

# Partnership General Budget Support in Rwanda



## 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 Rwanda

Rwanda is a small and poor country with a profoundly tragic modern history. The 1994 genocide and the world's belated reaction to it are central to understanding the relationship between the government and donors.

There has been tremendous socio-economic progress since 1994 – a classic rebound after major upheaval. Reasonable macroeconomic stability has been achieved. State institutions have been rebuilt, and a steady political transition culminated in the adoption of a modern Constitution in 2003.

However, these achievements are fragile, and threatened by regional instability. Complete national reconciliation is still a challenge.

Rwanda is heavily aid-dependent. Between 1998 and 2003, official aid was close to 20% of gross national income (GNI) – see Table 1. Given the national and regional context, aid to Rwanda is markedly political; bilateral donors hold differing views about political developments and the country's governance.

### Origins and Design of PGBS

#### Origins

Debt relief under the HIPC initiative had important influences. The HIPC process helped to shape the policy framework for PGBS. Rwanda had its own "Vision 2020", developed between 1998 and 2000. The Poverty Reduction Strategy Paper (PRSP) of 2002 took this forward as a medium-term policy and planning framework. (During this period, the Rwanda government was also gradually asserting leadership in aid coordination.) HIPC debt relief made the Multilateral Debt Trust Fund redundant, and PGBS became one of the alternative aid instruments.

However, PGBS was undertaken only by a sub-set of Rwanda's principal aid partners (see Box 1).

In each case, full PGBS was preceded by related forms of programme aid. DFID and Sida replaced their support for debt relief with PGBS in 2000 and

### Box 1: Participants in PGBS in Rwanda

Only four of Rwanda's international aid partners provided PGBS during the evaluation period. These were the UK Department for International Development (DFID), the Swedish aid agency (Sida), the European Commission (EC) and the World Bank (WB). (The African Development Bank joined this group in 2005.)

Other major donors did not feel political and governance conditions were appropriate for them to follow suit.

2001 respectively. The European Commission began a non-targeted budget support operation in 2003, following two earlier, targeted programmes. The World Bank's (WB) Poverty Reduction Support Credit (PRSC) in 2004 followed the Institutional Recovery Credit, which itself had succeeded mixed adjustment / reconstruction programmes up to the late 1990s.

For DFID and Sida in particular, a key purpose of PGBS was to provide effective support to an ambitious but weak bureaucracy. They aimed to

mitigate the burden that project aid imposed on the government's weakened and stretched institutions. PGBS was also seen as the best way of nurturing government leadership in policy development. Broader policy dialogue was meant to replace the donor-driven conditionality of structural adjustment programmes. The PGBS donors shared the government perspective which emphasised the PGBS role in rebuilding government systems, institutions and processes, and its importance in reducing the transaction costs of managing aid. On this basis, the PGBS donors subscribed to the Partnership Framework for Harmonisation of Budget Support in Rwanda in 2003.

#### Design

Within the Partnership Framework, a number of distinct approaches were followed. Differences arose partly because PGBS donors were at different stages of synchronising their activities, e.g. with the overall aid management calendar and cycle, recently refined in the "harmonised calendar".

Approaches also differed in their mix of political and technical conditionalities (reflecting WB and bilateral donors' different mandates) and in disbursement arrangements. Starting later, the World Bank's PRSC introduced

### 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

further differences, in approaches to dialogue, conditionality and performance assessment.

### Disbursements

Between 2000 and 2004, PGBS disbursements totalled USD 248 million, rising to 26% of total aid flows (see Table 1)

### Box 2: Did PGBS change the level or composition of aid to Rwanda?

The total volume of unearmarked programme aid has been rising over the period during which PGBS has been delivered. There is controversy over whether the increased disbursements of PGBS have added to project aid or replaced it. Government informants perceive a degree of substitution as donors transfer project funding into PGBS. The donors maintain that, taking account of staffing constraints, they could not have disbursed an equivalent volume through projects. PGBS has a much higher disbursement rate than projects, so the issue may turn on whether it is viewed in terms of commitment or disbursement profiles.

### PGBS effects on public expenditures and public services

#### Public Expenditure

PGBS has contributed significantly to more external resources being available, and this has facilitated a

steady increase in the share of "priority" spending in the government budget. The government's defined priorities include, but are not limited to, obviously "pro-poor" spending.

PGBS has enabled government to fund activities related to PRSP priorities such as "fee-free" primary education, reduced prices for critical drugs for HIV/AIDS patients and agricultural loan guarantees. PGBS also provided recurrent funding to operate rehabilitated and new service facilities, thus raising government spending efficiency.

#### Service Delivery

Since 2000 there have been steady gains in service delivery, though mainly in terms of access. Quality and responsiveness issues remain.

Although PGBS facilitated increased allocations for basic public services, there are still problems in the efficiency of resource use. There is some evidence that service delivery continued to be constrained by the routine failure of non-salary recurrent releases to match approved budget allocations. Within-year predictability and timeliness of PGBS have been poor, which has also hampered service delivery.

### PGBS Effects on Poverty and Growth

#### General performance since 1994

Poverty has been reduced, but progress is uneven, and in several respects the situation remains worse than prior to 1994. The rebound effect specific to Rwanda, general time-lag effects, and a lack of consistent data series, make it

complex to assess how far existing progress is due to more effective public action (to which PGBS may have contributed).

#### Influences of PGBS

**Macroeconomic Performance:** Aid has macro-economic importance in Rwanda, and PGBS has contributed significantly to aid flows. PGBS policy dialogue, conditionality and capacity building have provided more focus on macro-economic policy and processes than in project aid. Macro-economic dialogue is led by the IMF, but PGBS reinforces macroeconomic conditionality through the link between disbursements and the Poverty Reduction and Growth Facility (PRGF) review. PGBS has thus contributed to the overall effects of aid on growth (but unpredictability of PGBS flows has detracted from some of the benefits).

**Poverty Reduction:** PGBS funding has strongly supported public action and hence changes in poverty through the budget (new pro-poor social sector spending and spending on basic governance sectors). There are also some signs of minor influences through non-financial inputs of PGBS (e.g. via policy).

#### Institutional Effects of PGBS

The funding effects of PGBS – making significant discretionary resources available to the government budget – have had a significant influence on government empowerment, both through the budget process and through related influences on policy development.

#### Planning and Budgeting Systems

Public finance management (PFM) systems, which were totally destroyed in the genocide, have been extensively rebuilt during 1994–2004. This has been strongly supported by aid, and recently by PGBS.

- Discretionary funding has strengthened the budget process directly, creating incentives for government agencies within it.
- Through their support to improvements in public finance management, PGBS donors have played a strong role in empowering government, and in particular the Ministry of Finance and Economic Planning (Minecofin), and this in turn has provided government with the awareness and confidence to carry out further improvement of PFM systems.

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

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total ODA (actual) (USDm)	723	721	481	247	366	403	342	320	375	357	501
Total Partnership GBS disbursements (USDm)							14	37	33	34	130
PGBS as % total ODA (%)							4%	12%	9%	10%	26%
ODA as % GNI (%)	96%	54%	34%	13%	18%	19%	18%	18%	21%	20%	26%

- Although accountability mechanisms remain the weakest link in the PFM system, PGBS dialogue and capacity building have played a key role in improving general reporting and accountability through systems and process development.

#### Policies and Policy Processes

A pro-poor reform process is in place, and it is improving over time from a moderate level of quality. Government ownership and sense of empowerment in relation to policy processes is quite strong, though this does not yet include all sector agencies and has yet to reach out effectively to sub-national levels. Policy-making is disciplined and quite top-down. However, policy processes have recently become more inclusive, though limited by weak capacities on the side of both government and civil society.

- PGBS is influential in strengthening intra-government incentives in the policy process, partly through providing funding for new innovative policies. It also facilitates the involvement of national stakeholders in policy-making.
- PGBS dialogue, conditionality and technical assistance have helped to address weaknesses in government reporting and monitoring systems which otherwise hamper policy adjustment.
- Accountability to PGBS donors may complement and strengthen domestic mechanisms and thereby enhance policy learning, though this is not automatic.

#### Government Capacity and Capacity Building

Public service reform (PSR) and decentralisation are the government's main capacity development efforts that relate to public action on poverty. PGBS-related technical assistance and capacity building inputs have not been well defined, and only weakly related to PSR and decentralisation. Coordination has been opportunistic. Nevertheless, there have been positive systemic effects, via reduced demands on government capacity and incentives to strengthen government systems.

#### PGBS and Aid Effectiveness

##### Relevance

PGBS has been a response to perceived weaknesses of project aid and has improved aid coordination. PGBS has supported strong government leadership in rebuilding the country's institutions, although government participants do not consider that the approach to conditionality has changed as much as the partnership paradigm would imply. In policy and strategy, PGBS has mirrored the strengths and weaknesses of the PRSP it supports.

#### Harmonisation and Alignment of Aid

In Rwanda, harmonisation and alignment is the continuation of earlier efforts by government to coordinate aid in its efforts to rebuild the country and its institutions. While the political nature of aid for bilateral donors in Rwanda may at times make genuine harmonisation more difficult, the last five years have seen a step-change in alignment behind the government agenda articulated in the Vision 2020 and the PRSP. This has been assisted by the establishment of joint aid management structures and the joint development of improved PFM systems and processes.

- Policy alignment is quite good at the overall PRSP level, but is uneven across sectors.
- There has been less progress on harmonisation and on more practical aspects of alignment, such as alignment with the government budget cycle.
- Aid coordination, including for technical assistance, is improving.
- Thus far there has been little tangible progress in use of government systems by non-PGBS aid.

#### Box 3: Cross-cutting issues

- **Gender, HIV/AIDS and environment** are not explicitly addressed by PGBS in Rwanda as donors are satisfied that they are adequately addressed in other ways.
- **Human rights and democracy** issues are one of the lines of divide between PGBS and non-PGBS donors. For PGBS donors these issues underpin the dialogue but they are not explicitly part of it (there are no "measurable conditions").

#### Quality of Partnership

**Ownership** is strong, especially where capacities are greater (central agencies). PGBS supports this well, though government qualifies this with regard to political conditionality and policy intrusiveness at times. Government does not see conditionality (or the way it has been applied) as entirely consistent with the partnership paradigm.

**Transaction costs** – PGBS is perceived as potentially able to reduce all types of transaction cost, and has begun to do so. Government perceives large transaction cost savings compared with other modalities, but there has been little analysis of the trade-off between different types of transaction costs.

**Interaction of aid modalities** – The interplay between aid modalities has been moderately good but largely opportunistic. This is now perceived as unsatisfactory. A number of initiatives are under way (including the design of

sector support instruments) which will change the landscape for PGBS.

**Political Governance** – The political governance agenda is dominated by issues of human rights, national security and the opening up of political space. These are among the factors demarcating PGBS and non-PGBS donors (among bilaterals). It is unclear whether the "right" to dialogue on political governance derives from PGBS or more generally from trust.

#### Risks and Unintended Effects of PGBS

**Predictability:** Overall predictability of PGBS is positive but there have been short-term disruptions in disbursement caused by political, technical and administrative factors, and the desired combination of prudent fiscal management and smooth PGBS flows has not always been achieved. Thus the government exceeded PRGF spending targets in 2003 as a result of poor government macroeconomic management in an election year and uneven PGBS flows. Combined with weak economic output, these caused the government to resort to bank and non-bank borrowing, with some adverse effects for the private sector.

**Public sector bias?** Government and donors agree on the principle that the private sector needs strengthening to become the engine of growth. However, the first PRSP focused more on service delivery strategy and the growth agenda has only recently become more prominent.

**Corruption** is not addressed in the PGBS dialogues (though it is in the PFM reforms). More generally it is not perceived as an issue in Rwanda. Risks may be increasing, especially of subtle forms of corruption, through exclusion patterns and concentration of power.

#### Sustainability – Feedback and Learning

Prospects for PGBS sustainability are reasonable. The government and its partners share common objectives and have demonstrated an ability to adapt PGBS in the light of experience. However:

- Existing learning mechanisms on PGBS itself are nascent. They have yet to demonstrate that PGBS will become more sustainable as a result of being consistently and consciously improved over time.
- Feedback to donors' home constituencies has been problematic for bilateral donors, especially at times of political tension. This may partly explain donor interest in alternative aid modalities (sector-specific support instruments).

#### Overall Conclusions

PGBS in Rwanda has successfully channelled large flows of resources to

the national budget to support the reconstruction and development agenda of the government in the short term, while empowering and building government capacity for the longer term. The short-term effects of PGBS have been more visibly successful. Longer-term results are more difficult to measure as well as taking longer to materialise.

The most positive results of PGBS in Rwanda have been:

- An increase in the volume of external resources for the budget facilitating government spending on priorities including the expansion of basic social services.
- A strong and effective support to PFM system development. This has the potential to further enhance the positive funding effect through improving budget execution,

establishing stronger accountability systems, etc.

- A strong effect of empowerment of central agencies. This provides a solid basis for further strengthening systems and capacities throughout government.
- Effective support to government leadership in aid management, through PGBS's own effectiveness as a modality and through setting examples for aid in general.

The effects of non-financial PGBS inputs have been weaker in other areas, and limited by the relatively small scale of PGBS in terms of the number of donors involved and, until recently, sectors covered.

The most visible weaknesses yet to be addressed are conditionality and the predictability of the flow of funds; the general weakness of accountability

mechanisms and the feedback systems required to inform these; the limited "outreach" of PGBS vis-à-vis line ministries, service delivery and decentralised levels; and the limited engagement of PGBS with the growth agenda as a means to income poverty reduction.

### Future Prospects

Prospects for PGBS depend on its ability to deal with four main challenges:

- To make PGBS more robust in coping with political and other uncertainties.
- To address the challenges of growth for poverty reduction.
- To strengthen accountability mechanisms throughout government.
- To strengthen government capacity, including decentralised capacity.

## Recommendations

### Long-term development and the role of aid and PGBS in Rwanda

- Promote dialogue on Rwanda's development paradigm.
- Raise the profile of the issue of inequality.
- Address the role of aid over the long term.
- Develop medium to long-term commitments to PGBS.
- Clarify how PGBS as whole will adjust to the expanded agenda of the revised PRSP.

### Government capacity and decentralisation

- Adapt PGBS so that it simultaneously supports national sector strategies, decentralised service delivery and local development.
- Define a strategic PGBS approach to capacity development; strengthen PGBS review framework.

### Accountability issues

- Strengthen accountability throughout government systems.
- Improve definition and clarify role of priority programmes in public expenditure and domestic accountability frameworks.

### Political nature of aid and PGBS in Rwanda

- Establish a due process mechanism in the PGBS performance assessment framework.
- Clarify expectations from PGBS vs. other aid in relation to political governance dialogue.
- Strengthen feedback mechanisms on PGBS toward donors' home constituencies.

### Quality of partnership

- Further develop the mutual accountability framework; tidy up conditionality content and process.
- Promote systematic review of complementarity and trade-offs between aid modalities and instruments.
- Carry out a review of government and donor transaction costs, as a basis for a strategy to further reduce them.
- Strengthen application of a harmonised calendar to strengthen links between cross-sectoral PRSP/PGBS and sector/thematic dialogues.
- Strengthen PGBS self-learning mechanisms and explore options for self- and external assessment.

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