

## Executive Summary

Direct Budget Support (DBS) refers to aid channelled directly to government budgets, to be disbursed using their own allocation, procurement and accounting systems. Within this category, General Budget Support (GBS) refers to funds directly contributed to the overall budget, usually with minimal limitations on the use of the funds. It is important to note that DBS does not just involve the transfer of funds; the approach has three key elements: technical assistance or capacity building, policy dialogue and the transfer of resources.

Where circumstances are appropriate, GBS is DFID's 'ideal' form of aid provision. The reasons for this stem from the large body of evidence that has emerged since the 1990s on the ineffectiveness of project-based approaches as well as the disappointing results of policy conditionality. DFID acknowledged the need to build government capacities through direct support to the budget as early as 1997, in its first White Paper. The introduction of Poverty Reduction Strategy Papers (PRSPs) in 1999, however, greatly increased the need to consider how aid can be used most effectively to boost government capacities and ownership of strategies for poverty reduction. DFID favours GBS rather than sector approaches to support PRSP processes as they are best able to address government-wide weak capacities and inefficiencies.

### *The underlying hypothesis for GBS*

Oxford Policy Management (OPM) and the Overseas Development Institute (ODI) recently carried out an initial study to develop a framework for the evaluation of GBS. This set out the hypothesis behind the approach in a log-frame (see Annex 1). Although this framework is now being rigorously tested in a large-scale joint-donor GBS Evaluation Study, the framework provides a simple overview of DFID's current hypothesis on how GBS might work.

In the short-term, it is hypothesised that a government's position relative to donors will be strengthened as government control of resources increases and donors work to coordinate their aid through GBS. As planning and budgeting processes benefit from targeted technical assistance and capacity building it is further hypothesised that budget allocations will become more reliable, transparent and pro-poor. With a change in government effectiveness, it is proposed that the relationship between the government and people will shift from one of a client-patron relationship to one of citizens who realise their right to hold the government accountable to provide for their needs. In this way it is hypothesised that increased domestic accountability will provide the lever to initiate sustainable pro-poor change.

### *Early results*

These changes are clearly long-term and highly complex. Initial evaluation activities have therefore been unable to test the likelihood of the predicted long-term benefits. Some early results have found some positive benefits such as increased donor coordination, an increased allocative efficiency of the budget, some increased state effectiveness and moves towards greater domestic accountability. Increased volatility of funding with a potentially greater negative impact due to the larger volumes involved than other aid modalities emerged as a cause for concern, though.

Few, if any, of the postulated positive effects of budget support were found to be

automatic. Careful political analysis of country contexts is needed to design instruments best suited to specific country circumstances. It also emerged that different donors seem to be pursuing different objectives through the use of budget support and that there is a need for greater clarity on the 'operating rules' for GBS. Greater dialogue between donors on their respective approaches and the reasons for this is therefore an important part of increasing the effectiveness of this approach.

#### *The fundamental tension within GBS*

A fundamental tension within GBS is that between the aim to boost government ownership of the development process and its accountability to national stakeholders, and the need for donors to be accountable to their own taxpayers on how the aid budget is spent. DFID is currently looking at ways to resolve different elements of this dilemma: it is considering introducing longer-term 'rolling' funding frameworks to increase predictability; it is working on statistical methods to better measure attribution of outcomes to GBS spending; and a recent draft policy paper on 'conditionality' within partnerships has been widely debated.

#### *Using a mix of instruments*

Over the past four years DFID has consistently channelled approximately seventeen percent of its bilateral aid budget through DBS, particularly GBS. Most of this has been spent in Africa. Use of GBS is likely to increase but it is clear from this that the majority of DFID's aid budget is still being disbursed through other aid channels. Although GBS is seen as the 'ideal', DFID acknowledge that circumstances in many countries may not yet permit a full switch to GBS. Furthermore, in reality, donors use a mix of aid instruments in most countries; GBS is currently and always likely to be supported by other aid instruments. However, there is agreement that such instruments must now be used with more care than previously. Aligning all aid modalities and instruments within an overall country-driven agenda is seen as the best way to avoid past problems.

GBS was developed in Africa and most experience so far is in African countries. Japanese insights and experience in Asia are valuable inputs to the debates on the suitability of GBS for other countries and contexts. Comments drawing from the experience of Japanese researchers, practitioners and policymakers on the contents of this paper or the work cited herein would be a highly valuable contribution to the important discussions currently going on concerning this interesting but highly challenging aid innovation.

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