



Synthesis Paper 4
Current thinking in the UK on General Budget Support

Debbie Warrener

December 2004

Overseas Development Institute
111 Westminster Bridge Road
London
SE1 7JD
UK

Contents

Executive summary	iii
1. Introduction	1
2. What is General Budget Support (GBS)?	3
3. Why General Budget Support?	7
4. When and how is GBS being used?	12
5. Experience so far	17
6. Conclusion	25
Bibliography	27
Annex 1: Evaluation Framework developed by Oxford Policy Management (OPM) and Overseas Development Institute (ODI)	30
Annex 2: Foster and Leavy Decision tree	31
Annex 3: DFID Good Practice Principles and Benchmarks for Fiduciary Risk Assessment	32
Annex 4: DFID Poverty Reduction Budget Support by Country and Region 2000-04 £ million	33
Annex 5: Total DFID Bilateral Aid by Region 2000-04 £ million	35
Diagram 1: Major forms of Programme Aid	3
Chart 1: DFID Poverty Reduction Budget Support by Region 2003-04	34
Box 1: Types of Direct Budget Support	4
Box 2: Why DFID favours General Budget Support over sectoral support	5
Box 3: Characteristics of 'new' budget support	5
Box 4: Two important definitions connected to discussion of GBS	8
Box 5: Anticipated positive effects of GBS	9
Box 6: Major risks connected with GBS	11
Box 7: Key donor decisions to be made concerning the choice of aid instrument	13
Box 8: GBS in Uganda	19
Box 9: Joint-donor GBS Evaluation Study	22
Box 10: Six key elements of the current UK position on 'conditionality'	24
Table 1: Characteristics of main aid forms	4
Table 2: Illustration of choice of aid instrument based on two factors	13
Table 3: DFID Poverty Reduction Budget Support by Region	18
Table 4: PRBS as a percentage of total bilateral aid by region	18
Table 5: DFID Poverty Reduction Budget Support by Sector 2000-04	34

Executive Summary

Direct Budget Support (DBS) refers to aid channelled directly to government budgets, to be disbursed using their own allocation, procurement and accounting systems. Within this category, General Budget Support (GBS) refers to funds directly contributed to the overall budget, usually with minimal limitations on the use of the funds. It is important to note that DBS does not just involve the transfer of funds; the approach has three key elements: technical assistance or capacity building, policy dialogue and the transfer of resources.

Where circumstances are appropriate, GBS is DFID's 'ideal' form of aid provision. The reasons for this stem from the large body of evidence that has emerged since the 1990s on the ineffectiveness of project-based approaches as well as the disappointing results of policy conditionality. DFID acknowledged the need to build government capacities through direct support to the budget as early as 1997, in its first White Paper. The introduction of Poverty Reduction Strategy Papers (PRSPs) in 1999, however, greatly increased the need to consider how aid can be used most effectively to boost government capacities and ownership of strategies for poverty reduction. DFID favours GBS rather than sector approaches to support PRSP processes as they are best able to address government-wide weak capacities and inefficiencies.

The underlying hypothesis for GBS

Oxford Policy Management (OPM) and the Overseas Development Institute (ODI) recently carried out an initial study to develop a framework for the evaluation of GBS. This set out the hypothesis behind the approach in a log-frame (see Annex 1). Although this framework is now being rigorously tested in a large-scale joint-donor GBS Evaluation Study, the framework provides a simple overview of DFID's current hypothesis on how GBS might work.

In the short-term, it is hypothesised that a government's position relative to donors will be strengthened as government control of resources increases and donors work to coordinate their aid through GBS. As planning and budgeting processes benefit from targeted technical assistance and capacity building it is further hypothesised that budget allocations will become more reliable, transparent and pro-poor. With a change in government effectiveness, it is proposed that the relationship between the government and people will shift from one of a client-patron relationship to one of citizens who realise their right to hold the government accountable to provide for their needs. In this way it is hypothesised that increased domestic accountability will provide the lever to initiate sustainable pro-poor change.

Early results

These changes are clearly long-term and highly complex. Initial evaluation activities have therefore been unable to test the likelihood of the predicted long-term benefits. Some early results have found some positive benefits such as increased donor coordination, an increased allocative efficiency of the budget, some increased state effectiveness and moves towards greater domestic accountability. Increased volatility of funding with a potentially greater negative impact due to the larger volumes involved than other aid modalities emerged as a cause for concern, though.

Few, if any, of the postulated positive effects of budget support were found to be

automatic. Careful political analysis of country contexts is needed to design instruments best suited to specific country circumstances. It also emerged that different donors seem to be pursuing different objectives through the use of budget support and that there is a need for greater clarity on the 'operating rules' for GBS. Greater dialogue between donors on their respective approaches and the reasons for this is therefore an important part of increasing the effectiveness of this approach.

The fundamental tension within GBS

A fundamental tension within GBS is that between the aim to boost government ownership of the development process and its accountability to national stakeholders, and the need for donors to be accountable to their own taxpayers on how the aid budget is spent. DFID is currently looking at ways to resolve different elements of this dilemma: it is considering introducing longer-term 'rolling' funding frameworks to increase predictability; it is working on statistical methods to better measure attribution of outcomes to GBS spending; and a recent draft policy paper on 'conditionality' within partnerships has been widely debated.

Using a mix of instruments

Over the past four years DFID has consistently channelled approximately seventeen percent of its bilateral aid budget through DBS, particularly GBS. Most of this has been spent in Africa. Use of GBS is likely to increase but it is clear from this that the majority of DFID's aid budget is still being disbursed through other aid channels. Although GBS is seen as the 'ideal', DFID acknowledge that circumstances in many countries may not yet permit a full switch to GBS. Furthermore, in reality, donors use a mix of aid instruments in most countries; GBS is currently and always likely to be supported by other aid instruments. However, there is agreement that such instruments must now be used with more care than previously. Aligning all aid modalities and instruments within an overall country-driven agenda is seen as the best way to avoid past problems.

GBS was developed in Africa and most experience so far is in African countries. Japanese insights and experience in Asia are valuable inputs to the debates on the suitability of GBS for other countries and contexts. Comments drawing from the experience of Japanese researchers, practitioners and policymakers on the contents of this paper or the work cited herein would be a highly valuable contribution to the important discussions currently going on concerning this interesting but highly challenging aid innovation.

Acknowledgements

The author is grateful for comments received on an earlier draft of this paper from Tim Lamont of DFID. However, the views expressed in the paper and any errors are the author's own.

1. Introduction

The introduction of the PRSP initiative five years ago stemmed from a widespread desire to increase the effectiveness of aid. The 'big idea' is that aid effectiveness will be increased if countries decide their own poverty reduction strategies and donors align their approaches within this country-led framework. As a result of the introduction of the PRSP approach, a new consensus has therefore emerged, particularly among the so-called like-minded European donors, the EC and the World Bank concerning approaches to aid (Hoole, 2002). This consensus states that 'aid should avoid using approaches that undermine accountability and ownership and should support the accountability of governments to their people' (ibid). The most effective way of facilitating this is seen as being through a partnership 'based on mutual obligations' between donors and governments. PRSPs clearly form the basis for such partnerships in many countries; general budget support is then complementary to this as it is viewed as 'the aid instrument most likely to support a relationship between donor and developing country partners which will help build the accountability and capability of the state' (DFID, 2004a).

This new type of aid modality involves channelling funds directly to government budgets. Both project-based aid and policy conditionality have received high levels of criticism based on evidence that they were undermining government capacities to manage and implement their own budgets and policies. It is therefore hypothesised that this new aid modality will serve to build government capacities to decide and implement policies themselves. The UK has been a strong advocate for this new approach, in order to maximally support PRSP processes. DFID is, however, clear that provision of aid in this form is 'not an end in itself' (DFID, 2004a). It will also 'generally be complemented with other aid instruments' (ibid).

This paper sets out an overview of the UK's current thinking on this new aid modality. Although a number of different donors also support the move to budget support, DFID has been a strong advocate of the new approach and globally some of the first research results on budget support have been UK-led. The new aid modalities are far from simple, however, and different approaches to the modalities by different donors may in fact significantly influence effectiveness. A number of global learning networks have been set up to support donors with the complex issues involved in this area. One of these is the LENPA (Learning Network on Program-Based Approaches) network, hosted by the Canadian aid agency, CIDA. Much of the debate on budget support is therefore already global; all major donors are already involved. This paper is therefore not an attempt to cover all of the current debate; its focus is thinking in the UK.

Definitions of the new aid modality differ between donor organisations, between researchers and, in practice, between countries. This paper will predominantly focus on what DFID terms, 'general budget support' as this is viewed as the 'ideal' aid modality by DFID to be employed when conditions are appropriate. A definition of this as well as other similar aid modalities is set out in the next section.

Experience with new aid modalities remains limited, however. This is further compounded by the fact that many of the changes it is geared towards are only likely to emerge over the medium- to long-term. They are also closely connected to PRSP processes which vary widely between countries. The importance of a context-specific

approach is increasingly being realised. This paper cannot provide country level detail but refers to studies which include detailed case studies to which the reader is encouraged to refer for more specific contextual information. Although results so far are limited, some preliminary results have recently emerged. The fifth section outlines these.

Budget support is a complex area, linked to budget and public expenditure management (PEM) processes and moves to increase donor alignment and harmonisation. Work on PEM and budget processes is often highly technical field and will not be covered in this paper. Progress on donor alignment and harmonisation will be covered in a later paper.¹

The paper is based on a literature review of research and policy papers on budget support as well as an interview with DFID Policy Division staff member currently responsible for budget support, Tim Lamont.

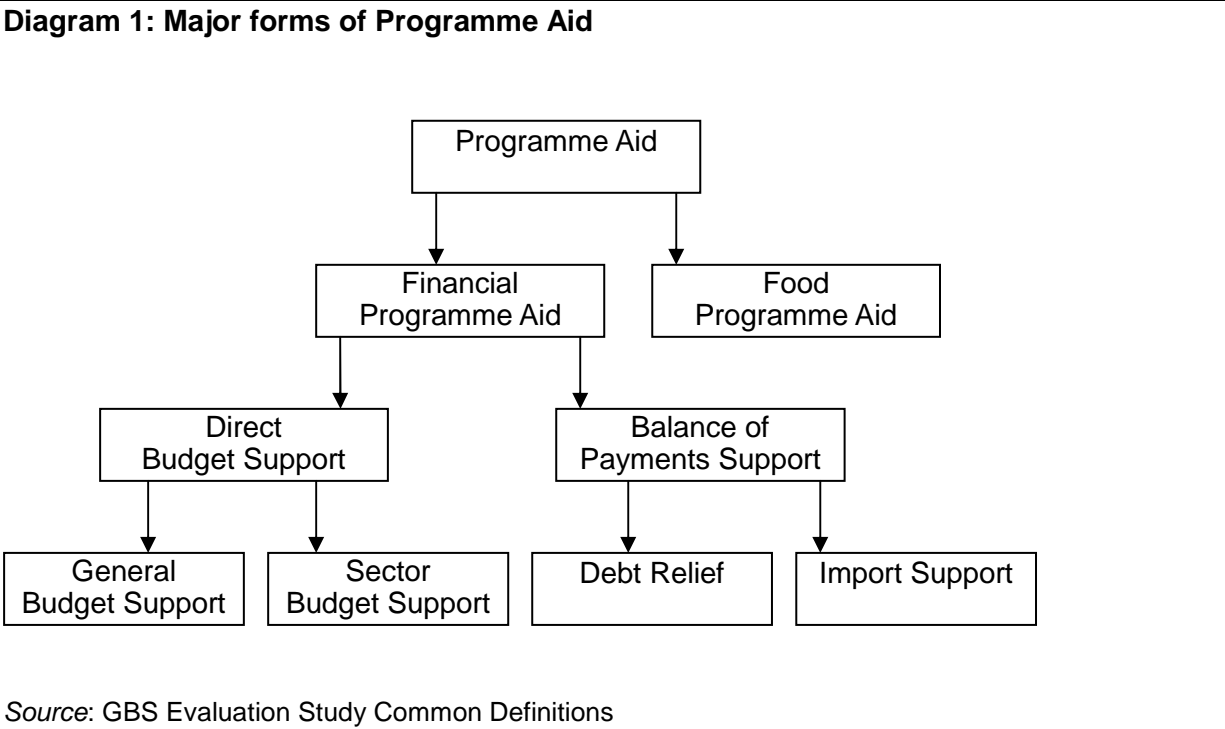
The paper is divided into four central sections. The first of these sets out what is meant by 'general budget support' in the UK, including how it differs from previous programmatic aid modalities. The second section then sets out in more detail why this shift to budget support is happening, including the main hypothesis underlying the approach. The third section covers DFID's current approach including criteria for introducing budget support, as set out in DFID guideline papers. The fourth section then covers some of the results of initial studies on budget support. The paper ends with a short conclusion.

¹ This paper has been produced as part of a series reporting on UK aid policy and research. For more information see: http://www.odi.org.uk/RAPID/UK_Japan/index.html

2. What is General Budget Support (GBS)?

Non-project aid instruments are far from a recent development. In fact, programme aid has been a ‘variable but always important component of aid flows since the 1960s’ (workshop report). In the past, food aid, balance-of-payments support and direct budgetary assistance have all played a significant role at different times. There has been a shift, however, in the rationale for use of programme aid. Whereas previously such aid modalities were employed to ‘bridge specific financial gaps or to bolster governments’ commitments to policy reforms agreed with the IMF or World Bank’, the main aim now is to boost government capacities ‘to decide and implement policies for themselves’ (Booth, 2004). Although budget support was previously employed, Nilsson (2004) further echoes Booth’s comment by distinguishing between ‘pre-2000’ and ‘post-2000’ budget support, reflecting the shift in approach that occurred with the introduction of the PRSP approach.

A simple diagram of the main forms of programme aid is set out below in Diagram 1. In general programme aid can be divided into financial programme aid and food aid. Financial programme aid is then further sub-divided into budget support and balance of payments support. As can be seen on the diagram, two key types of ‘direct budget support’ are generally distinguished – General Budget Support (GBS) and Sector Budget Support (SBS).



Therefore although the debate often seems polarised into ‘projects’ versus ‘programmes’ it is important to note that in reality there is a wide variety of modalities with different characteristics. Even ‘project aid’ can take a variety of forms - for example it can either be distributed through parallel systems or through government systems. As an illustration of the variety of modalities that are available, Table 1 sets out the general characteristics of the main aid forms highlighting how they differ in conditionality, earmarking and accountability.

Table 1: Characteristics of main aid forms

Modality	Conditionality	Earmarking	Accountability
Balance of payments support	Macro	None	None
Aid-financed debt relief	Macro and Budget	Usually none	Government Systems
General budgetary support	Macro and Budget	None or nominal	Government Systems
Sector budget support	Sectoral	On-budget to sector	Government Systems
Sector earmarked	Sectoral	Off-budget within sector – usually basket funding	Blend of government and donor systems
Projects using govt systems	(Sector and) project	Project	Blend of government and donor systems
Projects using parallel systems	Limited: low government ownership	Total	Donor

Source: ODI (2003)

Although reflecting Diagram 1 and Table 1, Box 1 then sets out widely used definitions of Direct Budget Support, General Budget Support and Sector Budget Support. These reflect DFID's use of the terms.²

Box 1: Types of Direct Budget Support³

Direct Budget Support (DBS) refers to aid 'channelled directly to partner governments using their own allocation, procurement and accounting systems'. It is not connected to specific project activities and involves the transfer of a lump sum of foreign exchange.

Two types of DBS are then widely recognised. These are:

General Budget Support (GBS) – financial assistance directly contributed to the overall budget. Although funds may be nominally 'accounted for' against certain sectors, there is no formal limitation on actual use of funds.

Sector Budget Support (SBS) – aid distributed to the general budget but earmarked for a discrete sector or sectors.

Note: it is important to note that SBS is distinct from Sector Wide Approaches (SWAs). SWAs combine aid modalities within a single overall sector policy. Although a SWAp may progress towards sector budget support in general they contain a 'mix of project aid and common-basket modalities, the bulk of which is not disbursed through government systems'.

Source: Lawson et al. (2003), Driscoll et al. (2004) and Foster and Leavy (2001).

² In the May 2004 policy paper on Budget Support, however, DFID chose to replace 'DBS' with a new term – Poverty Reduction Budget Support (PRBS). This is not used in this paper however.

³ The term budget support will be used interchangeably in this paper with 'DBS' to refer to both GBS and SBS, as outlined here. DBS and budget support are also synonymous with DFID's term 'Poverty Reduction Budget Support'. (see footnote 2)

As mentioned in the Introduction, DFID favours GBS. The reasons for this are set out in Box 2 below. As can be seen, GBS is viewed as the best means to tackle the institutional capacity constraints of the government as a whole. For this reason, it can be seen to be the 'ideal' form of budget support for DFID, where circumstances are appropriate.

Box 2: Why DFID favours General Budget Support over sectoral support

- General budget support uses, and helps to enhance, the government-wide systems for budget planning and accounting;
- General budget support gives the government greater control over priorities and the use of resources;
- Sectoral approaches make it difficult to address the crucial cross-cutting reform issues, such as financial management, pay reform, public service reform and decentralisation;
- General budget support helps to promote the development of government incentive and accountability mechanisms

Source: DFID, 2002a

The 'new' budget support, of which GBS is the most important form, has a number of important components. These are set out in Box 3.

Box 3: Characteristics of 'new' budget support:

- Partnership-based
- Provision of untied budgetary resources over medium or long-term
- Focus on national policy processes
- Main objective is institutional development – building open, accountable, capable governments
- Predictable, transparent financing – minimal transaction costs, goes through government systems

Additional crucial components:

- Coordination of donor initiatives in support of the budget
- Broad participation in policy and programme design by parliamentarians, local government and civil society – likely to be around the PRSP process

Source: Lawson et al. (2003)

GBS does not simply involve a transfer of funds, however. This point is often misunderstood, even within DFID.⁴ In reality, GBS consists of three core components. These are:⁵

- Dispersal of funds
- Policy dialogue
- Technical assistance and capacity building activities primarily in the area of public expenditure management and public financial management

⁴ Comment by Graham Teskey, Head of Africa Division, DFID (9 December 2004)

⁵ Based on GBS Evaluation Study Common Definitions

Although GBS relies on government systems DFID therefore ‘recognises that there may be a need to strengthen these’ through technical assistance and other capacity building activities (ODI, 2003).⁶ GBS has few conditions attached. Instead donors and governments agree on respective rights and responsibilities before going ahead with GBS. Hoole (2002), for example, although stating that where there are conditionalities, these ‘typically relate to the macroeconomy (often compliance with IMF programmes) and to financial accountability and/or budgetary allocations’ notes that DFID has moved away from ‘explicit use of conditionalities, instead taking as their departure point a given macroeconomic and poverty policy framework, which is considered as sufficient to form the basis of a partnership’.

An important caveat to this section concerns the terms ‘aid modality’ and ‘aid instrument’ and the fact that even within the categories set out here, there is considerable variety in practice. The ‘Common Definitions’ sheet for the GBS Evaluation Study states that ‘an *aid modality* is a *way of delivering official development assistance (ODA)*’. GBS is therefore an *aid modality* but within this fairly broad category different donors, or even the same donor in different countries, are likely to employ different *aid instruments* that have been specifically designed to ‘fit a particular (donor) purpose in a particular (country) context’ (ibid). The GBS Evaluation Study therefore states that ‘the task for any donor is not simply to *choose* (simple) *aid modalities*, but to *design* (complex) *aid instruments*’ (definitions sheet; emphasis in original). Although research so far has not yet been able to analyse this in any detail, the fact that ‘the detailed design of various GBS... aid instruments may make a big difference to their effectiveness’ is an important hypothesis within the current large-scale joint Evaluation Study (defs). It is therefore important to bear in mind that the discussion set out here is necessarily highly simplified as results concerning the detailed design of aid instruments are not yet available.

⁶ The implications of GBS on TA are set out in more detail in Section 4

3. Why General Budget Support?

The section will first set out the results of previous experience with (i) projects and (ii) policy conditionality, as it was predominantly negative experience with these that provided the rationale for GBS. The section will then turn to outline the expected benefits of GBS, including an overview of the underlying hypothesis that the approach is based on. Risks are also associated with the approach, however. The section ends with a short outline of some of the major risks currently recognised.

The problem with projects⁷

For most of the post-war period, the majority of aid has been distributed through projects. The reason for is that they have been viewed as the most efficient way to deliver capital investment – the lack of which was seen as the major factor hindering development. Separate accounting and management structures were also seen as the best way to minimise fiduciary risk (see Box 4) and clearly ascertain the outcomes of spending.

During the early 1990s strong critiques of project assistance began to emerge, however. Concerns arose that ‘islands of excellence’ were being created within a sea of government incompetence and that far from having no impact on government capacities, parallel structures were actively serving to undermine government abilities to carry out their own work (Conway, 2003). Additional concerns were:

- High transaction costs for governments particularly in countries where many donors had myriad projects
- Inefficient spending due to dominance of donor priorities and tied contracting
- Lack of predictability in funding
- Accountability to donors rather than to national stakeholders

Although it was originally thought that projects enabled clear analysis of the impact of aid expenditure, growing awareness of the concept of the ‘fungibility’ (see Box 4) of project aid threw this into doubt. In fact, it is now felt that project aid may be ‘more fungible than programme aid, because it can free up resources for the government to use elsewhere, without creating the conditions for a dialogue about how those resources will be used’ (DFID, 2002a).

The World Bank Aid Effectiveness Report (1998) neatly summarised these growing concerns: ‘Aid agencies have a long history of trying to ‘cocoon’ their projects using free-standing technical assistance, independent project implementation units, and foreign experts – rather than trying to improve the institutional environment for service provision... They have neither improved services in the short run nor led to institutional changes in the long run’ (quoted in Lawson and Booth, 2004).

⁷ Unless otherwise indicated this section draws from Lawson and Booth (2004)

Box 4: Two important definitions connected to discussion of GBS

Fiduciary risk is the risk that funds:

- are not used for the intended purposes
- are not properly accounted for
- do not represent value for money

DFID's Briefing on 'Managing Fiduciary Risk When Providing Poverty Reduction Budget Support' explains that 'DFID's Accounting Officer is accountable to Parliament for how UK taxpayers' funds allocated to DFID are used. This includes proper reassurances that fiduciary requirements are met, so that public funds are used for the intended purposes deliver value for money and are properly accounted for' (DFID, 2004b).

Fungibility is 'the concept that funds may indirectly finance something other than what they directly finance' (GBS Evaluation Study Common Definitions). This is because if donors fund one item, funds are then released for the government to spend as they wish.

The problem with policy conditionality

An alternative to projects was the 'policy conditionality' introduced primarily during the 1980s and 1990s, linked to structural adjustment lending. In this approach donors attempted to 'buy reform' by linking the provision of resources to specific policy conditions (Hoole, 2002). After almost twenty years of experience with this method, the evidence is clear – policy conditionality has not been effective. The broad consensus from research examining the impact of this approach is that economic and political reform are unlikely to happen without domestic political will for change – and this is to a large extent immune to donor pressure. Although donors have influenced reform in some cases, the most effective route for influence would appear to be through partnership with governments around mutually agreed reforms. Policy conditionality also suffered from some of the same problems as projects as it 'generally served to undermine ownership and internal accountability' (Lawson and Booth, 2004).

Such concerns about aid effectiveness led to the development of the PRSP approach. As early as 1997, however, DFID set out its awareness of the problems, particularly with projects, in its first White Paper:

'where we have confidence in the policies and budgetary allocation process and in the capacity for effective implementation in the partner government, we will consider moving away from supporting specific projects to providing resources more strategically in support of sector-wide programmes or the economy as a whole' (quoted in Lawson and Booth, 2004).

Interestingly this was before the introduction of PRSPs and therefore refers to SWAps and 'pre-2000' budget support rather than the form that has emerged to support PRSPs. This quote shows that the development of GBS was very much in line with DFID's thinking as early as 1997. With the introduction of PRSPs, though, the stakes were raised to a whole new level.⁸

⁸ DFID, of course, played a key role in the development of the PRSP initiative therefore the fact that DFID's thinking was already moving towards GBS is perhaps not so surprising.

The expected benefits of GBS

DFID's first policy paper on budget support was published in May 2004.⁹ This sets out what DFID sees as being the primary anticipated benefits of the approach. As mentioned above, many of the changes GBS and PRSPs are aiming for are medium- to long-term changes that are only likely to emerge gradually. For this reason, DFID divides the expected benefits into those predicted for the short-term and those likely to emerge over the medium- to long-term. These are set out in Box 5 below.

Box 5: Anticipated positive effects of GBS

Short-term effects

- Increased government ownership and empowerment in use of funds and priority setting
- Improved policy dialogue between donors and governments on priorities and the means to realise them
- Increased harmonisation of donor activities

Medium-term effects

- Increased predictability of aid flows
- Lower transaction costs
- Improvements in service delivery and development outcomes as government systems are strengthened

Increased democratic accountability - increased predictability and transparency of the planning and budgetary process is hypothesised to encourage and empower stakeholders to mobilise

Source: DFID (2004a)

The underlying hypothesis for GBS¹⁰

The anticipated benefits outlined in Box 5 are all closely connected to each other. There are a number of ways that the links can be described – one that has received particular recognition is the logical framework analysis developed in background work for the current large-scale joint GBS Evaluation Study (see below for more details), a copy of which can be seen in Annex 1.

Essentially, it is hypothesised that the three major inputs (increased funding directly to the budget; a changed form of policy dialogue; and refocused technical assistance and capacity-building efforts) will lead initially to a strengthened government position in relation to donors. As planning and budgeting processes benefit from targeted technical assistance and capacity-building, and policy dialogue based on the PRSP or a similar national plan is undertaken, it is further hypothesised that budget allocations will gradually become 'more reliable, transparent and pro-poor' (policy paper). As public expenditure becomes more predictable, effective and transparent, it is proposed that a fundamental change in the relationship between national stakeholders and the government is likely to emerge. This is a change from a 'client-patron' relationship whereby government officials hold office on the basis of their being able to satisfy 'very tangible, local needs of constituents' to a relationship based on the concept of 'citizenship' and the associated 'rights' of the population to the long-term and stable

⁹ The paper covers both GBS and SBS.

¹⁰ Draws from Driscoll et al. (2004), DFID (2004a) and Lawson et al. (2003)

provision of public services (ibid). This is necessarily a long-term and very profound change. It is hypothesised that with the development of this changed relationship between governments and citizens, domestic capacity to hold the government to account and demand pro-poor change will further increase the government's capacity and motivation to introduce pro-poor policy and change. The ultimate goal of GBS is therefore poverty reduction, catalysed through profound shifts in the relationship between donors and recipient governments and between governments and their people.

An important point is that these changes will be highly influenced by the specific context within which they occur. For this reason, DFID have recently developed the 'Drivers of Change' approach to carry out detailed political economy analysis and examination of the specific structural and institutional factors at play in a country. Such analyses are being used to inform their decisions on when and how to introduce GBS although it must be noted that such work is still at an early stage.¹¹

Risks associated with GBS

Although DFID strongly emphasises the anticipated benefits of GBS in its recent policy paper, it also highlights a number of the risks involved. These are set out in Box 6 below, together with additional risks that have been highlighted by other authors. The ways in which DFID are addressing a number of these will be turned to in the next section.

In essence most of these risks stem from the fact that development aid under the new 'country-led' agenda involves a delicate balancing act for donors. This is particularly clearly illustrated with the risks that are involved under GBS. Although PRSP processes and GBS aid aim to increase government ownership of poverty reduction strategies by facilitating a shift in accountability from external accountability to donors to internal accountability to national stakeholders, there is an inherent tension in this that may make it difficult to achieve in practice. This tension stems from the fact that donors have their own accountability – to their national taxpayers. The concerns of fiduciary risk are therefore closely connected to concerns that, despite the rhetoric, donor actions, such as enhanced policy dialogue, may still serve to undermine national ownership. This tension is also visible in the aim to increase the predictability of aid, by using GBS. In actual fact, as GBS is high profile aid, in reality donors may be unwilling to sacrifice a certain level of flexibility in the distribution of funds. Clauses that enable GBS funding to be cut should donors disapprove of military action or human rights abuses, for example, throws donor commitment to increasing the predictability of aid into serious doubt.

¹¹ See previous paper for more detail on the DoC approach.

Box 6: Major risks connected with GBS

- Potential increased volatility of aid flows
 - As GBS is relatively easy to disburse it can be stopped more easily.
 - Donors may wish to maintain flexibility to alter funding levels, despite rhetoric to make long-term predictable commitments
- Fiduciary risk– the risk that donors are unable to account for the impact of their aid expenditure (see Box 4)
 - Loss of visible connection between aid inputs and development outputs – although fungibility was always an issue, attribution under GBS is very difficult
 - Donor fiduciary risk requirements may increase demands for monitoring and evaluation that are in excess of the government's own capacities
- PEM systems may be too weak in practice to deliver the expected results
 - Doubt concerning whether it is possible to change systems by introducing increased funds or whether it may not be better to fundamentally reform the systems first
 - GBS may simply serve to reinforce the status quo of poor performance and slow progress towards reform, if movement towards reform is not already present
- Donor-government policy dialogue can undermine domestic accountability
- Higher 'transition costs' in the short-term

Source: DFID (2004a), Hoole (2002), Zambia training course materials, Driscoll et al.(2004)

4. When and how is GBS being used?

This section provides an overview of some of the issues to be considered in moving towards providing GBS to a country. It will first present some of the key assessment tools and questions to be asked concerning the choice of different aid instruments. The discussion will then become more specific, providing an overview of the conditions DFID examines before introducing GBS in relation to its need to manage fiduciary risk. In reality, however, donors will always employ a range of different aid instruments in any one country. The section will end with an examination of the envisaged changed role of projects and technical assistance within the new aid environment.

The choice of aid instruments

A widely cited tool for choosing different aid instruments is the 'Decision Tree', developed by Foster and Leavy (2001) (see Annex 2). Key elements within this are: whether policies and priorities have been agreed between donors and governments; whether additional benefits are envisaged from the introduction of GBS in the particular country; and whether government PEM capacities are adequate to sufficiently allay fiduciary risk concerns.¹² On the basis of answers to these issues, donors will choose to operate at a macro, sector or project level. Foster and Leavy also outline three key dimensions that need to be addressed in the selection and design of aid instruments. These three dimensions are:¹³

- Whether to attach explicit conditionality and if so, in what form
- Whether to earmark funds, and if so, how tightly (examples: to specific projects, to sectors or to 'pro-poor' spending)
- Which disbursement channel to use (examples: parallel, donor-managed, project-level systems or disbursement through government channels)

Although this provides a starting point, in reality decisions will be made based upon many more factors relating to both the in-country situation and donor priorities and concerns. An example of more detailed consideration of the specific use of aid instruments based on in-country criteria is set out in Table 2 below which illustrates how Public Expenditure Management (PEM) capacities will interplay with the strength of the policy dialogue and consensus reached between donors and governments.

¹² These factors closely reflect DFID's assessment of whether circumstances are appropriate for GBS. These are whether: (i) the partner government's planned budget priorities support poverty reduction; (ii) there is commitment to making the administrative, technical and financial systems robust and reliable; and (ii) provision of GBS will produce significant benefits relative to other forms of aid delivery (DFID, 2004a).

¹³ Taken from Lister (2002)

Table 2 Illustration of choice of aid instrument based on two factors

	Strong PEM capacity	Weak PEM capacity
Good donor-government consensus on policy	Budget support with few restrictions on use Disburse through government channels	Budget support with more restrictions on use Earmarking where risk of aid leakage is high Disburse through government channels If PEM is very weak, direct donor procurement
Weak donor-government consensus on policy	Projects Technical assistance to build policy framework Can use government channels for disbursement	Projects Technical assistance to support capacity building Direct donor disbursement

Source: Zambia training course materials

Donors will also have their own priorities when making decisions on aid instruments and modalities. Some of the key questions are set out in Box 7.

Box 7: Key donor decisions to be made concerning the choice of aid instrument

- What is the objective?

Different aid instruments are suitable for supporting different objectives. However, there is increasing realisation that coherence in objectives between different instruments is important to reduce inefficiencies and contradictions between approaches. (See below for more detail on projects and technical assistance)

- What are the comparative advantages of the donor organisation?

Different donor organisations have different comparative advantages; this may also vary according to country or region. Ideally decisions on comparative strengths of aid approaches should be agreed together with other donors in joint donor groups. Such groups are beginning to emerge in a number of countries.

- How large is the available aid budget?¹⁴

The issue of 'how much' aid is best is not generally connected to the modality question of 'how' to deliver aid but in practice there are links. Pressures to spend based on a rising aid budget and concomitant pressures to increase efficiency by reducing staff numbers may lead donors to move towards GBS. Such pressures can be seen to be at work to a certain degree within DFID.

Source: Adapted from IHSD (2003)

As PRSP processes become more deeply embedded and, as a result, government ownership of the development process grows, such donor considerations should take secondary place, however. This is because the ultimate aim behind PRSPs is for recipient governments to lead the process. In this case, donor aid modalities,

¹⁴ The question of 'how much' aid is best will be focused on in the next paper of this series – looking at current UK moves to double aid in order to achieve the Millennium Development Goals, and some of the issues around this.

instruments and priorities should be set according to the wishes of the recipient government.

Managing fiduciary risk

As mentioned in the previous section, fiduciary risk is a major area of tension for donors such as DFID in the move towards GBS. This is also illustrated by its prominence in Foster and Leavy's (2001) 'Decision Tree' where GBS is to be implemented 'with fiduciary concerns met'. Due to its importance, DFID first published guidelines on the management of fiduciary risk two years before its policy paper on GBS as a whole and has since published two more documents on the issue.¹⁵

DFID's approach to fiduciary risk is not one of 'setting minimum standards' (Driscoll et al., 2004). Even if fiduciary risk levels are judged to be high, a final decision will be made by setting the risks off against the potential benefits. In other words, even if government public-financial management and accounting systems are 'initially considered somewhat untrustworthy, a decision should be made and formally recorded that balances the associated risks against the developmental *dis*-benefits from continuing to by-pass them' (ibid, emphasis in original).

DFID's latest guidance materials set out four steps to managing fiduciary risk. These are summarised as follows:¹⁶

1. *Thorough evaluation of the public financial management and accountability systems and associated risks*
This will include assessment of the risk of corruption based on in-depth knowledge of the governance and institutional context. Eight good practice principles and related benchmarks are provided. (See Annex 3)
2. *Assessment of whether a credible reform programme is in place to address issues raised in (1.)*
Judgements concerning the current direction of change and the likelihood of successful implementation of planned reforms.
3. *Judgement on whether the potential development benefits justify the risk*
This is a very 'challenging and innovative' element within DFID's approach (Driscoll et al., 2004). Guidance materials have not yet been issued but benefits are likely to mirror many of those highlighted in Box 5. Results of the current evaluation will also contribute to greater understanding of potential benefits.
4. *Formal recording of the decision reached*
Assessment reports are to include ratings on a scale of A-C for the 15 benchmarks examined under (1.).

Due to DFID's high degree of decentralisation and the consequent high level of autonomous decision-making power in country offices, in practice there is 'substantial variation in approach according to local circumstances' (Driscoll et al., 2004). In fact, in reality, donors use a mix of aid instruments in most countries (DFID, 2004a). This may be because country conditions do not permit a full switch to GBS or due to the complementary role other instruments can play. As ODI (2003) states, 'although donors may wish to use the 'highest' modality that circumstances allow, there will often

¹⁵ DFID (2002b), DFID (2004b), DFID (2004c)

¹⁶ Based on summary provided in Driscoll et al. (2004) and DFID (2004c)

be a need to 'blend' modalities on a country-by-country basis'. Some donors may be more cautious concerning GBS and an evolutionary 'blending' approach can allow them to gradually 'upgrade' their modalities over time towards GBS. In this way, 'as long as 'blends' are appropriate, each stakeholder can offer its piece of the 'cake' in the way it prefers or is best at doing' (ibid).

Projects do therefore still have a role. In addition, as has been seen, technical assistance is regarded as a core input for GBS. A number of authors emphasise that their role has changed, in light of overall changes in the aid environment, however. The following short sections outline a number of the points highlighted.

A new role for projects

Hoole (2002) clearly states that 'the project world is not dead'. This is echoed in DFID's policy paper on DBS where a list of some of the important functions for projects in the current context is provided:¹⁷

- A strategic means of changing the wider institutional environment
- Pilots acting as 'policy experiments'
- Enabling the transfer of skills
- Provision of assistance to the non-state sector
- Demonstration of alternatives

ODI (2003) particularly emphasises the fact that project-based approaches may be 'particularly useful in order to engage NGOs (especially 'advocacy' types) and the private sector in the planning process in places where governments are unwilling or unable (lacking capacity, organisation, or methodology) to organise civil society participation effectively'.

In addition, in many countries the governance situation may be 'simply not appropriate to enter into budget support arrangements' (Hoole, 2002). In this case, project-funding to work with NGOs and the private sector as well as offering 'small-scale technical assistance projects so as to continue to engage with the government' may be most appropriate. This approach aims to avoid the problems with projects operating under parallel systems, highlighted above, by keeping project funding to a minimum in areas where the government is active.

Hoole also sets out three sets of circumstances where larger scale project aid could potentially be of value to the public sector, however. These are:

- Projects which are not part of usual business by governments and which are mutually agreed priorities by governments and donors.
 - Examples: projects that concern global public goods such as clean air, water and bio-diversity.
- Pilot projects testing specific innovations such as change management techniques or the application of technology

¹⁷ Based on DFID (2004a)

- Projects where donors can help governments avoid high transaction costs because they have a competitive advantage in management. International competitive bidding is necessary to ensure that such projects are government-led.
 - Examples: large scale capital projects such as dams, power, roads and irrigation.

Overall, it can be seen that where projects are used, they must be used with care and awareness of the potential problems they can cause; the fact that projects still have a role does not automatically give donors a 'free rein' to continue the activities they have always been doing. The key point is that stand-alone projects, outside an overall framework, are counter-productive to current approaches to aid under the PRSP framework aimed at building government ownership through accountability systems and improved public expenditure management systems. Projects will still be employed but 'should contribute to the country's strategic framework for poverty reduction and not be donor driven' (DFID, 2004a). Donors must also be aware of their responsibility to reduce transaction costs by aligning procedures as much as possible.

A new role for technical assistance

Lister (2002) states that despite the fact that, much like projects, technical assistance (TA) also tends to have high transaction costs for governments, so far there has been little discussion of this in relation to the move to new aid modalities. In line with the recommendations for projects, outlined above, he therefore recommends that 'a test both of ownership and of the utility of TA to recipients would be for an increasing proportion of TA to be commissioned and managed by the recipient government'. Williams et al. (2003) in fact cite examples of countries where this is already happening.

In Uganda, for example, there is 'progress... towards ensuring that TA is provided through the national budget and within a framework of government determined procedures, even though Uganda has a high level of aid dependency'. Botswana and India are also mentioned as 'aid-receiving governments' who have 'become more assertive in defining the terms on which they are prepared to accept TA'. India is a particularly interesting example of increased assertiveness as it recently refused assistance from a number of donors alongside announcing that 'as a matter of policy it will no longer accept tied aid' (ibid). India is a clear example of the 'increased ownership' that PRSPs, GBS and other connected trends such as moves towards donor alignment and harmonisation say they are aiming towards; the reality, however, may make donors feel uncomfortable.

The vision provided by these authors is for donors' role in TA provision to move towards competitive tender for contracts led by governments. This will help to reduce current 'congestion and confusion among well-meaning donors' by coordinating TA and ensuring that it is responsive to government needs (Lister, 2002). The ultimate aim under this vision may be for donors to become 'service-providers' of TA; but its value for donor organisations to maintain their link with the 'reality on the ground' may still be considerable (ibid).

5. Experience so far

This section will first provide a summary of DFID's use of budget support so far. It then sets out the tentative results of the preliminary investigations into the impact of GBS and a short overview of the current joint-donor GBS Evaluation. The section ends with a short section on major areas that DFID is currently working on in relation to GBS.

DFID's use of budget support so far

DFID began its shift to using DBS in 2000 (Driscoll et al., 2004). At this time, DFID's thinking on how to respond to the PRSP initiative was emerging. Within an initial 'think-piece' entitled 'How should DFID respond to PRSPs?' published at this time DFID indicated that GBS was a core component of its approach to supporting PRSPs although emphasis was made that 'general budget support is not the final goal for its own sake but is viewed as the most likely aid instrument to produce a donor-recipient relationship in line with the PRS principles' (DFID, 2002a). A key element that enabled DFID to make this shift was a change in the approach of the UK's National Audit Office – 'value for money' in British development assistance could now be assessed 'indirectly, making use of the recipient government's systems', indicating institutional acceptance in the UK of the arguments for the benefits of budget support (Driscoll et al., 2004).

DFID's approach to DBS was, however, to a very large extent developed in-country with experiences in Uganda being of particular importance (ibid). This is clearly indicated by the fact that despite the fact that DBS was being used from 2000, no overarching policy paper was issued until May 2004. Experience in budget-support groups with other like-minded donors and government representatives has also been highly influential. Emerging practice in such groups in Ethiopia, Mozambique, Tanzania and Uganda has been of particular relevance (ibid).

Table 3 below shows the latest DFID statistics on its use of what it terms 'Poverty Reduction Budget Support'.¹⁸ As can be seen there has been an overall increase in use of DBS although there was a slight dip in the funds allocated in this way during 2002-03. Table Z in Annex 4 illustrates the countries these aid allocations refer to (this Annex also includes a pie-chart of DBS to regions in 2003-04 and a table showing DBS breakdown by sector). The largest amount of DBS given to any one country in any one year was the 65 million pounds provided to India in 2001-02. The largest aggregate amount to any country so far is to Tanzania with a total amount of 180 million pounds transferred in this way. Uganda and Ghana are not far behind, with 166.5 million pounds and 110 million pounds respectively.

¹⁸ Poverty Reduction Budget Support (PRBS) is the same as DBS, including both GBS and SBS – equivalent to DBS – see footnote 2.

Table 3: DFID Poverty Reduction Budget Support by Region¹⁹

£ million

	2000 - 01	2001 – 02	2002 - 03	2003 – 04
Africa	254.9	167.5	154.1	192.6
Asia	-	92.0	82.6	149.0
Americas	-	2.6	1.3	3.3
Europe	10.4	10.0	-	-
Pacific	-	-	-	-
Total	265.3	272.1	238.0	344.9

Source: DFID (2004e)

Table Y illustrates how the figures look as a percentage of DFID's overall bilateral aid budget to these regions.

Table 4: PRBS as a percentage of total bilateral aid by region

	2000 - 01	2001 – 02	2002 - 03	2003 – 04
Africa	39.3	28.7	20.6	26.9
Asia	-	18.4	14.9	18.9
Americas	-	2.6	1.3	3.8
Europe	9.2	10.3	-	-
Pacific	-	-	-	-
Total	18.6	17.7	13.1	17.5

Source: Adapted from DFID (2004e)²⁰

As can be seen, the relative proportion of aid has remained approximately constant at an average level of 17 percent since the adoption of DBS as an aid modality in 2000. This is a clear illustration of the fact that although DFID is clearly advocating moves towards increasing its use of DBS and within this, GBS in particular, the reality is that the majority of its aid budget is still being disbursed through other channels. Overall it would appear that non-GBS approaches continue to dominate although this may be more due to recipient capacity issues than unwillingness on DFID's side.

Tentative results on the impact of GBS

In 2001 DFID commissioned Oxford Policy Management (OPM) and the Overseas Development Institute (ODI) to jointly carry out a GBS 'Evaluability Study'. This examined the early experiences of Uganda, Mozambique and Andhra Pradesh, India and developed a 'conceptual framework of the impact of GBS on poverty' (DFID, 2004a). A log-frame depiction of the resultant framework can be seen in Annex 1. Some initial results on the impact of GBS emerged from this study, although it is important to note that the study primarily focused on testing the model rather than specifically carrying out evaluation. For this reason, results at this stage are very tentative.

¹⁹ Excludes budgetary aid to Montserrat and St Helena

²⁰ Calculated using the figures in Table 3 above and the DFID (2004e) statistics for bilateral aid by region (see Annex 5)

Results from the OPM/ODI Evaluability Study can be divided into four sections: (i) whether the GBS inputs envisaged in the logframe model were in place²¹; (ii) immediate results – whether government empowerment had increased and whether increased donor coordination was visible; (iii) evidence of medium-term institutional transformation; (iv) a number of overall lessons. These four areas will be covered separately below. As mentioned above, these are tentative results; furthermore as experience in Uganda is longest, results, particularly concerning medium-term institutional transformation, are inevitably predominantly based on experience there. (For reference, Box 8 provides a simple overview of GBS in Uganda.)

Box 8: GBS in Uganda

- 55% of aid is in this form, with some residual earmarking
- GBS donors are actively participating in sector working groups and other fora
- Health planners claim big increases in efficiency and outputs as a result of the redirection of project funds into the budget
- Political issues are still interfering with the reliability of funding

Source: Booth (2004)

(i) To what extent were the inputs in place?²²

Uganda: all GBS inputs and activities were present – DFID and other donor funding had shifted substantially to GBS; new fora for dialogue under strong GoU steering had been established; reorientation of TA.

Mozambique: majority of aid still through projects.

Andhra Pradesh (AP), India: majority of aid still through projects; GBS has facilitated greater policy dialogue on governance issues, though; TA was already focused on mainstream GoAP function before GBS – no change.

(ii) Intermediate results

Government empowered?

Uganda: Greater GoU control over externally-funded activities and resources with relative strengthening of the Ministry of Finance, the Cabinet and Parliament, as drivers of public resource allocation; key change in how line ministries related to the Ministry of Finance relative to donors – Ministry of Finance increased in importance as guardian of budget process.

Mozambique: Weak government control and legislative oversight over budget systems.

AP: Ownership was already strong due to low aid dependency; GBS therefore did not increase ownership of the budget and policy process relative to prior to its introduction.

Increased donor coordination?

Uganda: No visible improvement due to complicated situation.

Mozambique: Enhanced bilateral donor coordination – one of the most important benefits of GBS in Mozambique.

AP: No comments made.

²¹ Funds, policy dialogue, technical assistance and capacity building.

²² Sections (i) to (iii) on the OPM/ODI results are based on the summaries provided in Driscoll et al. (2004) and IHSD (2003).

(iii) Medium-term institutional transformation?²³

- Reduced transaction costs?

Although transaction costs seemed to have increased over the short term as donors became used to new ways of interacting with each other and with the government, there seemed to be reasonable likelihood that they would decrease over the medium-term, particularly if deliberate attention is given to improving meeting styles and methods, and if donors delegate power to each other. It is important to note that this is also dependent upon whether project support is being phased out at the same time.

- Increased allocative efficiency of budget?

Evidence showed this to have improved significantly in three ways:

- Budget allocations more closely reflected government priorities – although doubts remained as to whether overall allocation of resources was significantly more pro-poor
- Reduced charges of gross misallocations particularly compared with the heyday of projects – remaining doubts about the size of the discretionary element in the budget, though.
- Processes were put into place that would, over time, foster learning from experience and knowledge on what does and does not produce results

- Increased predictability of funding?

Even though this is a key objective of GBS, funding predictability was not found to have increased in Uganda and was seen as being very remote in AP. GBS is high-profile aid and donors are unwilling to surrender control over flexibility. In Uganda uncertainty within the national and regional political situation compounded the problem; there was clear disagreement within Uganda on the appropriateness of 'political conditionality' within a GBS partnership context reflecting a lack of consensus between different donors and stakeholders on the type of partnership they were committed to. Although GBS providers now enter into three-year commitments these are not binding, even within-year. Whether the predicted benefits from this factor are realised depends, therefore, on the willingness of donors to restrain themselves, or others, from halting or delaying disbursements.

- Increased state effectiveness?

There were grounds for both optimism and caution in the Ugandan experience. Positive changes were visible in the way that sectors and multi-stakeholder groups were being encouraged to make and improve policies within the Medium Term Expenditure Framework (MTEF) process. Cross-cutting sector governance issues such as procurement were also being addressed with more vigour. Pro-poor outcomes were further off but some important preconditions had been created.

- Increased democratic accountability?

Here there were also grounds for both optimism and caution in Uganda. Despite the fact that countries with high levels of aid dependence typically have poor levels of

²³ This section is predominantly based on experience in Uganda – tentative conclusions therefore needed to be treated with caution and need to be tested in other countries and contexts.

domestic accountability, incremental improvements in the role of Parliament, public audit functions and the media were visible. Although the absolute weight of government accountability to donors had probably increased due to GBS there were indications that under GBS both external and domestic accountability could improve together.

(iv) Overall lessons learnt²⁴

Three particular overarching lessons were drawn from this initial study:

- Different governments and donors are pursuing quite a variety of objectives through the use of budget support

Although this is not so surprising, there are clear opportunity costs in this lack of consistency. A clear recommendation that therefore emerges is the need to develop greater consistency between stakeholders on objectives. Different perspectives on objectives need to be discussed to establish common objectives. Greater clarity would translate into tighter management structures, which is likely to increase the overall impact of GBS.

- Few, if any, of the postulated positive effects of budget support are automatic. Incentives can be seen to be changing in the right direction and agents can be expected to respond to these changes but complementary measures in support of these changes will increase the probability of success. Of particular importance is the need to carefully consider the impact of coordination, management and monitoring mechanisms. The careful use of TA and capacity building to encourage endogenous change is also likely to increase the positive impact of GBS. Ultimately, however, change is dependent upon national political processes – Drivers of Change analysis by DFID is helping country offices to work with greater awareness of the national political context and in this way, support processes of change that are already underway.²⁵

- The ‘operating rules’ for GBS need to be more explicitly stated and agreed in advance.

Different stakeholders had quite different degrees of understanding concerning the rationale for ‘new’ budget support. For example, among donors other than DFID there was ‘a tendency to alternate between an old-fashioned faith in conditionality and a rather rootless rhetoric about partnership’ (Booth, 2004). As a result, an urgent task is to clarify the ‘rules of the game’ concerning GBS arrangements. Both the concepts of ‘conditionality’ and ‘partnership’ seem to hinder understanding of the reality of the situation: ‘it is not amenable to analysis as a two-party contract as conditionality is normally presented (with donors and multilaterals on one side and government on the other). Still less is it a ‘one-party contract’, as partnership is often depicted (with donors and government on the same side)’ (Lawson et al. 2003). The suggestion is therefore put forward that GBS arrangements more closely resemble a ‘multi-stakeholder ‘club’ where membership entails interconnected rights and obligations governing ‘exit’, ‘voice’ and ‘loyalty’ to the club (Booth, 2004). Donor rights to influence the ‘club’ (voice) would go hand-in-hand with the need for a certain degree of ‘loyalty’ (for example,

²⁴ Draws from Lawson et al (2003) and Booth (2004)

²⁵ See the previous paper in the series: Synthesis Paper 3: The Drivers of Change Approach
http://www.odi.org.uk/RAPID/UK_Japan/docs/Synthesis_3_final.pdf

making a long-term commitment even when results do not quickly emerge) as well as limitations on their right to swiftly 'exit' the 'club'.

Next steps in evaluation of GBS

The OPM/ODI-developed framework is now being used within a large-scale joint-donor GBS Evaluation Study, led by DFID. Box 9 sets out some details of this study. The study has adopted an approach that uses five levels of analysis to 'go beyond answering the basic evaluation question of *whether* the GBS is working or not, (to) seeking the reasons *why*' (GBS Evaluation Study Project Bid; emphasis added by author). Furthermore, the aim of this approach is to 'compare rigorously the design, implementation and results of GBS in different countries' and 'further develop the evaluation framework' (ibid). The five analyses and the levels of the Evaluation Framework (see Annex 1) they relate to are as follows:

- Partnership (mainly levels 1 and 2 of Evaluation Framework)
- Institutional analysis (mainly levels 2,3 and 4)
- Public financial management (levels 2 and 3)
- Macroeconomic impact (mainly level 4)
- Poverty impact analysis (mainly level 5)

Synthesis results will not be available until January 2006 although preliminary results are likely to begin emerging in spring 2005. The large-scale approach and high level of participation by many major donors indicates the importance of this study and the widespread desire for robust results on the impact of GBS. Once again, however, an important caveat, even for work of this size and scale is that due to the medium- to long-term nature of much of the hypothesised impact of GBS, results are likely to be limited concerning the impact of GBS on intermediate level outcomes and the final goal – poverty reduction.

Box 9: Joint-donor GBS Evaluation Study

Donors involved:

Australia, Belgium, Canada (CIDA), Denmark, European Commission, France, Germany (BMZ), International American Development Bank (IADB), the IMF, Ireland, Japan (JBIC, MoFA), the Netherlands, New Zealand, Norway, OECD/DAC, Spain, Sweden (SIDA), Switzerland (SECO), United Kingdom (DFID), USA (USAID), and the World Bank.

Consultant consortium:

- International Development Department (IDD), University of Birmingham (UK)
- Development Researchers' Network (DRN) (Italy)
- Ecorys Research and Consulting (formerly Netherlands Economic Institute) (Netherlands)
- Mokoro Limited (UK)
- Nordic Consulting Group (Denmark and Norway)
- In collaboration with country consultants

The big questions in the evaluation:

- What difference is GBS making?
- Could other forms of aid do as well?
- (will analyse key dimensions of aid instruments – design as well as choice)

- What changes in GBS are needed?

Countries covered:

Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam

Timetable:

- October 2004: Start date
- July 2005: Draft country reports completed
- January 2006: Synthesis report completed
- Mid January 2006: Final dissemination conference

Source: Minutes of the third GBS Evaluation Steering Group Meeting, GBS Evaluation Study website²⁶ and presentation to Steering Group by Mike Hubbard, October 2004

Current areas DFID is focusing on in relation to GBS²⁷

As has been seen, although the logic for GBS support is compelling, it throws up a number of complex issues related to the tension between donors' need for accountability to their national stakeholders and the desire to increase recipient government accountability to their constituents. A number of areas in relation to this are currently being focused on by DFID, as they work on developing a clearer understanding of when and how GBS can be effectively implemented.

Attribution

Attribution of development outcomes to GBS funding is currently a major area of focus for DFID. Both the UK Parliament and concerned NGOs are requesting reassurance that GBS funding is not being spent on non-development related sectors, such as defense. DFID are currently working on a number of statistical approaches to address this issue; however, ultimately clear attribution is impossible with GBS funding. Tim Lamont²⁸ of DFID therefore commented that the real challenge with GBS is to educate those asking these questions on the reasons why, despite the understandable concern, DFID believe that the benefits of GBS will eventually outweigh unease over these issues and why this then justifies the risk being taken. GBS is, to a certain degree, a 'leap of faith'; as understanding of the rationale behind GBS grows and particularly if evidence of the positive impact of GBS emerges, DFID hope that such questions will become obsolete in the future.

Conditionality

Discussion on conditionality and its relation to GBS has recently increased. This has been fuelled by DFID's recent publication of a draft policy paper for comment - 'Partnerships for poverty reduction: changing aid 'conditionality' (DFID, 2004d; see Box 10 for an overview of some of the main points made in this paper). Numerous responses to this have been submitted as part of a consultation process and on the basis of comments received DFID will issue a revised version in early 2005. Comments highlighted a need for greater clarity concerning what is meant by 'ownership'. For example, demonstration of 'ownership' should include transparency during decision-making processes in order to illustrate that dialogue is genuinely open and based on a relationship between equals, as far as is possible.

Concerning conditionality connected to GBS, DFID's current stance is that there are

²⁶ www.idd.bham.ac.uk/budget-support (Username: budget; Password: Support7)

²⁷ Based on interview with Tim Lamont, Economic Advisor, Aid Effectiveness Team, Policy Division, DFID on 21 December 2004.

²⁸ See footnote 26.

certain fundamental conditions that must form the basis of their partnerships with governments. Examples of this are that funds should not be stolen or used to fund highly corrupt regimes and that high levels of human rights abuses are unacceptable. Even these 'minimal conditions', however, are not clear cut. DFID therefore does not have a clear set of rules on conditionality – their approach is more flexible and similar to 'case law' than a matter of following any 'hard and fast' rules. DFID realize that this is a difficult and complex area particularly in light of previous negative experiences with 'policy conditionality'; they are working closely together with the UK Foreign and Commonwealth Office (FCO) and the Treasury in this area, with whom they jointly issued the draft paper. This is likely to remain an important although controversial area.

Predictability

Closely connected with discussions on conditionality are concerns over the predictability of aid. As has been seen in this and previous sections, there is a danger, and emerging evidence, of increased volatility of aid with the introduction of GBS. DFID's Development Finance team is working on this issue and is currently looking at principles for short-term and long-term predictability. Currently they are moving towards introducing rolling three to five year frameworks – the reason for this is that currently as countries come to the end of three year programmes, predictability declines quite dramatically. One way to address this would be to move to rolling frameworks where a swift verification that there have been no major changes, would enable funding streams to be continued without a break or long period of uncertainty. They are also looking at when funds are released and whether the whole budget is released at one time in the year; decisions on this affect predictability but also influence DFID's in-country leverage.

Box 10: Six key elements of the current UK position on 'conditionality'²⁹

- Terms and conditions must support, not 'buy', reform
- Transparent terms and conditions are important for UK accountability
- Sensitive policy areas such as privatization or trade liberalization will only be supported following open national debate
- Terms and conditions can help promote participatory processes but they need to be carefully designed so they do not interfere with national political processes
- Aid partnerships should increase the predictability of funding
- Donors need to work together more effectively

Source: DFID (2004d)

DFID is closely involved with the large joint-donor GBS Evaluation Study. It will therefore revise its policy paper on DBS in light of the results that emerge from this work. Other areas where work is currently going on are: development of guidelines for country offices on proposals for GBS; work on absorptive capacities in relation to moves to dramatically increase aid volumes; the possibility of using GBS in fragile states; and collaboration and cooperation with donors such as the World Bank and IMF on many of the issues raised by the challenges and opportunities of GBS.

²⁹ These are taken from DFID's draft paper for comment therefore it is likely that a number of these points will be amended or clarified in the final version, due to be published in February 2005.

Conclusion

General Budget Support (GBS) has been introduced and widely advocated by donors such as DFID to support PRSP processes and build government capacities and accountability. The aim is to facilitate a fundamental shift in relations between donors and governments, as well as between governments and their constituents. It is hypothesised that if government capacities to responsibly manage their own budgets can be built, public expenditure will become more predictable, effective and transparent. The aim is to stimulate pro-poor policy making and expenditure to ultimately bring about large-scale poverty reduction.

Although the case for not undermining government capacities to lead their own paths to development that GBS is based on is strong, experience with this new approach is still limited. It is also the case that evidence remains mixed on the success so far of PRSPs – overall some progress is visible but many complex difficulties remain, such as how donors can interact with the political nature of many of the changes for which the approach aims. DFID, and many other donors, however, are pushing ahead with GBS in spite of the difficulties and risks involved. The involvement of 21 major donors in the current GBS joint-donor Evaluation Study also indicates the importance of the approach and the widespread interest that exists in understanding how it can be best used as a means of supporting fundamental change in developing countries.

Although experience so far is limited and tentative results are somewhat mixed, a number of implications for donors can be drawn. Initial experience with GBS in Mozambique revealed donor coordination to be one of the most important benefits of the approach so far. It also emerged, however, that different donors seem to be pursuing different objectives through the use of budget support and that there is a need for greater clarity on the 'operating rules' for GBS. Greater dialogue between donors on their respective approaches and the reasons for this is an important part of increasing the effectiveness of this approach.

Despite strong advocacy for GBS by donors such as DFID it is also clear that GBS is currently and always likely to be supported by other aid instruments, such as projects and technical assistance. However, as the development of GBS was largely spurred by the realisation that projects and policy conditionality were hindering rather than helping development in many countries, there is also agreement that these instruments must be used with more care than in the past. Aligning all aid modalities and instruments within an overall country-driven agenda would appear to be a potential solution, avoiding many of the past problems.

Initial results of evaluation work on GBS have served to reveal something of the complexities involved in implementing GBS and balancing the agenda to increase government ownership with the need for donors to be domestically accountable to their taxpayers. It is also clear that degrees of success or failure of GBS in different countries and contexts are highly dependent on the details of the design of the instrument and the myriad of context-specific factors in any one country. The complexity of the agenda emphasises once again the value of intellectual exchange between donors and discussion on their relative experiences in different regions.

GBS was developed in Africa and most experience so far is in African countries.

Japanese insights and experience in Asia are valuable inputs to the debates on the suitability of GBS for other countries and contexts. Comments drawing from the experience of Japanese researchers, practitioners and policymakers on the contents of this paper or the work cited herein would be a highly valuable contribution to the important discussions currently going on concerning this interesting but highly challenging aid innovation.

Bibliography

Booth, David (2004) *Budgets not projects: a new way of doing business for aid donors*, ODI Opinions 9, London: ODI, February.

Conway, Tim (2003) *Changing policies of the major donors: UK case study*, Report for Japan Bank for International Cooperation, London:ODI, October.

DFID (2002a) 'How Should DFID Respond to PRSPs?' Internal discussion paper, DFID, February.

DFID (2002b) 'Managing Fiduciary Risk when Providing Direct Budget Support', London: DFID, March.

DFID (2004a) *Poverty Reduction Budget Support*, London: DFID, May.

DFID (2004b) 'Briefing: Managing Fiduciary Risk When Providing Poverty Reduction Budget Support', September.

DFID (2004c) 'How to Note – Managing Fiduciary Risk when Providing Poverty Reduction Budget Support'. London: DFID, September.

DFID (2004d) 'Draft: Partnerships for Poverty Reduction: Changing Aid 'Conditionality'', DFID Policy Paper Working Draft, September.

DFID (2004e) *Statistics on International Development: 2004 Edition*, DFID: London, October.

Ruth Driscoll with Karin Christiansen, Paolo de Renzio, Samantha Smith, Katarina Herneryd and David Booth (2004) *Progress reviews and performance assessment in poverty-reduction strategies and budget support: A survey of current thinking and practice*. Report submitted to the Japan International Co-operation Agency. Unpublished draft.

Foster, Mick and Jennifer Leavy (2001) *The Choice of Financial Aid Instruments*, ODI Working Paper 158, London: ODI.

GBS Evaluation Study Common Definitions (Undated), Available on GBS Evaluation Study website

GBS Evaluation Study Project Bid (Undated), Available on GBS Evaluation Study website

Lawson, A; D. Booth; A. Harding; D. Hoole, and F. Naschold (2003) *General Budget Support Evaluability Study, Phase 1: Synthesis Report*, London: DFID Evaluation Report EV643, October.

Lawson, A. and D. Booth (2004) *Evaluation of General Budget Support: Evaluation Framework*, London: DFID for Joint Evaluation of GBS, February.

Nilsson, Maria (2004) Literature Review for GBS Evaluation Study, unpublished. Available on GBS Evaluation Study website

ODI (2003) *Choice of Aid Modalities*, Keysheet 19, London: ODI.

Williams, Gareth, Stephen Jones, Val Imber and Astrid Cox (with contributions from Arsene Balihuta and Aromar Revi) (2003) *A Vision for the Future of Technical Assistance in the International Development System*. Report for DFID. Oxford Policy Management.

Meeting and Workshop materials

Hoole, David (2002) 'General Budget Support: Characteristics, rationale and experiences' Note for European Forum on Rural Development Cooperation, Montpellier, 4-6 September 2002

Mike Hubbard, International Development Department, School of Public Policy, University of Birmingham, Joint evaluation of general budget support, Presentation to Steering Group meeting, 26 October 2004, Available on GBS Evaluation Study website

Institute for Health Sector Development (IHSD) (2003) Joint donor PRSP training Reference Materials on: PRSPs, Budgets and Aid Modalities, IHSD, August 2003

Minutes of the third GBS Evaluation Steering Group Meeting, November 2004, Available on GBS Evaluation Study website

Lister, Stephen (2002), 'The Relationship between Governments and Donors: Aid instruments and service delivery'. DFID Workshop materials, November

Evaluating General Budget Support: Issues Emerging from Evaluation Findings Workshop report DAC WP-EV Informal Workshop, Glasgow, 3-4 March 2003

Zambia Joint Donor PRSP Training Course, Module 2: PRSPs, Budgets and Aid Instruments; Session 3 - Ensuring budgets are implemented and deliver their expected outcomes, World Bank Institute and IHSD

Interview

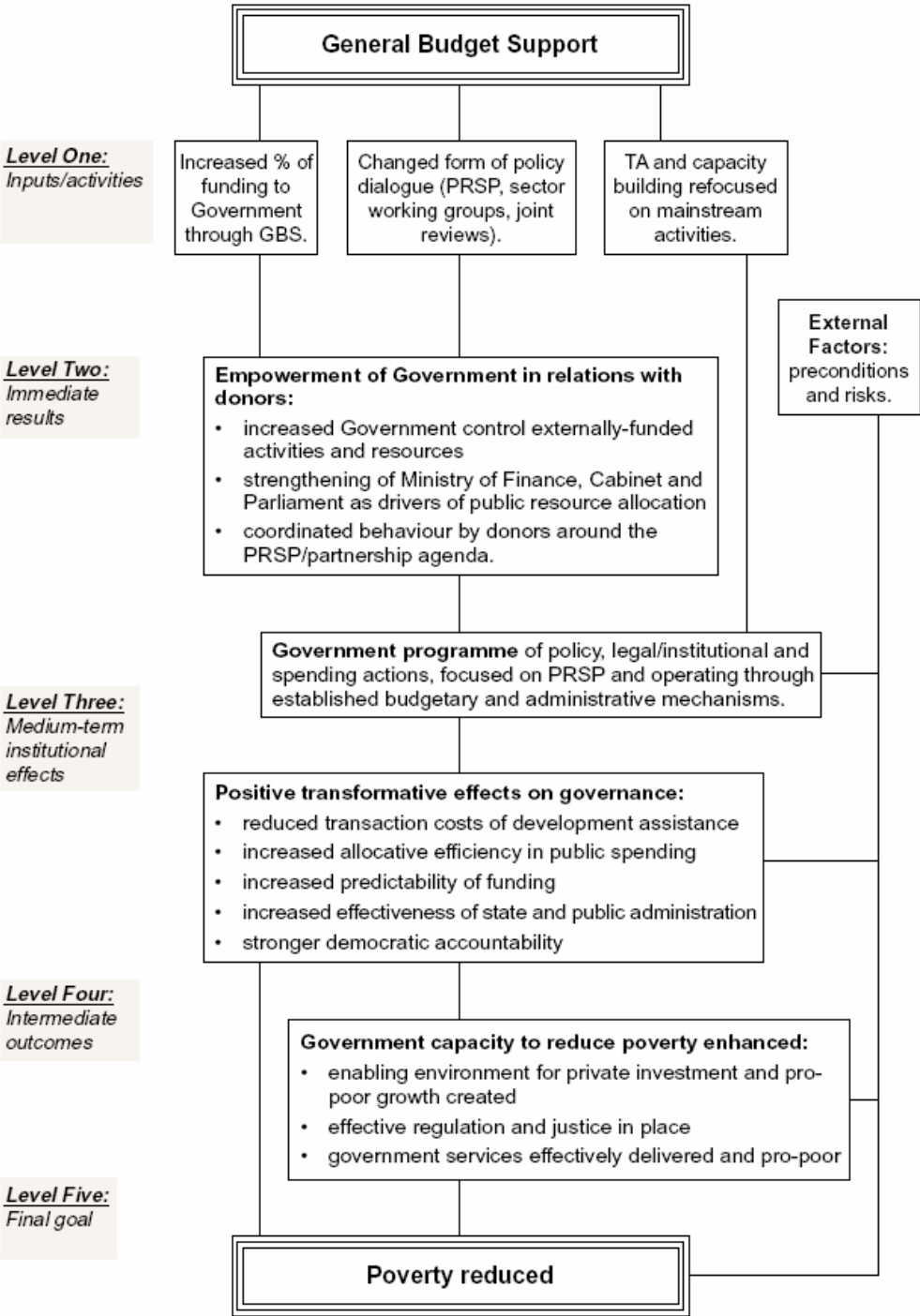
Tim Lamont, Economic Advisor, Aid Effectiveness Team, Policy Division, DFID 21 December 2004.

Websites

- Department for International Development (DFID) <http://www.dfid.gov.uk/>
- International Development Department (IDD), University of Birmingham Website for GBS Evaluation Study www.idd.bham.ac.uk/budget-support
- Institute for Health Sector Development (IHSD)

Joint Staff Training on Partnership for Poverty Reduction
<http://www.ihsd.org/prsp.htm#info>

Annex 1: Evaluation Framework developed by Oxford Policy Management (OPM) and Overseas Development Institute (ODI)



Source: OPM/ODI Synthesis 1

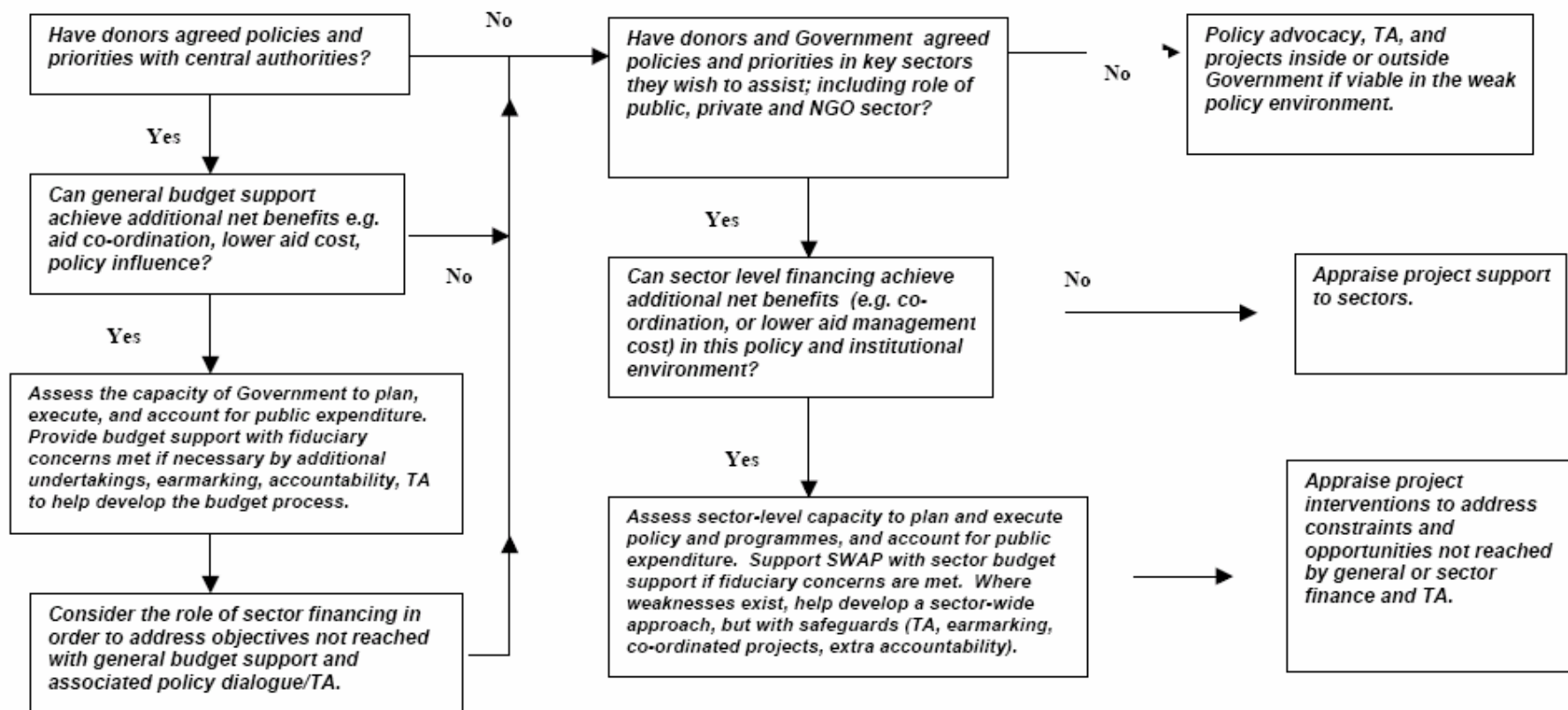
Annex 2: Foster and Leavy Decision tree

Decision Tree for Choosing Aid Instruments

Macro/General Budget Support Level

Sector/Sub-national Level

Project Level



Source: Foster and Leavy

Annex 3: DFID Good Practice Principles and Benchmarks for Fiduciary Risk Assessment

Good Practice Principles	Benchmarks For Assessment
A clear set of rules governs the budget process	<p>A budget law specifying fiscal management responsibilities is in operation.</p> <p>Accounting policies and account code classifications are published and applied.</p>
The budget is comprehensive.	<p>All general government activities are included in the budget.</p> <p>Extra budgetary expenditure is not material</p>
The budget supports pro-poor strategies.	Budget allocations are broadly consistent with any medium term expenditure plans for the sector or for the overall budget.
The budget is a reliable guide to actual expenditure	Budget outturn shows a high level of consistency with the budget.
Expenditure within year is controlled	<p>In-year reporting of actual expenditure.</p> <p>Systems operating to control virement, commitments and arrears.</p>
Government carries out procurement in line with principles of value for money and transparency.	<p>Appropriate use of competitive tendering rules</p> <p>Decision-making is recorded and auditable.</p> <p>Effective action taken to identify and eliminate corruption.</p>
Reporting of expenditure is timely and accurate.	<p>Reconciliation of fiscal and bank records is carried out on a routine basis.</p> <p>Audited annual accounts are submitted to parliament within the statutory period.</p>
There is effective independent scrutiny of government expenditure	<p>Government accounts are independently audited.</p> <p>Government agencies are held to account for mismanagement.</p> <p>Criticisms and recommendations made by the auditors are followed up.</p>

Source: DFID (2004e)

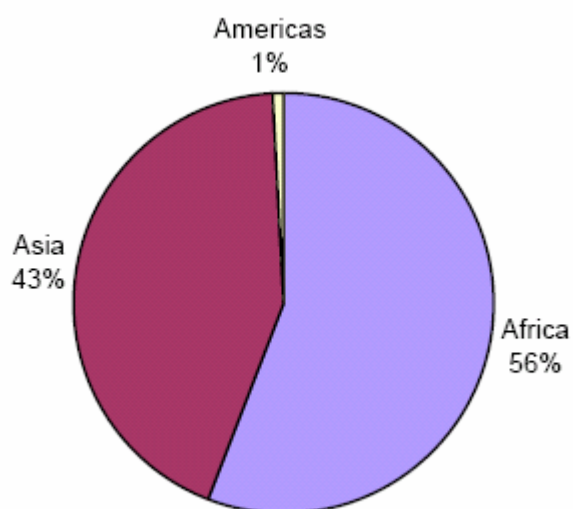
**Annex 4: DFID Poverty Reduction Budget Support by Country and Region³⁰
2000-04 £ million**

	2000 - 01	2001 - 02	2002 - 03	2003 - 04
Africa				
Ethiopia	-	-	10.0	20.0
Ghana	40.0	25.0	20.0	25.0
Kenya	15.0	-	-	-
Malawi	30.0	12.5	-	10.0
Mozambique	10.0	20.0	10.0	15.0
Rwanda	25.4	18.0	22.0	18.8
Sierra Leone	19.5	10.0	10.0	10.0
Tanzania	40.0	35.0	45.0	60.0
Uganda	60.0	47.0	29.5	30.0
Zambia	15.0	-	7.6	3.8
<i>Total Africa</i>	<i>254.9</i>	<i>167.5</i>	<i>154.1</i>	<i>192.6</i>
Asia				
Afghanistan	-	-	15.0	30.0
Bangladesh	-	-	6.6	-
East Timor	-	-	4.0	4.0
India	-	65.0	30.0	55.0
Pakistan	-	20.0	20.0	50.0
Vietnam	-	7.0	7.0	10.0
<i>Total Asia</i>	<i>-</i>	<i>92.0</i>	<i>82.6</i>	<i>149.0</i>
Americas				
Bolivia	-	2.6	1.3	3.3
<i>Total Americas</i>	<i>-</i>	<i>2.6</i>	<i>1.3</i>	<i>3.3</i>
Europe				
Macedonia (FYR of)	-	3.0	-	-
Serbia & Montenegro (incl. Kosovo)	10.4	7.0	-	-
<i>Total Europe</i>	<i>10.4</i>	<i>10.0</i>	<i>-</i>	<i>-</i>
Total Poverty Reduction Budget Support	265.3	272.1	238.0	344.9

Source: DFID (2004e)

³⁰ Excludes budgetary aid to Montserrat and St Helena

Chart 1: DFID Poverty Reduction Budget Support by Region 2003-04



Source: DFID (2004e)

Table Y: DFID Poverty Reduction Budget Support by Sector³¹ 2000-04

£ million

	2000 – 01	2001 - 02	2002 - 03	2003 – 04
Economic	65.7	98.4	73.3	143.2
Education	66.9	44.6	53.0	49.7
Governance	36.9	74.2	54.9	86.8
Health	35.4	26.0	27.8	50.8
Rural Livelihoods	19.8	15.8	7.2	11.4
Social	3.4	5.0	8.9	1.8
Other ³²	37.2	8.1	12.9	1.2
Total	265.3	272.1	238.0	344.9

Source: DFID (2004e)

³¹ Excludes budgetary aid to Montserrat and St Helena

³² Other includes Environmental and Humanitarian Assistance

Annex 5: Total DFID Bilateral Aid by Region 2000-04 £ million

	2000 – 01	2001 - 02	2002 - 03	2003 – 04
Africa	649.1	583.4	747.4	716.3
Asia	359.7	498.8	554.3	786.8
Americas	95.5	100.0	100.3	86.3
Europe	113.3	96.8	85.0	70.7
Pacific	4.0	4.6	4.7	4.5
Total all countries³³	1426.4	1533.3	1822.1	1972.4

Source: Adapted from DFID (2004e)

³³ Includes non regional-specific aid therefore total differs slightly from total of aid to regions.