



2004 USAID Summer Seminar Series

July 27: General Budget Support: A New Approach from Other Donors

Organizer: Joseph Lieberman, PPC/DEI.

Materials: Presentation appended

Synopsis

Most USAID assistance goes through projects. But over a dozen bilateral and multilateral donors are shifting their country programs away from projects toward General Budget Support. They are urging other donors to move away from projects. What is GBS and why is it becoming so popular?

Under GBS, rather than doing projects, donors provide cash transfers to the government which spends GBS funds on its own development programs. GBS donors claim that if a donor runs an aid project, it is the donor's and that explains why so many donor projects are not sustained. General budget support, they argue, builds strong host-country ownership and thus it stands a greater chance of supporting sustainable development.

A panel (Joe Lieberman, PPC Evaluation Office, Diane Ray, PPC Development Information Service, Brian Frantz, AFR/DP/POSE) will use USAID evaluations of other donor General Budget Support programs in Mozambique, Malawi and Tanzania to assess the pros and cons of GBS. The presentation will be of interest to USAID staff, PVOs and contractors who are managing or implementing projects and need to be aware of program changes in the donor community.

Notes

General Budget Support (GBS) is an increasingly used and lauded development approach. It is used by most bilateral and multilateral donors. USAID is in the process of evaluating GBS, as it is a relatively new and interesting approach, but it comes with high-risks. USAID uses project aid which allows it to control and make sure development succeeds, but projects may not building a sustainable framework. USAID has not yet implemented any GBS programs and, according to Joe Lieberman, has seemed somewhat opposed to the idea.

The purpose of this fifth seminar of USAID's Summer Seminar Series was to discuss the results of three evaluation case studies, including two different evaluation approaches and three countries (Mozambique, Malawi, and Tanzania), in order to explore when general budget support is the most appropriate way to support development. Joe Lieberman, Senior Economist in the PPC Evaluation Office introduced the panelists and the topic and presented his findings in Mozambique. Diane Ray Deputy Research Manager/Senior Research Analyst, Development Information Services Project, discussed the lessons learned from GBS in Malawi. Brian Frantz, Division of Policy, Outreach, Strategy and Evaluation (POSE) Office of Development Planning Africa Bureau, presented his findings from GBS in Tanzania. Mozambique and Tanzania have had some success with GBS; however, Malawi has not.

Lieberman mentioned two ways of assessing GBS. First, for the Mozambique and Malawi evaluation studies researchers asked, what minimum country conditions are necessary before donors can consider GBS? Second, for the Tanzania study, has GBS led to the successes claimed for it and are country capabilities improving?

General Budget Support

Donors usually fund development projects and manage project implementation, using NGOs or contractors. In contrast, under GBS, donors provide the receiving government with aid funds to support their budget. Donor funds are not earmarked for specific purposes. Therefore, the government is able to spend GBS funds on its own development programs, activating and nurturing its allocation, procurement, and accounting systems. The underlying philosophy of GBS is to encourage government ownership of the development process by promoting the development and sustainability of state institutions, including government planning, management and the effectiveness of the overall budget process.

Arguments in Favor of GBS

GBS is thought to be more sustainable than project aid because with project aid, once the project ends, benefits are often not

sustained. It is also argued that, by moving from donor projects to GBS, developing country governments will be more successful at reducing poverty because they can better identify the most critical problems.

GBS is less costly for donors since they do not have to manage projects and is less costly for the LDC, since it does not have to deal with 20 or so different donors, each with its own reporting and financial requirements. (This is an assumption, or a hope, of GBS but it has not been proven because it is too early to tell.) It is important to determine what country conditions are needed for GBS to be successful.

Mozambique

Lieberson outlined the issues and lessons learned from Mozambique. On the first—planning—donors gave Mozambique high marks given its well-defined poverty reduction strategy. Second, Lieberson emphasized that the government must own the development process, not the donor. Mozambique was an example of success with development ownership as the government is a committed and active leader of the policy and budget process.

Third, while Mozambique's planning capabilities are good, its technical, financial, and management capabilities are weak. Consequently, donors are only prepared to allocate 20 to 30 percent of their funds in Mozambique in the form of GBS. The rest is still in project or sector assistance.

The fourth question dealt with implementation of the development plan. Mozambique has a well-designed development plan and medium-term expenditure framework; however, Mozambique's annual budgets are not directly related to policy planning objectives.

The fifth question related to accountability. A country needs credibility with donors and its own citizens. Accounting records and audits are weak to non-existent in Mozambique, and financial discipline and sound budget execution are lacking. Finally, to assure that GBS is the most effective way to reduce poverty, the country must measure development performance. In this case, Mozambique was far ahead of other countries; they had a Performance Assessment Framework.

Lessons Learned

- 1) Mozambique's excellent planning demonstrated that a government must have a well-designed, analytically sound plan and an appropriate policy framework to promote equitable growth. It also needs to identify which services the government can realistically provide and those that can be delivered more effectively by the private sector or NGOs.
- 2) GBS in Mozambique provides some important lessons with respect to government ownership. For example, in some LDCs, the government is almost too willing to allow donors in to its country and does not care if it has a say in the program. Under this scenario, the donor is in charge of development, not the country. According to Lieberson, this is not a winning development model.
- 3) With respect to technical, financial, and management capabilities there were serious problems in Mozambique.
- 4) Because the donor is providing cash, a government's financial and accounting systems must ensure that funds are spent effectively. Donors need to undertake fiduciary risk assessments to identify problems.
- 5) The donor not only needs to ensure that the funds are spent effectively; they must be able to establish the link between GBS and poverty reduction to ensure that the money is achieving results.

Corruption pervades every aspect of society in Mozambique. For example, \$200 to \$400 million disappeared and ruined the financial system. It is difficult to proceed with GBS when a government lacks the will to control corruption.

GBS may not be the best way to deal with microeconomic and private sector problems in a country that supports state-ownership and protectionism, like Mozambique.

Proponents of GBS complain that project funds are distributed sporadically, while GBS gives countries a greater ability to plan and sustain development efforts.

Malawi

In March of 2004, Diane Ray, Joe Lieberson and Brian Frantz conducted a field evaluation in Malawi in which they spoke with government officials, bi-lateral and multi-lateral donors, civil society organizations, and NGOs. Her presentation had three parts: 1) macroeconomic and sector reforms; 2) budget discipline and sound financial systems 3) government management and ownership of the development process.

Ray painted a picture of the current situation in Malawi. There are currently four donors in Malawi committed to giving GBS: The European Commission, Norway, Sweden, and the United Kingdom. However, over the past two years there have been almost no GBS disbursements.

Ray mentioned several concerns regarding Malawi's macroeconomic and sector policy reforms. First, Malawi has a sound poverty reduction plan but is making little progress due to a lack of political will. The second problem is that monetary and fiscal policies are out of control. Staying on track with the performance targets of the IMF Poverty Reduction and Growth Facility is a condition for donors to allocate GBS. When donors suspend their aid Malawi borrows more money. This keeps Malawi in a vicious cycle of domestic debt accumulation and further deviation from IMF standards. Third, Malawi's budget does not mirror the goals set out in their poverty reduction plan.

On the other side, concerning Malawi's budget and financial systems, expenditures are not matching the budget. However, Malawi is trying to implement an Integrated Financial Management System. Ray pointed out that reforms are needed in financial service, delivery and accountability. In addition, efforts are needed to encourage parliament, civil society, and the media to play a stronger oversight role in the Government. NGOs are working to improve this problem.

With respect to Malawi's government management and ownership of the development process, the high-level officials are well trained, however, hard to retain. In addition to the retention problem, is the lack of skilled low- to mid-level employees in government. The prevalence of HIV/AIDS compounds the former two issues. Pervasive corruption is another obstacle to donor justification of GBS. In Malawi, corruption is mainly found at the highest levels of government but is rapidly growing, what some call, "the democratization of corruption" as it spreads to more and more people. That's not very good trend.

Ray concluded that where there are skilled personnel and low levels of corruption, ownership of the development process should be encouraged.

Tanzania

Brian Frantz prepared a paper for the Tanzanian Mission as part of their new Country Strategic Plan. This evaluation was part of a different project than Ray and Lieberman's.

Frantz drew attention to the European-led philosophy underlying GBS, which claims that GBS provides the necessary support for a country to get to 'minimum-level standards' and improves accountability. This is in contrast to the American-led view, which believes countries should have 'minimum-level standards' before they can benefit from GBS.

This former approach assumes that it is either not possible or not important to specify minimum standards of capacity and accountability. Instead, it sees "commitment" to development progress as the key variable for making a judgment about using GBS rather than, e.g., whether a certain type of financial system is in place or how many years of education civil servants have. According to the European-led philosophy, the development community should be seeking higher rather than minimum standards.

Tanzania has become a model of donor-government partnership. As relationships have improved, the amount of GBS has risen. A strong policy dialogue between donors and the government has accompanied the increased use of GBS, and there is a partnership framework memorandum with the following objectives:

1. Minimize transaction costs
2. Harmonize performance benchmarks and dialogue between the parties
3. Lead funding commitments by the donors to achieve minimum set targets.
4. Increase the predictability of donor flows to the government.

The Performance Assessment Framework (PAF) includes a list of policy actions and outcome indicators that have become a standardized framework. Donors use the outcome indicators in the framework to provide some level of specificity and predictability for the Government.

Frantz mentioned a series of reforms that are currently being undertaken in Tanzania, including local government reform programs and the public financial management reform program, which includes an Integrated Financial Management System (as in Malawi). The Ministry of Finance is strained because it handles Government relations with donors and has de facto responsibility for the aforementioned reforms. GBS reinforces a certain discipline in the financial process because it does not allow line ministries to obtain resources outside of the government budget process.

With respect to the allocation of GBS to PRS priority sectors, expenditures have increased due to an overall increase in GBS. As far as sectoral allocations being appropriately divided between central and local levels, there are mixed impressions in Tanzania. Most people thought that too much was spent in the capital, but recent studies have shown that Tanzania is doing a reasonable job of decentralizing its finances.

There is a pro-urban, pro-wealthy bias regarding the equal division of resources among districts; however, the Government is changing the allocation formula. Public Expenditure Tracking Surveys have shown that less than 50 percent of the funds allocated to the local levels from the Ministry of Finance are actually getting there. However, recently the Ministry of Finance has decreed that the government must publish regularly fund amounts and allocations. Concerning the proper allocation of funds, funds are generally being spent on things that promote the capacity of service delivery but not yet on service delivery itself.

Corruption is a big problem in Tanzania. The existence of capacity constraints makes corruption easier but, according to the European view, GBS helps on the capacity front by better utilizing the Government's existing capacity. Proponents of unconditional GBS argue that using the whole financial management system allows the donor to see where the leakages are, while the Policy Dialogue allows them to the space to deal with the government on the leakage problems. (Frantz did not find it obvious that capacity constraints and corruption are better addressed through project support.

Frantz worried that GBS would not likely strengthen democracy due to patronage networks. The predictability of GBS disbursements is pretty good because donors have been able to respond to lagging performance with reductions in GBS in the following fiscal year. Finally, transaction costs of aid do not seem to have fallen with GBS.

Frantz ended his discussion two important conclusions. First, positive results from GBS are not automatic, and second, non-GBS complementary investments will be needed for GBS to deliver on the impact side. For the full power-point presentation, or copies of the evaluation results please visit www.usaid.gov; enter key word: Summer Seminars.

Question and Answer Session

We do have some budget support experience within USAID, particularly under economic support funds for strategic states such as Pakistan. Do you think the questions here are extrapolatable to the MCA countries and should countries with the same kinds of problems take a look at this sample set?

If the issue is anti-terrorism or U.S. political interests than Economic Support Funds make sense. However, the prime interest in such cases is not development. It is hard to press for development policy reforms in such a situation. We were interested in development and therefore we examined development cases in Africa, where GBS was used by the European countries strictly for development reasons. MCA was interested in providing cash transfers to support development in poor countries. They were interested in the experience with GBS.

In the case of Tanzania, the Mission requested the evaluation to inform their strategy. GBS is fast becoming a trend in Africa due to capacity constraints and other obstacles. GBS, according to the Europeans, helps improve standards. GBS is thought to be more effective in dealing with these problems because budget support uses the whole financial management system. There is less red tape, for example, the Government having to report on individual donor projects.

How do regard the utility of GBS in post-conflict countries?

It doesn't seem to fit very well at all. In a post-conflict situation donors are trying to help a country recover from a severe economic disaster. The objective is to get them back up to where they were before. It's not a development situation. Once they have recovered then development can proceed. At that point GBS might make sense. Not before.

Regarding conditionality—how are your parameters not conditions for receiving GBS?

Under GBS, when a government is following policies that make sense, and it's on the right track, then there is no need for donor enforced conditionality. GBS donors provide money to implement the policies.

Regarding "Education for All"—is the emphasis on GBS affecting the climate of interventions? How is this affecting the efficacy of the resources?

Donors focus on public expenditure, rather than growth policy questions (be it micro or macro). Most of the time, the policy dialogue includes the Ministry of Finance and donor economists, an ideal group to address growth policy issues. Yes, this is a problem, but the "right" group is meeting. A performance assessment framework, for example, could be structured to better address these issues.

You haven't touched upon the results the government is claiming, i.e. benefits to students. Have the results improved over the previous system?

In Tanzania, net enrollment rates increased. But, we don't know for sure whether it's GBS. We ask, "Would the same amount of funds in the form of projects give the same results that GBS would?"

There are few results that can directly link GBS to improvements in development. It may be because GBS is new and it will be several years before it will be possible to see measurable results.

A key theme that you mentioned was capacity or capacity building. Which was the causality? Is there any evidence that GBS solves the resource constraint by improving sustainability and retention over time versus providing technical assistance?

There is much concern over causality; it varies by donor. For example, the Norwegians believed that giving GBS would help a country get on track with the IMF. However, donors think that being on track with the IMF should be a condition of receiving GBS. It raises an important question: Do you give a country the money with conditions or without conditions? In terms of capacity building, there is a need for civil service reform—increased salaries; firing people who are not good and retaining those who are – but do you make this a condition of receiving GBS?

Salaries in Mozambique aren't skyrocketing. There are civil service problems with phantom employees and poor employee performance.

Regarding project assistance and conditionality—if we give GBS, how can we be sure that things, like healthcare will be adequately provided for? For example, we gave money to health basket hoping that some would be used for contraceptives—it was spent on something else. Later, we found the government begging for contraceptives.
It's the basket principle—a donor provides flexible assistance and allows donors to have a role in policy making. But I didn't mean to suggest that donors either provide project or budget support. I tried to argue that a mix is needed.

How do we take a better look at the counterfactual? In Africa, institutional capacity isn't that great—we stumble on sustainability issue. We need to look at whole picture. Is there any plan to discuss those issues?
There are other countries coming up for study—Nicaragua and East Timor. Most donors are doing a mix of support. I think those papers will cover your point better. Such as the up-coming East Timor and Nicaragua papers. In addition the Malawi evaluation paper covers other forms of non-project assistance.

The Europeans hypothesize that GBS will result in the capacity changes that we would like to see. It does provide donors with a larger voice in policy-making. My impression is that AID has sometimes been cut out of a lot of the policy dialogue because we do not contribute to baskets. The question then is whether the policy dialogue is useful?

We need to get the question right. How do we find out if these methods are working? Policies and institutions matter most.

It's difficult for NGOs to find funding because governments are giving it in the form of GBS. Do you feel like the macro outcomes from GBS are good, and enough to justify funds from Congress?

The GBS donors are supporting government programs and that often cuts NGOs out of the development business. In Mozambique we talked to NGOs that were working with the government. The government would hire them to do the tasks that the government was unable to perform. But you have pointed out a real problem. GBS favors the government over NGOs. In many cases the NGOs might be better able to provide services---but they will lose out to the government.

Isn't the U.S. government providing much assistance through the NGO community? In fragile states, the U.S. puts lots of money into Pakistan, providing money through ministries to promote their overall development. How do you see that?

The question is focus. The motivation on the U.S. side is different in a country like Pakistan. While we hope our assistance will reduce poverty and improve development, it is often hard to push those objectives if the U.S. interest is anti-terrorism. GBS, doesn't seem to fit well in such a situation where U.S. defense and political interests would outweigh USAID interests in, for example, increasing enrollment of girls in public schools.

Welcome to **Session 5!**



General Budget Support: A New Approach from Other Donors?

**Speakers: Joe Lieberman, Diane Ray,
and Brian Frantz**
Tuesday, July 27, 2004



General Budget Support: A New Approach from Other Donors?

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Session Organizer: Joe Lieberman, PPC, USAID

Speakers:

- **Joe Leiberson, PPC, USAID**
- **Diane Ray, Development Information Services, USAID**
- **Brian Frantz, AFR, USAID**

- ✓ **Questions and Discussion**
- ✓ **Closing**
- ✓ **Fill out your evaluations!!**



When is General Budget Support the Most Appropriate Way to Support Development?

MOZAMBIQUE, MALAWI, TANZANIA
COUNTRY CASE STUDIES

SUMMER SEMINAR

July 27, 2004

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WHAT IS GENERAL BUDGET SUPPORT (GBS)?

- Donors usually fund development projects and manage project implementation.
- Under General Budget Support (GBS), rather than doing projects, donors provide aid funds to support the government's budget. Donor funds are not earmarked for specific purposes.
- The government spends GBS funds on its own development programs using its own allocation, procurement, and accounting systems.
- Under GBS, conditionality focuses on improving government planning, management and the effectiveness of the overall budget process.



ARGUMENTS IN FAVOR OF GBS

- If a donor runs an aid program, it belongs to the donor and that may explain why so many donor projects are not sustained.
- By moving from donor projects to GBS, LDC governments will do a better job of reducing poverty.
- If an LDC government is responsible for the program it will identify the most critical problems and make sure they are solved.
- GBS is less costly for donors since they don't have to manage projects and less costly for the LDC since it doesn't have to deal with 20 different donors, each with its own reporting and financial requirements.



GENERAL BUDGET SUPPORT (GBS) IS BEING HAILED AS A GOOD WAY TO DELIVER DEVELOPMENT ASSISTANCE

- **GBS has its strengths and weaknesses. Success depends on individual country conditions and how they fit with the benefits and drawbacks of GBS.**
- **The key is to determine which country conditions are needed for GBS to be successful.**



The GBS Field Studies

- Today we'll look at three countries where we have completed evaluations: Malawi, where GBS has not been successful; and Mozambique and Tanzania which have had some success.
- There are two alternative ways of assessing GBS:
 - **What minimum country conditions are necessary before donors can consider GBS? That was the approach for the Mozambique and Malawi Studies.**
 - **Has GBS led to the successes claimed for it and are country capabilities improving? That was the approach for the Tanzania Study.**



IN OCTOBER 2003 USAID DID FIELD ANALYSIS OF GBS IN MOZAMBIQUE

- Mozambique has had success with General Budget Support and some problems.
- The following slides look at the country conditions necessary for GBS successes.
- They state the issues, then the findings and finally the lessons from Mozambique and what they mean for other country programs.



SERIOUS and SOUND MULTIYEAR GOVERNMENT PLANNING

- Donors give Mozambique high marks for its Vision 2025 long-range plan and its medium-term poverty reduction plan (PARPA).
- The plans identify key problems, the causes of poverty, and an effective poverty reduction approach.

LESSONS

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



COUNTRY OWNERSHIP

- Mozambique's government has a sound poverty reduction plan and is fully involved and responsible for policy and budget decisions. It works closely with donors and NGOs. **IT OWNS THE DEVELOPMENT PROCESS.**

LESSONS

- In many LDCs, government is very cooperative. It asks, "What do your donors want to do, how much money will we get, where do we sign, and let us know when you have completed the development program." The donor is in charge of doing development, not the country.
- Development succeeds only if government is a committed and active leader of the policy and budget process.



GOVERNMENT TECHNICAL AND MANAGEMENT CAPABILITIES

While Mozambique's planning capabilities are good, its technical, financial, and management capabilities are weak. Most donors are not ready to shift a major portion of their programs to GBS.

LESSON

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 programs will fail.



LONGER TERM PLANNING IS REFLECTED IN ACTUAL EXPENDITURES

- Mozambique has a well-designed development plan and medium-term expenditure framework.
- But a plan is only as good as its results.
- Mozambique's annual budgets are not directly related to policy planning objectives.

LESSONS

- Annual technical ministry expenditures should reflect longer-term plans.
- Otherwise, GBS will not have the hoped-for impact.



ACCOUNTABILITY

- A country needs credibility with donors and citizens.
- Accounting records and audits weak to non-existent in Mozambique.
- Financial discipline and sound budget execution lacking.
- Plans for decentralization will put even more strain on the system.

LESSONS

- A government's financial and accounting systems must ensure that funds are spent effectively.
- Donors need to undertake fiduciary risk assessments to identify problems.
- Accountability is an essential condition that must be met before GBS can be effective.



RESULTS

- To assure that GBS is the most effective way to reduce poverty, country must measure development performance.
- Mozambique's Performance Assessment Framework includes performance indicators and expected outcomes for each sector over 5 years.
- Some targets are overly ambitious but on balance it is a good results measurement system.

LESSON

- The linkage between GBS and poverty reduction needs to be demonstrated. GBS requires sound performance monitoring and measurement of economic and social changes.



DISBURSEMENT PREDICTABILITY

- Project aid tends to be irregular and subject to unilateral decisions by donors.
- In contrast, GBS funds should be provided in regular disbursements each year, every year.
- However, in Q1 2003, GBS donor funds were delayed (donor policy concerns and government failed to provide needed data). Government shut down.

LESSONS

- GBS disbursements may not be predictable.
- 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.



CORRUPTION...

- **Corruption has severely damaged Mozambique's financial sector.**
- **Petty corruption is pervasive.**
- **In Mozambique the press, parliament, and civil society are no match for a government that allows corruption to grow rapidly.**



CORRUPTION REDUCED (cont.)

LESSONS

- Petty corruption is a capricious and regressive tax on the poor.
- The bigger danger, based on experience in other countries, is that corruption starts small but tends to increase until it creates serious economic distortions and destroys respect for the government.
- GBS cash transfers are at high risk in such an environment and may not be effective. Donors may want to avoid such situations.



COMPETITIVENESS

- Mozambique has inappropriate labor, company, and trade regulations.
- Instead of trying to regulate markets, the government should be cutting red tape and controls.
- The present system encourages corruption and reduces incentives to invest and export.

LESSONS

- GBS is ill suited to deal with these microeconomic and management problems.
- Bilateral donor technical assistance projects and policy reform programs may be the best way to address these problems.



LESSONS FROM MALAWI— BASED ON A MARCH 2004 FIELD EVALUATION

Diane Ray



LESSONS FROM MALAWI—BASED ON A MARCH 2004 FIELD EVALUATION

- Country conditions make it difficult to do GBS.
- Over the last two years there have been almost no donor GBS disbursements.



MACROECONOMIC AND SECTOR POLICY REFORMS

- Malawi has sound development strategies and a good PRSP but is making little development progress.
- The problem seems to be a lack of commitment and will at the top levels of the government.
- Monetary and fiscal policies are out of control. Government debt, interest rates, inflation and public expenditures increasing at an unsustainable pace.
- There is a disconnect between policy and the annual budget. It is difficult to see if development priorities are being implemented. Donor budget support makes little sense in such a situation.



BUDGET DISCIPLINE AND SOUND FINANCIAL SYSTEMS

- If a donor is going to support a country's budget, the country must have an effective budget system. Budget transparency, execution and accounting are extremely weak in Malawi.
- Government financial systems must assure that funds are spent for their intended purposes. Donors find it difficult to provide budget support when they are not sure how the money will be spent.



BUDGET DISCIPLINE AND SOUND FINANCIAL SYSTEMS (cont.)

- **Over the years in Malawi, many donor-supported financial and accounting systems have been launched with few results so far.**
- **Governance reforms are needed to improve service delivery and accountability.**
- **Efforts are needed to encourage domestic oversight from parliament, NGOs, media and civil society.**



GOVERNMENT MANAGES AND OWNS THE DEVELOPMENT PROCESS

- Compared to other low-income countries, Malawi's senior managers are well trained and highly skilled.
- Mid- and lower-level lack skills. This is compounded by high HIV/AIDS rates (15% of adults).
- Donors need to provide high levels of technical assistance and training.
- Effective HIV/AIDS programs may be as important as skills training.



GOVERNMENT MANAGES AND OWNS THE DEVELOPMENT PROCESS (cont.)

- Corruption at the highest political levels is a rapidly growing problem.
- When senior government officials abuse the system for personal gain, it is difficult for donors to justify aid. Budget support cash transfers are high risk.
- Policy reforms must have government ownership. In Malawi, USAID encouraged the Dept. of Environmental Affairs to manage the adoption of reforms.
- Where there are skilled personnel and low levels of corruption, donors should encourage country ownership of the development process.



General Budget Support in Tanzania

Brian Frantz
USAID/AFR/DP/POSE

27 July 2004



The Partnership in Tanzania

- PRS, TAS, IMG
- Net ODA over \$1.2b in 2002
- Program Assistance increased from \$281m in FY02 to \$515m in FY04
- GBS (PRBS and PRSC) rose from \$231m to \$404m over this period
- Trend is to shift toward baskets/GBS
- Donors that do not typically provide GBS are doing so in Tanzania



Policy Dialogue

- Partnership Framework outlines general rules and objectives of GBS
- PAF specifies benchmarks used by donors to make disbursements
- Mid-year and annual reviews of PAF, budget review, annual PER
- Other reforms: LGRP, PFMRP, Poverty Monitoring System, etc.



Public Expenditure Management

- Is public expenditure consistently allocated to PRS priority sectors?
- Are sectoral allocations appropriately divided between central/local levels?
- Are allocations for local level equitably divided among districts?
- Are allocations for local level making their way there?
- Are funds being spent appropriately?



Capacity Constraints & Corruption

- Capacity constraints - especially financial - and corruption go together
- Is GBS a good instrument to deal with both?
- Are projects less affected by capacity constraints and corruption?
- Are capacity constraints and corruption less prevalent in non-governmental sectors?



Democracy & Sustainability

- Has GBS strengthened democracy?
 - **Capacity constraints within Parliament and civil society to exercise oversight**
 - **Effect of patronage networks**
- How does GBS reduce the need for future aid?
 - **Macro stability and private sector development in the PAF**
 - **Tax effort**



Predictability & Transaction Costs

- Is GBS associated with improved predictability of aid disbursements?
 - **Donors sanction poor performance with reductions in GBS the next year**
 - **Donors seek to disburse GBS as early as possible in Tanzania's FY**
- Has GBS lowered transaction costs?
 - **Same or higher for both donors and Government**
 - **But is this really a negative outcome?**



Conclusions

- Few of the positive intermediate/process results often attributed to GBS are automatic (OPM and ODI, 2002)
 - **Conscious efforts to include discussion of certain issues in policy dialogue**
 - **Some postulated results (e.g., predictability) may be more difficult to achieve under GBS**
 - **Others (e.g., strengthened democracy) are unlikely to result at all**
 - **Still others (e.g., reduction of transaction costs) may not necessarily be desirable**



Conclusions (Cont.)

- Non-GBS complementary investments are needed for GBS to deliver impact results
 - “Demand side” of service delivery (Pritchett and Woolcock, 2004*)
 - Parliamentary, NGO, and citizen oversight; media development (Kaufmann, 2003)
 - Capacity building

– [*http://www.sciencedirect.com/science/journal/0305750X](http://www.sciencedirect.com/science/journal/0305750X) <http://tinyurl.com/48x4g>



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HIV/AIDS: Mitigating the Impacts on Development and Complex Emergencies

Session Organizer: Anne Ralte, PPC
Tuesday, August 3, 2004

