

6. General Budget Support: General Questions and Answers



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 answer basic questions about General Budget Support.

Q1. What is General Budget Support?

1.1 What is GBS?

General Budget Support (GBS) is aid to governments that is not earmarked to specific projects or expenditure items. The recipient government can use it to support its expenditure programme as a whole. The aid is mixed with the government's own revenues and disbursed through the government's own financial management system.

Although GBS money is not earmarked to specific expenditures, it is part of a broader understanding about how the government's resources will be used. Box 1 describes a typical GBS "package".

In countries where GBS is provided, it plays a pivotal role in the relationship between the government and its aid partners (see Box 2).

1.2 Is GBS a new form of aid?

No, unearmarked aid to government budgets has been provided before, in several different forms:

- Several former colonies received general budgetary grants for some years after independence.
- Balance of payments support (including structural adjustment lending by the World Bank and IMF) often generated local currency that governments could use to support their budgets according to their own priorities.

- More recently, debt relief has been an important form of budget support. For example, when bilateral donors used special debt relief funds to service developing countries' debts to the World Bank and IMF, governments were able to spend an equivalent amount on their own domestic priorities instead.

However, recent forms of GBS have focused more directly on the government budget. They have been designed to support nationally-owned Poverty Reduction Strategies in ways that would strengthen national capacity and ensure more sustainable development – hence the designations "poverty reduction budget support" and "partnership General Budget Support".

1.3 What is meant by partnership?

The philosophy behind Poverty

Reduction Strategy Papers (PRSPs) is that support for government-owned poverty reduction strategies should replace attempts to impose external solutions through conditionality. (Studies in the 1990s concluded that imposed conditionality was generally ineffective.)

The conditions attached to partnership GBS are meant to be jointly-agreed targets in pursuit of objectives that are shared by the government and its aid partners. A partnership approach thus requires a lot of common ground about poverty objectives. At the same time, aid agencies must be prepared to give the government space to determine its own detailed priorities and the means of achieving them.

The Joint Evaluation found that traditional styles of aid management tend to change slowly, but the conditions attached to partnership

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.

Box 1: General Budget Support is a package

Budget support is usually linked to the implementation of a national Poverty Reduction Strategy. The exact arrangements for General Budget Support differ according to the aid agency and recipient country involved, but the typical GBS “package” includes:

- A basic agreement between the recipient country and its aid partner(s), about the country’s aid strategy and objectives, and the general principles of development cooperation. A Memorandum of Understanding (MOU) often reflects this agreement and sets out arrangements for regular dialogue about general policies and the use of budget support.
- Specific agreements about the amount of budget support to be provided and the conditions for its disbursements. There is usually a general condition that the government will adhere to the broad understandings set out in the MOU, plus specific conditions for the disbursement of GBS funds. The specific conditions usually include a set of agreed policy measures that the government will undertake. Some donors link at least part of their disbursement to the achievement of set performance targets.
- An agreed procedure for monitoring and review of performance. This monitoring and review is integrated into the preparation of subsequent installments of budget support. Among other things, the GBS donors monitor the country’s public expenditures as a whole.
- GBS is accompanied by programmes to strengthen public finance management, and GBS donors systematically monitor the quality of the country’s public finance management systems.
- GBS is part of broader efforts by donors to align their assistance with the national Poverty Reduction Strategy, to harmonise aid from different agencies, and to make more use of national procedures and systems in the way that aid is provided.
- GBS is accompanied by technical assistance and support for capacity development, especially to strengthen planning, budgeting and financial management.

GBS are less imposed and more the outcome of joint target-setting by the government with donors.

1.4 Is GBS linked to debt relief?

Debt relief is a form of budget support if it enables government to divert debt service funds to other budget expenditures (see Q1.2 above).

The Heavily Indebted Poor Countries (HIPC) initiatives played a big role in the trend towards GBS. To be eligible for HIPC relief, debtor countries were required to strengthen their public finance management systems and to prepare Poverty Reduction Strategy Papers. The PRSPs were meant, among other things, to demonstrate

how debt relief would lead to increased “pro-poor” public spending.

Many donors began explicit budget support programmes when HIPC debt forgiveness made their debt relief programmes redundant. Thus the HIPC-inspired PRSPs became a focus for partnership GBS, while the HIPC approach reinforced attention to the strengthening of public finance management.

Q2. What does GBS do?

2.1 What is GBS supposed to do?

GBS is meant to be a way of financing development strategies, which at the same time has a wide

range of complementary effects, such as:

- Improved *coordination* and *harmonisation* among donors and *alignment* with partner country systems and policies.
- Lower *transaction costs*.
- Greater *predictability* of funding.
- More efficient public expenditures.
- 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.

2.2 Does it work?

The Joint Evaluation found that partnership GBS has delivered:

- **Financial support to implement poverty reduction strategies (PRSs).** This has underpinned the expansion of basic service delivery.
- **Aid that is better aligned with government strategies.** GBS and other aid has become more clearly linked to national poverty reduction strategies.
- **Aid that is better aligned with government systems.** GBS itself is disbursed through government systems, and has helped to **strengthen public finance management.**
- **More harmonised aid.** GBS donors coordinate with each other, and the dialogue that focuses on GBS also promotes harmonisation of other aid modalities.
- **More efficient public expenditure.** Governments are able to allocate more funds to finance PRS priorities, with a better balance between recurrent and capital spending. Government transaction costs during programme implementation are reduced.
- **Better dialogue between governments and their aid**

Box 2: The Role of GBS in Aid Relationships

GBS influences aid relationships as a whole. This is illustrated by the contrasting cases of Mozambique and Vietnam.

Mozambique is heavily dependent on aid from a large number of bilateral and multilateral agencies. A system of General Budget Support grew out of concerns by some bilateral donors that the fragmentation of aid was undermining government systems and priorities. Although budget support is a minority of aid flows, the system for preparation, monitoring and review of budget support has become increasingly integrated with the review of the national poverty reduction strategy, and provides a framework for the monitoring and review of all forms of aid. By 2005, 17 donors had signed a common Memorandum of Understanding with the Government of Mozambique. An elaborate system of joint reviews timed to fit the government's budgetary cycle has been created, backed by an organisational structure of thematic and working groups. The review of government performance is matched by an annual review of donors' performance.

Vietnam is much less aid-dependent, but chose to prepare a national Poverty Reduction Strategy in order to access the World Bank's Poverty Reduction Support Credit (PRSC). The PRSC is Vietnam's only GBS instrument, but has been co-financed by an increasing number of bilateral donors. Both the government and the donors have found that the PRSC provides a useful focus for dialogue about policy. This dialogue focuses on the 'how' rather than the 'what' – influencing the implementation of policies, rather than introducing new ones.

partners. Dialogue is more constructive and oriented towards shared objectives. In a number of cases, GBS dialogue has been helpful in addressing issues that cut across agencies and sectors (e.g. HIV/AIDS, environment).

The Joint Evaluation expressed reservations about:

- **Uncertain effects on poverty.**

It was too early to assess long-term effects on poverty. GBS had helped to increase access to basic services, but likely effects on income poverty and empowerment of the poor were judged to be small (see Q3.4 below).

- **The quality of basic services.**

Almost inevitably, quality of services suffered in the drive for expansion. A challenge now is to use the monitoring and dialogue channels afforded by PRBS to address quality issues, including the poverty-targeting of services, more effectively in future.

- **Capacity development.**

Although GBS helped to strengthen public finance management, complementary technical assistance and capacity development support was only weakly coordinated with GBS.

- **High level transaction costs of negotiating and monitoring aid,** which have not fallen as much as expected.

GBS has not delivered:

- **Fundamental political changes.** GBS does not transform underlying political realities. It is unrealistic to expect any form of aid to do so.

Q3. Is GBS the best way to give aid?

3.1 Is GBS better than other aid instruments?

The Joint Evaluation concluded that GBS is an effective instrument when the government is implementing a

poverty reduction strategy that its aid partners broadly support. The government must be able to maintain economic discipline and control public expenditures, and there must be a high level of trust between the government and its partners.

In these circumstances, GBS avoids many of the problems that accompany other forms of aid (e.g. uncoordinated projects that undermine government systems, impose high transaction costs and lack sustainability). GBS is a powerful way of supporting the Poverty Reduction Strategy as a whole. It tends to enhance the country-level quality of aid as a whole. For example:

- it provides more funds for recurrent costs, so that government can operate the new facilities provided through projects;
- all forms of aid benefit from the strengthening of public finance management systems;
- it promotes better coordination among all donors, and more consistent expenditure plans across sectors.

While there is often an important role for general budget support, it is not a complete substitute for other ways of providing aid. The Joint Evaluation noted that different aid instruments can complement each other. For example, well-designed technical assistance can reinforce the capacity-building effects of GBS; projects can be useful in trying out innovations, or as a way of managing large infrastructure projects.

The Joint Evaluation therefore advocates a portfolio approach which does not assume that one modality is always superior, but rather looks explicitly at the comparative advantages and the complementarities between modalities in any given situation.

The Joint Evaluation also concluded that budget support focused on particular sectors could be a useful complement to general budget support, as long as general and sector budget support are carefully coordinated in support of consistent economic and budgetary targets.

3.2 *Wouldn't it be better to provide money directly for schools and hospitals?*

When the government has an effective financial management system, budget support is a good way to finance schools and hospitals. Finance through the government budget is more likely to ensure a balance between the capital costs of new schools and hospitals and the recurrent costs of paying teachers and doctors.

Donor funding for school and hospital projects may be appropriate as part of an agreed sector strategy when general (or sector) budget support is not practical. Projects may also be the most practical way to deliver technical assistance or to pilot innovative approaches.

3.3 *How do we know GBS funds aren't wasted?*

Although GBS funds are not earmarked to particular projects, the GBS donors are vigilant in safeguarding the use of aid funds at each stage of the process:

- GBS is not provided unless the donors are satisfied (a) that the government is genuinely committed to a credible development strategy, and (b) that its systems for public finance management are adequate and improving.
- Successive installments of GBS are linked to government undertakings about its expenditure priorities and the reforms it is undertaking (including measures to strengthen public finance management and tackle corruption).
- Donors complement GBS with technical assistance to strengthen public finance management; they also work with parliaments and non-state actors to strengthen national systems of accountability.
- The government and donors jointly monitor overall public expenditures and macroeconomic and sectoral performance, including the implementation of specific undertakings by the government.

- If donors are not satisfied with the government's management of GBS they may seek additional safeguards, reduce their aid, or revert to aid instruments that give the government less discretion.

3.4 *Does GBS really help poverty reduction?*

Partnership GBS is used to support national poverty reduction strategies, and so it reflects the strengths and weaknesses of those strategies. The first set of Poverty Reduction Strategy Papers focused strongly on expanding access to basic public services, especially primary education and health care. GBS has been an efficient way of supporting those strategies, but (see Q2 above) they have had limited effects on growth and on raising the incomes of the poor. Second-generation PRSs are paying more attention to growth and income poverty reduction.

Q4. **Which countries are suitable for GBS?**¹

4.1 *Where has GBS been used?*

The case studies for the Joint Evaluation showed that partnership GBS can be adapted to a wide variety of economic, political and institutional settings. Two of the countries concerned (Mozambique and Rwanda) had emerged from conflict during the 1990s, but all had relatively effective governments (towards the top half of the World Bank rankings for government effectiveness). Vietnam was the only case-study country that was not highly dependent on aid.

Outside of the countries evaluated, GBS has also been provided to federal states, including direct budget support to sub-national governments.

4.2 *Where is GBS more likely to be relevant?*

The Joint Evaluation concluded that:

- GBS is most likely to be relevant in aid-dependent countries. These

are the countries that have to reconcile large aid flows (usually from many different sources) with the healthy development of state institutions. (However, Vietnam shows that GBS can also be useful in a less aid-dependent setting.)

- The country's government must be a credible partner, in terms of its commitment to a poverty reduction strategy and in terms of its ability to follow through on its own strategy.
- Basic standards of governance and of macroeconomic management are needed for GBS to be effective. However, there are no mechanical thresholds: GBS donors balance the risks from weak government systems against the government's commitment to reform and the potential for GBS to help in strengthening systems.

Full-scale GBS is unlikely to be practical in fragile states or states newly emerging from conflict. However, the Joint Evaluation findings suggest that bringing aid within the scope of national planning and financial management systems should be a priority in fragile states too.

Donors should follow an incremental strategy with GBS – introducing it on a small scale and then broadening its scope as all partners gain experience and performance improves.

4.3 *Doesn't GBS mean working with corrupt and undemocratic governments?*

GBS is only used by donors who consider that the government is an acceptable partner in pursuing poverty reduction. Some governments are considered too undemocratic to work with in this way – and internal political conflict may cause budget support to be suspended.

There are also examples of democratically elected governments in states where public finance management is so weak, and corruption so rampant, that donors are not prepared to entrust their funds to government systems at all,

¹ Thematic Briefing Paper 4 considers this question in much more detail

or else require stringent additional safeguards (e.g. by earmarking funds to specific budget items).

Corruption is a problem in almost all countries, and it can affect all forms of aid. GBS requires a basic level of trust between partners. Corruption – especially high-level corruption – undermines this. Corruption also corrodes public support for aid in donor countries.

GBS donors have made action against corruption a condition of their aid, and have also supported anti-corruption strategies through project aid, technical assistance and support to civil society organisations. GBS-supported strengthening of public finance management has tended to reduce opportunities for corruption.

While corruption remains a serious issue, the Joint Evaluation did not find that GBS was more vulnerable to corruption than other aid modalities.

4.4 What if Government and donors don't agree?

Donors do not embark on GBS unless there is a broad level of agreement with the government about its development objectives, and especially its poverty reduction strategy.

Experience shows that, in cases where

major political disagreements arise, GBS tends to be withdrawn more rapidly than other forms of aid.

On the other hand, frameworks for managing GBS (see Box 1 above) provide for joint government–donor review of the implementation of poverty reduction strategies, with opportunities to discuss differences as they arise.

In principle, GBS donors seek to avoid micro-management of government policies, focusing more on the joint review of their results.

Q5. How should GBS be improved?

The Joint Evaluation recommended a number of ways to make GBS more effective:

- By **strengthening the policies it supports**:
 - GBS dialogue can be used to address the quality, efficiency and pro-poor responsiveness of public services;
 - GBS donors can support the strengthening of national institutions for policy-making and review;
 - GBS can be used to support the better balance between growth strategies and strategies for basic service delivery that is already a

feature of second-generations Poverty Reduction Strategies.

- Through **capacity development**. GBS is already supporting the strengthening of national systems, but there is much scope for more coordinated donor support to national strategies for capacity development.
- By focusing on **complementarity between aid instruments**. Donors and partner governments need to develop strategies that will explicitly strengthen complementarities between GBS 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.
- By adopting **longer-term perspectives**: Donors are still generally unable to commit funds more than two or three years ahead. Longer term commitments are required to assure partner countries of finance to meet the Millennium Development Goals. Genuinely long-term budget support instruments should be developed.²

² For more on this, see Thematic Briefing Paper 3 (How can the risks of General Budget Support be managed?).

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