

# 5. General Budget Support: Policy Questions and Answers



## The Joint Evaluation of General Budget Support 1994–2004: Thematic Briefing Papers

In 2004 a group of 24 aid agencies and 7 partner governments commissioned a joint evaluation of General Budget Support (GBS). Its purpose was:

*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 seven country case studies – for Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam – and a Synthesis Report.

*This Briefing Paper draws on the evaluation’s findings to answer questions about the effects of GBS and how it should be used.*

### Q1. What is General Budget Support?

#### General Budget Support

General Budget Support (GBS) is aid to governments that is not earmarked to specific projects or expenditure items. It is disbursed through the government’s own financial management system. The finance is accompanied by other “inputs”. These include: the conditions on which funding is provided and procedures for dialogue between government and donors; donor efforts to harmonise their aid and align it with national policies and procedures; and technical assistance and capacity building.

#### Partnership General Budget Support

In the late 1990s “new GBS” or “partnership GBS” (PGBS) emerged as a response to dissatisfaction with earlier aid instruments. “Partnership” is contrasted with the imposed conditionality of the structural adjustment era. PGBS is intended to support partner countries’ poverty reduction strategies, and some agencies refer to it as Poverty Reduction Budget Support. Question 2 asks whether partnership GBS is a new development.

#### The Joint Evaluation of GBS

The joint evaluation focused on

partnership GBS. Detailed country studies evaluated the performance of PGBS in Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam. There were many contrasts between these countries, in the design of PGBS and in the amounts that were disbursed (see Thematic Briefing Paper 2 for more discussion of these contrasts). Box 1 shows the amounts of PGBS that were identified. The answers in this briefing paper are primarily based on what the evaluation found in the seven case study countries. A separate evaluation in Tanzania reached broadly similar conclusions.<sup>1</sup>

### Q2. Is Partnership GBS really new and different?

The evaluation’s focus on partnership

GBS was based on a belief that PGBS is qualitatively different from other forms of financial programme aid. One of the evaluation’s tasks was to test this proposition. It concluded that PGBS is an innovative form of aid, but the differences between PGBS and earlier forms of programme aid are not as sharp as sometimes implied.

#### The history of unearmarked budget support

Unearmarked budget funding is not new. Past programme aid (e.g. structural adjustment lending by the World Bank) usually generated additional finance for the government budget, and the government was able to allocate this finance according to its own priorities. The local currency counterpart of import

#### Thematic Briefing Papers

The full series of thematic briefing papers is:

- 1: What are the effects of General Budget Support?
- 2: When and how should General Budget Support be used?
- 3: How can the risks of General Budget Support be managed?
- 4: How does General Budget Support affect ownership and accountability?
- 5: GBS – Policy Questions and Answers
- 6: GBS – General Questions and Answers

Briefing Papers on the Synthesis Report and each of the country studies are also available.

<sup>1</sup> Booth et al. (2004). *Joint Evaluation of General Budget Support Tanzania 1995–2004. Final Report. Report to the Government of Tanzania and to the Poverty Reduction Budget Support (PRBS) Development Partners.* David Booth, Andrew Lawson, Tim Williamson, Samuel Wangwe and Meleki Msuya. Dar es Salaam and London: Daima Associates Limited and ODI.

## Box 1: Partnership General Budget Support in the Study Countries

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total	%
<b>Total Partnership GBS disbursements (USDm)</b>													
Burkina Faso								82	109	144	165	500	13%
Malawi							58	48	0	14	28	148	4%
Mozambique							30	88	101	154	239	612	16%
Nicaragua									6	8	63	77	2%
Rwanda							14	37	33	34	130	248	6%
Uganda					66	39	176	311	369	405	409	1,775	45%
Vietnam								150	123	140	157	570	15%
<b>Total</b>	-	-	-	-	66	39	277	717	741	899	1,191	3,930	100%
percent of sample	0%	0%	0%	0%	2%	1%	7%	18%	19%	23%	30%	100%	

Source: see Annex B of the Synthesis Report for full details.

support and commodity aid could have the same effect (although these funds were often earmarked to particular uses). Debt relief has also functioned as general budget support on a large scale: for example, when bilateral donors serviced a country's debt to the World Bank and IMF, the government's available funding for the domestic budget was increased by an equivalent amount.

Under "new GBS" or "partnership GBS", there is a more explicit focus on how the government uses the budget support provided through programme aid. Some commentators argue that this does not reduce conditionality but increases it.

### Is PGBS additional funding?

The significance of PGBS depends a lot on whether it is new, additional, funding or whether it simply replaces earlier forms of aid. The evaluation found that PGBS in Uganda was associated with a large increase in total aid. In Malawi, PGBS was essentially the replacement of previous balance of payments support which had also provided non-earmarked budget resources. Other countries fell between these extremes. In several countries, although it did not greatly increase the total volume of aid, PGBS did increase the amount of aid that was incorporated in the national budget.

### Has conditionality changed?

A step-change in the nature of dialogue and conditionality is supposed to be a defining characteristic of PGBS. The

philosophy behind Poverty Reduction Strategy Papers (PRSPs) is that support for government-owned poverty reduction strategies should replace attempts to impose external solutions through conditionality. In several countries, the PGBS relationship does differ significantly from that which subsisted under structural adjustment programmes. The conditions attached to PGBS are less imposed and more the outcome of joint target-setting by the government with donors. However, the change has tended to be gradual, to be present as an intention before it is realised in practice, and to be more significant in the eyes of the donors than in those of partner governments. (Thematic Briefing Paper 4 reviews the evaluation's findings on ownership and conditionality in more detail.)

### What are the characteristic features of Partnership GBS?

Where PGBS has become established, its key features are:

- Its orientation to the support of nationally-owned poverty reduction strategies.* PGBS offers an exceptionally powerful instrument for focusing both government and international partners' attention on the development and implementation of the poverty reduction strategy.
- Its orientation towards the strengthening of government capacity to promote pro-poor development, and its systemic approach – using the systems that need to be strengthened.*

(c) *Its focus on results, via the links between policy and implementation.*

(d) *Its inevitable concern with public finance management.* This stems immediately from fiduciary concerns about the resources entrusted to national public finance management systems and, more fundamentally, from the budget's role as the key link between policy and implementation.

(e) *Its explicit intention to improve the quality and effectiveness of aid – immediately, by advancing harmonisation and alignment; and, more fundamentally, by promoting a virtuous circle in which improvements in the capacity of government and improvements in the quality of aid reinforce one another.*

## Q3. What has GBS delivered?

*GBS has delivered:*

- Financial support to implement poverty reduction strategies (PRSPs).** This has underpinned the expansion of basic service delivery.
- Aid that is better aligned with government strategies.** GBS and other aid has become more clearly linked to national poverty reduction strategies.
- Aid that is better aligned with government systems.** GBS itself is disbursed through government systems. By example, and by

helping to strengthen these systems (see Q5 below), it has helped to bring other aid on budget too.

- **More harmonised aid.** GBS donors coordinate with each other, and the dialogue that focuses on GBS also promotes harmonisation of other aid modalities.
- **More efficient public expenditure.** Allocative efficiency is improved by making more funds available to finance PRS priorities. Operational efficiency is improved by allowing a better balance between recurrent and capital costs, and giving governments more flexibility in the use of funds. Governments' transaction costs during programme implementation are reduced (see Q8).
- **Better dialogue between governments and their aid partners.** Dialogue is more constructive and oriented towards shared objectives. In a number of cases, GBS dialogue has been helpful in addressing issues that cut across agencies and sectors (e.g. HIV/AIDS, environment).
- **Stronger public finance management** (see Q5).

*There are reservations about:*

- **Uncertain effects on poverty.** It was too early to assess long-term effects on poverty. GBS had helped to increase access to basic services, but likely effects on income poverty and empowerment of the poor were judged to be small. Partnership GBS is used to support national poverty reduction strategies, and so it reflects the strengths and weaknesses of those strategies. Second-generation PRSs are paying more attention to growth and income poverty reduction.
- **The quality of basic services.** Budget support funding has been associated with rapid expansion of basic services under first-generation PRSs. Almost inevitably, quality of services suffered in the drive for expansion. A challenge now is to use the monitoring and dialogue channels afforded by PGBS to address quality issues, including the

poverty-targeting of services, more effectively in future. Simplistic assumptions about "pro-poor" expenditures need to become more refined.

- **Capacity development.** GBS has valuable systemic effects on capacity, especially for public finance management. However, complementary technical assistance and capacity development support was only weakly coordinated with GBS.
- **High level transaction costs of negotiating and monitoring aid,** which have not fallen as much as expected (see Q8).

*GBS has not delivered:*

- **Fundamental political changes.** The effects identified in the evaluation are definite but modest in comparison to some expectations. PGBS does not transform underlying political realities. It is unrealistic to expect any form of aid to do so.

#### **Q4. Is GBS helping to reach the MDGs?**

Most of the study countries will find it very difficult to reach the MDGs for service delivery and for poverty reduction by 2015. However:

- (As indicated for Q3 above) GBS has been an efficient way of expanding aid for public services, with finance for recurrent as well as capital costs.
- GBS has helped to strengthen policy and analysis relating to the MDGs, and to focus dialogue and donor efforts on Poverty Reduction Strategies oriented towards the MDGs.
- Substantial scaling up of aid is likely to require more use of GBS.

#### **Q5. How does GBS strengthen government systems?**

Greater focus on the government budget (as opposed to funds separately dispensed by aid agencies) gives public agencies an incentive to compete for public funds and strengthens the budget process. This

also strengthens the formulation of national policies.

GBS strengthens the demand for timely and transparent budgets and expenditure records. This complements technical assistance and capacity building efforts that focus on the supply of technical improvements.

#### **Q6. Does GBS empower partner countries?**

Partnership GBS empowers partner governments by working with government-owned policies and strategies rather than seeking to impose donor agendas. PGBS particularly strengthens ownership of the budget process. Donors still seek influence and, for partnership to work, there need to be large areas of overlap between the objectives and policy preferences of both parties.

There was less evidence that GBS had empowered **poor people**.

Empowerment is the dimension of poverty that is most difficult to measure. Empowerment effects noted in the country studies include elements related to the accountability of public institutions, increased (democratic) decentralisation, and access to justice. The largest-scale empowerment effects to which PGBS directly contributed were the re-establishment of the justice and basic security systems in Rwanda and the implementation of district decentralisation in Uganda (but the empowerment effects of decentralisation should not be exaggerated).

For more on these topics see Thematic Briefing Paper 4.

#### **Q7. Does GBS help provide macroeconomic stability?**

The evaluation found that:

Macroeconomic stability and fiscal discipline are essential for GBS to have wider beneficial effects.

- Macroeconomic stability had already been established in most of the study countries before the partnership approach to GBS was adopted. PGBS reinforced macroeconomic stability through additional funding and support for

the macroeconomic policies being pursued in consultation with the IMF (e.g. through its Poverty Reduction and Growth Facility).

- GBS did not introduce macroeconomic stability where it did not already exist. In Malawi, when government lost control of public spending, the suspension of GBS exacerbated short-term instability.
- Short-term unpredictability of GBS disbursements made macroeconomic management more difficult at first, but this became less of a problem when donors aligned disbursements more effectively with the government's annual budget.

### **Q8. Does GBS reduce transaction costs?**

Transaction costs are difficult to quantify and discussion is often confused by the use of different definitions.

Transaction costs occur at all stages of the aid management cycle, from the initial negotiation of aid through to disbursement, implementation (including procurement, construction, etc), and monitoring of the activities that aid finances.

Transaction costs are not a pure efficiency loss: the same activities that embody transaction costs may also have positive benefits (e.g. learning from working groups, mitigating risks through fiduciary safeguards).

The evaluation found:

- Even where PGBS is well established, the up-stream transaction costs (negotiation and monitoring) do not seem to have fallen as much as expected.
- Partner governments' transaction costs at implementation stage (the downstream costs) have been significantly reduced, by virtue of being able to follow standard government procedures rather than a multiplicity of donor ones.
- Transaction cost benefits are diminished by the persistence of project aid and sector baskets that

are implemented using parallel systems to those of the government.

### **Q9. How can GBS cope with fiduciary risks and corruption?**

#### *What are fiduciary risks ?*

Fiduciary risks are commonly defined as the risk that funds are not used for the intended purpose, do not achieve value for money or are not properly accounted for. Corruption is one of the possible sources of fiduciary risk.

Budget support (among other forms of aid) is vulnerable to weaknesses in public finance management (PFM) systems. At the same time, the ways in which aid is delivered may strengthen or weaken those systems.

Safeguards for donor funds have often involved special implementation arrangements that bypass mainstream government systems. However, the fiduciary comfort derived from separate controls and "ring-fencing" of aid funds has limits. Earmarking of funds is not a guarantee against fungibility; separate controls do not address (and may worsen) the underlying weaknesses of public finance management; and the costs of complying with such safeguards may reduce the value for money of aid.

#### *How do GBS donors mitigate fiduciary risk ?*

Funds provided through GBS are subject to a variety of safeguards:

- Diagnostics of partner country financial management systems have been used to assess and monitor levels of risk. In practice, donors have not applied standard benchmarks of performance across countries. They have given weight to the credibility of governments' commitment to strengthen PFM. Donors increasingly collaborate in such diagnostics; the recent approval of a standard performance assessment system<sup>2</sup> is taking this further.
- PGBS itself is used to strengthen PFM. The evaluation found positive effects on PFM where PGBS was

established. The effects of passing more funds through government systems are enhanced by complementary capacity development efforts and by the agreed performance conditions attached to PGBS.

- Although PGBS is not earmarked, the strategies it supports and the conditions attached to it do have implications for the level and pattern of public expenditures. PGBS dialogue and performance reports relate to public expenditures as a whole, and PGBS donors can thus gauge the influence of their funding on public expenditure as a whole.
- PGBS has supported greater transparency in public expenditures and higher standards of accounting and reporting. In some cases, notional earmarking has been used to draw attention to the role of PGBS in enabling the government to fund certain components of expenditure. The safeguards applied to PGBS funding tend to strengthen the fiduciary environment for all forms of aid.

#### *What about GBS and corruption ?*

GBS requires a basic level of trust between partners. Corruption – especially high-level corruption – undermines this. Corruption also corrodes public support for aid in donor countries.

Corruption is perceived as a serious issue in all the study countries but it is inherently difficult to measure. Available data are not robust enough to indicate reliable trends in performance.

Corruption can affect all modalities of aid, sometimes in subtle ways (e.g. corruption creates a bias towards capital expenditures, because investment projects offer more opportunities for illicit gain). There was no clear evidence that budget support funds were, in practice, more affected by corruption than other forms of aid.

Actions against corruption were

<sup>2</sup> Public Financial Management: Performance Measurement Framework. PEFA Secretariat, World Bank, June 2005.



included in the performance matrices and conditions for GBS in all cases, but highly visible legal measures were rarely very effective. GBS-supported strengthening of public finance management probably had a more significant effect on the environment for corruption.

PGBS donors have also pursued anti-corruption strategies by complementary means, including specific projects and technical assistance to support accountability institutions (audit agencies, parliaments etc), and support to civil society organisations.

## Q10. What is good practice in GBS design and implementation?

The OECD Development Assistance Committee (DAC) has offered a series of guiding principles and good practices which are shown in Box 2.

The GBS evaluation report supports the DAC advice, with some additional comments:

- (a) The DAC guidelines imply a stronger discontinuity between general and sector budget support than the study found. There is a spectrum of budget support instruments, and many of the good practices defined for general budget support will also apply to instruments that are habitually referred to as sector budget support. Alignment and coordination among budget support instruments with different (general/sector) orientations is an important practical issue.
- (b) PGBS needs to be conceived (and developed and managed) as part of strategy which takes explicit account of the interplay between different aid modalities and instruments, seeking to exploit complementarities and tackle dissonance between them.
- (c) The findings from the country studies as a whole do not support the idea that there is a standard evolutionary sequence, in which project aid first gives way to sector programmes (or sector basket funds) before the eventual introduction of unarmarked budget funding. They do support the value of moving to the use of government systems as early and as completely as is practical.
- (d) There should be an incremental approach to the use of GBS. It needs to be adapted to country circumstances, and building up effective systems and procedures is an iterative process. Where there are doubts about the quality of PFM systems, both the learning and the incentive effects of initially modest disbursements may be valuable. Aid agencies as well as governments need to learn and to adapt their capacities. Over time, and depending on performance,

### Box 2: DAC (2005) Guiding Principles and Good Practices for Budget Support

#### Guiding Principles

1. Budget support should reinforce partner countries' ownership.
2. Budget support should help to enhance the performance and accountability of partner countries' PFM systems.
3. Transaction costs incurred by budget support should be minimised.
4. Budget support should be delivered in a way that enhances the predictability of resources and reduces their volatility.

#### Good Practices

##### Supporting ownership

- Refrain from targeting support
- Reflect partner country priorities
- Focus on results

##### Enhancing PFM performance and accountability

- Follow good practices in PFM diagnostic and assessment work
- Directly support the capacity development of partner PFM systems
- Avoid undermining country systems

##### Reducing transaction costs

- Streamline conditionality
- Rationalise fiduciary assessments
- Align processes
- Tap the potential of joint donor frameworks
- Time disbursements to facilitate the smooth execution of budgetary payments

##### Enhancing predictability and reducing volatility

- Programme budget support over several years
- Align support with partner country budget cycles
- Design conditionality to enhance the predictability of disbursements
- Time disbursements in a predictable manner
- Avoid stop-and-go cycles and allow for graduated responses
- Build public support

Source: OECD DAC 2005: *Harmonising Donor Practices for Effective Aid Delivery: Volume 2 – Budget Support, Sector Wide Approaches and Capacity Development in Public Finance Management*. The source document elaborates on each of the principles and good practices.

PGBS may be scaled up in several dimensions: in volume of funds (including a contribution to the scaling up of total aid flows), as a share of aid resources, and in terms of the policy and sectoral scope of the PGBS dialogue.

### Q11. Is GBS better than other aid instruments?

There is not a simple answer to this question, because:

- (a) the differences between GBS and some other instruments (especially sector budget support) are not as sharp as sometimes thought; and
- (b) different aid instruments interact with each other – they are complements as well as substitutes.

The evaluation's reports advocate a portfolio approach to considering aid modalities – that is, an approach that does not assume that one modality is always superior, but rather looks explicitly at the comparative advantages and the complementarities between modalities in any given situation.

#### GBS does some things that other aid instruments do not do so well

- GBS is a relevant response to problems in aid effectiveness that arise when aid becomes too

fragmented, with uncoordinated projects, weak alignment with government strategy, and a tendency to undermine government systems.

- While it is possible to pursue the PRSP approach without budget support, PGBS offers an exceptionally powerful instrument for focusing both government and donor attention on the development and implementation of the national poverty reduction strategy.
- PGBS has positive spillover effects. PGBS tends to enhance the country-level quality of aid as a whole, through its direct and indirect effects on coherence, harmonisation and alignment, on partner government transaction costs, and on the overall efficiency of resource use.

PGBS is thus a particularly valuable addition to the array of aid instruments in use. Spillover effects highlight the need to employ PGBS as part of a strategy that takes account of the interplay between different aid modalities.

#### Other aid instruments can undermine the benefits of GBS

- When large amounts of off-budget project aid continue, the positive effects of GBS are weakened by:
  - fragmentation of the planning and budget process;

- project management structures that undermine core government capacity;
- higher transaction costs for government.

#### Sector Budget Support (SBS) is not a complete substitute for General Budget Support (GBS)

Some sector budget support is earmarked to particular expenditures, but often the difference between GBS and SBS is only in the focus of dialogue and conditions. Sector-focused instruments may be less vulnerable when political difficulties arise. Thus:

- While it is important that such instruments should not proliferate in a random way, there is scope for a limited number of sector-focused and more general budget support instruments to reinforce each other.
- The more general PGBS instrument (with its associated dialogue and support for capacity development) plays two roles that sector budget support could not provide in isolation: (a) as the focus of support for strengthening overall public finance management, including the budget system ; (b) as a force for coherence and alignment across sectors.

Thematic Briefing Paper 2 provides more discussion of when and how GBS should be used.

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