General Budget Support Evaluability Study

Literature Review

Second Draft
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1 Introduction

1. The purpose of this literature review is to validate the evaluability framework proposed in the *General Budget Support Evaluability Study Inception Report*, and to help decide which evaluation questions are relevant and are likely to be answerable. The literature review uses the logical framework developed in the inception report, and focuses on the main mechanisms through which General Budget Support is believed to improve government performance and reduce poverty. The links between general budget support and poverty reduction are complicated, and the causal chain is long and fragile (Danielson and Nilsson, 1999). As a result, past evaluations have struggled to say anything concrete on these links (White, 1999a).

2. At the same time, GBS is gaining in importance as an aid modality. Bilateral as well as multilateral donors have been moving progressively from project to non-project aid, and from import support to direct budget support (Foster and Naschold,1999; European Commission, 1999). With this gradual shift in instruments has come a shift in perspectives, beginning with the move from short-term stabilisation in the 1980s to a longer-term and more developmental perspective focused on structural, institutional and social reform in the 1990s (World Bank, 2001a). There is, hence, a clear need to identify much more clearly how GBS is supporting poverty reduction, and lay out explicitly the processes through which policies and institutional reforms supported by GBS will contribute to poverty reduction (World Bank, 2001a).

3. Monitoring budget support operations effectively has been difficult from the outset. It has remained generally unclear what would count as suitable measures of progress. Although, for example, more than half of World Bank adjustment operation between FY1998 and FY2000 included monitoring indicators to track progress against loan objectives, most loan documents were not able to specify how – or why – the inputs could be expected achieve the outcomes (World Bank, 2001a). There are, therefore, no off-the-shelf solutions. This review will be obliged to draw on best practice in related fields, looking at ways of monitoring and evaluating GBS that have not previously been tested but might be worth trying in the future.

4. In its first draft, the Inception Report followed Catterson *et al.* (1999) in defining an evaluability framework as looking at two main questions: what's topical to evaluate; and what's possible to evaluate. The literature review was undertaken as a contribution to constructing an evaluability framework understood in this way, with the restriction that the focus is on what can be evaluated in real time, and not ex post. Evaluability includes an assessment of the types of questions that can be answered, and those which could be answered if better information was available

5. The literature review takes as points of departure two particularly notable pieces of work: the Global Evaluation of Swedish Programme Aid

coordinated by Howard White (White, 1999a; 1999b; 1999c; 1999d; 1999e; van Donge and White, 1999; White and Leavy, 1999) and the Choices of Aid Instruments paper by Foster and Leavy (2001). For the purposes of this literature review General Budget Support is taken to include three components: the funds transferred, the policy dialogue, and any technical assistance accompanying the funds. Like the wider study to which it contributes, the literature review focuses on the development-side risks of GBS, and the directional/policy risk, e.g. sectoral allocation. It does not examine in detail the fiduciary risk, as there are already a number of studies on this issue (e.g. DFID, 2001).

6. The DAC defines General Programme Assistance broadly as “assistance made available to a developing country, without specific sector allocation, for general development purposes, i.e. balance of payments financing, general budget support and commodity assistance” (OECD DAC, 1991). Narrower characterisations of general budget support have come to be used recently (e.g. by Foster and Leavy, 2001). This is consistent with the belief that there is a ‘second generation budget support’ distinguished by a new kind of attention to institutional reform and national ownership of poverty-reduction efforts.

7. These recent definitions tend to exclude BoP support and debt relief as well as funding of sectoral programmes. However, this type of budget support is in its very early stages of implementation at best. Little has been written about it, particularly where evaluation is concerned. Thus, even though the focus of interest is on ‘new’ GBS, we use the broader DAC definition of general programme assistance in defining the limits of the literature review. Thus, where it is appropriate the review makes use of conclusions and findings of evaluations of ‘first generation’ programme aid, which focused on stabilisation and adjustment.

8. The GBS Evaluability Study and this literature review aim to test the logic that GBS has the following advantages compared to other forms of aid (see Inception Report, First Draft, sections 1.1.1 and 2.2.3):

- **Lower transaction costs** Countries with a large number of projects and multiple donors each with their own reporting and accounting requirements face high transaction costs in the delivery of aid. In contrast, GBS can be managed and monitored through a single multi-donor process, allowing senior government officials to devote time to policy making, instead of dealing with a large number of individual project missions.

- **Higher allocative efficiency of public expenditures** A plethora of projects and donors with different priorities combined with procurement tied to donor country suppliers, the allocation of government expenditures has been inefficient, particularly, but not only when aid flows where ‘off budget’. With GBS, the policy dialogue shifts from particular expenditure items towards improving the overall, cross-sectoral pattern of budget allocations. GBS is also by definition ‘on budget'. Both of these features should lead to greater allocative efficiency.

- **Greater predictability of aid flows** Problems in fulfilling project disbursement conditions and implementation requirements have made the timing of aid flows unpredictable. GBS, in contrast, is delivered in one (or a few) instalments. GBS is also conceived as involving longer-term commitments from donors to a government, which can help to improve the predictability of foreign assistance. On the other hand, GBS is easier to 'switch on and off', which critics of the approach regard as actually likely to reduce predictability.

- **Positive transformational effect on government systems** Projects have built up extensive project management structures parallel to government systems. GBS on the other hand aims to use government systems, and thereby strengthen them. GBS also tends to support core government reform programmes. By focusing on key reforms GBS can help to strengthen efforts to improve public expenditure management, to implement civil service reforms and results-based management, and to improve governance.

- **More benign effect on domestic accountability** With existing foreign aid arrangements there has been a tendency to focus on government's accountability towards donors, and less towards its own citizens. This has undermined normal structures of democratic accountability. As GBS focuses on government's own accountability channels (rather than those of donors), it can help to strengthen these channels, which would also improve transparency and accountability to the country's democratic institutions and the electorate.

9. The above ways in which GBS affects short- or medium-term governance are seen as fundamental to its contribution to reducing poverty. However, the Inception Report also recognised more directly economic effects relating to the levers that governments may use to reduce poverty. Three types of effect of this sort were distinguished: direct effects on the macro-economy; effects that enable private-sector activity; and facilitation of pro-poor public spending. While these may be regarded as contributions expected from programme aid generally, rather than as specific features of 'new' budget support, they may well remain the most significant and reliable means by which a contribution to poverty reduction is made. It is therefore important not to neglect them.

10. The GBS evaluability framework as visualised by the Inception Report draft will consist of a set of questions that address each of these areas, including both the governance-related and directly economic issues. We follow that approach here. However, we bear in mind the cautions expressed by peer reviewers of the initial framework about not being overly ambitious and ensuring adequate attention to the "front end of the logframe" – i.e. the management of inputs and activities – before assessing the evaluability of outputs or outcomes.

11. The structure of the literature review is as follows. Section 2 provides some additional background in the form of a brief overview of the two main issues that have been seen as motivating new-style, or second-generation, General Budget Support: the failure of conditionality, and the aim to make aid more effective. This section also summarises some common pre-conditions for GBS. Section 3 goes on to consider the literature relevant to the five main short- to medium-term governance outcomes expected from GBS. Section 4 does the same for the directly economic outcomes identified in the Inception Report.

2 The background to 'new' GBS

2.1 Conditionality

12. Economic or technical conditionality originated in the programmes of the IMF and the World Bank. Over time the number of technical conditions attached to each IFI loan increased, and conditionality became tighter (Killick *et al.,* 1998). During the late 1980s and early 1990s the number of conditions attached to aid and concessional lending generally increased and began to cover more and more political dimensions, as a result of bilateral donors' specific concerns about poverty, the environment, gender, governance, democratisation and human rights (Dijkstra, 1999).

13. Conditionality, by definition, describes actions that the recipient government would not carry out without donor pressure. Programme aid was intended to 'buy reforms' (Collier *et al.*, 1997). This, however, rarely worked.[1] Numerous empirical studies have found that policy conditionality is not very effective. Even if between 40 and 60% of policy conditions are formally fulfilled (Dollar *et al*.,1998), compliance in practice may be much lower, as many conditions are neutralised either by countervailing actions or by policy reversals immediately after the last tranche is released (Dijkstra, 1999; Killick *et al.*, 1998; and, particularly related to trade policy conditions, Oyejide *et al.*, 1997). Killick *et al.* (1998)'s analysis showed that most countries where economic policies deteriorated had an adjustment programme at the same time.

14. The failure of conditionality is often explained by three reasons (White (1999a): Domestic policies, not donor conditionality, drive the policy process. Donors are under pressure to disburse funds, and are likely to do so even if the conditions are not met. And aid may be given with non-development objectives in mind. Conditionality has also proved impractical for operational reasons too, as the inclusion of very detailed, numerous and unrealistic conditions has affected sustainability of budget support (Montes *et al.*,1998).

15. Killick *et al.* sum up the consensus that has emerged on conditionality, that it is "not an effective means of improving economic policies in recipient countries" (1998: 165). The World Bank broadly agrees (Dollar *et al*., 1998), but points to some instances of successful conditionality. First, some policies were implemented only due to the insistence of the donor. This applies particularly to privatisation of state enterprises (White, 1999a). Second, on occasion donors have been able to tip the balance in favour of policy liberalisation, which would not have happened without external pressure on vested interests in the country (White, 1999a; see also Box 1).

[1] For a summary of empirical studies of early economic policy conditionality see Killick *et al.* (1998)

Box 1: Factors determining the likelihood of success of economic policy conditionality

The probability of implementing conditionality depends on the following:

- Whether the negotiators on the government side either have the power to implement reforms, or have insight in the feasibility of implementing reforms.
- If there is a struggle between reformers and non-reformers within the government, then conditionality plus aid may tip the balance in favour of reformers.
- Whether the objectives of the most powerful groups within government coincide with those of the donors, and if there is no strong domestic opposition against these objectives.
- The extent to which the powerful actors in the government and in the opposition win or lose from reforms and from aid, and the likely result of an eventual power struggle between these groups.
- Whether the donor's advice is credible: whether advice leads to economic growth.
- The availability of aid weakening of incentives for implementation (moral hazard; negative influence on implementation).
- A scapegoating function for the IFIs may enhance implementation in the short run, but not in the long run.

Whereas the *threat of aid suspension* is not very effective because of the following:

- In countries with large multilateral debts there is pressure for continued lending.
- There are political and bureaucratic pressures on the donor to continue lending.
- In countries with satisfactory economic growth, application of sanctions reduces donor credibility.
- The donor has multiple, conflicting or unclear objectives.
- Cross-conditionality does not work since different donors have different objectives and donor coordination is weak.
- The 'adverse selection' problem: the allocation of aid tends to be determined also by need, which means that countries carrying out bad policies tend to get more aid.

Source: (Dijkstra, 1999).

16. Two main models have been used to explain why policy conditionality did not work: first, Killick's principal-agent framework (Killick *et al*., 1998; Killick, 2000), and ,second, Mosley and Hudson's bargaining model. Dijkstra (1999) combines the two to create an augmented principal-agent model, in which the effectiveness of policy conditionality depends on two sets of factors: 'participation constraints' (i.e. the extent of and the constraints to government involvement in policy dialogue) and the system of enforcement.

17. The consensus of recent studies is that economic and political reforms depend primarily on domestic political support, not on outside conditions (White, 1999e). It is not possible to force policy change (Dollar and Svensson, 2000; Tarp and Hjertholm, 2000). Donors can have influence – if there is a genuine partnership – through a long and well established relationship with government, informal access to decision makers and activities which support budget support (e.g. TA). In the context of such a partnership, donor conditionality – or 'advice' – may be expected to have larger leverage if reforms lead to high economic growth, as this increases the credibility of the policy advice (Mosley and Hudson, 1996). However, it is difficult to know in advance which policies will have the largest impact on growth (Dijkstra, 1999).

18. Political conditionality, e.g. that focused on democracy and human rights performance or good governance, tends to be even less effective than economic policy conditionality. The likelihood that political conditionality will be resorted to depends on the degree of aid dependency of the recipient, and whether or not donors have strategic and commercial interests in the country. The success of political conditionality depends on how specific the conditions are. The less well defined they are, and the more the operational definitions vary between donors, the easier it is for recipients not to comply (Dijkstra, 1999).

19. In practice, political conditionality has rarely produced results. Crawford (1997) examines 29 cases between 1990 and 1996 of non-compliance with political conditionality. Sanctions only led to improvement in political conditions in 13 out of 29 cases. In only 9 out of 13 could even parts of the improvement be attributed to donors, and in only two cases did donor pressure have a significant effect.

20. If conditionality is defined more broadly to also include the influence that donors can exert through enhanced policy dialogue, then the impact of donor pressure and suasion is much more pronounced. White (1999a) distinguishes four aspects of the policy dialogue between government and donors: First, the degree of formality varies between formal negotiations on conditionality, other formal channels such as CG meetings, and more informal and social interactions. Second, the degree of directiveness is greatest in formal conditionality. Other interactions with government are more suggestive in nature, and can be more effective. Third, the formality of interaction varies with the channel of interaction between government and donors. Dialogue with the IFIs tends to be more formal than is the case with bilateral donors. Fourth, the choice of aid instruments affects the nature of the interaction. Conditionality is mostly attached to policy-based budget support, but obviously there are opportunities for dialogue, particularly of a more informal nature, with government around projects and technical assistance as well.

21. These four aspects offer a wide range of possible interactions on policy between government and donors. The more informal aspects of conditionality and policy dialogue could very well be the most important and

effective in shaping government policy, but these have not been explored in any detail in the literature on conditionality. There is some evidence that use of the full range of communication channels by the UK in Zambia (Seshamani and White, 1998, in Booth, 1998), and by Sweden in Vietnam (Ngia *et al.,* 1998) produced significant impacts on policy.

22. These suggestions have contributed to the evolution of thinking on budget support. Proponents of new-style budget support argue that a genuine partnership around GBS can foster policy dialogue and influence, and that new style dialogue is less intrusive, and therefore more likely to be effective, as it is more compatible with government ownership and commitment. Whether or not this claim holds in practice has yet to be investigated in the literature.

23. What has been established is that it is extremely difficult, if not impossible, to identify particular changes in policy with a particular bilateral donor, let alone a particular type of interaction. The evaluation of Swedish programme aid did not find any such instances, either of influence on government policy directly, or influence via the IFIs (White, 1999a). Cases where bilateral donors can plausible claim such specific influence, as for the UK in Zambia (Booth, 1998) are the exception. They normally coincide with a particular bilateral being recognised as the, or a, lead donor.

24. Attribution is difficult in practice, and it is not clear that it is relevant to try to attribute particular policy changes to an individual country's budget support. Instead the policy influence of general budget support should probably measured by the overall shape and trend of government policy. This is reflected in the newer thinking about general budget support, which sees attribution as a spurious problem. Just as, by definition, it does not finance any particular expenditure, general budget support can claim a stake in improvements across all outcomes (Foster and Leavy, 2001).

Further sources:
Jones (1999a); Jones (2000);Centre for the Study of African Economies (1999)

2.2 Aid effectiveness

25. Increasing aid effectiveness has been another key motivation behind the move towards GBS. This line of argument builds on the often-cited study by Dollar *et al*. (1998), which argues that aid effectiveness depends on the institutional and policy environment into which aid flows – or, in short, aid works only in 'good' policy environments. To the extent that GBS can influence overall government policies for the better, it follows that aid in aggregate will become more effective.

26. Dollar *et al*. (1998) recommend the following: focusing financial aid on poor countries with good policies and strong economic management (i.e. those that are best placed to handle GBS), providing policy-based aid to demonstrated reformers (i.e. GBS with policy dialogue and conditionality),

use simpler instruments (i.e. GBS), and focus projects on transferring knowledge and building capacity (projects mostly as TA to complement GBS).

27. However, the study's findings have been criticised on technical grounds. (Hansen and Tarp, 1999a). Hansen and Tarp (1999b) get very different econometric results from Dollar *et al*., and argue that the Dollar model is highly sensitive to data and model specifications. Dalgaard and Hansen (2000) further show that the interactive variable between aid and good policies is not robust, which puts in doubt the Dollar conclusions.

28. Other criticisms of the Dollar study have focused on the interpretation of results, and the implications for policy. While good policies spur growth, critics argue, they may be expected to decrease the returns to aid (as to an extent aid and good policies are substitutes in the growth process (Dalgaard and Hansen, 2000). Hansen and Tarp (2000), on the other hand, find that aid increases the growth rate, whether or not policy is 'good'. The overall conclusion from the (econometric and economic) debate on aid effectiveness is that the evidence is inconclusive. For the time being, nobody's cross-country results are a solid enough basis for policy recommendations (Lensink and White, 1999).

29. The systematic empirical evidence on aid effectiveness may be inconclusive. However, as Killick argues (personal communication) this should not detract from the more intuitive observation that good policies are good for development. Whether it is true that aid is effective regardless of the policy regime or not, governments and donors should still strive for better policies! Thus, if GBS leads to a better policy environment, this will be an important positive outcome even if it is not a critical outcome for the particular reasons adduced by Dollar *et al*.

30. Arguably, a better approach to examining the effectiveness of aid is to disaggregate different forms of aid in the initial econometric analysis. Until very recently this has not been done. However, research by George Mavrotas of Manchester University (forthcoming) has begun to tackle this task, using a simple distinction between project aid, programme aid and technical assistance to analyse evidence on fiscal response for India and Kenya. The tentative results shed doubt on the view taken in *Assessing Aid* that all forms of aid are equally fungible. They seem to confirm that the effort to disaggregate in studies of aid effectiveness is worthwhile. However, the crude form of disaggregation used in this study would need to be improved upon in further econometric analysis of the effectiveness of different aid modalities.

Further sources: Jones (1999b); Bretton Woods Project (2000)

2.3 Preconditions for general budget support

31. It may be argued that different aid instruments are appropriate for different situations and objectives. According to Foster and Leavy (2001), the suitable mix of aid more generally, and the basic decision on whether to enter into GBS more specifically, depends crucially on the following conditions:

   - For GBS, there needs to be a formal agreement between donors and central budget authorities on policies and expenditure priorities, and on respective roles for government, private sector and NGOs in financing and providing services.

   - GBS must have specific benefits (e.g. to reduce the burden of a multitude projects and free up management time; to avoid different approaches to service delivery and uneven provision of service; or to improve sustainability). These need to be assessed in specific country contexts, rather than assumed. GBS can also have negative effects (e.g. in countries where its high negotiation costs are not outweighed by the other benefits). This will be the case especially in countries which are not aid dependent, where there is no consensus on policy within government and with donors, and where key donors are resisting reforming their approach.

   - PEM systems have to be adequate. Otherwise need extra conditionality, earmarking, and/or additional accountability provisions will be required.[2]

32. The issues that need to be addressed in moving towards more programmatic forms of delivering aid are numerous. They include building adequate capacity (and sequencing it with financial support), improving performance monitoring, establishing fiduciary standards, affordability, disbursement arrangements and harmonisation (Weissman and Foster, 2000).

33. Common preconditions are those listed by the European Commission (1999):
   - Country must have an IFI programme (or follow equivalent policies).
   - Adequate public financial management, including performance monitoring and audits.
   - One reform programme (the country's own), which reduces need for separate EC conditionality.
   - 'Second generation' reform issues such as governance and institution building.

Further sources: NORAD (1999); DFID (1999); USAID (2000); USAID Bureau for Africa (1992); World Bank (2000a); European Commission (1996a); Takahashi and Sakano (1999); de Vylder (1995)

[2] For more details on fiduciary risks, see DFID (2001).

3 Positive transformative effect on governance (short- to medium-term governance outputs)

34. ‘New style’, second-generation budget support has been developed to increase the effectiveness of aid for poverty reduction through five main channels, described in the Introduction. These short- to medium-term governance outcomes are discussed in the following five subsections (3.1 to 3.5).

3.1 Lower transaction costs

3.1.1 Why reduce transaction costs?

35. It is in the interests of both donors and recipient governments to minimise all aid transaction costs whether they can be measured easily or not. This is because high transaction costs may have three negative effects:
    - They may influence the volume of aid delivered, by discouraging donors and governments from entering into agreements and reducing disbursement rates.
    - They may reduce aid efficiency, by consuming donor and government resources that could be otherwise employed and misallocating the resources made available under aid agreements.
    - They may reduce aid effectiveness, by encouraging donors and recipient governments to allocate resources to activities that do not address development priorities, in some cases undermining institutional development goals (Brown *et al.*, 2000).

3.1.2 What are transaction costs?

36. A broad definition of aid transaction costs would include the “the costs arising from the preparation, negotiation, implementation, monitoring and enforcement of agreements for the delivery of ODA”. These costs take three forms (Brown *et al.*, 2000):
    - **Administrative costs**: They arise from inputs of resources needed for the transaction. The main costs include administrative overheads, in particular staff time.
    - **Indirect Costs**: They result from the impact of the delivery mechanism on the achievement of development goals. Examples of indirect costs are undermining of government ownership, and the policy consistency of ODA and public expenditure more generally; disbursement delays (and possible effects on future commitments), reduced effectiveness (as resources may go to lower priority areas), and over-financing of capital vis-à-vis recurrent expenditure.
    - **Opportunity costs**: They measure the benefits forgone from alternative applications of the resources consumed in the transaction. For instance, senior officials need to trade off their time between aid management and policy development.

37. Brown *et al*. (2000: 58-59) summarise by saying that transactions costs are important because they will influence the volume of transactions (the higher the transaction costs the fewer the transactions) and are a source of inefficiency. Inefficiencies arise in part from the resources consumed in the transaction and in part from the suppression of exchanges that would otherwise have taken place.

38. Rational economic agents will, therefore, seek to organise transactions in such a way as to minimise transaction costs. This is achieved by restructuring the contract by which a specific transaction is executed. Contracts may be formal or informal, vary in the degree of specification of the rights and obligations of the partners, and allow differing degrees of flexibility. Where the costs of market transactions are particularly high, economic agents may prefer to adopt alternative mechanisms for exchange. Firms and public agencies, for instance, may choose to make a particular good or service themselves rather than buy it from another provider. However, costs are incurred even in these internal transactions.

3.1.3 Can we measure transaction costs? At what cost?

39. Brown *et al.* (2000) seems to be the only study that has attempted to measure transaction costs of aid delivery in order to test the hypothesis that these costs fall as foreign assistance moves away from projects. It tries to document what happens (and what is believed to happen over time) to transaction costs as aid delivery mechanisms switch from projects to more programmatic forms of support.

40. In the relevant theory, four characteristics of transaction are seen as important in influencing costs: frequency, complexity, uncertainty and specificity (Doan and Lestrange, 1998; Williamson, 1998). In order capture these characteristics, Brown *et al.* (2000) developed surveys and carried out interviews. These covered the number of (non-TA) projects, the number of (review, progress, final, evaluation) reports, the number of meetings, the number of steering committees and the total time key civil servants spent on aid administration vs. policy making. However, while these indicators appeared to make intuitive sense, it proved to be very difficult to gather quantitative information on them.

41. Difficulties arose partly from the fact that there is no tested methodology for measuring them, and partly from problems of availability of data in-country. Even if it is possible to do so in principle, measuring transaction costs in itself incurs unacceptably high transaction costs. In Viet Nam, for example, some respondents were unwilling to take part, and all found it very difficult and time-consuming to complete the questionnaire. Government respondents found the quantitative questions impossible to answer, as none were able to break down or cost their time according to the distinct activities identified. This experience suggests that monitoring transaction costs quantitatively is unlikely to be cost-effective, or even meaningful. There are also further conceptual and practical problems in identifying and measuring aid transaction costs (see Box 2).

Box 2: Conceptual and practical problems in identifying and measuring aid transaction costs[3]

Additionality: Many of the activities relating to ODA agreements would have to be undertaken by government if the activities were financed from internal resources. Consequently, these activities may only be considered as sources of transaction costs where they are additional to those that would be undertaken by government anyway. The application of donor-specific procedures for reporting, auditing and monitoring, and the drafting of financing agreements would be examples.[4]

Distinguishing costs and benefits: Many of these additional activities may improve the efficiency and effectiveness of ODA and their benefits may outweigh the costs imposed.[5] For example, where the delivery mechanism has been designed in such a manner as to create lasting capacity within government, the costs associated with the aid transaction will also generate benefits, often of an intangible nature, such as improvements in the government's reporting and auditing mechanisms. These transaction 'benefits' are most likely to result where aid is delivered using government systems, and the additional costs of managing the aid transaction are attributable to activities which will result in system-wide improvements. In this context, it is important to consider not only the additionality of the project/programme management arrangements but also the impact of these activities, in order to isolate only the pure transaction costs for measurement. The problem here is that many of the benefits that arise from specific transaction governance arrangements are intangible – e.g. closer co-ordination between government and donors and increased management capacity – and so are notoriously difficult to value.

Measuring indirect and opportunity costs: Indirect and opportunity costs are inherently unobservable, and outputs and so are not susceptible to measurement. It is important to recognise the existence of opportunity costs, and their distribution between donors and government. Donor resources for the management of aid may be taken as given, so opportunity costs only arise from the relative efficiency of alternative aid delivery mechanisms. Governments' opportunity costs result not only from these efficiency considerations, but also from the value lost by diverting resources toward the management of aid, and away from the management of governments' own programmes.

[3] The above factors demonstrate why existing literature has rarely sought to measure transaction costs directly. Instead these costs have been imputed from the behaviour of economic agents, using a variety of statistical techniques, and then ranked ordinally (in other words: qualitatively). For a comprehensive review of transaction cost economics see: Shelanski, Howard A. and Kelin, Peter G. (1995) "Empirical Research in Transaction Cost Economics: A Review and Assessment", *Journal of Law, Economics and Organisation*, 11 (2) 335-361. A rare attempt to measure transaction costs directly is described in the context of bond trading: Collins, Bruce M. and Fabozzi, Frank J. (1991) "A Methodology for Measuring Transaction Costs", *Financial Analysts Journal*, 47 (2) 27-36

[4] However, as the aim of this study to is help improve aid effectiveness we also look at some of the main causes of transaction costs, which are not additional to aid, but which are important potential areas for improvement.

[5] In the case of technical assistance one could even argue that the transaction cost, i.e. the interaction required for the transfer of knowledge, is the very reason for providing development assistance.

Complexity and apportionment: Transactions may entail a complex range of activities by numerous actors. Costs are borne and registered by various institutions – the donors' headquarters and country offices, core government agencies and project implementation units – and spread throughout the project or programme cycle. Cost information, where it exists, is dispersed, and even where available, is difficult if not impossible to apportion. Nor is information available in a form that facilitates apportionment to aid 'transaction' activities, let alone specific projects and programmes.

Different perceptions: Perceptions are important in identifying pure transaction costs.[6] However perceptions often differ between those involved. Governments, for instance, may consider the policy dialogue with donors surrounding the negotiation of a particular financing agreement as a pure transaction cost. For donors, on the other hand, the policy agreements reached through the negotiation of the financing agreement may be the purpose of the transaction, resulting in benefits – improved policy – that can be offset against the cost of the negotiation and the programme itself. It is important, that these differences in perception are reflected in the measurement of costs, since this will generate more accurate conclusions in terms of their incidence and impact on the behaviour of the parties to an agreement. Certainly, as regards policy negotiations, one might argue that – were factors equally priced – the burden of the transaction costs falls almost entirely on government.

Source: Brown *et al*. (2000: 8-9)

3.1.4 Are transaction costs likely to fall under GBS?

42. In assessing the transaction costs of different aid modalities, it is important to keep two factors in mind: First, all aid leads to transaction costs – whether delivered through project or more programmatic arrangements. Second, aid transaction costs are shared by donors and the recipient Government. Changes in aid modalities and in the way in which aid is administered can affect the way these costs are shared, as well as the sum total of transaction costs.

43. Anecdotal evidence of high project transaction costs abound. For example, in Tanzania in the health sector the sheer number of projects – and, with it, the frequency of preparation and review missions – meant that the Ministry had little time to fulfil its proper functions. In Viet Nam the situation is developing in a similar way with hundreds of projects in the Ministry of Agriculture and Rural Development. Common suggested remedies for reducing transaction costs include using administratively simpler aid forms such as budget support (European Commission, 1996b). However, moving towards a more programmatic form of aid delivery may not reduce these costs (Brown *et al*., 2000: 34-5).

[6] It has even been argued that transaction costs are only significant in so far as they are perceived, and so cannot be measured separately from these perceptions (Buckley and Chapman, 1997).

44. On the contrary, the prevailing consensus seems to be that transaction costs are generally higher for programme than for project aid – at least in the first few years of a sector programme (Foster *et al.,* 2000a). In the sector context, earmarking of counterpart funds can be an administrative burden: overly detailed targeting of counterpart funds has led in some cases to the imposition of the donor-specific procedures normally associated with traditional projects (European Commission, 1999), with examples in Jamaica and Zimbabwe (Montes *et al.,* 1998). Hence, EC advice says continue targeting only in countries that have severe cash flow and budget execution problems that prevent continuous predictable disbursement in priority sectors (European Commission, 1999). At the same time, there is some evidence that the benefits in terms of improved transaction governance may more than compensate for the costs (Foster *et al.*, 2000b;Johanson, 1999).

3.2 Allocative efficiency and consistency with priorities

45. One of the aims of GBS is to improve the allocative efficiency of the government budget in line with poverty-reduction priorities, and then to ensure that funds are spent accordingly.

46. Changes in the composition of public expenditure can occur at four levels: between sectors, within sectors, between recurrent and development spending,[7] and between wage and non-wage recurrent spending. In theory, non-earmarked general budget support as an instrument is distributionally neutral. It does not by itself skew the sectoral distribution of the budget in the way projects do (European Commission, 1996c). The aspect to evaluate is whether as a result of GBS the pattern of budget allocation and execution has changed towards items that are more likely to reduce poverty.

47. In practice, it is unlikely that there will ever be complete agreement between governments and donors on whether allocations are right, or that donors will be fully satisfied with implementation. The real issue is whether government is moving in the direction that donors associate (on good grounds) with an increased poverty focus, and whether PEM systems allow it to implement a shift in allocations.

48. To assess whether GBS results in allocations that are more efficient and in line with poverty-reduction priorities, progress needs to be measured in at least two dimensions: shifts in the patterns of public expenditure, and increases in the proportion of aid funds that are programmed through the budget. Another key issue for evaluating the effect of budget support on expenditure allocations will be the question of attribution. However, in principle new-style budget support is only given (and likely in future) for countries with a well-established poverty strategy. The PRSP (and/or MTEF) would be expected to set out plans and procedures for bringing spending priorities and budget implementation into line with objectives.

[7] Often redressing the balance between investment in physical and in human capital (Thomas *et al*., 2000).

Under those conditions, it becomes academic whether a particular improvement is due to the PRSP/MTEF or the financial support that has been provided. This line of argument, of course, hinges upon donors' only providing GBS in countries with 'good' PRSPs.

3.2.1 Shift in expenditure patterns

49. A main example of new-style budget support is Uganda. The country receives general budget support from bilateral donors such as DFID, Ireland Aid and the EU, as well as in the form of a Poverty Reduction Support Credit (PRSC) from the World Bank. This support is conditional on overall agreement on the spending priorities in the MTEF, and on improvements in accountability and public expenditure management systems. The share of budget support has been rising from one third of external assistance in 1998/99, to more than half in 2000/2001, and is projected to rise to 55% of external assistance in 2001/2002.

50. The rising proportion of GBS provides greater incentives for government to increase expenditures on poverty reduction (Foster and Mijumbi 2002). Increases in the level of budget support in Uganda have in fact coincided with a large reallocation of government expenditures towards poverty areas. Designated budget support funds support the government's Poverty Action Fund (PAF), a ring-fenced area of the budget which receives priority treatment when it comes to cash-constrained disbursement. The share of expenditures going to PAF items has doubled from 17% to 32% (Foster and Mijumbi 2002) and is projected to rise further. This experience mirrors that of an earlier evaluation of overall EC budget support, which found that budget support was associated with increases in non-salary recurrent expenditure in health, education, as well as road maintenance, decentralisation and rural development (European Commission, 1999).

51. However, assessing the sectoral allocation of aid is not straight-forward. In Uganda "the pattern of Government expenditure is significantly different when project aid is included, with the share of agriculture for example significantly increased, while the share of education is significantly lower. Other influences of project commitments on the distribution of expenditure are likely to be more marked still, with specific districts in receipt of donor flows likely to be disproportionately privileged compared to others who have been less fortunate." (Foster and Mijumbi, 2002: ix) To limit this distortion in allocations, the latest draft of the PEAP proposes to put a ceiling on the amount each sectoral Ministry may receive in the form of projects. This means the actual distribution of public expenditure is more in line with spending priorities in the MTEF.

3.2.2 Moving aid 'on budget'

52. In Uganda, moving towards GBS as an aid instrument has helped to move aid 'on budget'. An increasing proportion of aid to Uganda is going through the government budget (Foster and Mijumbi, 2002). This helps to make sectoral expenditure pattern more consistent with government's priorities, particularly poverty reduction.

53. Similarly, in Tanzania an increasing proportion of funds is channelled through basket funds and budget support. This has strengthened the Government's hand in the management of external assistance and underlined the importance of national planning and resource allocation instruments. More than half of external assistance is still not recorded in budget, undermining the MTEF and sectoral planning processes. On balance, however, Tanzania's experience in integrating external assistance into national systems is considered extremely positive and to have made a significant contribution to the realignment of public spending with poverty reduction goals (Naschold and Fozzard, 2002).

54. As donors are currently moving from project to sector or general budget support, it is difficult to know the full implications for resource shifts. The pattern of expenditure including off-budget donor flows is often quite different from the picture without these flows. Thus, in Uganda for example an apparent increase in spending on the health sector appears to mainly reflect donor funding being captured for the first time within the budget (Foster *et al.*, 2002).

55. The indicators proposed in the Inception Report for this item are routinely assessed as part of public expenditure reviews and should be available for the evaluation of GBS. Incidentally, these type of indicators are also beginning to be used as second-generation governance process indicators, to measure executive capabilities (see section 3.4).

3.3 Greater predictability

56. The length of donor commitment for general budget support tends to be longer than for other forms of aid (particularly projects). Projects have are often split into short periods of committed donor funding, which often result in inconsistent and unsustainable standards of service provision (European Commission, 1996b). GBS commitments in theory have the potential to increase predictability of resource flows for the government (e.g. DFID's long-term commitment to Rwanda). Even on an annual basis GBS tends to improve predictability. Once the annual level of GBS is committed in the budget, then releases are not dependent on meeting any triggers during the year. Donor funds are secure by the time the budget is finalised, and Government can rely on the budgeted GBS funds (Foster and Leavy, 2001).

57. GBS funds have also helped to give sustained funding for priority sectors in countries with cash budget systems at times of large fluctuations of domestic revenue. In Tanzania, quarterly budget releases to key line Ministries were maintained through GBS (Naschold and Fozzard, 2002). An EC evaluation found that general budget support funds enabled countries to maintain their budgets to health and education, but that this did not always result in availability of funds at service unit level, nor did it necessarily lead to improvements in services, with attendance rates sometimes even dropping (European Commission, 1999).

58. Previous types of budget support have at times decreased, rather than increased, predictability. The amounts involved tend to be larger than project funds, and can be turned off more quickly (and fully) than project commitments. For example, when Tanzania's adjustment programme was 'off track' from mid-1994, this led to a prolonged interruption of (EC) budget support (European Commission, 1996b). The move towards new-style GBS based on partnership and more realistic, reformed conditionality should prevent the 'stop and go' in aid payments (European Commission, 1996c).

59. For some time, experience from Malawi seemed to confirm this (Fozzard, 2002). Although donors were at times dissatisfied with the lack of progress on reforms in Malawi, they were reluctant to suspend a substantial part of their development assistance for fear of internal budgetary implications the following year. Quarterly disbursements were delivered as programmed, though delays did occur, as in early 2001, owing to the Government's postponement of review meetings. According to Fozzard (2002), writing in mid-2001, if progress with reforms continued to be haphazard, then the growing proportion of aid delivered as budget support would be likely to increase the vulnerability of government to changes in aid disbursements. Developments in UK budget support several countries since that time tend to confirm that this is the case.

60. GBS, by its very nature, is easy to turn on and off. Donors' commitment under new style GBS is supposed to reduce the risk of fluctuations in aid flows. However, the experience with GBS to date is still too new for the literature to reflect whether or not northern politicians are resisting the temptation to cut aid flows in practice.

61. Another aspect of the predictability of aid flows relates to when government hears about the commitments in relation to its own the budget cycle. This aspect is highlighted in Foster *et al.* (2002), but there is little written evidence on the effect of GBS on synchronising reporting with the budget cycle.

3.4 Increased effectiveness of public administration

62. A key focus in the development of budget support and related public sector management reforms has been to enhance public sector performance and accountability. However, preliminary assessments of the effectiveness of general budget support in driving reform differ, between countries and between government and donors.

63. In Malawi, for example, the government sees GBS as the preferred model for aid delivery. However, difficulties have arisen in agreeing a reform agenda, in the absence of a comprehensive reform strategy for the Ministry, not least because negotiation with participating donors is primarily the responsibility of the Aid and Debt Management Division, while most of the reforms have to be implemented by other departments (Fozzard, 2002).

64. In Uganda, the move towards general budget support has focused greater donor attention on improving public expenditure management systems and tackling corruption. The fact that a greater share of donor funding is dependent on Government systems to generate acceptable accounting and audit reports raises the risks to Government if concerns are not addressed. It thereby strengthens the incentives to government to take action in these areas (Foster and Mijumbi, 2002).

65. A series of EC budget support evaluations (14 country evaluations between 1995-7) concluded that support for adjustment programmes has been a powerful agent for change in developing more appropriate institutions, in redefining the role of the state and restructuring the civil service (European Commission, 1999). The World Bank's overall impact assessment of its adjustment lending found that the impact on institutional development was lower than 'overall success' rating, but that it improved over the 1990s (World Bank, 2001a). Of course, new-style budget support focuses much more heavily on reforming the public sector and improving national systems than traditional adjustment lending. However, it remains to be seen whether the most advanced World Bank programme aid operations, such as PRSCs, will become more sensitive to national ownership and leadership in policy making and whether they set new standards for disbursing and accounting for aid flows through national systems.

Further possible sources relevant to this section:
Knack (2000); ECDPM (1998); Schacter (1999); Schacter (2000); World Bank OED (1999)

3.4.1 Towards results-based conditionality for general budget support

66. Ongoing reforms in developing countries follow OECD experience with public sector reform, which over the last two decades has gradually introduced principles of results-based management. Reforms of budget controls in OECD countries have typically centred around a move away from close supervision and micromanagement, and towards strategic control of resources, where funds are linked to specific outputs and outcomes (Parry *et al.*, 1997). Under these arrangements, monitoring and evaluation concentrate on measuring progress towards these performance targets, rather than on accounting for the proper use of the funds themselves.

67. As the implementation of a results-based approach to public sector management is still a relatively new and ongoing process in OECD countries, it is not surprising that there is still little experience with the equivalent changes in developing countries. For the purposes of one current research programme, four key gaps in our understanding of how to operationalise results-based management in developing countries have been identified (CAPE, 2002): the design of targets and indicators; the process by which indicators are set, monitored and revised; the incentive

framework on which the approach is based; and the governance structures established to ensure accountability. These gaps are crucial, and until they are filled, it will not be possible to claim that significant progress has been made with the implementation of results-based public management in developing countries.

68. This observation notwithstanding, several donors are moving from traditional process conditionality for budget support to results-based performance assessment. In important cases, this is linked with variable disbursement depending on the results achieved (European Commission, no date). The degree of implementation of this new approach depends on country circumstances and is directly related to the quality of the PRSP and availability of suitable monitoring data. So far, the shift towards results oriented performance assessment is much more pronounced in sector programming for the social sectors, than in public expenditure management. This is partly because there is as yet no consensus on how to measure performance for the purposes of PEM.

69. There are three main precondition for results based conditionality:
    - agreement with governments on a limited set of outcome indicators for monitoring and evaluation;
    - a reliable statistical system to collect required information on indicators; and
    - agreement on target values for these indicators.

70. In what are considered the most advanced budget support arrangements,[8] the EC links one fixed tranche to satisfactory macro conditions (on average this accounts for 78% of the total GBS), and one variable tranche to performance on agreed indicators (on average this accounts for the remaining 22%). The variable tranche often contains one sub-tranche related to satisfactory PEM (on average 38% of the variable tranche), and another to performance against key outcome targets (on average 62% of the variable tranche (European Commission, no date).

71. It is still too early to evaluate this results based approach to GBS conditionality,[9] but some problems are already apparent: data availability is weaker than anticipated, governments tend to use different targets for the same indicator with different donors, and when performance targets have been agreed early in relation to the PRSP process, dilemmas arise about whether and how to integrate them into PRSP.

72. Early experience indicates that introducing results-based conditionality means a sharp break with the past and one that poses major implementation challenges. However, the EC and a number of likeminded bilaterals take the view that traditional process conditionality is incompatible

[8] The following countries are currently classified as having 'most advanced GBS arrangements': Mauritania, Niger, Rwanda, Burkina Faso, Lesotho, Djibouti, Chad, Uganda, Benin, Sao Tome e Principe and Zambia. 'Intermediate' GBS arrangements are in place in: Tanzania, CAR, Sierra Leone, Mozambique, Vanuatu, Cape Verde, Jamaica, Gabon, PNG, Kenya and Guinea Bissau.

[9] An EC evaluation of the process and methodology is currently underway.

with an orientation to results, and should be avoided (European Commission, no date).

Box 3: The process of performance evaluation for EU General Budget Support

First, government produces its own assessment of results achieved, and this is followed by discussions between line Ministries, central government and the EC. Discussions are then extended to also include other beneficiaries and stakeholders. Specific indicators can be disregarded if affected by circumstances outside government's control. The assessment is ultimately mechanistic as it follows a points system: one point for a satisfying performance, half a point for some progress, and no points otherwise. How these points are translated into how much of the maximum amount is disbursed varies between countries.

Public expenditure management is typically assessed through the following indicators: share of government's budget allocated to most peripheral structures; budget allocated to social sectors; difference between the unit cost of public sector procurement and market prices. Key social sector outcome targets are assessed according to fairly standard health and education indicators, including the use of primary health services, ante-natal care, immunisation rates and cost of basic medical care; and NER/GER, transition rate to secondary schooling, PTR, pupil-classroom ratio, pupil-book ratio and cost of access to primary education.
Source: European Commission (no date)

3.4.2 Measuring improvements in governance

73. Many of the institutional and policy aspects that general budget support aims to influence are governance issues. Therefore, the evaluation of GBS is likely to involve the use of appropriate governance indicators. What governance indicators are likely to prove suitable? It is worth distinguishing, here, between 'first generation' and 'second generation' governance indicators, the products of two waves of thinking at the World Bank.

74. First-generation governance indicators are useful to assess general prospects and conditions in a country. They tend to be broad in their coverage, and are often composites of various individual indicators (e.g. Transparency International's Corruption Perception Index). Such measures have been useful to point out governance issues that are a problem for development and aid effectiveness. First-generation governance indicators, typically measuring aggregates for voice and accountability, political stability, government effectiveness, regulatory quality, the rule of law and control of corruption, were developed and refined in a series of studies by Kaufmann *et al.* (1999a; 1999b; 2000; 2002).

75. Because of their aggregate character, the first-generation indictors are not able show which institutions are associated with which dimension of public-sector performance. They are therefore not useful for monitoring and

evaluating the impact of any given input, such as GBS, on governance outcomes (Knack and Manning, 2000). Also, first-generation governance indicators are limited to measuring the outcomes. They do not provide details on the changes in government processes and institutional arrangements that are responsible for the outcomes.

76. The evaluation of general budget support would be expected to draw on recent experiences with second-generation governance indicators. A good second-generation governance indicator is: institutionally specific, with a direct link to outcomes; politically acceptable; generated through transparent process; periodically updated and available for a large number of countries; and accurate and of high quality. Second-generation indicators of good government reflect practices, capabilities and administrative institutions, as opposed to policy outcomes or macro-political institutional arrangements – such as levels of democracy or the prevalence of formal proportional representation vs. plurality electoral rules (Knack *et al.*, 2001).

77. A key quality of the new indicators is greater political acceptability (Knack *et al.*, 2001). The task is not so much to find measurable indicators of governance, but to devise a process that helps to make the indicators legitimate and credible for partnership in development. The first-generation indicators were perceived to be donor-driven. The second generation of governance indicators, however, are achieving greater political acceptability. Curiously, these characteristics seem to have reversed attitudes to measuring governance, as “Government officials are increasingly interested in using the indicators, whereas the donors may be increasingly resistant” (Knack *et al.*, 2001: 17).

78. The other characteristic which make the second-generation governance indicators potentially useful for evaluating budget support is that they are much more specific, which means that they allow us to assess why and where governance is improving, rather than just to know that is improving on aggregate. They address the ‘how’, not (just) the ‘what’.[10] Knack *et al.* (2001) have identified a number of second-generation governance indicators according to theoretical requirements.

79. Other efforts to construct and collect governance indicators include:
    - Second generation indicators of corruption e.g. those that differentiate between state corruption (the law-making process) and administrative corruption (the implementation of these laws) and judicial corruption – and between ‘grand’ and ‘petty’ corruption.
    - Use of business surveys to deliver information on quality and interruption of public services, such as electricity, disaggregated by region (Knack and Manning, 2000).
    - Development of surveys of public officials to elicit information that provides proxies for government performance, e.g. on accountability, employee morale and focus on results (Manning *et al.*, 2000).

[10] Carlos Santiso on OECD/DAC discussion forum at www.bellanet.org (PREM Governance and Public Sector Reform Group workshop, *Notes from December 19th workshop*)

- The PREM network's Decentralisation Thematic Group at the Bank has developed indicators for fiscal, political, and administrative decentralisation (e.g. measures of sub-national autonomy in spending and revenues, characteristics of intergovernmental transfer systems and regulations for sub-national borrowing).

80. Only three examples are given of the new governance indicators being used in practice. They are a comparison across Nigerian states, an analysis across Balkan countries, and a study over time in Albania. However, in these cases, they are said to have been enthusiastically received by government (Knack *et al.,* 2001).

81. A few other indicators of a relevant sort have also been tested in research studies. Variables that are inversely related to levels of corruption in the public sector include meritocracy in hiring, promotion and firing; the effectiveness of information flows; the absence of arbitrary discretion in decision making; and transparency in budget management. Salary levels and existence of strict penalties are, surprisingly, not related statistically to levels of corruption. On the other hand, reducing corruption levels has a direct effect on poverty, as the burden of corruption falls disproportionately on the poor and on small businesses (e.g. evidence from Bolivia and Ecuador; Kaufmann *et al.*, 2000).

82. Some relatively simple and easily identifiable bureaucratic structural features that constitute the key factors in bureaucratic performance have been identified in other studies. They include indices of meritocratic hiring, internal promotion and career stability, and civil service compensation. Rauch and Evans (2000) find that meritocratic recruitment is most important in reducing corruption, followed by internal promotion and career stability.

83. Early evidence suggests that second generation governance indicators will be useful in establishing a monitoring link between general budget support and poverty reduction. Kugler (2001) looks at relationships between second-generation governance indicators and pro-poor outcomes. While the evidence is varied, it does show which potential indicators are good predictors of poverty, and which are not. For example, the literacy rate and the amount of contract-intensive money are closely associated with poverty outcomes, while budgetary volatility and decentralisation are loosely associated with poverty outcomes. Civil service wages, in contrast, are not a good variable for explaining poverty outcomes (see also Box 4).

84. Another attempt to develop quantitative indicators for governance can be found in Hellman *et al.* (2002). This is based on a business survey that attempts to unbundle governance into its many dimensions, thereby permitting an in-depth empirical assessment. The authors pay special attention to certain forms of grand corruption, notably state capture by parts of the corporate sector – that is, the propensity of firms to shape the underlying rules of the game by 'purchasing' decrees, legislation, and influence at the central bank, which is found to be prevalent in a number of transition economies. The survey also measures other dimensions of grand

corruption, including those associated with public procurement, and quantifies the more traditional ('pettier') forms of corruption. As with the work on the second-generation governance indicators, this attempt at making specific governance variables quantitatively monitorable is largely new and untested.

Box 4: Promising and not-so-promising second-generation governance indicators

The most promising second-generation quantitative indicators for governance, are those that are closely related to progress with the MDGs. They include the following:

- Contract-intensive money.
- Timeliness of audited financial statements.
- Budgetary volatility (the median of the year to year changes in each of the 14 functional classifications over the preceding four years (pp.38-9).
- International trade tax revenue.
- Fiscal decentralisation.
- Ratio of average government wage to average wages in other sectors of the economy.
- Percentage of the population employed in various categories of the public sector.
- Selected business survey and citizen survey questionnaires.

Governance indicators that have proved less useful include:

- Political appointees in the civil service.
- Civil service meritocratic appointments.
- Fiscal planning.
- Horizontal compression.
- Predictability and transparency of intergovernmental transfers.
- Frequency of rule changes for inter-government transfers.
- Mechanisms for taxpayer/third party participation in revenue policy formulation.
- Economic neutrality of taxation.
- Bank or finance company use of secure credit.

Source: Knack *et al.* (2002)

85. Improvements in governance are central to poverty reduction. However, the quality of governance seems to depend on how closely the governing elites are linked to the general population, and to what extent they are dependent on them for revenue. Moore *et al.* (1999) find that more a government receives its income from external and quasi-external sources (e.g. aid and mineral export revenues), the less it listens to its people, and the lower the government's ability to transform economic growth into poverty reduction and improvements in human well-being.

86. While Moore *et al.* do not differentiate between different aid modalities. However, Booth (2002) suggests that GBS might be expected to have

different effects from previous types of assistance, as these have by and large by-passed or undermined national institutions (see also section 3.5 on national public accountability). Without disputing the historical and contemporary importance of revenue imperatives in shaping governance structures, GBS may help at the margin to make policy processes more pro-poor.

3.4.3 Public expenditure management systems

87. One major consequence of new-style budget support is that recipients face additional incentives to improve government's financial management systems. These incentives work both ways, as a carrot and a stick. Improving public expenditure management systems makes countries more attractive for donors of budget support. On the other hand, it also places a greater onus on governments to show to donors that their funds are not being wasted. If major corruption scandals are uncovered, or if financial management simply fails to improve, donors are likely to interrupt budget support. Furthermore, there is no guarantee that aid will simply be redirected to flow via the previous non-budget channels (Foster and Mijumbi, 2002). Finally, general budget support may, in any case, help to improve public financial management systems simply by flowing through them, rather than bypassing them.

Box 5: Public expenditure reform as a long-term process – Corruption in Uganda

Uganda has made concerted efforts to improve its public financial systems over a number of years. Nevertheless, the country is judged by Transparency International as one of the most corrupt countries in the world. Establishment surveys show corruption is a major constraint on growth and investment.[11] Service delivery surveys and the 1998 integrity survey found high levels of corruption, illegal charging and other abuse of office by civil servants. It is a major threat to maintaining the donor budget support on which Government depends. Government has developed a clear strategy to fight corruption and build ethics and integrity in public office,[12] built on the 1998 anti-corruption action plan. It recognises better pay as a necessary but not sufficient condition, which must be combined with holding staff accountable for their performance. However, this has had little impact to date. The National Service Delivery Survey (NSDS) in 2000, for example, reassessed perceptions of bribe solicitations in the last 5 years. The small margin of those who thought there had been a reduction in bribe solicitations over those who felt there had been a rise suggests there has been little change. (Foster and Mijumbi 2002)

88. In practice, general budget support recipients do seem to have improved their systems. This is reported for Uganda, while it is recognised that reforming public financial systems is a long-term process (see Box 5). Anecdotal evidence suggests that GBS has had a positive effect on public

[11] Reinikka and Svensson (1999).
[12] Directorate of Ethics and Integrity, Office of the president (2000).

expenditure management, particularly in the social sectors, in Cote d'Ivoire and Cameroon (Montes *et al.*, 1998). It remains to be established whether these improvements will be sustained, whether they will eventually help to attract additional resources (to what extent does the 'carrot' materialise?), and whether any such changes will be clearly attributable to GBS.

Further sources:
SPA Working Group on Economic Management (1999);PriceWaterhouseCoopers (1999); World Bank (2000b)

3.4.4 Performance management, including Civil Service Reforms

89. There is a rich literature on how to measure improvements in performance in a context of public service reform. Generally, it finds that the implementation of performance measurement lags behind the rhetoric. The principles of 'good public management' and successful reform are still shaky and therefore provide limited guidance to designing an evaluability framework for general budget support.

90. The public administration reform literature has attempted to measure *decentralisation* using various indicators: central government shares in total public spending, and in total taxation, and the percentage s of public servants who work for central government as compared with the proportion working for subcentral governments (Pollitt and Bouckaert, 2000). The political science literature has developed other relevant decentralisation indicators. For example, measures of institutional autonomy aim to summarise discretion at federal, regional and local government levels, and functional autonomy from central control. Indicators for regional and local financial autonomy measure the proportion of total government spending taken up by central government (Lane and Ersson, 1991). These have been used almost exclusively in OECD countries, but they could conceivably be adapted for developing countries receiving budget support.

91. Other aspects of public management reform are more problematic. Even in OECD countries, there have been large gaps between the rhetoric and the practice of public management reform, and between the view from the top and that of the grassroots of the public sector. The pace of achievements lags far behind the stream of new public management reform initiative. And even when reforms are considered 'introduced' on a particular date, often in the affected departments nothing much has happened beyond the circulation of policy papers. Many public servants commonly have not even heard of the reform initiative in which they are supposed to be involved (Pollitt and Bouckaert, 2000).

92. These experiences are mirrored in many developing countries. They suggest the need for, at least, a certain amount of caution before attempting to use the progress of current management reforms as an indicator in any aid impact monitoring system. If such indicators were included, it would be hard to establish how much of any observed change was driven by any single factor, such as general budget support. But, more fundamentally, it is

not clear that implementing reforms that are labelled performance management does in fact constitute progress.

93. It is often simply assumed that this is the case. There is limited awareness of the frailty of many current ‘principles’ of good public management (Pollitt and Bouckaert, 2000; Rockman, 1998). Reviews of the main principles of public sector management reform have concluded that these principles cannot be applied universally, but instead need to be adapted to the specific organisational context of a country’s public administration, and that the theory, which is believed to back these principles, is not “sufficiently advanced to provide adequate guidance for would-be reformers” (Peters, 1998: 96).

94. In other words, there is insufficient evidence to identify the criteria which are important in particular contexts and for particular types of public management reforms in a given country (Pollitt *et al.*, 1998; Stewart, 1992). The absence of a clear theory behind how public management reform works also means that there is little basis for specific recommendations on how to ‘do’ public sector reform (Peters and Savoie, 1998), beyond the usual generalities, such as: ‘find a champion’, link management reforms to resource allocations, aim for quick wins, and stay in power long enough to push through reforms (Pollitt and Bouckaert, 2000). If we are not entirely clear about how to measure progress in public sector reform generally, it will be even more difficult to ascertain how to monitor specifically the impact of general budget support on public sector management.

95. If even the theory of how performance management is supposed to lead to improved outcomes is not conclusive, it comes as little surprise that there is little evidence that it does so in practice, even in developed countries. A new book from the Blairite think tank Demos warns that the government’s NHS reforms may fail if they persist with a centralised regime of target-setting from Whitehall. “The carrot and stick approach that links increased funding to tougher performance targets will not deliver the expected levels of improvement”, the study suggests (Chapman, 2002).

96. Another important question for assessing government performance is how to measure civil service reform efforts. As a first step, government needs to know the size and structure of the public service. Civil service censuses have been carried out with a variety of objectives in mind: cutting costs through eliminating ghost workers, providing an information base for downsizing, restructuring departments and agencies, and establishing a baseline in transition countries. International experience with civil service censuses, however, has shown up various measurement difficulties.

97. First, censuses are costly and operationally difficult. Second, to have a sustainable impact they need to be linked to a long-term institutional investment in payroll and personnel management systems. Third, the usefulness of information depends on creating incentives to ensure compliance (e.g. by stopping salaries for staff on the payroll who are not

enumerated). Fourth, censuses must have top-level support and local ownership in design and delivery (Beschel and Mountfield, 2002).

98. Many developing countries have found it easier to adopt a ‘right-sizing policy’ than to implement it. Ghana’s technocratic approach to civil service reform, the Civil Service Performance Improvement Programme (CSPIP) has had little impact on the larger government departments which are responsible for the services the poor depend on most, e.g. health and education. To be effective, civil service reform has to be integrated with reforms in public sector pay, and in budget management. Civil service reform efforts are likely to be ineffective if they are not accompanied by salary reforms that provide meaningful incentives and sanctions, and by budget reforms which increase departments’ control over their personnel budgets. Therefore, as the CSPIP experience shows, assessing progress with civil service reforms needs include an evaluation of relevant reforms in public sector pay and the budget process (Foster and Zormelo, 2002).

99. Performance management has found its way into contractual agreements on budget support between governments and donors. The expected outputs of the Canadian budget support to Tanzania are defined in terms of achieving of key undertakings on cross-cutting issues to improve public service delivery. These are to be determined on an annual basis through the Performance Assessment Framework (PAF) review process. PAF is a tool for dialogue between donors and the Tanzanian government on budget support, and contains agreed medium-term targets and indicators for macroeconomic stability and performance improvements in the public sector, as well as annual actions to be taken by government to achieve these targets. Expected performance outcomes of the budget support are the medium-term targets in the PRSP (Government of Canada and Government of Tanzania, 2002).

3.5 Effect on national public accountability

100. Public financial accountability is the obligation of those handling public finances to report on the management and use of funds through a process that enables abuses and under-performance to be corrected (World Bank, 2001b). As signalled in section 3.4.2, a common argument suggests that aid in general can lead to a shift in a government’s accountability from its own citizens to donors. The argument is based on history, cross-national statistics and the common-sense assumption that accountability tends to shift to those who provide government with its resources. This leaves the possibility that, while aid-dependence generally is bad for domestic accountability, some aid modalities are worse than others in this respect.

101. Few studies have tested this preposition in practice. Mick Moore's landmark exploration of the role of aid in undermining domestic political accountability, Moore (1998) concludes with the proviso: “Aid does not necessarily undermine democracy. It has become a problem in some countries because of a conjunction of circumstances: high levels of aid dependence of

governments...; an inheritance of weak states relatively independent of their citizens for political and fiscal support ...; and modes of dispersing (sic) aid that fragment fiscal sovereignty and undermine budgetary accountability ..." (pp. 109-10). The circumstances Moore identifies would seem to include the prevalence of aid modalities that by-pass and do nothing to strengthen national systems and processes. This proposition has yet to be tested empirically.

102. Accountability is periodically assessed by the World Bank through Country Financial Accountability Assessments (CFAAs), Public Expenditure Reviews, and Country Procurement Assessment Reports. This is intended both to ensure that governments receiving budget support are capable of using it wisely, and as a form of technical assistance to countries (World Bank, 2001b). Guidelines on financial accountability have also been prepared by the IMF (2001). These identify nine components of good public financial accountability, which should presumably inform the design and monitoring of public sector reform programmes benefiting from General Budget Support. By the same token, they provide a checklist for considering the evaluability of GBS.

103. The components are:

- **quality and openness of the budget process** Measuring the prevalence of off-budget accounts, reporting of contingent liabilities and quasi-fiscal operations particularly of state owned enterprises. Are there clear processes for determining priorities, and for linking resources to these priorities? To what extent do budget processes pay attention to performance, service delivery and outcomes? Are recurrent and capital budget separate or integrated? What is the time horizon of the budget?

- **appropriateness of internal financial and performance management systems** To what extent do budget releases follow the approved budget? Are budgets controlled by the finance department through micro management of line items, or strategically? Is the focus more on compliance or on service outputs, responsiveness and value for money? Are there incentives for service providers to find savings? Are internal audits required by law? To what extent are they carried out in practice? Are the roles of internal vs. external audit clearly defined?

- **adequacy of the public procurement regime** Are procurement legislation and manuals adequate and simple? How many signatures are required? Are the rules generally understood by civil servants?

- **quality of public sector accounts and management information** To what extent are the public financial management information systems integrated? Are there duplicate systems for collecting such information? Capacity and independence of public accounting associations?

- **adequacy of corporate accounting, auditing and governance of SOEs**

- **effectiveness of the public external audit and evaluation function** Independence, power of investigation and sanction of public external auditors? Any conflicts of interest (e.g. is auditor general also responsible for accounting)? Adequate number and qualifications of Auditor General staff?

- **adequacy of legislative scrutiny.** Does the Supreme Auditor report directly to the legislature? Functions, powers, and effectiveness of Public Accounts Committee? Timeliness of reports? Follow up action?

- **right and access of the public to information** Comprehensiveness of published budget information? Are public audit reports available to the public? Freedom of the press?

- **monitoring capacity of NGOs and CBOs** Any legal provisions for NGOs to participate in monitoring? Is involvement of NGOs and CBOs keeping pace with process of decentralisation?

104. It is possible to rate of these categories qualitatively, as has been done by the World Bank in, for example, ten countries in East Asia (World Bank, 2001b). Thus, it would be possible to use such assessments to examine whether changes public financial accountability coincide with the provision of general budget support. However, there is little evidence that this type of assessment has been used until for these purposes. In addition, it would be difficult to attribute any causality, i.e. to determine how general budget support operations have impacted on accountability.

105. In addition, a number of the second-generation governance indicators developed by Knack *et al.* (2002) are relevant here. Accountability to the legislature is measured by the timeliness and comprehensiveness of audit report to the legislature; the effectiveness of the Public Accounts Committee and Budget and Finance Committee; the degree to which the enacted budget was followed; and measures of ‘grand’ corruption/state capture, including purchase of legislation. Accountability to the courts can be proxied by, for example, the percentage of the population that has litigated against executive entity (including police) in the past five years, and the percentage of litigants reporting the case resolved in a timely manner. Vertical checks from the electorate could be estimated by the level of literacy, the extent of mass media freedom and the breadth of the tax base.

4 Enhancing government capacity to reduce poverty (directly economic effects)

106. General Budget Support can affect various aspects of the national economy in a relatively direct way, as well as helping to improve institutions and governance. It can do this by improving or stabilising macroeconomic balances; by helping governments to provide an enabling environment for private investment, production and trade; and by providing additional funding for pro-poor public spending. These in turn can impact on growth rates and poverty reduction. This section provides a brief review of the relevant issues.

4.1 Macroeconomic and macro-management effects

107. GBS funds are in principle available to the Government budget as a whole. That is, they can in principle be used to increase spending, reduce borrowing or lower taxes. In practice, in countries with an IMF programme this choice is made for them (Foster and Leavy, 2001). In these cases the macroeconomic impact of GBS is predetermined by the IMF programme. The evaluation of the macro impact of GBS is equivalent to evaluating the IMF conditions.

4.1.1 Growth

108. Much of the literature on the early experience of structural adjustment is concerned with the effect of liberalisation policies – accompanied by programme aid – on economic growth. The literature was divided in its findings. World Bank reviews typically found that adjustment policies in the form of better exchange rate management and reduced inflation and budget deficits generally increase the rate of GDP growth per capita (see e.g. World Bank, 1994; Ojo and Oshikoya, 1995; Savvides, 1995; White, 1997).

109. However, this positive assessment is disputed by a number of other studies which found no evidence that countries receiving BoP/budget support and undergoing structural adjustment programmes did indeed experience higher rates of growth (Mosley and Weeks, 1993); Elbadawi, 1992;Mosley *et al.*, 1995).[13] Easterly's (2000) findings also suggest that there is no direct effect of WB structural adjustment operations on growth.

110. The evidence on the overall effects of adjustment policies on growth is, therefore, not entirely conclusive. However, unpacking this evidence is helpful. It allows a distinction to be made between the likely positive effects of macro-stability on growth, and the inconclusive results concerning the impact of full-scale market liberalisation on growth (White, 1999c). It should also be noted that there is not a single study that claims a negative

[13] For a more extensive summary on the early debate on the impact of adjustment on growth, see White and Leavy (1999).

relationship between structural reforms plus programme aid and economic performance.

111. According to White (1999a), it will always be difficult to say anything conclusive about the effects of general budget support on economic growth, as the data are shaky and cover only short periods of time. This is borne out by the fact that even a large World Bank research project did not manage to produce any firm evidence on this link (see discussion on aid effectiveness in 2.2 above).

4.1.2 Inflation

112. It is now uncontroversial that macroeconomic imbalance in the form of inflation is particularly bad for the poor for two reasons. First, it reduces the overall growth rate in the economy, as high levels of inflation distort price signals. Second, the poor are least able to isolate themselves from the negative effects of inflation, and therefore tend to suffer the most.

113. Easterly and Fischer (2000) present evidence on the subject, including some based on surveying the perceptions of the poor themselves, suggesting that they suffer more from inflation. Relating the impact of changes in inflation on direct measures of poverty, they find that high inflation tends to lower the share of national income going to the bottom quintile, lowers the real minimum wage and increases poverty. However, the relationship between inflation and growth is non-linear. Reducing inflation to 10% per annum enhances economic performance, but reducing it further may have the opposite effect, as deflation reduces domestic demand, and a lack of investment in human and physical capital constrains supply. Ghana and Sri Lanka have benefited from stabilisation as they have continued to invest, whereas expenditure caps to bring down inflation in Zambia and Mozambique in the early 1990s reduced growth (White, 1999a).

114. Inflation has usually fallen with the introduction of stabilisation programmes supported by GBS. White and Leavy (1999) find that the median rate of inflation in reforming countries is half that in non-reforming countries.[14] Large aid flows have been instrumental in the stabilisation process in Nicaragua, Tanzania and Uganda. On the other hand, the easy ‘turn-on, turn-off’ nature of budget support can also mean that disruptions in budget support flows can lead to increased inflation, as for example in Kenya (Levin,1994).

4.1.3 Investment

115. The link between investment and growth is undisputed, but investment levels were not boosted by programme aid and adjustment policies in the 1980s and early 1990s (World Bank, 1994). Public investment fell as part of adjustment, and private investment did not make up the shortfall (Husain and Faruqee, 1994).

116. The economic case for aid is generally made on the basis of ‘gap models’. The original Chenery and Strout two-gap model (1966) combines the

[14] Although the difference between strong and weak performers is small.

savings gap from the Harrod-Domar growth model, which measures the shortfall of investment to achieve a desired growth rate (Rosenstein-Rodan, 1961), with the trade gap, which measures the inability to finance required capital good imports from export earnings. Recent extensions have created a three-gap model, adding the fiscal gap, i.e. the difference between government revenues and spending.

117. The overall gap in these models is the largest of the individual gaps, not the cumulative gap. The economic justification for aid is to help fill the overall gap. By supplementing domestic savings, export earnings and government revenue, aid can help to increase investment, imports and/or government expenditure, which then leads to higher rates of growth and poverty reduction (Hjertholm *et al.*, 1998). However, reality is less simple, and this economic theory of aid has been challenged by complications in at least three areas: fiscal behaviour, foreign aid as loans (which create debts), and 'Dutch disease' (Hjertholm *et al.,* 1998)

118. **Fiscal behaviour:** Aid can increase, reduce, or even not change the size of the fiscal deficit. This depends on government's 'fiscal response' to the aid inflows. If, for example, government has to complement project aid with own financing, then the deficit may increase. Budget aid, which is not tied to particular expenditure, in contrast, can reduce the deficit (White, 1999a; Hjertholm *et al.*, 1998).

119. **Loans and debt:** The macroeconomic effect of GBS also depends on whether it is given as grants or as a loan. This is because loans can add up to a level of external debt that harms economic performance. The statistical relationship between high levels of debt and economic performance is well documented (Hjertholm *et al.*, 1998). However, beyond this aggregate correlation, large debt servicing burdens can also lead to lower growth via its effects on fiscal policy. When they are efficient, government expenditures on infrastructure, health and education have large positive externalities; consequently, they can encourage, or 'crowd in', private investment (Hadjimichael and Ghura, 1995). The larger the proportion of government expenditure going to debt servicing, the smaller is the amount available for such expenditure, and hence, the lower the possible economic growth and poverty reduction (Hjertholm *et al.*, 1998).

120. Large debt servicing obligations can also lead to import compression in two ways: "First if the ability of the economy to substitute between imported and home capital goods is limited, a cut in capital goods imports will lead to a decline in investment activity and growth. Second, … import compression can occur in cases where import volumes are determined by import capacity rather than relative prices. And since the two main sources of import capacity are export and foreign savings (and given the meagre export performance of many developing countries), it is clear that the magnitude of debt service will matter greatly for import capacity through its reduction in foreign savings" (Hjertholm *et al.*, 1998: 21-2).

121. Another negative effect of debt on economic performance relates to disincentive to invest. An economy that is heavily indebted is less attractive to investors, as it is likely that any future growth (from any of today's investment) will have to be more highly taxed in order to service and reduce today's debt. In other words, today's debt overhang clouds the profit outlook for today's investment, thus reducing future growth (Borensztein, 1990).

122. Debt can also have a negative effect on investment, as it can lead to macroeconomic instability, which discourages investors. Public debt increases the public deficit directly through debt servicing. But it can also lead to exchange rate appreciation, monetary expansion and inflation, and ultimately rescheduling and defaulting debt (Hjertholm *et al.*, 1998). All these potential instabilities send negative signals to investors.

123. **Dutch disease:** Large aid inflows can put upward pressure on the exchange rate, thus making exports from the affected country more expensive and less competitive. This is the so called to Dutch Disease phenomenon. The extent to which this happens depends on how much of the aid is used to purchase imports. In practice, however, the aggregate effect of aid has been an appreciation of the real exchange rate (van Wijnbergen, 1985; White and Wignaraja,1992). Aid can also be used to finance higher levels of public expenditure than are compatible with monetary stability, thereby causing inflation.

124. While countries which use aid receipts to cover external deficits must be careful of both aid-induced inflation and damaging exchange rate appreciation, Hjertholm *et al.* (1998) argue that this is not a case against giving aid, but more a question of careful aid-inflow management, which keeps the release of foreign exchange in line with the absorptive capacity of the economy. Adam (2001) considers these issues for the case of Uganda. He also reaches cautiously reassuring conclusions about aid volumes, while recommending adjustments in the use of different instruments of macro-management.

4.1.4 Trade

125. By definition, inflows of general budget support register as a worsening of the recipient's current account. However, improvements in the export performance of the budget support countries examined in White and Leavy (1999) meant that the overall current account situation actually improved during periods of large budget support inflows (though it is debatable to what extent budget support actually caused higher exports). Existing studies on the impact of macroeconomic reform on exports have tended to compare 'adjusters' with a control group of 'non-adjusters'. As this simple comparison does not take into account other factors, it has not been possible to show conclusively that macroeconomic reforms lead to increased exports. At the same time, such studies do suggest that this is likely (Kirkpatrick and Weiss, 1995; World Bank, 1994). Case studies also indicate that exports have tended to grow as a result of macroeconomic reform under adjustment (Husain and Faruqee, 1994;Sahn *et al.*, 1994).

126. If reform policies that accompany general budget support do indeed lead to increased trade, then the question becomes whether increases in trade lead to greater economic growth, and whether they lead to the type of economic growth that reduces poverty. There is no shortage of studies on the link between growth and poverty, all of which find a very strong relationship – at least on average (Dollar and Kraay, 2000; Ravallion and Chen, 1997;Collier and Dollar, 2001;Bourguignon, 2000; Hanmer *et al.*, 1999; Hanmer and Naschold, 2000). Dollar and Kraay (2001) associate open trade regimes with faster growth and poverty reduction in poor countries. However, this conclusion has been criticised on methodological grounds (Rodrik, 2001), as the openness measure – the Sachs and Warner index – is a composite measure, and it is not the trade policy part of the index that is correlated with higher growth.

4.1.5 Debt

127. The effect of budget support on the debt stock has been negative. Large volumes of aid have increased the amount of outstanding debt, in all countries, other than those who received large-scale debt relief (White and Leavy, 1999).

4.2 Improving the enabling environment for private effort

128. It is far from clear that the older forms of programme aid helped on balance to improve the environment for private enterprise. ‘Buying policy reform’ through conditionality does not work, and it works least well in areas of institutional improvement that affect business confidence, such as control of public corruption. In any case, private investors make independent judgements about whether the national environment is becoming more ‘enabling’. In fact, conditionality can send negative signals to private investors, as buying policy reforms is not consistent with a government intent on pursuing ‘good’ policies for investment (Collier *et al.*,1997). Thus, it is not surprising that private capital flows did not increase as a result of IFI programmes during that period (Kahler, 1992; Killick, 1995; Mosley *et al.,* 1991 ;Rodrik, 1995).

129. New-style GBS may offer better prospects in so far as it contributes to the short- to medium-term governance outcomes discussed in section 3. These would seem to be the most important ways in which the climate for private effort could be improved as a consequence of this form of aid. In addition, there will be more directly economic effects of the kind that concern us in this section.

130. Whether these effects are on balance negative or positive will depend on the quality of the macroeconomic management and public expenditure policies in the country. If it is accepted that ‘new’ GBS will only be afforded to governments that have sound policies in these respects, it only needs to be shown that public expenditure policies do not invariably cause a ‘crowding out’ of private-sector activity. Two examples can be given.

131. The textbook example of crowding out concerns the financing of public spending by means, such as the sale of Treasury bills, that restricts private firms' access to affordable credit with which to undertake investments. The concern has been expressed recently that the means by which central banks 'sterilise' the aid-funded public expenditure programmes in countries such as Uganda, in order to avoid fuelling inflation, may have this effect. However, this is a matter of whether the balance of monetary and foreign exchange instruments is right at a particular point (Adam, 2001). In principle, GBS inflows could be used to reduce public borrowing and contribute to a lowering of interest rates if this became a significant constraint.

132. As already mentioned in connection with investment effects, moreover, certain types of public investment may have the effect of 'crowding in', rather than crowding out, private investment. This is particularly the case of investments in public infrastructure (Ddumba-Ssentamu *et al.*, 1999; Guhan and Nagaraj, 1995); White, 1999a). Support for public investment in the form of budget support can be particularly helpful when it helps to maintain this kind of development expenditures when overall spending is under acute pressure. Capital budgets are generally the first expenditure items that are cut in times of crisis (Foster *et al.*, 2002).

4.3 Enhancing pro-poor public expenditure

Experiences and issues regarding pro-poor public expenditures and their outcomes have been rehearsed at considerable length in public expenditure reviews, expenditure tracking studies, analyses of household surveys, participatory poverty assessments, service delivery surveys and reviews and studies of SWAps and PRSPs. This literature is both extremely extensive and reasonably accessible. For these reasons, we do not devote further space to it here.

Further additional sources on monitoring and evaluation of programme aid from the donor's point of view:
Al-Samarrai *et al.* (1998); Baird *et al.* (1995); Caputo (1995); de Vylder (1995); European Commission (2000); Setzer and Lindner (2000); van Diesen (1999); CDF Secretariat World Bank (2001).

Further sources on M&E in SWAps:
Balzer and Chiwele (1999); Brands *et al.* (2000); Government of Mozambique and Donors (1999a); Government of Mozambique and Donors (1999b).

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