivity involved in setting conditions and in assessing their fulfillment, the evidence of the fact that policy conditionality led us very far from looking at the result and the reality in the country, and of the often disproportionate impact of non-fulfillment of conditionality (not enough or too much), and finally the negative impact on the ownership of reforms.

Respecting Ownership

What does ownership mean? What does respecting ownership mean? Respecting ownership means, first of all, respecting national processes rather than developing parallel processes, which are good for us. Respecting ownership also means to agree to disagree, i.e., and some times to disagree to agree.

Agree to disagree : The donors have to accept a difference of views on policy action needs and timing, as well as the need to support national debate and accept democracy. We have to accept political choices different from our beliefs.

The donor community has a long history of mistakes in the advice it gives, e.g., privatization and user fees in education and health. Thus, humility is very important. And the separation of policy dialogue and capacity building from lending and grant conditionalities becomes essential.

The consequence of respecting ownership in the cases when we don't agree on a policy, is that we have to move to monitoring results. We have to accept that the political choices are not the ones we believe in and therefore we have to look at what changed in the reality.

Sometimes, we have also to **disagree to agree**. It is good to remember that ownership doesn't mean to accept everything. Violation of human rights and corruption are not acceptable and disqualify a country from receiving any aid from the EC. These issues have to be part of the political dialogue we have with developing countries. In addition, the EC has some eligibility conditions for providing budget support. They include macro-economic stability, improvements in public finance management, commitment to poverty reduction, and capacity to monitor results. However, rather than having standards we are looking at trends, whether things are improving or not.

We have to move away from current practices, which did not change reality too much. Even in the second generation of PRSCs we find incredibly long lists of conditions and long policy matrices. For example, in PRSC 4,5 and 6 in Burkina Faso we have 17 pages listing 211 indicators and conditions. It is fair to say that they are not strictly conditions (the number of "prior actions" is around 30), however, we ask the government and the task team to negotiate and monitor every indicator. It is very similar in Uganda – the policy matrix includes 241 indicators. I went back to the past structural adjustment

program in Burkina Faso and found that the number of indicators is remarkably stable. The program for Burkina Faso in 1998-2000 included 189 indicators and 236 for 2000-2002. Thus, the number is about the same over time and we have to change it.

We also have to move from the current epidemic of action plans. For example, the program for Burkina Faso requests 18 action plans from the government. We need to focus rather on results and dialogue. A policy dialogue with the government needs to be informed by results and reality rather than ideology.

The EC Approach

The EC tried to change its approach since the end of 1999. The new way of providing budget support is now applied in thirty countries – mainly in Africa to support poverty reduction budgets and PRSP, but now also in Latin America and Asia, to support sectoral policies, i.e., sectoral budget support. The amount of disbursements is about EUR 500 million annually.

One of the objectives is to reduce volatility and subjectivity. The approach is based on three-year programs, which include fixed tranches and additional performance tranches. There is supposed to be only a very limited conditionality attached to the fixed tranches: ideally the only conditionality should be related to macroeconomic stability (but we are actually reviewing if we succeeded in limiting the number of conditions for these fixed tranches.) Additional performance tranches for variable amounts are linked mainly to service delivery, i.e., the change in the life expectancy of the population. We have no other indicators and no matrix.

We try to use service delivery indicators, which are: monitorable, drawn from the government strategy (PRSP when available), and with the potential to change rather quickly. We take into account corrective government actions, if there is any, and external factors which can influence the service delivery. Examples of indicators that may move very quickly include attendance at primary health service, pre-natal healthcare, immunization rates, and net growth of the enrolment rate in the first year of primary school.

Difficulties

We recognize that this innovative approach is not without problems. For instance, it is not always easy to define and agree on the indicators to be used since they are not always included in the PRSP. There is also an issue in setting the target values – sometimes they are over-optimistic, in other cases very low. However, the assessment is much easier than the assessment of policy conditionality.

There were very few cases until now, where there was a good reason for missing the target. But if, like in Mozambique, the Government argues with good reason the non achievement of a target due to the impact of the flood, we may also neutralize the indicator. To use service delivery indicators within the policy dialogue is still very difficult. The support from other donors is limited. On the government side, it is not

always easy to have the time to analyze the results– the move towards this approach requires a cultural change which is not easy, including within our staff.

Availability of data is another problem. However, I believe that it is more the result of the lack of interest we have had for years rather than a technical problem. If we are able to go to Mars, it should be possible to monitor these basic data.

Going Forward

We should move from matrix reality to matrix revolution. The capacity building policy dialogue may take a very different form than these current very long policy matrices. We should move towards result orientation, using more selectivity and less conditionality.

We may need to move even beyond this to new innovative approaches. We are still in the mode of yearly conditionality, which made sense for structural adjustment programs with very specific and fast objectives (macro economic stability and structural reform) and quick objectives fast or quick?. But we did not change our instruments to supporting poverty reduction and to the Millennium Development Goals (MDGs). Having to support longer term reform it may make sense to move from yearly conditionality to multi-year conditionality.

We may learn from the HIPC experience. We agreed to have a threshold, and then to provide financial support, which is not far from budget support, during interim periods, and then, after some limited conditionality agreed, having support forever. So, we should start to think about a similar innovative mechanism with multi-year conditionality for delivering support for achieving the MDGs.