

LEARNING FROM EXPERIENCE WITH PERFORMANCE ASSESSMENT FRAMEWORKS FOR GENERAL BUDGET SUPPORT

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Synthesis Report

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Acronyms

CAS	Country Assistance Strategy
DAC	Development Assistance Committee (of the OECD)
DFID	Department for International Development
DPL	Development Partner Lending
EC	European Commission
GBS	General Budget Support
GoG	Government of Ghana
GoM	Government of Mozambique
G11/15/17	Group of 11/15/17 donors providing programme aid
HIPC	Heavily Indebted Poor Countries Initiative
IDD	International Development Department (University of Birmingham)
IMF	International Monetary Fund
MDG	Millennium Development Goals
MOU	Memorandum of Understanding
NEPAD	New Partnership for Africa's Development
ODA	Official Development Assistance
OED	Operations and Evaluations Department
OECD	Organisation for Economic Cooperation and Development
PAF	Performance Assessment Framework
PAPs	Programme Aid Partners
PAPPA	Programme Aid Partners Performance Assessment
PEFA	Public Expenditure and Financial Accountability Secretariat
PES	<i>Plano Económico e Social</i> (Economic and Social Plan)
PFM	Public Finance Management
PRGF	Poverty Reduction Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Assessment
SECO	Swiss State Secretariat for Economic Affairs

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However, the findings and conclusions of this study are those of the authors alone. In particular, no responsibility should be attributed to seco or to participating members of general budget support operations in the five countries studied.

Executive Summary

This report provides the findings of a study financed by SECO and undertaken under the auspices of the OECD-DAC multi-country evaluation of General Budget Support (GBS). The overall objective was to gather preliminary lessons on what could be good international practice in the development of Performance Assessment Frameworks (PAFs) for GBS.

The study is based on the experience of three countries which have adopted harmonised PAFs – namely Ghana, Mozambique, and Tanzania, and two which are moving in this direction – Benin and Nicaragua. In order to assess the effectiveness of these PAFs, the study employed a simplified, standard framework reflecting the OECD-DAC guiding principles for the provision of budget support.

Four generalised approaches to GBS performance assessment have emerged in recent years, corresponding to the approaches of the European Commission, the World Bank, the IMF and the bilateral development agencies. The PAFs in the five case study countries embody a mixture of these four approaches:

- (i) The use of a differentiated response mechanism, involving a virtually guaranteed fixed tranche and a variable tranche whose value is determined by performance in relation to quantitative performance indicators at outcome level;
- (ii) The reliance on IMF analysis of macroeconomic and structural conditions through the Poverty Reduction and Growth Facility (PRGF);
- (iii) The assessment against 'prior policy actions' in the style of the World Bank; and
- (iv) General assessment against overall progress with the PRS as commonly favoured by bilateral agencies.

Even from a relatively quick analysis of five GBS PAFs, it is clear that there is much that can be learned. This sample shows that over a number of areas – harmonization, alignment, reduction of transaction costs, improvement of predictability – good practices are being developed and PAFs are contributing positively to GBS development objectives. Nevertheless, much still remains to be done to improve the efficiency of the management, review and disbursement frameworks for GBS. Especially worrying is the finding that for many partner governments there is still a fundamental lack of clarity over exactly how disbursement conditions are assessed and exactly what needs to be done to increase the availability of GBS flows.

Five specific good practices are identified which have the potential to be mainstreamed:

- Firstly, it is possible to manage all budget support effectively through a single harmonised performance framework and there are major gains in reduced transaction costs from doing this.
- Secondly, it is possible to construct a schedule for performance review, disbursement decision and tranche release which creates a high level of predictability in GBS flows. The key requirement is that the annual review should be timed to take place 9 months before the start of the fiscal year, with disbursement decisions resulting from the annual review being confirmed at HQ level 6 months before the start of the fiscal year.

- Thirdly, a significant level of alignment to Government systems and procedures is achievable, in particular by utilising normal government reporting systems for budget execution, for service delivery performance and for progress towards PRS targets.
- The concept of a PAF can also be applied to the donors' obligations and offers new ways to strengthen mutual accountability which again permits a lowering of the transaction costs for the partner governments.
- Macroeconomic assessment by IMF (until now mostly through PRGF) makes an essential contribution to the harmonized review system. Yet, this process remains parallel to the PAF process that, although generally effective, does not go without tensions (especially concerning scheduling).

This is important because it provides a concrete example of how an issue which is fundamental to the GBS process can be effectively assessed outside of the PAF. In principle, this model of 'sub-contracting' discrete aspects of performance assessment could be an effective way of dealing with the excessive size of the PAFs in these five countries.

The study identified three ineffective practices which should be avoided:

- The need to avoid an unnecessary expansion in the scope and complexity of the PAF is a major lesson emerging from this study.
- The need to recognise that the PAF should be only one component within a coordinated sequence of processes for performance reviews and policy dialogue represents another challenge.
- The final lesson is that the effectiveness of variable tranche schemes, when there is not a minimum 'critical mass' of financing behind them, is not proven as an incentive to improved performance.

Where the GBS allocations to variable tranches are small in relation to overall disbursements and where there is a wide range of disbursement conditions being assessed, the withholding of all or part of these variable tranches appears to have no discernible impact on the behaviour of recipient governments. The potential incentive effect appears to be effectively drowned out.

The lessons which follow directly from the experiences of these five countries are important and point clearly to certain practices to be emulated and others to be avoided. However, much still remains unknown. The final section of the report provides some preliminary views, as a way of provoking debate, on the conceptual issues which will need to be overcome in order to design better performance assessment frameworks for GBS. It provides some suggested answers to four fundamental questions:

- What should be the objectives of budget support?
- How should conditionality be used?
- How best can a graduated response to performance be introduced?
- What should be the role of the PAF?

Achieving consensus over these questions is likely to facilitate enormously the future development of more effective harmonised PAFs for GBS.

1. Introduction and Summary of Objectives

This report has been produced jointly by Oxford Policy Management and Gerster Consulting in response to a request from the Swiss State Secretariat for Economic Affairs (seco). It reports on the findings of a thematic study undertaken under the auspices of the OECD-Development Assistance Committee (DAC) multi-country evaluation of General Budget Support (GBS). The study itself took place between March and July 2005, culminating in the production of this synthesis report.

The overall objective is to develop preliminary lessons learned as to what could be good international practice in the development of Performance Assessment Frameworks (PAFs) for GBS. The study is based on the experience of three countries which have adopted harmonised PAFs – namely Ghana, Mozambique and Tanzania, and two that are moving in this direction – Benin and Nicaragua. The report is the result of brief field work in Benin and Ghana, complemented by desk work on those countries as well as on Mozambique, Nicaragua and Tanzania.

1.1 Background

GBS has become an increasingly common instrument for different development agencies. As development agencies have established more formal policy guidelines on the use of GBS, the risk of creating a multitude of different GBS arrangements each with their own monitoring and disbursement frameworks has become increasingly apparent. Both recipient countries and GBS donors have been quick to realise the need to avoid the high transaction costs and the weakening of government systems which such arrangements might potentially entail. Simultaneously, there has been some rethinking of the way in which disbursement conditionalities should be managed so as to focus more on partnership in support of a national poverty reduction strategy and less on the “buying” of policy change.

In response to these developments, three broad types of performance assessment frameworks (PAF) for GBS have emerged:

- Common Performance Assessment Frameworks (often just called ‘PAFs’) which provide the basis for joint monitoring by all GBS donors and for management according to a set of predefined common principles, with disbursement still subject to individual donor decisions.
- The use of the World Bank Poverty Reduction Support Credit (PRSC) as the common assessment framework, often supported by a Memorandum of Understanding (MOU) stating common principles and outlining how consultations on the PRSC should be managed.
- The use of the IMF Poverty Reduction and Growth Facility (PRGF) as the primary basis for monitoring progress and deciding on disbursements, often supplemented by specific conditions for certain donors.

There is an increasing view, especially from recipient governments but also from many GBS donors, that a Common Performance Assessment Framework (as described above) is likely to be the optimal one. This would appear to offer *a priori* the best opportunity to maximise the number of GBS donors, to reduce transaction costs, to promote predictability in GBS disbursements, to maximise effectiveness of GBS by focusing the policy dialogue on key reform areas, and to foster strong partnership. Therefore, a first hypothesis to explore is whether experience bears out this

expectation. This is a question which the overall joint evaluation of GBS should be able to address explicitly. In this study, we begin to assess whether there are any reasons why this should not be true, by considering one country - Benin, where budget support is still at a small scale and a fully harmonised PAF has yet to be developed. From this initial exploration, some notion of what could constitute the appropriate context for a harmonised PAF can be developed as well as some pre-conditions for how they should be developed.

In those countries where harmonised PAFs have been introduced, a common difficulty has been the need to manage a number of multiple objectives through one instrument. In part, this arises from differences in the approach to conditionality, in part from the need to compensate for weaknesses in government systems for designing and monitoring economic reform. This multiplicity of objectives seems virtually inevitable so an important design question is how to manage this problem. The joint evaluation of GBS in Tanzania states the problem quite succinctly:

*'we believe that the PAF suffers from trying to perform too many functions simultaneously. Each of these is necessary and yet by trying to perform all of them through one mechanism, without distinguishing how different types of information are being used, each of these functions is to some extent compromised'*¹

How these competing objectives are managed is likely to be an important issue for all countries currently managing GBS through harmonized PAFs and is thus likely to give an indication of good practice for the future.

The structure of PAFs and the way in which they are managed is evolving very fast. Mozambique and Tanzania have been at the forefront of developments in this area and can offer a wide range of lessons both on the specifics of PAF design and on the process by which it might be elaborated and agreed. Ghana and Nicaragua have tried quite explicitly to draw on these experiences in the development of their PAFs. The experience of these four countries provides some useful early lessons on what may succeed elsewhere.

This report presents our conclusions on the early lessons emerging from this limited group of countries. It has been made deliberately brief in order to aid its accessibility and easy dissemination. Its production is also timed so as to provide an input into the Final Report of the multi-country OECD-DAC evaluation of GBS.

1.2 Objectives

The overall objective of the study is to gather preliminary lessons on what could be good international practice in the development of Performance Assessment Frameworks for GBS. The specific objectives are to:

- Identify what type of PAFs have been adopted for GBS in each of the five countries covered by the study;
- Assess the specific contribution of PAFs in terms of processes and outcomes of the policy dialogue around GBS;

¹ D. Booth, A. Lawson, S.Wangwe & T.Williamson, *Joint evaluation of General Budget Support: Tanzania 1995 – 2004*, Final report to the government of Tanzania & the PRBS Donors, May 2005.

- Document why and how the PAF development process has unfolded, its transparency and its eventual implications for domestic accountability;
- Identify which objectives of GBS the chosen arrangements are seeking to achieve and in what balance, considering in particular issues such as harmonisation, alignment, volume of GBS, predictability, the promotion of policy dialogue and monitoring of different aspects of GBS.

The study assesses how well these objectives have been addressed within each individual PAF, considers how far they are likely to be achieved, and assesses the added value of the PAF. In the light of this analysis, we have attempted to define the key elements of emerging good practice likely to be relevant in different country contexts.

The intention is that these findings should feed into the Synthesis Report of the joint evaluation of GBS as need be, and should be used for discussion and refinement in the different fora dealing with GBS.

1.3 Approach and Methodology

This is not a comprehensive piece of research on PAFs. It is doubtful whether in-depth research would be useful when there is still limited experience internationally of GBS performance assessment frameworks. The aim instead is to draw out some of the early lessons emerging from experience to date.

The approach adopted has involved a team of three consultants with significant experience of GBS, who could bring their own knowledge and ideas to the work. There has been minimal reliance on fieldwork so as to avoid any potential confusion with the wider evaluation and to reduce time pressures on government personnel and donor country staff managing GBS. Dedicated field trips were not considered necessary for Mozambique, Nicaragua and Tanzania in view of the team's up-to-date knowledge of their PAFs. For these countries the analysis was based on desk work and limited field work organised within the context of other ongoing consultancy and research work being undertaken in these countries by the study team. For Benin and Ghana, short field trips of one week each were undertaken in addition to desk work.

The methodology has thus involved three simple steps:

- An assessment of the performance of the GBS PAFs in the five study countries – Benin, Ghana, Mozambique, Nicaragua, and Tanzania.
- A comparison of performance and an identification of common and contrasting features.
- Identification of good practice principles and general lessons emerging.

The intention has been to be as succinct as possible in order to pull out key lessons and present them in a user friendly manner, which will facilitate dissemination and debate. In the process, there is inevitably something lost. Each of these five countries has its own complicated historical and institutional context which necessarily influences the aid relationship and consequently the evolution of the performance review process for GBS. Country summaries have been prepared as working papers only and the resulting observations and conclusions should not therefore be read as a

comprehensive evaluation but rather as a quick overview, designed to identify the obvious 'do's' and 'don'ts' and to formulate hypotheses for further investigation.

1.5 Report Outline

Following this introductory chapter, the report is structured as follows:

- In Chapter 2, we present an overview of the evolving approaches to review and monitoring country performance in the context of General Budget Support. We note that four generalised approaches have emerged. Most PAFs embody some mixture of these four approaches.
- In Chapter 3, we provide a comparative assessment of the performance of the five PAFs which have been studied, namely Benin, Ghana, Mozambique, Nicaragua and Tanzania.
- Chapter 4 summarises the conclusions and general lessons which emerge from the country analysis.
- Chapter 5 addresses some of the unresolved questions, and lays out a tentative way forward.

2. Current Policies on GBS Performance Review & Assessment

There is a major difficulty in assessing General Budget Support and its management systems which is that there is no clear, universally accepted statement of the objectives of budget support. This is true both at the country level and at the international level, with regard to generic objectives. At the international level, most development agencies – although certainly not all – have their own policy statements outlining the broad justification for the use of budget support. However, these are mostly presented in rather general terms and include a range of objectives. At the country level, different agencies will frequently provide budget support to the same Government and through similar monitoring and disbursement methods, yet with different objectives in mind. Even where each agency signs up to a common Memorandum of Understanding, this will generally encompass a number of objectives, each of which may be given a different weight by each agency².

The overall OECD-DAC GBS Evaluation has overcome this problem by adopting a common framework for evaluation³, based upon an implicit chain of causality which is taken to be applicable to all GBS arrangements, regardless of their stated objectives. This chain of causality seeks to illustrate how GBS works by identifying the effects caused by providing aid through GBS, in comparison with a situation where either no aid is provided or where the same level of aid is provided through other modalities. Although the different agencies providing GBS have agreed to the adoption of this framework as a basis for evaluation, it would not be true to say that the underlying ‘theory’ of budget support is fully shared – rather there is a range of objectives and a range of approaches to GBS exhibited by the different GBS providers.

The ways in which Performance Assessment Frameworks are used by different agencies clearly reflect these different approaches. Even where there is a single, harmonised PAF, its design and scope is heavily influenced by which approach is dominant. Where no single approach is dominant, then a range of approaches need to be accommodated, which again impacts upon the design and scope of the PAF, as well as the way in which it is interpreted and used.

Hence, before attempting to assess the five selected PAFs it is important to have an understanding of the different approaches to GBS which are commonly utilised. This chapter seeks to provide that understanding – first by examining the evolution of the budget support modality and then by looking in more detail at the four different approaches which emerge from this history. We conclude with a short summary of the different types of GBS disbursement currently found in our five case study countries.

2.1 The Evolution of Budget Support – An Overview

The approach and principles of budget support have developed and changed since the mid-1990s.⁴ Several studies and evaluations in recent years have increased the awareness of donors

² A simple illustration of the looseness with which objectives are defined is the fact that in none of the budget support arrangements we examined for this study (nor in many others with which we are familiar) was there an estimation of the level of resources which would be necessary to achieve the stated objectives.

³ Booth, D. and A. Lawson, Evaluation Framework for General Budget Support: Framework for Country-level Case studies, Report to the OECD-DAC Evaluation Network, February 2004.

⁴ Hammond, M. *Joint DAC and Partners Evaluation of General Budget Support*. Report to the Practitioners’ Forum on Budget Support, South Africa, May 2005.

and partner countries that traditional forms of conditionality (which were mainly defined by donors) have been less effective than expected.⁵ It is now recognised that domestic political considerations are the prime factor in determining economic and political reform. Consequently, donors are expected to move from using conditionality as a 'stick' to using conditionality as an agreed set of milestones between the partner government and the donors.

The existence of poverty reduction strategy papers (PRSPs) has shifted the focus towards partner country owned objectives and strategies and towards mainly non-earmarked GBS, implying that GBS should be partnership-based and support country ownership. There is also a consensus to prioritise institution building (strengthening democratic accountability and transparency) and sound macroeconomic and public financial management. GBS is also perceived to address some of the well documented shortcomings of project-based development assistance.⁶

The content of policy-based lending has thus shifted from short-term economic management to complex medium term institutional reforms. At the same time, the perceived failure of conditionality has moved the monitoring of budget support operations from a focus on policy conditionalities to a focus on institutional development objectives and the benefits of GBS as an aid instrument compared with project-based lending.

This leads to a number of complex issues in the management of GBS, in particular related to reconciling tensions between country ownership and donor fiduciary concerns (around accountability and developmental effectiveness) and predictability of resources flows versus a performance orientation. A small number of donors have begun to draw on early experiences to address these issues and define corporate policies for risk management and performance assessment when providing budget support in a PRSP context. A much larger number of donors have only recently begun to experiment with limited use of budget support. For the most part, donors engaged in GBS are working jointly to meet performance assessment challenges in practical ways as they emerge at country level.

Four generalised approaches to GBS performance assessment have emerged, corresponding to the approaches of the European Commission, the IMF, the World Bank and the bilateral development agencies. Here we refer to:

- (i) The use of a differentiated response mechanism, involving a virtually guaranteed fixed tranche and a variable tranche whose value is determined by performance in relation to quantitative performance indicators at outcome level;

⁵ The *Assessing Aid* report (World Bank, 1998) was particularly influential in spreading the message of the failure of conditionality.

⁶ The **sector-wide approach (SWAP)** is one means of making the transition from projects to GBS. Under a SWAP, the aim is for all significant funding to support a single sector policy and expenditure programme under government leadership. In practice, most SWAPs are best viewed as a gradual process of integrating all sources of funding in a sector, bringing ongoing donor projects in line with the sector policy and expenditure framework, developing common procedures and channelling an increasing proportion of donor funds through the government budget. The aim is to reach a stage where as much development assistance as possible is channelled through the government budget. However, this is a gradual process and donors continue to support sector-wide approaches using a variety of different funding instruments.

- (ii) The reliance on IMF analysis of macroeconomic and structural conditions through the Poverty Reduction and Growth Facility (PRGF);
- (iii) The assessment against 'prior policy actions' in the style of the World Bank⁷; and
- (iv) General assessment against overall progress with the PRS as commonly favoured by bi-lateral agencies.

Most PAFs seem to embody a mixture of these four approaches. A unique approach has not yet evolved.⁸

2.2 The European Commission Approach

Eligibility conditions for EC budget support are concerned with the adequacy of public expenditure management and procurement institutions, the framework for macroeconomic management and policies for poverty reduction. Progressively, innovative features have been added to this structure, designed to articulate the Commission's result's-oriented approach to performance assessment while maintaining some predictability of financial flows. The central feature of the EC approach is the combination of fixed and variable tranches with different rules attached to each. The fixed tranche component has a fixed value and the decision on its disbursement is based on the PRGF framework and the IMF assessment associated with that. This assesses whether general conditions, such as the macroeconomic situation or any specific fiduciary requirements, are in place. In principle, the EC does not require any further assessments to release the fixed tranche in full⁹.

The variable tranche, by contrast does not have a fixed value and the extent to which it is disbursed will depend upon progress in one of two areas: public financial management or social services delivery. The amount of funds released through the variable tranche is linked to performance against an agreed set of indicators and corresponding performance targets. Performance on each indicator (in relation to the pre-agreed target) is assigned a score of 0, 0.5 or 1 and the value of the tranche release will then be determined by a mathematical calculation based upon the pre-established weighting of the indicators. The table below provides a hypothetical example, by way of illustration¹⁰.

The EC approach embodies two levels of conditionality - general and specific. For all tranches, the general conditions for the fixed tranche have to be met. The variable tranche release is determined by performance in PFM improvements (judged against pre-agreed target improvements in efficiency indicators) and / or social services delivery (judged against pre-agreed outcome targets).

⁷ Prior actions are actions specified as legally binding conditions for disbursement and are listed in the legal agreement signed by the borrowing government and the World Bank. They are also frequently referred to as 'trigger conditions'. They are distinct from 'desired actions' which are specified in a PRSC or PAF matrix but not legally binding. .

⁸ The following sections acknowledge Overseas Development Institute, *Progress reviews and performance assessment in poverty reduction strategies and budget support*, Report to JICA, May 2005

⁹ Because it has a fixed value, the fixed tranche is always either released in full or not at all.

¹⁰ This is necessarily a simplification for illustrative purposes. In practice, each indicator would be more carefully defined and the source of information for that indicator also well specified. Annual progress would be judged by reference to a specified base year and the annual changes since that year.

Table 1: Hypothetical illustration of a Variable Tranche Disbursement against Social Services Outcome Targets

Indicators	Targets	Weighting	Performance	Score	% of tranche to be released
Net Primary Education Enrolment Rate (All)	72%	0.2	71.6%	1	20%
Net Primary Education Enrolment Rate (Girls)	70%	0.1	69.8%	1	10%
% graduating Form 6 Primary to Class I Secondary (All)	45%	0.2	45.1%	1	20%
% graduating Form 6 Primary to Class I Secondary (Girls)	40%	0.1	35.8%	0	0%
% of births attended by qualified personnel	64%	0.2	60.1%	0.5	10%
% 5-year olds with full course of Vaccinations	92%	0.2	96%	1	20%
				<u>Total:</u>	80%
Maximum value of Variable Tranche: Euros 10m				Tranche released: Euros 8m	

There are no general rules on the allocation of EC budget support between fixed and variable tranches. These are guided by the relative importance of incentives for improved outcomes provided by the variable tranche and the need for predictability provided by the fixed tranche. At present, about two-thirds of the aid provided belongs to the fixed tranche, and in most countries there are two variable tranches – one linked to PFM improvements and one linked to social service delivery outcomes, which would cover the balance. However, some operations involve only a fixed tranche and in others, the variable tranches are dominant. EC budget support agreements normally cover three years. Although indicators are agreed jointly with government on a case-by-case basis, the Commission believes in a focus on outcomes, with the idea that this leaves policy space for the governments to define its own policy actions with which to meet the targets. Wherever possible, the aim is to use the framework of the PRSP to define indicators and the associated Annual Performance Reviews as the means of measurement of progress towards pre-agreed targets. The EC also strives to work towards a single framework of conditions or indicators with other donors providing budget support.

The EC approach has evolved over a number of years. Several future challenges are identified by the Commission. They include:

- Donor Coordination and Alignment: Difficulties in achieving harmonisation and alignment with other donors providing budget support around a set of indicators that is drawn from the PRSP.
- Accountability: The approach assumes that annual public reviews of a country's PRSP will create a mechanism for publicly reporting progress against the PRSP. In many countries there is a long way to go before such accountability relationships are fully effective.

- Ownership: Finding ways of choosing targets and indicators that help to focus the government's actions on results, while not undermining national ownership or punishing government for external shocks (which by definition they cannot control).
- Results-based management: There is a concern to adopt performance measures that are plausible in a context of weak statistical capacity. Linked to this is the need for 'qualified poverty-monitoring' skills alongside skills that enable delegations to keep pace with a rapidly changing aid environment (policy analysis, facilitation, dialogue, networking, PFM) at country level.
- Need to move towards multi-year conditionality, given the medium-long term nature of change implied in many of the administrative and governance reforms needed to meet poverty reduction objectives.

Notwithstanding these very real challenges, the Commission foresees an increased use of the Variable Tranche mechanism as its budget support operations develop. Several of the European bi-laterals have also begun to experiment with variable tranche schemes of their own, including SECO, Danida, SIDA and the Netherlands.

2.3 The IMF Approach

The IMF's low-income lending facility is the Poverty Reduction and Growth Facility (PRGF) which limits funding to balance of payments support for the growth and poverty reduction objectives expressed in the PRSP. Within this framework, agreements are reached on a number of measures to be included as conditionality under a three-year PRGF supported programme. These take the form of prior actions, quantitative and structural performance criteria, and benchmarks. They are generally reviewed on an approximate six-monthly basis. Disbursements under the PRGF-supported programme are conditional upon performance assessments made during these reviews.

IMF programme design and conditionality are structured around seven key features with 24 sub-points, which set out a framework for indicators and monitoring.¹¹ The main focus in practice is on structural conditions and public resource management/accountability. Fiduciary risk issues are also important. This involves a safeguards assessment, which also forms part of the World Bank's public financial management (PFM) assessment. The other part of the resource management and accountability monitoring includes two PFM evaluation tools – the Fiscal Review of Observance of Standards and Codes (ROSC) and the public expenditure tracking exercise specific to HIPC eligible borrowers which now involves 38 countries.

The Fund's Guidelines on Conditionality (2002) reflect unease with the application of conditionality during the 1990's, when it was perceived by some as overstepping its mandate and attempting to leverage extensive policy reform agendas. Early indications are that some streamlining has taken place, but that challenges remain. Key challenges perceived by the IMF include determination of which actions are critical to the success of a PRGF-supported programme ('macro-criticality') and how conditionality around these actions should be spread between the different tools specifying conditionality – i.e. prior actions, performance criteria, benchmarks and program reviews.

¹¹ See, in particular, "Key features of IMF Poverty Reduction and Growth Facility (PRGF) Supported Programs", available at <http://www.imf.org/external/np/prgf/2000/eng/key.htm>

2.4 The World Bank Approach

The World Bank's approach to budget support has recently been formalised with the establishment of a new set of rules governing Development Policy Lending (DPL) which came into force in September 2004. The shift confirms the Bank's move away from short-term balance of payments stabilisation towards medium term processes of institutional and structural development, and a focus on results. While not all DPL may be considered budget support, a substantial proportion conforms to this definition, including in particular the Poverty Reduction Support Credits or Grants (PRSC/G).

The Bank framework includes an operational Poverty Reduction Strategy, a national budget cycle and accompanying operational matrix from which the PRSC/G and Country Assistance Strategy (CAS) can be derived. Both the allocation to the CAS and disbursements of the PRSC/G are determined by performance assessments. In particular, for annual tranches to be disbursed, the Bank's approach requires the pre-specified 'prior actions' or 'trigger conditions' to be completed, in addition to the IMF PRGF programme remaining on-track.

Box 1: Streamlining Conditionality in World Bank PRSC/Gs

"Over the last few years, the average number of conditions in World Bank policy-based lending has fallen significantly. Recent management instructions and guidelines to staff have reiterated the importance of limiting the number of conditions. The average number of conditions fell from above 35 in the late 1980s to about 15 in FY04 (policy-based conditionality including prior actions, effectiveness conditions, and conditions for tranche release). If indicative benchmarks are included (those conditions covered in programme documentation but which are not a prior condition or condition for tranche release), the total number has fallen from around 60 to 39 during the same time."

Review of World Bank Conditionality: Issues Note, World Bank, January 2005

The foundation criteria and indicators for a PRSC/G are usually based around an IMF PRGF programme. The main additional requirements have been 'due diligence' assessments in the form of the Country Financial Accountability Assessment and Country Procurement Assessment Report (to assess key fiduciary and resource management issues) and the Public Expenditure Review (to assess key policy and allocative issues). These were until recently mandatory but policy is now to apply these detailed diagnostics selectively based on an identified need for further analysis revealed by the high level PEFA Public Financial Management diagnostic¹². Fiscal management is the only area of increased conditionality. The Bank's new operational guidelines no longer include prescriptive sections on policy content. The emphasis now is on ownership, poverty and social impact assessment based on analytical underpinnings, and realism over the time required to implement reforms.

The main challenges identified by the Bank in the application of its conditionality revolve around managing the tensions between:

- World Bank and bilateral donor perspectives on country-owned strategies for poverty reduction (e.g. the inclusion of political conditionality in unified PAFs)

¹² The PEFA Performance Framework is the result of a recent multi-donor initiative to harmonize diagnostic fiduciary assessments (see www.pefa.org)

- Country ownership and donor fiduciary concerns/developmental effectiveness
- Predictability of resource flows against performance orientation and the need for a medium term perspective (what is the appropriate response mechanism to inadequate country performance?).

This latter issue has special relevance for the World Bank because the current approach leaves little room for flexibility in response to inadequate performance. If prior actions are not fulfilled, PRSC/G agreements specify clearly that disbursements should not be made. The clarity of such an approach is valued by some governments and by certain other development agencies (such as KfW who generally provide budget support by co-financing PRSC/Gs), who dislike the ambiguity generated by more flexible arrangements. Yet, it can also mean that significant volumes of budget financing¹³ may be withheld because one or two prior actions (out of 12-15) are not fulfilled. The most common method used to avoid such problems¹⁴ is to undertake a delayed assessment (or a repeat one some 3-4 months after the regular PRSC/G supervision mission) so as to give time for prior actions to be completed, whilst hopefully still disbursing within the relevant fiscal year. If prior actions are not quickly completed, PRSC/G tranches may be substantially delayed. As non-fulfilment of conditions often affects those countries most in need of additional budget resources, this is an issue of some concern. Other issues identified by the Bank as needing further consideration include how to apply conditionality in fragile states and the level of application at which conditionality is most effective.

2.5 The Approach of the Bi-lateral Development Agencies

Most evidence relates to the use of conditionality by multilateral agencies. The literature on bilateral donors is limited. However, there is clearly an approach favoured by many bi-lateral agencies which stands out as distinct from the other three. This involves a disbursement decision which relies on a) a favourable assessment of macro-economic management by the IMF and b) a positive assessment of overall progress in relation to poverty reduction, human rights and democratization. In contrast to the other approaches, the assessment of overall progress is not based exclusively on a careful checking of pre-specified conditions and/or indicators but on a more general assessment of progress, where dissatisfaction with specific aspects of reforms can be notified to government without necessarily resulting in non-disbursement. The approach is inherently more flexible but at the same time rather broader, including political and human rights issues for example. There are a number of elements which have served to promote 'like-minded thinking' amongst the bi-lateral agencies and which have permitted the emergence of this more flexible, more loosely specified approach to the assessment of the conditions for GBS disbursements:

- First, the adoption of the Millennium Development Goals and the aid effectiveness and harmonisation agenda has in principle provided a stronger framework for coordination at the level of objectives.¹⁵

¹³ It is not uncommon for a PRSC annual tranche to be in excess of \$100 million.

¹⁴ It is also possible for governments to request waivers but these require World Bank Board approval and are generally discouraged by the Board. There are also examples of cases where partial disbursement of the PRSC tranche is made where a majority of the 'prior actions' have been fulfilled. Our understanding is that this does not strictly speaking follow the legal requirements for PRSC/G support.

¹⁵ See *Paris Declaration on Aid Effectiveness*. www.oecd.org. A number of bilateral agencies have recently reiterated their intention to implement the aid effectiveness and harmonisation agenda (e.g. Switzerland)

- Second, there is greater agreement between bilateral and multilateral agencies over the broad macroeconomic management and good governance principles necessary for poverty reduction.
- Third, there is a broadly shared concern about the past performance of project aid and a strong concern on the need for improvement and reforms in aid management.
- Fourth, there has been a concerted effort to operationalise a harmonized approach to the assessment of public financial management and fiduciary risk, for instance through the Public Expenditure and Financial Accountability Programme (PEFA).

Several development agencies have recently made declarations of support towards a more harmonised and coordinated approach, for example the recent policy paper on conditionality by the UK DFID¹⁶. Also strategy papers on GBS have been worked out by a number of bilateral agencies. As an example of present bilateral approaches, we summarise below Switzerland's Strategy for General Budget Support published by seco.¹⁷

For seco, a reform programme owned by the recipient government and based on a poverty reduction strategy is crucial if GBS is to be provided. In this context, the following three preconditions are of decisive importance:

- a commitment to poverty reduction and to improve the management of public finance;
- the fostering of stable macroeconomic and institutional conditions necessary for growth and for the development of the private sector (e.g. economic stability, protection of property rights, enforceability of contracts, steps towards fighting corruption);
- improved access to public infrastructure and public services (e.g. health, education, water) for the poor.

In seco's perspective, GBS is based on a relationship of mutual trust, underpinned by a consensus on basic issues. GBS is no blank cheque. Permanent endeavours and a strict audit on progress in the implementation of the reform programme and the realisation of development goals are indispensable. GBS basically rests on three pillars:

- Donors and partner governments must reach an agreement on reforms, including (1) development goals and priorities of the government and those of the donor must largely concur; (2) there should be consensus on the framework of the reform process; (3) the performance and results of the reforms must be monitored along a predetermined set of criteria and assessed accordingly; (4) the consequences of failing to comply with predefined performance criteria and benchmarks must be transparent and addressed within a framework of mutually agreed procedures.
- Policy dialogue with donors must not undermine the government's obligation to be accountable to the public, in particular the Parliament but rather strengthen national democratic processes and institutions. The outcome of policy dialogue is an agreed reform programme that supports the implementation of the poverty reduction strategy.

¹⁶ *Partnerships for Poverty Reduction: rethinking conditionality*, UK Policy Paper, Department for International Development, March 2005. See Box 2.

¹⁷ *Seco's Strategy for General Budget Support*, Berne 2004

- Often partner countries lack expertise (e.g. in economic policy analysis), equipment and the institutional structure required to cope with the challenges of improving state revenue and increasing the efficiency of public expenditure. These gaps should be filled by technical assistance. Programmes for technical support are therefore an integral component of GBS.

Seco favours a **performance oriented GBS**. In a number of countries the disbursement of a share of 50 percent of seco's GBS support depends on the IMF positive assessment on the macro-economic performance of the country (often linked with an "on track" situation with respect to the PRGF), as well as a judgement of overall progress, based on a joint assessment with the partner government and the donor group. The remaining half is divided into sub-tranches each tied to specific targets out of the agreed PAF, and specified in the bilateral agreement. Seco advocates the establishment of symmetrical accountability, not only on the part of the government vis-à-vis the donors, but also vice versa. Donor PAFs are one way to enhance donor accountability to partner governments.

The seco approach attributes **predictability** a high rank. It distinguishes between different stages of the GBS relationship, namely an introductory stage, a consolidation phase, and the exit:

- The introductory stage may last 1-3 years to build up a partnership, identify capacity shortcomings and needs of technical assistance, and to link with other donors in a harmonised way. Due to risks involved, limited commitments characterise the introductory stage, including the option of co-financing a World Bank operation.
- During the consolidation phase seco operates basically with firm 3-year commitments. Seco acknowledges that GBS assistance requires a long term perspective as structural reforms and poverty reduction are not challenges that can be tackled from one day to the other.
- Exit: Seco indicates four reasons to withdraw from GBS: graduation of the partner country, failure to comply with agreed conditions, identification of other aid instruments which permit a more effective use of aid, and a more effective use of aid in another country in need.

Seco announces any withdrawal plans at an early stage, so that potential disturbances and harm to the budget cycle in the recipient country are minimized. There is also the possibility of a gradual withdrawal, with decreasing budget support over a certain time period. When seco participates in a group of like-minded donors, the withdrawal plans are coordinated within the group.

Conception, planning, implementation and review of the budget support in the partner country is one thing. Accountability to the Swiss public is another: seco reports proactively and transparently on the benefits as well as risks associated with budget support, and on the successes as well as difficulties encountered in implementation. Only with the support of the public at home can Switzerland present itself as a reliable partner in the developing and transition countries.

Box 2: The UK Approach to Conditionality

The approach adopted by DFID sets out three basic objectives of the aid relationship, namely commitment to poverty reduction, commitment to human rights and other international obligations, and commitment to strengthening financial management and accountability. The implication is that where a country veers significantly away from these objectives the UK will consider reducing or interrupting committed aid. To an important degree, the UK approach to GBS has been developed at country level. Practice has led policy. In the future, UK policy envisages the practice of setting the performance framework for GBS to adhere to five underlying principles, around which it would like to build a new consensus across the international community:

- **Developing country ownership.** The UK will not make aid conditional on specific policy reforms. Instead, the aim is to reach agreement on how aid will contribute towards poverty reduction based on partner country programmes, country-specific evidence, and well-researched policy options.
- **Participatory and evidence-based policy making.** To improve the quality and effectiveness of policy-making, the UK will encourage participation by poor people and by parliaments in decision-making and policy-making. This debate can be informed by poverty and social impact analysis (PSIA).
- **Predictability.** Countries cannot plan their public policies if they do not know with certainty how much external finance they will receive. The UK will enter into multi-year agreements for GBS. Where it is necessary to reduce or interrupt aid the UK will make the decision based on clear criteria and processes agreed in advance with the partner country.
- **Harmonisation.** The UK will support donor efforts to improve coordination and harmonisation, including rethinking how donors collectively use conditionality to reduce the overall number and intrusiveness of conditions
- **Transparency and accountability.** DFID are committed to increasing transparency around the process of decision-making on conditions, the conditions themselves, and the process for deciding to reduce or interrupt aid. The UK will encourage the greater involvement of parliaments in the oversight of conditions prior to their agreement, and the greater involvement of line ministries, parliamentarians and civil society in the identification of agreed benchmarks.

2.6 Summary and Clarification of Definitional Issues

In order to facilitate understanding of basic definitions, Table 2 below provides a summary of the four different approaches to the assessment of disbursement conditions (as described more fully above) and the three different disbursement mechanisms. The three disbursement mechanisms are:

- (Large) fixed tranches, whose value is unchangeable and which are therefore disbursed in full or not at all. Because these tranches normally comprise the major share of GBS disbursements, they are often referred to as “Base tranches”¹⁸.
- (Smaller) fixed sub-tranches, whose value is also fixed but rather smaller and normally disbursed against a much narrower set of policy conditions. (eg. One prior or “trigger” action for each sub-tranche.)
- Variable tranches whose actual value is determined by performance against a pre-defined set of performance targets.

Table 2: Summary of the four different approaches to the assessment of disbursement conditions

	(Large) Fixed Tranches	(Smaller) fixed Sub-tranches	Variable Tranches
Disbursement subject to satisfactory macro-economic mgt; (“on-track” with PRGF)	IMF Approach In some cases, EC fixed tranche is linked only to the PRGF performance;		
Disbursement subject to macro performance and assessment of general progress with PRS¹⁹.	Approach of DFID and many other bi-laterals and also most common approach for EC Fixed Tranche.		
Disbursement subject to macro performance²⁰, and fulfilment of policy conditions (prior or ‘trigger’ actions.)	World Bank Approach Some bi-laterals (eg KfW) also follow this approach.	Approach of SECO and some other bi-laterals. Sometimes WB and AfDB have partial disbursements.	
Disbursement subject to macro performance and quantitative results achieved against pre-specified performance targets.			EC approach based on PFM efficiency indicators or service delivery outcome indicators. Some bi-laterals also experiment with this approach.

¹⁸ They are also sometimes referred to as “Macro tranches” because the assessment of macro-economic performance is the key criterion for disbursement.

¹⁹ Quantitative indicators of progress against PRS targets would typically form an element of this assessment but would be only one among several elements.

²⁰ Some PRSCs also involve an explicit assessment of quantitative measures of progress against PRS targets.

This chapter has summarised four generalised approaches to GBS performance assessment which have emerged in recent years – namely those of the European Commission, the World Bank, the IMF and the bilateral development agencies. These approaches represent not only different methods of assessment of conditions for disbursement but also different mechanisms of disbursement and different philosophies over how budget support should be used. At this stage in the general evolution of GBS, most PAFs embody a mixture of these four approaches, as we will notice in our five case study countries.

It seems clear from the outset that the construction of fully harmonised and effective Performance Assessment Frameworks is likely to be a major challenge, so long as the underlying tensions and differences between the four underlying approaches are not resolved. Indeed, it could be described as a minor miracle that three of the countries – Ghana, Mozambique and Tanzania – have succeeded in establishing fully harmonised and operational PAFs. Behind this achievement, there have been very lengthy negotiation and discussion processes in each of these countries. Moreover, notwithstanding the very real progress made, each of these PAFs still has significant deficiencies as we note in Chapter 3 below. We would contend that the process of developing harmonised PAFs would be substantially more efficient, if prior attention were given to the harmonisation of the objectives and philosophies of the different GBS donors. We return to this point in our concluding chapter, where some tentative suggestions on the way forward are presented.

3. Observations on PAF Performance in the 5 Study Countries

This chapter summarises the results of the desk and country work which has been undertaken to review progress with the existing GBS Performance Assessment Frameworks in Benin, Ghana, Mozambique, Nicaragua and Tanzania. We present an overview across the five countries, comparing and contrasting their experiences in the light of a standard framework for the assessment of performance. The results of this assessment process lead us naturally into the identification of the main lessons learned, which are presented in Chapter 4.

3.1 The Framework for Assessing the PAFs

How do we judge the effectiveness of one PAF in relation to another? Given, firstly, that the objectives of budget support may differ from country to country and, secondly, that objectives may not be always be clearly presented, there is no simple answer to this question. We have therefore chosen to be pragmatic by adopting a simplified, standard framework which reflects the OECD-DAC guiding principles for the provision of budget support, whilst also capturing the specific GBS objectives highlighted in each of these five countries.

Box 3: OECD-DAC Guiding Principles for the provision of Budget Support

The OECD-DAC (November 2004), Good Practise Note on the Provision of Budgetary Support, produced by the working party on aid effectiveness, identifies four guiding principles for the provision of budget support:

- Budget Support should support partner countries' ownership.
- Budget Support should help to support the performance and accountability of partner countries' PFM systems.
- The transaction costs incurred by recipients of budget support should be minimised.
- Budget support should be delivered in a way that advances the predictability of resources and reduces their volatility.

The document also recommends specific practices that are likely to support the achievement of these four guiding principles, including for example the recommendation that budget support should be untargeted.

The assessments of each PAF therefore followed a standard framework as follows:

- Ø Overview of the key features of the PAF and of the process adopted for its development and monitoring:
 - Who are the Development Partners involved and what is the level of funding involved?
 - How did the PAF evolve? How have different domestic stakeholders been engaged?

- What is the content of the PAF in terms of the areas covered and the number of indicators and actions?
- What is the balance of assessment methods²¹?
- Ø Assessment of the effectiveness of the PAF and/ or of its likely future effectiveness:
 - Does the PAF provide a clear and appropriate framework for GBS disbursement?
 - § Clear: in the sense of laying out a set of conditions which can be unequivocally interpreted and which generate a coherent (and rational) set of incentives for Government and the GBS Development Partners.
 - § Appropriate: in the sense of providing an assessment of the fiduciary risks²² to the GBS providers, whilst also supporting country ownership of policy and budgetary decision making, promoting improvements in public finance management, and providing a manageable framework for assessing progress in achieving PRS and other agreed reform objectives?
 - Is the PAF closely aligned to government systems? In particular, does it serve to strengthen Government's own processes for the management and monitoring of reforms and development actions?
 - Has the PAF promoted harmonisation across the GBS donors? How far are assessment frameworks and review systems (missions) common to all GBS donors?
 - Has the PAF contributed to reduced transaction costs for Government?
 - Has the PAF led (or is it likely to lead) to a predictable flow of GBS disbursements?

These assessments were undertaken on a country by country basis to produce working papers on which the team has drawn to present its conclusions. A summary matrix of these working papers is presented in Annex 2. Annex 3 presents more complete country reports for the three case study countries with operational, harmonised PAFs – Ghana, Mozambique and Tanzania. Here we provide a comparative overview.

3.2 Key Features of the PAFs in the Study Countries

The five PAFS analysed may be summarised as follows:

- **Benin** has a relatively modest budget support operation, involving the African Development Bank, the World Bank, the European Commission, Danida, Switzerland²³ and the Netherlands, disbursing some FCFA 40 billion annually (US \$ 75 million approximately; 9 % of total public expenditure) . Perhaps as a result of the small scale and limited number of actors involved, it is the only example in the sample that does not have a unified PAF. There are

²¹ Here we refer to the balance between a) Reliance on IMF analysis through the PRGF; b) Assessment against 'Prior (policy) Actions' in the style of the World bank PRSCs; c) Use of quantitative performance indicators at output or outcome level (as done for the EC Variable Tranche); d) General assessment against overall progress with the PRS (as favoured by many bi-lateral agencies.) See Chapter 2 for details.

²² Fiduciary risk can be defined as the risk that development assistance will not be used for the purpose for which it was granted, does not achieve value for money, or is not properly accounted for.

effectively three systems working in parallel – the World Bank PRSC is used as the overall assessment matrix and some progress has been made towards a joint review process linked to this. The African Development Bank use this same PRSC but also have additional, separately monitored conditions, linked to procurement reforms. In addition, the bi-laterals and the EC have signed an MoU laying out common principles for support to the PRS through budget support; they disburse through a fixed tranche (linked to the PRGF assessment) and a series of variable tranches linked to performance indicators. Some of these indicators are common to different agencies but not all and to date the review process is not fully harmonised.

- **Ghana** has had a joint PAF since 2004, involving the African Development Bank, the World Bank, the EC and 7 bi-lateral donors, who together disburse some \$ 300 million dollars, just under ten per cent of total expenditure. Conditions for disbursement are assessed in relation to the PRGF (which is the basis for disbursement of a fixed tranche by the EC and the bi-laterals) and in relation to a jointly agreed (and jointly reviewed) PRSC, whose 10-12 trigger actions provide the basis for AfDB and WB disbursement and for a disbursement of a second tranche by the bi-laterals. The PRSC also includes outcome indicators and targets (drawn predominantly from the GPRS): performance against a sub-set of these provides the basis for the calculation of the EC variable tranche.
- **Mozambique** concluded a joint PAF in 2004 after an extensive process of consultation and revision. It is the largest budget support group in the sample, including 17 DP signatories²⁴ to the MoU, disbursing in 2004 a volume of US\$ 245 million, being equivalent to an ODA share of about 35%. Although there is one shared PAF, there are three approaches to its interpretation: a) assessment of overall progress by EC and the bi-laterals; b) the use by the WB of a sub-set of prior actions as triggers for PRSC disbursement and c) the use of variable tranches by the EC, Sweden and Switzerland linked to a range of output and outcome indicators. An interesting innovation is that there is a parallel assessment framework to assess the performance of the GBS donors in relation to their commitments.
- **Nicaragua** concluded a Joint Budget Support agreement in May 2005 with the signing of a joint MoU and related PAF matrix in May 2005, involving 10 Development Partners²⁵. This was based in part on the example of Mozambique and also involved an extensive period of consultation. To date, it has not been possible to disburse under this arrangement due to the failure to meet fiscal and structural benchmarks in the PRGF but there is hope that this situation can be addressed during 2005. The assessment process also involves the same three approaches noted in Mozambique, although for the moment the assessment of progress against the PRSC trigger actions occurs as a separate process. (The intention is that the next PRSC disbursement will be assessed against the PAF and the established PRSC trigger conditions have been included within the PAF to permit this.) Variable tranches are

²³ While Swiss GBS falls under the responsibility of seco (Department of Economy), budget support has been provided in Benin on an exceptional basis by the Swiss Development Cooperation (Department of Foreign Affairs).

²⁴ The members of the Mozambique “G17” are Belgium, Canada, Denmark, the European Commission, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and the World Bank.

²⁵ The JBS members in Nicaragua are EC, Finland, Germany, Inter-American Development Bank, Netherlands, Norway, Sweden, Switzerland, United Kingdom and the World Bank. Despite being a signatory, the World Bank still uses a separate PRSC matrix.

limited to the EC and cover outcome indicators for education, justice and decentralisation policy.

- **Tanzania** was the first country in the sample to have concluded a joint MoU and PAF for its PRSC/ PRBS arrangement (Poverty Reduction Budget Support). The MoU and PAF have been in operation since 2002²⁶, during which the number of PRBS donors²⁷ has risen to 14 and disbursements to some \$400 million annually (35 % of ODA flows; 20 % of total expenditure). The same three mechanisms of interpretation of disbursement conditions are used as in Mozambique and Nicaragua. The variable tranche component is somewhat simpler, being limited to the EC and Switzerland and covering indicators of PFM efficiency, of health and education outcomes, of private sector development and domestic resource mobilisation drawn from the PRSP²⁸.

3.3 Clarity of the PAFs as a Framework for Disbursement

We considered first whether the respective PAFs provided a clear framework for disbursement. We judged this by assessing whether they presented conditions which could be unequivocally interpreted and which could generate a coherent set of incentives for Government and the GBS Development Partners. One might reason that the existence of a clear framework for disbursement would be a pre-condition for the success of a GBS arrangement; yet all of the PAFs exhibited some limitations on this criterion and one – Benin, scored especially poorly.

The best performers were Ghana, Mozambique and Tanzania – the three countries with the most experience of budget support. In each of these cases, there was a reasonable understanding of disbursement conditions and their implications amongst the Government staff most closely involved in the negotiation and management of the PAF – namely those in the Ministry of Finance. Beyond this relatively small group, understanding was rather more limited – especially so in Ghana but also in Tanzania and Mozambique, despite conscious efforts to involve sector ministries. Even at the central level, the real focus of attention in all three cases was not on the PAF matrix as a whole but on the 10 -14 pre-defined PRSC triggers, as well as on the separately defined and measured PRGF performance benchmarks and structural conditions²⁹. The wider PAF matrix was in all cases too large to represent a plausible set of policy priorities.

In Nicaragua too, the primary focus of Government was on the PRSC trigger actions and the PRGF benchmarks and structural conditions. Indeed, there was visible irritation shown by various officials at the need to negotiate what was perceived as a third matrix of conditions. However, it should be stressed that Nicaragua remains in transition. The PRSC and the other budget support arrangements do not yet follow harmonised assessment and review processes and until they do

²⁶ The MoU and corresponding PAF matrix have been revised substantially during 2005, although our assessment here refers to the structure in place up to end 2004.

²⁷ The Tanzania PRBS members are the African Development Bank, Canada, Denmark, the European Commission, Finland, Germany, Ireland, Japan, the Netherlands, Norway, Sweden, Switzerland, United Kingdom, and the World Bank.

²⁸ Sections on Tanzania draw heavily on the evaluation of GBS in Tanzania undertaken over August – November 2004. Booth, D. Lawson, A., Msuya, M., Wangwe, S. and Williamson, T. (April 2005), *Joint Evaluation of General Budget Support, Tanzania 1995 -2004*, Revised Final Report. Daima Associates, Tanzania and ODI, London.

²⁹ Whilst the PRGF was not the main focus of our work, it is worth noticing by way of comparison that structural conditions in these countries were generally limited to 6-10 policy actions per year.

the value of the joint PAF will be significantly undermined. Moreover, disbursements by the JBS donors have been very limited pending re-establishment of an on-track status with the PRGF³⁰. Here too, there is a problem with the size and scope of the PAF and its ability to transmit clear policy incentives to government, in particular whilst operating alongside the PRSC and the PRGF.

Regarding the mix of assessment methods: in these four countries they can be said to be coherent and, at least in principle, mutually re-inforcing. However, the problem of size and focus is again relevant. In the context of the extensive policy dialogue around the PAF and the substantial attention given to PRSC triggers, the incentive to action generated by the possibility of increasing the value of the variable tranche appears very muted. Given the limited number of government officials actively engaged in the GBS policy dialogue and given the difficulties these officials inevitably have in transmitting policy messages to political decision-makers, this is hardly surprising. Amidst the multiplicity of messages, the potential extra incentive of linking the level of disbursements to pre-specified results seems to be drowned out. This is not a problem of the variable tranche *per se* but does point to the need for rationalisation of the different disbursement processes, reduction of the size of the PAF and simplification of the disbursement conditions.

Unfortunately, the dynamics of the joint budget support arrangements in these five countries appeared to be pulling in the opposite direction. With virtually each new signatory of the PAF, there would come a new set of concerns – for a particular sector or a particular set of policies, such as decentralisation, or perhaps a new ‘angle’ on PFM reform, with more emphasis on audit functions or on procurement. In the four countries with a clear over-riding commitment to a harmonised process, these pressures were to some extent contained and it should be stressed that in each of them, there had been considerable discussion about how to move to a more streamlined PAF.

In the absence of this disciplining mechanism, it seems very difficult to achieve a clear, coherent framework for GBS disbursement. We would suggest that it is no surprise that the country where ‘over-engineering’ of disbursement conditions is most evident is Benin, as box 4 shows. Even where there is a small number of donors, a harmonised PAF seems essential if a solution is to be found to the collective action problem³¹ of limiting disbursement conditions.

³⁰ The PRGF is not strictly speaking off-track but the February review has been successively postponed because there are significant breaches both of benchmarks and of structural conditions, due largely to the refusal of the Legislature to accept the Executive’s proposals on the budget and on pension reforms.

³¹ In the same way as it is in the interests of all farmers to control their water usage, yet no single farmer wants to be the first to do it, so it is in the interests of all GBS donors to limit disbursement conditions, yet none wants to be the first to give up their favoured policy concern.

**Box 4: BENIN – Aide Budgétaire Conjointe:
A plethora of indicators, weights and review processes**

Four out of the six DPs providing GBS to Benin do so through a mix of fixed and variable tranches, namely the European Commission, Denmark, Netherlands and Switzerland (Swiss Development Cooperation). Taken together, the value of the available variable tranche in 2004 would have comprised some CFA 7 billion (\$ 13.3 million), approximately 20 per cent of the available GBS resources or 1.8% of total budget resources. If focused on a narrow set of indicators, this might thus have represented a significant incentive to enhanced performance. But the four agencies with their variable tranches of \$ 9.6m (EC), \$1.4m (DK), \$1.9m (NL) and \$0.4m (CH) respectively, devised a disbursement structure based on a weighted distribution between 24 indicators, covering implementation of PFM reforms, budget management, decentralisation, primary schooling, health care, water services, gender, and private sector promotion. Only 5 of these indicators are common to the four agencies and two thirds of them are monitored by only one or two. To make matters worse, the agencies have failed to date to establish a joint review process.

Needless to say, the overall structure is complex and its implications for GBS flows are difficult to interpret. Ministry of Finance officials freely admitted that they had made no calculation of the level of budget support contingent on the achievement of each indicator. Their professed concern was with the PFM reform process, whose inherent importance they clearly recognised, and with the PRSC triggers.

In the Ministry of Health, planning staff said that their focus was on the overall set of targets in the health plan and that they placed no extra priority on the health indicators chosen for the assessment of the variable tranche. Again they had made no calculation of the GBS flows potentially linked to the 4 health indicators chosen by the DPs.

3.4 Appropriateness of the Disbursement Framework

Whilst clarity over disbursement conditions may be seen as a necessary requirement, it is clearly not sufficient. The OECD-DAC guiding principles stress the need for an assessment framework, and a mode of development and monitoring of that framework which supports country ownership of policy and budgetary decision making, and promotes improvements in public finance management. At the same time, it should be appropriate to the wider goals of GBS and should not lead to disbursements being withheld without good reason. In addition, from the perspective of the GBS providers, there is a requirement for the framework to define and monitor fiduciary risks in a manner satisfactory to their Boards, Parliaments or domestic audit offices.

This is necessarily a more subjective set of criteria and we found quite some variety across the five PAFs in the ways in which similar issues were treated and in the degree of 'severity' with which conditions were interpreted. This was especially true in relation to PFM issues but also related to some of the structural reforms included within the PAFs. Three general factors appeared to be at play:

- The extent of development of PFM systems and, more broadly, of economic policy management differed significantly across the five countries.
- At the same time, in each country the concern underlying the PAF content appeared not to be the achievement of a given threshold but rather the achievement of continuous improvements. Hence, a country with relatively good policy and PFM systems did not necessarily get treated any more 'lightly' than a country with much weaker systems.

- Trust between government and its GBS Development Partners also featured as a significant independent variable in the process.

The combination of these factors generated some quite striking contrasts. For example, Nicaragua has without doubt the best PFM system of the sample³². It has a modern, integrated financial management system and an efficient budgetary preparation system. Certainly, further PFM improvements could usefully be made but the system is more than adequate to ensure that allocations to poverty reducing activities reach their destination. Yet, in an effort to drive ongoing reforms to PFM systems, the PRSC matrix includes conditions related to the development of an MTEF and the strengthening of internal audit. Would the effective delivery of budget support be threatened by delays in implementation of these reforms? Not in any significant way, yet, potentially, disbursements could be stopped as a result. A similar situation has emerged in Tanzania, where the preparation of an integrated plan for the Public Finance Management Reform Programme (PFMRP) was adopted as a PRSC 'prior action' (See Box 4.)

Benin and Mozambique have PFM systems which could reasonably be described as equally weak, and almost certainly the weakest in this sample. Mozambique enjoys the trust of its Development Partners – essentially as a result of having been on-track with the IMF over a period of time and due to a track record of consistent, even if slow, progress with institutional and systems reforms. Benin, by contrast, has not yet established a strong track record either with the IMF or with reforms more broadly. As a result, the PFM reform actions identified in the Benin matrix as well as the specified methods of verification are considerably more demanding than in the Mozambique case.

The Ghana PAF is the most explicit, one might say the most honest, in the way it addresses the issue of trust. Ghana has a record of consistent delays in the implementation of improvements to accounting and expenditure control and to payroll management, as well as a mixed historical record on the implementation of structural economic reforms (such as the introduction of automatic price adjustment formulas for petrol and electricity pricing.) In short, trust is justifiably at a low level. For this reason a 'graduated' disbursement formula has been developed with a fixed tranche linked to a favourable PRGF review and a variable tranche dependent on the achievement of specified trigger conditions, linked to reforms to PFM systems and structural issues. From the perspective of Government, it is clear what needs to be done to obtain higher GBS funding and from the perspective of the donors the level of disbursements is linked in a transparent way to a set of actions likely to improve the efficiency of budget resource use.

Interestingly, the Government of Ghana have reacted favourably to this set of incentives and have engaged actively in the negotiation of the matrix of policy actions for the variable tranche. Our field work noted a sharp increase in the perceived level of ownership of the 2006 PAF, as Government, having initially presented a PAF proposal considered as unsatisfactory by the donors, then engaged actively in joint working groups which ultimately led to a new negotiated PAF. This learning process involved several government agencies in addition to MoF officials and allowed the GoG to have a significant influence over the streamlining of the PAF conditions.

³² Unfortunately, Nicaragua does not have a record of prudent resource allocation, and the current conflicts between the Executive and the Legislature seem to be exacerbating the tendency towards populist, yet fiscally unsustainable decisions (such as public transport subsidies, large teacher salary increases and enhanced pension rights for civil servants.) But this is not a systems problem!

This example points to an important truth about the way ownership is to be interpreted with regard to budget support. Clearly, governments need to have sufficient commitment to reforms in order to follow through their implementation: they will not undertake the necessary coalition-building, policy advocacy and management actions necessary to get reforms implemented if these have been simply forced upon them. Yet, this does not mean that they have the same “preference functions” as their GBS donors, in other words that left to their own devices, they would implement the same reforms and with the same degree of commitment. It is exactly for this reason that a PAF is needed and most government officials engaged in GBS dialogue fully understand this and accept it³³. The Budget Director in Benin expressed exactly this idea and stressed how useful the PRSC trigger actions had become as a lever for winning political support for PFM reforms. It seems that pressing for the legitimate concerns of an external stakeholder in a budget support partnership need not entail a loss of ownership, so long as there is dialogue over the choice of reforms and the motivations of the external stakeholder are justifiable and transparent.

The use of an explicit statement of the underlying principles of budget support may assist in clarifying the basis for the partnership. The MoUs for Nicaragua, Mozambique and Benin all have such a statement. Arguably, these statements, while useful, do not go far enough in specifying the base conditions necessary for budget support to work. In Tanzania, the PRBS donors have been in active dialogue with Government during 2005 to try to define a set of ‘due diligence’ criteria which capture the fuller set of eligibility conditions, including issues related to PFM, performance measurement, transparency and governance (see chapter 5).

It also seems that it is not enough simply to write down underlying principles; GBS donors need to regularly assert and protect these principles. Ironically, it may be in the countries where there is more established trust that donors are least willing to do this. We have noted that in Benin and Ghana, asserting principles did not lead to a loss of ownership. Yet, the conditions placed in the Mozambican PAF regarding the implementation of PFM reforms and the monitoring of their impacts were rather less demanding. Box 5 on Tanzania also shows something of an imbalance between tight conditions over process issues and yet a reluctance to assert the implicit underlying principles of the GBS partnership.

³³ This very same point is made by Booth, D, K. Christiansen and P de Renzio (May 2005), *Reconciling alignment and performance in budget-support programmes: what next?* Paper for presentation at the Practitioners’ Forum on Budget Support, May 5-6, Cape Town, South Africa.

Box 5: The Tanzania PRBS

Too much emphasis on process conditions and not enough on underlying principles?

effectively in Tanzania and the PRBS partnership is perceived as very strong but there have been two areas of significant disagreement.

The first related to the Government's decision in 2003/04 to finance **the purchase of a new Presidential jet**. Government stuck to the letter of its agreements on resource allocation - securing real annual increases in resources to PRS sectors, honouring budget appropriations and providing them through quarterly rather than monthly releases, but from the perspective of several donors, it did not honour the spirit of the agreements. Government saw this as a 'moving of the goal-posts' and for a period there was some tension in relations.

Unfortunately, the PRBS donors failed to focus attention on the fundamental principles at stake. One was **the extent to which poverty reduction was an overriding priority of government**. The other related to **the degree of transparency of the budget allocation process**. Although the purchase of the jet was budgeted and its financing approved by Parliament in June 2003, the amount initially allocated was only half of what was required. The balance was obtained through approval of a supplementary budget in February 2004, when clearly the full financing requirement must have been known from the outset.

The second area of disagreement related to the late completion of 3 out of the 13 PRSC 'prior actions' identified for completion prior to March 2004. This led to the World Bank delaying approval of the PRSC tranche by 3 months. Government was able to complete the necessary actions in this period and fully recognised the importance of revisions to the Business Licensing system and the Procurement Act. **They were not convinced that it was justifiable to delay a US \$ 150 million disbursement because of the delays in finalising the joint action plan and funding arrangements for the Public Finance Management Reform Programme**. They argued that progress continued to be made with substantive actions to improve PFM, regardless of the lack of a joint planning and financing arrangement. Many independent observers agreed.

Our assessment of the appropriateness of the disbursement framework has thus led us to a number of important conclusions, to which we will return in chapters 4 and 5:

- Firstly, fiduciary risk should be assessed rigorously. A consistent framework for doing this has been missing and a certain amount of subjectivity therefore applied to the content of the PAF.³⁴
- In general, the underlying principles and, linked to this, the legitimate rights of GBS donors as external stakeholders in a partnership are not sufficiently clearly stated nor sufficiently frequently asserted. (We assume the underlying principles of the aid relationship would basically comprise of: commitment to poverty reduction; commitment to human rights and other international obligations, and commitment to good governance as well as to strengthened public financial management and accountability. The implication being that where commitment to these objectives was in significant ways in doubt, GBS flows would be interrupted.)
- The assertion of these principles and rights need not encroach on ownership so long as those principles and rights are transparent and legitimate.

³⁴ The roll-out of the PEFA PFM assessment framework should begin to effectively address this issue.

- On the other hand, conditions do need to be discussed and agreed to by Government, if there is to be the level of ownership necessary for a committed pursuit of reforms.
- Ownership of the agreed reform agenda does not imply a uniform acceptance of those reforms. There will always be ‘reformers’ and ‘protectors of the status quo’.
- An unresolved issue in each of the five case studies is how to broaden ownership beyond the narrow group of officials in the Ministry of Finance (and perhaps the Central Bank and the Planning agency), who are most closely involved in the negotiation and discussion over the PAF. In each country and especially in Mozambique and Ghana there have been efforts to involve sector ministries, yet the PAF still remains a “Ministry of Finance show”.
- The extent to which a political commitment to the PAF is embedded is also generally weak, with no clearly established role for Cabinet and no clear idea if or how Parliament³⁵ ought to be involved.
- The roles of civil society and of the decentralised levels of the administration also require clarification.

3.5 Progress in Alignment to Government Systems

In each of the five countries, significant efforts have been made to align the PAF to government systems. This was manifested in three particular ways:

- Firstly, conscious efforts were made to draw indicators and, in some cases, specific prior actions from the PRS documents and related monitoring systems.
- Secondly, significant efforts were made to use existing monitoring and information dissemination processes (such as the distribution of quarterly budget expenditure reports and the preparation of annual PRS reports).
- Thirdly, the timing of reviews and of the disbursement decisions resulting from these reviews were explicitly organised to link into the budget cycle and to facilitate the projection of resource availabilities and of budget preparation ceilings.

The third of these actions provided a clear example of a good practice, which ought to be generalised across all GBS countries. (This was most effectively institutionalised in Mozambique and Tanzania but is also a significant design feature of the Nicaragua JBS and a clearly stated intention in Benin and Ghana.) It has important implications for predictability so we provide a more explicit explanation of the practice in 3.8 below.

Alignment to the PRS and to existing monitoring and reporting processes is clearly something to be encouraged but in none of the case studies was this process fully complete. As a result there remained quite a degree of duplication between the PAF review processes and the existing monitoring processes for the PRS, for sector policy and for initiatives such as Local Government Reform and PFM reform. This was a feature of each of the countries but was a particular matter of

³⁵ In most of these countries, all significant credit agreements are either tabled to Parliament for information purposes or formally approved by Parliament. As such, there would generally be information on the PRSC but, to our knowledge, such a procedure has not been established for the PAF as a whole.

concern to the Tanzanian Government, who have lobbied hard during 2005 to achieve a radical reduction of the PAF, whilst switching to an exclusive reliance on these pre-existing systems where they could be seen to be covering the needs of the PAF³⁶.

We are not aware of how far the revision of the Tanzania PAF has proceeded and to what extent the Tanzanian Government have been able to fulfil their objectives. However, when discussions on these questions first emerged in late 2004 during the completion of the joint evaluation of budget support to Tanzania, progress appeared to be hampered by two systemic/ conceptual problems. To differing degrees, these problems were also present in the other case study countries.

Firstly, there were significant weaknesses in the PRS – regarding both the extent of ownership and its technical quality as a national strategy and action plan. The first PRS document in Tanzania was issued in September 2000, with the express intention of accelerating progress towards HIPC completion and towards the introduction of PRSC/ PRBS funding. It was inevitably oriented towards a donor audience, even if there were significant national inputs into its production and a strong underlying government commitment to poverty reduction. Nevertheless, the heavy focus on social sectors did not match well with the strong political interest in growth and productive sector investment. By 2004, the process of alignment by the PRBS donors to PRS 1 was clearly running in parallel with a process of political disalignment away from the PRS! Its revision in late 2004 and early 2005 produced a document much more consistent with expressed political priorities. This new strategy is referred to as MKUKUTA³⁷, reflecting firstly that it should be a national strategy and secondly that it should focus on growth in addition to poverty reduction.

Notwithstanding the clear improvement in ownership which this second PRS represents, there are still commentators who believe it has been excessively influenced by external donors. Arguably, there is something inherent in the dynamic of PRS processes which makes this a likely outcome in many countries³⁸.

The problem of the weak technical quality of the PRS is no less serious. The purpose of budget support is to accelerate progress towards poverty reduction. If the PRS is to provide the principal guiding framework for such a process, it needs to be a document of some considerable technical quality, which clearly identifies constraints to poverty reduction and a set of coherently sequenced actions to address such constraints. Neither in Tanzania nor in any of the other case study countries does the PRS fulfil this role. They have generally been the outcome of more broad-based participation and ‘visioning’ exercises; useful as a way of laying out a set of over-arching national goals and priority targets but not a substitute for a precise action plan or economic reform strategy. As a consequence, they are not an adequate substitute for the PAF³⁹.

³⁶ To a lesser extent, there have been similar debates in Mozambique and Nicaragua and we suspect that they will be increasingly common in those countries with a longer experience of GBS. It is therefore worth analysing this debate more closely.

³⁷ MKUKUTA is *Mpango wa Kukuza Uchumi na Kuondoa Umasikini Tanzania* meaning the National Strategy for Growth and Reduction of Poverty.

³⁸ The Mozambique PRS – PARPA – is said to have retained a rather higher level of ownership and closer links to pre-existing planning tools such as the PES.

³⁹ Booth, Christiansen and de Renzio (May 2005) stress that this is likely to be true of all PRSs. They also stress that the issue of different ‘preference functions’ which we have referred to in section 3.4 is likely to be omni-present, providing a further reason why the PAF could not simply be replaced with the PRS monitoring matrix.

Once it is accepted that the PRS (and its related monitoring matrix where this exists) cannot realistically be considered a replacement for the PAF, then the second conceptual problem arises. This revolves around how to define the role of the PAF in relation to the existing government structures of strategy design, implementation and monitoring. The Government of Tanzania and its PRBS donors have struggled since November 2004 to reach a clear consensus over this question. Three possible options seem to present themselves:

- a) The PAF may reasonably be conceived as a better structured, more focused alternative to existing monitoring processes. It then takes pride of place and effectively replaces other structures, as in Benin where several MoF officials argued that they perceived the PRSC as the implementation plan for the PRS.
- b) The PAF may also be designed as a 'synthesis document' providing an overview of progress with reform implementation and a set of high level priorities, building up from sector working groups, PRS monitoring fora, PFM reform steering groups, etc. This is effectively what the Tanzanian Government perceived that the PAF had become by late 2004 but with a lot of unnecessary duplication between the PAF as the 'apex structure' and the working groups and other monitoring processes which fed it⁴⁰.
- c) The PAF might also be designed as an adjunct to existing processes, neither replacing them nor summarising them but playing a distinct role by focusing on those significant policy actions which are not properly identified and advanced by existing processes. It could thus be a type of "strategic gap-filler".

In principle, the PAF could be designed in any of these three ways, depending on the degree of development of existing systems and on the extent to which there exists consensus over how best to design and manage strategic reforms and service delivery processes. The experience of the case study countries suggests that only once a clear consensus on this issue is reached can a more substantive process of alignment take place. Mozambique is perhaps the closest to such a consensus, focused on model b). Ghana presents a reasonable example of option c) but this is not yet as explicit as it needs to be if there is to be deeper alignment to government processes.

3.6 Progress in Harmonization Across the GBS Donors

Considerable progress in harmonisation has been achieved in three countries – Ghana, Mozambique and Tanzania. In Mozambique⁴¹ this has culminated in the adoption of a PAF to monitor the commitments of the GBS donors (or Programme Aid Partners as they are called in Mozambique). This is a unique tool to strengthen the mutual accountability of donors and government. For the moment, it has not had the degree of influence one might hope for but it has potential and may provide the basis of an internationally reproducible model. (See Box 6.)

Key to the success of these processes has been the Government commitment to a harmonised arrangement for budget support. In Tanzania, this was formally expressed in the Tanzania Assis-

⁴⁰ Part of the source of tension was that several PRBS donors saw the existing monitoring processes as too weak to support the PAF as an apex document. They therefore implicitly favoured option a). Nicaraguan officials also identified a high level of duplication between the JBS PAF and existing monitoring processes, particularly for the ERCERP2 – the Nicaraguan PRS.

⁴¹ A more elaborate study "Learning from Experience with Performance Assessment Frameworks (PAFs): The Case of Mozambique" can be obtained from info@gersterconsulting.ch.

tance Strategy but was also an objective for which senior MoF officials actively lobbied. Indeed the merging of the PRBS and PRSC arrangements which occurred in 2002 took place upon the insistence of government.

Three further factors behind the successful harmonisation process in these countries have been the insistence on formal written agreements and documentation of meetings, the recognition by the GBS donors of the need to dedicate resources to the achievement of successful harmonisation and thirdly, the good fortune to have had in place teams of officials amongst the GBS donors who combined the technical and inter-personal skills necessary to make progress. In each of these three countries, the PRBS donors have appointed a full-time person to coordinate the activities of the GBS donors and to manage interactions with Government. They have also moved quickly to a formalised framework of chairpersons amongst the Heads of Development Cooperation (of the GBS Donors). A common structure has been to focus this on a rotating leadership by a troika, comprising the outgoing chairperson, the current chairperson and the (pre-nominated) incoming chairperson.

In Benin, there was initially a good informal framework of cooperation amongst the GBS donors. Because this informal framework worked well and because there were only six actors (excluding the IMF), the need for more formal structures and dedicated coordination arrangements was not perceived. But as donor officials changed and the dynamic of personalities was altered, the lack of written commitments and formalised structures undermined the harmonisation process. In retrospect, it can be seen that this was an understandable but crucial mistake. The failure of government to insist on harmonization between the GBS donors was also a significant factor.

In Nicaragua, a substantial level of harmonization has been achieved with the creation of the 10-member Joint Budget Support arrangement and with the agreement of a single PAF. Unfortunately, the PRSC design, management and review process has to date continued to operate as a separate process. The PRSC reviews do not occur at the same time as the PAF and the management structure within Government is also separate, sitting within the Ministry of Finance (MHCP) for the PRSC and within the Planning Secretariat (SECEP) for the PAF. It was agreed at the first annual review of the PAF in May 2005 that the next half yearly review should be held jointly with the PRSC and that the management team within government should be merged into one. Nevertheless, substantial damage has been done by this parallelism, which has significantly undermined the understanding and acceptance of the PAF by government and has certainly created unnecessary transaction costs. Interestingly, the idea of utilising the existing PRSC matrix and the existing PRSC review process as the basis for a joint PAF was reportedly never considered by the JBS donor group. Nor did Government take the lead in recommending it. Such an approach (which has effectively been followed in Ghana, as well as in Uganda and Burkina Faso amongst other countries) would have had the merit of building on a pre-established and functional review system, which was well understood by Government⁴².

⁴² We suspect that it would have been more actively considered had there been a more obviously harmonious combination of personalities across the JBS donor group: the human factor is always important!

Box 6: MOZAMBIQUE
Promoting Mutual Accountability of Government & Development Partners

The Mozambique MoU was prepared in the spirit of mutual accountability between the signatories. It clarifies the performance and reporting commitments of the GoM and the Programme Aid Partners (PAPs). While the GoM is accountable based on the terms of its PAF, the PAPs have also signed up to a number of specific commitments concerning the provision of budget support in future. In the spirit of the Rome and Paris declarations, these obligations relate to alignment, predictability, transparency, harmonisation, administrative burden and capacity building.

In order to monitor and stimulate progress in moving towards these commitments, the Programme Aid Partners Performance Assessment (PAPPA) framework was developed. Article 16 of the MoU obliges the donors to provide an annual report on their efforts to implement these obligations. The PAPPA framework is a unique and innovative step, intended to contain the PAPs' main obligations in a nutshell and to facilitate reporting. It was agreed at the September 2004 Mid-Year Review as the result of a period of consultation with the GoM and among the GBS Donors. It is based on the results of the 2004 Baseline Survey of PAP performance, undertaken by an independent team of consultants.

While acknowledging the innovative step of designing a PAF for the PAPs, it should be noted that its structure, the indicators chosen and their target values do not constitute an ambitious framework. In particular, trying to limit the outreach of the PAPs' PAF essentially to GBS instead of extending it to the overall portfolio is a serious limitation.

Why has the promising concept of a PAPs' PAF taken off but not yet reached cruising altitude? Three main reasons can be identified: (1) There is a limited ownership of the PAF on the donors' side. (2) In other than formal terms, the GoM was not really involved in the construction of the PAPs' PAF for 2004 but simply took note of this new instrument. (3) The basic asymmetry and power imbalance of the aid relationship cannot be overruled by a technical tool like the PAPs' PAF. The PAPs' PAF has been thoroughly revised in September 2005. **Self-discipline among donors is, therefore, crucial to produce tangible results.**

3.7 Contribution to Reduced Transaction Costs

Mozambique and Tanzania, the two PAFs where alignment and harmonisation is most advanced and where there are well established routines for annual and half-yearly reviews are not surprisingly the two which seem to score best in terms of transaction costs. Ghana also appears to be reasonably efficient in this respect.

In Benin, the first joint review mission for budget support took place in 2004 and this was strongly welcomed by the authorities who noted the reduction from the six separate annual review missions which had taken place in 2003. Unfortunately, the failure to mount a combined mission for the assessment of variable tranche disbursements did mean four separate, albeit smaller scale, review missions taking place after the annual review. The need to harmonise is now well appreciated and the Government is placing more active pressure on the GBS donors to achieve this.

In Nicaragua, the negotiation of the JBS PAF has been a long and tortuous process involving the repeated analysis of matrices and discussions of proposed indicators. In order to facilitate the process, the JBS donors established working groups for each discrete area of the matrix so as to

minimise the number of plenary meetings. However, amidst the conflicting priorities of the civil service, it has been difficult to obtain consistent government representation on each of these working groups and that has clearly slowed the process down. There has been some resentment on the government side of the long, time consuming nature of the negotiations particularly because the PAF is seen to duplicate the existing PRSC process. Merging these two systems is now an essential priority if the process is to regain credibility, particularly because the lack of disbursements (due to the unfavourable position with regard to the PRGF) has undermined the incentives to active engagement.

Notwithstanding the undoubted progress in Mozambique, Ghana and Tanzania, there is still more that could be done to reduce transactions costs. The size of the PAFs in each of these countries and the large numbers of stakeholders involved make the annual and half-yearly reviews large scale affairs, involving large numbers of people and extensive discussions over one or sometimes even two weeks. Even outside of the framework of annual and half-yearly reviews, there continue to be significant numbers of specialist missions, for example for the assessment of PFM conditions, or the status of procurement and there is a need to rationalise these and ensure that they are always conducted as joint affairs. The implementation of donor obligations in terms of predictability, alignment, harmonisation, etc. has immediate repercussions on the transaction costs of partner governments. Monitoring progress on the donors' side as for example in the case of the PAPs' PAF in Mozambique (see Box 5) is a promising avenue to contribute to the reduction of transaction costs.⁴³

3.8 Contribution to Predictability of GBS Flows

Enhancing predictability in the disbursement of GBS is one of the four core guiding principles of the OECD-DAC. Yet, considering the importance placed on predictability, overall performance in the five case study countries must be considered poor.

- Tanzania has established a track record of predictability, having disbursed 100 % of planned GBS in both FY 2004 and FY 2005 and in both cases within the first two quarters of the year. Performance in FY 2003 was also just 2 % below scheduled disbursements.
- Prior to this, performance was rather poorer: in FY 2001 and FY 2002, GBS was the most unpredictable of all of the major GOT revenue sources, being respectively 22% and 32% below budgeted levels.
- Without doubt, there is a 'learning period' in the disbursement cycle during which Government and donor staff in-country learn how to organise review processes efficiently and reach prompt disbursement decisions and in which donor headquarters staff also learn to streamline bureaucratic decision-making and fund release processes. The Tanzania experience suggests the need for a learning period of some two years.
- The Mozambican experience broadly supports this. In 2004, 12 of the 17 GBS donors disbursed on time, compared to only 6 in 2003.
- Tanzania and Mozambique have both developed a calendar for performance review and disbursement decisions which allows for the level of GBS disbursements to be confirmed a full six months before the beginning of the fiscal year. In this way, disbursement projec-

⁴³ PEFA is also contributing to a reduction in transactions costs through the standardised PFM indicator set and Performance Report

tions can feed into budget preparation guidelines and expenditure ceilings and a predictable, stable basis for budgetary planning is established.

- Nicaragua has adopted the same decision-making calendar but, with the PRGF programme effectively suspended, there have not yet been disbursements under the JBS PAF.
- Both in Benin and in Ghana, disbursements are made in the same year in which performance assessments are completed. Although in both cases, disbursements were reasonably close to budget during 2004, this arrangement is clearly sub-optimal in comparison with the system prevailing in Tanzania and Mozambique.

Figure 1: The GBS Review and Disbursement Calendar for Tanzania

4th Quarter	July	Aug.	Sept.	October	Nov.	Dec.	Jan.	Feb.	March	April	May	June	1st Quarter
Year t-1	Year t												Year t+1
				GBS Annual Review						GBS Half-Year Review			
						***				***			
						FRBS Disbursement Decision				FRSC Disbursement Decision			GBS Disbursement
"Performance Year" for assessment of outputs & outcomes								Annual Budgeting		Budget Consultation/ Approval			Budget Execution

In Tanzania, the timing of disbursement decisions (i.e a firm donor commitment to disburse approved by Headquarters) would appear to be somewhere close to the optimum situation. The EC undertake their assessment of performance against variable tranche indicators in parallel with the annual review. Thus, the majority of disbursements (all except the World Bank) can be confirmed after the annual PRBS review in October of each year (9 months before the start of the subsequent fiscal year.) Even allowing for the occasionally protracted process of confirmation of disbursement decisions by DP HQs, it is normally possible to prepare the Budgetary Guidelines (issued in December or January) on the basis of firm commitments from 13 PRBS DPs and an indicative commitment from the World Bank. The World Bank confirm their PRSC disbursement at the half-yearly review in April. However, the intention is to redesign the PRSC prior actions in the matrix to focus on completion by September or October, so as to make it possible to adopt a unified calendar. The Tanzanian schedule of decision making on disbursements is shown in Figure 1. We would recommend this as a good practice norm.

4. Study Conclusions and Emerging Lessons

Even from a relatively quick analysis of five operational GBS Performance Assessment Frameworks, it is clear that there is much that can be learned. This sample shows that over a number of areas – harmonization, alignment, reduction of transaction costs, improvement of predictability – good practices are being developed and PAFs are contributing positively to GBS development objectives.

Nevertheless, much still remains to be done to improve the efficiency of the management, review and disbursement frameworks for GBS. Especially worrying is the finding that for many partner governments there is still a fundamental lack of clarity over exactly how disbursement conditions are assessed and exactly what needs to be done to increase the availability of GBS flows. Yet, here too, lessons are emerging and certain common mistakes can be identified to be avoided in the future. In this chapter, we therefore present our study conclusions, following two headings:

- Identified good practices, which need to be mainstreamed.
- Identified ineffective practices, which should be avoided in the future.

These conclusions follow directly from observations within the five case study countries. They may thus be defined as the results of an evaluation process.

Of course, there remain areas where it is not yet clear what would be the best practice and where the experience of these five case studies throws up more questions than answers. Even here, we would argue that the zone of doubt is becoming narrower and the precise questions which need to be answered to know the way forward are now clearer. Thus, in chapter 5 we present a summary of outstanding questions to resolve and present some of our own tentative answers as a way of promoting further debate.

4.1 Identified Good Practices

An important lesson is that it is possible to manage all budget support effectively through a single harmonised framework and that there are major gains in reduced transaction costs from doing this. In the case of Mozambique, it has proven possible to have a functional framework uniting 17 different Development Partners; in Tanzania there are 14. Both of these are well established, proven frameworks, which provide detailed examples of MoUs, of performance matrices, of progress indicators and of rules and procedures for reviews.

There is much here that can usefully be replicated or adapted to other countries or contexts but it is worth recalling the three key factors which seem to have been central to success:

- Firstly, the determination of government to make the GBS donors work on a harmonised basis.
- Secondly, the right combination of technical and inter-personal skills within the GBS donor group to make progress, resolve conflicts and protect the gains from harmonisation.
- Thirdly, an early recognition of the importance of formalised procedures, written records and attention to detail.

Within the sample of case studies, there were also two powerful examples of the cost of failing to operate on a harmonised basis. In Benin, perhaps due to the small number of agencies, the necessity for harmonisation was not fully appreciated and review processes continue to be conducted separately. Not only does this generate unnecessary transaction costs, it also undermines the ability of the GBS group to transmit consistent, coherent messages to government.

In Nicaragua, the crucial importance of having a unified assessment process and review process for the PRSC and for Joint Budget Support was not appreciated. As a result there is one review process for the PRSC run by one agency of government – the Finance Ministry, and a separate

process for the JBS group run by the Planning Secretariat. The two review processes duplicate each other to a large degree and the high transaction costs generated have caused considerable irritation within government. Although the PRSC in Nicaragua only involves two agencies – the World Bank and KfW, its financial weight and its importance in the process of policy dialogue makes it essential to include it within the harmonised framework, as would be the case in virtually any other country.

Secondly, it is possible to construct a schedule for performance review, disbursement decision and tranche release which creates a high level of predictability in GBS flows and supports sound budget planning. The essential requirement is to time the performance review so that it takes place 9 months prior to the start of the fiscal year when disbursements are due. (A model calendar is presented in Figure 1 in Chapter 3.)

Three of the case study countries have adopted this model – Mozambique, Nicaragua and Tanzania but interestingly, only one has been able to establish a track record of predictable disbursement over three years or more. This points to another lesson in this respect, which is that there is a learning period to establish predictable disbursement structures which seems virtually inescapable. Nicaragua is just starting GBS, and in Mozambique formal commitments and disbursement schedules are in force only since April 2004 when the MoU was signed. In the case of Tanzania, there was a two year learning period during which disbursements were 22 % and 32 % respectively below the budgeted levels, despite the fact that performance against the PAF was good and no disbursements were deliberately with-held.

The lack of a track record of predictable disbursement in Mozambique is partly to do with a failure, until recently, to develop effective administrative procedures to manage disbursements. It is also in part due to performance problems, deriving predominantly from the banking crisis. Nicaragua, Benin and Ghana have all in recent years had programme aid or GBS disbursements delayed or cancelled due to performance problems. The example of these countries suggests that the pursuit of a graduated response to performance problems remains urgent. (This would imply having options for partial disbursement of GBS, rather than an all-or-nothing arrangement or the use of ad hoc delays which is more common currently.) We return to this question in Chapter 5.

Thirdly, a significant level of alignment to Government systems and procedures is achievable, in particular by utilising normal government reporting systems for budgets and expenditures, for service delivery performance and for progress towards PRS targets. The lesson here is to start from what is available and to make full use of it for assessment purposes rather than to define new indicators and create new information needs. If well managed, the standardisation of indicators and the assessment of data sources which most PAFs will require can in turn contribute to improving the quality of these government systems. The timing of review processes to link into the budgetary preparation cycle has also, as we note above, improved predictability and enhanced budget planning.

Yet, there is evidence that some countries have reached a plateau in relation to their GBS alignment efforts and that no further progress is being made. The substantial debate that has taken place during 2005 over the restructuring of the Tanzanian PRBS PAF seems to us symptomatic of such a situation. Effectively, what is happening is that Government and its partners are undertaking a fundamental re-think of what the PAF should be and what role it should play in relation to other processes of monitoring and policy dialogue. To our knowledge, this remains an unfinished agenda in Tanzania but we suspect that all GBS countries would need to pass through this same

'plateau' before what might be described as 'higher level alignment gains' can be obtained. Understanding the nature of the obstacles is one of the important 'unresolved issues' which we discuss below.

The concept of a PAF can also be applied to the donors' obligations and offers new ways to strengthen mutual accountability which again permits a lowering of the transaction costs for the partner governments. The Mozambique PAPP framework (Box 6) is an interesting innovation whose progress should be carefully tracked and, if appropriate, replicated.

The PRGF process, although not without its tensions, has provided an efficient method of assessing macroeconomic and fiscal performance and has been proven to operate well as a parallel process. In each of the five case studies, the role of the IMF in this respect was generally well regarded by both Government and the GBS donors. This is an important lesson, since it refutes the concerns occasionally expressed over the possibilities for unnecessary transaction costs and duplication between the PRGF and GBS processes. In practice, this macroeconomic assessment role is almost fully undertaken by the IMF and we found no examples of genuine duplication of this exercise by GBS donors⁴⁴.

It also provides a concrete example of how an issue which is fundamental to the GBS process can be effectively assessed outside of the PAF. In principle, this model of 'sub-contracting' discrete aspects of performance assessment could be an effective way of dealing with the excessive size of the PAFs in these five countries.

However, we would sound a note of caution over the extent to which the 'macro assessment' role has been effectively 'sub-contracted'. Issues of coordination and interaction between the IMF and GBS donors remain - leading to a concern about whether the process as currently observed supports local capacity and (given the considerable bilateral interest in macroeconomic issues) generates debate about the alternatives. This can easily lead to inadequate attention to macroeconomic issues within the GBS dialogue. For example, at the time of the annual JBS review in Nicaragua, there were a number of Government officials who had not fully appreciated that being 'off-track' with the IMF would constitute more than sufficient grounds for all GBS payments to be suspended. Given that there had been limited attention to macroeconomic and fiscal issues in discussions over the design of the PAF, this is not entirely surprising.

The GBS process offers an important opportunity for a secondary channel of communication on macro-economic issues, which both the Government and bilateral donors are likely to value. It also permits the possibility of a more graduated response to macroeconomic problems. For example, in a context of relatively sound macroeconomic management but failure to fulfil structural benchmarks, the IMF might advise GBS donors to continue disbursements, whilst suspending PRGF releases. For this inter-relationship to work well, PRGF reviews need to be carefully timed to feed into the national budget cycle and the GBS decision-making cycle. This was not always the case in the five case studies.

One should also recognise that there will be circumstances in which there is no PRGF programme (because it is not needed) and therefore only one annual Article IV assessment by the IMF. For

⁴⁴ The May 2005 annual review of the JBS in Nicaragua did focus to a large extent on the problems in implementation of the agreed PRGF programme but this was understandable in view of its importance. Moreover, there was close coordination with the IMF and no repetition of analyses already undertaken.

these and other reasons, GBS donors should be wary of losing macroeconomic assessment capabilities and losing touch with ‘sub-contracted’ processes (even if allowing the IMF to lead in this area is probably the right approach).

4.2 Identified Ineffective Practices

The need to avoid an unnecessary expansion in the scope and complexity of the PAF is a major lesson emerging from this study. In each of the five case studies, the size of the PAF had grown beyond a level where it could provide a clear framework for disbursement, in the sense of presenting a set of conditions which could be unequivocally interpreted and which could generate a coherent set of incentives for Government. All of the PAFs involved a mix of policy actions, of policy ‘triggers’ (actions defined as necessary ‘prior actions’ to permit disbursements) and of performance indicators. All of them typically covered a range of central and sectoral level actions, as well as questions of governance. All of them involved an assessment of macroeconomic performance in relation to the PRGF as well as three other types of assessment of disbursement conditions – overall performance against the matrix, completion of the defined policy triggers or ‘prior actions’ and assessment of performance indicators against targets to assess variable tranches. In every case, the indicators, targets and policy actions had been carefully considered, with proper attention to sources of verification. But taken together, they were simply too numerous and too complex.

This has jeopardised the effectiveness of these budget support operations in a number of important ways:

- Firstly, it has undermined the focus on a clear set of priority reform actions. Ideally the PAF should focus attention on the actions most likely to promote economic growth, accelerate the reduction of poverty and to increase the effectiveness of the national budget, and thus of budget support. Yet with so many actions being ‘prioritised’, this focus was blurred, if not altogether lost.
- Secondly, with a range of assessment methods superimposed on a large number of actions and indicators, inconsistencies were sometimes created in the way in which performance failures were treated. We noted, for example, in Tanzania (Box 4) that the failure to produce a joint PFMRP action plan within the specified time period almost led to the suspension of \$ 150 m of budget support through the PRSC, whereas other objectively more serious breaches of underlying principles had no impact on disbursements.
- Thirdly, it has made the whole review process more complex and transaction cost-intensive than necessary, drawing the attention of senior officials away from the actual implementation of budgetary and policy actions.

The need to recognise that the PAF should be only one element within a range of processes of performance review, policy dialogue and knowledge sharing represents another challenge. Essentially, PAFs have become too big because GBS donors are trying to achieve too many objectives through this one instrument.

In practice, the monitoring of eligibility for GBS disbursement is only one out of several objectives of a GBS PAF. Often these objectives are implicit but there is no doubting the influence they have on the design of the PAF and the conduct of the related review process. The Tanzania joint

evaluation of GBS (Booth et al, 2005) identified three implicit objectives of the PRBS PAF, which we would judge are also present in the other four case study countries:

- Firstly, the PAF seeks to provide a framework for strategic dialogue between GBS donors, Government, and sometimes other national stakeholders, to permit discussion of the key constraints on growth and poverty reduction and of the actions being undertaken to address those constraints.
- Secondly, it will generally seek to provide a national structure for monitoring strategic reform processes, especially in situations where the PRS framework is seen as too weak or insufficiently focused to fulfil such a purpose.
- In addition, the PAF must play its core role of monitoring the conditions of eligibility for GBS disbursements by assessing:
 - Adherence to underlying principles and to conditions of 'due process' which justify continued external trust in the processes of public policy and public finance management.
 - The fulfilment of the specific policy actions identified as important to the implementation of the PRS and thus picked out as 'policy triggers' or 'prior actions'.
 - The results of those policy actions and of other related administrative and public spending measures, as reflected in improvements in PFM efficiency indicators or in indicators of service delivery outcomes.

Even if the only objective of the PAF were to monitor eligibility for GBS disbursements, the use of a single instrument and a unified review process might not be the most efficient way of doing this. For example, we have noted that the use of the PRGF process as the mechanism for monitoring macroeconomic and fiscal performance has proven an efficient approach in each of these five case study countries. In other countries – such as Uganda, for example - sectoral performance is monitored exclusively through sectoral working groups and the central level performance matrix does not include sectoral indicators, targets and policy actions. One could easily conceive of other areas of reform, such as private sector development, also being monitored through separate mechanisms. Within this sort of structure, the PAF would not carry detailed indicators and actions for each sector or thematic area but would simply require that effective mechanisms should be in place for driving and reporting on progress of policy and spending actions and for monitoring the continued adherence to underlying principles and due process conditions. The PAF itself would summarise the areas where performance would need to be monitored - referring to the existing (separate) mechanisms by which progress would be assessed, and would include a more detailed specification of targets and monitoring mechanisms for those strategic actions not addressed by existing review processes.

The fact that the PAF also seeks to be a channel of dialogue creates further complexity – particularly when this role is pursued simultaneously with the assessment of conditions for disbursement. It needs to be recognised that, in the absence of other fora for policy debate, PAF discussions may not be as open as they might otherwise be because of the direct link to funding decisions. In practice, it would be quite possible to engage in policy dialogue in other fora, or through other methods

such as the sponsoring of research and of knowledge sharing events. This would then allow the PAF to focus exclusively on the monitoring of disbursement conditions⁴⁵.

The final lesson emerging is that the introduction of variable tranche schemes, when there is not a minimum ‘critical mass’ of financing behind them, is likely to be ineffective as an incentive to improved performance. Where the GBS allocations to variable tranches are small in relation to overall disbursements and where there is a wide range of disbursement conditions being assessed, the withholding of all or part of these variable tranches appears to have no discernible impact on the behaviour of recipient governments. The potential incentive effect appears to be effectively drowned out. This was most obvious in Benin (Box 3) but in the other four cases too, it is clear that the primary focus of attention by Government was on the fulfilment of the PRSC triggers. We found no examples of policy or spending actions obviously prompted by a concern to maximise variable tranche disbursements and none of the MoF officials we were able to interview made mention of this as a motivating factor.

It seems clear to us that if GBS disbursement through a variable tranche is not generating incentives for different policy and spending actions aimed at improving results, then it has no developmental value. It will simply generate uncertainty⁴⁶ over the precise level of GBS available and increased transaction costs in its monitoring and disbursement. It should be stressed that this does not imply an opinion over the potential desirability of fully operational variable tranche schemes. We are simply stating that the incentive effects such schemes are expected to create were not being generated in these five cases.

This does not mean that the inclusion of variable tranches has had no positive impact at all. In each of these countries, it has generated a useful debate over indicators and over outcome targets which in turn has prompted actions to improve the quality of statistical measurement systems. However, such gains could almost certainly have been achieved simply through the inclusion of outcome indicators and corresponding targets as one element in the overall assessment of progress. Indeed, the increasing attention to indicators within these PAFs has been actively supported by most of the GBS donors, including the World Bank and others not providing variable tranches. Thus, the formal use of performance indicators and targets as a means of assessing progress towards PRS and other reform objectives does not imply the need for a variable tranche.

⁴⁵ In so far as the PAF can provide opportunities to promote dialogue, then obviously such opportunities should be taken. But the fact that the PAF is used as a method of assessing disbursement conditions will inhibit dialogue. More open channels of dialogue can promote better interactions in particular over sensitive yet important development issues (eg.land legislation), which might otherwise be left out of the PAF dialogue in order to avoid conflicts.

⁴⁶ Bringing forward the decision on the value of the variable tranche so that it preceded the fiscal year in which disbursements are due represents an important way of reducing this uncertainty. Nevertheless, for the purpose of multi-year planning and budgeting, variable tranches will involve a higher level of uncertainty.

5. Some Ideas on the Way Forward

The lessons which follow directly from the experiences of these five countries are important and point clearly to certain practices to be emulated and others to be avoided. We have listed these in chapter 4. An important follow-up action to this study would be to find ways of disseminating these lessons.

However, it is clear that much still remains unknown. Notwithstanding all of the careful dedicated work put into the development of these five PAFs and notwithstanding some of the interesting innovations introduced, none of these can be said to be even close to being the “perfect PAF”. So, in this chapter we try to lay out a type of roadmap towards the “perfect PAF”. The opinions here expressed are of a more subjective nature and do not follow so directly from our observations in these five countries but, nevertheless, we believe they are substantiated by the wider experience of GBS.

We present this roadmap in the form of a series of leading questions. We believe that the answers to these questions help to reveal some of the conceptual issues which will need to be overcome in order to design better performance assessment frameworks for GBS. We provide our own tentative answers to these questions, as a way of provoking debate. We are not confident that we have the right answers but we are quite convinced that these are the areas where honest, dispassionate argument is most needed.

5.1 The Big Outstanding Questions To Be Resolved

We believe that there are four fundamental questions which need to be addressed in order to develop a clearer idea of how to improve the design of future PAFs:

- What should be the objectives of budget support?
- How should conditionality be used?
- How best can a graduated response to performance be introduced?
- What should be the role of the PAF?

What should be the objectives of General Budget Support?

It seems surprising with General Budget Support now a well established aid modality that the definition of its objectives should be identified as an ‘outstanding question’. Yet as we noted in Chapter 2, there is no clear, universally accepted statement of the objectives of budget support. Many of the weaknesses we identified in chapter 3 over the clarity and appropriateness of the PAFs as frameworks for disbursement derive directly from a lack of precision in the definition of objectives and from a lack of awareness over the potential trade-offs between different objectives.

Moreover, there is something of a logical inconsistency between the way individual agencies define the objectives of their individual budget support operations and the way in which budget support actually operates. Because GBS resources are fungible, it is impossible to distinguish the particular effects of one source of GBS from another. Similarly, because conditions for disbursement are assessed jointly, it is the combined incentive effects of the conditions applied by different agencies to which governments must respond. In short, the extent to which individual GBS opera-

tions can pursue independent objectives is very limited. The acceptance of joint MoUs and PAFs, and a joint evaluation framework for GBS illustrates that this basic truth is recognised at least at the operational level.

Yet, the illusion that different agencies can successfully pursue different objectives with GBS in the same country continues to persist. Indeed, this is one factor driving the seemingly inevitable expansion of the scope of GBS PAFs. Each new agency coming into the GBS arrangement has its own particular constituency to respond to at headquarters and in their own Parliament and, as such, favours an individualised presentation of objectives. The attempt to pursue all of these separate objectives simultaneously leads to a general blurring of objectives and blunting of incentives. Without doubt, GBS would be more effective if it were possible to state in a precise way within the MoU or PAF the objectives of GBS in a given country and to ensure that all individual credit and grant agreements were fully consistent with that joint statement of objectives.

So what then should be the objectives of GBS? Taking poverty reduction as the super-goal to which all GBS operations should contribute and building on the 4 guiding principles for GBS included in the OECD-DAC good practice paper (OECD-DAC, 2004), we would suggest that it is possible to lay down 6 generic objectives for GBS which would be generally accepted by all GBS providers and recipients. These are presented in Box 7 below.

Box 7: Possible Statement of Objectives for providing General Budget Support

1. **To provide predictable increases in budget funding for partner governments** who have demonstrated their commitment to the goal of poverty reduction and their capacity to utilize resources effectively in pursuit of that goal.
2. **To promote ownership by partner governments** over their development policies and processes, by making available untied resource transfers to the national budget.
3. **To accelerate national development and reform processes in partner governments**, which might facilitate progress towards the over-arching goal of poverty reduction, **including actions to increase domestic revenue mobilisation.**
4. **To improve the effectiveness of partner governments in achieving positive service delivery outcomes**, by focusing attention on the results of policy and spending actions and increasing the level of scrutiny of results within governments, Parliaments and the wider civil society.
5. **To strengthen national systems of planning, budgeting, control and oversight** by increasing the level of reliance on national systems and by focusing dialogue, and potentially disbursement conditions, on their continuous improvement.
6. **To reduce the transaction costs associated with external finance**, both by aligning aid delivery systems to national policies and processes and by promoting harmonization of procedures between donors.

These objectives are in themselves uncontroversial but stating them explicitly can help to draw out their implications and to permit a formal analysis of the potential trade-offs between them. If the provision of predictable, budgetary financing is a primary goal, then this implies a prior analysis of four key factors:

- Is there a need for additional budget financing, which external development assistance can reasonably fulfil or contribute to fulfilling, without creating excessive levels of aid dependency?
- Is it possible to fulfil these needs without generating high inflation, significant exchange rate distortions or other macroeconomic problems?
- Is the partner government capable of utilising the additional resources effectively, given the existing administrative and human resource constraints on absorptive capacity?
- To what extent is it possible to relieve those absorptive capacity constraints through institutional or policy reforms and how fast can those reforms expect to be implemented?

The additional objectives of accelerating reforms, increasing attention to outcomes and strengthening PFM systems are essentially intended to focus on the key capacity constraints limiting the effectiveness of the budget. If properly managed, they can complement the objective of providing additional, predictable budgetary financing. But if the primary method of stimulating these improvements is through the use of conditional disbursements, then the predictability of financing may be jeopardised. There is a trade-off here which needs to be managed. Part of the answer is not to rely exclusively on conditionality but also to use well-targeted technical assistance and to ensure an ongoing process of dialogue and knowledge-sharing – with civil society as well as government – which might stimulate positive changes.

Nevertheless, so long as the use of conditional disbursements or variable tranches is a significant element in budget support financing, there is a trade-off with additionality and predictability. Addressing this trade-off requires a clearer idea of how best to use conditionality – the next big outstanding issue.

How should conditionality be used?

The PAF is an important instrument to pave the way from imposed to agreed conditionality in accordance to the local context. The PAF should bring transparency into the aid relationship, which compares favourably to the often opaque conditionalities of bilateral donors in particular. The strength of the process is that the performance assessment is jointly done in order to have a common basis for donor decisions which are ultimately taken on a bilateral basis.

Yet, across the five case studies, the area of greatest ambiguity and inconsistency was without doubt in the dialogue and the practice surrounding the use of conditionality. We would suggest that this is essentially the result of a reluctance to describe in honest terms the nature of the partnership on which GBS is based.

The impression often given is that partnership implies a unanimity of views, a complete sharing of objectives; yet, this is clearly not the case. It is more accurate to think of the GBS partnership as a type of “GBS club”, in which members share a commitment to a set of common objectives but approach those objectives from different perspectives and with different sets of priorities⁴⁷. Respecting national ownership over economic reforms and budgetary actions does not mean the abrogation of the rights of GBS donors to insist on common principles or to pursue particular objectives. It

⁴⁷ This same idea is expressed more fully in OPM/ODI (2003) *General Budget Support Evaluability Study*, London: Department for International Development, Evaluation Report EV643, Vol 1.

is worth repeating here some of our key conclusions regarding the appropriateness of the PAFs as a framework for disbursement within the five case study countries:

- In general, the underlying principles and, linked to this, the legitimate rights of GBS donors as external stakeholders in a partnership are not sufficiently clearly stated nor sufficiently frequently asserted.
- The assertion of these principles and rights need not encroach on ownership so long as those principles and rights are transparent and legitimate.
- On the other hand, conditions do need to be discussed and agreed to by Government, if there is to be the level of ownership necessary for a committed pursuit of reforms.
- Ownership of the agreed reform agenda does not imply a uniform acceptance of those reforms. There will always be 'reformers' and 'protectors of the status quo'.

Seen from this perspective, there then emerge two clear rationales for making disbursements contingent upon particular types of actions. Firstly, there are underlying principles and 'due process conditions' which define the essential rules of the game. To continue with the club analogy, breaking these rules would effectively require expulsion from the GBS club. The second rationale is very different. It is when a set of reforms is agreed which is designed to enhance the effectiveness of public spending (and hence of GBS) and all or part of the GBS disbursements are made contingent on the completion of these reforms. This has the effect of strengthening the hand of the 'reformers' within government and would help to accelerate reform. Accelerating reforms serves to raise the absorptive capacity of government, thus increasing the level of GBS resources which can effectively be utilised.

Logically, it would only make sense to make all GBS disbursements contingent upon these conditions, if it was concluded that only with the implementation of the agreed reforms could any GBS be used effectively. This might be the case in a country with very weak policy making and public finance management systems but in the generality of cases, this approach to ownership and conditionality would lead to a 'split response mechanism' – a base level of resources contingent upon underlying principles and due process conditions (including adherence to sound macro-economic management) and additional resources contingent upon the completion of specific policy actions or the achievement of pre-defined outcomes.

Viewed in this more dispassionate way, the extent to which disbursement is made conditional upon performance and the way conditionality is exercised can then become design choices directly linked to the objectives being pursued through GBS. There are three identifiable disbursement methods: i) Fixed tranches linked solely to fulfilment of underlying principles and due process conditions; ii) Single Fixed tranches or multiple sub-tranches conditional upon completion of identified prior actions and iii) Variable tranches whose value is decided by the degree of achievement of pre-specified outcome targets. Drawing on the six core objectives listed above, we may assess the three types of disbursement method in relation to their capacity to contribute to each GBS objective, as illustrated in Table 3.

Some immediate operational implications follow:

- Fixed tranches linked to due process conditions generally provide a predictable method of budget funding but give no specific incentives to accelerate reforms or to improve results beyond the basic discussion of progress which takes place at the annual review.

- By contrast, tranches conditional on prior actions and variable tranches linked to outcomes do give specific incentives in these areas but provide less predictability⁴⁸ and both carry a risk of higher transaction costs.
- This suggests that where variable or conditional tranches are used it is sensible to combine them with fixed tranches, if provision of predictable budget funding is a significant objective, and if the base conditions to use a fixed tranche effectively are deemed to be in place.
- Here we make a distinction between ‘conditional’ and ‘variable’ tranches. Conditional tranches involve a direct negotiation of the content of reforms and external monitoring of their implementation, whereas variable tranches monitor only the outcomes of partner government’s reforms and public spending processes.
- Hence, in relation to ownership, variable tranches are likely to score better than conditional tranches because they leave policy choices to government. On the other hand, if partner governments are obviously making the wrong policy choices, the corrective process may be relatively slow. There is then a potential trade-off between ownership and effective policy implementation.

Table 3: Relative contributions of different Disbursement methods to GBS objectives

GBS Objectives	<i>Fixed tranches, subject to underlying principles & due process conditions</i>	<i>Sub-Tranches, conditional on completion of Prior Actions</i>	<i>Variable Tranches, whose value depends on performance against outcome targets</i>
1. Predictable, Increased Budget Funding	Predictable budget funding, so long as due process conditions clear & accepted.	Timing & availability of funding may be unpredictable, unless prior actions are simple.	Level of funding unpredictable unless outcome targets easily achieved
2. Increased Ownership	Ownership of policy and spending choices is complete so long as underlying principles/ due process conditions accepted.	Prior actions should be agreed with Government so no actions fully ‘external’ yet overall choice of actions and relative priorities are necessarily externally influenced. This should be fully transparent.	Choice of outcome targets is agreed with Government but will inevitably reflect external preferences. Choice of policy/ administrative actions to achieve targets rests fully with Government.
3. Acceleration of Reforms	Gives no specific incentives to accelerate reforms	Gives clear incentive to accelerate policy & administrative reforms	May promote reforms if link to results is clear.
4. Attention to Results/ Out-	Results should be discussed at annual review	Conditions tend to focus on reform processes &	Explicit focus on outcomes, with financial rewards for success in

⁴⁸ As we have noted above, the timing of the decision over whether and how much to disburse can help to reduce unpredictability if it is taken 6-9 months before the start of the fiscal year.

GBS Objectives	<i>Fixed tranches, subject to underlying principles & due process conditions</i>	<i>Sub-Tranches, conditional on completion of Prior Actions</i>	<i>Variable Tranches, whose value depends on performance against outcome targets</i>
<i>comes</i>		steps, not on outcomes.	achieving improvements.
<i>5.Strengthened Budget systems</i>	Ongoing monitoring through annual review	PFM reform actions may be included within agreed prior actions.	PFM improvement targets can be established for VTs.
<i>6.Lower Transaction Costs</i>	Reliance on an annual + half-yearly review & on established systems lowers transaction costs	Likely to involve specially designed review system & thus higher transaction costs, but may be possible to use Govt. reform monitoring process.	Transaction costs will be higher but arguably will generate policy-relevant indicators & open discussion to wider civil society.

This analysis leads us to some simple rules on the use of conditionality:

1. A basic point is that the provision of predictable budget funding will almost always be an important objective, so unless there are significant risks of misuse of a fixed tranche, this should always represent the majority of available GBS disbursements.
2. Then, one should ask firstly: how important is it to provide special incentives to accelerate reforms or to in other ways influence partner governments' policy formulation and public spending processes? And secondly: how likely is it that conditional or variable tranches could induce such changes, given the political choices and preferences of the partner government and its inherent capacity?
3. Implicit in this second question is an appreciation that conditional and variable tranches carry higher costs – in terms of loss of ownership and increased transaction costs. They must therefore bring some “value added”. In the case of conditional tranches, the value added lies in the development of a more effective design, pacing and sequencing of reform measures; in the case of variable tranches in the form of additional attention to the definition, measurement, public review and actual achievement of performance targets.
4. It should also be recalled that all GBS should involve an active process of policy dialogue. This ought to permit regular formal and informal contacts with the partner government, through which the GBS partners, as well as Parliamentarians and civil society commentators may comment on policy choices, even where these are not the subject of disbursement conditions. Where a partner government has a strong commitment to a reform strategy or poverty reduction strategy and the administrative capacity to implement that strategy, then fixed tranche disbursement combined with active dialogue may be the most appropriate form of budget support, without any need for conditionality.

How best can a graduated response to performance be introduced?

One important conclusion from the discussion above is that in the generality of cases, the recommended approach to ownership and conditionality would lead to a ‘split response mechanism’. This

would comprise a base level of resources contingent upon underlying principles (including content of the budget being financed) and due process conditions (including adherence to sound macro-economic management) and additional resources contingent upon the completion of specific policy actions or the achievement of pre-defined outcomes. In short, the approach is consistent with a graduated response to performance, in which improved performance leads to additional GBS resources. The question then arises which type of graduated response is likely to be most appropriate?

In the five case study countries, there were three examples of graduated response mechanisms – two formal and one more pragmatic or ad hoc:

- Ghana provides an unusual example of a fixed tranche, linked essentially to adherence to the PRGF, and a conditional tranche linked to the fulfilment of approximately 12 trigger conditions per year.
- In each of the other four case studies, there existed various types of variable tranche, whose value was linked to performance against PFM efficiency indicators and a variety of outcome indicators.
- We also noted in Tanzania how the failure to fulfil 3 of the 13 required prior actions, initially led to a delay in disbursement of the PRSC rather than an outright withholding of the tranche.

Whilst the response of the World Bank to the Tanzanian situation was pragmatic and certainly appropriate to the particular situation, it was not clear in advance that the possibility of a delay actually existed. A different interpretation of disbursement conditions might very easily have led to non-disbursement of \$150 million of anticipated GBS resources. It seems clear that in general one would not want to rely on this sort of ad hoc pragmatic response. Which of the other two systems seems most effective?

As we have noted above, none of the examples of variable tranches within this sample appeared to give sufficiently clear and powerful incentives to Government to induce policy and administrative changes consistent with the selection of indicators. None of them enjoyed enough of a critical mass of support to have such an effect. In several cases, there were a number of small variable tranches operating simultaneously linked to different types of indicators and operating alongside PRSC conditions and the wider assessment of the PAF. Such a framework cannot generate clear incentives, given all of the different influences inevitably playing upon the policy process and given the limited understanding at the political level of GBS and its various disbursement systems.

Even if variable tranches were designed in a more harmonised way and did involve a sufficient critical mass of funding, there are two additional factors which would need to be in place in order for performance-based variable tranches to generate clear and powerful incentives:

- Firstly, there would need to be systems of budget allocation and review which gave prominence to past and projected performance in reaching decisions over resource allocation.
- Secondly, there would need to be a political culture of responsiveness to results, such that ministerial and government performance might be judged on this basis and Government members both individually and as a collective might expect to lose their positions of power as a result of poor performance.

None of the five countries we examined had these conditions in place and we would argue that there are very few GBS recipient countries which do. The EC argue that the increased use of variable tranche schemes can help to create such conditions. Mozambique, Nicaragua and Tanzania provide some support to this theory, in that the regularity and the quality of public debate over performance as well the mechanisms used to measure it have clearly improved in recent years. How much this is due to the PRS and the related monitoring work and how much the result of the use of variable tranche disbursement schemes is exceedingly difficult to judge. We would argue that in the short term a more likely effect might be the manipulation of performance indicators so as to maximise GBS disbursements. In other words, the perverse effects of tying resources to performance against a small number of indicators may outweigh their positive effects. However, we must accept that for the moment there is no clear-cut evidence either way.

A priori, we would suggest that the Ghana model of a secondary tranche or tranches linked to policy triggers may be more appropriate in the typical context of a GBS receiving country - in the sense that its focus is on precise, measurable actions rather than a variable tranche linked to service delivery outcomes where the link to government actions in the short term is less clear. The Ghana model has already proven that it can generate powerful incentives to fulfil PRSC conditions and to participate actively in their negotiation. As experience with this scheme is built up, it would be very useful to examine more closely how well it is operating and whether it might represent a replicable good practice model.

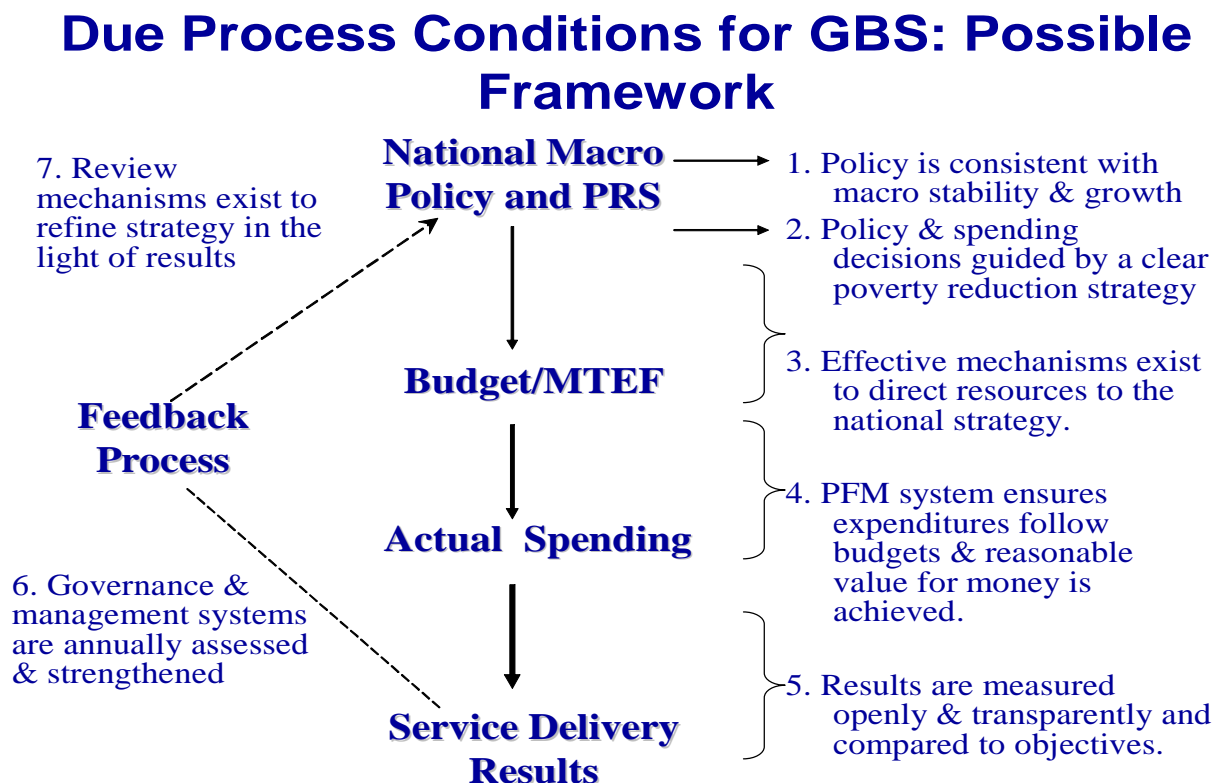
What should be the role of the PAF?

What sort of conclusions does this bring us to in relation to the future role of the PAF? As a preamble, we would stress that the basic objectives of a PAF are simple, namely to assess the fulfilment of a set of commitments by Governments to GBS donors and vice-versa. These determine the conditions for GBS disbursements and the rules by which GBS donors should operate. In order to improve the effectiveness of future PAFs, it is important to try to simplify so as to reinforce these central objectives. What might this entail ?

- Firstly, the chosen structure must be built on the basic principle of the harmonised management of budget support. Experience suggests that there are high costs to parallel systems both in terms of transaction costs and in terms of the coherence of GBS incentives. This harmonisation does not arise automatically: GBS donors need a set of rules to resolve the collective action problem which GBS represents. (See section 3.3 and Box 3.)
- Secondly, the principle of a transparent joint assessment process, involving Government, all GBS donors and, where possible, civil society representatives must be protected. In this way, individual disbursement decisions by each GBS donor are based on a transparent and shared process of assessment. But this must be based on clearly stated conditions. A situation in which recipient Governments may not feel certain where conditionality starts and ends is clearly not a sound basis for a transparent process.
- PAFs should seek to draw a distinction between underlying principles and due process conditions on the one hand and policy and performance conditions on the other. In order to provide predictable budget financing, a base level of fixed tranche disbursements should be made against an assessment of continued adherence to underlying principles and fulfilment of due process conditions. Defining what these should be would contribute in a major way to the establishment of clearer and more transparent disbursement conditions. (Figure 2 -

drawn from the Tanzania joint evaluation of GBS, provides an example of what the scope might be.)

Figure 2: A possible framework for defining the ‘due process’ conditions for GBS



- Improved performance, measured either by completion of identified prior actions or by attainment of pre-specified performance targets should permit disbursement of additional resources. A formal adoption of a ‘graduated response mechanism’ seems likely to be warranted in most GBS recipient countries. This should not be the initiative of one or two GBS donors but a process to which all GBS donors involved in a particular country should subscribe, as for example is the case in Ghana. By the same token it should be undertaken in a harmonised way.
- Even where the monitoring of performance was not linked to a variable tranche disbursement, it would be important for performance monitoring to have a place within the overall PAF. This might rely predominantly on annual PRS reports and would probably impact predominantly on the renewal of GBS arrangements over the medium term. In other words, one of the important criteria for judging whether aggregate GBS resources should be increased or reduced should be an assessment of progress against specified targets in the PRS or the national development plan.
- On the other hand, the problem of the excessive size of PAFs needs to be addressed. This requires a careful balance between a PAF which remains an effective focal point for performance assessment and policy dialogue, whilst at the same time drawing upon other assessment processes as appropriate. Just as macroeconomic performance is separately assessed through the PRGF process, so sectoral performance could be assessed through sectoral working groups and PFM reform or private sector development through other mechanisms. The PAF matrix must identify the areas where progress needs to be made

but it is not necessary for the PAF reviews to be the sole means of assessment. The PAF should be conceived as one element within a wider process of performance assessment and dialogue. In this way, not only will it work more efficiently, it will also be a more effective tool for alignment and strengthening of government systems⁴⁹.

- The PAF, aligned to domestic processes and making them transparent and participative, is an excellent vehicle to extend domestic accountability towards Parliament and citizens. It is therefore important that the PAF itself and the results of the annual assessment process should be made available to Parliament, to civil society groups and to the media so as to permit its wide dissemination.
- In addition, there ought to be deliberate efforts to create separate avenues for dialogue over key policy issues, which would not be linked to disbursement conditions. These should also include a wider group of government, parliamentary and civil society stakeholders than is common with GBS PAFs.
- In general, the mechanisms for ensuring the GBS donors adhere to their commitments are very much weaker than the mechanisms for monitoring government commitments. In other words, despite the rhetoric, most PAFs are a long way from ensuring mutual accountability. Explicit mechanisms need to be introduced to achieve this objective. The use of a formal PAF for the GBS donors, as in the case of Mozambique, is one possible approach. In Nicaragua, there is a national plan for aid harmonization (covering all Development Partners), which is monitored by the Ministry of Foreign Affairs & Development Cooperation. Tanzania has these objectives incorporated within the *Tanzania Assistance Strategy*, whose implementation is monitored on a bi-annual basis by a formally constituted *Independent Monitoring Group*. In short, drawing from the variety of options available, it is important that an explicit mechanism for monitoring donor commitments should be established.

⁴⁹ See also the discussion in section 3.5, which presents three hypothetical models for a PAF, which is explicitly designed in the light of the range and quality of existing performance review systems.

Annexes

Annex One: Bibliography

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NB. This bibliography lists only the books, review articles and formal reports to which the authors have referred. In each of the five case study countries, analysis was also made of the GBS Memoranda of Understanding, the PAF matrices, the financial agreements of the individual GBS donors and the progress reports produced at the GBS annual reviews.

Annex Two: Summary Matrix of Assessment of the Five Country Case Studies

PAF Assessment Criteria	BENIN PRSC/ ABC	GHANA MDBS PAF	MOZAMBIQUE PAPs	NICARAGUA JBS PAF	TANZANIA PRBS PAF
Key Features of PAF	EC & Bi-laterals (Danida, SDC, Netherlands) have joint MoU but different indicators for Variable Tranches. WB PRSC matrix now applies for all GBS but WB focus on prior/ trigger actions.	Joint PAF, incorporates PRSC. Bilateral MDBS donors' performance tranche and WB/AfDB single payment foot on shared trigger conditions (prior actions). Bilateral MDBS donors' base tranche depends on IMF on track status.	One shared PAF subject to overall interpretation by EC & bilaterals, with WB focused on sub-set of prior actions. EC, Switzerland and Sweden also having variable tranches on a number of output and policy issues.	New system: One shared PAF subject to overall interpretation by EC & bilaterals, with WB focused on sub-set of prior actions and EC also having variable tranches for education, justice & decentralisation	One shared PAF subject to overall interpretation by EC & bilaterals, with WB focused on sub-set of prior actions and EC also having variable tranches for PFM & service delivery.
Clarity as f/work for disbursement	Structure of variable tranches confusing to Govt, whose primary concern is with PRSC trigger conditions.	System is well established and GoG understands basis of disbursements. Targets and triggers often are multiple and complex, requiring a demanding verification.	System is well established and GoM understands basis of disbursements. Linkages to line ministries improving.	PAF yet to be used as Macro/ PRGF conditions unfulfilled. Confusion over whether completion of policy actions overrides need for achievement of quantitative indicators. Choice of indicators + targets still in transition + process for updating unclear.	System is well established and Govt understands basis of disbursements.
Appropriateness as f/work for disbursement	Overall matrix gives inadequate attention to PFM issues + leaves underlying principles undefined; excessively focused on detailed policy actions.	Big difference in attention to PAF targets and triggers. Stronger GoG involvement led to less ambitious PAF. PAF design takes line / sectoral concerns into account.	Innovative distinction in MoU between underlying principles and PAF. Its large size competes with the need of focus.	Primary attention is on PRSC trigger actions. Underlying principles regarding behaviour of Legislature/ political parties not incorporated.	Underlying principles not well defined and receive less attention than more process-related PRSC actions, eg PFMRP action plan.

PAF Assessment Criteria	BENIN PRSC/ ABC	GHANA MDBS PAF	MOZAMBIQUE PAPs	NICARAGUA JBS PAF	TANZANIA PRBS PAF
Extent of alignment to Govt systems	Linked to PRS but PRS has little real ownership. Reform mgt structures do not really exist so PAF provides these but ownership/ sustainability unclear.	PAF ownership of GoG sharply increased with its draft of PAF 2006. No performance culture yet in ministries. Biased accountability to DPs at the expense of domestic stakeholders.	PAF is part of the PES and as such closely aligned to PRSP/PARPA and GoM planning, budgeting and monitoring cycles. PAF reporting is part of GoM's accountability to parliament.	Closely aligned to monitoring f/work for PRS but ownership of PRS remains an issue. Link to sectoral working groups is unclear.	Closely aligned to PRS but doubts over ownership of PRS. Govt believe PAF duplicates certain Govt monitoring systems but could also be seen as complementary.
Extent of Harmonisation across GBS donors	Harmonisation is incomplete: a joint matrix but different VT indicators, each of which separately monitored in 2004 (ie not through a joint review.)	MDBS/PAF is the main vehicle of harmonisation		Close harmonisation between EC & bi-laterals. WB now use overall matrix but have separate reviews. IADB may end up with separate process.	PAF is closely harmonised across all PRBS donors. Link to IMF PRGF is also clear and well managed. Increasing interest in VTs threatens the harmonisation thus far achieved.
Contribution to reduced Transaction Costs	PAF does not duplicate Govt structures (because these are largely absent) but it is transaction intensive because of inadequate harmonisation.	A reduction of transaction costs for the GoG has been achieved while substantial further opportunities remain (joint missions, etc.).	GBS/PAF is a cost effective formula. It has substantially reduced transaction costs while the process remains time consuming. Main challenge is expansion of basic GBS principles to overall portfolio (including joint missions, on budget support, etc.)	Govt perceive processes as transaction cost intensive + point to duplication between JBS and PRSC processes. System still in transition.	Process relies on two reviews per year + draws on pre-existing gov't info systems. As system for disbursement of \$ 400 m, this = lightweight but Govt keen to move to one review with more reliance on existing Govt systems.
Contribution to Predictability of GBS flows	Value and timing of flows considered by GoB as highly random, although no precise data ob-	Predictability improved – however harmonisation of disbursement is outstanding: DPs disburse	Predictability improved, also due to transparent PAF. PAPs commit in the year n based on performance in n-1 for the	PRSC disbursements have taken place and some bi-lateral disbursements but not on basis of JBS PAF. No	Disbursements in FY 2004 & 2005 have been slightly over 100% of budgeted GBS and mostly in first quarter.

PAF Assessment Criteria	BENIN PRSC/ ABC	GHANA MDBS PAF	MOZAMBIQUE PAPs	NICARAGUA JBS PAF	TANZANIA PRBS PAF
	tained.	in-year.	year n+1. Most PAPs apply multi-year arrangements.	disbursements likely in 2005.	But after 3-year learning period with much lower predictability.
Contribution to mutual accountability of Donors & Govt.	MoU includes commitments from donors to Govt but no explicit mechanism for measuring these commitments.	Various clauses on mutual accountability in Framework Memorandum but no mechanism for monitoring donor performance. There is an interest in how other countries deal with it.	The MoU enumerates donor obligations and obliges them to report on progress. An baseline study proposed a PAPs' PAF which was further developed. The follow up assessment of the PAPs PAF included an individual donor rating.	Various clauses on mutual accountability in MoU but no clear mechanism for monitoring. Increasing view is that this should be dealt with in context of overall harmonisation + shd not be seen as specific to GBS donors.	Mutual accountability not seen as a GBS specific issue. There is a Tanzania Assistance Strategy which dictates the harmonisation agenda and is independently monitored.

Annex Three: Individual Country Reports – Ghana, Mozambique and Tanzania

1. Ghana PAF

1.1 Facts and Figures

The Multi-Donor Budget Support (MDBS) scheme represents with an overall disbursed volume of USD 309 million in 2004 and a tentatively pledged volume of USD 324 million in 2005 about 8.5% of the Government of Ghana's (GoG's) current budget. Members of the MDBS group have been since 2003 the African Development Bank (AfDB), Canada, Denmark, European Union, Germany, the Netherlands, Switzerland, United Kingdom, and the World Bank. In 2005, France joined the MDBS group. There are a number of observers involved, not providing GBS, notably USAID, Japan, the IMF and UNDP.

The MDBS scheme and the PAF are based on a Framework Memorandum signed on June 30, 2003, and Technical Annexes which are revised each year. Therefore, the first PAF (PAF 2004) was adopted between the GoG and the bilateral donors in 2003. In 2004, the PAF 2005 of the bilateral agencies was merged with the PRSC of the World Bank. In 2005, for the first time a PAF 2006 was negotiated based on a proposal submitted by the GoG. The PAF 2006 comprises 29 targets including 10 of them being triggers for disbursement.

1.2 Experience in a Nutshell

The Ghana PAF has gone a long way in a short period of time (2003 – 2005), reflecting major changes of merging the bilateral approach with the World Bank's PRSC and giving way for the GoG to sit into the driver's seat. Particularly noteworthy are

- The PAF consists of a small number of triggers. This focus is achieved at the price of a large number of "orphan" targets which are part of the PAF but of a secondary importance – not because of their reform implications but because they are not linked to disbursements;
- The PAF assembles a small number of indicators but many of them are complex and combine multiple elements. Their assessment requires another step of consensus on verification and often time consuming reviews;
- The PAF brings the line ministries into the process and has strong sector linkages which are complementary to sector specific assessments;
- Despite a vibrant civil society and a parliamentary democracy the accountability of the GoG related to the PAF process is biased towards the external stakeholders.
- The performance tranche making up for 20% of total GBS and depending on a limited list of 10 triggers is well anchored in the donor community. The GoG, however, would prefer single payments, and the development effectiveness of the performance tranche is not evident.

1.3 Evolution of the GoG/ MDBS-PAF and its Content

There is one PAF matrix which is assessed and adapted annually. There is a common understanding among GoG and DPs that the PAF should include few core measures of strategic importance that are taken from the GoG's own plans (PRSP/GPRS, MTEF, budget), may be sector indicators of economy-wide relevance or cross-cutting in nature and imply budgetary commitments which are under government control. In its 2006 version, the PAF comprises 29 (PAF 2005: 39) indicators. The whole set serves as the basis of policy dialogue. However, out of the PAF a subset of 10 only (PAF 2005: 12) is linked to performance tranche disbursements of the donors involved. The other indicators are softer in the sense that their individual non-observance does not lead to cancellation of commitments. The DPs' and GoG's interest focuses on the disbursement triggers and rather neglects the target dimension. In exceptional cases non-trigger indicators may become triggers later on and draw more attention. It is worth mentioning that all DPs use the same sub-set of indicators as triggers for performance related disbursements.

The four key areas covered by the PAF are (1) Promoting growth, income and employment (five targets, including two triggers on business environment); (2) Improving service delivery for human development (twelve targets, including two triggers each on education and health) (3) Improving governance and public sector management (eleven targets, including one trigger on corruption, and three triggers on strengthening public expenditure management); (4) Strengthening the capacity to monitor and evaluate the policy agenda (two targets, no triggers). The PAF is very broad and focus on cross cutting key concerns of public financial management, public sector reform, and private sector development is achieved in dialogue at the price of "orphan" targets and sectors as indicated above.

The political dimension is part of the PAF in as far as governance, decentralisation and corruption are concerned. Human rights are not mentioned but may become relevant as they can be anchored in the bilateral agreements of individual donors.⁵⁰ It would be interesting to have complete transparency about additional "sleeping" bilateral conditionalities. DPs regret that triggers relating to budget execution (poverty focused budget execution index) and the forestry sector as well as targets on tax policy and a road maintenance fund could not be integrated into the PAF 2006. It should be noted, however, that the proposals to include tax policy and road maintenance in the trigger matrix came late only in the dialogue.

The history of the MDBS is hardly three years but has witnessed permanent change. Three phases can clearly be distinguished, and a fourth milestone is to be seen on the horizon:

- In 2003, the DPs used two different matrices, one for the bilateral DPs including the EU, and the World Bank had its own matrix for the Poverty Reduction Support Credit (PRSC). In signing the FM, DPs had accepted to work towards a unified matrix.
- In 2004, the DPs and the GoG already arrived at a unified matrix 2005. The DPs were using a sub-set of PRSC-2 indicators as triggers for disbursement. Due to that merger targets were substantially reduced from 58 to 32 whereas triggers went up from 8 to 12.
- In 2005, as a major innovative step, the GoG proposed the matrix 2006, and the Government draft was negotiated with DPs, resulting in a new consensus. Targets were again reduced to 28 and triggers brought down to 10.

⁵⁰ Switzerland is an example.

- In 2006 (or late 2005) the PAF matrix 2007 is to be prepared based on the new GPRS 2006 – 2009.

Involvement of domestic stakeholders

Ghana has a vibrant civil society. If NGOs are familiar with the budget process, they can have access to the relevant documents. Despite these assets there is no systematic civil society involvement in the design and assessment process of the PAF. In a rather weak manner, civil society is represented in the Inter-Agency Poverty Monitoring Group. NGO representatives note a biased accountability of the GoG towards donors instead of domestic stakeholders.

The parliament has not been involved in the PRSP/GPRS I process. There are intentions to give it a role in PRSP/GPRS II elaboration. The parliament did not have a say so far as regards MDBS or PAF beyond its general role in the budgetary cycle.

The PAF process centres on the budgetary procedures of the GoG. For the first time in 2005, the GoG based its PAF proposal on the its budget statement sent to Parliament. This is an important step to improve the domestic accountability. DPs envision the PAF becoming formally an annex to the budget statement, thereby strengthening further the parliaments position in the MDBS process.

The balance of assessment methods for the PAF

The base tranche disbursed by DPs depends on the GoG's on track status with the IMF which is expressed by a positive PRGF review. There is a good working relationship between DPs and the IMF which participates in the MDBS as an observer. The PRGF review scheduled for end 2004 has been delayed⁵¹, and an IMF assessment mission came to Ghana in spring 2005 only, leading again to a delay in 2005 disbursements of the base tranche.

Since in 2004 the PAF 2005 was shaped, it has been merged with the PRSC matrix. When making disbursement decisions, the World Bank is said to be more flexible than the bilateral DPs. The World Bank does not rely on outcome indicators but enough irreversible commitment by the GoG in policy actions is sufficient to arrive at a positive decision. On the negative side, this procedure re-introduces an element of non-predictability in decision making despite the endeavour of the World Bank to ensure full transparency in its deliberations.

Led by the European Union, there is a move towards outcome indicators, in particular in service delivery. Experience has yet to be gained. The multilateral agencies and the bilaterals for their performance tranche rely on an overall assessment based on the triggers relevant for disbursement. Considerable irritation is caused by huge deviations of budget execution compared to projections – differences of over 20% undermine the credibility of the system and the PAF. A large share of the budget deviation in the execution of poverty related expenditure, however, have been due to difference between projected and actual HIPC funds. With the completion of the HIPC process the deviation figures were substantially reduced in 2005.

⁵¹ The background was that the due liberalisation of petroleum prices should not take place before general elections in December 2004. The IMF took the political agenda of the GoG into account and postponed mission and disbursement.

1.4 Assessment of the effectiveness of the PAF

Has the PAF provided a clear and appropriate framework for GBS disbursement?

The progress indicators of the PAF often are multiple and of a complex nature. Their verification needs to be defined and the verification process is demanding and time-consuming. The PAF in its core part of disbursement triggers has an emphasis on output indicators related to social service delivery and fiduciary risk elements related to corruption, budget formulation, procurement and accounting.

The strong ownership and scrutiny on GoG's side led to a prudent position from their side. In fact, while the PAF 2006 might be more honest and a more realistic reflection of what government would like to be judged on and can be expected to achieve, there was the impression among DPs that government was 'underselling' itself e.g. in PFM. This cautious stance is also being reflected by the fact that GoG resisted to include some important government wide initiatives that involve parliamentary decisions, inter-ministerial working and/or long term processes.

The PAF is an opportunity for the line ministries to become part of the planning and budgeting process. Whereas before the Ministry of Finance just informed the sectors on what decisions have been taken together with the DPs, now the sectors can have say in it and increase ownership. In the construction of the PAF attention is paid to sector linkages in that sense that PAF targets and triggers do not duplicate or compete with performance measurement at sector level. The PAF should have an added value to sector wide approaches and focus on cross-cutting issues. This desired complementarity is given in health and education, less so, however, in roads where the GoG people involved in the sector prefer the traditional project approach.

The PAF contains a number of outcome indicators which take more time to be assessed and which are beyond the strict control of the GoG. Outcome indicators are particularly attractive in the present debate on reaching the MDGs. The clear link of a part of the European Commission's GBS to outcome indicators left no choice to the GoG in that respect. The system of the EC does not leave room for interpretation. If targets are missed, there is an automatic adjustment. The GoG would prefer a discussion on the reasons and eventual measures to be taken before being "punished" by diminished resources.

Has the PAF supported sound macroeconomic management?

Basically, macroeconomic processes and policies are taken care of in the PRGF framework which again signals on-track status to release the base payment of the MDDBS scheme. In that way there is a strong and explicit link to sound macroeconomic management at least as long as Ghana makes use of the PRGF. Public financial management indicators are well represented in the PAF 2006 but beyond PFM macroeconomic targets and triggers are not part of the PAF in view of not duplicating the PRGF.

Is the PAF closely aligned to government systems?

The Ghana Poverty Reduction Strategy (GPRS) policy framework, the GPRS monitoring and evaluation plan, and where appropriate sector policies are used as reference points for the PAF and for the dialogue between the GoG and the DPs.

The Technical Annex 2005 stipulates "The Ghanaian budgetary and policy cycle remains the most important determining factor in timing of the sessions. It is envisaged that by 2006 all bilateral and

multilateral DPs are able to follow these cycles as far as programmatic support is concerned.” There is a close alignment with the budget cycle for the base payment whereas regarding the performance tranche there is room for improvement to better align commitment and disbursement schedules.

The PAF 2006 constitutes a big step forward in terms of ownership as the GoG for the first time prepared the first draft of the PAF. This draft PAF – delayed for several months and considered as unsatisfactory on the donors’ side – was sent to the joint donor/GoG sector groups for discussion and negotiations. A fruitful learning process took place. It should not be overlooked, however, that still there is a widespread lack of understanding in particular in line ministries which makes implementation difficult. There is no performance oriented culture prevailing. Capacity building measures are needed.

Has the PAF promoted harmonisation across the GBS donors?

The PAF serves as a common operational instrument to donors for commitments, dialogue, disbursements, monitoring and reporting. The PAF has greatly facilitated harmonisation among donors, following the GoG priorities and cycle.

The large majority DPs uses a common response mechanism delivering two tranches: a base payment of usually 50%, and a performance payment of 50%. Two bilateral DPs adopt a different mix, and the multilaterals (World Bank, AfDB) have a single payment⁵². The base tranche is determined by an on-track status of the GoG with the IMF.

There is a widespread consensus that increased donor coordination has reduced transaction costs. However, more donor discipline in sending missions and using joint procedures can significantly further reduce the administrative burden on the GoG.

Has the PAF led to a predictable flow of GBS disbursements?

The PAF as such undoubtedly contributed to a more predictable system. However, the matrix is harmonised while disbursement procedures are not. Present procedures do not produce yet maximum predictability. DPs disburse in-year – they base their commitments on a performance assessment of the same year and disburse later on. In order to move towards greater predictability DPs in are now exploring how to move from 'in-year' disbursement decisions to a situation where year n assessment decides disbursements for year n+1 which will then be in line with existing best practices according DAC/OECD. Two additional caveats are to be mentioned:

- A generally positive assessment of the identified 29 targets (beyond the 10 selected disbursement triggers) is essential as an indication of the commitment to full implementation of the agreed PAF. In case of an unsatisfactory assessment of the attainment of targets, the GoG is expected to clarify the reasons of the non-attainment and take the appropriate measures to ensure that the targets will be fulfilled rapidly. This is considered essential for the continuation of budget support. So far, no serious attempt has been made to challenge budget support based on a dissatisfaction with target attainment. The targets as “sleeping” conditionality are a risk for predictability.

⁵² About two thirds of the World Bank’s USD 125 mio. contribution are a soft loan, and the AfDB provides loans.

- It cannot prevent, however, unforeseen situations coming up. In the first half of 2005, the GoG formally was not off track with the IMF. Because the PRGF assessment and its clearance in the IMF Board was delayed by several months, the disbursement of the base tranche was not effected before June. Another example: when a renewal of a bilateral agreement is due, there is negotiating space beyond the strict guidelines set out in the FM and its Technical Annexes.

Most of the donors do have bilateral multi-year agreements in place. None of them so far has a rolling arrangement.

1.5 Mutual Accountability of the Government & Development Partners

Accountability of both sides towards their domestic stakeholders. In addition, they are also accountable towards their partner when fulfilling the contractual obligations. Both relationship may be competing to a certain extent.

The PAF is used as a yardstick of external accountability of the GoG to donors. In an aid dependent country like Ghana the Government is permanently tempted to focus its attention on the external funding agencies to the detriment of domestic stakeholders. Despite this inherent bias, parliamentary and civil society representatives in Ghana prefer GBS including the PAF as an aid modality to project aid which is largely off-budget and by-passes domestic accountability mechanisms entirely.

The MDBS Framework Memorandum mentions in Art. 3.2 among the principles of cooperation: “DPs will work closely with the GoG to harmonize procedures and practices with respect to both MDBS and improved harmonization in respect of the GPRS cycle i.e. policy dialogue, priorities, planning, conditionalities, disbursement cycles, reporting, monitoring, accounting, assessment and audit.” And further on, in Art. 7.2 “The DPs will endeavour to follow the principles enshrined in the FM.” While these obligations of DPs are explicitly mentioned, there is no monitoring mechanism in place assess progress.

2. Mozambique⁵³

2.1 Facts and Figures

The basis of the provision of General Budget Support (GBS) is the Memorandum of Understanding (MoU) signed on April 5, 2004, for a duration of five years. In 2005, in the Programme Aid Partners (PAPs) group are members Belgium, Canada, Denmark, the European Commission, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and the World Bank (G-17). Others (IMF, UNDP, USAID, etc.) have an observer status. The strength of the process is that the performance assessment is jointly done with the Government of Mozambique (GoM) in order to have a common basis for donor decisions which are ultimately taken on a bilateral basis. The GBS scheme disbursed in 2004 a volume of US\$ 245 million, being equivalent to a share of about 35% of ODA to Mozambique.

The MoU-based PAF is a set of key policies, actions, output and outcome indicators with a three-year horizon. The PAF consists of 49 indicators, proposed by GoM, negotiated and agreed by the GoM and the PAPs. There are well-defined processes and institutional arrangements to monitor and revise the PAF. The PAF as the basis for dialogue is complemented by the underlying principles of the MoU on macro issues at the political and economic level to assess government performance. Regarding mutual accountability, the MoU also requires monitoring of and reporting on PAPs performance against MoU obligations which led to the innovation of a PAPs' PAF.

2.2 Experience in a Nutshell

The Mozambique PAF is a highly developed interface for negotiations between the GoM and PAPs. It illustrates

- The joint procedures among the GoM and PAPs of designing and negotiating the PAF and reviewing progress create a solid ground for bilateral decision making;
- The pronounced alignment of GBS in general and the PAF in particular with Mozambican processes, including the GoM accountability to parliament, represents best practice and merits recognition;
- While having improved predictability, the large size of 49 indicators may lead to lack of focus and become a source of arbitrariness when making an overall assessment;
- While a split response mechanism has its merits for fine tuning the contribution and domestic donor accountability, given the low share (10%) of overall GBS and the multiple triggers, the development effectiveness of the variable tranches is not evident;
- The creation of the PAPs' PAF is a remarkable innovation which is underpinned by an independent and transparent review process.

⁵³ A more elaborated study "Learning from Experience with Performance Assessment Frameworks (PAFs): The Case of Mozambique" can be obtained from info@gersterconsulting.ch.

2.3 Evolution of the GoM/PAPs-PAF and its Content

The PAF 2005-2007 enumerates 49 indicators. It consists of two baskets:

- 19 sector-specific, MDG-related and result-focused monitoring indicators (output indicators). The areas covered are the PRSP/PARPA priority sectors, in the form of MDG-related poverty reduction outcomes: education (2), health (3), HIV/AIDS (3), roads (3), water (1), sanitation (1), agriculture and rural development (6).
- 30 process-related indicators, measuring progress in key areas of reform: private sector development (2), financial sector (5), state financial administration (3), tax reform (2), procurement (1), auditing (2), planning and monitoring (2), public sector reform incl. decentralization and corruption (8), justice reform (4).

Key “gaps” are covered by the MoU which mentions a number of underlying principles of the provision of GBS: The joint commitments of PAPs⁵⁴ and the GoM to peace; promoting free, credible and democratic political processes; independence of the judiciary; rule of law; human rights; good governance and probity in public life, including the fight against corruption, the GoM’s commitment to fight poverty (with reference to the Millennium Development Goals and PRSP/PARPA), and its commitments to pursue sound macro-economic policies (with reference to IMF programme ‘on-track’ status or an equivalent judgement). Their violation is understood as being above and beyond concerns raised about under-performance against indicators and targets expressed in the PAF. The separation between PAF and underlying principles is mainly to distinguish “pre-conditions” for budget support and general reforms and processes monitored in a regular way, and structure and focus the regular dialogue.

Involvement of domestic stakeholders

The PARPA I, covering 2001-2005, was presented to parliament for information only, not for discussion and approval. This procedural weakness combined with the HIPC-related PRSP initiative of the Bretton Woods Institutions (BWI) meant that the PARPA I had from the start the stigma of being a tool for external rather than domestic accountability. In contrast to this rushed start, the GBS MoU 2004 explicitly sets the building of domestic accountability as one of the objectives in providing GBS⁵⁵. Therefore, GBS is based on planning, budgeting and reporting requirements that by law are submitted to the parliament. Donors negotiating an enhanced quality of these instruments indirectly improve the information parliament receives from government. This progress was clearly confirmed by a leading member of Parliament⁵⁶. The MoU explicitly states that the PAF is to be submitted to Parliament. It has been one of the early principles to shape the PAF process in a way that it can become an instrument to strengthen domestic accountability of the GoM.

The Aide Mémoire of the JR and the MYR are in the public domain (accessible on the GoM Poverty Observatory and on the PAPs websites⁵⁷). The Economic and Social Plan (PES) and, as an

⁵⁴ With the exception of the World Bank.

⁵⁵ § 3 and 7 MoU.

⁵⁶ “The problem is no longer to get the information from Government but rather how the parliament can make use of it, facing capacity constraints at all levels.”

⁵⁷ <http://www.op.gov.mz/> (GoM) and <http://www.scm.uem.mz/pap/> (PAPs).

annex, the PAF are publicly available. Civil society organisations are involved in the review process through the "Poverty Observatory", and in 2005, through participation in the working groups.

What is the balance of assessment methods?

Up to 2004, the GoM had to meet a large number of different and sometimes inconsistent performance indicators, originating from HIPC benchmarks, the PRGF, EC indicators, the PRSP/PARPA matrix and actions agreed in the Aide Mémoire of the Joint Donor Review. At the end of the Joint Review in April 2004, the first PAF was agreed, referring to the years 2004-2006. 2004 is to be considered a transitional period to take the PAF-system on board and during 2004/2005 the PAF evolved. Some indicators were replaced by others more under the control of GoM. A number of indicators were replaced by more appropriate ones in relation to the objective in question. In several cases, the targeted numbers were reduced to a less ambitious level. Policy measures to be taken involved a more gradual phasing. Some PAF priorities were transformed into non-PAF priorities, still reflected in the PES and the Aide Mémoire; e.g. the PAF targets for the numbers of micro-credit clients were unrealistic and removed from the PAF. A conclusion for future PAF revisions was drawn without direct PAF changes; e.g. according to the MYR 2004, consideration should be given to disaggregation by sex, particularly for health and agriculture indicators, similar to the differentiation already in place in education. In exceptional cases no agreement on PAF indicators could be reached and the way forward was found later by a working group.

Whereas in 2004 the PRSC matrix added to the PAF, since 2005 the PRSC and PAF matrices are fully melted into a single PAF matrix. Part of the PAF relies on output and outcome indicators, as mentioned below. Most of the PAPs rely on an overall assessment of performance of the past year to pledge for the next year. This overall assessment is again based on a detailed review of progress and challenges as stated in the joint Aide Mémoire of the annual Joint Review. The EU, Sweden and Switzerland use a split response mechanism with a fixed tranche based on an overall assessment and a variable tranche based on specific performance indicators (not necessarily of an outcome character).

2.4 Assessment of the Effectiveness of the PAF

Has the PAF provided a clear and appropriate framework for GBS disbursement?

The PAF provides a set of targets and benchmarks of which a common understanding by the PAPs and the GoM prevails. The PAF is perceived as quite a coherent set of incentives for the reform agenda of the GoM and requirement of the PAPs to have a reliable basis for dialogue, commitments and disbursements. There has been and there will continue to be fine tuning as mentioned above under 3.4.1. The PRSP/PARPA II will set new priorities and necessitate a thorough overhaul of the PAF. Generally, the size of the PAF with 49 indicators is too large in view of a strongly focused reform effort. Due to its size, the PAF arrangement still involves considerable space for the individual judgement of donors. The majority of donors takes an overall view and bases its individual judgement on the results of the JR. While it is unlikely that the GoM will meet all performance indicators, it remains unclear of what the implications are if the GoM misses 1, 10 or 20 out of the 49 indicators.

The PAF covers all key reform areas relevant for PRSP/PARPA implementation. The fiduciary risk is addressed in a number of areas, targets and indicators, as are strengthening the accountability in the banking sector by independent audits and the institutional capacity of regulatory authorities; reforming the state administrative financial system by upgrading the management of state funds; procurement reform; upgrading capacities for internal and external auditing; strengthening monitoring; and last but not least promoting good governance, including combating corruption, and legal and justice reforms.

Has the PAF supported sound macroeconomic management?

The PAF contains in the area of macroeconomic and financial policies a number of actions and indicators to strengthen macroeconomic management. The PRGF quantitative and structural performance criteria are not fully harmonised with the PAF but can be considered as complementary. In terms of content, there is potential overlap in the PAF-PRGF relationship:

- Macroeconomic policies: This area is pretty much left to the IMF, without a deeper G-17 day-to-day involvement, a positive track record being part of the underlying principles in the MoU;
- Financial sector: The G-17 have broader concerns but use IMF conditionalities to the extent possible;
- Tax reform: The revenue figures used in the PAF and by the IMF are identical.

Beyond content, a number of unresolved procedural issues can be noted. The IMF has observer status on the G-17 meetings. However, the extent and form of participation of the G-17 in IMF missions and discussions with the GoM has repeatedly been a matter of discussion. The IMF/PRGF performance assessment is done separately from the G-17/PAF exercise despite the above-mentioned overlaps. There still is further scope for harmonisation and alignment.

Is the PAF closely aligned to government systems?

The PAF as the key tool captures the GoM's priorities across the areas of the PRSP/PARPA and serves as the common basis for policy dialogue and performance monitoring with the PAPs. The assessment of past performance against the PAF provides the basis for decisions on donor support commitments for the following year. As part and parcel of the domestic planning, monitoring and reporting cycle, it is an element of the GoM's accountability to parliament (see below). From a GoM perspective, the agreed PAF does not add any new reform requirements; all these programmes are part of the Government's agenda and have to be implemented anyway. The inclusion of an indicator in the short PAF rather increases the political pressure to get access to budgetary resources, underpinned by GBS funding. An important side effect to improve PRSP/PARPA implementation is the intensified dialogue between the finance and planning ministries on the one hand and line ministries (agriculture, roads, water etc.) on the other hand.

The GoM performance measured against the PAF is reported annually and appended to the Economic and Social Plan (PES), which is transmitted to parliament. The PAF may, therefore, facilitate members of the national assembly holding their government accountable for its own targets. When fixing the PAF proposal, however, parliament is not involved – this is considered to be part of PRSP/PARPA implementation and as such the duty of the executive.

Has the PAF promoted harmonisation across the GBS donors?

The PAF serves as a common operational instrument to donors for commitments, dialogue, disbursements, monitoring and reporting. The PAF has greatly facilitated harmonisation among donors, following the GoM priorities and cycle. A considerable improvement is reported for 2004 compared to the previous year. To facilitate further improvement, increased delegation of decision making to country offices is considered. However, seven of the donors say in a review that bilateral arrangements prevented their full harmonisation in 2004. Barriers experienced were bilateral conditions, and bilateral administrative, reporting, legal or statutory requirements. In some cases also different interpretations of the MoU emerged.

The response mechanism is to be mentioned in relation to harmonisation. The majority of PAPs have a single tranche response mechanism based on the PAF. While having 49 PAF indicators in place, satisfactory performance by the GoM does not imply that all the benchmarks of every indicator are achieved – the PAF would become unmanageable. Based on the joint assessment, there is space for bilateral judgements here. Three donors – European Commission, Sweden and Switzerland – have a split tranche response mechanism in place, which is explicitly anchored in the MoU. Donors using a split tranche response mechanism aim to increase predictability while maintaining incentives for progress in selected areas.⁵⁸ The mechanism allows for partial disbursements in cases of partial fulfilment and can reduce the volatility of budget support by establishing an intermediate option between withholding all funds and releasing them. Variable portions are linked to indicators selected from the PAF and agreed with GoM.

Compared to the previous situation with a proliferation of indicators and different reporting requirements to be met, transaction costs for the GoM have been reduced. Key GoM officials clearly stated that from their perspective there is no way back. However, the administrative burden remains high and the evidence accessible suggests a significant untapped potential for further reducing it. The main challenge for the donors is to adopt the GBS principles across their overall portfolio. Whereas the number of missions related to GBS has been drastically reduced, the absolute numbers of missions across the portfolios seems to have increased, with an unclear share of joint missions. Joint analysis is done most frequently while the adoption of joint procedures has more or less stagnated. The adoption of delegated cooperation still is at an early stage. The PAPs will have to make a deliberate effort beyond GBS to further reduce administrative burden.

Has the PAF led to a predictable flow of GBS disbursements?

Considerable improvement has been achieved with respect to predictability. The PAF is one element among others contributing to that achievement. Both the predictability of the response mechanisms and of disbursements according to schedule are now at a high level for half to three-quarters of the PAPs. Nine PAPs report that in 2004 the response mechanism produced fully predictable results in the form of a planned disbursement schedule which allowed incorporation into the GoM budget. This is almost double the number of PAPs who reported the same result in 2003. For twelve donors disbursements in 2004 took place according to schedule. This is an enormous improvement over 2003, when only six donors reported disbursements according to schedule.

⁵⁸ See OECD/DAC 2005 (Best Practices)

There is a medium perspective in the GBS system but this achievement is hardly a merit of the PAF. Fourteen out of the sixteen donors had 2004 multi-year arrangements in place. The duration of the agreements varied between two and four years (five donors two years, eight donors three years, one donor four years). The PAF again covers a period of three years. Whereas the PAF uses a continuous rolling three years' perspective, the multi-year GBS arrangements so far are not based on a rolling mechanism.

2.5 Mutual Accountability of Government & Development Partners

The MoU was prepared in the spirit of mutual accountability between the signatories. It clarifies the performance and reporting commitments of the GoM and the PAPs. While the GoM is accountable based on the terms of its PAF, the PAPs have also signed up to a number of specific commitments concerning how they will provide programme aid in future. In the spirit of the Rome and Paris declarations, these obligations relate to alignment, predictability, transparency, harmonisation, administrative burden and capacity building.

In order to monitor and stimulate PAPs' progress in moving towards meeting these commitments and implementing best practice in Mozambique, the Programme Aid Partners Performance Assessment (PAPPA) framework was developed. Article 16 of the MoU obliges the donors to provide an annual report on their efforts to implement these obligations. The PAPs' PAF is a unique and innovative step, intended to contain the PAPs' main obligations in a nutshell and to facilitate reporting. The PAF matrix was agreed at the September 2004 Mid-Year Review as the result of a period of consultation with the GoM and among the PAPs. It is based on the results of the 2004 Baseline Survey of PAP performance in 2003, which was performed by an independent team of consultants. The first section of the matrix reflects commitments PAPs signed up to in the MoU. The second section reflects broader aid effectiveness objectives to be monitored. These are not specifically set out in the MoU but reflect the determination declared by PAPs in the MoU to work in the spirit of NEPAD, the Monterrey Consensus and the Rome Declaration on Harmonisation. In 2005 again an independent team made an assessment of the PAPs' performance, and their PAF covering now 2005 – 2007 was taken further.

While acknowledging the innovative step to design a PAF for the PAPs, it should be noted that its structure, the indicators chosen and their target values do not constitute an ambitious framework. Splitting the PAF into two parts – Part I with “indicators on core MoU commitments” and Part II assembling broader “monitorable indicators” – weakens the overall thrust of the exercise. Trying to limit the outreach of the PAPs' PAF essentially to the GBS instead of extending it to the overall portfolio is a serious limitation. Why has the promising concept of a PAPs' PAF taken off but not yet reached cruising altitude? Three main reasons are mentioned in the independent report: (1) There is a limited ownership of the PAF on the donors' side. (2) In other than formal terms, the GoM was not really involved in the construction of the PAPs' PAF for 2004 but simply took note of this new instrument. (3) The basic asymmetry and power imbalance of the aid relationship cannot be overruled by a technical tool like the PAPs' PAF. The PAPs' PAF has been thoroughly revised in September 2005. Self-discipline among donors is, therefore, crucial to produce tangible results.

3. Tanzania

General Budget Support to Tanzania was evaluated over August – November 2004. The team leader (Andrew Lawson) is one of the authors of the current study, hence this section draws heavily on the evaluation work⁵⁹. The Performance Assessment Framework which we are here reviewing is the one which has been in place, with minor annual modifications, from November 2002, when the PRBS/ PRSC Partnership Framework was signed, up to early 2005. In 2005, the Government of Tanzania and the 14 PRBS Development Partners have been jointly working on a revised MoU and a major revision of the PAF. Two points of debate are of a particular interest:

- A major challenge in the redesign of the new PAF and the annual review has been to move beyond the Ministry of Finance and actively involve various government sectors. This is in the spirit of implementing the PRS but has proved extremely challenging in practice.
- Major discussions took place around the establishment of indicators. Some stakeholders prefer to focus on outcome indicators; others stress the importance of underlying processes such as drawing on review processes in the sectors.

As a result of this on-going discussions, many of the details in this section will now be out of date. However, Tanzania's historical experience with the PAF has been important in shaping the revisions currently being made and also holds valuable lessons for other countries.

3.1 Facts and Figures

The Tanzania Poverty Reduction Budget Support (PRBS) arrangement involves 14 Development Partners⁶⁰. Over the 2004/2005 fiscal year⁶¹, the PRBS will have disbursed some \$ 400 million in budget support. Together with HIPC funds (of approximately \$120 million), this amounts to over 20 per cent of total public expenditure and comprises slightly over half of all development assistance flows to the Government of Tanzania. Thus, both as a proportion of total aid and as a proportion of government spending, budget support has a major significance and has a high political 'profile' both within Tanzania and internationally.

3.2 Experience in a Nutshell

The Tanzania PAF presents a very interesting case of a mature PAF, which has addressed many of the core issues of predictability, harmonisation and alignment and yet still betrays some significant underlying weaknesses. In particular, we would suggest that it illustrates:

- An excessive level of attention to policy actions and insufficient concern for more important underlying principles.
- A relatively close link to the PRS process but an absence of proper attention to the question of how far the PRS represents a government-owned policy and process.

⁵⁹ Booth, D. Lawson, A., Msuya, M., Wangwe, S. and Williamson, T. (April 2005) , *Joint Evaluation of General Budget Support, Tanzania 1995 -2004*, Revised Final Report. Daima associates, Tanzania and ODI, London.

⁶⁰ African Development Bank, Canada, Denmark, DFID (UK), the European Commission, Finland, Germany (KfW), Ireland (DCI), Japan (JICA), the Netherlands, Norway, Sweden, Switzerland and the World Bank.

⁶¹ The Tanzanian fiscal year runs from 1st, July to 30th, June.

- A robust but somewhat self-contained assessment process which arguably does not create enough links to existing government systems for monitoring and guiding reform processes, including a poor link between the PAF and the Parliament.

3.3 Evolution of the PRBS/ PRSC PAF and its Content

The first deliberate joint effort to provide external financing directly to the budget came in the form of the Multi-lateral Debt Fund (MDF). This was established to provide interim debt relief whilst Tanzania fulfilled the necessary requirements to obtain HIPC relief. Over FY 1999, 2000 and 2001, five Development Partners provided support to the MDF trust fund account, in the process developing new channels for dialogue on macroeconomic and public finance issues – an area which had previously been dominated by the IMF and the World Bank.

The MDF was not strictly speaking budget support, in that it was paid in foreign exchange to a trust fund account, but the external debt commitments which it serviced would have had to be serviced by government in order to have access to HIPC. It thus freed up an equivalent volume of resources, which were utilised through the budget. The fact that these resources were therefore ‘fungible’ became evident to the DPs providing them, who in turn came to question the utility of the additional controls (and transaction costs) involved in using a Trust Fund.

With the preparation of a PRSP and the fulfilment of the requirements to reach HIPC completion point, attention shifted during 2001 to the provision of budget support for implementation of the PRS. In October 2001, nine Development Partners signed the MoU which established the PRBS monitoring framework. The initial intention was that the benchmarks for PRBS disbursements would be drawn directly from the PRS. However, the definition of actions and targets presented in the PRS was considered too general and imprecise to provide a basis for monitoring progress. Accordingly, a PRBS PAF was developed and agreed, laying out a series of agreed “aims” and “actions” to be undertaken over 2001 – 2004. It covered four “key result areas”:

- i) Improved systems for monitoring the PRSP;
- ii) Macro-economic stability;
- iii) Improved effectiveness of delivery of public services and overall incentive environment; and
- iv) Minimisation of resource leakages and strengthening of accountability.

The style of the matrix was similar to that used for the World Bank’s first PRSC (in Uganda) but it differed in several important respects:

- Ø Firstly, it had a narrower scope, being deliberately restricted to only four areas and to 28 actions for the first year of implementation (2001/02). This was in part pragmatic – in that the framework needed to be manageable, but it also reflected the existence of alternative fora for sectoral issues to be addressed, particularly the PER working groups and the SWAp structures established for health, education and local government reform.
- Ø Secondly, it was clearly stated that the PAF was intended as a framework for an ‘overall assessment of progress’ and that disbursements would not be tied to the implementation of *individual* measures in the PAF.

- Ø Thirdly, the PAF aimed explicitly to avoid identifying new targets and measures, drawing instead on existing government mechanisms and reform processes.
- Ø Finally, the PAF placed strong emphasis on the requirement for the PRBS donors to co-ordinate their disbursements to the Government's budgetary requirements and on the need to follow a harmonised schedule of decision-making.

The Tanzania PAF of October 2001 was in many ways a first of its kind, providing a powerful example of how the concepts of harmonisation and alignment could be operationalised in the context of budget support. The government were anxious that the framework should be adapted in such a way as to permit the World Bank PRSC, then under design, to be monitored together with the PRBS using a unified framework. In November 2002, this was duly achieved with the agreement of an enlarged PAF for PRBS/ PRSC and the signing of a formal Partnership Framework. This same framework has continued to be used, with annual modifications, until 2005. During this period, a further four DPs have joined the framework (Canada, KfW, Japan and the African Development Bank.) The expansion of the PAF to include the World Bank and these other agencies brought important changes:

- Ø The matrix grew to encompass two wholly new areas – the reduction of income poverty and environmental sustainability, in addition to the four areas previously included.
- Ø The addition of 'reduction of income poverty' brought a focus on policy questions, such as land policy and private sector development, which were largely absent in the earlier PAF which concentrated on issues of macroeconomic stability and fiduciary risk.
- Ø The most significant change was the adoption of 'prior actions' as trigger conditions for the disbursement of PRSC tranches. Most of the PRBS donors continued to disburse on the basis of an overall favourable assessment but PRSC disbursement also required 10 – 12 prior actions per year to be completed.
- Ø The level of detail throughout the matrix also increased, leading to a significant increase in the number of actions being monitored. For example, the November 2002 PAF listed 38 actions to be implemented by March 2003 and 58 by March 2004.
- Ø The new PAF also included quantitative indicators of social well drawn from the PRS.

Involvement of domestic stakeholders

Whilst the development of the Tanzania PAF involved a wide range of Development Partners, the same was not true of the range of domestic stakeholders. This has been led and managed by the Ministry of Finance with a rather limited involvement of other agencies, with the exception of the Vice President's Office, who had been responsible for the elaboration and subsequent monitoring of the PRS and contributed actively to the definition of the PRS monitoring section of the matrix. The Ministry of Finance did conduct consultations with the other agencies of Government in order to assess the feasibility of agreed reform actions but these other stakeholders were not systematically involved in the half-yearly and annual reviews of the PRBS, until 2004. The 2004 reviews also

invited participation from Tanzanian NGOs and faith-based organisations⁶². Even with the opening up of the annual review process, there remains some dissatisfaction with the degree of involvement – particularly amongst the other central agencies of government, the President’s Office Planning and Privatisation Department (POPP) and the President’s Office Public Sector Management Department (PO-PSM). Ironically, these agencies may perhaps have less of an input than some Tanzanian NGOs.

The balance of assessment methods for the PAF

As noted above, the expansion of the PAF framework to include the World Bank’s PRSC led to a dual system of assessment, combining both specific contractual requirements focused on 10 -12 identified annual ‘prior actions’ and the use of an overall assessment by the majority of the bilateral agencies. In the process, the actual structure of the PAF matrix changed quite significantly so that in many respects it resembled a standard PRSC matrix focused on policy actions.

Table 4: Structure of Fixed and Variable Tranches for EC PRBS programme (Tanzania)

Fiscal Year	Type of Tranche	Value (Euro Millions)	% of Annual Total	Basis of Disbursement Decision
2003/04	Fixed	31	100 %	Use of PAF to judge overall satisfactory progress with PRS & economic reforms.
2004/05	Fixed	24	71 %	Use of PAF to judge overall satisfactory progress with PRS & economic reforms.
	Variable (PFM)	0 – 10	29 %	Performance on PFM indicators for 2003 in PAF
2005/06	Fixed	22	50 %	Use of PAF to judge overall satisfactory progress with PRS & economic reforms.
	Variable (PFM)	0 – 6	14 %	Performance on PFM indicators for 2004 in PAF
	Variable (Outcomes)	0 – 16	36 %	Progress towards PRS targets for education & health service delivery outcomes.

The Financing Agreement for the EC PRBS programme for 2003 – 2006 introduced a further innovation in the form of a variable tranche. Disbursement under the programme is divided between a Fixed Tranche tied to the overall assessment of progress with the PAF and two Variable Tranches. The extent to which Variable Tranches are disbursed is determined by the performance of agreed indicators in relation to pre-established targets for i) improvements in public finance management⁶³ and ii) improvements in service delivery outcomes for health and education. The relative significance of the Fixed tranche declines from 100 per cent of disbursements in year 1 to 50 per cent in Year 3, as shown in table 4. The intention is to create explicit financial incentives for setting and achieving targets in relation to PFM reforms and delivery of priority services. This innovation has created quite some interest amongst the other PRBS DPs and apparently two are three of them are contemplating introducing a variable element to their disbursements from 2005/06.

⁶² This was considerably facilitated by the creation by the NGO community of the NGO Policy Forum to act as an umbrella body to represent NGOs within government policy processes and to disseminate information on the implications for NGOs.

⁶³ The first assessment of the PFM tranche was undertaken in 2004, when a generally satisfactory rating was achieved but with some reservations, 80 per cent of the tranche thus being disbursed during 2004/05.

3.4 Assessment of the Effectiveness of the PAF

Has the PAF provided a clear and appropriate framework for GBS disbursement?

Over the period from 2001 to the present, it has proven possible to use the PAF framework to judge eligibility for disbursement with only a modest level of disagreements between Government and the PRBS DPs. Resources allocated for GBS have been disbursed in full and, increasingly according to schedule. (See discussion on predictability below). Moreover, there has clearly been progress across the key areas identified in the PAF, most especially in macroeconomic management, in public finance management, in the allocation of resources to PRS sectors and in reforms aimed at facilitating private sector development.

Overall then, the evidence suggests that the framework has proven successful. The GBS Evaluation broadly endorses this judgement. In addition, it stresses that while the three methods of assessment might apparently introduce an additional degree of complexity, GoT officials in the Ministry of Finance saw them as essentially complementary and did not perceive this as a problem.

However, an analysis of the two areas where there have been significant disagreements between the Government and the PRBS donors is instructive because it suggests that these disagreements may be symptomatic of deeper fault-lines within the structure of the PAF.

The first area of disagreement related to the extent to which non-PRS priority sectors should receive increased budgetary allocations – a disagreement which came to a head over the Government's decision in 2003/04 to finance the purchase of a new Presidential jet. Essentially, the Government was able to stick to the letter of its agreements with regard to the PRS sectors (securing real annual increases in resources, honouring budget appropriations to the PRS sectors and providing them through quarterly rather than monthly disbursements), whilst from the perspective of several PRBS DPs, it did not honour the spirit of the agreement. From the perspective of Government, this represented a 'moving of the goal-posts' and for a period served to create some considerable tension in the relations with PRBS DPs. In the end, the PRBS DPs recognised that their concerns should focus on the commitments agreed in the PAF and simply advised the Government of their concern that the funding of the Presidential jet might jeopardise funding of the PRS priority sectors⁶⁴. (A concern which did not in fact materialise in 2003/04.)

In fact, this disagreement revealed a deeper weakness in the PAF which was that it did not provide a clear statement of fundamental principles and focused rather too heavily on precise commitments to policy actions. There were two fundamental principles at stake – one was the extent to which poverty reduction was an overriding priority of government and the other related to the degree of transparency of the budget allocation process. Although the purchase of the Presidential jet was formally budgeted and its financing was approved by Parliament in June 2003, the amount initially allocated was only half of what was required. The balance of funding required approval of a supplementary budget in February 2004, when clearly the full financing requirement must have been known at the time of the framing of the budget.

The second area of disagreement related to the late completion of 3 out of the 13 'prior actions' identified for completion prior to March 2004, namely:

- Agreed revisions to the Business licensing system;

⁶⁴ Final Statement by Development Partners, *Wrap-up of PRBS Mid-Year Review*, April 2004.

- Agreed amendments to the Procurement Act; and
- Formulation of a unified Public Finance Management Reform Programme (PFMRP), managed by a designated coordinator and utilising a common funding framework.

Failure to complete these actions led to the World Bank delaying approval of the PRSC tranche by 3 months. Government was able to complete the necessary actions in this period and fully recognised the importance of revisions to the Business Licensing system and the Procurement Act. They were not convinced that it was justifiable to delay a US \$ 150 million disbursement because of the delays in finalising the joint action plan and funding arrangements for the PFMRP. GoT made the argument that much progress continued to be made with substantive actions to improve public finance management, regardless of the lack of a joint planning and financing arrangement. (Essentially reform actions were being managed at the departmental level either under direct funding through the budget or through project-specific funding.) Taken together, these two examples would seem to suggest that the Tanzania PAF placed an excessive emphasis on specific policy actions without having a clear declaration of ostensibly more important underlying principles.

Is the PAF closely aligned to Government systems?

The Tanzania PAF is closely aligned to the PRS – from which the majority of its ‘key results areas’ and quantitative targets are drawn and also carefully aligned to the government budget cycle – in terms of the timing of reviews, disbursement decisions and actual disbursements. The close link to the budget cycle is unequivocally a good thing, which one would want to see replicated in any PAF. Two further questions would need to be resolved in order to reach a rounded judgement on the contribution of the PAF to the development of Government systems:

- Firstly, to what extent should the PRS be seen as a genuine expression of Government objectives and as a government-owned management process?
- Secondly, what has been the specific value-added of the PAF in relation to government systems? Does it complement or duplicate?

There is not the space here for a full critique of the PRS process in Tanzania. However, it seems clear in retrospect that the first PRS was drafted with the objective of HIPC accession very much in mind. Indeed, it was described by an official in the State House as ‘ a Tanzanian view of the priorities which Donors believe are appropriate for Tanzania.’⁶⁵ Although there is much evidence to suggest that poverty reduction *per se* was a very important political objective, it is less clear that the heavy emphasis on the social sectors was seen by Tanzanian leaders as the most appropriate set of priorities. Indeed, the pattern of budgetary allocations over 2001/02 to 2004/05 and the nature of the revised PRS, issued in 2005 – the National Strategy for Growth and Reduction of Poverty (NSGRP or MKUKUTA, its better known ki-swahili acronym) suggest strongly that investments in infrastructure and in productive services were where political priorities lay.

It is also worth stressing that the PRS and its related monitoring system were super-imposed on two pre-existing systems for monitoring government performance, namely the MTEF managed by the MoF and the system of departmental strategic plans, managed by PO-PSM. Both of these systems are acknowledged to have had (and to continue to have) faults but arguably the Tanzanian approach to developing outcome and impact monitoring would have built much more obviously on

⁶⁵ Booth et al, 2005.

these pre-existing tools. In the event, PRS monitoring exists as a largely separate exercise, run by the Vice-President's Office.

To summarise, there is certainly a strong basis in the case of Tanzania for rejecting the easy assumption that aligning to the PRSP is equivalent to aligning to government polices and management systems.

Even if one did accept the PRS and the related monitoring process as a fully government owned process, there is still a need to examine the specific role of the PAF in relation to the existing government systems for monitoring sector policies, the PRS, the budget/ MTEF, and the processes of PFM and public sector reform system. Both GoT and Development Partner officials acknowledge that there are serious deficiencies in all of these. The DPs argue that the need for two half-yearly reviews for the PRBS, both of which are time and manpower-intensive, derives largely from the weaknesses in these other systems. If these other systems generated reliable, comprehensive information on the reform actions included in the PAF (as in principle they should) then the review of the PAF would be a much more light-weight exercise.

On the other hand, there is an emerging view within the MoF (which has apparently been actively expressed during the 2005 update of the PAF) that the high level of attention given to the PAF is in fact drawing attention away from other systems and in the process weakening them still more. Some GoT officials are thus arguing that instead of two PAF reviews, there should be annual DP participation in the government's annual reviews of reforms in the public sector, local government, PFM and in key sectors. By drawing information from these review processes, DPs could then reach a view on the extent to which the actions identified in the PAF were progressing, undertaking a single, lightweight PAF annual review. We will return to this theme in chapter 4 below.

Has the PAF promoted harmonisation across the GBS donors?

As we noted above in describing the Tanzania PAF, it is monitored on the basis of a single MoU and a single matrix which applies to all 14 PRBS DPs. There are two common missions per year and there is a unified management framework for the 14 DPs. Disbursement decisions are made independently by each DP but on the basis of the common information set emerging from the two reviews.

Harmonisation with the IMF PRGF process is secured in a different manner. Specifically, the IMF continues to conduct its performance reviews separately on a quarterly basis but with the relevant missions coming one month in advance of the PRBS half-yearly and annual review. The PRGF process thus feeds into the PRBS PAF and provides the basis for reaching a judgement on the macroeconomic and structural benchmarks. Analysis of progress in these areas does not therefore need to be repeated during the annual and half-yearly review.

Overall, then, the Tanzania PAF illustrates a high degree of harmonisation. To an extent this has come at the expense of higher transaction costs. In particular, we noted above that when the number of PRBS DPs expanded to include the World Bank and four other DPs, the size and complexity of the PAF matrix also increased. On balance, this would probably be preferable to having two separate review processes for the PRBS and the PAF but as we noted above in discussing the alignment question, there might be room for adopting a review format with lower transaction costs if more use could be made of existing government systems.

Has the PAF led to a predictable flow of GBS disbursements?

Even in the current positive climate of partnership, development partner funding is far from predictable, and still represents the major cause of uncertainty in government resources. In the early years of the PRBS, budget support was the biggest culprit. In FY01 and FY02, GBS was the most unpredictable of all of the major GOT revenue sources, being respectively 22% and 32% below budgeted levels. Only because domestic revenues were buoyant in this period – with collections consistently above budgets, was it possible to restrict the shortfall in overall budget funding to 4.3% below budgeted amounts. (See Chart 1).

GBS Disbursement data for FY2003 showed a significant improvement and reports from the External Finance Department for FY 2004 and the start of FY 2005 suggest higher recent levels of predictability, with budget support donors disbursing in full during the first quarter of the financial year. These improvements would need to be sustained over future financial years for one to conclude that GBS was actually increasing the predictability of budget financing overall. However, there are indications that in part the erratic disbursement patterns of the first two years of the PRBS were due to a 'learning cycle' within the administrations of both GoT and its Development Partners, relating to the reporting requirements and decision-making processes necessary for efficient disbursement. The existence of this 'learning cycle' perhaps needs to be better incorporated into mainstream thinking on GBS.

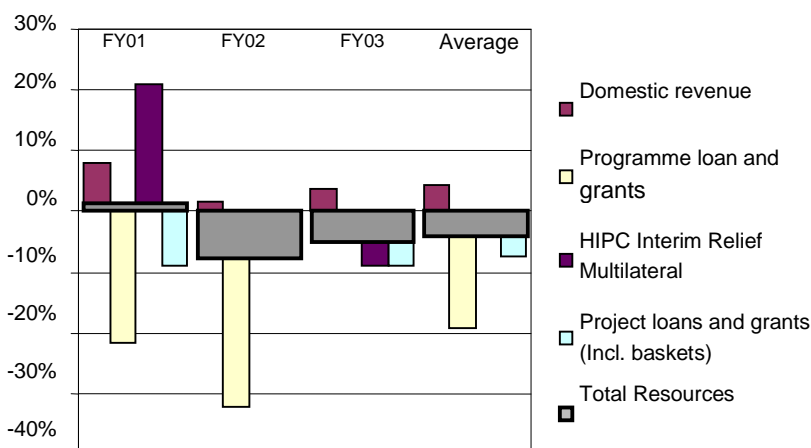


Chart 1: Tanzania deviations of Budgeted & Actual Receipts by Revenue Source

	FY01	FY02	FY03	Average
Total Resources	1.2%	-8%	-5%	-4%
Domestic revenue	8%	2%	4%	4%
Programme loan & grants	-22%	-32%	-2%	-19%
Project loans & grants (Incl. basket)	-9%	-3%	-9%	-7%
HIPC Interim Relief	21%	-6%	-9%	-0.4%
Domestic Borrowing & Others	43%	-76%	-174%	-100%

The timing of disbursement decisions in Tanzania would appear to be somewhere close to the optimum situation, with the majority of disbursements (all except the World Bank) being confirmed after the annual PRBS review in October of each year (9 months before the start of the subsequent fiscal year.) Even allowing for the occasionally protracted process of confirmation of disbursement decisions by DP HQs, it is normally possible to prepare the Budgetary Guidelines (issued in December or January) on the basis of firm commitments from 13 PRBS DPs and an indicative commitment from the World Bank. The World Bank confirm their tranche disbursement at the half-yearly review in March. However, if the prior actions in the matrix could be re-designed to focus on completion by September or October, it ought to be possible to adopt a unified calendar.