

# Does General Budget Support Work?

## Evidence from Tanzania

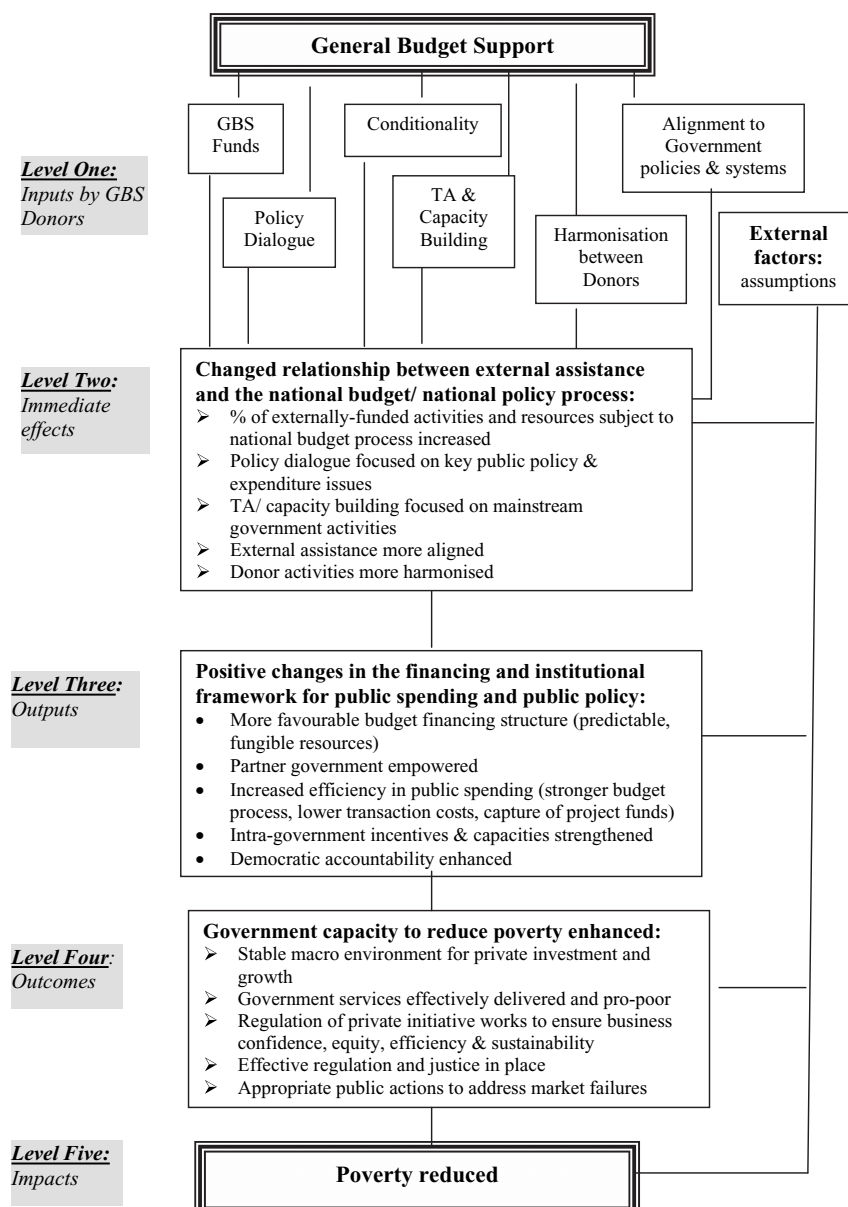
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### The findings in brief

- In Tanzania, General Budget Support is provided by 14 donors and together with HIPC relief contributes 20% of public expenditure. Despite this, however, GBS is not yet a dominant aid modality.
- The immediate effects of the GBS programme have been strongly positive, but its role has been to facilitate a nationally-driven reform process; domestic revenues have grown even faster than aid.
- GBS has been associated with a large growth in government discretionary spending and a major expansion in health and education services. However:
  - i. There are few signs of improved efficiency of public spending or of long-term obstacles to service quality being addressed.
  - ii. The ‘challenge function’ in the budget process remains weak, mainly for political but also for more technical reasons.
  - iii. The expected improvements in intra-government incentives and democratic accountability are not yet apparent.
- The scope for change in these respects has been limited by the fact that 80% of development spending is still funded by donor projects.
- Outcomes have improved remarkably in respect of macroeconomic stability, investment and growth, while the negative macroeconomic effects of increased aid flows appear manageable.
- Outcome improvements are otherwise rather mixed, with large questions about service quality, and significant legal changes that are too recent to have yielded results.
- Poverty impacts are uncertain for the last half decade, the most relevant period, because there has been no household survey since 2001.
- The unevenness of growth and service-delivery improvements give reasons for caution about future poverty trends.
- In summary, GBS in Tanzania has not had all the positive effects expected of it, some of which are necessarily long-term. But the gains that have been made are important and would not have been so effectively facilitated by any other aid modality.

Figure 1: Simplified logical framework



### I. Setting the scene

Direct financial support to a country's budget is a long-established form of aid – as old as development assistance itself. But the last five years have witnessed an important development – the rapid growth of budget-support operations informed by a new and distinctive aid philosophy emphasising flexible funding for country-led poverty-reduction efforts.

How important is ‘new’ budget support, or GBS? Category problems

make this difficult to quantify using OECD-DAC aid statistics. But in a number of countries in Africa, it already accounts for 20-40% of the government budget. Several major donors have indicated a firm intention to scale-up their aid programmes relying primarily on GBS. Recipient governments are increasingly expressing a preference for this modality.

Is this a good use of aid funds? Is GBS the most effective way of contributing to poverty reduction in the South? This Briefing describes the results of the first major joint evaluation of country experience with GBS, carried out in Tanzania in 2004. It was commissioned jointly by the Government of Tanzania and the 14 external financing agencies currently providing GBS.

## II. How can we judge success?

Evaluations have to make assumptions about the intentions, and 'theories of change', that underlie the programmes being investigated. Success is judged by whether the intentions have been realised and the results have been brought about in the expected ways.

Some budget-support programmes have quite limited objectives (e.g. facilitating a narrow set of public-sector reforms). Others are meant to support poverty reduction in a country without an explicit concept of how this is to be achieved. However, donor policy thinking is increasingly informed by more fully developed ideas about why GBS is to be preferred over other ways of supporting poverty reduction.

The Tanzania evaluation was the first to make use of an 'evaluation framework' that articulates these stronger claims that are now made about GBS as an aid modality. The framework is summarised in Figure 1.

Figure 1 shows the way GBS is supposed to contribute to the final objective of poverty reduction. It can be used to investigate the effects of programmes with limited objectives. But its main value is in detailing the intermediate changes in institutions and systems that are seen as important in 'new' GBS theory. These changes are seen as the crucial mechanisms by which poverty outcomes and impacts will be improved over a period of time.

Figure 1 is a simplified version of the evaluation framework. It concentrates on describing the chain of beneficial effects claimed for GBS. The 'counterfactual' is what would have happened if equivalent resources had been delivered by other means. Factors external to the GBS programme, such as the direction of change in the country's political system, are recognised as important. In its more complete version, the framework includes a fuller treatment of 'risks and assumptions' – that is, the conditions under which the model is expected to work.

## III. The Tanzanian context

The evaluation covers 1995-2004. This period corresponds roughly to the two terms of President Benjamin Mkapa, who was the winning candidate of dominant party CCM in Tanzania's first multi-party elections in 1995. Helped by the kind of policies Mkapa has pursued, this has been a period of general improvement in the aid relationship. The scene was set more specifically by the ground-breaking Helleiner Report, an independent study which was highly critical of both government and donors. Helleiner suggested the need for a fresh approach, including stronger government leadership of development efforts.

An important feature of the Mkapa period has been the emergence of a strong and capable Ministry of Finance. Major improvements in public financial management took place during the first half of the evaluation period.

GBS has been provided in its present form (Poverty Reduction Budget Support) since Financial Year 2000/01. The number of development partners (donors) involved in the arrangement has steadily expanded since the signing of the first Memorandum of Understanding in October 2001. In FY 2004/05, some US\$400 million was expected to be disbursed by 14 development partners. When added to HIPC debt relief, this represents over 20% of total budgeted expenditure.

## IV. Findings

The findings cover each of the five levels of the evaluation framework. They tell us whether there is evidence of the expected changes occurring; whether the changes seem to be attributable to GBS or other processes linked to GBS; and what other factors have been important in making changes happen.

### *The Input level*

At the Input level, evaluation findings that are of particular interest relate to:

- changes in the overall scale of aid and GBS;
- the management of the GBS package; and
- whether GBS partners share the assumptions of the framework.

### *The scale of aid*

The most striking change in aid to Tanzania in recent years is not the rise in budget support, but the increase in the overall scale of assistance. As shown in Figure 2, aid is now at an unprecedented level, more than double its real value in the early 1990s. After declining in the mid-1990s 'programme aid' (now corresponding to GBS plus HIPC debt relief) is once again over 50% of all aid. The proportion of GBS alone is around 36%. However, total aid is substantially greater than it ever was in the past.

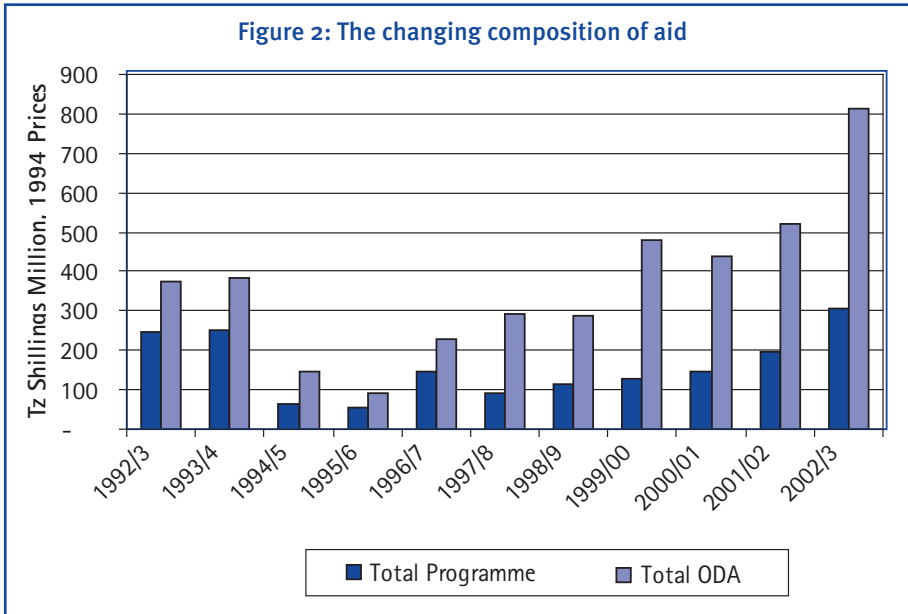
This means that the situation is not one in which the GBS modality of assistance is dominant. The government distinguishes three modalities: GBS, common baskets and projects. Considered sector by sector, only education and health show a decisive shift away from project funding, and this reflects in part the increasing popularity of common-basket funding. Since 2000/01, common baskets have accounted for an increasing proportion of non-programme aid flows, accounting for about a third by 2002/03. Other sectors, such as agriculture are still characterised by the incentive structures typically associated with high levels of project funding, not those generated by funding through the budget.

### *Management of the package*

All six inputs associated with GBS were found to be present in the Tanzanian case, not just the element of unearmarked budget finance. Since 2001/02 PRBS has been linked to a unified Performance Assessment Framework (PAF), which is the main basis for both policy dialogue and conditionality. Dialogue focuses on the implementation of the actions and measures agreed by the government and its partners for inclusion in the PAF. Progress is reviewed twice a year.

Technical assistance and capacity building have been

Figure 2: The changing composition of aid



A more consistent criticism is that the processes of dialogue and conditionality are completely interwoven. This has two negative effects: i) it crowds out the space for a dispassionate and non-committal sharing of views between government and donor representatives, and ii) it undermines country policy ownership, because it creates the impression that conditionality has no boundaries.

### Programme intent

The Evaluation Framework presents a hypothetical model for the use of GBS. The shift to GBS is seen as generating a more favourable budget financing framework (with more predictable, more discretionary resources), subjecting external funds to greater domestic account-

ability, and shifting incentives in favour of the improvement of national policies and systems. The evaluation investigated the degree to which the actual objectives of the government and donors in Tanzania correspond to this model.

On the Tanzanian side, there is a strong general aspiration to bringing external assistance under the control of government. However, this is not yet accompanied by an equally forceful view on the relative roles of budget support and projects.

There are comparable ambiguities on the donor side. The Partnership Framework – signed by all 14 development partners – aims to promote harmonisation of performance benchmarks, linking of disbursements to pre-agreed targets, reduction of transactions costs and increased predictability of donor flows. All of these objectives are closely consistent with the framework. However, there are two important points of difference.

- The PRBS dialogue around the PAF is additional to the structures for government-donor dialogue that were established previously (including Public Expenditure Review and sector review processes). There is a need for streamlining of the various structures and processes if increased transactions costs for government are to be avoided.
- The dialogue is strongly focused on a relationship with senior officials in the Ministry of Finance. Overall, the degree of access to senior government officials is considered very good. However, there are no regular channels for dialogue between the PRBS development partners and the Minister of Finance or other Cabinet members.
- The way the PAF rolls together dialogue and conditionality is unsatisfactory. Conditionality for the disbursement of GBS funds has three elements: i) the assessment of satisfactory overall progress in implementation, on which all PRBS disbursements are conditioned; ii) the assessment of the 'prior actions' which must precede the renewal of the PRSC agreement by the World Bank; and iii) the assessment of performance against the public financial management and service delivery indicators agreed for the European Commission's 'variable tranches'. The fact that there are three types of conditionality in the PAF introduces a degree of complexity.
- Most of the donors providing budget support do not appear to believe that its beneficial institutional effects are dependent upon a reduction in the number of external projects within the public sector.
- Most donors continue to believe strongly in the 'policy leverage' afforded by GBS. In contrast, the evaluation framework envisages policy dialogue primarily in terms of monitoring the government's commitment to its stated policies. It sees stronger domestic accountability as being the primary driver of improved results, and GBS as a way of facilitating this process.

### Level Two: Immediate effects

The evaluation found the immediate effects of the GBS programme to be more or less as expected. That is:

- As a greater proportion of aid as well as a larger absolute amount, GBS has dramatically increased the proportion of external funds subject to the national budget process.
- GBS has helped to focus dialogue on strategic issues of economic management, and in the process made some significant contributions to the design of policy.

- GBS has helped to focus technical assistance and capacity building on core public policy and public expenditure processes.
- GBS has made a major contribution to alignment and harmonisation. The PRBS management arrangements are considered an outstanding example of efforts to maximise alignment to the PRS and the budget cycle, while harmonising procedures across donors.

**Level Three: GBS Outputs**

The evaluation’s findings at this level are of interest under all five headings suggested by the framework:

- provision of a more favourable budget financing structure;
- empowerment of the government to pursue its policies;
- efficiency of public spending;
- the effect on internal government incentives and capacities;
- effect on democratic accountability.

**Budget structure**

The expansion of the Tanzanian budget over the past decade has been dramatic. Equally remarkable is the proportion of the funding recorded in the budget over which the government has discretion. This is indicated by Figure 3.

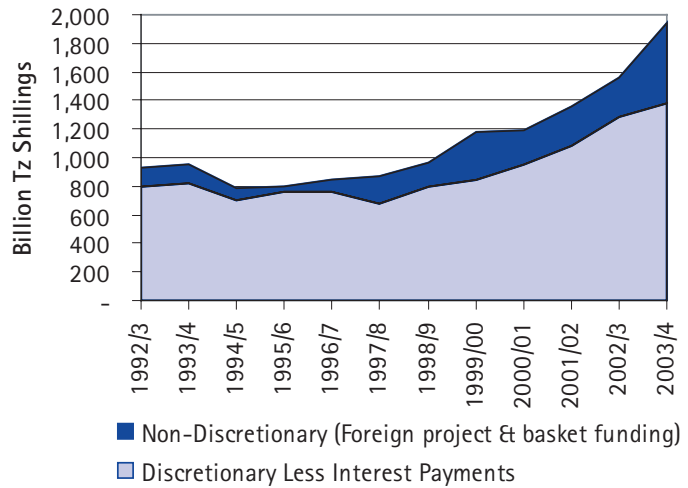
The background to this is a simultaneous expansion of donor inflows and domestic revenues since 1996. In real terms, domestic revenues increased 89% in the decade between 1993/4 and 2003/4, while over the same period donor inflows increased by 70%. That is, the increase in domestic revenue has outperformed that of aid. This reflects a combination of GDP growth and a strong performance by the Tanzania Revenue Authority.

The strong recovery in overall government revenues has substantially reduced the costs of budget funding. Interest payments have fallen in relative terms from 20% to 5% of budgeted expenditures, and have also fallen in absolute terms. In addition, accumulated arrears have been cleared. The volume of funds available to be used flexibly has increased significantly.

The record on predictability was initially poor, but there are strong signs of improvement. Between 2000/01 and 2001/02 budget support was the most unpredictable of all of the major government revenue sources, being on average 19% below budgeted levels (Figure 4). However, data for 2002/03 and reports for 2003/04 and the start of 2004/05 suggest higher levels of predictability in budget support.

The improvements in Tanzania’s fiscal position must be attributed first and foremost to political leadership. Improvements in the capacity of key institutions enabled the changes to take place. Alongside the role of the TRA, capacity improvements within the Policy Analysis Department and the Accountant General’s Department of the Ministry of

**Figure 3: Increasing discretionary funding in the budget**



Source: Ministry of Finance

Finance were significant. Donor technical assistance and capacity building facilitated these improvements, but did not cause them.

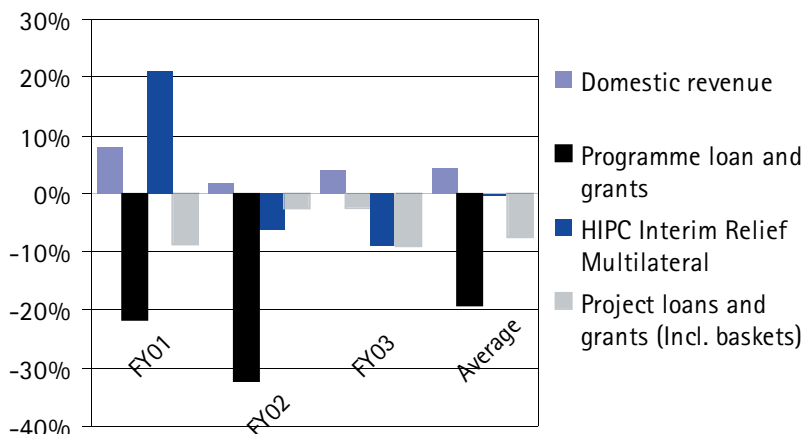
**Empowerment to pursue policies**

Increased availability of discretionary resources has permitted a range of politically important budgetary actions which would not otherwise have been feasible. In addition to reducing domestic debt and arrears, the government was able to double per capita spending on PRSP priority sectors between 1998/99 and 2002/03, and protect budget disbursements to those sectors (Figure 5). This has permitted a major expansion in education and health service provision.

PRSP priority sectors have not received consistently high budgetary priority. Over the five year period 1998/99 to 2003/04, there was a shift in budgetary shares first towards and then away from the priority sectors identified in Tanzania’s first PRSP (PRS1). There has been a constant shift towards economic services, which until 2004/05 appears to have been the implicit priority of government (Figure 6).

The evaluation suggests the following interpretation. Initially, the PRS process may have helped the government to establish a formalised set of strategic objectives. GBS funds and dialogue then facilitated a reallocation of budgeted

**Figure 4: Budgets versus receipts by revenue source**



Source: Ministry of Finance

expenditure towards those priorities, defined in sectoral and sub-sectoral terms. But as time passed and priorities evolved, the gap between the priorities expressed in PRS1 and the government's actual priorities widened.

This was not simply a matter of weak commitment to the objectives of the PRS. Rather, the use of the 'priority sectors' concept as a mechanism for judging the effectiveness of resource allocations proved overly simplistic – failing to distinguish the specific outputs and outcomes which were most important within the priority sectors, and giving no attention to questions of feasibility and absorptive capacity. The new approach adopted by PRS2, with 'cluster strategies' linked to PRS outcomes in place of sectoral priorities, is in principle a more promising approach, although weak political engagement with the PRS remains a limiting factor.

**Efficiency of spending**

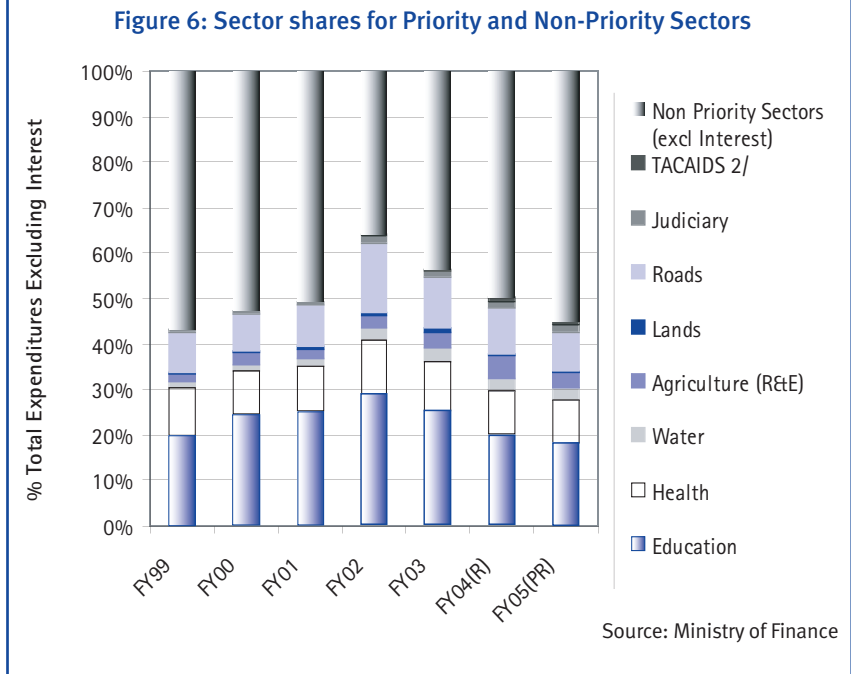
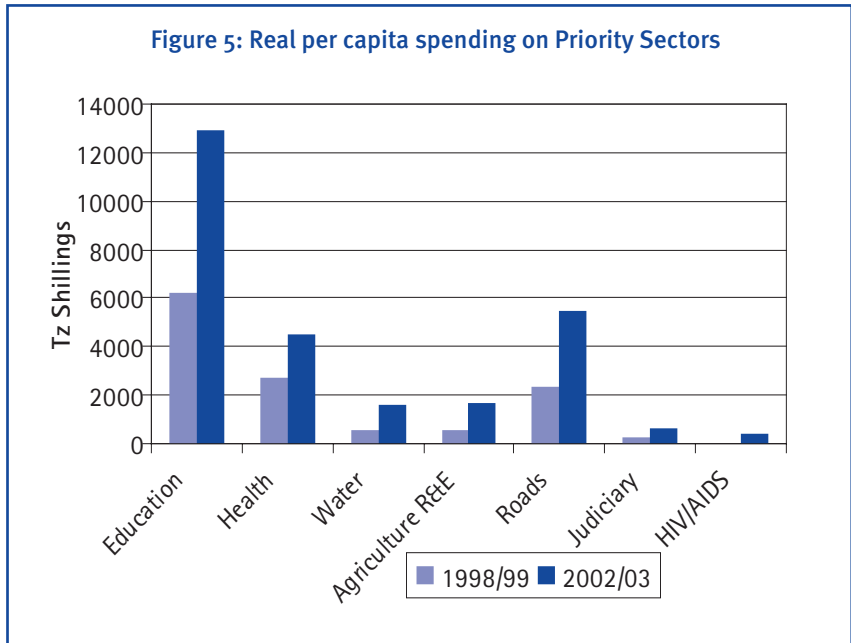
GBS has been part of a process leading to a major expansion in levels of social service delivery (Figure 7). However, it is not clear that it has yet contributed to any improvement in the efficiency of public expenditure. Other than sectoral reallocations, there have been few shifts in the pattern of expenditure. This tends to confirm the impression that key constraints to service delivery have not been addressed.

The lack of efficiency improvements needs to be seen in perspective. Realising efficiency gains along with a rapid expansion in service volumes has proven difficult even in the UK, with substantially greater management capacity. On the other hand, the scope for increasing the efficiency of public expenditure in Tanzania is probably large, and some of the issues to be confronted have been known for many years. Some signs of headway in tackling them might have been expected at this stage.

There are other worrying signs. The recurrent budget for administration has expanded in relative terms, whilst the share of the budget going to local authorities has remained the same. In some sectors, most notably education, there has been a large increase in administrative overheads. There are also significant deviations between approved budget allocations and actual expenditures across and within spending agencies.

The evaluation was unable to reach firm conclusions on the reduction of transactions costs as a result of GBS. The distribution of transactions costs has certainly changed. They have fallen in some areas, but increased in others. There is certainly a higher administrative burden on the Ministry of Finance, although this reflects the Ministry's deeper involvement in reform processes as well as more extensive dialogue with donors. There is no clear evidence that transaction costs in line ministries have fallen.

Why has GBS not been associated with a significant



Source: Ministry of Finance

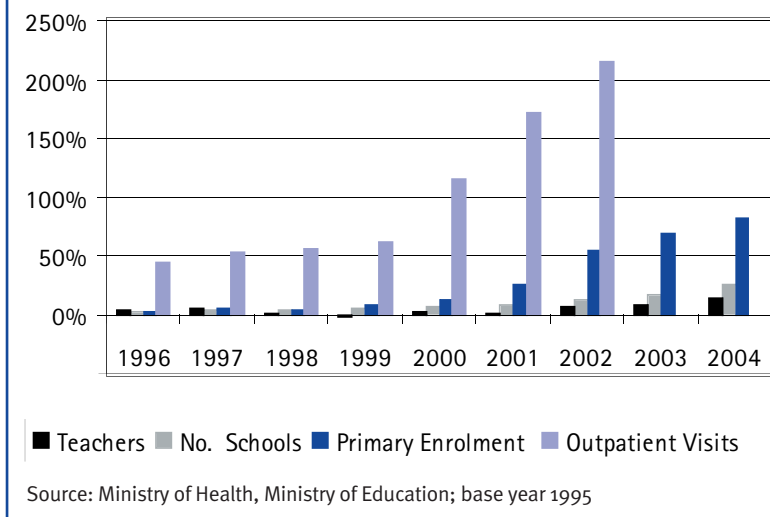
improvement in efficiency? One reason is the scale of the donor funding that is not fully subject to the budget process. With as much as 80% of development spending still funded by donor projects, there is limited scope for using the budget to improve allocative efficiency.

Another relevant factor is the weakness of the 'challenge function' within the country's budget process. Within the executive branch, neither the Ministry of Finance nor Cabinet has exercised a strong pressure on the quality of line ministries' budget bids. More broadly, the lack of critical scrutiny of budget proposals and budget execution reports by parliament means that there have been few political incentives to improve the efficiency of public spending.

Ultimately, this has to do with the character of the executive-legislature relationship and Cabinet government in Tanzania. However, there are also problems in the design of the budget process that might be easier to remedy.

The way the budget is presented does not foster a reorientation of ministers, parliamentarians or managers towards results. The activity-based costing used in the MTEF appears technocratic. There has been little mention of results

Figure 7: Expanding service delivery in Health and Education



in the Budget Guidelines, which set out the government’s medium-term spending strategy. The budget timetable is not parliament-friendly. Finally, the annual Public Expenditure Review, an open process led by the Ministry of Finance, has helped improve budget analysis. But it has yet to have a substantial impact on resource allocation, because it has no institutionalised link to the budget process.

**Intra-government incentives and capacities**

By using government systems, GBS is expected to enhance the functioning of the public sector. The hope is that it will reverse the erosion of institutional incentives and capacities caused by the previous combination of projects and highly conditional programme aid. However, the evaluation found only limited changes in this regard.

There have been major efforts to strengthen public expenditure management systems and capacity, and these have been quite successful. The most impressive achievement has been the upgrading of financial control, accounting and reporting. However, outside the immediate sphere of public financial management, change is hard to detect. At the central level, there appears to be little strengthening of performance incentives. The public sector reform and local government reform programmes are achieving their immediate objectives as programmes. But the reforms do not appear to have delivered systemic changes in incentives for service improvement.

This can be put down to a combination of factors. The most important is a lack of consistent political drive behind the public sector and local government reforms, with an undue focus on the programmes rather than their wider purposes. The lack of challenge in the budget process and the continuing domination of project funding in the development budget reinforce this effect.

**Democratic accountability**

In principle, putting aid funds through the budget should make them subject to more effective domestic control. However, there appears little evidence of parliament’s scrutiny of public finances improving significantly since the expansion of discretionary funding in the budget. Some technical assistance has been provided to parliamentary committees to help to address this problem. But this is unlikely to have a significant impact in the absence of a

concerted effort to improve the presentation of the budget, and until the political role of parliament is enhanced.

From an admittedly low base, the capacity of Tanzanian NGOs to engage in debate on policy questions in fora such as the Public Expenditure Review has increased remarkably. Doubts remain over the depth of this capacity and the potential of NGOs to challenge decisions over resource allocation.

In summary, the evaluation did not find clear evidence of improving accountability to domestic stakeholders. This confirms the assumption of the evaluation framework that, if domestic political change is not generating improvements in accountability, a GBS programme cannot create it.

**Level Four: Outcomes**

The evaluation framework directs attention to five groups of outcomes that may be considered critical to reaching poverty-reduction objectives. The evaluation records the changes observed, and discusses which changes can plausibly be considered results of the budget support programme. In many cases, both data gaps and time lags prevent firm conclusions.

**A macroeconomic environment conducive to growth**

The most significant success story of the last decade is the improvement in the macroeconomic position. From a situation in the mid 1990s of stagnating growth, double-digit inflation and unsustainable foreign and domestic borrowing, GDP growth has now averaged just under 6% p.a. for the last three years, inflation is below 5% and borrowing has been reduced to comfortably sustainable levels. This has had important effects on the overall business environment. Foreign Direct Investment has now reached an annual average inflow equivalent to 3% of GDP.

There remain concerns, however, about the pattern of growth. Agriculture’s performance has improved in the last 5 years (average 4.4% p.a.) and is showing signs of increasing resilience to external shocks. However, it has failed to keep pace with the improvements in other sectors, most notably mining and formal services. There are also reasons to think that the improvement in agriculture’s aggregate performance is unevenly spread, regionally and by crop type. So there is an urgent need to accelerate improvements to agricultural marketing, agricultural credit and rural transport.

The restoration of macro-economic stability has been the result of strong political support for tight expenditure control and strict monetary policy. GBS funds permitted sharp increases in social spending whilst maintaining prudent borrowing. In the absence of such resources, it would have been difficult to meet the expanding recurrent cost commitments without a significantly higher level of deficit financing.

Has GBS had any unintended negative macroeconomic effects? The evaluation considered two potential problems:

- ‘Dutch disease’ effects; and
- problems of monetary sterilisation.

A Dutch disease effect occurs where aid sharply increases the availability of foreign exchange, leading to an appreciation in the real exchange rate. This reduces the income of the export

sector, forcing its relative contraction. Recent IMF analysis suggests any effects of this sort have been small. Other factors – such as fluctuations in imports due to mining and other investments – have been more significant disruptions than changing aid flows.

It does remain relevant to ask whether the benefits of aid are likely to be greater than the costs to the tradable goods sector. A priori, the real exchange rate would have been more favourable to exporters in the absence of aid. But in Tanzania, where public goods provision and public infrastructure capital are almost certainly below their optimum levels, it seems unlikely that these costs would exceed the potential benefits. In any case, structural impediments to exports are almost certainly of greater significance.

The monetary sterilisation problem is potentially more significant. To avoid inflation, GBS foreign exchange inflows to finance public expenditure have to be ‘sterilised’ by means that can have negative side-effects. The central bank has to either sell foreign exchange reserves to the domestic market (which further appreciates the nominal exchange rate) or sell Treasury Bills (bonds) to the domestic market (which drives up interest rates). The evaluation looked at the data between 2001 and 2004. There was no evidence of unintended negative macroeconomic consequences on a scale that would outweigh the positive macroeconomic effects of GBS.

### ***Quality and targeting of services***

The period of 2000 to 2004 witnessed a very significant expansion in the scale of services within education, health and road maintenance. This is an important achievement. However, it has proven difficult to expand services whilst maintaining quality. In primary education, pupil-teacher ratios have risen to alarming levels due to the difficulties in ensuring that teacher recruitment (and distribution to rural areas) keeps pace with enrolments. In the health sector, difficulties in placing personnel in rural areas have also been common and there are reports of poor discipline and absenteeism. There would also appear to be demand problems, particularly amongst the poor, whose use of government health services remains substantially lower than might be desired.

### ***Regulation and business environment***

The investment climate for the private sector has been improving, as a direct result of government policy changes, which have been a major subject in an expanding public-private sector policy dialogue. The prospects for significant poverty reduction have improved as a result of these changes. Limitations include the fact that many of the most significant changes are extremely recent, and others take the form of commitments to act in the future. Many of the key changes correspond to both presidential policy commitments and prior actions identified in the PAF.

### ***Justice and human rights***

There has been some recent progress in improving justice and human rights protection in the context of a legal reform programme. However, these reforms are recent and have been rather slow. Their impacts will be felt largely in the future. The current state of human rights and administration of justice is still a matter of great concern.

### ***Public action to address market failures***

Some of the most critical needs under this heading relate to agriculture and agricultural trade. In agricultural policy there has been less consistency and less action than on the

business climate as a whole, despite donor promptings in the PAF reviews. The government has found it hard to find its way to correcting key market failures, such as those affecting agricultural marketing and input supply, whilst remaining true to its liberal economic policy stance.

It would not be reasonable to attribute this to limitations of the budget-support approach. The budget process is not yet a powerful driver of policy improvement. Yet it has hardly been tested in relation to agriculture, as the principal sector donors and government stakeholders still prefer project or common basket modalities.

### ***Outcomes and GBS***

Overall, the record on outcomes is very mixed, and progress has been recent. The prospects in the longer run may be better, if current policy trends – particularly in addressing the structural impediments to balanced growth – are continued. In this respect, it might be argued that the period of analysis is the wrong one. Current policy and spending actions facilitated by PRBS and promoted by debates around the PAF may be more reasonably expected to contribute to improved outcomes in a future period.

### ***Level 5: Poverty impacts***

The link to poverty reduction is indirect and long term. Data availability means that we really do not know what has happened to poverty in Tanzania in recent years. The upcoming 2006 Household Budget Survey will provide an important new set of data.

Data from the 1990 and 2001 Household Budget Surveys suggest that the incidence of income poverty did not fall significantly between the early 1990s and 2001. It was only in Dar es Salaam that there was statistically significant reduction, from 28 to 18 per cent. Per capita GDP fell in the early 1990s – largely due to poor macroeconomic management – whereas recent years have seen quite high rates of growth. It is therefore quite likely that poverty first increased and then declined, resulting in only a small net decline over the whole period.

The relatively better performance of Dar es Salaam compared with the rest of the country is probably explained largely by the sectoral unevenness of growth highlighted previously. It is in agriculture and closely related activities that the bulk of the poor gain their living.

There are reasons for being soberly realistic about what is likely to have been happening to human development indicators too. Again, the most recent data are not recent enough to suit the evaluation’s purposes. Preliminary Demographic and Health Survey results suggest recent improvements in infant and child mortality. However, it is quite probable that the overall picture of health conditions in the country remains dismal.

In brief, what we know about the impact trends suggest that Tanzania is not yet on a path of definite and sustained improvement.

## ***V. Overall conclusions***

The GBS evaluation used a more rigorous set of benchmarks of success than any hitherto applied to individual aid operations in Tanzania. It was not content to ask whether immediate effects and outputs were produced efficiently. It also asked how far GBS has been able to enhance the capacity of government to influence the determinants of poverty

and whether there is evidence of poverty levels falling as a consequence. This sets quite a demanding standard.

Tanzania has realised a number of major achievements in the past ten years. They include:

- Continuously good macroeconomic management, with low inflation and solid GDP growth.
- Consistent improvements in the quality of public financial management.
- The stabilisation of the domestic debt position, the clearing of domestic arrears, and substantial increases in expenditure within the PRS priority sectors.
- The initiation of important reforms to improve the business environment and promote investment.

Fundamentally, progress has been driven by internal political commitment to change in these areas. But it would have been considerably more difficult if there had not been donor budget funding, together with the associated dialogue and other inputs – or if such funding had been channelled through other aid modalities.

In some crucial outcome areas, GBS is not yet successfully facilitating changes. There are important reform initiatives – in local government, the public sector and the legal sector – where clear-cut results have yet to be achieved. The policy constraints on agricultural growth remain to be properly addressed. While access to social services has improved, the poor still predominantly fail to use government services and in large part this is due to shortfalls in efficiency and in quality.

Poor service delivery outcomes can be traced back to weaknesses at the output level. The efficiency of public expenditure is low, intra-government incentives remain weak and the democratic pressure that might drive improvements is substantially absent. In the evaluators' opinion, without further policy and institutional changes major improvements in poverty and human-development indicators are likely to stay out of reach. It is equally clear that internal changes would be assisted by a continued reduction in the number of aid projects and programmes within the public sector.

GBS in Tanzania has not had all the effects indicated by the evaluation framework. Yet many of these, especially at the outcome and impact levels, depend strongly on underlying political and institutional factors which no aid modality can expect to influence over the medium term. The question to ask is whether the important positive changes which have been witnessed could have been enabled so effectively by alternative aid modalities. The Tanzania evaluation suggests not. General Budget Support was a crucial facilitating factor in these changes.

## **VI. Learning from Tanzania**

In some important respects, generalising from Tanzania's experience 1995-2004 might generate an excessively optimistic perspective. In retrospect, it is clear that the country was favoured during this period by several factors that seem likely to improve the chances of GBS working in the way that its advocates expect. A stable political regime, high-level political support for structural reforms and a strengthened and capable finance ministry are among the

conditions that were present in Tanzania, but are absent in a good many other countries in the region.

On the other hand, in very many ways the evaluation has highlighted issues that Tanzania shares with other countries throughout the region. The most obvious is the high level of both financial and institutional aid dependency, and the shortage of sustained political support to the more difficult reforms. The limited capacity of even a substantially empowered Ministry of Finance to enforce changes in the incentive structures of line ministries and local governments is a typical problem. Above all, the continued dominance of projects and other modes of aid delivery that by-pass the national budget process offsets any advantages that Tanzania might otherwise possess as a test-case of the benefits of budget support.

With this in mind, Tanzania suggests several wider lessons regarding GBS as a modality.

- Domestic political considerations have a dominant influence. The Tanzanian experience is a useful reminder that budget funding and the related dialogue, conditions and technical assistance, are never likely to be more than a modest influence on processes of public-sector reform and institutional development.
- Increasing the volume of discretionary funding that can be used for development purposes is the main contribution of GBS. Given the importance of this aspect, it is vital to give close attention to the sustainability, predictability and timeliness of the financial flows.
- GBS can contribute to reduced transactions costs. In Tanzania, the lack of evidence of transactions-cost reductions arises substantially from the fact that the GBS arrangements have been additional to continuing large numbers of donor projects in the public sector and the parallel rise in the importance of common-basket funding.
- The reinforcement of democratic accountability is not automatic. At most GBS can facilitate a process of internal, politically-driven change in which domestic actors assume new roles. It is domestic political change that is the prime mover, and without it the immediate effect may be limited to a more constructive donor-government dialogue.
- The link to poverty reduction is indirect and necessarily long-term. The intermediate changes needed are well established in theory but hard to realise in practice. GBS can facilitate such changes, most obviously by funding an expansion in the volume of targeted services. But key problems will only be solved by domestic shifts of a necessarily slow and incremental kind.

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