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JOINT DAC AND PARTNERS EVALUATION OF GENERAL BUDGET SUPPORT

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The World Bank

1. Introduction

The preparations of this evaluation started in late 2001 when the UK Department for International Development (DFID) launched an Evaluability Study of General Budget Support (GBS). This initiative followed from the increased financial as well as political importance of GBS. The aim was to explore the evaluability of GBS and develop an Evaluation Framework, which would subsequently be applied in a joint-evaluation of GBS.

The Evaluation Framework (see Fig. 2) resulting from this Evaluability Study, has been extensively discussed at:

- An informal two-day workshop on 'Evaluating General Budget Support' in Glasgow, 3-4 March 2003, hosted by DFID Evaluation Department under the aegis of the DAC Network on Development Evaluation;
- A one-day workshop in Kampala, 28th May 2003, hosted by the Ministry of Finance, Planning and Economic Development of Uganda, where preliminary testing of the Framework had been undertaken.

The workshops clearly indicated that further evaluation activities on GBS were needed and demanded. Moreover, participants strongly supported the view that as GBS is a joint-partner instrument for delivering resources to a country, it makes sense to conduct the evaluation jointly.

Accordingly, a meeting of the DAC Network on Development Evaluation in Paris, 24-28 March 2003, endorsed the creation of a technical working group for preparing the joint evaluation of GBS, and more precisely to prepare a planning workshop, which was held in Brighton 14-15 October 2003. The workshop, which was hosted by DFID Evaluation Department, brought together over forty evaluation specialists, economists and policy makers from a range of bilateral and multilateral agencies. The planning workshop agreed the scope and focus of the evaluation and established a Management Group (MG) and Steering Group (SG) and the joint evaluation of GBS was formally launched. Following these meetings as a result of a competitive tendering process a consortium lead by International Development Department of the University of Birmingham was appointed in July 2004.

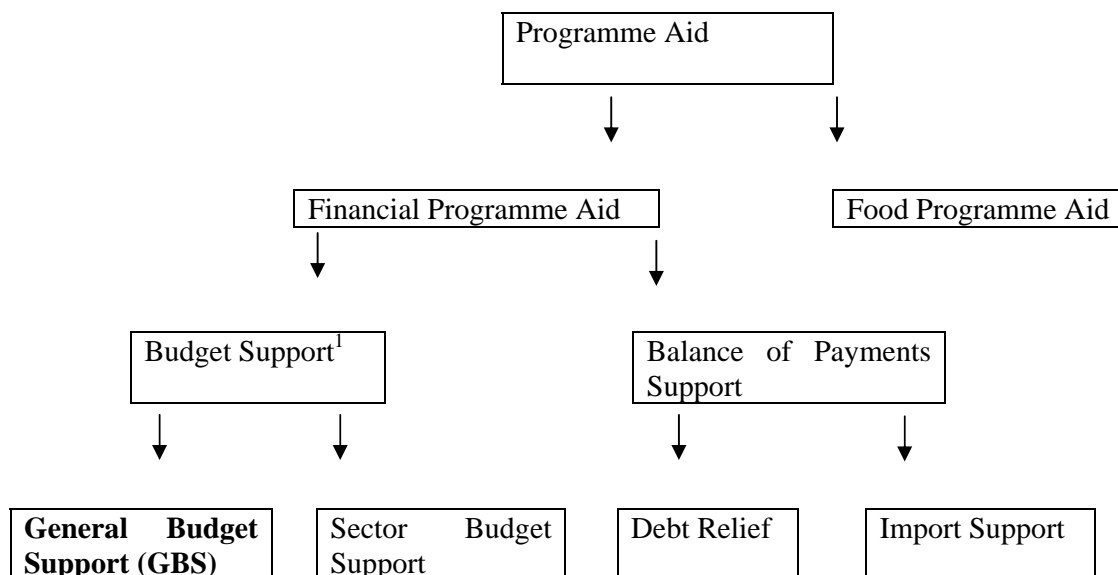
2. Background

2.1 General definition of budget support and GBS

As defined for the purpose of this evaluation, programme aid can be divided into food aid and financial programme aid. Financial programme aid includes both budget support and balance of payments support (such as debt relief and import support). Budget support in turn can be divided into sector budget support and general budget support (GBS).

The general characteristics of budget support are that it is channelled directly to partner governments using their own allocation, procurement and accounting systems, and that it is not linked to specific project activities. All types of budget support include a lump sum transfer of foreign exchange; differences then arise on the extent of earmarking and on levels and focus of the policy dialogue and conditionality.

Fig. 1 Programme Aid



GBS covers financial assistance as a contribution to the overall budget with conditionality focused on improving public financial management and the effectiveness of the overall budget. GBS is direct, meaning that the currency provided generates an amount of local currency of equivalent value, but without any requirements regarding the justification of the use of the foreign exchange in the form of import documentation, as free convertibility of the domestic currency is permitted.¹ GBS funds are in principal un-earmarked in the sense that the funds may be virtually accounted for against certain sectors but there are no formal limitations on where funds may actually be spent². However the precise nature and definition of GBS may differ among donors, among partner countries and over time³.

A GBS programme normally comprises four elements: 1) the funds, which in most cases are disbursed in different tranches linked to the fulfilment of objectives; 2) the policy dialogue; 3) the conditions attached to the support; and 4) technical assistance and/or capacity building activities often linked to public financial/expenditure management.

2.2 Development of budget support

In the 1980s and early 1990s, financial programme aid, i.e. budget support and balance of payments support, was widely used mainly in relation to structural adjustment programmes. A general trend can be identified throughout this period from balance of payments support

¹ Indirect budget support is provided through import programmes or food aid, i.e. it is provided in kind or in the form of a currency facility and requires the justification of the use of the foreign exchange through import documents and a counter-value fund in local currency.

² In practice it might be difficult to distinguish between un-earmarked, virtual and real earmarked GBS, hence the application of a pragmatic approach to the fieldwork as outlined in section 3.2

³ This explains the significant difficulties with data on GBS as found by Lanser, P., (2004) "Inventory of Programme Aid 1992-2001; Preparatory Study for the planned joint evaluation of General Budget Support", ECORYS-NEI Research and Consulting, Rotterdam

towards budget support and towards increased financial and political importance of budget support.

The approach and principles of budget support have also developed and changed since the mid-1990s. Several studies and evaluations in the late 1990s and beginning 2000s have increased the awareness of donors and partner countries that traditional forms of conditionality (which were often linked to structural adjustment programmes, mainly defined by the donors and which were intended to drive domestic reforms) have been less effective than expected. There is now widespread recognition that domestic political considerations are the prime factor in determining economic and political reform and that development needs to be addressed jointly. 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.

Furthermore, the existence of PRSPs has shifted the focus towards partner country owned objectives and strategies and towards mainly untargeted GBS, implying that GBS should be *partnership based* and support *country ownership*. Furthermore, the *fight against poverty* should be at the centre of macroeconomic reform programmes increasing the focus on pro-poor expenditure and in particular on protecting spending in social sectors. There is also a consensus to prioritise *institution building* (strengthening democratic accountability and transparency) and *sound management of public finances* (including macroeconomic stability).

GBS is also increasingly seen as an alternative to more traditional project-based development cooperation. This follows from the increased awareness of the problems of traditional development cooperation in terms of: high transaction costs, unpredictable funding, donor driven priorities leading to inefficient public spending, and parallel off-budget systems undermining the effectiveness of government systems and accountability. Hence, a long list of expectations of GBS as an aid instrument has developed. GBS is expected to focus on and support:

- Improved *coordination* and *harmonisation* among donors and *alignment* with partner country systems (including budget systems and result systems) and policies.
- *Lower transaction costs*.
- *Higher allocative efficiency of public expenditures* as (i) aid resources are increasingly on budget and spending is better prioritised against priority (PRS) targets, (ii) the policy dialogue is focused on the overall budget allocations rather than particular expenditure items and (iii) aid is delivered at lower cost (reduced transactions costs and more predictable aid).
- *Greater predictability* of funding (to avoid earlier “stop and go” problems of programme aid).
- *Increased effectiveness of the state and public administration* as GBS is aligned with and uses government allocation and financial management systems.
- *Improved domestic accountability* through increased focus on the Government’s own accountability channels.

The above listed expectations, priorities and objectives of budget support have been further unpacked and discussed in the Evaluation Framework.

2.3 Reasons for the evaluation

There are several reasons for commissioning a joint-evaluation of GBS now. As described above, budget support has increased in importance both financially and politically over the

last ten years with a further shift over recent years towards GBS. At the same time there have been few comprehensive evaluations providing evidence on the actual results of GBS and its relevance, efficiency and effectiveness in different local contexts. The shift to GBS has also resulted in increased attention to key issues of development co-operation such as ownership, partnership, transaction costs, coordination and alignment, which make an evaluation of GBS highly relevant to the development cooperation context in general.

What distinguishes this evaluation is also that it is explicitly designed as a cooperative effort of multiple agencies, that it is more concerned with the overall roles, processes and results of GBS than with the specific results of a particular country's or agency's funds. In the preparation of the evaluation there was firm agreement on the need to commission and conduct this evaluation jointly because: GBS is partnership based; the focus is on jointly funded programmes; the purpose is to evaluate the combined GBS contribution of a number of donors; the evaluation targets high-level development objectives that are influenced by the collaborative efforts of several actors; and the financial support is "pooled" making it difficult (impossible) to distinguish one donor from the other.

2.4 Participating organisations and management

To assure broad participation in the conceptualisation, oversight and management of this evaluation, the commissioning organisations have constituted a Steering Group (SG) and a Management Group (MG). Furthermore, to assure broader learning and knowledge generation, the DAC Network on Development Evaluation is establishing a "learning platform" for this and other evaluations of programme aid.

Country Reference Groups have also been established in the case study countries. The options for arranging these groups have been discussed and agreed with the partner country representatives. Broad participation was sought, including civil society. Where possible, existing groups were used.

The SG includes representatives of the participating organisations and of the invited partner countries.⁴ The SG, which is chaired by the Evaluation Department of DFID, will be convened at key moments in the evaluation process for review, discussion and oversight of the evaluation, concentrating on verifying the strategic direction of the evaluation and the respect for the Terms of Reference.

The MG, which comprises the Evaluation Department of DFID, the Evaluation Unit of EuropeAid at the European Commission, the Department of Evaluation and Internal Audit at the Swedish International Development Cooperation Agency (Sida) is mandated by the SG to take day-to-day decisions and to be responsible for the ongoing management of the evaluation. The evaluation team reports to, and works closely with the MG, who reports to the SG.

⁴ Members of the SG as of April 2004:

Governments of: Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam. Australia, Belgium, Canada (CIDA), Denmark, European Commission, France, Germany (BMZ), Inter-American Development Bank (IADB), the IMF, Ireland, Japan (JBIC, MoFA), the Netherlands, New Zealand, Norway, OECD/DAC, Portugal, Spain, Sweden (Sida), Switzerland (SECO), United Kingdom (DFID), USA (USAID), the World Bank.

3. Purpose, subject and scope

3.1 Purpose of the evaluation

The purpose of the evaluation is to evaluate to what extent, and under what circumstances (in what country contexts), GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation should be forward looking and focused on providing lessons learned while also addressing joint donor accountability at the country level.

The evaluation is expected to identify evidence, best practice, lessons and recommendations regarding to what extent, how, why and when (in what contexts) GBS has reached and/or could reach the intended (and unintended) objectives and fulfil the expectations. This should inform and serve as useful inputs (i) to the implementation of future GBS operations, (ii) to possible changes in policy, approach and/or methods, and (iii) to support decisions on when/where GBS is the appropriate and relevant instrument in a particular context. The evaluation should also contribute to further development of the Evaluation Framework and to general guidelines for the evaluation of GBS.

The primary target groups of the evaluation are donor agencies engaged in GBS, or planning to initiate GBS programmes, and the governments in the case study countries. However, the evaluation should also generate results of interest to a wider audience including governmental and civil society partners in both partner and donor countries.

3.2 Subject of the evaluation

The subject of the evaluation is GBS, i.e. the analysis, the lessons learned, and the recommendations should be focused on GBS as an aid instrument. Other types of programme aid such as food aid, balance of payments support (import support and debt relief) and sector budget support are not the subject of the evaluation. However, these other types of programme aid often interact with GBS and support the same objectives. Hence, to understand and learn about GBS and to make a correct assessment of its effectiveness and efficiency, it is crucial that the evaluation considers and studies other types of aid (bilateral and multilateral), and in particular other forms of financial programme aid, in the context of GBS.

While the term GBS is widely used, the precise definition differs between the agencies. The inventory of programme aid commissioned by the Policy and Operation Evaluations Department of the Netherlands Ministry of Foreign Affairs showed that there is a lack of internationally agreed definitions on the different types of programme aid, including GBS, and that it is difficult to obtain reliable data on programme aid.⁵ Hence, the evaluation team should apply a pragmatic approach in the inception phase, analysing and discussing the types of GBS⁶ provided by the different bilateral donors and the IFIs to the case study countries and the implications of the identified differences for the focus, approach and methodology of the evaluation.

⁵ Ministry of Foreign Affairs the Netherlands, Policy and Operations Evaluation Department (2003 b).

⁶ To include ODA grants and concessional loans as appropriate.

The evaluation cannot seek to identify the specific contributions of the different agencies, but should evaluate the effectiveness of different approaches to GBS, such as the use of conditionality (ex ante and/or ex post), the use of indicators (process and/or results), the use of Technical Assistance (purpose and extent), the type of policy dialogue (focus and channels), existence and use of coordination and harmonisation forums, models for delivering/tranching funds, and exit strategies.

3.3 Scope of the evaluation

The evaluation will cover the implementation and the results of GBS during the period 1994-2004. Country evaluations will be conducted in seven partner countries including confirmed participation from: Burkina Faso, Malawi, Nicaragua, Rwanda, Uganda, Vietnam and Mozambique. These countries cannot be seen as a representative sample of the different regions or of all partner countries that receive GBS, but they *illustrate* different experiences of GBS and different country contexts and were selected to maximise the lesson learning opportunities from the evaluation.

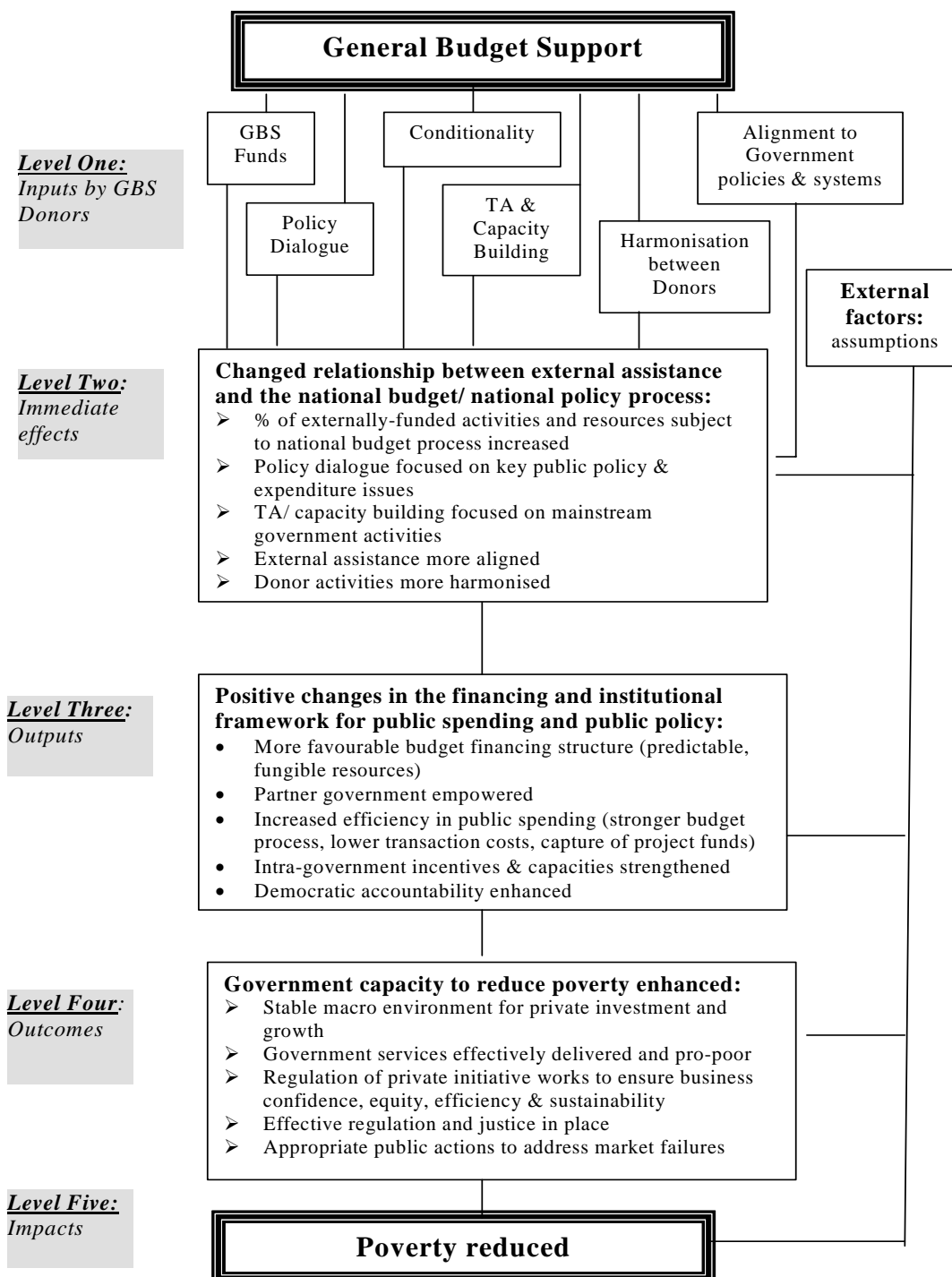
4. The assignment: key themes and issues

As explained in section one the Evaluation Framework was developed to be applied in this joint evaluation. Hence, the Evaluation Framework, is the main reference for the evaluation and should constitute the basis for the evaluation methodology.

The Framework is general and needs to be further developed to become specific to this evaluation and to the country evaluations. Hence, Terms of Reference, the literature review and the findings of the inception phase that all priority aspects will all be developed to ensure where considered and included in the evaluation.

The following sections are based on the purpose and scope of the evaluation and the Evaluation Framework and define further the assignment in terms of priority areas to be covered by the evaluation.

Fig. 2 The Evaluation Framework, a simplified version (see Annex 1 for complete version)



4.1 The levels of the Evaluation Framework

The evaluation should assess the effectiveness of the different approaches to GBS, which firstly implies identifying the different approaches. Hence *levels one* and *two* of the Framework are important to describe and analyse the inputs and immediate effects of the GBS programmes: disbursement of funds; use and content of dialogue; application of conditionality and indicators (ex post/ex ante, results/process); focus and use of Technical Assistance (TA); and alignment and harmonisation. It is equally important to describe and analyse the GBS policies of the major donors including the objectives linked to the inputs and exit strategies.

The evaluation will include a description and assessment of the development and evolution of GBS over the evaluated period and capture important changes regarding the approaches to GBS, the objectives, the conditionality (including application of conditions) and the rationale for GBS (selection of GBS eligible countries and eligibility criteria).

Furthermore, the effects and impacts of GBS (the different approaches) on poverty reduction should be evaluated as far as possible respecting the limits of the evaluation and respecting the fact that GBS has been in place for a limited period of time in some of the case study countries. The effects *up to level three* are assumed to be short or medium term effects. It is thus reasonable to expect attributable effects of GBS at these levels during the evaluated time period. The outcomes and impacts of levels four and five are assumed to be longer term. However, the evaluation will also assess changes at *levels four* and *five* attributing to the GBS inputs where possible, and discussing plausible linkages to the GBS inputs where not. It will also discuss potential future effects on these levels given the findings at levels one to three. The assessment of the changes at levels four and five should capture the issues specified in the framework, e.g. the effects on public service delivery, on the investment and business environment and on the role of the state.

It is important that the evaluation captures the full chain of effects (input-output-outcome-impact) to be able to make a judgement on: 1) the current effects and impacts of GBS; 2) the potential future effects and impacts of GBS; and 3) the importance of factors in the country context to the observed changes. This is also very important in order to be able to make an assessment of the sustainability of the effects and impacts of GBS.

The Evaluation Framework is mainly focused on the intended effects of GBS. However, to ensure maximum learning the evaluation will assess the intended and *unintended* (positive and negative) effects and impacts of GBS at all levels of the framework.

4.2 Institutional and macroeconomic effects

The evaluation will cover both the institutional and macroeconomic effects of GBS. As regards *the macroeconomic effects* it will assess 1) the financial effects including budget allocation and execution (sector allocation, pro-poor spending, discretionary spending, recurrent/investment spending) as well as domestic revenue and deficit effects⁷; 2) the impact on the balance of payments including import level, capital account and foreign exchange reserves; and 3) the possible effects on macroeconomic indicators (level and variability) such as the inflation rate, the real exchange rate and the real interest rate. It should also capture the *institutional effects* at all central and local levels of Government in terms of 1) changes in

⁷ Does GBS substitute domestic revenue, increase expenditures and/or decrease the deficit? Is GBS used for debt repayment and could hence decrease debt service expenditures in the future?

allocative and operational efficiency of public expenditures; 2) effects on democratic accountability; and 3) the effects on public financial (expenditure and revenue) management.

Furthermore, specific attention will be given to assessing how GBS has supported the PRSP process and the implementation of the PRSP.

4.3 Expectations of GBS as an instrument

The evaluation will assess the process and institutional effects of GBS against *the expectations of GBS as an aid instrument*, specifically regarding: the predictability of funding, the transaction costs (types and levels), partnership and ownership, donor coordination, harmonisation and alignment.

Donor coordination and harmonisation and alignment of donor processes with the national budget and planning processes (e.g. PRSP) are key issues in GBS programmes to support partnership and country ownership and decrease transaction costs (see levels one and two of the Framework). The evaluation will assess the progress in coordination, harmonisation and alignment and assess the role of key actors (bilateral donors, IFIs, Government) in the policy dialogue, in particular in relation to the principles of partnership and country ownership.⁸

4.4 Relevance and cross-cutting issues

The evaluation will include an assessment of *the relevance of GBS* in particular in relation to the country context (priorities, needs and demands) and in relation to the objectives and problems addressed.⁹

The evaluation will also address the *cross cutting issues* of gender equality, environment, democracy and human rights and HIV/AIDS.

4.5 Attribution and causality

The emphasis of the evaluation is on lesson learning, hence it is very important that an analytical approach is applied; emphasising the question of attribution to the GBS inputs, activities and approaches; and analysing the reasons and determining factors behind the observed changes and developments. The observed changes and developments should in particular be assessed in relation to:

- The country context, e.g. important changes and developments in the country context, other types of aid present (bilateral and multilateral), quality of institutions, budgetary system, level of development, exchange rate system, etc, as well as the regional and global context, e.g. trends in international trade, oil prices, etc.¹⁰
- The different inputs of GBS: funds, dialogue, TA, conditions (which programme inputs were the most important factors to the identified changes?);
- The different approaches to GBS (see above);

⁸ The survey of alignment of budget support with PRS processes conducted by the SPA working group on budget support is an important reference.

⁹ Relevance: "The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies." See definitions in Annex 1.

¹⁰ When assessing the importance of the context it is particularly important to take into account the alternative aid instruments available for transferring resources and the long-term objective of poverty reduction.

- The development of GBS over the evaluated period.

5. Approach and methods

5.1 Main elements of the evaluation

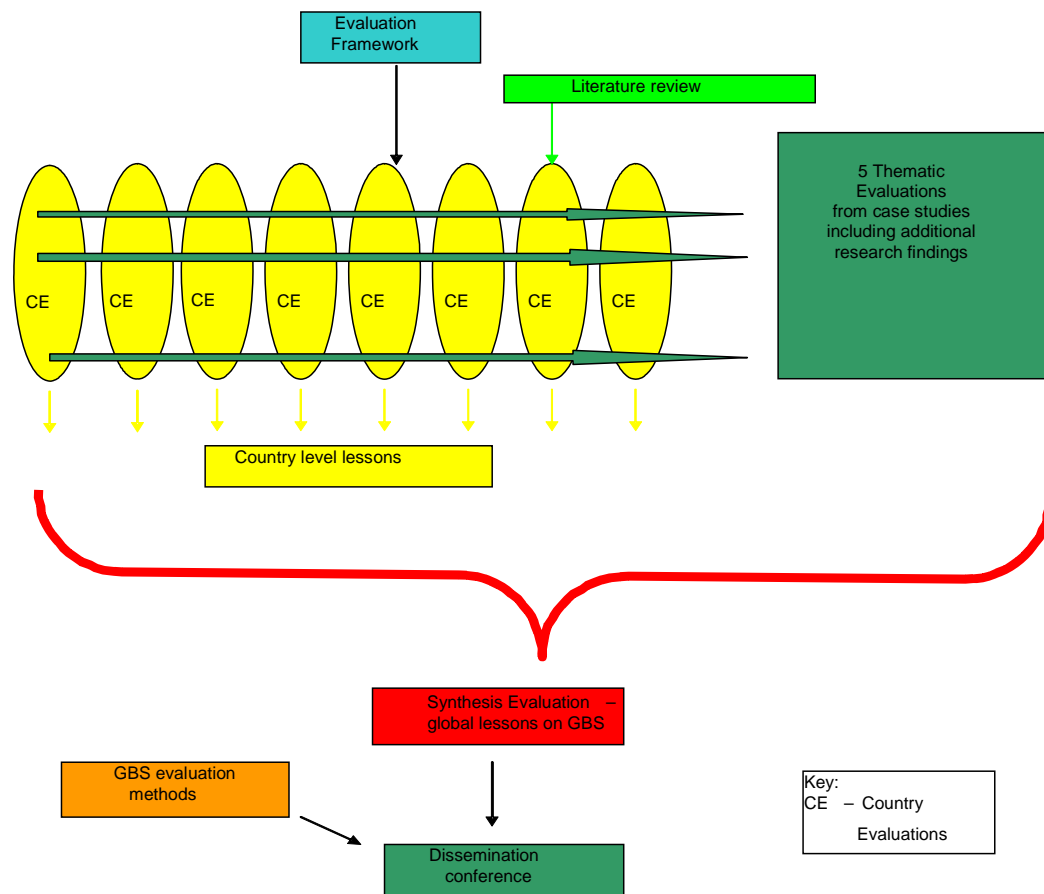
The main elements of the evaluation are: 1) a comprehensive inception phase; 2) seven country evaluations including extensive field work resulting in eight country reports; and 3) a synthesis phase resulting in a final synthesis report including global lessons and recommendations to donors and partner Governments at both operational and policy levels (see fig. 3).

A literature review summarising existing findings, lessons and recommendations in relation to the different levels of the Evaluation Framework funded by SIDA has been completed. The purpose of the review was to ensure the efficient use of completed and ongoing studies and evaluations, to identify knowledge gaps and thereby further guide the identification of key issues and themes for the evaluation.

The draft inception report was received in December 2004. It was re-drafted following a Steering Group meeting in February 2005. The final report is due in late April and Country Studies are scheduled to commence in May.

It was also envisaged that a number of thematic evaluations would be carried out. The purpose of the thematic evaluations was to assess in depth some of the key issues of strategic importance to GBS and hence further support and understanding of GBS. However due to the complexity of the main process and the need for the main evaluation to be completed in a realistic period of time, this proposal has been postponed until after the main dissemination conference in 2006. However the Swiss Government is carrying out a study on “Learning from experience with Performance Assessment Framework (PAFs)” which will report in time to be considered along with the main study at the dissemination conference.

Fig. 3 The main elements of the evaluation



5.2 General approach

As already stated the Evaluation Framework constitutes the basis for the evaluation methodology.

The evaluation is designed so that it i) builds on prior work and insights, ii) assesses the combined contributions of the GBS funding agencies, and iii) recognises both the interests (policy and operational) of the donor agencies and the partner countries.

The evaluation is primarily a formative evaluation, which requires a combination of several evaluation strategies and approaches to ensure rigour and independence. Including a mix of

qualitative and quantitative methods. Interviews with a broad range of actors including donor and partner country representatives constitute an important part of the approach.

As clarified in section 3.2 the subject of this joint evaluation is GBS. Furthermore, to make a correct assessment of the effectiveness and efficiency of GBS, other types of aid existing in the context of GBS (and in particular other forms of financial programme aid) have to be considered and studied. However, the evaluation is not designed as a comparative evaluation of different aid modalities/instruments. It is recommended that one of the thematic evaluations could take a more explicitly comparative perspective.

Furthermore, given the complexity of this evaluation and the evaluation subject, a true counterfactual analysis, in the sense of a comparative analysis of the observed situation and an observed scenario of no GBS at all, would be impossible. A fully hypothetical counterfactual is judged to bring little value. However, as already emphasised in these Terms of Reference, it is important to assess attribution and causality credibly. This will be done by looking at the effects from different inputs of GBS (extent and composition) and different GBS approaches over time and countries, and by carefully studying factors in the context of GBS that are of possible importance to the efficiency and effectiveness of GBS.

5.3 The Evaluation Framework

The Evaluation Framework presents a structure for undertaking country-level evaluations of GBS operations. The Framework is divided into five levels to track the cause and effect links and the time dimension of the effects:

- Level 1: Inputs by GBS donors;
- Level 2: Immediate Effects: Changed relationship between external assistance and national budget/policy processes;
- Level 3: Outputs: Positive changes in the financing and institutional framework for public spending and public policy;
- Level 4: Outcomes: Government capacity to reduce poverty enhanced;
- Level 5: Impacts: Poverty reduced.

The Framework is more general and broader in scope than the specific focus of this evaluation. Hence, it should be used as the basis and logical structure to the key themes and issues of the evaluation and to the proposed approach and method, but requires further details to become specific to the country case studies and this evaluation.

5.4 Evaluation phases

5.4.1 Inception phase

The purpose of the inception phase was to prepare for the field missions and to further specify the approach and method of the evaluation. During this phase the evaluation team gather aid and examined all available documents and data. This phase also included a comprehensive inception visit by the team to each of the case study countries.

5.4.2 Field phase

Following the inception phase and formal acceptance of the inception report by the MG, the field missions will start. The fieldwork will mainly include gathering of primary data and interviews with key persons. The studies will rely on carefully applied qualitative and quantitative methods and will be data-intensive. If during the course of the fieldwork any significant deviations from the agreed methodology or schedule are perceived as being necessary, these have been explained to and agreed with the MG. At the conclusion of the field mission the team will debrief the partners in the country on their provisional findings (through stakeholder workshops and written reports as appropriate).

5.4.3 Country report-writing phase

A draft country report presenting the main findings, conclusions, lessons and recommendations will be submitted for each of the eight country evaluations at the latest three weeks after the end of the respective missions. After comments from the SG, and comments and discussion with the MG, the reports will be finalised. The individual country reports will be published as they are completed.

A note synthesising the main findings of the field phase will also be prepared after the completion of the last field mission.

5.5 Communication and dissemination

As mentioned in earlier sections the emphasis of this evaluation is on lesson learning. Hence, the evaluation is designed in a way such as to allow maximum feedback to the concerned actors throughout the evaluation process. The SG meetings and the end-of-mission debriefings are key elements of the dissemination and feedback strategy. The evaluation also designed and organised to ensure that learning opportunities external to the SG, such as workshops in partner countries, are exploited as far as possible

An international conference is also being planned following the completion of the evaluation in early 2006. The purpose being to disseminate the findings of the evaluation and discuss the lessons and recommendations and their implementation.

6. Time schedule

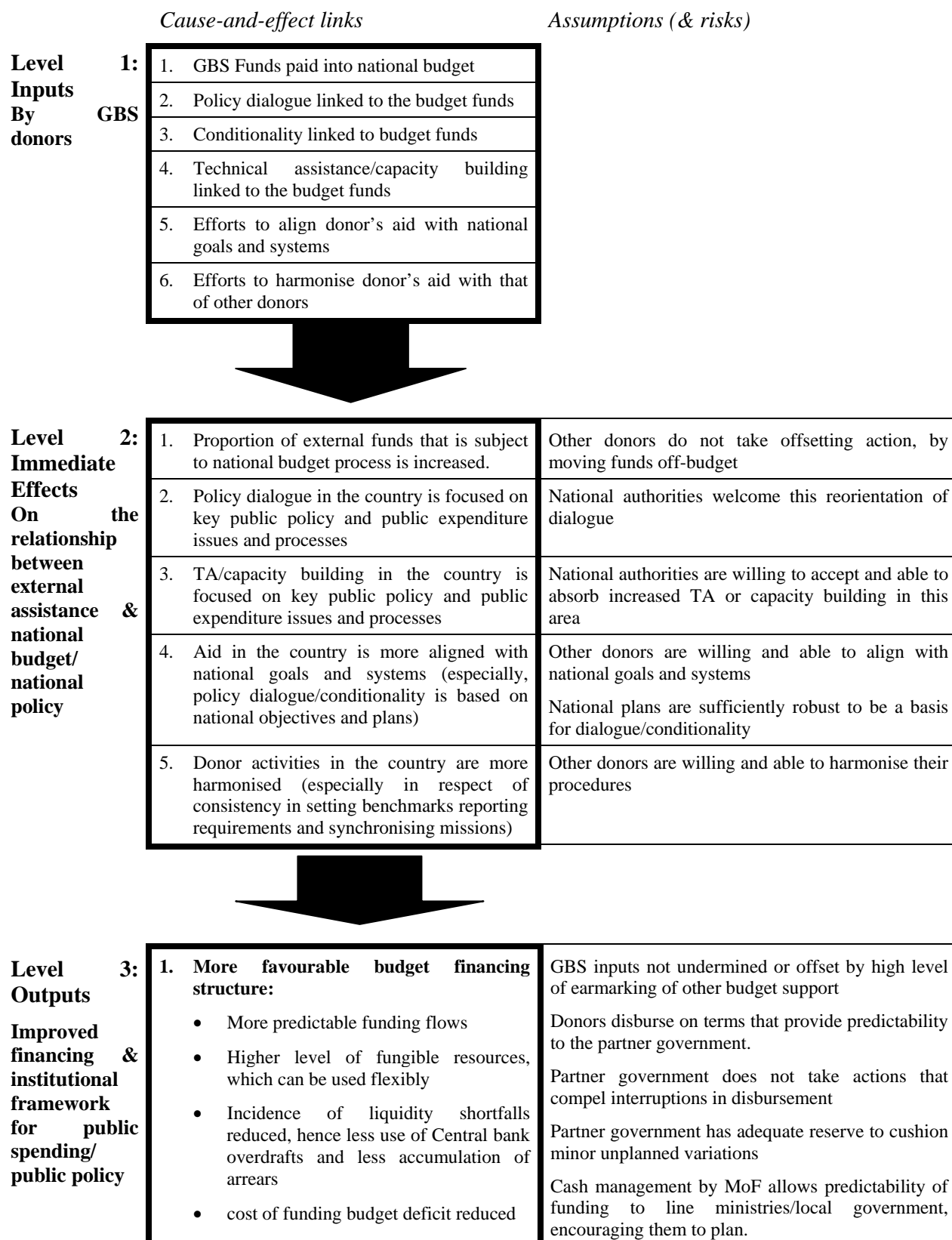
It is envisaged that the evaluation will be completed by January 2006.

Contract awarded	Mid Oct 04
Draft Inception Report	Mid Dec 04
SG meeting to discuss Draft Inception Report	Early Feb 05
Final Inception Report	Mid April 05
Country evaluations, field missions	End Apr-Early July 05
Draft Country Evaluation Reports	End Sept 05
Synthesis note on preliminary findings	End Sept 05
SG meeting to discuss and validate preliminary findings	Oct 05
Final Country Evaluations	Nov 05
Draft Synthesis Report	Nov 05
SG meeting to discuss Draft Synthesis Report	Dec 05
Final Synthesis Report produced	Jan 06
Note on approach and method	Feb 06
Dissemination Conference	Feb-Mar 06

7. Further information

For further information on this process please contact either Kate Tench telephone number +44 (0) 1355 843639 or Joe Reid telephone number +44 (0) 1355 843961. DFID (Department for International Development), Evaluation Department, 1st Floor, Abercrombie House, Eaglesham Road, East Kilbride, Glasgow G75 8EA.

DFID Evaluation Department
April 2005



Cause-and-effect links

Assumptions (& risks)

	Cause-and-effect links	Assumptions (& risks)
	<p>2. Partner government is empowered:</p> <ul style="list-style-type: none"> to use the budget to bring public sector programmes into line with government goals (including poverty reduction) to align PRSP processes with government systems and cycles to promote alignment and harmonisation by donors 	<p>Political competition in the country is moving away from use of state resources for patronage, towards a focus on results</p> <p>Political leaders are prepared to take on political costs of new thinking centred on public expenditure management</p>
	<p>3. Efficiency of public expenditure is enhanced:</p> <ul style="list-style-type: none"> by a more effective budget process (results oriented, transparent, participatory; with effective execution and audit) by reductions in certain types of transaction costs to partner government by improvements in allocative efficiency from increased capture of project funds in budget with efficiency gains in public-service delivery in particular 	<p>Government is committed to budget reform, and this has been internalised in the civil service</p> <p>Transaction costs are large with previous aid modalities</p> <p>There were significant inefficiencies in previous allocations</p>
	<p>4. Intra-government incentives and capacities are strengthened:</p> <ul style="list-style-type: none"> official reporting lines are more respected (vertical through government to cabinet, not horizontal to donors) public-service performance incentives are strengthened, so that policies are made and implemented, audit and procurement systems work, and corruption is reduced brain-drain effects of parallel project-management structures (permanent 'poaching' + temporary de facto employment of key staff) are reduced 	<p>Official reporting lines are still recognised in public service</p> <p>Government applies pay and performance-assessment policies that contribute to incentives</p> <p>The political balance in the country is shifting towards punishing official corruption</p> <p>Other donors do not increase parallel project management structures</p>
<p>Level 3: Outputs (continued)</p>	<p>5. Democratic accountability is enhanced:</p> <ul style="list-style-type: none"> greater role of parliament in monitoring budget results accountability through domestic institutions for donor-financed spending is enhanced conditions for all-round democratisation are thereby improved, including the trust of people in their government and hence their level of expectations. 	<p>NOTE: <i>Model of GBS club suggests conditions for predictability:</i></p> <ul style="list-style-type: none"> Partners do not enter into GBS unless they both share key objectives, and understand each other's constraints <i>Exit (non-disbursement) is limited by Loyalty to this 'club'</i> Effective consultation mechanisms are in place; the Voice that this affords compensates for limitations on Exit <p>(For fuller argument on this point, see DFID, 2004, Vol.1).</p>

*Cause-and-effect links**Assumptions (& risks)*

Level 4:
Outcomes
Enhanced influence of government on the proximate determinants of poverty reduction

<p>1. Macro-economic environment is favourable to private investment and growth</p> <ul style="list-style-type: none"> • inflation controlled • realistic exchange rate attained • fiscal deficit and level of domestic borrowing sustainable and not crowding out private investment. 	<p>There is political commitment to macro stability and pro-poor spending reform</p> <p>Macro conditionalities and recommended reform sequences are well chosen and executed</p> <p>Central bank sterilises inflows so as to avoid negative effects on incentives to firms and households via exchange- and interest-rates</p>
<p>2. Public services effectively delivered and pro-poor</p> <ul style="list-style-type: none"> • Service delivery targets met for key pro-poor services • Evidence of increased use of services by poor (including poor women) 	<p>Key service delivery targets can be established, agreed and monitored</p> <p>Pro-poor services can be effectively prioritised</p> <p>Service personnel are responsive to better and more pro-poor funding and management</p> <p>Access of poor to services can be positively influenced by better targeting.</p>
<p>3. Regulation of private initiative works to ensure business confidence, equity, efficiency and sustainability</p> <ul style="list-style-type: none"> • Policies on corruption, property rights resolutely pursued • Market-friendly institutions developed 	<p>Legitimacy of state is sufficient for regulatory role of public sector to be accepted.</p> <p>Confidence is not powerfully weakened by factors outside national control, e.g. regional instability</p>
<p>4. More effective and accountable government improves administration of justice and respect for human rights, as well as general confidence of people in government</p>	<p>Threats to national security do not become so acute that justice and rights are unable to share in general improvements in accountability and capacity</p>
<p>5. Sector policies include public actions to address major market failures, including those arising from gender inequalities</p>	<p>Sector authorities do not confuse intervention to correct market failures with state interventions that prevent markets developing</p>

Level 5:
Impacts
Empowerment and poverty reduction in all its dimensions.

<p>1. Poverty is reduced (in all dimensions)</p>	<p>Private agents accumulate assets, and/or total factor productivity increases, leading to faster economic growth.</p> <p>The pattern of growth is pro-poor and/or effective redistributive mechanisms are in place.</p> <p>The growth is environmentally sustainable</p> <p>The incidence of insecurity, injustice and abuse of human rights is reduced</p>
<p>2. Poor people are empowered and socially included</p>	<p>Ethnic factors that justify exclusion are reducing</p> <p>Gender factors that restrain productivity and welfare of women and children are reducing</p>