

2. When and how should General Budget Support be used?



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 suggest when GBS may be useful and how it should be used.

What was evaluated?

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": procedures for dialogue and agreed conditions; 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.

The study countries

This note draws on the findings from the seven countries studied by the Joint Evaluation of GBS. It is also consistent with the findings of a parallel evaluation of GBS in Tanzania.¹

The study countries were an illustrative, not a representative, sample. Nevertheless, as Box 1 shows, the variety of contexts gave opportunities to draw lessons from contrasts as well as similarities

between countries. However, the short history of PGBS limited the scope for robust findings at outcome and impact level.

Using PGBS - what are the choices?

The decision to use GBS will rarely be a simple yes/no choice:

- different designs are available;
- different areas of focus are possible;
- there is also a choice of scale:
 - how much GBS?
 - what proportion of GBS relative to other aid modalities?
- risks need to be balanced against potential benefits; and
- there is potential to learn from experience and adapt PGBS over time.

This paper considers the following questions:

- Where has PGBS been used successfully?
- In what ways has PGBS been effective?
- How has PGBS been used?
- Should there be standard "entry criteria" for adopting PGBS?
- How should PGBS relate to other instruments?
- For which countries is PGBS suitable?
- For which sectors is PGBS suitable?
- How should PGBS performance be monitored?

The management of risks in using PGBS is the subject of Thematic Briefing Paper 3.

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.

¹ 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: Country Contexts and PGBS Flows

	Country Context					PGBS				
	Size	Aid Dependency		Government Capacity		Duration		PGBS "volume"		Donor Involvement
	Population (millions) in 2000	GNI per capita (USD) in 2000	ODA as % GNI in 2000	CPIA Quintile in 2003	CPIA change from 1999 to 2003	Starting year for PGBS	Flows up to 2004 (million USD)	PGBS as a share of ODA in 2004	PGBS per capita (USD, cumulative)	No. donors providing PGBS in 2004
Burkina Faso	11.3	250	12.9	2	+1	2001	500	25%	44.3	7
Malawi	10.3	170	26.1	3	-1	2000	148	5%	14.4	3
Mozambique	17.7	210	25.4	3	-1	2000	611	19%	34.5	15
Nicaragua	5.1	740	15.0	1	+1	2002	77	4%	15.1	3
Rwanda	7.7	260	17.9	3	0	2000	248	26%	32.2	4
Uganda	23.3	270	14.3	1	0	1998	1,775	31%	76.2	16
Vietnam	78.5	380	5.5	1	+2	2001	570	8%	7.3	9

Source: *Synthesis Report, Tables 3.1-3.5 and Figure 3.1*

Notes: The World Bank's Country Policy and Institutional Assessment (CPIA) tool assesses each IDA Country's present policy and institutional framework for fostering poverty reduction, sustainable growth and ability to use development assistance effectively.

Where has PGBS been used successfully?

Box 1 shows the range of contexts covered by the study countries. The evaluation found that PGBS had been effective in five of the seven countries studied (see Thematic Briefing Paper 1 on the effects of GBS). All seven countries provided insights into the process of designing and implementing PGBS instruments.

The set of countries evaluated was necessarily limited, in numbers and in range. Nevertheless, the five countries with a positive PGBS track record demonstrate that PGBS can be adapted to a wide variety of economic, political and institutional settings.

None of the study countries is currently a failing or fragile state; all are in the top three quintiles of the World Bank's CPIA ranking. However, two – Mozambique and Rwanda – had emerged from conflict during the 1990s and were considered fragile when PGBS began.

The evaluation did not explore the performance of GBS in a federal state, or the provision of budget support to a sub-federal entity.

However, the evaluation methodology considered the contributions of different elements of the PGBS "package". This helps in drawing inferences that are relevant beyond the sample countries.

In what ways has PGBS been effective?

The evaluation found that the provision of PGBS brought positive

effects to **harmonisation and alignment** and policy development in all of the countries reviewed. In addition, positive effects on **allocative and operational efficiency of public expenditure** as well as on **public finance management (PFM)** systems were found in Burkina Faso, Mozambique, Rwanda, Uganda and Vietnam, but not in Malawi and Nicaragua where PGBS was not successfully established during the evaluation period. (Thematic Briefing Paper 1 spells out these findings, and the country briefing papers provide details of each case.)

How has PGBS been used?

The evaluation noted common features in the way PGBS had been used:

- It was always part of a portfolio of aid instruments. All the donors providing PGBS also provided other forms of aid. And all the countries receiving PGBS received more aid in other forms than through budget support.
- PGBS was always explicitly linked to a national poverty reduction strategy. Increasingly, the targets and performance indicators attached to PGBS are drawn from those in the country's PRSP.
- PGBS was always linked to a core of PFM concerns. It was designed to strengthen the planning and allocation of resources, and also the systems for disbursement, procurement and accounting.
- By definition, PGBS funds are not

earmarked to a specific use.

However, PGBS conditions and dialogue do focus on particular sectors and issues, and in practice there is a spectrum of general and sector-focused budget support instruments.

- There is no standard evolutionary sequence of aid instruments (e.g. a donor pooled fund is not a necessary stepping stone between project aid and budget support).
- At the same time, PGBS is customised according to the countries and the aid agencies involved:
- There are different PGBS designs in different countries. These reflect the number of donors involved, the relative importance of bilateral and multilateral agencies, different political contexts, and the different planning and administrative systems of the partner countries.
 - Different aid agencies also have characteristically different approaches (e.g. for the World Bank, a Poverty Reduction Support Credit (PRSC) is the usual instrument, with triggers for disbursement based on past performance; the European Commission favours a split between fixed and variable tranches, with variable tranche disbursement linked to outcome indicators; some bilaterals are much more willing than others to consider budget support as an option).
 - In all countries there have always been learning and adjustments in how PGBS operates (e.g. refining

the forums for dialogue, increasing the short-term predictability of funding, strengthening the links between PGBS monitoring and national PRSPs, and adapting to second-generation PRSPs which pay more attention to growth).

Should there be standard “entry criteria” for adopting PGBS?

The evaluation found that donors did not apply the same standard entry conditions to different countries. Discussions of appropriate minimum standards for the application of budget support usually focus on the quality of the partner country’s PFM systems, but PGBS was used – and proved useful – in at least two countries (Mozambique and Rwanda) which would probably not have met pre-conceived “minimum standards”. In practice, donors have based their decisions on a judgement about the strength of a government’s commitment to poverty reduction in general, and to the strengthening of PFM in particular.

The evaluation concluded that this pragmatic approach made more sense than trying to apply standard rules, because:

- Objective measurement of PFM standards is very difficult (the PEFA² initiative is developing a standard approach to assessment, but different strengths and weaknesses still have to be balanced against each other).
- Prospects of improvement are important, and one of the justifications of PGBS is that it helps to strengthen national public finance management.
- PGBS should be seen as a complement to other aid instruments.

At the same time, basic macro-economic and fiscal discipline is essential if PGBS is to be used effectively. Failure to maintain such discipline can cause PGBS to break down, as the Malawi case demonstrated. More frequently,

though, tensions and disruptions in the partnership arise from political rather than technical differences between the government and donors (see the discussion of political and other risks in Thematic Briefing Paper 3).

How should PGBS relate to other aid instruments?

General budget support and other aid instruments are not simply alternatives:

- There is a spectrum of aid instruments, in which there is much overlap between “general” and “sectoral” budget support. Some instruments that are described as sectoral budget support do not actually earmark their funding: their sectoral focus is in the dialogue, conditions and performance indicators that accompany the funds.
- All agencies which provide budget support also use other modalities and seek to balance their aid portfolios in a coherent way.

- There are many interactions – both positive and negative – between different ways of delivering aid (see Box 2).

Although potential complementarities between aid modalities are highly significant, they are not yet systematically factored into aid management strategies, either at country level or at the level of individual donor portfolios. One consequence is what the Paris Declaration refers to as *the often excessive fragmentation of donor activities at the country and sector levels*.

The study concluded that, instead of seeing PGBS simply as an alternative to other modalities, donors and partner governments need to develop strategies that will explicitly strengthen complementarities between PGBS and other aid instruments, at country and sector levels. The aim should be to maximise the combined effectiveness of all aid modalities.

PGBS is not a substitute for sector-wide approaches (SWAPs). Budget

Box 2: Complementarity between budget support and other forms of aid

The following main interactions between PGBS and other aid modalities were found through the country studies:

- In all cases, PGBS had a significant influence on harmonisation and alignment which contributed to enhanced coherence across modalities.
- PGBS had wide effects on allocative and operational efficiency, as flexibility in the allocation of PGBS could be used to offset rigidities in the allocation of earmarked and off-budget aid.
- By promoting greater coherence between sectors, and providing an incentive for policy formulation at sector level, PGBS improved the environment for all forms of aid.
- Dialogue and conditionality linked to PGBS complemented other work on sector and cross-cutting issues and vice versa.
- By strengthening public finance management systems and accountability, PGBS benefits all modalities using those systems and encourages their wider use.
- PGBS can be reinforced by other modalities, e.g. by PFM capacity development projects.
- On the other hand, the potential effects of PGBS – on transaction costs, on budget transparency and on efficiency – were reduced in cases where large flows of aid remained off-budget and/or un-integrated with national planning and budgeting procedures. This was partly because it limited the scale effects of PGBS.

² The Public Expenditure and Financial Accountability initiative is housed by the World Bank and supported by a consortium of aid agencies. It has developed a standard approach to benchmarking 28 dimensions of government public finance management.

support is a financing modality, whereas a SWAp is an approach to managing and coordinating aid alongside government resources. SWAps may be supported by a mix of funding instruments, coordinating budget support with aid projects where these are the best option.

Many current examples of “sector budget support” are operating in (or aspiring to) a partnership style, and delivering resources to the government budget that are only notionally earmarked. Such instruments should not proliferate in an uncoordinated way, but a limited number of sector-focused and more general PGBS instruments could reinforce each other.

Sector-focused budget support instruments can support more intensive dialogue and review at sector level, but they are not complete substitutes for general budget support. 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; and (b) as a force for coherence and alignment across sectors.

For which countries is PGBS suitable?

As discussed under “entry criteria” above, a set of rigid prescriptions (“undertake PGBS in such-and-such countries, do not attempt PGBS in such-and-such countries”) would not be justified nor helpful (it would almost certainly exclude some case-study countries where PGBS has had positive value). Many variables have to be balanced – and some of them may count on both sides of the scale. For example, certain weaknesses in public finance management could simultaneously be a problem that PGBS might help to address and a risk to PGBS itself. However, there are certain factors about the (potential) partner country, and about the quality of the aid relationship, that will always be relevant.

Partnership requires willing partners. The state (and potential) of aid relationships is key. The partner government must want to engage in PGBS, and must also have a fundamental ability to engage with international partners, and to follow through on its own strategy. There must be basic trust between the potential partners (international partners and governments), and a significant consensus on development strategy (including a broad consensus on patterns and priorities for public expenditure). The competence and status of the planning/finance ministry are crucial. Not least, donors who embark on PGBS should be prepared for a lengthy engagement.

PGBS is more likely to be an attractive option to countries that are significantly aid-dependent. Here the problems met when reconciling large aid flows with healthy development of state institutions are more likely to be serious. The role of PGBS in increasing budgetary discretion and alignment between government and donors is then especially relevant. But significant volumes of PGBS will be problematic unless macroeconomic stability and elementary fiscal discipline have been established.

At the same time, the example of Vietnam shows that PGBS can also be effective in less aid-dependent countries where the PGBS resources are small relative to the government budget.

The standard approach to PGBS is unlikely to be considered practical for very fragile states, where governance may be especially weak and national and sector strategies may be poorly articulated. However, the evaluation’s findings about the use of government systems are still relevant. A central finding is that bringing more discretionary resources within the scope of the national planning and budgeting processes does tend to strengthen the coherence and quality of the budget process and encourage those involved to address policy and efficiency issues more effectively. This

suggests that bringing resources within the scope of national planning and financial management systems should be no less a priority in fragile states.

The more capable are the institutions of government (and especially core planning and budgetary systems), the more straightforward the implementation of PGBS should be. But it should be possible to tailor the scale and ambition of PGBS to an assessment of the initial situation, and to set the sights higher as (and if) capacity gradually improves. Over time, and depending on performance, 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.

For which sectors is PGBS suitable?

Sector relevance

By definition, PGBS funds are not earmarked to a specific use. However, PGBS conditions and dialogue do focus on particular sectors and issues, and in practice there is a spectrum of general and sector-focused budget support instruments. Many donors operate both at sector and general level.

There can be more reliance on PGBS as the main financing instrument for a sector if there is a strong consensus around a well-articulated sector strategy. Budget support is especially relevant for sectors where there is a strong recurrent-cost financing element. Dialogue and agreed conditions³ linked to a general budget support instrument can help to reinforce sector-level dialogue. The link between general dialogue (focused on the PRSC) and a series of sector-wide approaches was particularly well developed on Uganda.

Relevance to cross-cutting issues

There are many examples of complementarities between PGBS and other modalities in addressing cross-

³ See Thematic Briefing Paper 4 for discussion of ownership and the nature of conditions under PGBS.

cutting issues, mainly by including cross-cutting elements in the dialogue and agreed conditions. Similar considerations apply to other areas that have a cross-cutting character (e.g. private sector development, decentralisation). PGBS is not a substitute for specialist cross-cutting work, but has potential to assist in cross-sector visibility and mainstreaming, as well as harmonisation across international partners. This is especially so because of the PGBS focus on the national budget and core public policy processes.

The dangers of overloading PGBS

There are many things that PGBS can help to do. But its potential range is itself a risk: that is, there is a serious danger of overloading one instrument, and of expecting it to achieve too many things and too quickly, e.g. by including too many conditions, across too many sectors. The appropriate scope and focus of the PGBS instrument can only be decided in the country context. In all cases, however, its central role in strengthening public expenditure management should be kept in focus.

How should PGBS performance be monitored?

Much of the evolution of PGBS in the study countries has centred on efforts to refine and standardise performance assessment systems, and there is continuing debate about the merits of different approaches. It is worth distinguishing carefully between two aspects:

- (a) what should be measured or monitored? and,
- (b) how should disbursement decisions relate to performance assessment findings?

There is no dispute that results are what matter. This implies attention to outcomes and impacts. But, as a practical matter, monitoring outcomes and impacts is not a substitute for monitoring all the stages in the results chain. It is not plausible that outcome indicators could obviate the need for other forms of assessment on which to base disbursement decisions.

A common weakness in PRSPs has been their failure to specify links in the causal chain from inputs to outcomes, and hence the course of action to be followed in order to achieve the results. Governments themselves need to monitor process indicators as part of following through on their own strategies. Having such indicators imposed by donors would be incompatible with the partnership approach, but they are perfectly appropriate as part of a system of joint performance monitoring.

It is important that all indicators are chosen with a view to predictability, consistency with national monitoring systems, and low transaction costs of reporting. PGBS monitoring should draw as much as possible on national monitoring systems.

From consideration of the nature of partnership and the role of conditionality (see Thematic Briefing Paper 4), the evaluation concluded that it would be undesirable for the bulk of annual PGBS disbursements to be linked in any mechanical way to outcome indicators. Decisions to increase or reduce levels of PGBS support should mainly be based on medium-term assessments of overall performance.

Conclusion: Incremental Approach and Capacity Development

Long-term perspective

Its distinctive features and potential uses all highlight the nature of PGBS as a long-term instrument and approach. Capacity development and institutional change require stamina. Moreover, the partnership on which PGBS is premised requires a long-term sustainable relationship, based on trust.

An incremental approach

There are many reasons to take an incremental approach in deploying PGBS. It needs to be adapted to country circumstances, and building up effective systems and procedures is an iterative process. Applying rigid "threshold" criteria would be difficult in concept and unhelpful in practice.

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, 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.

Aid agency capacity

A partnership approach makes particular demands on donor capacities. It enhances the importance of work in-country, allied to a thorough understanding of the political and social context, and of the machinery of government. It requires a high level of interpersonal skills, and ability to take a long-term view and leave space for partner autonomy. The country study teams found many examples of high quality performance (the roles of heads of cooperation are especially important), but also shortcomings that reflected institutional more than individual weaknesses.

Partner government capacity

On the government side too, partnership approaches make heavy demands on what is often a narrow band of committed senior and middle-level public servants. It makes demands on policy and negotiation skills (not only with donors, but amongst government agencies). The capacity of the finance/planning ministry is often pivotal, both in facing the donors and in managing key policy and budget processes.

It is important for international partners to be frugal and focused in their demands on senior government time. In seeking to bolster capacity of the finance/planning ministry, donors and governments should not neglect the need also for sector ministry capacity to engage with the government's central agencies in the processes of planning and budgeting.

Limitations on both donor and government capacities reinforce the need to avoid overloading the PGBS instrument, especially during its early development.

What are the evaluation's recommendations?

The evaluation's Synthesis Report made a series of recommendations. These are all included in the Synthesis

Report Briefing Paper. The box below highlights recommendations that relate directly to the themes of the present paper.

Box 3: Selected recommendations on when and how to use PGBS

On the scope and focus of PGBS:

- PGBS may be relevant in a wide variety of contexts. Follow an incremental approach in using it.
- 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 policies and strategies that PGBS supports:

- 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.

On managing risks

- 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.
- 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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