

# What Conditions Favor the Success of General Budget Support? *Mozambique Country Case Study*

## Introduction

**D**ONORS CAN PROVIDE AID through projects or program (nonproject) assistance. General Budget Support (GBS) is a type of program aid that may offer new benefits to donors and developing countries. A government uses GBS donor money to fund its own development programs.

Donors usually fund development projects, but they can also provide nonproject or program aid (food aid, balance of payments support, commodity import programs, sector assistance, budget support, and debt relief).

This evaluation brief examines the benefits and drawbacks of GBS and the country conditions that can make it succeed.

Under GBS, conditionality focuses on improving public financial management and the effectiveness of the overall budget process. GBS donors usually pool their financial assistance and provide it to a developing country government, which spends the money using its own allocation, procurement, and accounting systems. Funds are normally not earmarked and have no formal limitations on where they may be spent. With a pooled basket of funds, a number of small donors can join together to have a much greater policy reform impact than they could individually. Alternatively, GBS could be used by a donor to sharply accelerate development by giving a country a large aid inflow.

GBS donors assume that with a change in the process of delivering aid—moving from projects to GBS—developing country governments will do a better job of reducing poverty. The claim is that the real benefit of GBS is improved government efficiency and ownership, because it will

## KEY IDEAS

- The benefits claimed for General Budget Support (GBS) are improved recipient-government efficiency, effectiveness, and ownership of development activities. GBS works best in countries where there is a stable, progressive, and accountable government; a recent history of strong economic growth; and a history of good working relations with donors.
- Development is not advanced by providing GBS to a government that lacks skilled staff to run effective projects, has ineffective institutions and an inadequate financial management system, or suffers from high levels of corruption.
- To increase the likelihood of success, USAID and other donors could consider helping developing countries build their technical, financial, and management capacity. This will allow governments to manage their own development programs, account for GBS funds, and evaluate the outcomes of development activities.



- improve coordination among donors and harmonize and align aid with the government’s budget and policy system
- use policy dialogue to reform overall government policies and budget priorities rather than narrowly concentrating on individual projects or sectors
- increase efficiency in public spending as the government directs its own budget allocations instead of dealing with a large number of donor projects, which often reflect donor (rather than developing country) priorities
- empower the government to do a better job of public administration
- make the government accountable to its own people and not just to donors
- reduce costs for donors because they do not have to manage a large number of projects

Donors that support the GBS approach would like to see other donors join them in a shift from donor-managed projects to country-led development. Such donors note that if development is to be successful and self-sustaining, the developing country must “own” the process. They say that donors should first reach agreement with the government on development policies and budget priorities. Then donors should provide aid funds to the government as GBS, and the government should run its own development programs. But donors disagree on how to determine whether a government is capable of effectively managing donor funds and, therefore, how rapidly to shift from project to budget support. USAID does not currently provide GBS to Mozambique.

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This summary of a case study of Mozambique is not an assessment of the success or failure of the Mozambique program. Rather, it is part of an effort to identify country conditions that make GBS most effective. It analyzes how budget support has been used in Mozambique, examines the benefits and drawbacks, identifies country conditions needed for a successful program, and suggests approaches USAID should consider in other countries. The full analysis is contained in *General Budget Support: Mozambique Country Case Study*.<sup>1</sup>

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*GBS empowers the government to do a better job of public administration.*

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## The Case for GBS

Some donors argue that GBS provides a unique way to create country ownership. GBS donors such as DFID say that when a donor runs an aid program, it belongs to the donor—not the recipient—and that may explain why many donor projects fail. The argument is that GBS is more consistent with the concept of building strong host-country ownership, and thus it stands a greater chance of supporting sustainable development. Donors, the host government, and other country actors work together to agree on program and budget priorities. Donors then provide GBS to the finance ministry. Donor funds are not tied to any sector or project; rather, they support the overall development budget.

The assumption is that with a change in the way aid is delivered (switching from projects to budget support), governments will do a better job reducing poverty. Since the government is responsible for the program, it will identify the most critical development problems and make sure they are solved. Another assumption is that the developing country has the desire and ability to implement successful development programs. The main benefits of GBS

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<sup>1</sup>Joseph Lieberman, Diane Ray, and Maxine Lunn, *General Budget Support: Mozambique Country Case Study* (Washington, D.C.: USAID). PN-ACW-878 <[http://www.dec.org/pdf\\_docs/PNACW878.pdf](http://www.dec.org/pdf_docs/PNACW878.pdf)>

are increased government efficiency, effectiveness, and ownership.

## Problems of GBS

**G**BS makes sense in countries that can effectively plan, design, and manage development programs. But low-income developing countries, by their very nature, have weak institutions and inadequate management and technical skills. Corruption and misappropriation of funds can also be a problem.

Transparency International corruption ratings on Mozambique have raised serious doubts among donors about making large cash transfers. Donors are also concerned about large losses by the state banking system due to insider manipulation. If a large sum of cash is given to a government that lacks the institutional framework to manage and account for it, the cash is likely to disappear. Even if it is not stolen, without adequate financial systems and effective financial management, it may not be spent on the agreed-upon programs. Development is not helped by giving money to a government that cannot run effective projects. In addition, some aspects of development, such as a strong civil society and increased private sector growth, cannot be managed through the central government. In such cases, donor- or NGO-managed projects or sector assistance would be more appropriate than GBS.

## Country Conditions That Make GBS Effective

**T**he Mozambique evaluation examined 10 country conditions that donors and others have identified as necessary for a successful GBS program. Understanding the conditions in Mozambique may lead to a better understanding of how such conditions might affect GBS programs in other countries. For each condition listed below, the GBS assumption is stated. This is followed by



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Mozambicans line up at the polls to choose their government. The Government of Mozambique now receives about half its budget from aid; much of that assistance is in the form of General Budget Support.

the findings from Mozambique and the lessons or issues donors need to consider for GBS programs in other countries.

### 1. Country Ownership

**Assumption:** When a donor runs its own projects, it may not do what the government would do if it were in charge. Projects that lack government support tend to be unsustainable.

**Findings from Mozambique:** Mozambique, like most developing countries, has a poverty reduction plan—the PARPA—which is supported by donor assistance. But in Mozambique there is a difference: donors and government work closely together on policies and technical issues. They are developing financial systems to help assure sound use of donor funds and techniques to assess performance. In addition to donor-government dialogue, a development dialogue within the government is just starting. Ministries now must demonstrate to the Ministry of Finance how they will use donor funds. Because the government is fully involved and

responsible for policy and budget decisions, it is gaining program ownership. Donors are satisfied with the government's policy management, and almost all donors are providing GBS.

**Lessons and issues:** Development succeeds only when the government is a committed and active leader of the policy and budget process. If that is the case, GBS may improve the development process.

## 2. Donor and Government Policy Dialogue

**Assumption:** Policy and program discussions are the heart of the GBS process.

**Findings from Mozambique:** Donors and the Government of Mozambique have a rolling policy dialogue that is usually completed well before the budget year starts. Since policy, program, and budget priorities are identified in advance, there is no need satisfy “conditions precedent” or meet conditionality tests before donor funds are disbursed. The donors and government sign a joint GBS agreement, and individual donors sign side agreements. While there were some initial problems (see “Disbursement predictability” below), the policy dialogue process is working.

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*It is risky to provide GBS funds when government capacity is lacking. Skilled personnel must be in place to plan and implement a development program. Otherwise, GBS will fail.*

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**Lessons and issues:** Donor conditionality cannot force changes—needed changes must be in place before GBS aid is provided.

## 3. Government Technical and Management Capability

**Assumption:** GBS donors recognize that as the government takes full control of the development process, management mistakes will be made. But donors assume that over time the government will learn by trial and error to improve its performance.

**Findings from Mozambique:** Donors are very satisfied with the Government of Mozambique's planning process. But they are uneasy with its technical and management capabilities. Each donor has a different level of comfort, which influences how much funding goes to GBS and how much goes to sector support or projects. While the Netherlands and United Kingdom are moving toward 50 percent GBS, others are holding back until government performance improves. Donors need to continue providing technical assistance and training to improve government capacity.

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## 4. Serious, Sound, Multiyear Government Planning

**Assumption:** The government needs to define its objectives, how they will be achieved, and work with donors on the role for GBS.

**Findings from Mozambique:** Donors give Mozambique high marks for its Vision 2025 long-range plan and its medium-term poverty reduction plan (the PARPA). The plans identify key factors holding the economy back, the causes of poverty, and an effective poverty reduction approach. While donors were closely involved in developing the plans, Parliament played only a minor role. NGOs, civil society, the opposition political party, the private sector, and the public also had little input. This centralized approach means the government

may have missed ideas and a chance to build broader support from important elements of society and from the provinces.

**Lessons and issues:** The government must have a well-designed, analytically sound plan and an appropriate policy framework to promote equitable growth. The plan needs to identify which services the government can realistically provide and those that can be delivered more effectively by the private sector or NGOs.

## 5. Longer Term Planning Is Reflected in Actual Expenditures

**Assumption:** GBS donors assume that a development plan in place means that priorities will be implemented in annual budget expenditures.

**Findings from Mozambique:** Mozambique has a well-designed development plan (PARPA) and medium-term expenditure framework. But a plan is only as good as the results it generates. All too often, technical ministry budgets are merely a “plus-up” over the previous year—not directly related to PARPA objectives or the medium-term expenditure framework. When a ministry makes expenditures, they often differ from those budgeted. Donors are concerned about the lack of a strong linkage between plans, budgets, and expenditures, and they are pressing the government to improve program and budget discipline.

**Lessons and issues:** Medium-term plans and annual technical ministry expenditures should reflect longer-term plans. Otherwise, GBS will not have the hoped-for impact.

## 6. Accountability

**Assumption:** Reliable records and audit results must be available to donors and the public.

**Findings from Mozambique:** In Mozambique, audit and accounting are very weak. Because finan-

cial discipline and sound budget execution are lacking, many donors are reluctant to increase the share of their aid that goes through GBS. To maintain credibility with the donors and its own citizens, the government must improve financial management. This becomes doubly important as Mozambique decentralizes more of the development program to the provinces. Aid funds are fungible: a government needs to provide donors with assurances that their funds are used for what was intended and not, for example, strengthening the military or building new soccer stadiums. Donors are pressing the government to match budgets to plans, install sound accounting systems, and adopt fiduciary risk assessments to identify problem areas and recommend solutions.

**Lessons and issues:** Financial and accounting systems must ensure that funds are spent effectively. GBS cash transfers are at high risk in such an environment and may not be effective. Donors may want to avoid such situations.

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## 7. Results

**Assumption:** GBS donors assume that GBS is the most effective way to reduce poverty and improve welfare.

**Findings from Mozambique:** Mozambique is developing a Performance Assessment Framework (PAF) to measure results. The PAF includes performance indicators and expected outcomes for each development sector over a five-year period and poverty reduction targets. The PAF also includes results needed to achieve the Millennium Development Goals. While some sector PAFs are sketchy, most provide a thorough listing of expected results. Some targets seem overly ambitious, but

on balance it is a good results measurement system. At some point it would be useful to include evaluations to better assess program impact. Evaluations let you know what worked well, why, and who benefited.

**Lessons and issues:** The linkage between GBS and poverty reduction is weak and needs to be demonstrated. GBS impact needs to be measured; that requires sound performance monitoring and measurement of national economic and social changes.

## 8. Disbursement Predictability

**Assumption:** Project aid tends to be irregular. Donors decide when they will approve projects and when disbursements will take place. In contrast, GBS funds should be provided in regular disbursements each year, every year.

**Findings from Mozambique:** In the first quarter of 2003, donor GBS funds were delayed due to donor policy concerns and the failure of the government to provide needed data and certifications. Government development programs ground to a halt. Since donors provide 50 percent of Mozambique's budget, both donors and government recognize that they must avoid such crises in the future. Major GBS donors have decided that in the future, if problems do develop, they will not stop their aid flows. The donors will keep their program going and rectify the problems when negotiating the next year's program. But giving the money without policy action removes donor policy leverage.

**Lessons and issues:** If the government is to implement well-ordered programs, donors need to provide their promised GBS financing on time. By the same token, the government must meet its financial and policy commitments.

## 9. Corruption Reduced

**Assumption:** The scrutiny by parliament, the press, and civil society of the government's management of GBS funds may reduce corruption.

**Findings from Mozambique:** In Mozambique, the press, parliament, and civil society are no match for the government—they have a difficult time improving accountability or reducing corruption. High-level banking corruption by political and business insiders, together with uncollectible loans to state-run enterprises and bank mismanagement, has cost Mozambique at least \$200 million. Corruption has severely hampered the financial sector. Petty corruption is also pervasive. A person often has to pay a small bribe to see a nurse at a free government health clinic or get a prescription. School officials, police, and other government workers may also demand a “gift.” Petty corruption is a capricious and regressive tax on the poor. The bigger danger, based on experience in other countries, is that such corruption starts small but tends to increase until it creates serious economic distortion and destroys respect for the government. Workers are viewed as independent predatory agents rather than government service providers.

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**Lessons and issues:** When government officials take advantage of the system for personal gain, it is difficult for donors to justify aid. Both high-level and petty corruption must be sharply reduced. GBS cash transfers are at high risk in such an environment and may not be effective. Donors may want to avoid such situations.

## 10. Competitiveness

**Assumption:** Once the government has successfully put in place macroeconomic reforms, it should work on microeconomic reforms.

**Findings from Mozambique:** Mozambique has an

extensive system of labor, company, and trade procedures and regulations. For example, the World Bank's report, *Doing Business in 2004*, has data on Mozambique for 2003. It shows that entrepreneurs have to go through 15 steps over 153 days to start a business. The regional average is 11 steps and 73 days. Instead of trying to regulate markets, the government should be cutting red tape and controls and reducing the discretionary authority of the regulators. The present system encourages corruption and reduces incentives to invest and export. GBS may not be the way to solve these problems. In Mozambique it is difficult to get all 14 GBS donors to agree on reforms, and some donors are reluctant to oppose government regulations. GBS also strengthens the hand of the central government—the opposite of what is needed in this case.

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**Lessons and issues:** Donors might better deal with these issues through their own bilateral programs, using technical assistance and policy reform cash transfers and direct dialogue with business.

## Approaches and Actions USAID Should Consider

The previous section listed the conditions necessary for a successful GBS program. It then analyzed the experience in Mozambique and concluded with lessons learned. The full analysis of those issues is contained in the more detailed companion report: *General Budget Support: Mozambique Country Case Study*.<sup>2</sup> This section uses the analysis from that report and the previous section of this paper to develop specific recommendations for USAID to consider in other countries when GBS is being considered:

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<sup>2</sup> Ibid.



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Young women prepare maize flour.

- *Get a seat at the policy table.* If a large number of donors are participating in GBS and are having serious policy negotiations with the government, USAID should consider a minimal GBS program so that the United States is a full partner in the donor-government policy and budget dialogue.
- *Make sure that private sector development is included in development plans.* Other donors tend to focus too heavily on government as the solution to all development problems. USAID may need to take the lead to encourage efforts that will support private sector-led development.
- *Undertake fiduciary risk assessments to identify problems in government budget procedures.* If GBS is to be effective, donors need to assess budget execution, audit, financial transfers, and financial payments.
- *Avoid undermining decentralization efforts.* GBS strengthens the central government at the

expense of the provinces, and the finance and planning ministry at the expense of technical ministries and provinces. GBS should not harm important technical programs or poorer regions of the country.

- *Coordinate efforts with other donors* to harmonize policy reforms and aid procedures.
- *Only provide GBS assistance when there is confidence in the integrity and effectiveness of government procurement.* GBS relies on government procurement, which can have high losses and leakages. Consider technical assistance to improve procedures. If the government has a sound system, use host-country contracting and a USAID supervisory consultant to assess performance.
- *Work to improve government regulations, courts, alternative dispute resolution, and civil and commercial law.* Rule of law is important and enforcement of contracts is key.
- *Beware of macroeconomic problems.* When donors provide large foreign exchange inflows from GBS, interest rates and local currency values may rise, which discourages exports and investment.
- *Build economic and financial skills.* To address weaknesses in government systems, provide policy advice and technical assistance. USAID and the government may both need to acquire more economic and public finance expertise as they move from projects to sector assistance or GBS.
- *Measure program impact.* Encourage sample surveys to assess economic and social change and evaluations to assess impact and benefits.
- *Take a flexible approach.* Policies, institutions, and budget reforms are as important as projects and service delivery. USAID should discuss with Congress the need for flexibility. For example, health and HIV/AIDS activities make up roughly half of most USAID country programs, and health activities are limited only to projects—not sector or budget support.

This Evaluation Brief summarizes *General Budget Support: An Alternative Assistance Approach—Mozambique Country Case Study* (PN-ACW-878), by Joseph Lieberman, Diane Ray, and Maxine Lunn. This brief and other relevant documents can be ordered from USAID's Development Experience Clearinghouse (DEC). To order or download, go to [www.dec.org](http://www.dec.org) and enter the document identification number—PN-ACU-999—in the search box. The DEC may also be reached at 8403 Colesville Road, Suite 210, Silver Spring, MD 20910; telephone 301-562-0641; fax 301-588-7787; email [docorder@dec.cdie.org](mailto:docorder@dec.cdie.org).

Editorial, design, and production assistance was provided by IBI—International Business Initiatives, Arlington, VA, under contract no. HFM-C-00-01-00143-00. For more information, contact IBI's Publications and Graphics Support Project at 703-525-2277 or [mail@ibi-usa.com](mailto:mail@ibi-usa.com).