

Neue Wege in der Entwicklungszusammenarbeit: Budgethilfe als effektiver Beitrag and die Millenniums-Entwicklungsziele?
Nouvelles voies pour la collaboration au développement : L'aide budgétaire – une contribution efficace aux Objectifs du Millénaire ?
New Paths for Development Cooperation: Budget Support as an Efficient Contribution to the Millennium Development Goals?

Will General Budget Support Help the Poor?

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Many thanks for giving me an opportunity to participate in this international symposium on General Budget Support. The fact that you have organized this event is a testimony to the interest currently being attached to this emerging aid modality. This event is in fact one of several being organized in both donor and recipient countries. I have been asked to say something about the Swedish experience with this aid modality and about the lessons coming out of the joint evaluation of General Budget Support that was first presented on May 9-10 in Paris. As we dedicated two days at the May dissemination conference I will clearly only be able to provide you with some highlights, teasers as it were, from this very rich piece of joint evaluative work.

Why evaluate General Budget Support?

Let me illustrate some of the issues at stake.

In an investigative TV show three months ago a Swedish reporter asked some young women in a poor neighbourhood in Kampala, Uganda, if they had received any benefits from Swedish aid. They laughed a little and said well no, they hadn't received anything. Had there been any concrete improvements in their neighbourhood queried the reporter. Same reply here. The reporter repeated these questions in a rural community, same answer – no trace of Swedish monies. I should mention that about a quarter of Swedish bilateral aid to Uganda has been provided as general budget support in recent years. However, at present Swedish GBS is on hold due to concerns about the political situation in Uganda notably the conflict in the northern part of the country.

The TV reporter had chosen a very effective way to drive home a common perception that funds provided as general budget support do not reach those most in need, and may also be diverted to other purposes than intended.

But although we may question whether interviewing poor people on the street is an adequate way to assess the effects of aid the underlying concerns of the journalist are highly relevant. And they are in line with the questions addressed by the recently completed joint evaluation of General Budget Support. The overall question of this joint undertaking was

“When (in what country contexts) is general budget support an efficient and effective and sustainable way to provide funds for poverty reduction?”

The findings of this evaluation have met with great interest in Sweden since the Swedish government in its latest bill of appropriation indicated that program-based aid including general budget support will increase. The government has delegated to Sida to make decisions related to General Budget Support, as well as other program-based aid modalities, within the framework of country strategies that have been approved by the Swedish government. Presently some 5% of total Swedish funds for development cooperation are being used for GBS but in some countries the proportion of Swedish aid disbursed as GBS reaches 60%.

Uganda is one of the partner countries involved in the joint evaluation of GBS which was made public on May 9th (Other case countries that volunteered to participate are Mozambique, Malawi, Rwanda, Burkina Faso, Nicaragua and Vietnam). This evaluation is unique in various ways. For one it is the largest evaluation so far of General Budget Support. Secondly it involved a large number of stakeholders - 24 donors and 7 partner countries participated in the Steering Group. I should also mention that Dfid chaired both the Steering Committee and the Management Group, and took on most of the management chores.

The GBS evaluation is indicative of where I believe that that evaluation in development cooperation is, and should be, heading: joint endeavours addressing issues of common interest to partner countries and donors alike.

Why evaluate GBS now?

The background to this evaluation is to be found in three interrelated factors:

- A global commitment to increase aid on the part of donor countries.
- A common search for more efficient ways of transmitting aid.
- A concern with development results, also expressed as the Global Millennium Development Goals, addressing some dimensions of poverty.

So how can the foreseen increased volumes of aid be provided in a way that will efficiently and effectively contribute to reduce poverty in a sustainable way? We know that more of the same will not do. Fragmentation of aid, high transaction costs, low country ownership and thus poor sustainability and local accountability are but a few of the often cited drawbacks of current aid practices. We often hear how thousands of different donor missions, a variety of reporting obligations are taxing already weak country administrations. The establishment of special implementation units may be a solution for a particular project but has negative overall systemic effects diverting human resources and distorting incentives.

So then how can aid be delivered so as to respect and reinforce the ownership of developing countries for designing and delivering public policies and programs that will have sustainable impact on poverty and growth? Poverty Reduction Strategies (PRS) - and similar national development plans - are often viewed as part of the solution with GBS as a financing mechanism.

What was evaluated?

The evaluation dealt with what is called New Budget Support or Partnership General Budget Support (PGBS). Simply put this denotes a package of inputs. The evaluation explored the hypothesized links from these inputs through to the expected impact on poverty. Roughly the program theory to be tested read as follows:

Donors provide

- Inputs: financial resources, policy-dialogue and conditionalities, support for developing capacity provided in a harmonized way and aligned to partner countries own systems.

That will produce

- Outputs: strengthened public financial management system, pro-poor expenditure according to the poverty reduction strategy.

That will result in the following

- Outcome: better access to and higher quality public services, private sector investments, decreased transaction costs for aid.

With ultimate

- Impact on reduced poverty and economic growth.

What does the GBS evaluation tell us?

The evaluation provides many useful messages both to donors and to partner countries and I will just sample a few out of the synthesis report and the seven country case studies:

The overall conclusion of the GBS evaluation is that Partnership General Budget Support may not be a panacea to problems linked to development aid, but constitutes a relevant response to some of its efficiency problems. It is particularly useful in countries with significant amounts of aid and with a large number of donors. But GBS may be beneficial in other country contexts as well, including in so called fragile states.

The evaluators also conclude that PGBS can be an efficient, effective and sustainable way to support national strategies to combat poverty. However the potential impact on poverty is naturally highly dependent on the quality and content of these national strategies.

We tend to talk about budget support as something fixed in form, content and conditions. In fact the evaluators found many different varieties of budget support: from Uganda the evaluators report that 13 donors manage 24 varieties of GBS. This is leading the evaluators to recommend donors to harmonize their various approaches to GBS – and to increase predictability.

Donors are also recommended to harmonize and simplify when it comes to approaches to capacity development. In addition we are advised to shift more responsibilities to local offices and to improve continuity among our staff to ensure satisfactory knowledge of country context.

The advice given to partner countries is to better define pro-poor expenditure and improve on PRS to include also support for private sector development.

The evaluators found that PGBS was having a positive effect in 5 out of 7 cases studied. In Nicaragua it was too early to say anything. In Malawi GBS was off to a false start, as it were, due to poor macroeconomic policy the effects of which were also aggravated by the suspension of GBS by donors.

Increased discretionary funding through public budget has had positive effects, in generally increasing local capacity for handling and allocating public funds. It is encouraging that these effects are system wide in character.

And then, what is the impact of GBS on the poor?

The evaluation found it to be too early to say anything definite about final impacts on poverty given that the period of study is quite short, just a few years for some of the country case studies. However, positive outcomes have been registered in some quantitative indicators related to access to social services (education, water and sanitation, health services). This is also what could be expected, as most PRS are geared to expanding public social services. Impact on income poverty is harder to prove, the same goes for empowerment for poor people. A well known problem is that additional data are not readily available.

If we go back to the example of Uganda: in 1990's proportion below poverty line fell from 56% to 34%, but increased to 38% in 2003 although with large regional differences, poverty remaining high in the northern region. (Income poverty has decreased also in Mozambique.) Generally access to education and to health services has improved as measured by some quantitative indicators (e. g., classrooms, teacher to student ratios, enrolment). PGBS has made a major and efficient financial contribution to the expansion of service delivery that the poor have been able to access although weak quality is undermining the benefits to be gained from those services. In 2004 in Uganda ODA was 17% of GNI, PGBS was 30% of ODA and constituted 23% of central government expenditure.

Is then GBS a "riskier" form of aid? The evaluation deals with a number of risks often seen as particularly associated with budget support. I will mention a few:

- Fiduciary risks and corruption. The evaluation points out that GBS is unlikely to be more exposed than other aid modalities as these risks are system wide. Risks can be mitigated through improvements in public financial management systems and by actually using these systems!
- The evaluation discusses the political risks involved in general budget support and donors are recommended to improve the way they deal with this given that GBS is supposed to be a long term commitment.
- There are certainly other risks involved in GBS, for example that donors become too much involved in policy making thus undermining the involvement of Parliament and civil society and domestic accountability in partner countries.

The evaluation also alerts us to the fact that transaction costs are still high on the side of donors partly due to harmonization efforts. Costs are also high on the recipient side and are unlikely to decrease unless substantial changes are made, both in relation to GBS and in other aid modalities. The evaluation stresses the complementarity between GBS and

other aid modalities but this does not mean that it is fine with aid-business as usual, when in fact it is not.

The evaluators recognize the dilemma posed by GBS which was illustrated by the Swedish TV-show. Donors have to find ways to account for and to present the achievements of funds provided as GBS and other program-based approaches to their various domestic constituencies.

Finally and in summary: PGBS is certainly not a panacea but some positive effects have been noted, and I think it is fair to say that the evaluation provides encouragement to continue developing and streamlining this aid modality to particular country circumstances. Maybe one of the most important messages coming out of the evaluation is that ultimately GBS has to build on long term mutual commitments, accountability and TRUST.

As already mentioned, the evaluation reports contain a lot of useful material and I would strongly encourage you to actually use them. All the reports from the GBS evaluation are available through the following website: www.oecd.org/dac/evaluationnetwork/derec

Thank you.