

Partnership General Budget Support in Uganda



The Joint Evaluation of General Budget Support 1994-2004

In 2004 a group of 17 donors 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.

The outputs of the study are a Synthesis Report, and seven country case studies, for Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam.

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Background: Aid and Development in Uganda

Uganda is a highly aid dependent country. Over the evaluation period, aid flows averaged over 10% of gross national income, and 50% of public expenditure.

In 1986, following decades of conflict and misrule, the present National Resistance Movement (NRM) government took power, led by Yoweri Museveni. This ushered in a more peaceful period during which there has been stability in most of the country. President Museveni established good relations with the donor community, and Uganda was a pioneer in a number of developmental innovations. Economic growth averaged more than 6% over the last 15 years, but Uganda remains one of the world's poorest countries.

Origins and Design of PGBS

Origins

In the first half of the 1990s the government successfully implemented IMF and World Bank sponsored structural adjustment operations. Since 1994, inflation has remained below 10%. Fiscal deficits have been kept under control after a unified Ministry of Finance, Planning and Economic Development (MFPED) introduced a rigorous system of cash budgeting. Strong macroeconomic management enabled the government-donor dialogue to focus on development strategy and public expenditure.

Uganda's first comprehensive poverty reduction strategy, the Poverty Eradication Action Plan (PEAP1) was published in 1997. Stronger public finance management, led by MFPED, including the development of increasingly sophisticated links between medium term plans and budgets, meant that PEAP priorities could be reflected in budget allocations.

Uganda was a pioneer in PGBS, which evolved from structural adjustment and debt-relief forms of programme aid. Stronger planning and budgeting underpinned sector-wide planning and aid coordination in key sectors; the

PEAP was seminal, and a crucial innovation was the linking of HIPC debt relief and notionally earmarked budget support to a Poverty Action Fund (PAF) in 1998. The World Bank's PRSC and GBS from the UK in 2001 were the first completely unearmarked PGBS instruments.

Design

Over the evaluation period there have been three main variants of PGBS:

- *Sector Budget Support* – notionally earmarked to a particular sector, subsector or programme within the sector, whether inside or outside the Poverty Action Fund. Between 1998/99 and 2003/04 approximately USD 509m was disbursed by 13 donors in this form.

- *PAF General Budget Support* – notionally earmarked to the Poverty Action Fund as a whole, but not to individual sectors. Approximately USD 145m was disbursed by 5 donors between 1998/99 and 2003/04.
- *Full General Budget Support* – completely unearmarked. This included the PRSC and was the largest amount of PGBS, with USD 713m disbursed by 6 donors between 1999/00 and 2003/04.

By 2003/04 there were 13 different donors providing PGBS; they were operating 34 different budget support programmes, of which 25 were for sector budget support.

Did PGBS change the level or composition of aid to Uganda?

PGBS led to a substantial increase in the volume of discretionary aid finance for the budget.

Between 1998 and 2000 there was a rapid increase in aid flows, associated with increasing donor confidence in the Ugandan government's reforms and the emergence of PGBS. PGBS displaced (or absorbed) previous forms of unearmarked programme aid and the total of programme aid increased in absolute and relative terms from 2000 to 2003. Programme aid reached and remains at well over 50% of on-budget aid flows. However, the level of project financing did not fall. Displacement of project finance by PGBS took place at the level of individual donors and sectors, but not at the level of aggregate aid financing. More recently project volume has increased.

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. The finance is accompanied by other "inputs": conditions and procedures for dialogue, donor efforts to harmonise their aid and align it with national policies and procedures, and technical assistance and capacity building.
- 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. 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.

Approach to the Evaluation

- The evaluation was not intended to compare budget support with sector support or project aid. However, the evaluators found that there is not a sharp distinction between general and sector budget support, that many of the non-financial inputs to PGBS are shared across aid modalities, and that interactions between PGBS and other modalities are important in explaining its effects.
- The evaluation was based on a logical framework: this identified the inputs of PGBS and then traced its various possible effects from inputs to activities to outputs, outcomes and impacts.
- PGBS has been operating for only a few years, and it is often just one among a number of influences on outcomes and impacts. This makes it difficult to be certain about its long-term effects, but medium-term effects are clearer. The study set unusually rigorous standards for an aid evaluation, and applied the same methodology consistently across the seven countries.
- This was an independent evaluation. Its findings and recommendations are those of the evaluation team.

The PRSC acts as the focal point for the wider set of PGBS instruments. Dialogue around the PRSC policy matrix has helped to coordinate cross-cutting and sector-specific dialogues. Batches of actions agreed at sector level appear as "one-liners" in the PRSC matrix.

Disbursements

Total PGBS grew from USD 66m (7% of official aid) in 1998, to USD 409m (31% of official aid) by 2004 (see Table 1).

PGBS effects on Public Expenditures and Service Delivery

Public Expenditure

- PGBS had a major effect in increasing total and pro-poor expenditures. PGBS funding contributed 31% of the real increase in public expenditure between 1997/98 and 2003/04, when pro-poor expenditures (as defined for the Poverty Action Fund) increased from 17% to 37% of the budget. PAF funds were largely channelled towards basic services delivered by local governments.
- PGBS contributed to allocative efficiency, by supporting the priorities of the national poverty reduction strategy. Operational efficiency was improved through a better balance between recurrent and capital expenditures, lower administrative overheads (compared to project aid), and an increased share of sector budgets channelled to service providers. However, rapid increases in public expenditure may have weakened the incentives to improve efficiency.

Delivery of Public Services

- PGBS funding has accelerated increases in the quantity of basic services delivered by local governments, from which the poor have undoubtedly benefited. But services are not always well targeted towards the poor and rapid expansion has undermined quality.
- Decentralisation has been a key reform. PGBS funds helped to strengthen new institutional relationships in service delivery and to build institutional capacity in local governments.

PGBS Effects on Poverty and Growth

Macroeconomic Performance

The foundations for Uganda's strong macroeconomic performance had been laid before PGBS began, but PGBS has facilitated the maintenance of fiscal discipline. PGBS disbursements are usually tied to Uganda remaining on track with the IMF.

Poverty Reduction

The proportion of Ugandans below the national poverty line fell from 56% to 34% of the population in the 1990s, with the majority of these improvements towards the end of the decade. However, this indicator increased to 38% in 2003. There are many influences on income poverty; it cannot be simply correlated with aid or PGBS in particular.

- PGBS funds have supported a generally positive macroeconomic environment which has supported income growth, with an indirect and

weaker impact on income poverty.

- PGBS has made a major and efficient financial contribution to the expansion of services that the poor have been able to access, although weak quality diminishes the benefit.
- Non-financial inputs have fostered policy review which has highlighted the need to pay more attention to service quality and income poverty in the future.
- PGBS has supported decentralisation which is intended to encourage participatory decision-making. However its impact on empowerment of the poor is not conclusive.

Institutional Effects of PGBS

Planning and Budgeting Systems

- A strong, MFPED-led, budget process pre-dated the move to PGBS. The additional on-budget resources provided by PGBS meant that domestic stakeholders, including parliament, take sector planning and budget processes even more seriously.
- Influence of PGBS on accountability has been mixed. There are some signs of increased accountability through sector reviews and greater involvement of parliament in the budget process, but donors often dominate the dialogue at the expense of domestic stakeholders.

Policies and Policy Processes

Uganda has a particularly well developed set of policy processes at the sector level, and the government has been unusually willing to involve aid agencies in the review of plans and budgets. PGBS has helped to strengthen overall and sector policy dialogue and analysis. Donor influence was partly responsible for involving a wider range of stakeholders (including civil society) in policy processes, although some see their role as superficial.

Government Capacity and Capacity Building

Through its influence on the budget process and the use of government systems, PGBS has helped to strengthen systemic capacity in public finance management.

At the same time, technical assistance and capacity building (TA/CB) have been the least well specified inputs of PGBS, and there has been little improvement in the coordination and targeting of such activities as a result of PGBS. The government has lacked coherent capacity building strategies and TA/CB support tends to be fragmented.

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

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|------|------|------|------|------|------|------|------|------|-------|-------|
| Total ODA (actual) (USDm) | 798 | 881 | 743 | 839 | 909 | 696 | 901 | 897 | 815 | 1,077 | 1,335 |
| Total Partnership GBS disbursements (USDm) | | | | | 66 | 39 | 176 | 311 | 369 | 405 | 409 |
| PGBS as % total ODA (%) | | | | | 7% | 6% | 20% | 35% | 45% | 38% | 31% |
| ODA as % GNI (%) | 19% | 15% | 11% | 13% | 10% | 10% | 14% | 14% | 12% | 16% | 17% |

PFM has been a natural focus for PGBS-linked capacity development, but support has been weakly coordinated. There is scope for more complementarity between PGBS funds and TA/CB inputs.

More innovative approaches to capacity building have been attempted at the local government level, with some success, but there is not enough technical support to new policy initiatives. Local government capacity is crucial to effective service provision and should receive more emphasis.

PGBS and Aid Effectiveness

Relevance

PGBS has been a generally relevant response to acknowledged weaknesses in aid management. Weakest aspects of the design were a degree of over-optimism about the coincidence of donor and government interests in governance issues, and a weak link to TA/CB inputs. There is still some inconsistency in approaches across donors.

Harmonisation and Alignment of Aid

PGBS has been part of an elaborate structure of dialogue and coordination, including annual Consultative Group meetings, direct involvement of donors, through Sector Working Groups, in the budget process and an annual PRSC timetable. MFPED played a strong role in donor coordination. The PRSC steering committee, which plays a useful coordinating role, was the only significant new body.

PGBS has had a strong effect on the alignment of aid with government objectives, and with PEAP and sector strategy targets.

PGBS has also contributed strongly towards the use of government implementation systems, although recent increases in project support have threatened to undermine this.

Transaction costs

As PGBS is disbursed using government systems, it costs less to administer, and joint PRSC and sector dialogues reduce duplication, although they can be unwieldy. However increases in project

support mean that transaction costs, in aggregate, may not be falling.

Quality of Partnership

Ownership – On balance, Uganda supports the contention that PGBS conditionality is qualitatively different from earlier structural adjustment approaches. The quality of dialogue and appropriateness of conditions are undermined by the weak capacity of donors to engage in the dialogue. Donors sometimes overestimate the extent to which national strategies are owned by national stakeholders.

Interaction of aid modalities – There is significant complementarity between modalities, and all donors use some mix of instruments. The scale of the shift to PGBS was, however, crucial in its success, whilst the persistence of parallel projects on a large scale tends to undermine the efficiency of PGBS. Different sectors have widely differing mixes of project and on-budget financing, and there is no systematic policy on the role of different instruments.

Risks and Unintended Effects of PGBS

Unpredictability

MFPED has been able to mitigate short-term unpredictability of PGBS by discounting projected receipts and using reserves as a buffer. Donors' failure to make secure medium and long term commitments is a more serious problem.

Macroeconomic Side Effects

Government has chosen to use domestic borrowing to sterilise aid-related foreign exchange inflows, so as to avoid inflation. This has tended to drive up domestic interest rates, which increases the cost of budget financing and adversely affects the private sector. However, this effect is not specific to PGBS, and both private sector investment and export growth have been buoyant despite the aid-fuelled increases in public expenditure.

Although domestic revenues are low, they have been growing as a proportion of GDP. The study found no evidence that PGBS is having a

negative effect on revenues overall, although the suspension of the main local government tax was made easier.

Balance between Public and Private Sector Development

PGBS reflects the strategic choices of the national poverty reduction strategies it supports. The early emphasis of the PEAP was on the expansion of public services, with too little attention to ways of fostering the private sector and economic growth. Successive PEAPs and PRSCs have given greater attention to these issues, but financial support is constrained because resources have been pre-empted by basic public services.

Fiduciary Risks and Corruption

Although corruption is especially corrosive of donor support for PGBS, it should not be assumed that PGBS is automatically more vulnerable to corruption than other forms of aid. There has been more success in strengthening basic financial management systems and increasing transparency than in high-profile anti-corruption legislation.

Political Governance

'Governance' covers a spectrum of political and technical issues which have become increasingly important in the relationship between the government and donors over recent years – there has been a growing gap between government performance and donor expectations. Many aspects of governance, including human rights, are addressed in the PEAPs, but political ownership of the PEAPs has been diminishing. Efforts by bilateral donors to raise governance concerns through a 'governance matrix' had limited success.

Sustainability of PGBS

Feedback and Learning

Systems for providing feedback through sector review mechanisms and the PRSC steering committee are well established.

The mechanisms for managing and monitoring PGBS are continuing to evolve in response to experience, and are strongly rooted in national systems for planning and budgeting. Further convergence is likely as the PRSC performance matrix is now drawn from the PEAP implementation matrix. At the same time, there are signs that the planning and budget process which has underpinned the PEAP may be weakening.

Political Risk

Relations between the government and the international community have become strained in recent years as a result of continued conflict in the North, concerns over corruption, the nature of transition to multiparty politics; and President Museveni's decision to run for a third term. Such concerns make it harder for donors to justify aid and

Cross-cutting issues

- The PEAP dialogue has embraced dialogue on gender. **Gender** issues are addressed and mainstreamed more systematically in Uganda than in many countries, and existing government structures have been used rather than parallel structures.
- Uganda was one of the first countries, with a strong political lead, where **HIV/AIDS** prevalence has fallen. However the HIV/AIDS strategy was only partly mainstreamed in the first two iterations of the PEAP. There is controversy over the extent to which global funds can be accepted, given the government's macroeconomic ceiling.
- **Environment** issues were also embedded in the PEAP process, and a Sector Working Group was established in 2001. PRSCs have included actions relating to strengthening environmental institutions, but they remain weak and get limited budget priority.

PGBS (because of its unearmarked nature) to domestic constituents. The potential for political crises to undermine the partnership seems to be increasing.

Overall Conclusions

The overall assessment of PGBS is positive. PGBS has been an effective means of supporting a relevant national poverty reduction strategy.

Gains and positive effects of PGBS were seen in:

- Enabling the government rapidly to expand the delivery of basic services to the poor through decentralised bodies.
- Improved allocative and operational efficiency, including a reduction in the transaction costs of utilising aid.
- PGBS funds, combined with other inputs have had some important

systemic effects on capacity, particularly in strengthening the planning and budgeting system by making discretionary funds available.

- The harmonisation and alignment of aid. The Poverty Action Fund and the system of notional earmarking were very useful devices in demonstrating the purpose and uses of aid without incurring the inefficiencies of prescriptive earmarking.
- The focus on government systems has helped to strengthen transparency and raise some fiduciary standards, although fiduciary risks remain high.

It is highly implausible that the same level and effectiveness of expenditures could have been achieved through other modalities alone.

On the debit side, Uganda's strategy of expanding basic public services paid too little attention to income-generation

and to the quality and pro-poor targeting of public services. The pace of expansion inevitably had a cost in efficiency, and put the capacity and the accountability mechanisms of local governments under enormous stress. However, the systems of dialogue and policy review associated with PGBS enable such issues to be confronted, and weaknesses are beginning to be rectified.

Future Prospects

PGBS was favoured by a strong background of economic performance and a coincidence of interests among donors, the presidency and the finance ministry. The challenge in the medium term will be to maintain PGBS gains in aid effectiveness and the strengthening of government management systems in a period that is likely to be politically and economically more difficult.

Recommendations

Safeguarding long-term stability

- Ensure that the overall relative shift towards PGBS is maintained.
- Develop safeguards against a rapid and destabilising withdrawal of PGBS: donors should make rolling three-year commitments for PGBS (and other aid).

Design of aid and PGBS instruments

- Government needs to develop a more elaborate aid policy, including operational principles and guidelines for PGBS.
- The balance between aid instruments in each sector should be reviewed, with more attention to complementarity.

The focus of dialogue and conditions

- Use the PRSC dialogue sensitively, to avoid overwhelming it; continue to increase the profile of productive and private sector issues and shift attention in the dialogue towards service quality and income generation; address cross-cutting issues selectively.
- Donors should be sensitive to the role conditions can usefully play.

Accountability

- Develop a strategy for strengthening accountability to domestic stakeholders.
- Donors should persist with a long-term strategy on corruption; use the influence that PGBS brings to strengthen financial management, transparency, procurement standards.

Capacity development and focus

- Develop more explicit capacity-building strategies and align donor support with them.
- Increase the relative focus on local government capacity, both for public finance management and for service provision.
- Donors should improve their capacity to engage fruitfully in the dialogue, e.g. by focusing on fewer sectors and issues, and strengthening country staff.

Using PGBS efficiently

- The definition of pro-poor expenditures should be revisited regularly; increase the flexibility of the Poverty Action Fund to support growth-promoting initiatives
- Assess Uganda's long-term absorptive capacity for aid and investigate the efficiency of government sterilisation choices.

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