

Partnership General Budget Support - Overall Findings



The Joint Evaluation of General Budget Support 1994-2004

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

The study team was led by
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Expectations and Design of PGBS

Expectations

Expectations from PGBS include: improved coordination and harmonisation among donors and alignment with partner country systems and policies; lower transaction costs; higher allocative efficiency of public expenditure; greater predictability of funding; increased effectiveness of the state and public administration (as budget support is aligned with and uses government allocation and financial management systems); and improved domestic accountability through increased focus on the government's own accountability channels.

Design

There was considerable variety in the design of PGBS across the study countries, and all designs evolved over time. In all cases, unearmarked funds were linked to support for a poverty reduction strategy, but there were significant variations in conditions and systems for performance assessment, in the scale of PGBS relative to other modalities, and in the extent of collaboration amongst a country's aid partners in providing PGBS. There was a spectrum covering general and sector-focused budget support instruments, rather than a sharp distinction between them. Instead of focusing narrowly on the use of the aid funds, government and donors together monitor implementation of the agreed strategy as a whole.

Judging by financial amounts, donor participation, and duration of PGBS experience, there were very different degrees of PGBS penetration among the study countries. The variety in the sample gave opportunities to draw lessons from both contrasts and similarities.

Disbursements

Flows of PGBS were distributed among study countries as shown in Table 1. Almost USD 4 billion was involved, but most of it late in the evaluation period.

Almost half went to Uganda. Four of the other countries (Mozambique, Burkina Faso, Rwanda and Vietnam) had substantial but more recent experience to be evaluated. In Malawi, however, PGBS was abruptly suspended soon after it began, and in Nicaragua PGBS did not begin on a significant scale until 2005. In Uganda, PGBS 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.

PGBS effects on Public Expenditures and Service Delivery

Findings on public expenditure and service delivery effects of PGBS apply mainly in the five countries where a significant flow of PGBS funds has been established (Uganda, Mozambique, Burkina Faso, Rwanda and Vietnam).

Public Expenditure

PGBS supported increases in "pro-poor" expenditures. PGBS also increased partner government discretion by expanding the total of on-budget aid and by reducing the scope of earmarking within the budget. This led to clear gains in allocative and operational efficiency (including a better

balance between recurrent and capital expenditures).

Delivery of Public Services

There were significant PGBS effects on service delivery through increased expenditure and expanded services, but in some cases this expansion has been accompanied by a deterioration in quality. Other PGBS effects (through policies and institutional changes) were difficult to observe as they take longer to materialise, although they have considerable potential to address issues of quality and access in the future.

PGBS Effects on Poverty and Growth

Macroeconomic Performance

In most of the countries studied macroeconomic stability was already established prior to PGBS, which then helped to reinforce it. It also supported fiscal discipline, through providing funds that are subject to the budget process. (In Malawi, however, in the short term, the suspension of PGBS aggravated an already unstable macroeconomic situation.)

Poverty Reduction

The study could not confidently track distinct (separately identifiable) PGBS effects to the poverty impact level in most countries (although there were

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 methodology was based on the standard OECD DAC evaluation criteria (relevance, efficiency, effectiveness, impact, sustainability). A logical framework 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.

some clear links from PGBS to expanded basic services, through funding and through a collective commitment of donors and government to service delivery targets). This finding reflects the difficulties of data, time-scale and methodology. It does not mean that PGBS has no effect on poverty, nor that it has less effect than other aid modalities.

Institutional Effects of PGBS

Planning and Budgeting Systems

PGBS has been an effective instrument in strengthening public finance management (PFM), including planning and budgeting.

Bringing funds on-budget and supporting their allocation and disbursement through regular government channels has significantly strengthened the budget process. However, fiscal discipline is a prerequisite for meaningful progress towards results-oriented resource management.

PGBS has helped to improve comprehensiveness and transparency of partner government public finance management, thus strengthening the basis for accountability.

Policies and Policy Processes

PGBS has had significant effects

through financial empowerment, strengthening incentives within government, improving coherence and coordination among donors, and through complementary technical assistance. It has supported policy development across a range of sectors. PGBS has been more efficient where it has had greater penetration (by virtue of its duration, relative importance – in terms of money and donors involved – and the sophistication of dialogue arrangements it supports and uses). However, PGBS does not transform underlying political realities (to do so is an unrealistic aspiration for any form of aid).

Government Capacity and Capacity Building

PGBS has had positive systemic effects on capacity, and it can reinforce the effectiveness of technical assistance. PGBS has helped to focus the joint attention of donors on the PFM capacity requirements of governments and national systems. But there is scope for more systematic collaboration to support coherent national PFM capacity building strategies.

PGBS and Aid Effectiveness

Relevance

In all cases, PGBS was a relevant

response to problems in aid effectiveness. Donors' decisions to commence PGBS were based on country situations, not on applying pre-conceived minimum entry conditions. Donors varied in how systematically they considered the "readiness" of the study countries for PGBS. Technical analyses of public finance management (PFM) systems were frequent; assessment of political risks was less explicit. Technical assistance/capacity building has been the least well integrated input. In all countries PGBS had evolved and become more relevant over time.

Harmonisation and Alignment of Aid

PGBS contributed to greater policy alignment of aid in all cases, but how much this actually means depends on the quality and ownership of the government strategies that donors align with. The cooperation amongst aid agencies that PGBS requires always had a positive effect on donor harmonisation, and indirectly influenced the harmonisation and alignment of other aid modalities.

PGBS dialogue and review structures can enhance existing sector mechanisms, often providing forums and instruments for addressing cross-sector issues. But PGBS itself is not fully harmonised: the variety of different disbursement arrangements, approaches to conditionality and tranching, and so forth, is often haphazard, and there is still significant scope for further harmonisation.

PGBS and Cross-Cutting Issues

The inclusion within PGBS of cross-cutting issues (CCIs) of gender, the environment and HIV/AIDS varies for a mixture of arbitrary and pragmatic reasons. Sometimes PGBS dialogue and conditions/performance targets are used to support a CCI; at other times its promotion is deliberately left to other forums and modalities. Overall, PGBS is not a substitute for specialist CCI work, but it can assist in cross-sector visibility and mainstreaming, as well as harmonisation across donors.

Table 1: Partnership General Budget Support in the Study Countries

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total	%
Total Partnership GBS disbursements (USDm)													
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%
Total	-	-	-	-	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. Figures may not add to exact totals, due to rounding

Transaction costs

Although the high-level negotiation and monitoring costs of PGBS are often perceived as onerous, there are large transaction cost savings for partner countries during the implementation of PGBS-financed activities. However, the extent of transaction cost savings has been limited by the scale on which other modalities have continued in parallel.

Quality of Partnership

Ownership and conditionality: There is a spectrum, covering “old” and “new” conditionality, not a sharp divide between them. Different parties still disagree about what conditionality is for and how much it has really changed. There is tension in the philosophy of “partner government autonomy” because poverty concerns and policy preferences differ between donors and partner governments. Past experiences have shown that conditionality cannot successfully impose donor strategies on unwilling governments. But donors and governments can work together towards common objectives and agreed performance targets, which then serve as signals and as a form of managerial pressure. This helps to maintain the pace of reforms; it does not create the will to implement them.

Interaction of aid modalities: PGBS frequently had positive effects on other aid modalities. PGBS harmonisation and alignment contributed to enhanced coherence across all aid modalities. PGBS benefited all modalities through its effects on allocative and operational efficiency of expenditure. And it played a role in addressing cross-sectoral issues.

Potential complementarities between aid modalities are highly significant, but are not yet systematically factored in to aid management strategies, whether at country level, sector level, or at the level of individual donor portfolios.

Risks and Unintended Effects of PGBS

Unpredictability

Short-term predictability of PGBS has been a frequent problem, but mitigating measures are having an effect. There has been less progress in ensuring the medium-term predictability of PGBS (and other aid) in line with the Rome Declaration.

A rigid link between PGBS disbursement conditions and the International Monetary Fund’s conditions for its own disbursements may cause unnecessary short-term volatility in PGBS flows.

Macroeconomic Side Effects

Apart from limited cases where short-term interest rates were driven up by domestic borrowing to cover shortfalls

or delays in PGBS receipts, no obvious “crowding out” effects were found. The study also found no evidence of less effort being put into domestic revenue-raising due to increased GBS funds.

Balance between Public and Private Sector Development

PGBS has been criticised for bias towards the expansion of public services, without enough attention to quality; and for neglecting private sector growth and development. Early poverty reduction strategies, which PGBS supported, did have such a bias. More attention is now required to the quality of basic public services, their poverty incidence, deeper analysis of sector and sub-sector strategies and their expenditure implications, and the conditions for private sector growth.

Fiduciary Risks and Corruption

Corruption is a serious problem in all the study countries, but the country study teams found no clear evidence that budget support funds were, in practice, more affected by corruption than other forms of aid. PGBS donors seek safeguards at two levels: by monitoring (and helping to strengthen) the government disbursement and procurement systems through which implementation takes place, and also by monitoring government expenditures at an aggregate level. They have also pursued anti-corruption strategies by complementary means. PGBS plays a valuable role in strengthening public finance management and reducing general fiduciary risk.

Political Governance

Democracy and human rights featured as underlying principles of PGBS agreements, except in Vietnam. The study found that PGBS is especially vulnerable when there is a political deterioration in relations. This potentially undermines PGBS as a long-term aid delivery instrument.

Sustainability of PGBS

PGBS in practice has been evolutionary in design. It has demonstrated an ability to learn from experience and adapt accordingly. PGBS monitoring has been increasingly integrated with the broader monitoring systems of governments, and experience shows that accountability to donors can complement accountability to domestic stakeholders.

The main threats to continuity and sustainability of PGBS processes are likely to be political.

Overall Conclusions

The overall assessments by the country studies were clearly positive except in two cases. In Malawi a first effort at PGBS stalled due to over-optimistic expectations concerning macro-economic discipline. In Nicaragua,

significant funds have only recently begun to flow and it is too soon to provide an ex post assessment. The variety of designs and contexts for PGBS requires care in generalising, but the following important conclusions are clear:

- (a) PGBS has been a relevant response to acknowledged problems in aid effectiveness.
- (b) PGBS can be an efficient, effective and sustainable way of supporting national poverty reduction strategies.
- (c) Provision of discretionary funds through national budget systems has produced systemic effects on capacity, particularly PFM-related capacity. These effects are government-wide.
- (d) PGBS tends to enhance the country-level quality of aid as a whole, through its direct and indirect effects on coherence, harmonisation and alignment.
- (e) PGBS’s effectiveness in reducing poverty depends on the quality of the strategy that it supports. Given the bias of early poverty reduction strategies towards the expansion of public services, most of the effects of PGBS inputs so far have been on access to services, rather than income poverty and empowerment of the poor.
- (f) It is important not to overload the PGBS instrument, but in all cases a capacity to learn from experience suggests that PGBS could become more effective, and have a broader scope, over time.
- (g) The evaluation considered unintended and adverse effects of PGBS (corruption, undermining of revenue effort, unpredictability, crowding out of the private sector). It did not find adverse effects that outweighed the benefits of PGBS, but all these risks need to be taken into account in the design of PGBS (and of other aid).
- (h) PGBS, as presently designed, is vulnerable to a number of risks, including political risks, that threaten its ability to operate as a long-term support modality.
- (i) PGBS is part of a family of programme-based approaches (PBAs), and many of the study findings are also relevant to PBAs in general.

Future Prospects

PGBS can be effective in a wide variety of contexts. Many variables have to be balanced, but certain factors about the partner country, and about the aid relationship, will always be relevant in deciding whether PGBS is appropriate. First, the partner government must want to engage in PGBS, and it must have a fundamental ability to engage with donors, and to follow through on its own strategy. Second, PGBS is more likely to be an attractive option to countries that are aid dependent, but

large volumes of PGBS will be problematic unless macroeconomic stability and elementary fiscal discipline have been established. PGBS should

be part of a strategy which takes explicit account of the interplay between different aid modalities and instruments. An incremental strategy should be

followed, in which the scope and scale of PGBS is expanded as experience is gained and government capacity is strengthened.

Recommendations

On the scope and focus of PGBS:

- PGBS maybe relevant in a wide variety of contexts. Follow an incremental approach in using it.
- Follow the general principles and good practices for budget support of the OECD DAC guidelines but take more account of overlap and interactions between sector-focused and general budget support.
- Do not overload PGBS with unrealistic objectives or with too many reform tasks.
- Keep a focus on its central role in strengthening public expenditure management.

On capacity development:

- Support capacity development by using government systems, and accelerate moves to bring aid funds on-plan and on-budget.
- Recognise the centrality of PFM reform in developing national capacity to manage for results.
- Strengthen the policy analysis, budgeting and expenditure management capacities of line ministries as well as finance ministries.
- Also pay attention to capacity issues as they affect local governments.
- Support government-led capacity development strategies for PFM.

On policies and strategies that PGBS supports:

- Focus more on income poverty and growth implications of public policy and expenditures, and on how PGBS can complement other modalities in this area.
- Pay more attention to the quality, including the poverty incidence, of basic public services.
- In doing so, move on from simplistic assumptions about "pro-poor expenditures" to deeper analysis of sector and sub-sector strategies and their expenditure implications.
- Consider long-term financing strategies for the Millennium Development Goals (MDGs), in terms of their sustainability, their aid-finance requirements and the appropriate balance of expenditures across sub-sectors.
- Take a pragmatic country-by-country approach to supporting cross-cutting issues through PGBS.

On performance assessment and conditions:

- Implement the Paris Declaration commitments on alignment and managing for results.
- Keep disbursement-linked conditions to a minimum and ensure genuine agreement with government.
- Performance assessment systems should track the implementation of strategies as well as the achievement of results.
- Decisions to increase or reduce levels of PGBS support should mainly be based on medium-term assessments of overall performance.
- Take a pragmatic approach to notional earmarking and similar signalling devices, but ensure they are designed to minimise transaction costs.

On managing risks:

- Retain the IMF role in monitoring, reporting and advising on macro-economic performance, but do not link all PGBS funds to the IMF's own conditions.
- Accompany PGBS with support to revenue collection.
- Assess fiduciary risks from the perspectives of all stakeholders, not just donors.
- Support common approaches to diagnosis and monitoring of PFM standards.
- Strengthen (shared) analysis of corruption and the way it affects the poor.
- Exploit the potential for budget support to help strengthen public finance management and limit corruption.
- Undertake more systematic analysis of political risk in relation to budget support.

On managing aid:

- Develop aid strategies to optimise complementarity between aid instruments, including budget support, at country and sector level.
- Develop genuinely long-term budget support instruments to support the MDGs.
- Donors should engage in PGBS on the basis that it is a long term endeavour.
- Donors engaged in PGBS should increase the in-country discretion afforded to their local offices and support strengthening of both central and sectoral capacity of governments.
- Independent monitoring of aid performance could play an important role, and should incorporate monitoring of the Paris Declaration benchmarks.

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