New forms of development cooperation with Africa

A new perspective for rural development

Increasingly, development-policy dialogue between African governments and donors is taking place in the context of joint financing programmes designed to bolster poverty reduction strategies. Measures geared to the promotion of rural development have a key role to play here. This article illustrates how rural development can be supported in the framework of programme-oriented joint financing and highlights some political aspects of this new form of development cooperation.

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Decades of development cooperation with sub-Saharan African states have not been sufficient to halt the rise in the percentage of poor people in the overall population there over the last twenty years. Almost half of the population has to get by on less than one dollar a day. Most of these poor people live in rural areas. Economic growth has been raised somewhat since the beginning of the 1990s, but at 2.2 percent per annum in the period from 1990 through to 2002 it still remained well below average. African states have compensated for their lack of income with financial transfers from industrialized countries. Indeed, most of the states on the continent are extremely dependent on external assistance. According to data from the International Monetary Fund, some 33 countries worldwide finance more than 50 percent of their public spending through development cooperation; most of these countries are located in sub-Saharan Africa. For instance, Uganda covers around 65 percent of its public spending from official development assistance (ODA) (World Bank, *World Development Indicators 2004*).
As many countries on the African continent depend to a high degree on external assistance, harmonization of donor strategies and procedures is of elementary importance in order to enhance the efficiency of development cooperation and thus succeed in reducing poverty. Since the end of the 1990s, donors have been making efforts to improve coordination amongst themselves and to jointly support implementation of partner governments' development-policy strategies. Increasingly, this is being done through joint funding of spending programmes combined with policy dialogue on key reform needs.

Promoting rural development

Most joint programmes in support of national poverty reduction strategies not only address reforms in various policy sectors but also reforms and measures to overcome structural constraints to rural

development. Hence, the joint programmes and Poverty Reduction Support Credits (PRSC) in Ethiopia, Ghana, Mozambique, Tanzania and Uganda, which the KfW Development Bank is backing on behalf of the Federal German Ministry for Economic Cooperation and Development (BMZ), focus on the following measures in the agricultural i.e. rural sector:

- Simplifying and strengthening land ownership rights (Ethiopia, Mozambique);
- Improving the rural population's access to loans (Mozambique, Tanzania, Uganda);
- Creating income-generating options in rural areas (Ghana)
- Enhancing productivity in agriculture (Mozambique);
- Improving the rural infrastructure and further processing of agricultural produce (Mozambique, Uganda);
- Facilitating access by agricultural producers to market-relevant information (Mozambique);
- Strengthening natural resource management in rural areas (Ethiopia, Uganda);

Mali in West Africa still counts as one of the poorest countries, but is doing all it can to achieve slow but steady growth.

- Improving farmers' access to agricultural extension services (Ethiopia, Uganda).

The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) contributes its know-how in German Technical Cooperation to the sector-policy work groups consisting of representatives of partner governments and donors. The joint programme on macro-economic support in Mozambique (see box) is a practical example of programme-oriented joint financing. Besides the European Commission and the World Bank, nearly all of Mozambique's major bilateral donors are helping to finance the programme. The donor community provided a total of 243.1 million US dollars for the year 2004, thus funding almost one quarter of the state budget. Germany is participating through the KfW with a contribution of some 7 million euros (for two years).

As yet, very few sector programmes specifically address rural development. One of them is PROAGRI in Mozambique in which Germany is not involved. Sector-policy dialogue on agriculture and rural development takes place within the scope of PROAGRI, from where it is fed into the joint macro-economic support programme.

Coherent policies

Policy dialogue and joint financing are based on Poverty Reduction Strategy Papers – PRSP. Since poverty-reduction strategies cover virtually all relevant social and economic sectors, they understandably remain quite general in terms of what they have to say about reform projects and individual measures. Furthermore, there is often no clear indication as to which reforms have priority. As a result, governments and donors agree simply to select individual reform projects and measures from amongst the large number of policy plans dealt with in the PRSP.

The development-policy agendas of the World Bank, IMF and a number of other large bilateral donors play a key role in deciding on the themes for policy dialogue, whilst country-driven aspects often tend to be bypassed. It is therefore imperative to deduce medium-term priorities from the PRSP and to harmonize the way in which policy areas interact with each other. The overarching political goals have to be aligned with the strategies for the individual sectors (e.g. with the national agricultural reform programme) and must be taken into account in medium-term financial planning and ultimately in the annual budget. Another key means of achieving more coherent policies is to involve the sector ministries more intensively in the formulation and updating of PRSPs, since this is the only way to ensure that sector-policy strategies can comply with the overarching political objectives (cf. also article by Helmut Asche in this issue)

Timely identification of reform winners and losers

By means of joint orientation to PRSP and a uniform approach by donors, programme-oriented joint financing can develop much greater leverage in support of structural reforms than traditional project assistance is able to. However, the policies agreed on by the donors and partner governments often lead to changes in the distribution of income and wealth and to shifts in power amongst certain groups within the population. Thus, if the programme is to succeed, it is vitally important to have a good idea beforehand of who stands to «win and lose». The amendments to the rights of land use scheduled within the scope of the joint programme in Mozambique are a good example of this issue. Under present legal regulations, land in Mozambique belongs to the state, whilst individuals and farms only have rights of use. Agricultural producers have long-term rights of use, whereby in the small farming sector the village community is responsible for allocating land. If farming enterprises or investors wish to obtain land-use rights from the state, they have to submit a «development plan» and have the village community confirm that the land is still available. Reformers regard this regulation as a constraint for potential investors. Furthermore, they point out that since ownership rights first have to be procured before a loan can be taken out, these rights are a key prerequisite for economic expansion. In contrast, civil society groups attach great importance to the special protection that small farming enterprises have enjoyed to date. They fear that if the rights of use are relaxed, small farmers will be driven off the land by commercial farmers, leading to even greater rural poverty (Oxfam, *The Land Debate in Mozambique, July 2002*).

Joint macro-economic support programme in Mozambique

The programme is designed to support the Mozambique government's poverty-reduction strategy agreed on with the donor community. The fifteen donors involved channel their financial contributions into Mozambique's public budget. The funds are allocated by the country's own institutions in line with pertinent national procedures and rules. The provision of funding goes hand in hand with an intensive policy dialogue targeting good governance. In this way, the donors are able to exert considerable influence on the further concretization, implementation and monitoring of the poverty strategy. The themes covered in the policy dialogue include:

- Access by poor population groups to health care, education, drinking-water supplies as well as the expansion of the road infrastructure;
- Promoting agriculture (rights of land use, marketing information systems, agricultural loans);
- Framework conditions for the private sector (including, banking supervision, tax reform, procurement system);
- Good governance (judicial reform, reform of the civil service).

A Memorandum of Understanding, signed by the government and all donors, lays down the principles of cooperation, in particular the programme's objective, policy dialogue, funding commitment and disbursement policy, monitoring procedures, reporting and accounts auditing.

To be able to work out in advance how the reform is likely to impact on the distribution of income and wealth amongst the various population groups and to pinpoint which other social and economic impacts are to be expected, several donors are currently preparing a Poverty and Social Impact Analysis (PSIA) in Mozambique. This analysis is to be a basis for working out different political options for intervention. PSIA has now established itself as a standard instrument in joint financing and helps donors to assess the political feasibility of a given reform plan.

Conditionalities versus planning security

For programme-oriented joint financing (PJF) to succeed, it is imperative that donors send out the same political message to partner governments. This is not just about how donors view the contents of policy dialogue, but about the conditions on which they base their financial support and when they regard these conditions as having been met. Partner government's compliance with specific terms is usually the pre-condition for disbursement of funds by the donor. The conditionalities themselves are agreed on in a process of dialogue between the partner government and the donors. From the donor's perspective, conditionalities are necessary, because tax payers in industrialized countries will only accept the legitimacy of non-earmarked financial aid, if the agreed reforms are actually implemented. For their part, African countries are urgently dependent on financial assistance. Thus, to gain access to development cooperation funding, they are inclined to consent to the donors' development-policy concepts and demands even when they are not fully convinced this is the right approach. Now that donors are harmonizing the conditionalities for disbursement amongst themselves, partner countries that fail to comply with the terms imposed on them may well face some serious financial bottlenecks. This is because a substantial share of the partner country's budget resources will be channelled through joint programmes involving, in some cases, ten or more donors. If the donors refuse disbursement because the terms have not been met, the partner country's scope for action is severely curtailed. So as not to endanger political stability, donors will tend to pay out the funds anyway in cases of doubt, even if key conditions have not been met. The donors' «full weight», based on their unity and joint financial clout, although enabling them to influence reform processes, might under certain circumstances be too great to really be brought to bear.

On the other side of the coin, the partner country regards planning security based on a reliable influx of funding as indispensable for the implementation of reforms in the public financial system, specifically for comprehensive and coherent budget planning. The contradiction between the terms placed on financial assistance and the partner's planning security can only be resolved to a certain extent. Nevertheless, the scope available should be exploited. To this end, donors have to take leave of the notion that they can «buy» certain reforms. Conditionalities can only lead to success, if they are in both sides' mutual interest. Donors must therefore learn to better understand the political balance of power and to interpret the specific power interests of certain groups. PSIA can prove very useful here. Using this method, potential conflicts of interest and any possible obligation to act on the part of the government can be determined in advance and taken into account when negotiating terms and conditions. Sometimes, however, it becomes difficult to meet certain conditionalities when too many reforms, action plans and individual measures have been agreed on which, taken as a whole, overtax the partner's implementation capacity. It has therefore proven expedient to agree on a few, but substantial conditionalities.

Another possible means of bringing better planability of external financial assistance into line with political conditionalities could be to tie just a portion of the donor funds to the fulfilment of conditions. A suitable approach would be to break down disbursement into a «basic segment» and a «performance segment», as used in the multi-donor budget support programme in Ghana. Whilst the basic segment is not bound by any conditions, apart from the IMF's positive assessment of the partner country's macro-economic policy, the political conditions could be centred on the second, performance-based segment. In this way, it would be possible to limit the impacts on the budget that any failure to comply with the conditions might have, without however having to dispense with any performance incentives.

Conclusion

Thanks to its greater leverage (uniform approach by donors, high volume of funding), programme-oriented joint financing offers a chance to bring about structural changes in rural areas too. The challenges that have arisen are largely independent of the sector being promoted (agriculture, education etc.). Policy dialogue can only succeed if both the government and other key actors in the partner country really want to have the reforms. Based on this insight, donors have now started to gear their cooperation inputs to their partner countries' national development strategies. At the same time, however, it has become apparent that the low level of coherence of national policies continues to give donors substantial influence on the choice and conceptual design of reform projects.

Since donors are unsure how far partners are actually willing to implement reforms, they make their financial assistance dependent on certain conditions which, should they not be met, leave them facing a dilemma: either they accept non-compliance or they suspend payments, thus halting the process of reform that is kept being alive by international aid. To avoid this situation, donors have to take a closer look at the structures governing political power play and the systems of incentives in the partner countries. Furthermore, it is advisable to make just some of the financial assistance conditional on the fulfilment of certain terms.

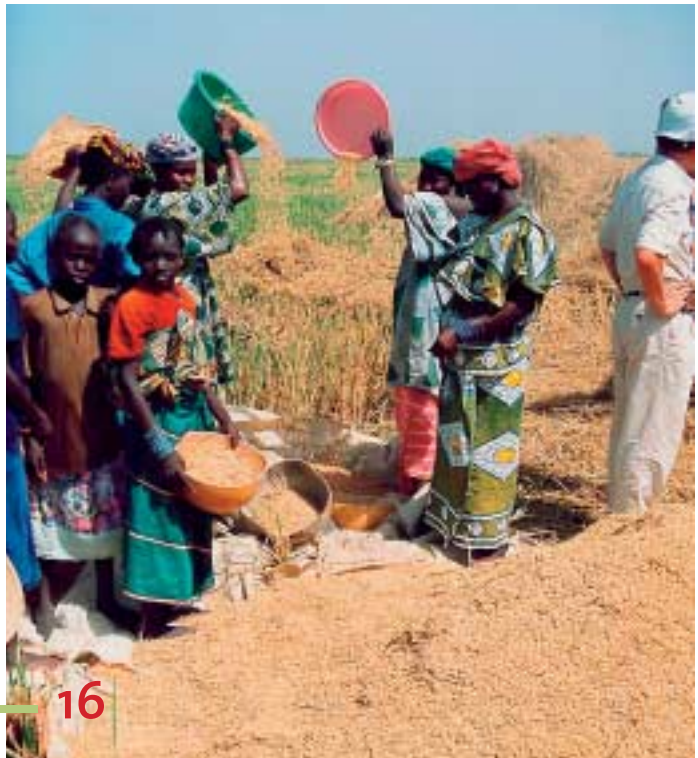

Photo: KfW

Joint programmes focus in particular on development in rural areas.

Poverty-oriented budget aid in countries of Eastern Africa

The KfW development bank is supporting the poverty reduction strategies (PRSP) of some countries of Eastern Africa, amongst other things by participating in general budget aid.

In Uganda, German Financial Cooperation (FC) is co-financier together with other donors to the World Bank PRSC programme and supporting Uganda's Poverty Eradication Action Plan (PEAP) with 20 million euro. 52 percent of the overall development cooperation funds are provided as budget aid, which now finances 25 percent of the national budget. The PEAP adopted in 1997 aims to achieve a balanced economic and social development that will improve the living conditions, particularly of poor people. Uganda has achieved significant success in implementing this plan.
The World Bank's PRSC programme aims to comprehensively improve basic public services in the agriculture, health, education and water sectors, and to achieve better governance and budget management. Donor coordination activities take place in several committees and thematic groups in which KfW and GTZ are involved.

Experiences to date: The sector working groups are effective and feed the sectoral perspective successfully into the budget aid process. Moreover, the Uganda Partnership Principles are held to be an exemplary basis for dialogue between the government and donors. They lay down the principles for harmonized cooperation and reduce the partner-side's inputs in carrying out development cooperation. Despite the lower financial contributions made (4 million euro Financial Cooperation funds per year compared to 150 million US dollars from the World Bank), German Development Cooperation is perceived as an important donor. This is particularly the result of its active role in the water sector. In the scope of the PRSC, the KfW development bank is able to give meaningful flanking support to Germany's commitment while at the same time supporting the PRSC, and hence Uganda's poverty strategy. Experiences in other countries show how difficult it is to implement poverty strategies when they do not have a sound «sectoral base».
The positive experiences gained contrast with numerous challenges and risks: efforts to fight corruption have only taken their first hurdles, although the government has already satisfied major prerequisites. Nor has any real breakthrough been achieved in reducing poverty. A critical moment was the unilateral decision to increase defence expenditures. However, in view of the resoluteness of the donors implementing budget aid, this could be retracted to a large extent – an example of how budget aid is also able to address delicate issues.


Photo: KfW

In Tanzania, the KfW development bank participates with 5 million euro per year in financing the PRSC programme. Budget aid makes up 36 percent of overall development cooperation funds and 16 percent of the state budget. Like in Uganda, the inputs of sector working groups benefit the good coordination and harmonization culture amongst donors. Relationships with the Tanzanian Government are set down in a document similar to the Uganda Partnership Principles. Political stability and good macro-economic prospects of the country also play a helpful role. Whereas in Uganda corruption is still a problem, Tanzania is faced with absorption problems in poverty-relevant sectors and at decentral levels.

Conclusions

Budget aid opens up and improves the systematic and comprehensive policy dialogue and makes it possible to carry out a meaningful macroeconomic framework planning that is geared to reducing poverty. In addition, difficult topics such as corruption can be persistently targeted. Donors are able to «accompany» the entire development programme of the partner government. Such leverage is hardly possible with traditional project-based approaches. PRSC cofinancing gives German Development Cooperation an «admission card» to constructively co-shape this policy dialogue.
At the same time, budget aid promotes donor harmonization, although it does cause additional inputs for the donor side. Nevertheless, budget financing should not be reduced to this potential benefit, because it does not come automatically and can involve hazards, for example when donors have varied conditionalities or if individual donors' disbursement reactions differ when a crisis situation crops up.
The experiences gained in Tanzania and Uganda also demonstrate that budget aid involves specific risks: the trustee risks (incorrect booking, misuse, inefficient expenditures) are joined by macroeconomic risks and the political risk of not sufficiently involving parliament and civil society (which can thwart a government's self-responsibility). The partner government bears the risk that its budget implementation can be affected if donors do not disburse funds in good time. All these risks need to be carefully analysed, but they should be weighed up against the considerable development-policy benefits achieved.
Even though it is too early to evaluate the overall development policy effectiveness of PRSC cofinancing, the results achieved to date are considerable: donor harmonization has advanced, the political dialogue has demonstrably been strengthened. In Uganda, the performance capability of the public administration has improved, major social indicators such as water supply have developed favourably.
These initial experiences demonstrate that budget aid can effectively contribute to implementing a country's poverty reduction strategies and, as flanking support to sector reforms, it complements the traditional project approaches. An «instrument-mix» of this kind also further dovetails bilateral and multilateral development cooperation activities.

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