

Partnership General Budget Support: Nicaragua Brief



The Joint Evaluation of General Budget Support 1994–2004 was commissioned by a group of 24 aid agencies and 7 partner governments to assess to what extent and under what circumstances GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth.

This independent study was led by the International Development Department of the University of Birmingham. Its outputs are a Synthesis Report, and seven country case studies, for Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam.

Origins and organisation of PGBS in Nicaragua

Several factors created an impetus towards Partnership General Budget Support in Nicaragua:

- Debt relief under the Heavily Indebted Poor Countries (HIPC) initiative led to preparation of a national poverty reduction strategy.
- It also helped to accelerate institutional reforms, and suggested that budget support might have similar influence.
- Donors were keen to support President Bolaños (elected in 2001) because of his stand against corruption.
- The Bolaños administration adopted a new approach to aid coordination, based on sector round tables and sector-wide approaches.

In 2003 a group of donors formed the Budget Support Group, which has worked with government to develop a Joint Financing Arrangement (JFA) for budget support. The JFA was finalised in May 2005.

With PGBS still in its formative stages, it was too soon to provide an ex post assessment. The country report gives an analysis of the development of PGBS and assesses its prospects.

How much PGBS did Nicaragua receive?

During the evaluation period (up to the end of 2004), there were only limited PGBS flows (see Table 1) – from Sweden, the European Commission and the World Bank.

The Joint Financing Arrangement (JFA) signed in May 2005 increased the number of PGBS donors to nine.

Committed funds were 15% of total official aid, but there were delays in commencing support under the JFA. PGBS has had little effect on total external aid since it has mainly substituted for project aid.

What was the context for the development of PGBS?

The national development strategy was evolving while the JFA was being developed. The Bolaños administration shifted the emphasis of the poverty reduction strategy from social expenditure towards support for economic growth. This was reflected in the National Development Plan (PND) presented to donors in August 2003, and in the operational version (PND-O 2005–2009) launched in September 2004.

At the same time there were improvements in government sector planning and aid coordination. Progress is most noticeable in those sectors, such as education, where a sector-wide approach exists and the

corresponding sector round table has worked effectively.

Public finance management was also strengthened. Through the Single Treasury Account, more donor funds entered government accounts, although there was continued use of parallel funds for budgeting and disbursement of aid. Constitutional earmarking, where certain institutions are guaranteed a fixed share of public revenue, deterred some donors from disbursing through the main government budget.

The Poverty Reduction and Growth Facility (PRGF) agreement with the IMF played a crucial role in setting the macro-economic framework for budget support. Difficulty in staying on-track with the IMF led to delays in establishing the Joint Financing Arrangement.

Political circumstances were increasingly difficult. The relationship between the Executive and the National Assembly deteriorated, and the Assembly used its political power to delay structural reforms.

What is Partnership General Budget Support?

General Budget Support (GBS) is aid funding to government that is not earmarked to specific projects or expenditure items. It is disbursed through the government's own financial management system. Although the funds are not earmarked, they are part of a package which includes dialogue and conditions, technical assistance and capacity building, and donor efforts to harmonise their aid and align it with government strategies and procedures.

Partnership GBS emerged in the late 1990s to support national poverty reduction strategies. By channelling funds through national systems, it also aims to strengthen national planning and implementation capacity, increasing the effectiveness of all public expenditure, including aid.

Table 1: Partnership General Budget Support and Total Aid in Nicaragua

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total ODA (actual) (USDm)	629	701	962	463	714	746	588	988	546	890	1,582
Total Partnership GBS disbursements (USDm)									6	8	63
PGBS as % total ODA (%)									1%	1%	4%
ODA as % GNI (%)	24%	23%	31%	13%	18%	19%	15%	24%	13%	21%	29%

How did Nicaragua compare with other countries studied?

Nicaragua was at an earlier stage of PGBS than the other six countries. In Malawi's case, flows of PGBS were interrupted because of problems in fiscal discipline.

The other five countries – Burkina Faso, Mozambique, Rwanda, Uganda and Vietnam – showed that PGBS could be an effective aid instrument in a variety of different contexts.

The political and institutional constraints on PGBS in Nicaragua are serious, but there is also an opportunity to draw lessons from other countries in designing budget support arrangements for Nicaragua.

What was the evaluation's assessment?

Visible impacts of PGBS (on the pattern of public expenditures, on the budgeting system, and, ultimately, on poverty) could not be expected at this point.

There have been positive effects on harmonisation amongst donors and on the alignment of their aid with government strategies and systems. However:

- Policy alignment is constrained by changes and weaknesses in the national policy documents with which donors align.
- Government leadership is limited and varies significantly between sectors. The JFA review mechanisms should enhance the effectiveness of sector working.
- The Single Treasury Account has boosted alignment with government

financial systems for all forms of aid, but does not bring all funds fully on budget.

- Because of delays to JFA disbursement, and the short planning horizons of PGBS donors, PGBS has not succeeded in increasing the predictability of aid.
- PGBS donors have continued to use other modalities that bypass the government's main planning and budgeting system. This detracts from alignment with government efforts at improved financial management.
- Collaboration among participants in the Budget Support Group has strengthened donor harmonisation, but some large and influential donors are operating outside of the JFA.
- Government transaction costs in using PGBS will be lower than for project aid, but the initial transaction costs of introducing PGBS systems are high.
- PGBS reinforces the use of government accountability systems, but these systems are not themselves very strong.

Overall, the minimum conditions for the development of PGBS were judged to be in place, but there are substantial risks related to the political and institutional environment of Nicaragua.

Risks include:

- macroeconomic uncertainties which threaten the continuity of PGBS flows;
- the institutional fragmentation of the government;
- the rift between the executive and legislature; and
- the lack of a well structured civil service.

Political and institutional risks are the least well addressed so far in the evolving PGBS design.

Corruption is a key concern. PGBS donors have to balance immediate risks against the prospects of strengthening fiduciary standards through PGBS inputs.

There is a danger that the JFA joint review mechanisms could become an additional and over-ambitious donor requirement, rather than being embedded in national systems.

For PGBS donors, PGBS remains part of a broader portfolio. However, there is a lack of clear strategies to determine the best deployment of different aid modalities.

Conclusion: PGBS tackles deep-seated problems of aid in a difficult political and institutional environment. It has made a promising start. Plans for future aid, including PGBS, should take more account of potential complementarities between different aid modalities

Main Recommendations

- Seek more inclusive involvement of donors in PGBS, so as to achieve a critical mass of funding.
- Review definitions of pro-poor expenditure, and effects of constitutional earmarking.
- Link the medium term reform programme to a medium term budgetary framework.
- Donors and the government should treat sector budget support, project aid and PGBS approaches as complementary.
- Seek Inter-American Development Bank participation in PGBS, and coordinate more closely with the IMF.
- Prioritise civil service reform, and end the practice of paying government staff with targeted aid funds.
- Donors should avoid all-or-nothing disbursement of PGBS and revise the system of conditionality accordingly.

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The full report (and a longer summary) can be obtained from the OECD DAC website at:
www.oecd.org/dac/evaluation or from the DFID website at
www.dfid.gov.uk/aboutdfid/performance/evaluation-news.asp