

JANUARY 2008

## Assessing the Potential Benefits of Poverty Reduction Budget Support

### Section 1 – Purpose and Structure of this Note

#### Key Points:

- The purpose of the note is to improve the quality of economic appraisals and log-frames in budget support programme documents. It should be used by country offices when they are assessing the expected benefits of budget support to underpin spending decisions
- The note draws together lessons from recent evaluations of budget support to strengthen country-level assessments of the likely impact of PRBS.
- It is equally relevant to *sectoral* and *general* budget support.
- It focuses on the *design* of PRBS, with the aim of *enhancing benefits* and *mitigating risks*.

#### Introduction

1.1 This note aims to improve the quality of assessments of expected benefits that underpin decisions to deliver budget support. It should help programme managers to improve project documents, particularly economic appraisals and logframes.

1.2 DFID's policy on PRBS requires decisions to use PRBS to be based on an assessment of:

- i. Whether the partner government is committed to:
  - Poverty reduction
  - Upholding human rights and international obligations
  - Improving public financial management, promoting good governance and transparency and fighting corruption; and
- ii. Whether provision of PRBS will produce significant benefits relative to other forms of aid delivery.

This guidance aims to support the final assessment in this list. Guidance on the assessment of governments' commitment to the three areas is provided in separate documents<sup>1</sup>.

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<sup>1</sup> See in particular, Fiduciary Assessment Guidance (December 2007); Conditionality Guidance (2006); CAP Guidance (2006); Country Governance Analysis Guidance (2007).

1.3 A full and realistic assessment of expected benefits to be achieved by delivering aid as budget support is one important step towards introducing more rigour into spending decisions. This paper does not go further in setting out requirements for a formal cost benefit analysis for budget support programmes, neither does it provide guidance on how to do a full cost-benefit analysis. However systematically setting out the likely benefits and identifying measurable targets to assess progress is an important step. FCPD is leading work to identify whether and how to introduce CBA into DFID's spending decisions, including for budget support.

1.4 DFID's mandatory procedures require all spending decisions to be based on a thorough assessment of their **expected benefits**. The **Blue Book** requires all project documents to include an Economic Appraisal saying whether the programme is a good use of money; and a logframe or equivalent framework setting out the key measures of progress through which expected benefits will be monitored over time. These requirements apply equally to budget support interventions as to other programmes and projects.

1.5 This document does not imply or make any changes to mandatory procedures. Any changes to the information required to underpin either country-level strategic recommendations to use budget support, or to underpin spending decisions for budget support programmes will be issued as part of revisions to the Blue Book or CAP guidance.

1.6 A thorough assessment of expected benefits requires a good understanding of three issues:

- the possible benefits that may be achieved by using budget support,
- the risks that might undermine these possible benefits
- the design features and complementary actions that could be used to maximise the likelihood that benefits will be realised

1.7 Recent evaluations of budget support programmes provide an important body of evidence about what budget support has achieved, the circumstances under which it has achieved particular benefits, what has helped (e.g. design features, complementary instruments) and what risks are particularly likely to undermine some benefits. This document pulls together that evidence so that it is accessible to programme managers and advisors and so that it can inform full and realistic assessments of the likely impact of budget support in their country over different timeframes.

1.8 It is worth noting that the assessment of potential benefits of PRBS should identify benefits that will be generated by the PRBS modality – either by the flow of financing, the dialogue opportunities created or the changes to institutions and relationships that PRBS causes. These will be distinct from the overall set of improvements and changes expected to occur in the country given all donor and government actions (spending, reforms and policy implementation). In many cases, particularly at outcome level, it will be difficult to distinguish benefits that are expected to be achieved as a result of budget support from the set of benefits expected to be achieved as a result of other actions and financing. The CLEAR team is leading some work on attribution, to consider the extent to which benefits achieved at output level in particular countries might be attributed to either the collective or individual donor efforts.

1.9 In the rest of this note:

- Annex A provides an assessment tool.
- Section 2 gives an overview of the possible benefits from PRBS (with more detail in Annex B on the empirical effects of budget support).

Section 3 describes the analytical approach to benefit assessment (with more detail in Annex C on the underlying methodology.)

## Section 2 – Potential Benefits of PRBS

### Key Points:

- **Evaluations provide evidence about what effects PRBS is likely to have, and what they depend on.**
- **The benefits assessment should identify which effects are plausible in the country (and sector) being considered.**
- **It is important to consider how different modalities may complement (or undermine) each other.**

2.1 There is now a growing body of empirical evidence about the effects of budget support on which assessments of potential future benefits can be anchored. Box 2 provides a brief overview of the JEGBS conclusions, while Annex B provides a more comprehensive summary of the effects that were found.

2.2 It is important to bear in mind:

- That there is a wide range of possible effects, applicable in different circumstances. It is unlikely that all the possible effects will be relevant to a particular PRBS assessment, and important to ensure that the necessary pre-conditions are in place for the effects which are sought.
  - That aid modalities can complement one another and complementary aid instruments (either provided by DFID or another donor) might be important determinants of the overall impact of budget support.
  - PRBS is not a strategy per se: it is a way of financing government strategy, so results will depend on the quality of the strategy supported.
  - All elements of the PRBS package need to be considered. These include:
    - the finance itself,
    - the conditions for its use,
    - the framework for performance review and continuing dialogue,
    - efforts to align DFID support with government policy and systems and to harmonise with other donors, and
    - complementary technical assistance and support for capacity building.
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## Box 2: Overview of JEGBS Assessment

### Effects of PGBS

The overall assessments by the country studies were clearly positive except in two cases. In Malawi a first effort at PGBS stalled due to over-optimistic expectations concerning macroeconomic discipline. In Nicaragua, significant funds have only recently begun to flow and it is too soon to provide an ex post assessment.

The variety of designs and contexts for PGBS requires care in generalising, but the following important conclusions are clear:

- (a) PGBS has been a relevant response to acknowledged problems in aid effectiveness.
- (b) PGBS can be an efficient, effective and sustainable way of supporting national poverty reduction strategies.
- (c) Provision of discretionary funds through national budget systems has produced systemic effects on capacity, particularly capacity in public finance management. These effects are government-wide.
- (d) PGBS tends to enhance the country-level quality of aid as a whole, through its direct and indirect effects on coherence, harmonisation and alignment.
- (e) PGBS's effectiveness in reducing poverty depends on the quality of the strategy that it supports. Given the bias of early poverty reduction strategies towards the expansion of public services, most of the effects of PGBS inputs so far have been on access to services, rather than income poverty and empowerment of the poor.
- (f) It is important not to overload the PGBS instrument, but in all cases a capacity to learn from experience suggests that PGBS could become more effective, and have a broader scope, over time.
- (g) The evaluation considered unintended and adverse effects of PGBS (corruption, undermining of revenue effort, unpredictability, crowding out of the private sector). It did not find adverse effects that outweighed the benefits of PGBS, but all these risks need to be taken into account in the design of PGBS (and of other aid).
- (h) The characteristic objectives of PGBS are long-term and it is therefore important to reduce the risks of interruptions in support.
- (i) PGBS is part of a family of programme-based approaches (PBAs). Many of the study findings are also relevant to PBAs in general.

### *PGBS and Other Aid Modalities*

In all cases, PGBS was used in conjunction with other forms of aid (including projects and sector support). The evaluation found:

- Differences between general budget support and sector budget support are not so sharp as had been assumed.
- PGBS and other modalities could be used to complement each other. For example:
  - PGBS donors pursued anti-corruption strategies with a variety of instruments.
  - PGBS was often useful in addressing cross-cutting issues.
- PGBS effects on harmonisation and efficiency also benefited other forms of aid. Conversely, persistence of off-budget project aid tended to undermine the benefits of PGBS.
- Taking safeguards into account, PGBS was not more vulnerable to corruption than other aid modalities.

## Section 3 – Analytical Approach to Benefit Assessment

### Key Points:

- Assessment of PRBS requires *disaggregation* of its potential effects.
- A logical sequence of *Evaluation Questions* and sub-questions provides a checklist of possible effects and links between different effects.
- The benefits assessment should *concentrate on the main effects* that are sought.
- Annex A provides an *assessment tool*. For each evaluation question, this summarises:
  - effects that have been found in practice (and what they depend on)
  - implications for PRBS design
  - possible indicators and implications for PRBS monitoring.

### Introduction

3.1 DFID sponsored important early work on the evaluability of budget support. This provided the platform for the evaluation methodology that was adopted for the Joint Evaluation of General Budget Support (JEGBS). JEGBS found that there was not a sharp demarcation in practice between General Budget Support (GBS) and Sector Budget Support (SBS) which implies that the same analytical approach can be applied across the budget support spectrum. However it is important to consider whether the specific design of any budget support instrument is conducive to the particular effects sought.

### The Evaluation Framework

#### Overview

3.2 Disaggregation was key to the JEGBS evaluation methodology.<sup>2</sup> At one end of the logical framework there are different budget support inputs (finance, dialogue and conditions, harmonisation and alignment, technical assistance and capacity building). At the other end are different dimensions of possible poverty impact (income poverty, access to basic services, empowerment). In between are a variety of different mechanisms (causality links) through which budget support (usually in conjunction with other factors) may have an influence. In reality, there is a great deal of interaction at all levels, but conceptual disaggregation is an aid to clear thinking about what effects are likely, what effects are sought, what (directly and indirectly) the achievement of the effects may depend on, and how both implementation and results may be monitored.

3.3 Annex C provides a brief overview of the JEGBS evaluation methodology. The logical evaluation framework envisaged a range of inputs (finance, conditionality, monitoring and dialogue, efforts to harmonise and align) that might have three broad types of effect:

- *flow-of-funds effects* - arising directly from the financial inputs;
- direct and indirect *policy effects* - arising from changes in macro, sector or cross-cutting policies; and

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<sup>2</sup> For comprehensive documentation and analysis of the methodology, see IDD & Associates (2007) *Evaluation of General Budget Support: Note on Approach and Methods* [link]

- *institutional effects* - arising from changes in ownership, planning and budgetary processes, the quality of service delivery or changes in accountability relationships.

3.4 The deeper effects of PGBS were expected to result from a combination of flow-of-funds, policy and institutional effects. A more detailed **causality map** traced various sequences whereby particular inputs might yield particular effects at different levels of the framework. Successive levels of the framework dealt with the initial context, the various PGBS inputs, their immediate effects, outputs, outcomes and impact. Annex C includes a summary of the causality findings against each of the links depicted in the causality map.

#### *Main Evaluation Questions*

3.5 The hypotheses embodied in the evaluation framework and causality map were tested through a series of **evaluation questions** (EQs) applied in all the sample countries. The main evaluation questions provided a useful structure both for analysis and for reporting findings.

3.6 The EQs define relevant areas of enquiry about the effects that budget support might have. These are not completely self-contained (e.g. effects at later levels of the Evaluation Framework cannot occur without effects at earlier levels) but they do help to segment the analysis into coherent sub-components. In Box 3 below, the EQs have been re-phrased to suit an ex ante assessment. In this form, they provide the structure for an ex ante assessment checklist. The earlier questions are in no way more important than the later questions. It is important that due consideration is given to the impact that the budget support expenditure is likely to have on improving the quality and quantity of basic services as on the improvements to planning and budgeting systems.

3.7 The assessment tool at Annex A is an aid to thinking through what is (reasonably) being claimed about PRBS; how to adjust design to strengthen effectiveness; and how to monitor performance to check effectiveness (and adjust implementation).

### **Box 3: The Main Evaluation/Assessment Questions**

<b>Main question</b>	<b>sub-questions</b>
1. Will PRBS have positive effects on harmonisation and alignment?	<ul style="list-style-type: none"> <li>➤ alignment with government policies?</li> <li>➤ alignment with government systems?</li> <li>➤ harmonisation among donors and aid modalities?</li> </ul>
2. Will PRBS have positive effects on public expenditures?	<ul style="list-style-type: none"> <li>➤ more funds for pro-poor spending?</li> <li>➤ more discretionary expenditure for government planning and budgeting?</li> <li>➤ increased predictability of aid and public expenditure?</li> <li>➤ increased allocative efficiency?</li> <li>➤ increased operational efficiency?</li> <li>➤ reduced transaction costs for government?</li> </ul>

3. Will PRBS strengthen planning and budgeting systems?	<ul style="list-style-type: none"> <li>➤ a stronger budget process with increased government ownership?</li> <li>➤ increased accountability for public expenditures?</li> <li>➤ strengthened capacity for public finance management?</li> </ul>
4. Will PRBS help to improve public policies and policy processes?	<ul style="list-style-type: none"> <li>➤ implementation of appropriate reforms?</li> <li>➤ stronger link between policy and budgets?</li> <li>➤ a stronger national policy process?</li> </ul>
5. Will PRBS have positive effects on macroeconomic performance?	<ul style="list-style-type: none"> <li>➤ contributions to fiscal discipline, macroeconomic stability, growth?</li> </ul>
6. Will PRBS have positive effects on the delivery of public services?	<ul style="list-style-type: none"> <li>➤ on the quality of public services, including access to the poor?</li> <li>➤ on capacity and responsiveness of service delivery institutions?</li> </ul>
7. Will PRBS have positive effects on poverty reduction?	<ul style="list-style-type: none"> <li>➤ on poor people's access to basic services (the MDG targets)?</li> <li>➤ on incomes and economic opportunities for the poor?</li> <li>➤ on the empowerment of poor people?</li> </ul>
8. Will the effects of PRBS be sustainable?	<ul style="list-style-type: none"> <li>➤ quality of feedback and learning about PRBS?</li> <li>➤ durability of the PRBS partnership?</li> </ul>
9. Will PRBS have positive effects on cross-cutting issues?	<ul style="list-style-type: none"> <li>➤ relevant cross-cutting issues may include gender, environment, climate change, HIV/AIDS, corruption, governance, capacity development etc.</li> </ul>

3.8 Cross-cutting issues (CCIs) are relevant within each of the EQs, but it is also useful to draw together the threads of any CCI assessment. In the JEGBS reports, special chapters were devoted to CCIs; in the assessment tool, the final row of the matrix ensures that CCIs do not get neglected. CCIs that may be considered include: the environment, gender, HIV/AIDS, capacity development, and different aspects of governance (e.g. human rights, corruption).

3.9 The JEGBS evaluation showed that causality chains could be long, with many complex effects. However, this does not mean that the ex ante assessment has to be so comprehensive or complex. Because of the way in which the analytical approach disaggregates potential effects, what is required is to be clear:

- Which effects are expected?
- Are they plausible (in view of findings from evaluations)? In particular, are they plausible in this country context?
- Does the design of the intervention (including its links to other interventions) maximise the chances of achieving the effect? What are the risks and how will they be mitigated?
- How will the intervention be monitored to see if it is working? What indicators will be used; what is the baseline and what targets will be set over different time periods?



## Annex A: PRBS Benefits Assessment Framework

### Overview

The matrix which follows is intended to help DFID staff think through the benefits that are anticipated from PRBS, and associated implications for the design and monitoring of PRBS instruments.

The matrix follows the JEGBS structure of evaluation questions and sub-questions. It is not expected that PRBS assessments in practice will include a response to every question. Some will not be relevant if the PRBS instrument is not premised on a significant effect in that area. In the areas where a PRBS instrument does seek an effect, it may be necessary to go into much more detail (of questions, performance indicators, etc) than this concise matrix allows. The matrix is therefore suggestive, not exhaustive.

### First Column: Evaluation Questions / Areas of Enquiry

The JEGBS evaluation reports were organised around nine main (retrospective) Evaluation Questions (EQs). These have been adapted to be forward-looking and to address the budget support spectrum (including GBS and SBS). Significant GBS vs. SBS design issues are highlighted in the third column (design issues may be relevant even if the instrument adopted does not strictly qualify as PRBS).

All the EQs are also relevant to cross-cutting issues (CCIs). However, it is useful to gather together the threads that relate to any CCI. The tenth element of the matrix is designed to make sure that CCIs are not overlooked.

### Second Column: Lessons of Experience (what benefits are possible and what do they depend on?)

This column provides brief pointers from JEGBS and other lesson learning (Annex B provides a fuller summary). The JEGBS and other experience provides guidance on what effects are likely, over what time scale, and what they may depend on. The evaluation findings are not definitive (some findings were agnostic, and some effects that were not found in the study countries may appear in other circumstances or over a longer time scale). However, it is always relevant to consider whether an anticipated effect is one for which there is empirical support; if not, there needs to be additional attention to justifying why the effect should nevertheless be anticipated in this particular case.

This column includes insights about what specific PRBS effects depend on. These may have direct implications for the design of a particular PRBS instrument – see third column.

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### **Third Column: Implications for PRBS Design**

This includes implications for the PRBS instrument itself (e.g. any conditions to be attached, whether or not targeting of funds is helpful, etc). But also implications for complementary actions required (e.g. parallel TA or other projects).

NB complementary actions may be undertaken by DFID or other partners, depending on comparative advantage.

Design variables may include breaking PRBS into separate elements (e.g. operations focused on separate sectors).

### **Fourth Column: Indicators and implications for PRBS Monitoring**

Relevant indicators for initial assessment and subsequent monitoring. After the most relevant indicators have been selected it will be necessary to collect and record the most up to date information on these indicators before PRBS begins. These will form the baseline for future evaluative work.

Monitoring to indicate whether PRBS (and complementary inputs) are being delivered as planned, and whether they are having the anticipated effects. To help determine whether the anticipated effects are being achieved it is necessary to set either a threshold or target for the indicator to reach. These need to be time-bound and brought out clearly in your PRBS submission.

For many aspects, the appropriate level of monitoring will be sector/country performance as a whole (combined donor efforts, not separating DFID PRBS).

Monitoring includes communications strategies with all relevant stakeholders (including UK political interests) – do/will all stakeholders receive appropriate feedback?

Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<b>1. WILL PRBS HAVE POSITIVE EFFECTS ON HARMONISATION AND ALIGNMENT (H&amp;A)?</b>			
<p><i>Will PRBS help to improve (or avoid deterioration in) the harmonisation and alignment of aid?</i>  <i>JEGBS found definite effects on H&amp;A, not only because of the H&amp;A characteristics of budget support itself, but because of its wider influence on the behaviour of budget support providers and other donors.</i>  <i>It's important to consider the various distinct elements of H&amp;A to which the sub-questions relate.</i></p>			
<p><b>Policy alignment</b> under government leadership:</p> <ul style="list-style-type: none"> <li>- will PRBS help to increase alignment with government policies (at national or at sector level) by               <ol style="list-style-type: none"> <li>(a) aligning aid objectives and conditions with government objectives and targets;</li> <li>(b) increasingly relying on government aid coordination, analytic work, TA management?</li> </ol> </li> </ul>	<p>Where government strategies and policies are not very operational (costed, prioritised), formal alignment may not be very demanding (can fit donor predisposition). Budget support can have important effects on the focus of policy dialogue. Government capacity (in sectoral as well as central ministries) may be a constraint on the quality of dialogue and ownership of policy.</p> <p>JEGBS found that reliance on government systems for aid coordination, analytic work and TA management was weak.</p>	<p>Are there efforts to help strengthen government leadership by making its strategies more operational?          Are there particular issues about policy alignment in a sector of special PRBS focus?          Ways to support government policy/dialogue capacity?          Need to be careful that conditions attached to PRBS (and/or the style of dialogue) do not undermine country ownership.          Is PRBS designed to draw on and support joint analytic work with government and other donors?          Is TA linked to government-led capacity development plans?</p>	<p>Does government use the same policy/strategy documents it presents to donors? Are stated policies and strategies implemented?</p> <p>Analytic work undertaken and used? TA/capacity development delivery and effectiveness?</p>

Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<p><b>Alignment with government systems:</b></p> <ul style="list-style-type: none"> <li>– will PRBS strengthen the alignment of fund commitment and disbursement with government planning and budget cycles?</li> <li>– will PRBS increase the use of government systems for cash management, procurement, implementation, monitoring, reporting and auditing?</li> </ul>	<p>Strengthening government planning and budget cycle, making the budget process more important, was found to be an important effect of GBS. Use of these systems was found to make an important contribution to strengthening them; it also led to downstream transaction costs savings for the government.</p>	<p>Is the PRBS calendar well aligned with medium term planning calendar (not just annual budgeting and disbursement)? Complementary capacity development activities for e.g. statistical systems, budget process, monitoring and evaluation, supreme audit institution? Are any necessary safeguards designed to be as consistent as possible with government systems? In particular, does PRBS monitoring draw as much as possible from, and contribute to, government monitoring systems?</p>	<p>proportion of funds passing through government systems actual calendar of events quality and timeliness of information provided by government systems (see also operational efficiency under EQ3).</p>
<p><b>Harmonisation among donors and modalities:</b></p> <ul style="list-style-type: none"> <li>– will PRBS strengthen coordination and complementarity between different donor programmes?</li> <li>– will PRBS strengthen complementarities between PRBS and other forms of aid?</li> </ul>	<p>JEGBS found strong effects on harmonisation among donors across sectors and on cross-cutting themes. This had positive implications for harmonisation through other aid modalities, and demonstration effects. Possible complementarities include:</p> <ul style="list-style-type: none"> <li>– overall allocative efficiency (see EQ3)</li> <li>– improved forums for dialogue and contributions to policy coherence (e.g. consistency between macro and sector plans/budgets)</li> <li>– ability to address cross-sectoral issues</li> </ul>	<p>implications for allocation of DFID staff time in-country?</p> <p>implications for complementarity of design:</p> <ul style="list-style-type: none"> <li>– among instruments within the DFID portfolio?</li> <li>– across all inputs to a sector?</li> <li>– for all aid at country level?</li> </ul> <p>Implications for monitoring and dialogue Can GBS monitoring and dialogue complement sector level monitoring and dialogue, and address cross-cutting constraints to sector level progress?</p>	<p>DFID CAP and sector monitoring country-level Paris Declaration monitoring independent monitoring reports (as in Tanzania, Mozambique)</p>

Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<p>– Will PRBS help reduce fragmentation of resources?</p> <p>–</p>	<p>PRBS may reduce fragmentation of resources if the volume of aid delivered through PRBS increases over time, and the volume delivered through other instruments reduces. JEGBS found that the impact on fragmentation varied across countries.</p>	<p>Implications for working with others to maximise the number of donors willing to deliver aid through the budget support mechanism.</p>	<p>Volume of aid on-budget and delivered through the budget; number of donor projects</p>
<p><b>2. WILL PRBS HAVE POSITIVE EFFECTS ON PUBLIC EXPENDITURES?</b></p>			
<p><i>Is PRBS an efficient way to provide financial support to the PRS?</i>  <i>This question mainly concerns flow-of-funds effects. Systemic institutional and policy effects are considered under later EQs (though some systemic effects depend on the increased scope of budget discretion which is one of the aspects considered here).</i></p>			
<p><b>Expenditure allocation:</b></p> <p>– will PRBS increase funds available for pro-poor public spending (overall or at sector level)?</p>	<p>JEGBS found that budget support was an effective way of financing the PRSP as a whole. But pro-poor concepts are not always well-defined.</p>	<p>increased pro-poor spending doesn't depend on formal earmarking if government has credible expenditure plans. (and earmarking is likely to undermine other PRBS effects). Does there need to be dialogue (or relevant analysis involving government) about what constitutes "pro-poor" expenditure?  Does the time-scale of PRBS commitments match the timescale of expenditure supported (e.g. recurrent costs for MDGs)?</p>	<p>monitoring of public expenditures, including sectoral, regional, etc breakdowns.</p>

Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<p><b>Discretionary expenditure:</b></p> <ul style="list-style-type: none"> <li>– will PRBS increase the proportion of external funds that are subject to the government planning and budgeting process?</li> </ul>	<p>Many subsequent effects of PRBS (e.g. on the quality of the budget process) depend on increasing discretionary resources under government control (and reducing the resources that are locked in to off-budget donor projects). Thus it is important to check the extent of discretion and whether the PRBS input will increase it; also whether this effect is likely to be undermined by the persistence of project aid (by DFID or other donors).</p>	<p>NB importance of central budgetary process, rather than putting resources under the control of sector ministries (which may undermine the budget process). Similar care is needed in designing fund flows to be consistent with decentralisation and the roles of sub-national governments. (High risk that earmarking will undermine the budgetary process and decentralisation.)</p>	<p>monitoring of public expenditures and aid flows</p>
<p><b>Predictability:</b></p> <ul style="list-style-type: none"> <li>– will the scheduling and delivery of PRBS funds contribute to the overall predictability of aid flows and public expenditures?</li> </ul>	<p>JEGBS noted difference between short-term predictability (usually improving) and long-term predictability (barely addressed). (Positive PRBS effects may be undermined if lots of funds remain off-budget and/or subject to unpredictable/volatile disbursement.) A clear performance assessment framework can both enhance predictability and clarify conditionality, and also focus dialogue more effectively.</p>	<p>Will funds be predictable at the level of service delivery institutions? over what time period? Term (number of years) of PRBS agreement, and proportion of funds that is confirmed in advance. Danger that poorly designed disbursement conditions may undermine predictability. Minimise in-year conditions, and consider time allowed for performance verifications.</p>	<p>timeliness of commitment and disbursement of PRBS funds experience with disbursement conditions (did avoidable delays result?)</p>
<p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>– will the use of PRBS contribute to the overall <i>allocative</i> efficiency of public expenditure and aid flows?</li> </ul>	<p>JEGBS found allocative efficiency effects derived from increased discretionary expenditure and alignment with government strategy.</p>	<p>NB some types of efficiency gain depend on predictability and timeliness of disbursement. The scope for allocative efficiency gains limited if earmarking and conditions confine the funding to particular expenditures. Is there scope to increase overall efficiency by compensating for the rigidities of other aid modalities?</p>	<p>predictability and timeliness of PRBS disbursement match between PRS-planned and actual expenditure allocations (overall and/or at sector level)</p>

Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<ul style="list-style-type: none"> <li>– will the use of PRBS contribute to the overall <i>operational</i> efficiency of public expenditure and aid flows?</li> </ul>	<p>JEGBS found operational efficiency effects from:</p> <ul style="list-style-type: none"> <li>– improved recurrent/capital balance</li> <li>– increased availability of counterpart funds for donor projects</li> <li>– lower costs of government (vs. donor) implementation.</li> </ul>	<p>PRBS is especially appropriate if recurrent cost financing is needed. If additional safeguards are sought for donor funds, they are less likely to undermine potential efficiency gains if any earmarking is notional, or based on aggregate expenditure targets, rather than channeling funds directly to specific budget lines.</p>	<p>public expenditure reviews, PETS etc</p>
<ul style="list-style-type: none"> <li>– will the use of PRBS reduce the transaction costs for government in budgeting and utilising aid?</li> </ul>	<p>JEGBS found that implementation through government (rather than donor) systems results in substantial downstream transaction costs savings for government.</p>	<p>Conditions attached to the use of funds (especially if they involve separate earmarking, accounts etc) are likely to detract from transaction cost savings. Intermediate systems (e.g. pooled funds managed by donors) are often much more cumbersome than anticipated).</p>	<p>utilisation rates for government and donor funds unit cost indicators</p>

#### 4. WILL PRBS HAVE POSITIVE EFFECTS ON PLANNING AND BUDGETING SYSTEMS?

*Will PRBS contribute to improving government ownership, planning and management capacity, and accountability of the budgetary process?  
NB this question concerns institutional effects, over and above the direct effects addressed under EQ3.*

<p><b>Ownership:</b></p> <ul style="list-style-type: none"> <li>– will PRBS strengthen the budget process by providing predictable, discretionary resources to it?</li> </ul>	<p>Channeling funds through the budget (and not providing direct to sector ministries) can play a significant role in making government agencies take the budget process more seriously; strengthens the possibilities for introducing forms of strategic budgeting (e.g. MTEF) Likely requires several years for greater credibility of budget process to become established.</p>	<p>Relevant considerations include:</p> <ul style="list-style-type: none"> <li>– how discretionary is the PRBS funding? (possible trade-off between discretion and predictability if PRBS funds are earmarked but therefore more reliable);</li> <li>– issue of how much other off-budget flows undermine the effect;</li> <li>– likely time-scale.</li> </ul>	<p>Ownership is notoriously difficult to assess (base assessment on actions rather than statements). PEFA includes assessment of policy-based budgeting. Possible to monitor proportion of budgeted funds that are discretionary (but tricky to classify – e.g. salary expenditures are in practice less discretionary than other recurrent items; there is more discretion over longer periods, etc.).</p>
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Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<p><b>Accountability:</b></p> <ul style="list-style-type: none"> <li>– will the use of PRBS help to increase the accountability of public expenditures?</li> </ul>	<p>GBS by itself hasn't transformed accountability relationships. However, putting more fund through government budget and accounting systems is a platform for national accountability. Donors need to be careful not to pre-empt local accountability, but there are some ways in which accountability to donors and accountability to national stakeholders may be mutually reinforcing.</p>	<p>Case for complementary support to the accountability institutions of government (auditor, parliament, etc) and/or to civil society efforts to hold government accountable. As far as possible, accountability to donors should be based on national plans and reports.</p>	<p>proportion of public funds that come under the purview of national accountability institutions</p> <p>process indicators (timeliness of audit reports)</p> <p>qualitative analysis of reporting, accounts, audit, participation in planning and budget processes (PEFA indicators on these)</p>
<p><b>Capacity Development:</b></p> <ul style="list-style-type: none"> <li>– will the use of PRBS support capacity development in PFM?</li> </ul>	<p>JEGBS found that using government systems has a positive systemic effect, even though this was usually only weakly linked to pro-active capacity development efforts. JEGBS evidence is that putting funds through government planning, budget and implementation systems does have the anticipated systemic effects on capacity. Prerequisites are macro stability and fiscal discipline. JEGBS recommends an incremental approach to PRBS; learn from experience and build up as confidence grows.</p>	<p>Answers will affect the proportion of PRBS to provide (cf. JEGBS recommendation of an incremental approach) broad balance between GBS and SBS.</p> <p>Scope for complementary TA and capacity development inputs?</p> <p>Need to fit into overall government-led capacity development programme (separate ad hoc donor driven measures are unlikely to be fruitful) – cf. OECD DAC "strengthened approach" to capacity building for PFM.</p>	<p>overall (and long term) monitoring of capacity via PEFA etc) – but this has a long time scale to show substantial changes.</p> <p>so, are there short term process activities etc to be followed (to demonstrate continued government effort)?</p> <p>(specific improvements supported by PRBS, including any related to the specific sector being addressed?)</p>



Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<p><b>Durability:</b></p> <ul style="list-style-type: none"> <li>– are the effects of PRBS on planning and budgeting systems likely to be durable?</li> </ul>	<p>Changing expectations and behaviour of participants in the planning and budgeting system is likely to take many years to consolidate, and could be set back by donor failure to adhere to long-term commitments.</p>	<p>Is design consistent with appropriate time scale?</p>	<p>long term performance and reliability of the PRBS partnership</p>
<p><b>5. WILL PRBS HELP TO IMPROVE PUBLIC POLICIES AND POLICY PROCESSES?</b></p>			
<p><i>This question concerns both actual policies and the underlying policy formulation process. There are tensions here, since donor pressure for particular policies may undermine ownership. On the other hand, helping to bring particular issues to the fore (e.g. quality of public services), building capacity to both formulate and analyse policy options, and helping to prioritise key actions that are part of a government reform programme, may be legitimate roles within a partnership relationship.</i></p>			
<p><b>Policy content:</b></p> <ul style="list-style-type: none"> <li>– will PRBS help to support appropriate policy reforms?</li> </ul>	<p>JEGBS found that budget support could support and reinforce reforms that had ownership within government; it could not impose reforms where this was not the case. Support mechanisms (apart from finance itself) include prioritisation through agreed performance targets, plus support to policy analysis etc. But there is a danger of overloading the budget support agenda, because not everything can be prioritised and capacity for useful dialogue is constrained.</p>	<p>If reforms are already well under way, finance may be the main required input. Selectivity in identifying reform priorities for the budget support dialogue Choose some progress indicators on reform implementation that are assured but which demonstrate continuing progress to all constituencies. Choose some (not too many) where BS focus can make a difference to certainty/speed of implementation.  Consider whether to operate at sector/overall level (but bear in mind there may be limits to aggregate reform implementation capacity and danger of unrealistic collective demands by donors).</p>	<p>monitor the selected reform indicators (drawn from government strategies)</p>
<ul style="list-style-type: none"> <li>– will PRBS help to strengthen links between policies and expenditures?</li> </ul>	<p>It has the potential to do so by linking budget funding to policy dialogue (cf. EQ3 on allocative efficiency).</p>	<p>Complementary support to analysis of issues in policy and public expenditure</p>	<p>monitoring of public expenditures vis-à-vis policies</p>

Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<p><b>Reform process:</b></p> <ul style="list-style-type: none"> <li>– will PRBS help to establish/maintain a coherent government-owned reform process (national/sectoral)?</li> <li>– will it help to involve an appropriate range of stakeholders in policy formulation and review?</li> <li>– will it help to reinforce learning and adaptation by both government and donors?</li> </ul>	<p>JEGBS found that availability of funding can act as an incentive for agencies to participate in the policy process and to develop innovative policies.</p>	<p>Balance between supporting implementation of existing policies and seeking to ensure that the process addresses emerging issues (e.g. balance between quality / quantity / access).</p> <p>Complementary measures to strengthen the capacity to participate of government and non- government stakeholders?</p> <p>(see also EQ9)</p>	<p>qualitative assessments of policy process and policy development</p>

Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<b>6. WILL PRBS HAVE POSITIVE EFFECTS ON MACROECONOMIC PERFORMANCE?</b>			
<p><i>Macroeconomic effects occur through flow of funds, but also through influence on policy and economic management through dialogue etc. This is an area where it is especially important to check that possible adverse effects/risks identified are related to the use of the budget support modality, not simply to the scaling up of aid, irrespective of modality used.</i></p>			
<b>Will PRBS contribute to fiscal discipline, macroeconomic stability and growth?</b>	In the JEGBS study countries, GBS was not found to have created discipline and stability, but it did help to reinforce pre-existing discipline, by supporting policy and providing finance. Danger of creating instability if PRBS increases the volatility of aid.	Design issue of links to other budget support providers, including IFIs; balance between coherent and adequate levels of support (scaling up?) vs. not exaggerating volatility by tight link to IMF conditions. Importance of graduated responses in design. (What would be the possible destabilising effects of PRBS withdrawal?)	monitoring of aggregate economic and fiscal performance
<b>Will PRBS have adverse effects on:</b> – private investment?	JEGBS did not find significant crowding out of private sector investment, but there is important underlying issue of the balance between growth and public services as priorities in the PRS. (The effect of budget support depends on quality of the strategy its supports.)	Specific complementary measures (policy, analysis, TA?) related to various relevant roles for private sector.	monitoring of public and private sector performance
– domestic revenue?	JEGBS didn't find that GBS led to observable decline in revenue performance, but such aid is routinely accompanied by efforts to support domestic revenue collections..	Complementary support to revenue collection; include domestic revenue collection as a performance indicator.	monitoring of revenue performance

Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<b>7. WILL PRBS HAVE POSITIVE EFFECTS ON THE DELIVERY OF PUBLIC SERVICES?</b>			
<i>NB this EQ is not about PRBS effects on the total expenditure on public services (cf. EQ3); it's about possible effects on quality rather than quantity.</i>			
<p><b>Pro-poor public service delivery:</b></p> <ul style="list-style-type: none"> <li>– will PRBS contribute to increasing the efficiency and effectiveness of pro-poor public service delivery and improving the access of poor people</li> </ul>	<p>JEGBS found that GBS, where established, was financing increased flows of finance to service delivery agencies, but little evidence that this, of itself, brought about significant changes in capacity or responsiveness of service delivery institutions. However, there were signs that budget support dialogue is increasingly focusing on such qualitative issues. Quality of services may decline (or stand-still) when services are expanded. This is not a fault of the modality per se, but important to address quality issues through sector programmes and dialogue opportunities.</p>	<p>Anticipated PRBS effects in this area would need to demonstrate that appropriate policies to strengthen service delivery are in place and/or will be supported by complementary measures</p>	<p>analytical work undertaken reform measures implemented service delivery outcomes (trends, including benefit incidence analysis) PETS and service delivery surveys etc Monitoring of quality and access, linked back to policy review and dialogue</p>
<p><b>Capacity and responsiveness of service delivery institutions:</b></p> <ul style="list-style-type: none"> <li>– will PRBS strengthen the capacity of service delivery institutions?</li> <li>– will PRBS help to make service delivery institutions more responsive to beneficiaries?</li> </ul>			

Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<b>8. WILL PRBS HAVE POSITIVE EFFECTS ON POVERTY REDUCTION ?</b>			
<p><i>This is not a separate analysis but about the expected effects at impact level, through mechanisms identified under earlier EQs. JEGBS noted difficulties in attributing poverty impact effects, related to:</i></p> <ul style="list-style-type: none"> <li>• <i>the time scale for effects to happen;</i></li> <li>• <i>scarcity of relevant and reliable data sources and series;</i></li> <li>• <i>difficulties of attribution between multiple effects (including different components of aid).</i></li> </ul> <p><i>Such difficulties also apply to other forms of aid, so it is important not to apply a disproportionately difficult standard of assessment to PRBS.</i></p>			
<p>Will PRBS:</p> <ul style="list-style-type: none"> <li>– have positive effects on the use of health, education and other basic services by poor groups?</li> </ul>	<p>JEGBS found budget support can be an efficient way to finance expansion of public services. Quality and access issues arise, but there are opportunities to address these through dialogue etc, not necessarily through the targeting of funds.</p>	<p>Don't assume earmarking is the answer to the quality problem (government may make different political choices about priorities). Scope for complementary analysis etc to bring evidence to bear on issues of quality and incidence. Separate measures relevant to "hard-to-reach" groups?</p>	<p>access and quality indicators</p>
<ul style="list-style-type: none"> <li>– have positive effects on incomes and economic opportunities for the poor?</li> </ul>	<p>JEGBS evaluation period was during ascendancy of post-HIPC PRSs which concentrated on expansion of public services; there is scope for PRBS to support second-generation PRSs which have more focus on growth for poverty reduction.</p>	<p>PRBS to focus on a subset of sectors/ issues? special focus of policy dialogue?</p>	<p>the most reliable indicators of poverty trends (household surveys etc) appear infrequently and with a lag</p> <p>hence need for proxy indicators?</p> <p>difficulty of attribution to specific interventions: importance of aggregate assessments of country (government plus donor) performance</p>

Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<ul style="list-style-type: none"> <li>– have positive effects on the empowerment of poor people?</li> </ul>	<p>JEGBS did not find that GBS by itself had led to strong, discernible empowerment effects. (The most significant effects were support to restoration of justice and security in Rwanda; support to decentralisation in Uganda.) This suggests that PRBS may be a strong support to positive institutional changes that are under way, but the capacity of aid to influence deeper political factors is limited</p>	<p>Complementary efforts to support empowerment? Consider lessons/implications of drivers of change analyses.</p>	<p>Monitor disaggregated indicators to generate information and discussion about empowerment of poor people.</p>
<p><b>9. WILL THE EFFECTS OF PRBS BE SUSTAINABLE?</b></p>			
<p><i>This EQ focuses on the sustainability of (and risks to) the PRBS process. (Since many characteristic effects sought are long term, the PRBS partnership needs to be durable.) Two key elements of PRBS design will be (a) systems for feedback and learning and (b) (other) risk mitigation measures to ensure that durability matches the required timescale of proposed benefits.</i></p>			
<ul style="list-style-type: none"> <li>– What is the quality of feedback and learning?</li> </ul>	<p>JEGBS found that in all cases there was feedback and adjustment, both about how to manage the partnership itself, and about the strategies it was supporting. PRBS to form part of the structure for monitoring and review at overall and sector level.</p>	<p>Process not blueprint designs, with explicit attention to feedback mechanisms.  Multi-donor evaluation can be helpful learning process.</p>	<p>Importance of active communication and feedback to all stakeholders, including donor country constituents</p>
<ul style="list-style-type: none"> <li>– Is the partnership durable enough to allow long-term benefits from it to be realised?</li> </ul>	<p>partnerships are based on trust; the biggest risk appears to be from political reactions to a deterioration in the relationship. Moves towards greater transparency about the factors that will jeopardise continued flow..</p>	<p>Risk analysis and mitigation, scope for graduated responses, realistic expectations.</p>	

Evaluation Questions / Areas of Enquiry	Lessons of experience (what benefits are possible and what do they depend on?)	Implications for PRBS design (including complementary inputs)	Indicators and implications for PRBS monitoring
<b>10, WILL PRBS HAVE POSITIVE EFFECTS ON CROSS-CUTTING ISSUES?</b>			
<i>Cross-cutting issues addressed by JEGBS included gender, HIV/AIDS, environment, capacity development, human rights and democratisation/ governance, corruption. While all can be considered under each of the main EQs, it was useful to draw threads together in a summary assessment for each CCI.</i>			
– Will PRBS have positive effects on (particular) CCIs?	JEGBS found that GBS has potential to complement other modalities in addressing cross-cutting issues, e.g. by supporting cross-institutional dialogues etc.	Are there particular CCIs which should be brought up as dialogue topics or performance criteria? CCI support through complementary instruments?	general and specific CCI monitoring.

## Annex B: Empirical Effects of Budget Support

Evidence on the empirical effects of budget support continues to accumulate, but the most substantial research so far has been the Joint Evaluation of General Budget Support (JEGBS) . This reviewed the experiences of seven countries – Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam – in the decade to 2004. Its findings were published in May 2006. The full set of reports, including short summaries, are on the OECD DAC evaluation web-site ([www.tinyurl.com/ry7xj](http://www.tinyurl.com/ry7xj)).

Broadly supporting findings have emerged from country studies in Tanzania and Ghana (respectively before and after the main JEGBS findings).<sup>3</sup>

This Annex summarises the JEGBS findings about the effects of general budget support. The JEGBS definition of "Partnership General Budget Support" (PGBS) is close to DFID's PRBS (although the latter may include earmarked sector budget support). The evaluation methodology is explained in more detail in Annex C, which shows that the analytical approach can easily be adapted to sectoral as well as general forms of budget support.

This Annex draws on the first of a series of JEGBS Thematic Briefing Papers. DFID staff preparing PRBS assessments are recommended to consult the whole set, which consists of:

- #1: What are the effects of General Budget Support?
- #2: When and how should General Budget Support be used?
- #3: How can the risks of General Budget Support be managed?
- #4: How does General Budget Support affect ownership and accountability?
- #5: GBS – Policy Questions and Answers
- #6: GBS – General Questions and Answers

These papers are also available at [www.tinyurl.com/ry7xj](http://www.tinyurl.com/ry7xj)

### What was evaluated?

#### Partnership General Budget Support

General Budget Support (GBS) is aid funding to government that is not earmarked to specific projects or expenditure items. It is disbursed through the government's own financial management system. The finance is accompanied by other "inputs": conditions and procedures for dialogue; donor efforts to harmonise their aid and align it with national policies and procedures; and technical assistance and capacity building.

In the late 1990s "new GBS" or "partnership GBS" (PGBS) emerged as a response to dissatisfaction with earlier aid instruments. "Partnership" is contrasted with the

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<sup>3</sup> For summaries of their findings see: *Does General Budget Support Work? Evidence from Tanzania*, Andrew Lawson, David Booth, Meleki Msuya, Samuel Wangwe and Tim Williamson, Overseas Development Institute, London, and Daima Associates, Dar es Salaam, July 2005 (accessible at [www.odi.org.uk/publications/briefing/pppg/tanzania\\_final.pdf](http://www.odi.org.uk/publications/briefing/pppg/tanzania_final.pdf)) and *Budget support to Ghana: A risk worth taking?* ODI Briefing Paper 24, July 2007, ([www.odi.org.uk/publications/briefing/briefing\\_papers/index.html](http://www.odi.org.uk/publications/briefing/briefing_papers/index.html)).



imposed conditionality of the structural adjustment era. PGBS is intended to support partner countries' poverty reduction strategies.

The evaluation found that there was not such a sharp distinction between sectoral and general budget support as had been assumed. There is a spectrum of budget support instruments, and many instruments that are regarded as sector budget support do not involve the earmarking of funds to specific uses. Moreover, the evaluation's disaggregation of different inputs and effects means that many of its findings can be applied more generally to other programme-based approaches (PBAs).

## The study countries

The study countries were an illustrative, not a representative, sample. Nevertheless, as Box 1 shows, the variety of contexts gave opportunities to draw lessons from contrasts as well as similarities between countries. However, the short history of PGBS limits the scope for robust findings at outcome and impact level.

**Box 1: Country contexts and PGBS flows**

	Country context					PGBS				
	Size	Aid dependency		Government capacity		Duration	PGBS "volume"			Donor involvement
	Population (millions) in 2000	GNI per capita (USD) in 2000	ODA as % GNI in 2000	CPIA quintile in 2003	CPIA change from 1999 to 2003	Starting year for PGBS	Flows up to 2004 (million USD)	PGBS as a share of ODA in 2004	PGBS per capita (USD, cumulative)	No. donors providing PGBS in 2004
Burkina Faso	11.3	250	12.9	2	+1	2001	500	25%	44.3	7
Malawi	10.3	170	26.1	3	-1	2000	148	5%	14.4	3
Mozambique	17.7	210	25.4	3	-1	2000	611	19%	34.5	15
Nicaragua	5.1	740	15.0	1	+1	2002	77	4%	15.1	3
Rwanda	7.7	260	17.9	3	0	2000	248	26%	32.2	4
Uganda	23.3	270	14.3	1	0	1998	1,775	31%	76.2	16
Vietnam	78.5	380	5.5	1	+2	2001	570	8%	7.3	9

Source: *Synthesis Report, Tables 3.1–3.5 and Figure 3.1.*  
Notes: The World Bank's Country Policy and Institutional Assessment (CPIA) tool assesses each IDA country's present policy and institutional framework for fostering poverty reduction, sustainable growth and ability to use development assistance effectively.

## What effects were looked for?

### Hypotheses about PGBS

PGBS was a response to perceived weaknesses in earlier forms of programme aid (e.g. structural adjustment lending) and in other aid modalities. PGBS was expected to have a wide range of effects. The study's terms of reference drew attention to:

- Improved *coordination* and *harmonisation* among donors and *alignment* with partner country systems (including budget systems and result systems) and policies.
- *Lower transaction costs*.
- *Higher allocative efficiency of public expenditures*.
- *Greater predictability* of funding.
- *Increased effectiveness of the state and public administration* as GBS is aligned with and uses government allocation and financial management systems.
- *Improved domestic accountability* through increased focus on the government's own accountability channels.

## Evaluation methodology<sup>4</sup>

The study team developed a logical **evaluation framework** to depict the possible effects of PGBS. Successive levels of the framework dealt with the initial context, the various PGBS inputs, their immediate effects, outputs, outcomes and impact. (Impacts on poverty were disaggregated into effects on income poverty, on provision of basic services, and on empowerment of the poor.)

Three broad types of effect were envisaged:

- *flow-of-funds effects* (arising directly from the financial inputs);
- direct and indirect *policy effects*; and
- *institutional effects*.

A more detailed **causality map** traced various sequences whereby particular inputs might yield particular effects at different levels of the framework. The deeper effects of PGBS were expected to result from a combination of flow-of-funds, policy and institutional effects.

The hypotheses embodied in the evaluation framework and causality map were tested through a series of **evaluation questions** applied in all the sample countries.

Assessment in all cases was based on the standard OECD DAC **evaluation criteria**: relevance, efficiency, effectiveness, sustainability and impact. Detailed country reports provided the evidence base for the final Synthesis Report.

The methodology involved systematic disaggregation of PGBS effects. Many findings are therefore relevant to programme based approaches in general, where these share the design features of PGBS.

## Evaluation challenges

The main challenges were:

- **Time scale:** PGBS began recently (see Box 1). This made it especially difficult to judge expected institutional effects that would take time to emerge.
- **Attribution:** Particularly at outcome and impact levels, PGBS effects are difficult to disentangle from other influences (including the influences of other aid flows). Even the non-financial *inputs* of PGBS may be difficult to identify separately.
- **The nature of PGBS:** PGBS is not a development strategy in itself, but a means of supporting a national poverty reduction strategy (PRS). Its effectiveness, is therefore linked to the quality of the PRS that it supports. Moreover, we were evaluating a moving target because PRSs are continually evolving and so too are the designs of the PGBS instrument.

Although there was limited experience to evaluate, the methodology ensured a very systematic and consistent approach to the assessments. The study team is confident that that its conclusions – as far as they go – are well founded.

## Caveats

All findings from the evaluation need to be interpreted with care. It should not be automatically assumed PGBS will always have the positive effects found – much may depend on context. Nor should cases where an effect was not found be generalised to imply that PGBS is incapable of producing such an effect.

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<sup>4</sup> See Annex C for a fuller explanation of the methodology (which also underlies this How to note's approach to assessment of potential future benefits). A comprehensive *Note on Approach and Methods* [REF, link] describes the methodology in detail.

## What positive effects were found?

### Summary

The evaluation found that the provision of PGBS brought positive effects to **harmonisation and alignment** and **policy development** in all of the countries reviewed. In addition, positive effects on **allocative and operational efficiency of public expenditure** as well as on **public finance management (PFM) systems** were found in Burkina Faso, Mozambique, Rwanda, Uganda and Vietnam, but not in Malawi and Nicaragua where PGBS was not successfully established during the evaluation period. (The country briefing papers ([www.tinyurl.com/ry7xi](http://www.tinyurl.com/ry7xi)) give details of each case.)

### Harmonisation, alignment and policy development

PGBS had a strong effect in promoting donor harmonisation, and in aligning donor programmes behind government policies spelled out in national PRSs. These harmonisation and alignment effects were frequently found to extend beyond PGBS itself. It was found that:

- PGBS has been unique among aid modalities in *providing holistic support to PRSs*.
- PGBS did not impose new policies, but *provided a forum for dialogue* on how policy is implemented. (This was the main role of PGBS in Vietnam; it was also important in the other six countries.)
- PGBS has *supported policy coherence* through creating formal linkages between the government's stated policies and their Medium Term Expenditure Frameworks (MTEF)/budgets (e.g. Uganda sector reviews linked to MTEF/budget preparation).
- PGBS has *complemented sectoral policy mechanisms* through providing forums to address cross-sectoral issues and the coordination of sector strategies (e.g. the forums for discussing budget support in Mozambique embrace all forms of aid and have helped to address cross-sectoral issues such as HIV/AIDS).
- PGBS has *made policy commitments more visible* and enabled them to be jointly supported by donors through agreed policy targets in the PGBS performance assessment frameworks (such frameworks were in use or under development in all the study countries, and increasingly linked to the national PRS).
- PGBS has *influenced policies through empowering and providing incentives to policy-making agencies* as they became more assured that resources would be available for innovative policies (e.g. free education in Rwanda).

### Efficiency of public expenditure

Many of the expected effects of PGBS depend on an increase in *discretionary funds* available to the government budget. In the countries examined this had happened to varying degrees. In Uganda, PGBS supported a substantial increase in public spending; in Malawi PGBS was, in effect, a re-badging of programme aid and did not lead to an increase in discretionary expenditure. The other countries reviewed fell

between these extremes; even where PGBS did not clearly increase total resources available, it did lead to an increase in the volume of discretionary resources in the government budget.

- In Burkina Faso, Mozambique, Rwanda, Uganda and Vietnam, PGBS supported further reorientation of public expenditure in line with the government's policy priorities (in most cases supporting trends initiated through the HIPC debt relief initiative). This, in turn, made more resources available for service delivery. (And better predictability of funding has helped countries to plan for the medium term.)
- In some cases PGBS funding clearly improved *allocative efficiency* by enabling the governments to complement earmarked resources (e.g. in Burkina Faso PGBS complements the HIPC funds which are targeted for social services).
- PGBS also contributed to enhanced *operational efficiency* of public expenditures through:
  - facilitating a better balance between capital investment and recurrent spending in government budgets (e.g. Uganda, Rwanda, Mozambique);
  - making it easier to provide counterpart funding for project aid (e.g. Mozambique); and
  - reducing transaction costs for governments (all cases – see Box 2).

### **Box 2: Transaction costs**

#### **Understanding transaction costs**

Transaction costs occur at all stages of the aid management cycle, from the initial negotiation of aid through to disbursement, implementation (including procurement, construction, etc), and monitoring of the activities it finances. There may also be conversion costs in moving from one instrument to another, and different elements of risk for different types of transaction.

Different ways of doing business may distribute transaction costs differently (e.g. between international partners and government, between country offices and HQs, between finance ministries and sector ministries).

Transaction costs are not a pure efficiency loss: the same activities that embody transaction costs may also have positive benefits (e.g. learning from working groups, mitigating risks through fiduciary safeguards).

Transaction costs are difficult to quantify, and there is much observer bias in their assessment. Much of the debate about transaction costs in relation to budget support has focused on the negotiation and monitoring costs experienced by the principals in the relationship, neglecting the balance of downstream transaction costs during programme implementation.

#### **Evaluation findings**

- Even where PGBS is well established, the up-front transaction costs are not perceived to have fallen as much as some had expected.
- Partner governments' transaction costs at implementation stage have been significantly reduced, by virtue of being able to follow standard government procedures rather than a multiplicity of donor ones.
- The scale of the resulting benefits is diminished by the persistence of project aid and sector baskets that are implemented using parallel systems to those of the government.

## **Systemic improvements in planning and budgeting**

PGBS has also had definite effects on government systems and institutions deriving directly from using them (systemic effects), especially in public finance management (PFM).

PGBS delivery of funds 'on budget' and support to fund allocation and disbursement through the Ministry of Finance (or its equivalent) has strengthened the budget process and financial management systems by:

- *Encouraging sector ministries to engage more seriously with the budget process.* This effect was strongest in Uganda. The effect was weakened where parallel funding to sector ministries remained significant (e.g. in Mozambique, Burkina Faso and Rwanda). In these cases sector ministries were also more sceptical about the capacity of the finance/planning ministry to deliver timely funds in line with allocation decisions, and the link between policies and budgets was also weaker. Uganda is the only country in the study sample in which sector reviews are directly linked to a strong and stable MTEF/budget preparation process. (This effect was not found in Malawi and Nicaragua, where PGBS did not become established during the evaluation period.)
- *Focusing donors' attention on the quality of government systems and the need for increased transparency.* In all countries PGBS donors have provided significant technical assistance and capacity building (TA/CB) inputs and PFM has been an important topic in PGBS dialogue and conditionality. However, capacity building efforts have usually been concentrated on central (finance) agencies, with much less attention to sector agencies and local government.

## **What risks are associated with PGBS?**

The evaluation also looked for possible negative affects and risks associated with PGBS: findings are summarised in Box 3. Thematic Briefing Paper 3 (see [www.tinyurl.com/ry7xj](http://www.tinyurl.com/ry7xj)) provides a full discussion of risks in the context of General Budget Support.

## **What anticipated effects of PGBS were weak or not found?**

### **Perspective**

"Weak" or "not found" effects include cases:

- where an effect was already in place before PGBS began;
- where the time period has been so short that an agnostic conclusion is inevitable; and
- where a significant PGBS effect seems rather unlikely on any time scale.

It is worth reiterating that a "not found" verdict on certain anticipated effects does not necessarily mean that PGBS is incapable of producing such effects.

### **Macroeconomic and growth effects**

Macroeconomic stability and fiscal discipline had already been established in the five countries where PGBS had positive effects overall. PGBS could not therefore be credited with establishing fiscal discipline in these cases (and in the case of Malawi it

failed to do so). However, PGBS funds and conditions were found to provide additional support to the maintenance of stability and discipline. In addition, the evaluation found that, because PGBS funded strategies that concentrated on public service delivery, its effect on economic growth (and hence on income poverty) was weak.

### **Box 3: Possible Negative Effects and Risks: the Evaluation's Findings**

#### *Predictability and Macroeconomic Side Effects:*

- Short-term unpredictability of PGBS has been a frequent problem; it can delay budgeted disbursements to line ministries and service delivery units and affect macroeconomic stability. However, mitigating measures are having an effect. For example, in more recent programmes there is clearer scheduling of releases so that these are more aligned with government budget cycles and better coordinated among donors; and there are provisions ensuring that funding is not disrupted within year except in extreme cases (e.g. the revised Memorandums of Understanding in Mozambique, Burkina Faso).
- There has been less progress in ensuring the medium-term predictability of PGBS (and other aid) in line with the Rome Declaration.
- A rigid link between PGBS disbursement conditions and the International Monetary Fund's conditions for its own disbursements may cause unnecessary short-term volatility in PGBS flows.
- Apart from limited cases where short-term interest rates were driven up by domestic borrowing to cover shortfalls or delays in PGBS receipts, no obvious "crowding out" effects were found.
- However, the suspension of PGBS in Malawi aggravated an already unstable macroeconomic situation. This highlights the importance of fiscal discipline as a prerequisite for PGBS.

#### *Revenue Effects*

- The study found no evidence of a reduction in domestic revenue-raising effort related to the delivery of an increased amount of aid through PGBS.

#### *Balance between Public and Private Sector Development:*

- PGBS has been criticised for bias towards the expansion of public services, without enough attention to quality; and for neglecting private sector growth and development. Early poverty reduction strategies, which PGBS supported, did have a bias towards the expansion of public services, and quantitative improvements (access for more poor people) have been easier to achieve than qualitative improvements. However, the study found in the majority of country cases, an increasing, and government owned/inspired, attention to growth issues in second-generation PRSs. There are corresponding signs that income-poverty measures are increasingly coming into focus in the PGBS policy dialogue. More attention is needed to the quality of basic public services and to their poverty incidence, a deeper analysis of sector and sub-sector strategies and their expenditure implications, and the conditions for private sector growth.

#### *Fiduciary Risks and Corruption:*

- Corruption is a serious problem in all the study countries, but the country study teams found no clear evidence that budget support funds were, in practice, more affected by corruption, or by other fiduciary risks, than other forms of aid.

*See Thematic Briefing Paper 3 (How can the risks of General Budget Support be managed?) [link] for a fuller discussion.*

### **Effects on poverty reduction**

The study could not confidently track distinct (separately identifiable) PGBS effects to the poverty impact level in most countries (although there were some clear links from PGBS to expanded basic services, through funding and through a collective

commitment of donors and government to service delivery targets). This finding reflects the difficulties of data, time-scale and methodology. It does not mean that PGBS has no effect on poverty, nor that it has less effect than other aid modalities.

### **Effects on empowerment and accountability**

PGBS has so far had no discernible effect on empowerment of the poor. It has had some limited effects on the establishment or strengthening of basic conditions for (potential) empowerment of the poor, e.g. through funding the restoration of Rwanda's basic security and justice systems and supporting decentralisation in Uganda.

It has had only limited effects on broader accountability and transparency mechanisms. However, the processes surrounding the provision of PGBS can reinforce domestic accountability (e.g. in Mozambique the PGBS Performance Assessment Framework is used for reporting to Parliament). Also, the foundation for domestic accountability is strengthened by passing more funds through government budgets and making them subject to national accountability processes.

*These issues are further discussed in Thematic Briefing Paper 4 (How does General Budget Support affect ownership and accountability?) – see [www.tinyurl.com/ry7Xj](http://www.tinyurl.com/ry7Xj).*

### **How could positive effects of PGBS be strengthened?**

#### **General perspective: feedback and learning**

In all cases the design of PGBS has been modified in the light of experience to strengthen performance. Initial weaknesses (such as the short-term unpredictability of disbursements) have to a large degree been mitigated. Nonetheless:

- Performance review systems themselves need to be maintained and strengthened.
- There should be special attention to strengthening domestic accountability mechanisms, e.g. through more closely aligning PGBS performance assessment mechanisms and national ones, and through complementary measures to strengthen demands for accountability.

#### **Key ways to strengthen positive effects of PGBS**

The evaluation suggests four main ways of reinforcing the positive effects of PGBS:

- By strengthening the policies it supports.
- Through capacity development.
- By focusing on complementarity between aid instruments.
- By adopting longer-term perspectives.

#### *Strengthening the policies PGBS supports*

The three key dimensions of a national PRS are: (a) the analysis of poverty and of policy options to reduce it (including the balance between growth and service delivery); (b) the extent to which it is operational (i.e. costed and linked to practical priorities); and (c) the quality of the processes and institutions underpinning it (notably, the extent of national ownership).

PGBS donors should not be too prescriptive, but they can support improvements in all these dimensions. A better balance between growth strategies and strategies for service delivery is already occurring in many cases (as reflected in PRS revisions in



Rwanda, Uganda, Mozambique, Vietnam, for example). PGBS dialogue can be used to address the quality, efficiency and pro-poor responsiveness of services. Strategies have often been based on crude assumptions about "pro-poor" expenditure: donors as well as partner governments need to apply more incisive analysis. And (as discussed below) PGBS donors can support the strengthening of national institutions for policy-making and review.

#### *Supporting capacity development.*

Capacity limitations have been a major hindrance in all the study countries. Channelling resources through national systems has proved to be effective in systemic strengthening, but there is much scope for more coordinated donor support to national capacity building strategies, with PFM capacity at the core. A key task is to strengthen the links between policy and public expenditures, by supporting the development of more effective medium term expenditure planning. Capacity development needs to be balanced, with attention to the capacity of sector agencies, local governments and service facilities as well as finance/planning agencies.

#### *Ensure complementarity between aid instruments.*

The study found that the interactions between PGBS and other aid instruments are important in understanding its successes and its limitations. If employed correctly different aid modalities can be complementary. PGBS effects have improved the context for the use of all forms of aid through strengthening PFM systems and improving links between policies and the use of resources. At the same time, some PGBS effects have been strengthened by inputs from other aid modalities, for example projects in support of capacity building. In other cases, modalities have been mutually reinforcing – for example where PGBS policy inputs have led to increased focus on cross-sector issues (e.g. HIV/AIDS). However, despite these synergies some positive PGBS effects have been diminished by the persistence of other aid modalities (e.g. where off-budget project aid has continued to fragment the budget and raise transaction costs).

Instead of seeing PGBS simply as an alternative to other modalities, donors and partner governments need to develop strategies that will explicitly strengthen complementarities between PGBS and other aid instruments, at country and sector levels. The aim should be to maximise the combined effectiveness of all aid modalities. Independent aid reviews should monitor the aggregate effectiveness of aid and national strategies.

#### *Adopting a longer term perspective.*

Some of the effects of PGBS are inherently long term. They require persistence. Donors are still – by and large – unable to commit to 3-year PGBS cycles that would facilitate MTEF planning. In practice, even longer term commitments would be necessary to assure partner governments that they have a stable source of financing for MDG-related recurrent costs of social and other public services. Genuinely long term budget support instruments should be developed. *For more on this, see Thematic Briefing Paper 3 (How can the risks of General Budget Support be managed?) at [www.tinyurl.com/ry7xj](http://www.tinyurl.com/ry7xj).*



## Annex C: Methodology for Evaluating Budget Support

An ex ante assessment of likely benefits from budget support should follow the same basic approach as an ex post evaluation.

The study team for the JEGBS (building on previous evaluability studies initiated by DFID) developed an elaborate logical **evaluation framework** to depict the possible effects of PGBS. Box A provides a schematic view of the framework.

Successive levels of the framework dealt with the initial context, the various PGBS inputs, their immediate effects, outputs, outcomes and impact. (Impacts on poverty were disaggregated into effects on income poverty, on provision of basic services, and on empowerment of the poor.)

Three broad types of effect were envisaged:

- *flow-of-funds effects* (arising directly from the financial inputs);
- direct and indirect *policy effects*; and
- *institutional effects*.

The deeper effects of PGBS were expected to result from a combination of flow-of-funds, policy and institutional effects.

A more detailed **causality map** traced various sequences whereby particular inputs might yield particular effects at different levels of the framework. This is illustrated as Box B.

Box C summarises the empirical findings about each of the main causality links identified on the causality map.

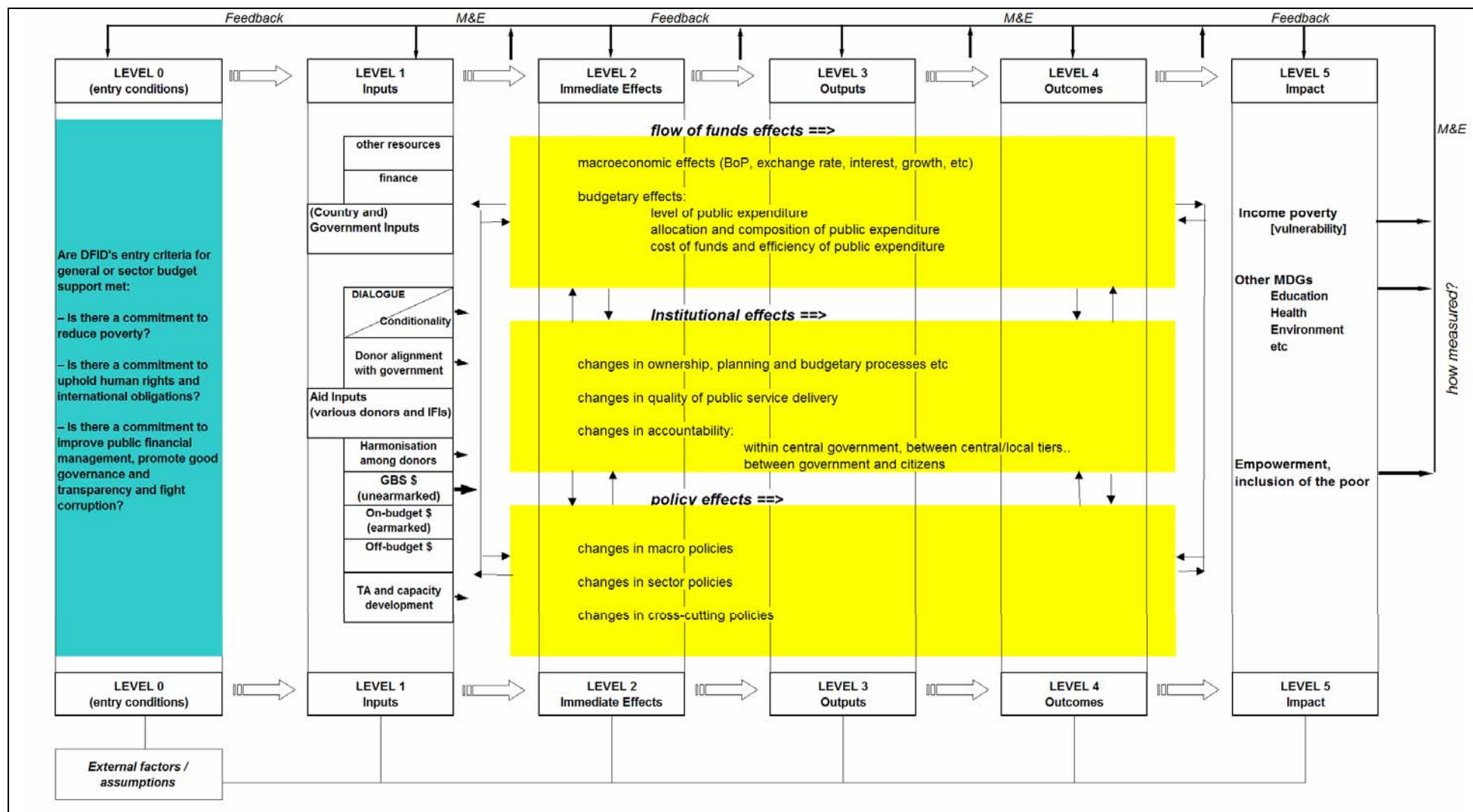
The hypotheses embodied in the evaluation framework and causality map were tested through a series of **evaluation questions** applied in all the sample countries. Assessment in all cases was based on the standard OECD DAC **evaluation criteria**: relevance, efficiency, effectiveness, sustainability and impact. Detailed country reports provided the evidence base for the final Synthesis Report.

The main evaluation questions provided a useful structure both for analysis and for reporting findings; the same structure is followed in the detailed guidance for PRBS assessment that is provided in Annex A.

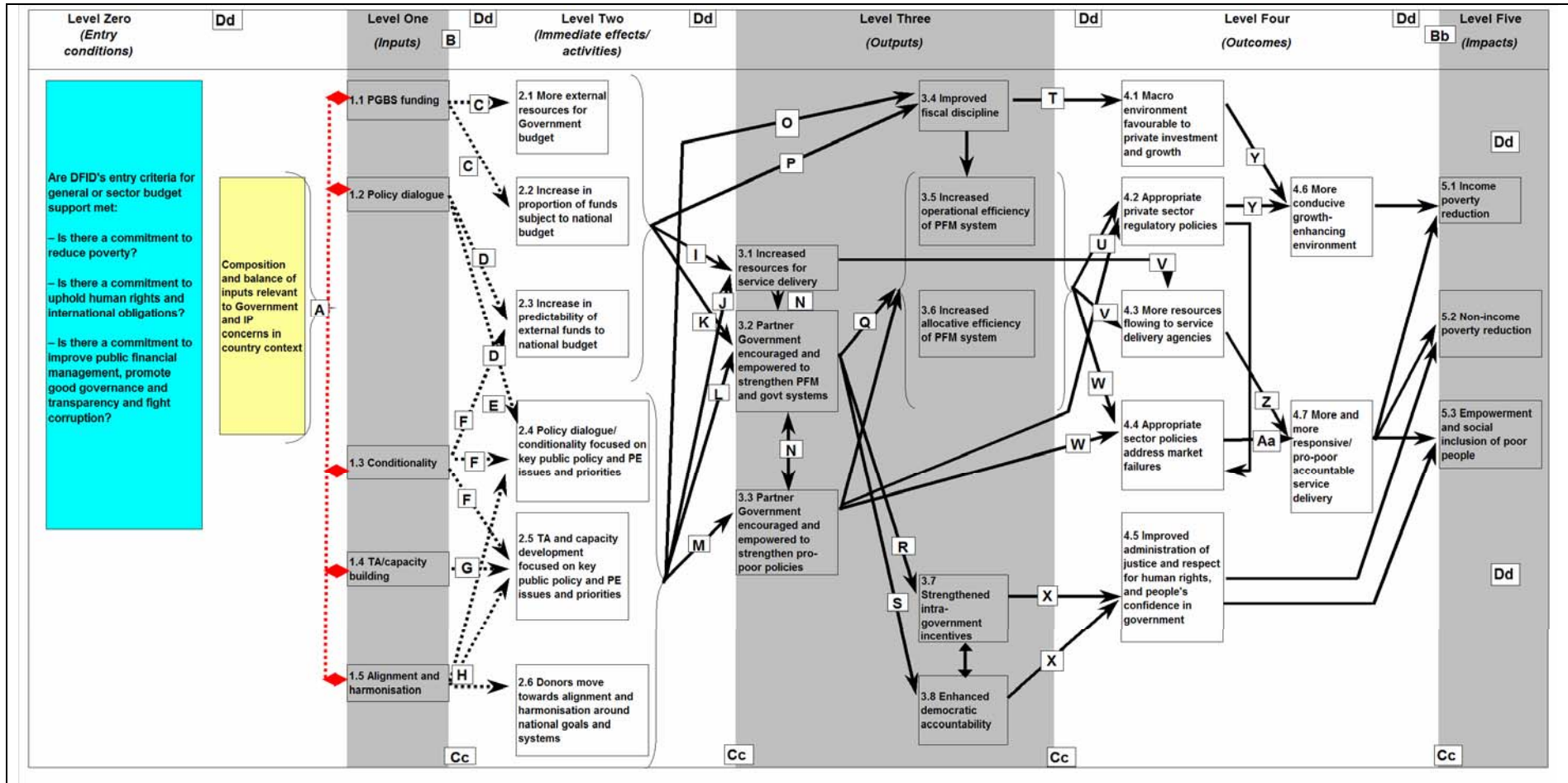
The methodology involved systematic disaggregation of PGBS effects. This makes it relatively straightforward to adapt the JEGBS findings and its analytical approach to the spectrum of budget support designs covered by DFID's PRBS instruments (see Annex A).

For a more detailed documentation of the JEGBS evaluation instruments and an assessment of their use in practice, see the JEGBS *Note on Approach and Methods* (IDD and Associates, 2007), available at [www.tinyurl.com/ry7xj](http://www.tinyurl.com/ry7xj).

**Box A: The Enhanced Evaluation Framework (schematic view – DFID version)**



**Box B: Causality Map for the Enhanced Evaluation Framework**



## Key to Causality Map

<b>A</b>	<b>Level 0 → Level 1</b> <i>The design and its relevance.</i>
<b>B</b>	<b>Level 1 → Level 2</b> <i>Overview of inputs to immediate effects</i>
<b>C</b>	<b>1.1 → 2.1/2.2</b> <i>PGBS effect on total external resources for budget and the proportion of funds subject to the national budget.</i>
<b>D</b>	<b>1.2/1.3 → 2.3</b> <i>Effects of dialogue and conditionality on predictability of external funding to the budget.</i>
<b>E</b>	<b>1.2 → 2.4</b> <i>Increased focus of dialogue on key public policy and expenditure issues.</i>
<b>F</b>	<b>1.3 → 2.3/2.4/2.5</b> <i>Influence of conditionality on predictability of funding, on focus of dialogue, and on TA/CB.</i>
<b>G</b>	<b>1.4 → 2.5</b> <i>PGBS immediate (direct) effect on TA/CB</i>
<b>H</b>	<b>1.5 → 2.4/2.5/2.6</b> <i>Moves towards harmonisation and alignment with national goals and systems, reflected in dialogue and TA/CB work.</i>
<b>I</b>	<b>2.1/2.2/2.3 → 3.1</b> <i>Increased resources for service delivery (flow-of-funds effects)</i>
<b>J</b>	<b>2.4/2.5/2.6 → 3.1</b> <i>Increased resources for service delivery (dialogue/TA/harmonisation and alignment effects)</i>
<b>K</b>	<b>2.1/2.2/2.3 → 3.2</b> <i>Flow-of-funds effects on empowerment to strengthen PFM etc systems</i>
<b>L</b>	<b>2.4/2.5/2.6 → 3.2</b> <i>Dialogue/TA/ harmonisation and alignment effects on empowerment to strengthen PFM etc</i>
<b>M</b>	<b>2.4 → 3.3</b> <i>Dialogue encourages and empowers strengthening of pro-poor policies</i>
<b>N</b>	<b>3.1 → 3.3</b> <i>PGBS funding encourages and empowers strengthening of pro-poor policies</i>
<b>O</b>	<b>2.4/2.5/2.6 → 3.4</b> <i>Non-flow-of-funds effects on fiscal discipline</i>
<b>P</b>	<b>2.1/2.2/2.3 → 3.4</b> <i>Flow-of-funds effects on fiscal discipline</i>
<b>Q</b>	<b>3.2 → 3.5/3.6</b> <i>PFM empowerment of government → improved allocative &amp; operational efficiency</i>
<b>R</b>	<b>3.2 → 3.7</b> <i>Government empowerment to strengthen systems → stronger intra-government incentives</i>
<b>S</b>	<b>(2.2 →) 3.2 → 3.8</b> <i>Government empowerment to strengthen systems → enhanced democratic accountability</i>
<b>T</b>	<b>3.4 → 4.1</b> <i>Link from fiscal discipline to growth-enhancing macro-environment.</i>
<b>U</b>	<b>3.3/3.5/3.6 → 4.2</b> <i>Better PFM system and Government empowered to strengthen policies → Appropriate private sector regulatory policies</i>
<b>V</b>	<b>3.1/3.5/3.6 → 4.3</b> <i>Increased resources for service delivery and better PFM → More resources flowing to service delivery agencies</i>
<b>W</b>	<b>3.3/3.5/3.6 → 4.4</b> <i>Better PFM system and Government empowered to strengthen policies → Appropriate sector policies address market failures</i>
<b>X</b>	<b>3.7/3.8 → 4.5</b> <i>Government incentives/democratic accountability → people's confidence in government, administration of justice and human rights</i>
<b>Y</b>	<b>4.1/4.2 → 4.6</b> <i>Influence of macro-environment and private sector policies on environment for growth</i>
<b>Z</b>	<b>4.3 → 4.7</b> <i>More resources reach service delivery agencies → more and more responsive pro-poor service delivery</i>
<b>Aa</b>	<b>4.4 → 4.7</b> <i>Influence of sector policies on pro-poor service delivery</i>
<b>Bb</b>	<b>Level 4 → Level 5</b> <i>PGBS outcomes → poverty impacts</i>
<b>Cc</b>	<b>(all levels)</b> <i>Transaction Costs</i>
<b>Dd</b>	<b>(all levels)</b> <i>Feedback</i>

### Box C: Synthesis of JEGBS Findings on Causality Links

<b>A</b>	<b>Level 0 → Level 1</b> <i>The design and its relevance.</i>
<i>Synthesis: Rarely a single initial design, and always evolving over time. Finance input straightforward, non-financial inputs less discrete/less well-specified (especially TA/CB). Previous success stories in partnership, on more specific (sectors) and/or limited areas (test in Burkina Faso) seem to facilitate the design and start of PGBS. Complementarities with other aid modalities (particularly sector budget support) are present in the most sensitive designs (Mozambique, Uganda). In several cases, initial analysis/reflection of political and institutional context was weak and was a factor in later difficulties in the relationship between international partners and government.</i>	
<b>B</b>	<b>Level 1 → Level 2</b> <i>Overview of inputs to immediate effects</i>
<i>Synthesis: Significant effect in all countries where sizeable PGBS has been flowing. Differences with respect to which input(s) is/are seen as most influential. In several cases there is also a clear wider effect on the environment for other aid modalities.</i>	
<b>C</b>	<b>1.1 → 2.1/2.2</b> <i>PGBS effect on total external resources for budget and the proportion of funds subject to the national budget.</i>
<i>Synthesis: Even when PGBS funds are small relative to total official aid and total government budgets, amounts involved are not trivial. A range of cases in terms of whether PGBS has brought additional (fungible) funds on budget, and/or is primarily a substitute for project aid or a continuation of previous programme aid.</i>	
<b>D</b>	<b>1.2/1.3 → 2.3</b> <i>Effects of dialogue and conditionality on predictability of external funding to the budget.</i>
<i>Synthesis: Improved predictability cannot be taken for granted. Where basic principles/conditions are not satisfied, shortfalls or fluctuations in disbursements may be amplified. Administrative and technical problems can lead to short-term volatility even when the underlying relationship between international partners and government is harmonious. Established dialogue arrangements (Mozambique, Uganda) have enabled governments to plan with some confidence, even where formal commitments are short-term (though some donors now make longer-term undertakings).</i>	
<b>E</b>	<b>1.2 → 2.4</b> <i>Increased focus of dialogue on key public policy and expenditure issues.</i>
<i>Synthesis: Importance of pre-PGBS/simultaneous frameworks focusing attention on public expenditure/policy issues e.g. HIPC in all HIPC countries. PGBS can complement/ enhance existing sector mechanisms, providing forums/instruments for addressing cross-sector issues. PGBS as a modality is unique in directly and broadly supporting national poverty reduction strategies. PGBS dialogue focused mainly on basic public services, but increasingly examples of extension to private sector and income generation issues (Mozambique, Uganda) and bringing issues of quality and equity into focus. PGBS dialogue may enhance and increase the consistency of ongoing dialogue and partnership on key public policies. It may still be too general and it is extremely demanding to promote and build such dialogue/partnership from zero.</i>	
<b>F</b>	<b>1.3 → 2.3/2.4/2.5</b> <i>Influence of conditionality on predictability of funding, on focus of dialogue, and on TA/CB.</i>
<i>Synthesis: Design of conditionality (see link D) can influence predictability. Clear performance assessment framework can both clarify conditionality and focus dialogue more effectively.</i>	
<b>G</b>	<b>1.4 → 2.5</b> <i>PGBS immediate (direct) effect on TA/CB</i>
<i>Synthesis: TA/CB is the least well specified part of PGBS package in all seven countries. Complementary TA/CB important, but coordination is mostly ad hoc and PGBS potential is under-exploited.</i>	

<b>H</b>	<b>1.5 → 2.4/2.5/2.6</b> Moves towards harmonisation and alignment with national goals and systems, reflected in dialogue and TA/CB work.
	<i>Synthesis: Often the PRSP does not set a demanding standard for policy/goal alignment (if not costed, prioritised, some sector strategies undeveloped), while government capacity to participate in central/sector level dialogue affects reality/depth of ownership. Alignment with government budget cycles improving; less progress in medium-term planning, which is crucial. With these caveats, strong harmonisation and alignment effects for PGBS itself, and demonstration/emulation effects in several cases. Previous successful experiences in more specific/limited areas are important.</i>
<b>I</b>	<b>2.1/2.2/2.3 → 3.1</b> Increased resources for service delivery (flow-of-funds effects)
	<i>Synthesis: No discernible effects in Malawi, Nicaragua; definite and significant effects in all other cases, including support for service delivery recurrent cost funding.</i>
<b>J</b>	<b>2.4/2.5/2.6 → 3.1</b> Increased resources for service delivery (dialogue/TA/harmonisation and alignment effects)
	<i>Synthesis: Weak effects at best in Malawi and Nicaragua. Elsewhere, effect is strong/ significant. PGBS dialogue reinforcing concurrent processes/mechanisms which had already prompted shifts in govt preferences/ budgets (Poverty Action Fund in Uganda; HIPC in BF; PRSP generally).</i>
<b>K</b>	<b>2.1/2.2/2.3 → 3.2</b> Flow-of-funds effects on empowerment to strengthen PFM etc systems
	<i>Synthesis: No effect in countries with short PGBS history. Strong empowerment/ incentive effect everywhere else but may be concentrated on central (finance) agencies. Only in Uganda, so far, is there a strong wider effect (spending institutions, Parliament, local governments).</i>
<b>L</b>	<b>2.4/2.5/2.6 → 3.2</b> Dialogue/TA/ harmonisation and alignment effects on empowerment to strengthen PFM etc
	<i>Synthesis: Established PGBS has significant effect in strengthening budget process – partly by requiring sector ministries to deal with central resource agencies.</i>
<b>M</b>	<b>2.4 → 3.3</b> Dialogue encourages and empowers strengthening of pro-poor policies
	<i>Synthesis: As with link I, established PGBS has significant effects; more fruitful where it follows up pre-existing processes. But concepts and instruments of "pro-poor" policy may be weak or problematic. Dialogue has helped protect pro-poor expenditures but broad definitions of pro-poor expenditures may be problematic (see boxes on definition of pro-poor expenditures in each country).</i>
<b>N</b>	<b>3.1 → 3.3</b> PGBS funding encourages and empowers strengthening of pro-poor policies
	<i>Synthesis: The availability of funding can act as an incentive for agencies to participate in policy processes.</i>
<b>O</b>	<b>2.4/2.5/2.6 → 3.4</b> Non-flow-of-funds effects on fiscal discipline
	<i>Synthesis: PGBS has become established only where there is a track record of fiscal discipline. IMF is the main interlocutor with government. Link from PGBS to PRGF conditionality can reinforce it.</i>
<b>P</b>	<b>2.1/2.2/2.3 → 3.4</b> Flow-of-funds effects on fiscal discipline
	<i>Synthesis: PGBS is an aid to fiscal discipline, through providing funds subject to budget process. Where there is fiscal discipline, PGBS allows higher spending for same level of fiscal discipline or same level of expenditure for lower deficit.</i>
<b>Q</b>	<b>3.2 → 3.5/3.6</b> PFM empowerment of government → improved allocative & operational efficiency
	<i>Synthesis: Significant effects where funds have flowed; related technical assistance significant in some cases. Allocative efficiency may be first effect; much scope still for improvements in operational efficiency.</i>

<b>R</b>	<b>3.2 → 3.7</b> Government empowerment to strengthen systems → stronger intra-government incentives
	<i>Synthesis: PGBS strengthens role of Ministry of Finance, requiring sector ministries to engage directly in national budget process. May be undermined by continuation of sector and project support direct to line ministries. Sector ministries have incentive to persist with separate channels, and may need empowerment to engage effectively with Ministry of Finance.</i>
<b>S</b>	<b>(2.2 →) 3.2 → 3.8</b> Government empowerment to strengthen systems → enhanced democratic accountability
	<i>Synthesis: Where PGBS is established, a common effect is to bring more funding within the scope of national accountability systems. These are typically weak, however, and only in some cases is there a clear increased interest in political accountability as a result. Associated transparency etc. may be a pre-condition, without being a guarantee, of democratic accountability.</i>
<b>T</b>	<b>3.4 → 4.1</b> Link from fiscal discipline to growth-enhancing macro-environment.
	<i>Synthesis: Links are weak, at best, partly because discipline itself is only indirectly related to PGBS (see links O and P), partly because relationship between fiscal discipline and growth-enhancing environment is contingent (necessary but not sufficient).</i>
<b>U</b>	<b>3.3/3.5/3.6 → 4.2</b> Better PFM system and Government empowered to strengthen policies → Appropriate private sector regulatory policies
	<i>Synthesis: Link weak or moderate at best. And weak effect of PGBS, because no/limited engagement of policy-making/PRS/PGBS with growth agenda, so far.</i>
<b>V</b>	<b>3.1/3.5/3.6 → 4.3</b> Increased resources for service delivery and better PFM → More resources flowing to service delivery agencies
	<i>Synthesis: Link present in some cases, with PGBS effect through contributing to increased resources and support to PFM reforms (i.e. the starting points in the link), but prevailing limitations in PFM, especially operational efficiency (match between allocation and execution), prevent full effects.</i>
<b>W</b>	<b>3.3/3.5/3.6 → 4.4</b> Better PFM system and Government empowered to strengthen policies → Appropriate sector policies address market failures
	<i>Synthesis: Link weak to moderate. Not the same reason as U above, i.e. in this area policy-making/PRSP/PGBS have been more engaged, but mixed/uneven success.</i>
<b>X</b>	<b>3.7/3.8 → 4.5</b> Government incentives/democratic accountability → people's confidence in government, administration of justice and human rights
	<i>Synthesis: Modest examples where PGBS dialogue and policy measures have supported access to justice and other pro-poor governance issues. Some adjustments in intra-government incentives (Uganda, Rwanda, Burkina Faso, Mozambique) and some improvements in accountability/scope for it (same countries) but still no discernible effect of those on people's confidence in government, administration of justice and human rights. Very limited visible PGBS effect, through funding government budget for basic institutions in Rwanda; and through support to decentralisation in Uganda (though arguably this is mainly an effect on the accountability starting point of this link).</i>
<b>Y</b>	<b>4.1/4.2 → 4.6</b> Influence of macro-environment and private sector policies on environment for growth
	<i>Synthesis: Vietnam is the exception (PGBS effect as it supported government market economy reform). Elsewhere, link itself is weak because: (i) starting points are weak (under-developed policies in Burkina Faso, Rwanda); (ii) other factors (besides policies and macro environment influenced by govt) affecting growth (Burkina Faso, Rwanda). Some PGBS effect through contribution to positive macro environment (Mozambique, Uganda). In several cases, recognition of need to rebalance policy agenda implies recognition of a weak policy starting point for this link.</i>

<b>Z</b>	<b>4.3 → 4.7</b> <i>More resources reach service delivery agencies → more and more responsive pro-poor service delivery</i>
	<i>Synthesis: More resources and more (quantity) services delivered in all five countries where PGBS is established. Wherever service expansion has occurred (however financed), quality (and access by the poorest) remains an issue, which is becoming more prominent in PGBS review and dialogue (see link Aa).</i>
<b>Aa</b>	<b>4.4 → 4.7</b> <i>Influence of sector policies on pro-poor service delivery</i>
	<i>Synthesis: Policies have been concerned with expansion primarily; signs that qualitative issues will feature more prominently in future.</i>
<b>Bb</b>	<b>Level 4 → Level 5</b> <i>PGBS outcomes → poverty impacts</i>
	<i>Synthesis: Cannot confidently track distinct (separately identifiable) PGBS effects to poverty level impact in most countries. Problems in time scale for effects, lack of robust outcome/impact data; tentative inferences possible from output data on service delivery, but weaknesses in data on incidence and quality. PGBS effect hard to discern because of above issues but some effect (mostly on non-income dimension) is reported in Mozambique (through system strengthening effect as noted in previous link); Rwanda (funding + uneven policy and other system effects); Uganda (expansion of basic services – see previous link; BF similar on smaller scale); Vietnam (support to government growth agenda and until now positive trickle down effect).</i>
<b>Cc</b>	<b>(all levels)</b> <i>Transaction Costs</i>
	<i>Synthesis: Ambiguous effects on transaction costs: up-front not perceived to have fallen as some expected, but significant reduction for partner government at implementation stage compared with managing projects through donor procedures. Transaction costs of negotiation/management of PGBS substantial, with shifts in distribution costs within donor/government. NB some costs (e.g. of dialogue) have direct benefits. Overall effect depends on whether PGBS displaces modalities with higher transaction costs.</i>
<b>Dd</b>	<b>(all levels)</b> <i>Feedback</i>
	<i>Synthesis: Sustainability is an important issue: PGBS is evolutionary in design and has generally shown an ability to learn from experience and adapt accordingly. Less reliance than could be expected on general policy and performance review mechanisms (such as PRSP Annual Progress Reports) and more use of PGBS-specific reporting, although there are moves towards convergence.</i>