CONTRIBUTION OF BUDGET SUPPORT TO DEVELOPMENT OBJECTIVES

This note presents a summary of the results of seven evaluations of general and sector budget support undertaken in four low income countries: Mali, Zambia, Tanzania and Mozambique and three middle income countries: Tunisia, South Africa and Morocco over 2010 – 2014. These represent the full set of evaluations completed by the end of 2014, following the revised methodological approach for evaluation of budget support, adopted by the OECD DAC Network on Development Evaluation in 2012. The analysis thus includes the findings of the three pilot cases of Tunisia, Mali and Zambia reported in 2011 in OECD DAC’s Evaluation Insights on “Assessing the impacts of budget support” (Evaluation Insights #2). Further budget support evaluations are currently underway.

The country contexts were quite different, with the countries receiving different amounts of budget support representing very different relative shares in their respective national budgets. Besides looking at synergies, the synthesis also points out some of the different features of budget support and the results it has had in these different types of countries.
The evaluations have shown that budget support has contributed to improvements in public service delivery, within public finance management systems and as regards regulating economic activities.

In the low income countries, the increased flow of budget support funds was used predominantly to increase spending within the priority sectors, and has made a principal contribution towards considerable improvements in the coverage and utilisation of services particularly in education and health, and as regards roads. However, although quantitative improvements of performance indicators (enrolment, repetition, success and rates) were witnessed, it was less possible to establish qualitative improvements. Funds also improved the macroeconomic performance. Policy dialogue and the provision of technical assistance have significantly contributed to strengthening public finance management systems, including transparency, oversight and the fight against corruption, and to improved macroeconomic performances. Substantive public finance management system reforms require, however, many years to lead to the desired results and are often linked to more comprehensive administrative reforms.

Education programme in rural areas in Eastern Africa
© European Union, 2015
In the middle income countries, support to reforms through policy dialogue and technical assistance/capacity development have been the primary contributions, although in South Africa the provision of funds enabled the government to finance programmes that it would otherwise have been unable to finance at that time. In this way, budget support supported policy testing, innovative and high risk policies of the government and, where appropriate, the results were mainstreamed into national policies. Thus, in South Africa budget support led to improvements on water and sanitation, primary health care, employment promotion, and access to justice and technology for example.

In Morocco and Tunisia, budget support has provided support to tax reforms and to regulatory and institutional changes aimed at modernising these economies and promoting their insertion in the world economy. The coverage of health services and of secondary and tertiary education has also been improved, as too have adult literacy services in Morocco.

Budget support contributed to the reduction of non-income poverty and to economic growth as outcomes in all countries. Income poverty was reduced in Mali, Morocco, South Africa and Tunisia, but it is difficult to link this directly to budget support. As poverty reduction is the overriding objective of budget support and development aid in general, this aspect of income poverty reduction needs to receive more attention.

Annual disbursements under budget support operations amounting to 90 to 100% of projections are higher compared to the 60 to 80% for projects and common basket funds. Also the transaction costs were found to be lower – per unit of aid disbursed – than for projects and common basket funds.

Although in the evaluated countries the provision of technical assistance and capacity development is often an integral part of budget support operations together with parallel accompanying measures, the perception was that their potential was not fully exploited, in particular as its use was not strategically planned, and there was a lack of flexible arrangements for responding to identified needs in an agile manner.

**MAIN CONCLUSIONS OF THE EVALUATIONS**

- **Budget support is fully aligned to government policies and processes.**
- **Budget support is not a panacea and not applicable in all circumstances.**
- **Budget support is most effective in situations of real partnership based on trust and confidence. Evaluations show that this was not always the case.**
- **Budget support allows for a comprehensive policy dialogue, but this dialogue was not sufficiently strategic, forward-thinking and problem-solving.**
- **Budget support is not correlated with policy leverage and it cannot “buy” reforms.**

**Budget support is fully aligned to government policies and processes;** it is thus fully consistent with the commitments in the Paris Declaration, the Accra Agenda for Action and the Busan Declaration which is less the case for other aid modalities.

**Budget support is not a panacea** and not applicable in all circumstances. For instance, in the absence of sector strategies, for direct improvements of social services at local level and for directly enhancing local governments, other instruments may be more appropriate.

**Budget support is most effective in situations of real partnership** based on trust and confidence which is essential for an open and honest policy dialogue. Governments and donors will always have differences in their priorities, but in a partnership where the main issues of agreement and disagreement can be put on the table, dialogue can proceed constructively. This can only occur where there is a firm base of trust and confidence. Underlying tensions in
donor-government relations undermine the open and honest debate and free information exchange essential for a strategic problem-solving dialogue. For these reasons, budget support worked best where the policy dialogue concentrated on the areas of mutual interest of the beneficiary governments and their development partners.

Budget support allows for a wide and deep policy dialogue on complex government systems, policies and reform agendas that can go much beyond a “piecemeal approach” suggested by, for example, specific projects. The evaluations demonstrated that the provision of budget support enabled the establishment of the required institutional frameworks and processes for policy dialogue in all cases. The establishment of Performance Assessment Frameworks and targets within these frameworks worked reasonably well and sometimes the policy dialogue was useful in bringing in outside ideas, perspectives and experiences. But, as a whole, there was a perception of a lack of strategic forward-thinking and problem-solving policy dialogue.

Thus, experience has shown that the potential of policy dialogue has not been fully exploited. In Morocco, for example, the limited attention to final outcomes and impacts in the design of the budget support programmes implied that a genuinely strategic discussion was limited. In Mozambique, Tanzania and Zambia disagreements over underlying principles changed the character of policy dialogue implying that a strategic problem-solving dialogue became impossible. As a consequence, policy issues, which should have been on the table, were not adequately discussed.

Budget support is not correlated with policy leverage. The synthesis thus confirms the earlier findings from the pilot cases, that budget support cannot “buy” reforms. The evaluations show that regardless of the significant funds provided in the low income countries, there were reforms which the partner governments did not undertake despite losing funding. In the middle income countries, by contrast, donors did not raise fundamental policy issues but were able to influence aspects of the design of reforms through policy dialogue and technical assistance, even though levels of budget support funding comprised less than 2% of public spending. Budget support influenced policy where interests converged. Where they did not converge, domestic political interests drove the agenda, and those interests proved impervious to external influence.

MAIN RECOMMENDATIONS

- Improve context analysis and selection of the different aid modalities.
- Focus budget support on the reduction of income poverty and inequality.
- Reinforce the partnership by strengthening trust and confidence.
- Strengthen the strategic, problem-solving nature of the dialogue.
- Give civil society and media systematic access to information related to budget support.
- Plan the use of technical assistance/capacity development inputs in a more strategic manner.
- Simplify the design and management structure and enhance donor harmonisation.
The synthesis points out that budget support works effectively in cases in which governments i) need to scale up the delivery of services or upgrade their quality and lack the domestic revenue sources to do it; and/or ii) wish to undertake policy reforms or innovations of which the ambitions are shared by development partners. It is further expressed that the substantial reduction over the last years of the provision of budget support and the related policy change cannot be based on any evidence related to the functioning and achievements of this aid instrument. It appears that deeper discussions on the substance of the evaluations need to take place among all stakeholders on the basis of a partnership approach.

The synthesis makes some detailed recommendations such as:

- **To carry out a context analysis and risk assessment of a country** to be able to assess objectively the appropriateness of different aid modalities, including the choice between general and sector budget support. In this context there must be an increasing awareness of all stakeholders of the benefits and limits of budget support and of the required actions to maximise its potential.

- **To focus on the reduction of income poverty and inequality** as the primary objective of budget support and thus to strengthen the design and management process in order for budget support to contribute to this goal.

- **To reinforce partnerships based on trust and confidence** resulting in an open and honest policy dialogue and a mutual adherence to agreed principles and implementation requirements.

- **To strengthen a strategic problem-solving dialogue** by developing a comprehensive approach to policy dialogue and a related set of processes and capabilities. Such a dialogue should be framed within a medium to long term perspective, respect country ownership of the policy process and give due attention to implementation capacities in particular related to the required expertise.

- **To promote greater social accountability** in relation to public budgets and public policy decisions. In this context it must at least be ensured that civil society and the media are given systematic access to the policy documents, progress reports and conclusions emerging from the policy dialogue process so as to be able to participate in this dialogue and assist in monitoring the implementation of agreed reforms and policy actions.

- **To increase the value-added of the technical assistance/capacity development inputs of budget support** by identifying capacity development needs more carefully, planning the use of technical assistance/capacity development inputs more strategically and developing more flexible arrangements for responding to identified (often short term) needs in an agile manner.

- **To simplify the design and management structures for budget support** and enhance donor-donor harmonisation so as to eliminate the inefficiencies, which create unnecessary transaction costs and undermine predictability of disbursements.
Table 1. The budget support inputs provided in the low income countries evaluated

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Support Disbursement (US$ millions)</td>
<td>182</td>
<td>414</td>
<td>660</td>
<td>186</td>
<td>599</td>
<td>166</td>
<td>65</td>
</tr>
<tr>
<td>Budget Support as % GDP</td>
<td>2.8%</td>
<td>4.5%</td>
<td>3.6%</td>
<td>1.5%</td>
<td>0.7%</td>
<td>0.07%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Budget Support as % ODA</td>
<td>22.7%</td>
<td>20.2%</td>
<td>27.7%</td>
<td>15.5%</td>
<td>18.4%</td>
<td>N/A</td>
<td>7.5%</td>
</tr>
<tr>
<td>Budget Support as % Total Expenditure</td>
<td>11.6%</td>
<td>15.4%</td>
<td>14.8%</td>
<td>6.5%</td>
<td>2.3%</td>
<td>0.3%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Number of Budget Support Donors</td>
<td>10</td>
<td>19</td>
<td>14</td>
<td>9</td>
<td>7</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>GBS/SBS Balance</td>
<td>Yes: significant</td>
<td>Yes: significant</td>
<td>Yes but limited</td>
<td>Yes: significant</td>
<td>Yes</td>
<td>Yes but more limited</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: ODA statistics from OECD DAC Creditor Reporting System (CRS); other data from evaluation reports. The OECD DAC Creditor Reporting System tends to overstate project and common basket fund disbursements but is the only available source. For example, the Tanzania Ministry of Finance estimates that budget support averaged 37% of ODA.

Table 2. Budget support contributions to improved expenditure composition in low income countries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenditure as % GDP</td>
<td>No change: 24.9% to 24.1%</td>
<td>Big increase: 23.6% to 32.6%</td>
<td>Modest rise: 23% to 26.2%</td>
<td>Modest fall: 25.7% to 22.7%</td>
</tr>
<tr>
<td>Fiscal Deficit (after grants) as % GDP</td>
<td>Stable: 3% GDP</td>
<td>Modest rise: -2.4% to -4.1%</td>
<td>Modest fall: -5.5% to -5.0%</td>
<td>Stable: -2.6% to -3.1%</td>
</tr>
<tr>
<td>Interest Payments as % GDP</td>
<td>Big fall: 2.3% (2002) to 1.1% (2009)</td>
<td>Modest rise: 0.8% to 1.0%</td>
<td>Modest fall: 1.3% to 1.1%</td>
<td>Big fall: 2.7% to 1.8%</td>
</tr>
<tr>
<td>Domestically Financed Investment as % GDP</td>
<td>Modest rise: 3.6% to 4.0% 2007 peak 4.6%</td>
<td>Big increase: 3.2% to 6.1%</td>
<td>Big increase: 1.8% to 4.6%</td>
<td>Modest rise: 1.7% to 2.9%</td>
</tr>
<tr>
<td>Priority Sector Expenditure a) as % GDP; b) as % of total expenditure</td>
<td>Big increase: a) 9.6 to 12.9% b) 39 to 54%</td>
<td>Big increase: a) 14.4 to 21.6% b) 61 to 67%</td>
<td>Big increase: a) 8.8 to 13.9% b) 40 to 53%</td>
<td>Big increase: a) 6.1% (2005) to 8.3% (2008) b) 35 to 45%</td>
</tr>
<tr>
<td>Wages &amp; Salaries as % GDP</td>
<td>Modest rise: 4.2% to 4.7%</td>
<td>Big increase: 6.8 to 10.2%</td>
<td>Big increase: 3.9 to 6.6%</td>
<td>Modest rise: 7.6 to 8.1%</td>
</tr>
</tbody>
</table>

Source: Evaluation reports (data on poverty-reducing expenditure used for Zambia as “priority sector expenditure”)

6
Evaluation Insights are informal working papers issued by the Network on Development Evaluation of the OECD Development Assistance Committee (DAC). These notes highlight emerging findings and policy messages from evaluations and share insights into the policy and practice of development evaluation.

Further reading

**Synthesis of Budget Support Evaluations**

This report presents a synthesis of the seven evaluations of general and sector budget support, undertaken in Tunisia, Mali, Zambia, Tanzania, South Africa, Mozambique and Morocco over 2010 - 2014.

The author can be contacted at: europeaid-08@ec.europa.eu

**Synthesis of Main Results of Budget Support Evaluations in Mali, Tunisia and Zambia**

Synthesis of findings from pilot evaluations of budget support operations in Mali, Tunisia and Zambia.

**Evaluation Insights #2: Assessing the Impacts of Budget Support**

The evaluation reports described in this note are available online, together with a longer detailed synthesis of lessons, further information on the methodology used for the studies and other OECD DAC work on budget support.

Learn more about development evaluation or browse recent reports at: www.oecd.org/dac/evaluation