

The Ministry of Foreign Affairs of Japan  
Third Party Evaluation

Review of General Budget Support  
(PRBS in Tanzania and PRSC in Vietnam)

Summary

March 2006



## Preface

This report is a summary of the Review of General Budget Support (GBS) carried out by the External Advisory Board on ODA Evaluation, which is an informal advisory body for the Director-General of the Economic Cooperation Bureau of the Ministry of Foreign Affairs of Japan.

Japan has been one of the top donor countries of ODA (Official Development Assistance) and there have been domestic and international calls for more effective and efficient implementation of assistance. The Ministry of Foreign Affairs, which is the responsible ministry for ODA, has been conducting ODA evaluations mainly at the policy level with two main objectives, (1) to support the implementation and management of ODA and (2) to ensure its accountability. This review aims to clarify the results and challenges of General Budget Support in order to contribute to decision-making process on whether to and how to introduce General Budget Support to other countries. Another purpose of this review, which is to fulfill accountability, should be ensured through publication of this report.

The External Advisory Board on ODA Evaluation was formed to improve objectivity of evaluations. The Board is commissioned to conduct ODA evaluations and to report its results and recommendations to the Economic Cooperation Bureau of MOFA. Dr. Yayoi Tanaka, Associate Professor of the Tokyo University and a member of the Board was in charge of this review.

Dr. Koichi Sakamoto, Professor of Toyo University, Mr. Motoki Takahashi, Professor of Kobe University, and Ms. Masumi Shimamura, Associate Professor of National Graduate Institute for Policy Studies have made enormous contributions to this report. Cooperation was also received from the Ministry of Foreign Affairs, the Japan International Cooperation Agency (JICA) and the Japan Bank for International Cooperation (JBIC). We would like to take this opportunity to express our sincere gratitude to all those who were involved in this review. The Aid Planning Division of the Economic Cooperation Bureau of the Ministry of Foreign Affairs was in charge of overall coordination. All other supportive work was received from Nomura Research Institute, Inc. under the commission of the Ministry of Foreign Affairs.

Finally, we should add that the opinions expressed in this report do not necessarily reflect the views and positions of the Government of Japan or any other institutions.

March 2006

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# Contents

I. Outline of Review .....	1
II. Concept of GBS .....	3
III. Case Studies .....	9
IV. Recommendations for GBS Operations .....	23

# **I. Outline of Review**

## **1. Background & Objectives**

Recently budget support is becoming one of the major issues in a context of discussions on how to enhance aid effectiveness for recipient countries. In 2003, a number of donors, who are members of the DAC Evaluation Network, started to conduct a joint evaluation of GBS (General Budget Support). The United States has been engaged in an evaluation study of GBS (a comparative study on sector-level assistance) since April 2004. Meanwhile, Japan was already engaged in aid modalities such as structural reform loans and debt relief grants, which share some common elements with budget support. However, concerning General Budget Support, Japan started to provide its support under the Poverty Reduction Support Credit (PRSC) for Vietnam in 2004, and the Poverty Reduction Budget Support (PRBS) for Tanzania in 2001. It is necessary to conduct a review of Japan's involvement in general budget support to make Japan's assistance more effective and efficient. The purpose of this review is to look at Japan's past assistance through PRSC and PRBS, in order to identify their achievements and lessons learned. Results of this review will be disclosed to the public to fulfill accountability, and provide lessons learned for a future implementation of GBS.

## **2. Targets of Review**

Poverty Reduction Support Credit (PRSC) for Vietnam, and Poverty Reduction Budget Support (PRBS) for Tanzania are the targets of this review. They are comprehensively reviewed from viewpoints of their purposes, processes, and results.

## **3. Approaches to Review**

The following approaches were taken in this review. An overview of GBS was done through literature review. A review of the PRBS for Tanzania was conducted through literature review and field study, which consists of various interviews with officials from the Tanzanian Government and staff members from multi/bilateral donor organizations operating in Tanzania. PRSC for Vietnam was reviewed through literature review and interviews in Tokyo.

GBS operations are varied among countries. Therefore, the review aims to get a good grasp of not only the GBS scheme itself, but rather the whole picture of the administrative and budgetary reform processes which GBS supports.

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## II. Concept of GBS

### —What is General Budget Support (GBS)?—

#### 1. Concept of GBS

General Budget Support (GBS) is a type of aid programme which provides unearmarked funds to the general budget (exchequer) of the governments of recipient countries. The World Bank started GBS in the form of Poverty Reduction Support Credit (PRSC), which replaced its structural adjustment loans. Among bilateral donors, UK introduced GBS in 2000.

GBS is an aid modality which respects the ownership of recipient countries in that donors decide on how much amount of funds, under GBS, are to be provided by looking at the results/progress in terms of administrative and budgetary reforms and reduction of poverty. GBS facilitates policy dialogues and discussions for a range of issues, including public financial management. Through policy dialogue channels between the government and donors, discussions are being held on, for example, how to strengthen public financial management. However, actual aid is delivered through programmes, which aim at supporting government reforms, such as Public Financial Management Reform Programme (PFMRP). Furthermore, donors disburse GBS funds in line with recipient countries' budgetary systems, and such funds, in turn, are allocated/expended, utilizing recipient countries' budgetary allocation, procurement, and accounting systems (which are to be strengthened with donors' technical assistance as and when necessary).

There are some common elements among GBS operations conducted by each donor/donor group:

- GBS supports development plans of recipient countries, such as the Poverty Reduction Strategy Paper (PRSP). Such development plans typically include enhancing economic growth, reducing poverty and building capacities of recipient countries' public financial management, etc.
- Along with financial assistance, technical assistance is provided to recipient countries to strengthen their capacities on, for example, public financial management.
- Frameworks on policies to be supported, performance evaluations and accountability under GBS are aligned with national development strategies/priorities of recipient countries, and they are described under recipient

countries' Poverty Reduction Strategies (PRS) and Mid-Term Expenditure Framework. When determining on such framework, policy discussions are held between recipient countries and donors.

- Recipient countries' system/institutions are utilized when GBS funds are disbursed/allocated.
- Coordination between recipient countries and donors is a guiding principle through the entire process of GBS.

## **2. Background of GBS**

### **1) Project Proliferation and Recognition of Importance of Aid Coordination**

One of the backgrounds for an introduction of GBS was a response to the overwhelming administrative burdens on recipient countries, caused by the abundance of small-scale off-budget projects, which were frequently observed in the African region.

Projects do have their advantages when they adhere to development plans of recipient countries and provide continued assistance for an institutional development through capacity building while maintaining continuous support to certain sectors/sub-sectors. However, problems do occur when they bring in myriads of small-scale "off-budget" projects, which operate outside the budgetary control of the government of recipient countries. This makes it impossible both for recipient countries and donors to grasp the whole picture of donors' assistance.

When numerous projects are carried out in recipient countries where the government leadership is not adequate and capacities of line ministries are limited, administrative capacities of the recipient country are overstretched, and, as a result, weakened, with incurring higher transaction costs.

In the case of Tanzania, the Helleiner Report recommended that "The GOT should take steps, in collaboration with donors, to achieve common arrangements for project implementation and to avoid the recent proliferation of parallel project management systems. Increased efforts should be exerted to develop Tanzanian capacity for management at all levels of program and project implementation." Since then, donors have been making efforts to harmonize aid in order to avoid disadvantages caused by the existence of numerous small-scale off-budget projects.

In 2005, a High-level Forum on Aid Effectiveness was held in Paris with the participation of donor countries, recipient countries, and aid organizations. Since then, GBS has been increasingly recognized as one of aid modalities which could enhance aid effectiveness.



## **2) Structural Adjustment Loans and Subsequent Development**

GBS was formed in part as a response to lessons learned from the structural adjustment loans conducted by the World Bank since 1980. Adjustment loans were initiated by the World Bank in 1980, in order to help developing countries to cope with various economic problems, such as increased budget deficits, deteriorating balance of payments, soaring inflation etc., which were caused by the second oil shock, jump in the international interest rates, and inefficient resource allocations caused by the lack of sound macroeconomic policies in such developing countries. Adjustment loans can be regarded as a step forward in that it enabled the shift from a project-based approach to a country-based approach, causing donors to pay more attention to aid coordination. However, it was also pointed out that structural adjustment programs (economic liberalization, privatization etc.) did not necessarily take into full consideration economic conditions/contexts of each recipient country, and they rather ended up, together with lack of ownership and governance on developing countries' side, with incurring high social costs, such as unemployment

## **3) Higher Priorities for Poverty Reduction as the Goal of Aid**

After the cold war, many donors have set poverty reduction as one of their major development objectives. At international conferences, DAC New Development Strategies and Millennium Development Goals (MDGs) were adopted, and, since then, halving the number of absolutely poor people by 2015 has been set as one of major development goals commonly shared by the international community. Since 1999, Poverty Reduction Strategy Paper (PRSP), which the World Bank and IMF started to formulate with developing countries, has become a development strategy of such countries. Such increased attention to poverty reduction as an objective of development assistance is another background for GBS.

## **4) Debt Relief under HIPC Initiative**

A Debt relief shares common elements with GBS: One of the conditionalities is a formulation of Poverty Reduction Strategies (PRS). Developing countries under debt relief are required to utilize effectively the funds freed by the initiative for measures which could help achieve poverty reduction, such as enhanced delivery of social services on education and health. In this respect, debt relief is the same as GBS in directions of support. The HIPC initiative would, specifically, require recipient countries to formulate Poverty Reduction Strategy Paper (PRSP) in return for debt relief. Since GBS has been introduced to support PRSP, it can be said that debt relief under the HIPC

initiative is also a background for GBS.

### **3. Characteristics of GBS**

#### **1) GBS as Aid Modality**

Roughly speaking, aid modalities can be divided into project aid and programme aid. Project aid targets a specific issue of certain sector/sub-sector with clearly defined period of time and objectives for its implementation. Programme aid addresses a sector or macro-level development issues, based on agreed-upon national development strategies between recipient countries and donors. Programme aid can be further divided into food and financial programme aid, and the latter further can be classified into balance of payments assistance and budget assistance. GBS belongs to the budget assistance category.

#### **2) Fungibility**

Fungibility refers to a situation in which donors' aid money changes the budget constraint of the recipient country, causing part of the aid to be expended for unintended purposes. In discussing characteristics of GBS that provides funds to the recipient country's general budget, fungibility is an important issue. Since fungibility is often regarded as one of the possible factors for an inefficient allocation of funds, discussions on fungibility are frequently focused on how to limit it. In GBS, however, a recipient country is expected to manage all aspects of resources for national development strategies (both domestic revenues and donors' aid money) through public financial management and mid-term expenditure frameworks. Therefore, GBS can be regarded as an aid modality, which could effectively control the problem of fungibility.

### **4. Aims and Activities of GBS**

#### **1) Ownership of Recipient Countries**

GBS would require recipient countries to fulfill certain conditionalities. Such conditionalities are decided through policy discussions between recipient countries and donors, based upon recipient countries' national development strategies, such as Poverty Reduction Strategies (PRS). Since GBS funds are directly put into the general budget of recipient countries, specific allocation of funds is to be at recipient countries' discretion, utilizing their budgetary, accounting, and administrative systems/institutions. Therefore, it becomes easier for recipient countries to establish their own development strategies. In this way, it can be said that GBS is likely to strengthen the ownership of recipient countries

## **2) Governance of Recipient Countries**

GBS funds are distributed through the budget and accounting system of recipient countries. In addition to provision of funds, donors provide support through policy dialogue and technical assistance to recipient countries when recipient countries decide development strategies and budget allocations. Such inputs provided by donors would enable recipient countries to strengthen their budgetary and administrative capacities as donors utilize and rely on recipient countries' budgetary systems/institutions of the disbursement of their funds.

## **3) Transaction Costs of Aid**

GBS is an aid modality with which donors could coordinate and harmonize their aid activities under the ownership of recipient countries. With aid activities more harmonized, the workload for recipient countries is expected to be lessened, thereby reducing transaction costs of aid, in contrast to the situation where each donor carries out their assistance and evaluations separately.

## **4) Predictability of Aid**

Since GBS modality frequently entails medium-term financial commitments by donors, there is likely to be less fluctuation on an expected amount of aid, thus increasing aid predictability for recipient countries. Increased predictability is expected to have a good impact on macroeconomic management. Twenty percent of the government expenditure in Tanzania is funded through GBS (as of 2004). Therefore, a predictable amount of GBS will enable the recipient country to plan ahead on budgeting, economic management, and implementation of development strategies.

## **5) Domestic Accountability**

GBS is expected to enhance domestic accountability, as well as budgetary and administrative reforms in public expenditure management and auditing. Under improved public expenditure management and auditing, an allocation of funds will be guided by national development strategies toward prioritized sectors.

## 5. Summary

GBS has evolved taking into consideration various development issues, which were pointed out in the past (such as an overabundance of small-scale off-budget projects, lack of ownership on the side of developing countries), and aims at placing more emphasis on recipient countries' national development strategies, while advancing aid harmonization through enhanced dialogue between recipient countries and donors.

GBS, when funded by grants, is considered to enable recipient countries, with high aid dependence and a number of development issues, to strengthen their budgetary and administrative capacities. Additionally, it is expected to enhance existing aid modalities such as project aid. For example, Operations & Maintenance Costs (O&M Costs) for economic infrastructure (e.g., dams and roads) funded by ODA projects are now more easily to be financed out of national budget supported by GBS. On the other hand, loans, which are provided to countries with high debt repayment capabilities, are considered to create incentives to respect cost recovery from loan-funded projects, and it is also considered to be a source of stable development funds since the funds are disbursed over several years.

On the other hand, several issues have been pointed out. GBS increases recipient country's aid dependence, which might hinder their self-reliance in management of their economic and social development. Another issue is that aid funds increase an inflow of foreign currencies, which would raise the foreign exchange rate of local currencies, thereby harming an international competitiveness of export industries in recipient countries.

GBS, as such, is an aid modality, which is expected to improve budgetary and administrative capacities of recipient countries, aiming at enhancing poverty reduction and sustainable economic growth, through harmonization among donors and policy dialogues between recipient countries and donors. In order to maximize the expected impact of GBS, it needs to be accompanied by measures to cope with issues such as improving domestic accountability, and mitigation of aid dependence, taking into consideration recipient countries' perspectives and capacities.

### **III. Case Studies**

#### **1. GBS (PRBS) in Tanzania**

##### **1) History of Aid in Tanzania and Background of GBS**

Tanzania achieved its independence in 1961, and became a united republic in 1964. Over 40 years since then, it has continuously received development assistance from developed countries. Tanzania's history on its economic development and development assistance can be divided into three phases. The first phase is the Socialist regime period from late 1960s to early 1980s, the second one is the structural adjustment period from mid 1980s to mid 1990s, and the last one is debt relief/budget assistance period from late 1990s up to today.

Most of aid, Tanzania received over the past 40 years, was mid- to small-scale projects, imposing heavy administrative burdens on Tanzania. In the 1990s, Tanzania became one of the Heavily Indebted Poor Countries (HIPC), with seriously weakened administrative capacities to manage public finance. In the case of Tanzania, GBS is serving as a catalyst to promote various administrative and budgetary reforms, aiming at helping achieve national development goals of poverty reduction and macro-economic stability, in return for receiving financial assistance.

##### **2) Facts about GBS**

###### **(1) Amount provided by GBS**

Tanzania's GBS is aiming at supporting its National Strategy for Growth and Reduction of Poverty (NSGRP), a socio-economic development plan which Tanzania formulated and has been undertaking. Tanzania's GBS is comprised of the Poverty Reduction Budget Support (PRBS) and Poverty Reduction Support Credit (PRSC). PRBS is a platform, in which 11 donors provide grant money and other support, such as policy suggestions. And, PRSC is a loan scheme of the World Bank, which is, in Tanzania, co-financed by Germany and African Development Bank (AfDB). The number of donors under the GBS platform in Tanzania is 14, and the amount of GBS (both grants and loans) they have provided is approximately US\$470 million, which constitutes 4.2% of GDP, and 15.8% of government expenditure.

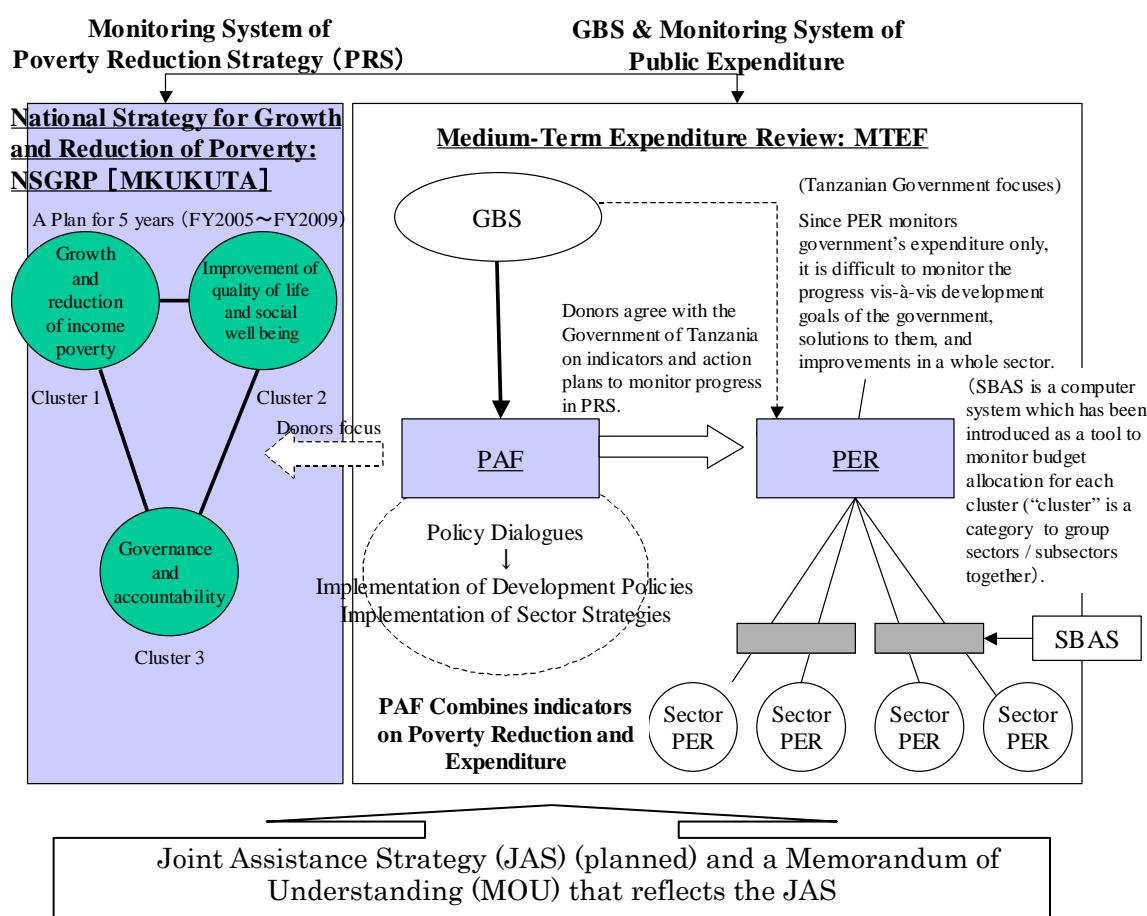
###### **(2) Overall Picture of GBS in Tanzania**

In Tanzania, GBS contributes to facilitating comprehensive administrative reforms (e.g., public financial management, budget and procurement) in order to help achieve its national development goal of poverty reduction and sustainable economic development. Not only does it contribute to reforms related to financial and budgetary

areas, but also to public sector's other reforms, such as reforms on public services, local administration, judiciary systems, capacity development of line ministries of agriculture, economic infrastructure (e.g., road, energy, communication and transportation etc.), health, education, and finance.

Currently, Tanzania's reforms on administrative and budgetary systems are underway. Overall framework of reforms and GBS can be illustrated in the following diagram.

### Framework of Reforms and GBS in Tanzania



Source: Based on materials from the Japanese Embassy and JICA Office in Tanzania, etc.

### (3) Operations of GBS

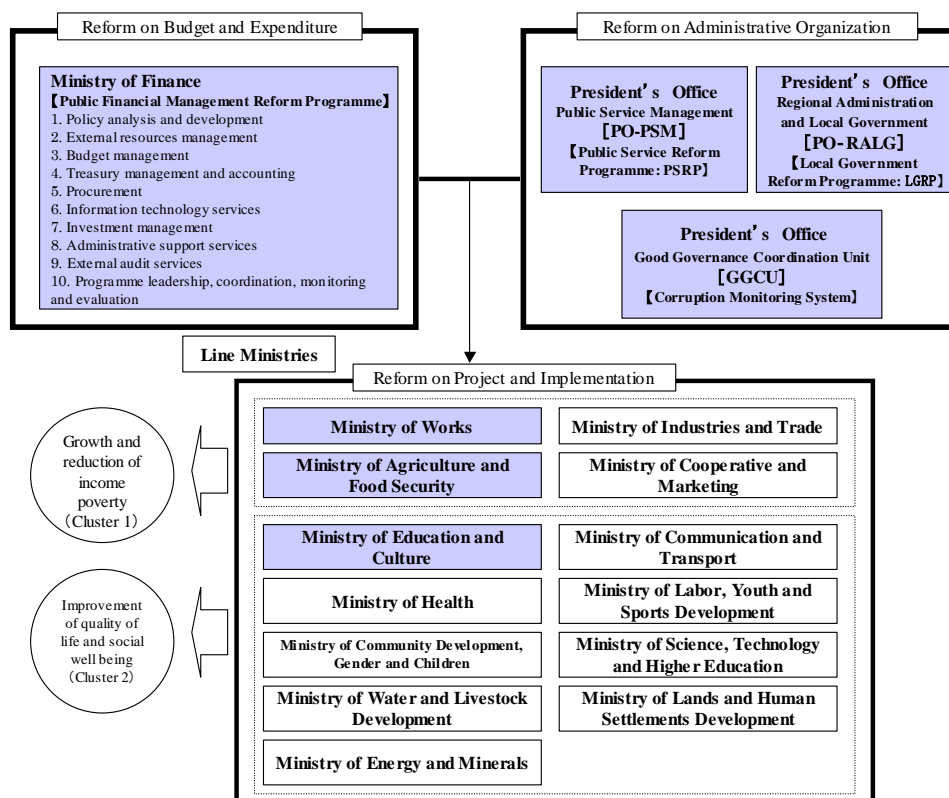
Performance assessment of GBS in Tanzania is focused on a monitoring of economic and social development through the implementation of the National Strategy for Growth and Reduction of Poverty (NSGRP), and Public Expenditure Review (PER) monitors whether public expenditure is being appropriately made according to the

allocated budget. The overall system is called the Performance Assessment Framework (PAF), which consists of a variety of indicators to measure progress against development objectives, such as macroeconomic conditions, poverty reduction, education, health, water, agriculture, public financial management, and governance.

#### (4) Administrative and Budgetary Reforms Supported by GBS

GBS is expected to enhance administrative and budgetary capacities in Tanzania. As of FY 2005, various reforms on budgetary system, administrative organizations, and capacity development of line ministries are being undertaken.

**Figure: Structure of the Administrative and Budgetary Reform**



#### ① Public Financial Management Reform Program (PFMRP)

Since December 2004, the Ministry of Finance has been undertaking the PFMRP (second phase) that consists of 10 components such as “Policy analysis and development”, “External resources management”, “Budget management”, “Treasury management and accounting” etc.. A basket fund has been established in September 2005, to be utilized for assisting the PFMRP.

Japan has been supporting this programme with both technical assistance and fund assistance. Japan has been providing its technical assistance for Component 4 “Treasury management and accounting,” through JICA. As regards fund assistance, Japan takes part in the PFMRP basket with JPY 30 million. In Component 3 of the PFMRP, “Budget Management”, the Ministry of Finance has introduced “**Strategic Budget Allocation System**” as a system to link management of public expenditure and monitoring on results of national development strategies, such as poverty reduction. With this system, line ministries can register budgetary data, which is then grouped by priority items according to the NSGRP. After the input of whole budget information, the system will show how much of the budget has been allocated to specific priority sectors/sub-sectors.

### ② **Public Service Reform Program (PSRP)**

PSRP is a reform program that corresponds to Item 3 of the PAF (Governance and Accountability) and is currently undertaken by the President’s Office Public Service Management. Its main components are: a) to increase an efficiency of public services utilizing market mechanisms (e.g., through privatization and establishment of specialized agencies), b) to introduce a performance based evaluation system for each Ministry, and c) to improve the quality of public services, and turn it to be more customer-oriented.

In line with PSRP, the Public Finance Act, Public Procurement Act, Public Service Act, and Public Service Rules were enacted.

PSRP is being discussed between the Government of Tanzania and donors under the GBS framework, and GBS has become a part of source of funds for PSRP. Currently, funding for PSRP comes from donors through GBS and the PSRP basket fund. This is expected to be fully incorporated into GBS by 2007.

### ③ **Local Government Reform Program (LGRP)**

There are 114 Local Government Authorities (LGAs) in Tanzania, and in fiscal year 2005, 484 billion Shillings (11.6% of the total government expenditure) has been allocated to the LGAs through the President’s Office Regional Administration and Local Government (PO-RALG).

Since there is an imbalance in fund allocation among LGAs, the Tanzanian Government has now established a more flexible system, “Formula-based Manner,” in which budget allocation among LGAs is to be determined based upon predetermined criteria and indicators.



#### ④ Various Anti-Corruption Strategies

The Government of Tanzania has been taking actions against corruption in line with its National Anti-Corruption Strategy and Action Plans (NACSAP). While the President's Office- Good Governance Coordination Unit (PO-GGCU) monitors such actions, the Vice President's Office is establishing a monitoring system for corruption. However, knowledge/skills on how to establish indicators and thresholds for identifying corruption cases are inadequate among the ministries concerned. To deal with this problem, PO-GGCU has been holding seminars and training sessions to strengthen capacities at ministries/agencies.

#### ⑤ Reform Programs by Line Ministries

(The list below only shows some of the reform programmes implemented by the Tanzanian Government, which were studied by the review team during the field survey)

	Actual Reforms
Ministry Of Works	<ul style="list-style-type: none"> <li>• In the road sector, a comprehensive reform program had already been undertaken since 1987 under the Road Management Initiative (RMI) by the World Bank, before the introduction of GBS. GBS has not initiated this reform itself, but rather accelerated its direction.</li> <li>• A specialized agency has been in place. Competent staff members as many as 1,100 have transferred from the Ministry of Works to Tanzanian National Roads Agency (TANROADS). As a result, TANROADS' capacities on operations and maintenance of roads have been improved.</li> <li>• Improved work efficiency. With the Public Procurement Act strengthened, transparency for public procurement improved, and an awareness for work efficiency heightened within the agency, which led to a shorter period of time for work completion.</li> </ul>
Ministry Of Agriculture and Food Security	<ul style="list-style-type: none"> <li>• In the agricultural sector, prior to the introduction of GBS, the framework of Agricultural Sector Development Strategy (ASDS) was established in 2001. Accordingly, the Agricultural Sector Development Plan (ASDP) was formulated in 2003, under which many projects have been aligned and conducted.</li> </ul>
Ministry Of Education and Culture	<ul style="list-style-type: none"> <li>• Primary Education Development Program (PEDP) was formulated in 2001, as the first sub-sector programme (five-year programme) in the education sector and has been operational since 2002. This programme is consistent with the PAF under GBS for its objective: increased enrolment rate at primary schools</li> </ul>

### **3) Japan's Involvement**

#### **(1) Background and Objectives**

Since FY 2001, Japan provided JPY 532 million to GBS through a scheme of Grant Aid for Debt Relief, and, starting from 2003, GBS support has been provided through a scheme of Non-Project Grant Aid. During the period from Fiscal Year (FY) 2001 to FY 2005, Japan's contribution amounts to as much as JPY 2.6 billion

The total GBS provided by all donors for Tanzania amounts to as much as 693 billion Shillings (about JPY 70 billion). As of FY 2004, Tanzania has received an aid of about USD 470 million of aid under GBS from 14 donors (both bilateral and multilateral donors)

#### **(2) Japan's Efforts and its Issues**

There are two points to be made as regards Japan's involvement in Tanzania's GBS. One is the existence of solid ODA Taskforce, which consists of the Japanese Embassy and the JICA office in Tanzania, putting together each organization's knowledge and expertise. The other is that the Taskforce has been striving to make policy recommendations for various sectors, such as agriculture, infrastructure, education, and health under the GBS process based upon Japan's field-based knowledge and expertise. For enhancing Japan's implementation of GBS, (1) expanding the manpower of the ODA Task Force to deal with dozens of GBS-related meetings, and (2) enhancing expertise and knowledge, with which Japan could lead policy-level discussions, would be some of the key issues to be addressed.

## **2. GBS (PRSC) in Vietnam**

### **1) Overview of Vietnam's PRSC**

The total amount committed by donors for Poverty Reduction Support Credit (PRSC) for Vietnam was USD 299 million for the first phase, USD 134 million and USD 320 million were committed for the second and third phases respectively.

The donors, which initially participated in the PRSC process, were the World Bank, DANIDA (Denmark), DfID (UK), NMDC (Netherlands), and SIDA (Sweden). In the fourth phase of PRSC, the number of donors has expanded to 12, which includes Japan.

## **2) History of GBS (PRSC) in Vietnam and Japan's Efforts**

### **(1) Evaluation of GBS**

In Vietnam, GBS (PRSC) appears to have been introduced by the Government of Vietnam (GOV) in order to obtain concessional funds by using GBS. Monitoring and evaluation are being conducted by setting performance indicators and measuring progress against development objectives. Major purposes of monitoring and evaluation on GBS in Vietnam are to assist in administrative and budgetary reforms, and enhance aid effectiveness through improved planning and implementation of national development strategies, aiming at economic growth and poverty reduction.

### **(2) History of Japan's involvement**

Since the “development policy study toward market economy,” (so-called “Ishikawa project”) was compiled, Japan has been assisting Vietnam through capacity development support and policy proposals along with financial support. Japan's efforts are reflected in how Japan has been involved in the current GBS operations. When Japan started to consider providing GBS, Vietnam already started to make considerable progress in poverty reduction through rapid economic growth. In this context, Japan made a proposal that the Government of Vietnam (GOV) should include economic growth as a major pillar in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). Based on this proposal, GOV formulated an expanded CPRGS, which now includes economic growth as one of its two major pillars, together with poverty reduction. Moreover, in this newly expanded CPRGS, GOV has referred to the Japan's policy analysis, which shows that large scale infrastructure projects could contribute to economic growth and poverty reduction.

Subsequently, GOV has started to incorporate the expanded CPRGS into the existing national development plan, so that the recipient government's development plan and donors-supported CPRGS are aligned with each other.

Under the PRSC framework, Japan has been actively making policy proposals and leading policy-level discussions, making best use of Japan's comparative advantage: being conversant with issues in the field of various sectors through years of experience in technical assistance and project aid. This serves as an intellectual input to the donor community in Vietnam.

### **3) Situation after GBS Introduction**

The economy and foreign direct investment in Vietnam was already on the path of steady growth even before the introduction of GBS. Therefore, the causal relationship

between the introduction of GBS and economic growth and increased foreign direct investment remains to be seen.

Among administrative and budgetary reforms, devolution and structural reforms on public expenditure, which were already initiated before the introduction of GBS, are making some progress as observed in enhanced accountability and transparency of public finance. To take a concrete example, the authorities seem to have been more active in tackling these issues through various legal reforms.

Various efforts are being made toward harmonization of aid and improvement of aid effectiveness. In this respect, the adoption of Hanoi Core Statement (HCS) is an important step forward in advancing the aid effectiveness agenda. HCS is a localized version of the “Paris Declaration on aid effectiveness,” and was approved by the Prime Minister in September 2005. HCS is regarded as providing “an important template for improved aid effectiveness.”

#### **4) Future Prospects and Issues**

CPRGS, which was originally considered as a “document for donors,” has now been incorporated into the five year socio-economic development plan formulated by the GOV. This is expected to improve alignment between development strategies of GOV and donors.

Looking at the economic environment surrounding Vietnam, the ASEAN Free Trade Area (AFTA) is making some progress, with tariff reduction measures coming due one after another. Initially, GOV was aiming for an accession to the WTO within 2005, but that was not realized. Under stable macroeconomic conditions, Vietnam has achieved high economic growth and made considerable progress in poverty reduction, administrative and budgetary reforms, and making an investment environment conducive to foreign money inflows. However, in order for Vietnam to be able to achieve further economic growth, it would need to accelerate structural economic reforms.

Although an aggregated share of GBS in total public expenditure of Vietnam is not high, GBS is expected to play an important catalytic role in facilitating various economic reforms through its consultative mechanisms between GOV and donors.

### **3. Analysis of GBS from Case Studies in Tanzania and Vietnam**

#### **1) Development Priorities in Recipient Countries and GBS Introduction**

GBS is an aid modality, which could help harmonize and align donor assistance programmes with recipient countries' development priorities/strategies. GBS and its introduction in Tanzania and Vietnam are related to the history of aid as well as economic and social development contexts of these countries. The following is a comparison between Tanzanian and Vietnamese cases from various angles, such as intended development purposes, Japan's position among the donor community, and Japan's relationship with these two countries. There is a significant difference between two countries' cases, which could serve as model cases when Japan considers an introduction of GBS in some other countries in the future.

##### **(1) Entry Conditions**

Since its independence in 1961, Tanzania has been receiving aid for over 40 years. It has suffered from an accumulation of foreign debt due to a series of economic crises during the 1980s and 1990s, which prompted donors to extend their support under the Multilateral Debt Relief Fund (MDF). Prior to the introduction of GBS, Tanzania was overwhelmed with a large number of small-scale projects, incurring significant transaction costs. Under such circumstance, prior to the introduction of GBS, the capacities of the Tanzanian Government were overstretched, thereby weakening its administrative and budgetary system.

On the other hand, at the time of an introduction of GBS, Vietnam was already undertaking economic policies to open its market (since the start of the Doi Moi policy in 1986), and was about to take off for steady economic growth. In addition, Vietnam was liberalizing its economy and attracting foreign direct investment toward its goal of accession to the World Trade Organization (WTO).

##### **(2) Expected Development Results through GBS**

As observed from two countries' case studies, differences in economic and social development contexts are significant and should be taken into consideration when determining on development goals/strategies under GBS. In Tanzania, at the time of GBS introduction, when introducing GBS, an achievement of development goals in seven priority sectors, which were described in the first Poverty Reduction Strategy (PRS), was regarded as one of the major development objectives under GBS. GBS is

expected to facilitate an implementation of various reforms, aiming at rebuilding the administrative and budgetary institutions/systems, which were overstretched and weakened during the period from 1970s through 1990s. Under GBS, various reform programmes on, for example, budgeting and administration, public services in social sectors (e.g., education and health), agricultural sector's development, governance, anti-corruption strategies, and devolution, are under way.

On the other hand, Vietnam introduced GBS, PRSC, as a policy loan in order to accelerate economic structural reforms (e.g., reforms on state-owned enterprises and financial institutions) under the Vietnam's PRSP. Vietnam's PRSC has continued from the 1<sup>st</sup> to 4<sup>th</sup> programmes, and its policy content has evolved to include an agenda on improving investment environment. Vietnam appears to have utilized PRSC as a tool to realize an investment-led economy in a context of its overall economic structural reform agenda.

## **2) Objectives and Directions of Japan's Aid**

### **(1) Japan's Position within Donor Community**

In Tanzania, Japan is the third largest donor, following the World Bank and UK, in terms of cumulative amount of assistance during the period between FY 2000 and 2004. Although Japan's assistance can be regarded as sizeable in terms of its magnitude, the amount has been decreasing since FY 2001. Looking at the amount of GBS, Japan's share is only 1% among all of the 14 donors as of 2004.

As regards the case in Vietnam, Japan has been a top donor among all of the 20 donors. Japan's share is 54% in 2000, and, during the period between 1999 and 2003, it constitutes 34% in the whole amount provided by all donors for Vietnam. Looking at the magnitude, Japan's aid is seven times as large as that of France. Although the amount of GBS provided by Japan might not be large compared with the World Bank, UK, and Nordic countries, Japan's overall presence in development assistance for Vietnam seems to be significant.

### **(2) Japan's Relationship with Recipient Countries**

Looking at the history of Japan's assistance for Tanzania, Japan has provided the country with grants in the economic infrastructure sector, such as electric power supply and road construction (JPY3.7 billion and JPY6.6 billion respectively during the period between 1995 and 2000) while it has provided technical assistance for such sectors as agriculture, health, and education. It can be said that Japan has been utilizing its comparative advantage in infrastructure development or its field-based experiences and

know-how in other sectors.

In the case of Vietnam, Japan has maintained a good bilateral relationship, and, as a result, economic ties between Vietnam and Japan have been intensified as close partners in the same economic region of East Asia. Japan's aid has been continuously provided for the half century (despite the brief intermission from 1959). It is noteworthy that Japan has been able to make intellectual contributions for Vietnam to build a market-based economy through the "Ishikawa Project" in 1995. In addition to that, since the "New Plan on the Assistance Concerning the Asian Economic Crisis" (The New Miyazawa Plan) was formulated in 1998, Japan has been facilitating an implementation of economic, financial, and business reform policies (such as private sector development, and auditing for large-scale state-owned enterprises).

### **(3) Major Aims through Japan's Involvement in GBS**

As regards the case of Tanzania, one of the major aims for Japan's involvement in GBS was to support, through an implementation of GBS, strengthening of administrative and budgetary capacities of the Tanzanian Government, thereby building economic and social infrastructures and contributing to poverty reduction and economic growth.

Concerning the case of Vietnam, Japan seems to have been more focused on providing necessary support to help strengthen Vietnam's policies and institutions, so that they could maintain economic infrastructures (e.g., power supply facilities, roads, and ports) effectively, and enhance an investment-led economic growth.

### **(4) Human Resource Deployment at Local Offices**

Human resource deployment among donor organizations should be assessed based upon the same criteria of staff categorization. The review team considers that it is necessary to look at policies on human resource deployment among donor organizations based upon a grouping of three categories of staff: (a) being involved in general economic/economic cooperation matters, (b) participating in donors' meetings on aid coordination/harmonization, and (c) being a focal point for GBS.

In the case of Tanzania, human resource deployment of the ODA task force is as follows by the above three categories: (a) 5 Embassy officials, 12 JICA staff members (including coordinators for Japan Overseas Cooperation Volunteers (JOCV)), (b) 4 Embassy officials, 10 JICA staff members (including the Resident Representative, Deputy Resident Representatives and advisors), (c) 2 Embassy officials and 3 JICA members. Such officials/staff members from the ODA Taskforce have other tasks/duties

to be performed in addition to GBS, such as management of project/programme implementation. Therefore, it is difficult for officials/staff members of the ODA task force to devote much time to donors' various meetings on sectors/themes under GBS, in contrast to other donors with more budget and staff members.

As regards staff deployment in Vietnam, there are 5 to 6 officials from the Embassy for each sector (of which 3 officials are directly concerned with GBS), 1 staff member from JICA, 10 to 11 staff members from JBIC (4 resident staff members + one external expert with long-term contract, and 5 to 6 local staff members), which makes a total of 16 to 18 staff members who are involved in GBS either directly or indirectly. Such staff members seem to have responsibilities in other sectors/themes in addition to GBS.

### **3) The Issues for GBS Implementation**

The following points are overall issues for GBS implementation, which the review team considers as important, through an observation of the case studies in Tanzania and Vietnam. Although they are not exhaustive, they might be the issues to be considered when considering an introduction of GBS elsewhere.

#### **(1) Ensuring Development Effects of GBS**

GBS is an aid modality which provides funds directly to the general budget of the recipient country. Therefore, the recipient country, supposedly, can expect to receive such funds in accordance with their budget cycle every year (a quick disbursement of aid). However, it has been pointed out that, even after the funds have entered the general budget, they have not been allocated fast enough among line ministries. Lack of capacities at the line ministries in terms of planning, budgeting, allocating of the funds, and executing the budget seems to be one of the causes for this problem.

In order for GBS funds to be effectively put into economic and social sectors, and appropriately allocated between urban and rural areas, capacity development at line ministries, local governments, public organizations/agencies to implement development programmes, and civil society organizations at rural communities will be necessary. Such efforts would enable an effective linkage between macro-level policies, sector development strategies, and projects. There are three points to be noted in line with this:

##### **① Development of Administrative Capacities**

One of the characteristics about GBS is that it is expected to facilitate an implementation of administrative and budgetary reforms on public expenditure



management, planning and budgeting of line ministries, delegation of authorities to local governments and their taxation, and delivery of public services. In Tanzania, it could be claimed that GBS is an aid modality that may affect rebuilding of the whole national system. However, there were comments made by several donors, during the review team's field survey, which said that the capacities of administrative officials need to be further strengthened. This is especially true in the case of Tanzania, where government capacities for collection of fundamental socio-economic data, creation of database, planning and budgeting capacities of local governments would still need strengthening. Considering these factors, capacity development for line ministries, local governments, and officials concerned is a top priority, in addition to the restructuring of the administrative and budgetary system, which is already underway.

## **② Establishing Results-based Management**

GBS is an aid modality, which values results-based management, in that disbursement of funds under GBS is determined by results/performance for various reform programmes. Results/performance will be measured against outcome indicators, such as PAF (Tanzania) and VDGs (Vietnam). However, there seem to be gaps in terms of statistical capacities to collect and analyze the fundamental data. Therefore, in Tanzania, Japan, together with other donors, is providing capacity development assistance for compiling statistical data. Without an adequate infrastructure to measure the results/performance, an effective results-based management will not be realized. In addition to settings of appropriate development goals/objectives, building up an effective monitoring & evaluation system, such as increased statistical capacities for collection and analysis of data, will be the key.

## **③ Ensuring Domestic Accountability**

Since GBS provides funds directly to the general budget of the recipient country, it is necessary to ensure transparent procedures and decision-making vis-à-vis the parliament and taxpayers of the country, who should take on a role of monitoring the budgetary process. In the case of Tanzania, GBS is expected to contribute to the reduction of poverty and economic growth by supporting national administrative and budgetary reforms. Depending on the content of reforms, the tax system and delivery of public services, which constitute the foundation of the country system, may be drastically affected by GBS-supported reform process. In this respect, domestic accountability to the parliament and taxpayers should be fully met and they should

be well informed of potential impact (both positive and negative) from an implementation of reforms. It is expected that donors should strengthen efforts in this direction, and that should help to obtain necessary support, which can make reform process sustainable.

## **IV. Recommendations for GBS Operations**

### **1. Implications of GBS**

Implications of GBS would differ between recipient countries and donors. For example, from the viewpoint of the Tanzanian Government, GBS is expected to strengthen capacities of the Government on administrative and financial management, thereby contributing to an achievement of development goals, such as reduction of poverty. On the other hand, from donors' perspective, GBS is a means with which to focus their assistance strategies on certain issues/sectors. For example, in Tanzania, donors have been supporting the administrative and financial reforms with GBS, whereas, in Vietnam, they have been assisting the Government of Vietnam with enhancing its investment environment.

Therefore, when Japan considers an introduction of GBS in some other countries, it could not automatically apply models of these two countries, where Japan is already implementing GBS. Various factors, when starting GBS, should be considered: development contexts of recipient countries, issues to be addressed, whether or not such issues can be solved with GBS, to what extent Japan should/could make financial commitment, and so on. Ownership of recipient countries, which is important to all types of aid modalities, would be especially an important element for the implementation of GBS, because it concerns supporting of various administrative and budgeting reforms.

### **2. Approaches to GBS**

GBS would require a close collaboration between recipient countries and donors, and aid harmonization, in a sense, is embodied in this aid modality itself. However, to donors, GBS does not merely mean a collaboration and aid harmonization. At donors' meetings, they share common approaches/assistance programmes, while making suggestions/advice on certain strategies to and convincing other peer donors. That could be called an intellectual competition among donors under aid coordination. Then, a question arises on how Japan should strategically deal with this.

#### **1) Clear Objectives**

When dealing with GBS, Japan needs to clarify its objectives. For determining on development objectives under GBS process, it is necessary to effectively narrow them down. In Vietnam and Tanzania, an implementation of GBS is regarded as not only pilot cases but also learning process, through which Japan should obtain experience and

knowledge of GBS, and Japan participates in policy-level discussions.

As has been pointed out by JICA during the review team's field survey, a process of "selection and concentration" would be needed when engaging in a GBS process. Many of the donors operating in Tanzania are focusing on issues/sectors for their interventions. For example, Sweden determines on which thematic/sector meeting they should participate in, taking into consideration (a) development needs of the Tanzanian Government, (b) Sweden's comparative advantages in development themes/sectors, (c) sectors in which development outcomes can be monitorable, and (d) Sweden's experiences in assistance. This approach would be a suggestive one for Japan's GBS operations as well.

## **2) Appropriate Level of Commitments and Timing**

One of the major aims of GBS is to help capacity development of recipient countries on administrative and financial management. For such capacity development, it is expected to take some time. Furthermore, if donors have, all of a sudden, withdrawn their assistance under GBS for some reasons, that would be detrimental to administrative and budgetary reforms which recipient countries are undertaking. "Predictability" is an important element in GBS as in other aid modalities. Japan would have to make efforts to enhance predictability for its aid disbursement, although there's room for argument as regards whether or not Japan should make financial commitment over multiple years. Since GBS is becoming, increasingly, to be like a platform for policy dialogues centering around the recipient country's reform programmes, it is desirable that Japan should consider making financial commitments at appropriate timings, taking into consideration the situations of recipient countries and other donors'

Also, the amount of aid to be put under GBS needs to be carefully considered. There is no established model which tells how much amount of aid should be put under GBS, and other donors are trying to strike an appropriate balance in determining on appropriate aid disbursements on a trial and error basis. However, the magnitude of aid under GBS, in a way, shows how far a donor could support the reform agenda undertaken by recipient countries. It is desirable that Japan should determine on the level of financial commitment it can make under GBS, having looked at a range of factors, such as financial commitments of other donors, Japan's past achievement, and potential negative impact in case that Japan should have to decrease its assistance from the recipient country.

### **3) Utilizing Comparative Advantages**

#### **(1) Field-driven Knowledge and Policy Proposals**

Under the framework of GBS, various discussions are being held and policy proposals made on national development programmes, public financial management, and taxation, among other things. During the field survey by the review team, it's been pointed out that Japan would need to further enhance its experience in this field.

On the other hand, some donors have shifted their focus away from project-type toward programme-type assistance. As a result they don't have much access to the field information and therefore they are somewhat lacking hands-on experience from the field. Under this circumstance, discussions at policy-level can be too theoretical, without knowing what is going on in the field.

Considering this, Japan's comparative advantages might lie in its position where its field-driven experience and expertise can be utilized, thereby contributing to the discussions between government and donors which will lead to practical policy proposals.

#### **(2) System-wide View**

In order to capitalize and reflect field-based knowledge and experiences into policy recommendations, it is necessary to take a broad view of things, covering from upstream to downstream policies. Therefore a capacity to map out substantive issues of the whole sector as a system would be required.

If it can visualize sector-wide issues in a bird's-eye view-like chart, Japan could easily take stock of what issues are being dealt with and what are not, and Japan's strategies and those of other donors, enabling Japan to be further well prepared for donors' meetings. During the interviews of the field survey, it's been pointed out that it is important to have a system-wide view to come up with policy recommendations. In this respect, it would be convenient if there is a methodology which shows how to get such system-wide view. The review team suggests one methodology in the annex.

#### **(3) Modality Mix (Combining Modalities)**

It would be probably irrelevant to consider that all aid modalities should be integrated into GBS or an aid modality should take an evolutionary process from project, basket fund, and then to GBS. There are certain sectors where project-type support would be more appropriate than GBS. For example, economic infrastructure development, such as roads and power supply, or procurement and management of IT sector would require a high level technology, and the Tanzanian Government would

need a continued support from donors in this regard until it becomes able to manage on its own. Moreover, Vietnam admits the importance of economic infrastructure development for enhancing poverty reduction through economic growth. Therefore, depending on specific issues and demands of recipient countries, donors should consider combining programme aid, such as GBS, and project aid. For example, donors are supporting road development with project aid whereas GBS helps recipient countries to finance operation and maintenance costs for roads. This can be a good example of modality mix.

#### **(4) Strategies for Transitional Periods**

The following considerations should be made for countries which are highly aid-dependent and receiving GBS on an accelerated pace.

Many donors are, with the introduction of GBS, decreasing the number of projects (many of which are off-budget). However, in the case of Tanzania, the impact which project aid brought about was significant in terms of, for example, social service delivery. Therefore the negative impact, caused by downsized delivery of project aid, should be considered. Particularly, at the very end of community level in rural areas, it would probably take considerable amount of time until an adequate level of social services is provided.

Also, in order to improve social service delivery, development of capacities at central and local governments, and public institutions, such as schools, would be indispensable, and it should necessitate technical assistance from donors. However, a wide-ranging consultation process between the government, donors, and other stakeholders might be needed to determine how to implement such technical assistance.

#### **4) Entry Points**

Before it decided to provide GBS in Tanzania and Vietnam, Japan considered several factors such as their respective development context and Japan's relative presence in these recipient countries. They are called as entry points for GBS. Specifically, in the case of Tanzania, there were such entry points as (1) political and macro-economic stability, (2) an existence of PRSP and a budgetary framework for an implementation of PRSP, (3) a monitoring system and public financial management of PRSP, (4) government initiatives toward enhancing economic growth and revenue capacity, (5) relationship between Japan and the recipient country, and Japan's readiness and presence to start GBS.

Since development contexts vary from country to country, it would not be

appropriate to standardize or generalize entry points for GBS. However, when considering an application of GBS in other countries, it is necessary for Japan to closely look at unique contexts in recipient countries, such as an overall development condition, a relationship between Japan and the recipient country, and Japan's presence vis-à-vis other donors. And, then, Japan could strategically determine sectors in which Japan has a comparative advantage, and contribute effectively to helping them achieve development objectives through its interventions and policy recommendations.

### **3. Framework**

#### **1) Effective Devolution**

At donors' meetings of GBS, a variety of policy-level issues are being discussed and decided very quickly. However, it seems that it takes a considerable amount of time for the Embassy to discuss and reach agreement with Tokyo since the level of devolution to embassies is rather limited. Hence, it appears difficult for the Embassy to respond quick enough to policy-level discussions. Denmark has undergone a reform of the Ministry of Foreign Affairs and made a progress in devolution to Embassies. As a consequence, it says, the Danish Ambassador was able to make a quick decision concerning the MOU issue of JAS in Tanzania.

When undertaking a devolution, much attention should be paid to an appropriate level of devolution, so that the party delegated with authority would not incur an additional workload which would hamper an efficient business transaction. Such an appropriate level of devolution would be in line with harmonization among donors for aid effectiveness.

#### **2) Utilizing Local ODA Taskforce**

Japan's efforts and contributions made by the ODA Task Force for GBS in Tanzania are well appraised by other donors and the Tanzanian Government. One of reasons for this is that the ODA Task Force is functioning well, with Embassy taking a coordination role. It seems that members of the Task Force (comprised of officials/staff from the Japanese Embassy and JICA's office) are respecting each other's lines and expertise, and collaborating through close communication. In a country like Tanzania where rounds of discussions on various sectors are being conducted, this type of teamwork would be a prerequisite for them to be able to effectively participate in the process. Likewise, in the case of Vietnam, it's been pointed out that good teamwork between the Ministry of Foreign Affairs/ODA Task Force and Ministry of Finance has contributed to a formulation process and disbursement of PRSC.

In order to enhance functions of ODA Task Force, collaboration among different institutions, which have different missions and institutional cultures, would be the key.

### **3) Human Resource**

#### **(1) Expertise in New Areas**

With an introduction of GBS, it seems that there have been changes in terms of specialties/expertise that would be required to assist developing countries. Since donors are increasingly expected to participate in policy dialogues and discussions on budgeting, expertise of macroeconomics, public administration and finance, and statistics would be required, in addition to knowledge of project management. Where to recruit staff with such expertise will be an issue to be solved, but such lists like potential candidates for UN staff and advisors/researchers to be assigned to embassies could be utilized to start developing a pool of human resources with expertise

#### **(2) Enhancing Existing Capacities**

An introduction of GBS does not necessarily mean that project managers/sector specialists would become less important. DFID has been shifting its deployment policy from staff involved in project formulation/management to staff who can lead discussions on policies and economics. However, if project managers, for example, are given opportunities to learn about policy-level issues, they can play a role of linking field-based information/knowledge with macro-level policy issues. In this respect, collaboration with specialists on macroeconomics and public finance would probably be effective. Moreover, Japan has been recognizing an importance of policy dialogue and institution building through years of experience in project assistance and it has made policy recommendations to a number of developing countries through, for example, conducting “development studies.” For enhancing such efforts, it will be necessary to pay enough attention to policies and institutions on a routine basis.

#### **(3) The Status of Experts**

Currently, advisors/researchers assigned to the Embassy and project formulation advisors at JICA Offices are playing an important role at thematic and sector meetings with other donors. On the other hand, from other donors’ offices, staff members, who are more senior in rank, such as director-generals or economists, are participating in such meetings. It might be necessary for Japan to consider providing staff members in charge of GBS with higher titles, which are commensurate with other donors’ participants.