

BUILDING CAPACITY TO FINANCE DEVELOPMENT: LESSONS FROM 40 COUNTRIES

Matthew Martin

Development Finance International Group

OECD GDF Seminar

Paris, 28 September 2007

STRUCTURE

- Introduction and context
- Why is capacity important ?
- Current capacity levels
- Capacity-building initiatives
- Next steps

INTRODUCTION AND CONTEXT

- DFI Group runs 2 capacity-building programmes:
 - ◆ HIPC CBP working since 1997 with (now 36) HIPCs to build capacity for debt and aid management (funded by Austria, Canada, Denmark, Ireland, Sweden, Switzerland, UK and now 35% by the countries)
 - ◆ FPC CBP since 1999 with 25 developing countries on capacity to analyse and manage private sector flows (funded by Denmark, Sweden, Switzerland, UK, 45% by countries)
- Capacity-building actions organised by regional organisations financed and run by developing countries, and executed 95% by developing country experts helping one another (shows high existing capacity levels)
- Presentation based on countries' analysis and resulting publications – for details see www.development-finance.org, www.fpc-cbp.org and www.hipc-cbp.org.

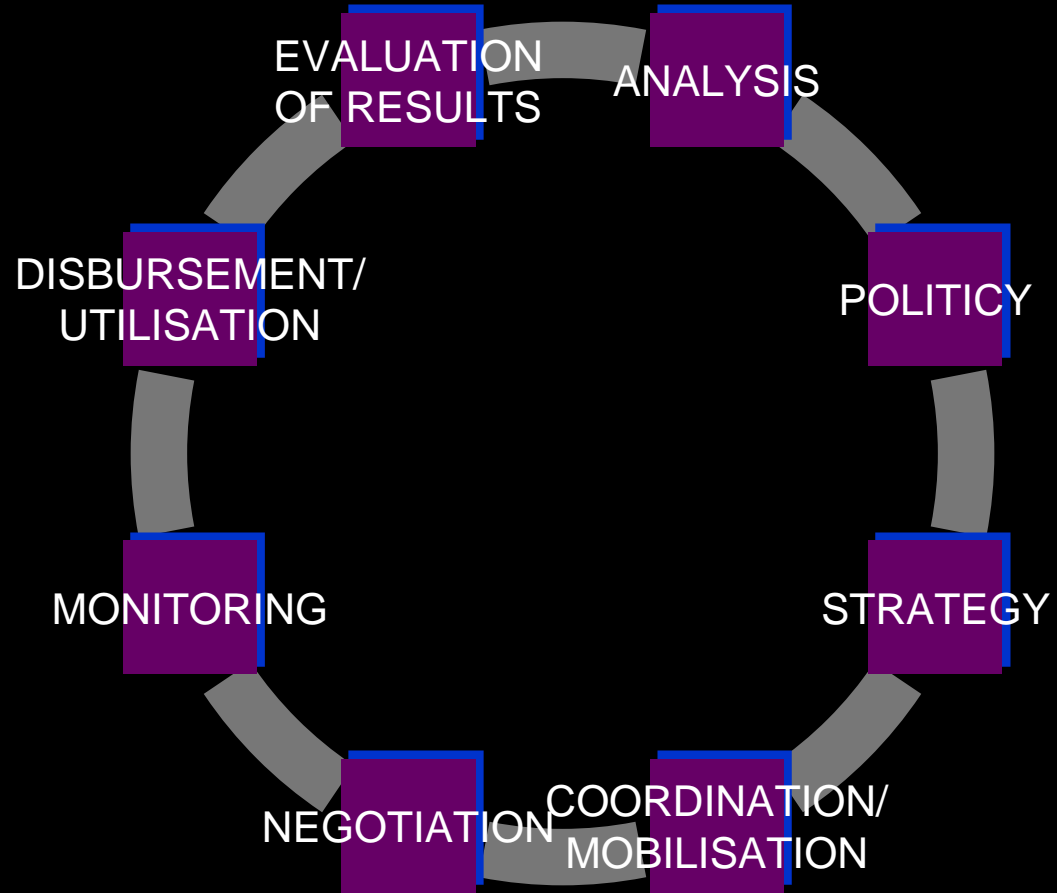
WHY IS CAPACITY IMPORTANT ?

- **Leadership (>ownership) and “Political Will”**: possible only if countries design and execute own financing policies/strategies
- **Reducing Conditionality ?** : do donors reduce demands as confidence in national capacities grows ? Or just change their nature ? Do they use lack of capacity as excuse not to execute their promises ?
- **Democratic Responsibility**: national analysis essential to country-level dialogue (with parliament, CSOs, private sector)
- **Long-Term Sustainability**: cannot depend on technical assistance or donor financing
- **Mutual Accountability**: impossible to promote responsibility by donors, CSOs and private sector of government cannot monitor, analyse, evaluate and negotiate to ensure they implement their promises
- **Best Quality Financing**: with maximum results for development and poverty reduction

CURRENT CAPACITY LEVELS

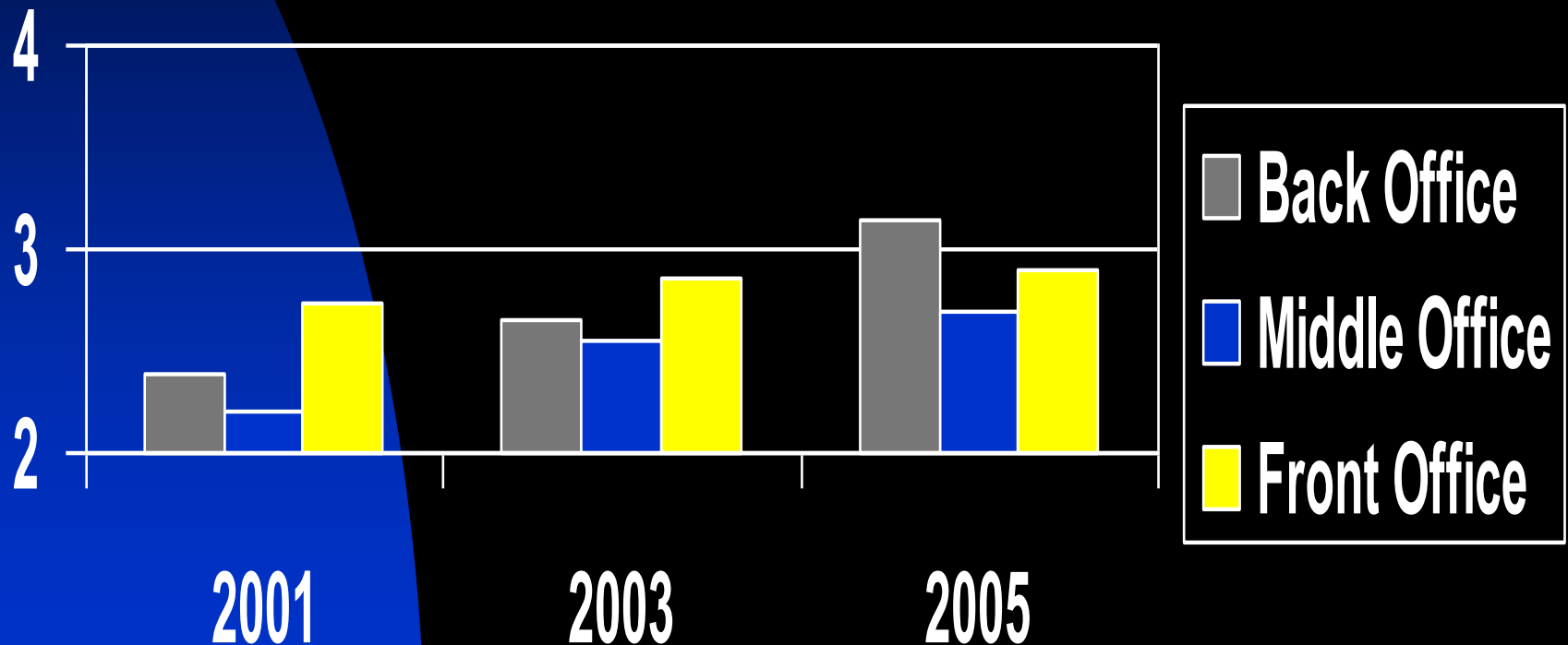
- Vital to define capacity broadly (political commitment/use of capacity, institutional and legal structures, working procedures and coordination, staff technical skills) for accurate picture
- 40 countries participating in CBPs evaluate their own capacities annually (give selves scores from 1- low - to 5 – high) in 14 areas, identify gaps and measures to fill, design action plans
- Self-evaluation essential for ownership, and is very realistic (if necessary quality-controlled by regional organisations/DFI)
- Split into three main types of capacity:
 - ◆ “Back office” – monitoring and recording
 - ◆ “Middle office” – analysis, design of policy/strategy and evaluation of results
 - ◆ “Front office” – mobilisation/negotiation/disbursement
 - ◆ Cross-cutting issues such as managing for results

FINANCING CYCLE



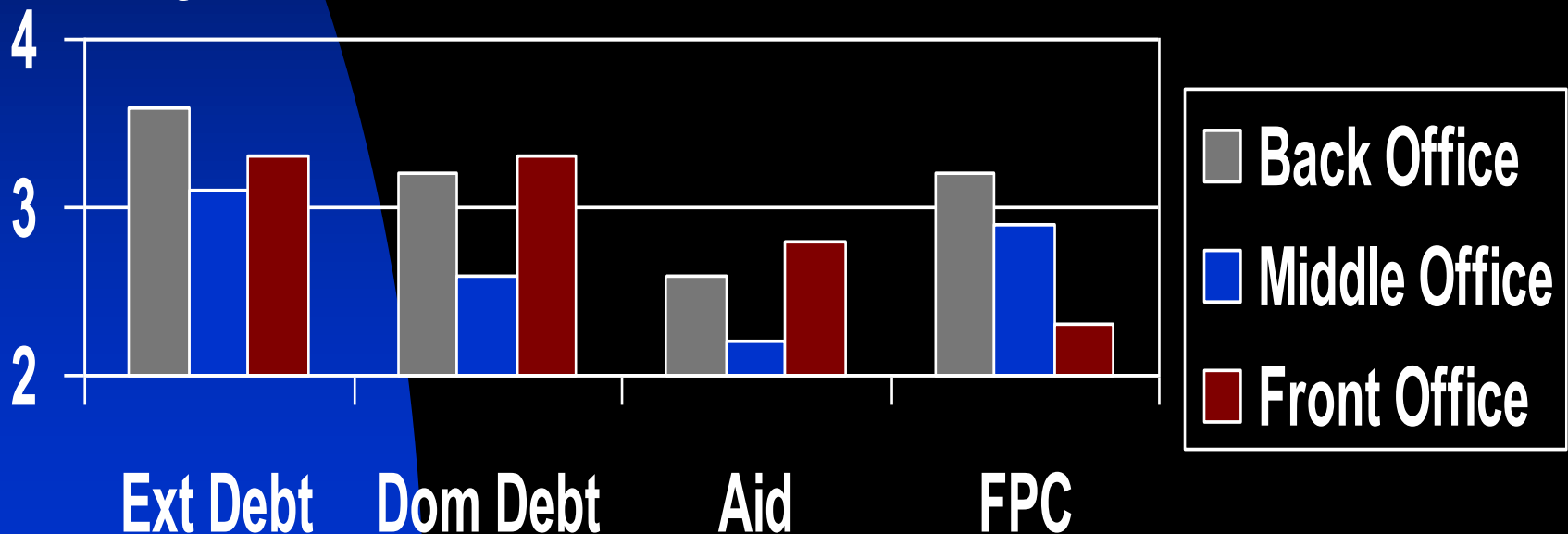
RECENT PROGRESS – BY “OFFICE”

- **Back office:** big improvement since 2000 (more on debt than grants, much less FPC)
- **Middle office:** capacities have increased but still much lower
- **Front office:** higher at start but less rapid progress



CURRENTLY BY FINANCING TYPE

- **External Debt:** much higher at start, esp. monitoring, big improvement in analysis and negotiation since 2000 but still important needs
- **Domestic Debt:** improvement in monitoring and mobilisation but long-term analysis missing in many countries
- **Aid:** monitoring (except NGOs) and some aspects of coordination/mobilisation strong, but analysis/policy/strategy/evaluation very weak
- **FPC:** countries participating in CBP have advanced in monitoring and analysis, but lots to achieve on capacity to mobilising better private financing



CAPACITY-BUILDING INITIATIVES (1)

- Progress has depended on efforts by international community and developing countries to build capacity – can progress rapidly
 - ◆ (A lot of “capacity-building” is renamed but not redesigned TA)
 - ◆ International community still confused about definition of capacity-building – not about type of assistance (training, missions) but about designing to increase national ability to mobilise financing
 - ◆ Risk of complacency - Paris Declaration Survey says 43% of TA coordinated by countries ! – but evaluation by 30 HIPCs indicates <20% allows them to build their own capacities
 - ◆ Major priority for Paris to define better what capacity-building means
- What are the initiatives ? (focussing more on aid)
- Back office:
 - ◆ Major efforts on monitoring - Comsec/UNCTAD on debt, DAD/AMP/DCR on aid, surveys/other systems for FPC
 - ◆ Need to improve monitoring of “quality”/effectiveness
 - ◆ Accelerate transfer of software design/adaptation to countries

INITIATIVES (2) – MIDDLE OFFICE

- Policy design
 - ◆ Most HIPCs have own debt policies
 - ◆ Aid policies often written by consultants and/or negotiated with donors so too limited to Paris criteria (acc. LICs omit key aspects such as conditionality, aid against exogenous shocks, volatility) – but are exceptions such as Guyana/Mozambique/Niger
 - ◆ Private flows: many have policies but mostly incentives to attract rather than maximising development contribution
 - ◆ Very few strategies cover all flows (Vietnam ?) – but many countries intend to during 2007-10
- Strategies to execute the policies
 - ◆ Most HIPCs have strategies to execute their debt policies including forecasts of impact on all macroeconomic sectors
 - ◆ Very few have strategies to negotiate alignment donor by donor (Rwanda) or to forecast impact on dependence/development
 - ◆ Efforts to design strategies to enhance FPC contribution to development and poverty reduction on basis of analysis of impact on BoP/macro-economy/corporate responsibility

INITIATIVES (2) – MIDDLE OFFICE

- Analysis of donor behaviour and aid absorption
 - ◆ Some countries have written “guides” to donor practices (Ethiopia, Ghana, Guinea, Guyana, Rwanda) and others using CBP guide to donor best practices (soon to disseminate widely in cooperation with ODI)
 - ◆ HIPC’s now evaluating donor progress regularly using evaluation system they have designed (including but beyond Paris) – results very different from Paris
 - ◆ Macro absorption/Dutch Disease (relates to all flows) – very few countries have done independent analysis (via consultants), therefore IMF predominates
 - ◆ Micro Absorption – very few countries have analysed in detail where are the blockages and delays at each stage of disbursement and by donor/sector/aid type

INITIATIVES (3) – FRONT OFFICE

- Public finance management (budgets, accounts, audits – PEFA/WB) and procurement (OECD/WB) major efforts
- Very important but too much focus compared to middle office (?) and too designed by opinions of donors on best practices with them then evaluating developing countries – need much more input and self-evaluation by countries if to lead reforms
- Coordination and Mobilisation (UNDP/WB) – need to focus on “Results and Resources” in all countries, with analysis produced by countries, and rationalise coordination meetings (sectoral/national/global)
- Negotiating New Financing to maximise alignment in each donor strategy/programme/project – CBP doing
- Key need is negotiation capacities

INITIATIVES (4) – FOR WHOM ?

- Efforts too concentrated on Finance/Planning Ministries and Central Banks
- Insufficient support for sectoral ministries, parliaments, decentralised government units, independent institutions such as auditor-general/audit office/Cour des Comptes, esp. civil society
- Therefore these actors often judge aid on basis of disbursement speed, who are beneficiaries etc
- (AfDB study on results of “scaling up” for MDGs) – best results where all these actors and especially citizens have capacity to monitor and analyse effectiveness and results of aid as well as spending, and mechanisms to hold government accountable

NEXT STEPS (1)

- Top priority: that each country (government with civil society) design and execute its own national financing strategy
- Execution in terms of aid (steps):
 - ◆ country (gvt and civil society) to analyse and document regularly donor progress at national level
 - ◆ compare with best international practices of donors, to fix realistic annual targets for each donor
 - ◆ negotiate greater alignment of each programme/project, and refuse poor-quality finance (“no” or “yes, BUT”)
 - ◆ diversify (for most countries) or rationalise donors
 - ◆ improve government performance (monitored by parliament/CS)
 - ◆ as “icing on cake” of government monitoring donors, publish independent reports on donor progress to encourage mutual accountability, peer pressure and solving difficult issues

NEXT STEPS (2)

BIGGER PICTURE NEEDS – OR CAPACITY WONT HAVE RESULTS

1. Political will to use capacity, lead donor discussions, insist on mutual accountability, learn lessons from other countries
2. Democratic commitment to ensure accountability to parliament (budget defining detailed financing quality targets), and to civil society
3. Donor political openness: accept that countries can go beyond Paris criteria, agree bilateral targets, press recalcitrant peers
4. Show impact of building capacity on financing
5. Information on best international practices:
 - ◆ Analysis of global issues (allocation, scaling up, orphans)
 - ◆ Analysis of donor best practices/relative performance
 - ◆ Analysis of success stories including capacity-building (eg sectoral pooling/gvt contracting in Mozambique/Rwanda)
- Only if countries put in charge of policy/strategy, evaluation, analysis and negotiation, supported by bigger picture, can we meet either Paris targets or MDGs