

1. What are the effects of General Budget Support?



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 summarises the evaluation's findings about the effects of GBS. It was drafted by Catherine Dom

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": 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.

The study countries

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 limits the scope for robust findings at outcome and impact level.

What effects did we look for?

Hypotheses about PGBS

PGBS was a response to perceived

weaknesses in earlier forms of programme aid (e.g. structural adjustment lending) and in other aid modalities. PGBS was expected to have a wide range of effects. The study's terms of reference drew attention to:

- Improved *coordination and harmonisation* among donors and *alignment* with partner country systems (including budget systems and result systems) and policies.
- Lower *transaction costs*.
- Higher *allocative efficiency of public expenditures*.
- Greater *predictability* of funding.
- Increased *effectiveness of the state and public administration* as GBS is aligned with and uses government allocation and financial management systems.
- Improved *domestic accountability* through increased focus on the government's own accountability channels.

Evaluation methodology¹

The study team developed a logical **evaluation framework** to depict the possible effects of PGBS. Successive levels of the framework dealt with the initial context, the various PGBS inputs, their immediate effects, outputs, outcomes and impact. (Impacts on poverty were disaggregated into effects on income poverty, on provision of basic services, and on empowerment of the poor.)

Three broad types of effect were envisaged:

- *flow-of-funds effects* (arising directly from the financial inputs);
- *direct and indirect policy effects*; and
- *institutional effects*.

A more detailed **causality map** traced various sequences whereby particular inputs might yield particular effects at different levels of the

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 A comprehensive Note on Approach and Methods describes the methodology in detail.

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.

framework. The deeper effects of PGBS were expected to result from a combination of flow-of-funds, policy and institutional effects.

The hypotheses embodied in the evaluation framework and causality map were tested through a series of **evaluation questions** applied in all the sample countries. Assessment in all cases was based on the standard OECD DAC **evaluation criteria**: relevance, efficiency, effectiveness, sustainability and impact. Detailed country reports provided the evidence base for the final Synthesis Report.

The methodology involved systematic disaggregation of PGBS effects. Many findings are therefore relevant to programme based approaches in general, where these share the design features of PGBS.

Evaluation challenges

The main challenges were:

- **Time scale:** PGBS began recently (see Box 1). This made it especially difficult to judge expected institutional effects that would take time to emerge.
- **Attribution:** Particularly at outcome and impact levels, PGBS effects are difficult to disentangle from other influences (including the influences of other aid flows). Even the non-financial *inputs* of PGBS may be difficult to identify separately.
- **The nature of PGBS:** PGBS is not a development strategy in itself, but a means of supporting a national poverty reduction strategy (PRS). Its effectiveness, is therefore

linked to the quality of the PRS that it supports. Moreover, we were evaluating a moving target because PRSs are continually evolving and so too are the designs of the PGBS instrument.

Although there was limited experience to evaluate, our methodology ensured a very systematic and consistent approach to the assessments. We are confident that our conclusions – as far as they go – are well founded.

Caveats

All findings from the evaluation need to be interpreted with care. It should not be automatically assumed PGBS will always have the positive effects found – much may depend on context. Nor should cases where an effect was not found be generalised to imply that PGBS is incapable of producing such an effect.

What positive effects were found?

Summary

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. (See

the country briefing papers for details of each case.)

Harmonisation, alignment and policy development

PGBS had a strong effect in promoting donor harmonisation, and in aligning donor programmes behind government policies spelled out in national PRSs. These harmonisation and alignment effects were frequently found to extend beyond PGBS itself. It was found that:

- PGBS has been unique among aid modalities in *providing holistic support to PRSs*.
- PGBS did not impose new policies, but *provided a forum for dialogue* on how policy is implemented. (This was the main role of PGBS in Vietnam, it was also important in the other six countries.)
- PGBS has *supported policy coherence* through creating formal linkages between the government's stated policies and their Medium Term Expenditure Frameworks (MTEF)/budgets (e.g. Uganda sector reviews linked to MTEF/budget preparation).
- PGBS has *complemented sectoral policy mechanisms* through providing forums to address cross-sectoral issues and the coordination of sector strategies (e.g. the forums for discussing budget support in Mozambique embrace all forms of aid and have helped to address cross-sectoral issues such as HIV/AIDS).
- PGBS has *made policy commitments more visible* and

enabled them to be jointly supported by donors through agreed policy targets in the PGBS performance assessment frameworks (such frameworks were in use or under development in all the study countries, and increasingly linked to the national PRS).

- PGBS has influenced policies through empowering and providing incentives to policy-making agencies as they became more assured that resources would be available for innovative policies (e.g. free education in Rwanda).

Efficiency of public expenditure

Many of the expected effects of PGBS depend on an increase in discretionary funds available to the government budget. In the countries examined this had happened to varying degrees. In Uganda, PGBS supported a substantial increase in public spending; in Malawi PGBS was, in effect, a re-badging of programme aid and did not lead to an increase in discretionary expenditure. The other countries reviewed fell between these extremes; even where PGBS did not clearly increase total resources available, it did lead to an increase in the volume of discretionary resources in the government budget.

- In Burkina Faso, Mozambique, Rwanda, Uganda and Vietnam, PGBS supported further reorientation of public expenditure in line with the government's policy priorities (in most cases supporting trends initiated through the HIPC debt relief initiative). This, in turn, made more resources available for service delivery. (And better predictability of funding has helped countries to plan for the medium term.)
- In some cases PGBS funding clearly improved allocative efficiency by enabling the governments to complement earmarked resources (e.g. in Burkina Faso PGBS complements the HIPC funds which are targeted for social services).
- PGBS also contributed to enhanced operational efficiency of public expenditures through:

- facilitating a better balance between capital investment and recurrent spending in government budgets (e.g. Uganda, Rwanda, Mozambique);
- making it easier to provide counterpart funding for project aid (e.g. Mozambique); and
- reducing transaction costs for governments (all cases – see Box 2).

Systemic improvements in planning and budgeting

PGBS has also had definite effects on government systems and institutions deriving directly from using them (systemic effects), especially in public finance management.

PGBS delivery of funds 'on budget' and support to fund allocation and disbursement through the Ministry of

Finance (or its equivalent) has strengthened the budget process and financial management systems by:

- Encouraging sector ministries to engage more seriously with the budget process. This effect was strongest in Uganda. The effect was weakened where parallel funding to sector ministries remained significant (e.g. in Mozambique, Burkina Faso and Rwanda). In these cases sector ministries were also more sceptical about the capacity of the finance/planning ministry to deliver timely funds in line with allocation decisions, and the link between policies and budgets was also weaker. Uganda is the only country in the study sample in which sector reviews are directly linked to a strong and stable

Box 2: Transaction costs

Understanding transaction costs

Transaction costs occur at all stages of the aid management cycle, from the initial negotiation of aid through to disbursement, implementation (including procurement, construction, etc), and monitoring of the activities it finances. There may also be conversion costs in moving from one instrument to another, and different elements of risk for different types of transaction.

Different ways of doing business may distribute transaction costs differently (e.g. between international partners and government, between country offices and HQs, between finance ministries and sector ministries).

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

Transaction costs are difficult to quantify, and there is much observer bias in their assessment. Much of the debate about transaction costs in relation to budget support has focused on the negotiation and monitoring costs experienced by the principals in the relationship, neglecting the balance of downstream transaction costs during programme implementation.

Evaluation findings

- Even where PGBS is well established, the up-front transaction costs are not perceived to have fallen as much as some had expected.
- Partner governments' transaction costs at implementation stage have been significantly reduced, by virtue of being able to follow standard government procedures rather than a multiplicity of donor ones.
- The scale of the resulting benefits is diminished by the persistence of project aid and sector baskets that are implemented using parallel systems to those of the government.

MTEF/budget preparation process. (This effect was not found in Malawi and Nicaragua, where PGBS did not become established during the evaluation period.)

- Focusing donors' attention on the quality of government systems and the need for increased transparency. In all countries PGBS donors have provided significant technical assistance and capacity building (TA/CB) inputs and PFM has been an important topic in PGBS dialogue and conditionality. However, capacity building efforts have usually been concentrated on central (finance) agencies, with much less attention to sector agencies and local government.

What risks are associated with PGBS?

The evaluation also looked for possible negative affects and risks associated with PGBS: findings are summarised in Box 3. (Thematic Briefing Paper 3 provides a full discussion of risks in the context of General Budget Support.)

What anticipated effects of PGBS were weak or not found?

Perspective

"Weak" or "not found" effects include cases:

- where an effect was already in place before PGBS began;
- where the time period has been so short that an agnostic conclusion is inevitable; and
- where a significant PGBS effect seems rather unlikely on any time scale.

It is worth reiterating that a "not found" verdict on certain anticipated effects does not necessarily mean that PGBS is incapable of producing such effects.

Macroeconomic and growth effects

Macroeconomic stability and fiscal discipline had already been established in the five countries where PGBS had positive effects overall. PGBS could not therefore be credited with establishing fiscal discipline in these cases (and in the case of Malawi it failed to do so).

However, PGBS funds and conditions were found to provide additional support to the maintenance of stability and discipline. In addition, the evaluation found that, because PGBS funded strategies that concentrated on public service delivery, it had a weak effect on

economic growth (and hence on income poverty).

Effects on poverty reduction

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

Box 3: Possible Negative Effects and Risks: the Evaluation's Findings

Predictability and Macroeconomic Side Effects:

- Short-term unpredictability of PGBS has been a frequent problem; it can delay budgeted disbursements to line ministries and service delivery units and affect macroeconomic stability. However, mitigating measures are having an effect. For example, in more recent programmes there is clearer scheduling of releases so that these are more aligned with government budget cycles and better coordinated among donors; and there are provisions ensuring that funding is not disrupted within year except in extreme cases (e.g. the revised Memorandums of Understanding in Mozambique and Burkina Faso).
- 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.
- 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.
- However, the suspension of PGBS in Malawi aggravated an already unstable macroeconomic situation. This highlights the importance of fiscal discipline as a prerequisite for PGBS.

Revenue Effects

- The study found no evidence of a reduction in domestic revenue-raising effort related to the delivery of an increased amount of aid through PGBS.

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 a bias towards the expansion of public services, and quantitative improvements (access for more poor people) has been easier to achieve than qualitative improvements. However, in the majority of country cases, the study found an increasing, and government owned/inspired, attention to growth issues in second-generation PRSs. There are corresponding signs that income-poverty measures are increasingly coming into focus in the PGBS policy dialogue. More attention is needed to the quality of basic public services and to their poverty incidence, a 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, or by other fiduciary risks, than other forms of aid.

See Thematic Briefing Paper 3 (How can the risks of General Budget Support be managed?) for a fuller discussion.

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.

Effects on empowerment and accountability

PGBS has so far had no discernible effect on empowerment of the poor. It has had some limited effects on the establishment or strengthening of basic conditions for (potential) empowerment of the poor, e.g. through funding the restoration of Rwanda's basic security and justice systems and supporting decentralisation in Uganda.

It has had only limited effects on broader accountability and transparency mechanisms. However, the processes surrounding the provision of PGBS can reinforce domestic accountability (e.g. in Mozambique the PGBS Performance Assessment Framework is used for reporting to Parliament). Also, the foundation for domestic accountability is strengthened by passing more funds through government budgets and making them subject to national accountability processes.

These issues are further discussed in Thematic Briefing Paper 4 (How does General Budget Support affect ownership and accountability?)

How could positive effects of PGBS be strengthened?

General perspective: feedback and learning

In all cases the design of PGBS has been modified in the light of experience to strengthen performance. Initial weaknesses (such as the short-term unpredictability of disbursements) have to a large degree been mitigated. Nonetheless:

- Performance review systems themselves need to be maintained and strengthened.

- There should be special attention to strengthening domestic accountability mechanisms, e.g. through more closely aligning PGBS performance assessment mechanisms and national ones, and through complementary measures to strengthen demands for accountability.

Key ways to strengthen positive effects of PGBS

The evaluation suggests four main ways of reinforcing the positive effects of PGBS:

- By strengthening the policies it supports.
- Through capacity development.
- By focusing on complementarity between aid instruments.
- By adopting longer-term perspectives.

Strengthening the policies PGBS supports

The three key dimensions of a national PRS are: (a) the analysis of poverty and of policy options to reduce it (including the balance between growth and service delivery); (b) the extent to which it is operational (i.e. costed and linked to practical priorities); and (c) the quality of the processes and institutions underpinning it (notably, the extent of national ownership).

PGBS donors should not be too prescriptive, but they can support improvements in all these dimensions. A better balance between growth strategies and strategies for service delivery is already occurring in many cases (as reflected in PRS revisions in Rwanda, Uganda, Mozambique, Vietnam, for example). PGBS dialogue can be used to address the quality, efficiency and pro-poor responsiveness of services. Strategies have often been based on crude assumptions about "pro-poor" expenditure: donors as well as partner governments need to apply more incisive analysis. And (as discussed below) PGBS donors can support the strengthening of national institutions for policy-making and review.

Supporting capacity development

Capacity limitations have been a major hindrance in all the study

countries. Channelling resources through national systems has proved to be effective in systemic strengthening, but there is much scope for more coordinated donor support to national capacity building strategies, with PFM capacity at the core.

A key task is to strengthen the links between policy and public expenditures, by supporting the development of more effective medium-term expenditure planning. Capacity development needs to be balanced, with attention to the capacity of sector agencies, local governments and service facilities as well as finance/planning agencies.

Ensure complementarity between aid instruments

The study found that the interactions between PGBS and other aid instruments are important in understanding its successes and its limitations. If employed correctly different aid modalities can be complementary. PGBS effects have improved the context for the use of all forms of aid through strengthening PFM systems and improving links between policies and the use of resources. At the same time, some PGBS effects have been strengthened by inputs from other aid modalities, for example projects in support of capacity building. In other cases, modalities have been mutually reinforcing – for example where PGBS policy inputs have led to increased focus on cross-sector issues (e.g. HIV/AIDS). However, despite these synergies some positive PGBS effects have been diminished by the persistence of other aid modalities (e.g. where off-budget project aid has continued to fragment the budget and raise transaction costs).

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. Independent aid reviews should

monitor the aggregate effectiveness of aid and national strategies.

Adopting a longer-term perspective

Some of the effects of PGBS are inherently long-term. They require persistence. Donors are still – by and large – unable to commit to three-year PGBS cycles that would facilitate MTEF planning. In practice, even longer-term commitments would

be necessary to assure partner governments that they have a stable source of financing for MDG-related recurrent costs of social and other public services. Genuinely long-term budget support instruments should be developed. *For more on this, see Thematic Briefing Paper 3 (How can the risks of General Budget Support be managed?).*

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 the recommendations that relate directly to the themes of the present paper.

Box 4: Recommendations for strengthening the positive effects of General Budget Support

On the policies and strategies it 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.

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 and also pay attention to capacity issues as they affect local governments.

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.
- 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.

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.

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