

*Application of new approach to the evaluation of
Budget Support operations:
Findings from Mali, Zambia and Tunisia*

Synthesis of main results

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Synthesis of the main results of the Budget Support evaluations in Mali, Tunisia and Zambia**OECD DAC Network on Development Evaluation¹**

ACRONYMS	2
INTRODUCTION	3
Section 1 – Executive Summary	4
Section 2: Synthesis of the main findings and conclusions	5
1. Main findings on the contribution of Budget Support to the aid framework and partner country policies	5
2. Main findings on the contribution of Budget Support to development results	6
3. Lessons and relevant issues	7
4. Next steps	8
Section 3 – Country Notes	9
Mali	
1. The context for the Mali evaluation	10
2. Main findings	10
3. Conclusions and recommendations	14
4. Methodology	15
Zambia	
1. The context for the Zambia Evaluation	16
2. Main findings	16
3. Conclusions and recommendations	20
4. Methodology	20
Tunisia	
1. The context for Tunisia Evaluation	22
2. Main findings	22
3. Conclusions and Recommendations	26
4. Methodology	27

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ACRONYMS

AA	Association Agreement
AAP	Africa Action Plan
AfDB	African Development bank
AIID	Amsterdam Institute for International Development
BCEAO	Banque Centrale des Etats de l' Afrique de l'Ouest
BS	Budget Support
CP	Cooperating Partners
CSLP - PRSP	Cadre Stratégique de Lutte contre la Pauvreté – Poverty Reduction Strategy Paper
CSO	Central Statistical Office
CSPRP	Cadre stratégique pour la croissance et la réduction de la pauvreté
DAC	Development Assistant Committee
DHS	Demographic and Health Survey
EC	Commission of the European Union
EQ	Evaluation Question
EU	European Union
FRA	Food Reserve Authority
FSP	Fertilizer Support Programme
FSRP	Food Security Research Project
GBS	General Budget Support
GDP	Gross Development Product
GNI	Gross National Income
GoT	Government of Tunisia
GRZ	Government of the Republic of Zambia
HDI	Human Development Index
H&A	Harmonisation and alignment
HIPC	Highly Indebted Poor Countries
IDA	International development Association
IMF	International Monetary Fund
JAS	Joint Assistance Strategy
JASZ	Joint Assistance Strategy for Zambia
LCMS	Living Conditions Monitoring Survey
MDRI	Multilateral Debt Relief Initiative
MoU	Memorandum of Understanding
MTEF	Mid-term expenditure framework
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for the Economic Co-operation and Development
PAF	Performance Assessment Framework
PAGAM / GFP	Plan d'Action Gouvernemental pour l'Amélioration et la Modernisation de la Gestion des Finances Publiques, (Governmental Action Plan to improve and modernise public finance management)
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PRBS	Poverty Reduction Budget Support
PRSP	Poverty Reduction Strategy Paper
SAP	Structural Adjustment Programme
SARPE	Stratégie Alternative de Recrutement du Personnel Enseignant
SBS	Sector Budget Support
SS	SUPPLEMENTARY SURVEYS
SWAP	Sector Wide Approach
TA	Technical Assistance
WAEMU	West Africa Economic and Monetary Union
VET	vocational education and training
WAEMU	West Africa Economic and Monetary Union
WB	World Bank
WSS	Water & Sanitation Sector

INTRODUCTION

This note aims at providing an overview of the main findings and conclusions emerging from the recently-concluded application of a newly-developed approach to the evaluation of Budget Support (BS) operations in three countries: Mali, Tunisia and Zambia. The evaluations were carried out under the supervision of a DAC Steering Group and have applied the so-called 3-Step approach, consisting of the following: assessment of BS effects on the aid and government framework (Step 1); assessment of the development results targeted by BS in relation to changes in the government policy framework and other factors (Step 2); assessment of the causality links between BS and the relevant development results (Step 3). The three applications took place in different country contexts, with the partner countries receiving differing absolute and relative amounts of General and Sector Budget Support (GBS) (Tables 1 & 2), and in which the coverage and scope of the evaluations also differed (Tables 1 & 2). The synthesis therefore does not attempt to draw general and definitive conclusions on Budget Support, but rather highlights key lessons from these three countries, with important general implications. Further lessons from other country contexts should also be considered.

The note is structured as follows: Section 1 includes a short summary of the main findings and conclusions of the three evaluations; Section 2 provides a synthesis of the findings and conclusions common and/or complementary among the three evaluations; Section 3 includes a wider synthesis of the evaluations' finding and conclusions country by country and a short description of the application of the methodology in each of the three cases.

Table 1: Evaluation coverage		Donors financing Budget Support		
Mali	32 out of 33 operations financed by ten donors over the period 2003-09, including GBS (PRSP support), and SBS to support education, health and social policies, as well as public financial management and decentralisation	GBS: AfDB, WB-IDA, Canada, Denmark, European Commission, France, Netherlands, Sweden. SBS: Belgium, Canada, European Commission, France, the Netherlands, Sweden-Norway, Spain.		
Tunisia	7 out of 12 operations financed by the European Commission over the period 1996-2009. Four were GBS and three SBS covering secondary and tertiary education and vocational / educational training	GBS: European Commission, World Bank, AfDB. SBS: European Commission.		
Zambia	Poverty Reduction Strategy Budget Support and three Sector Budget Support interventions (roads, public financial management, health) over the period 2002-2009	PRBS: European Commission, World Bank, AfDB, Finland, Germany, The Netherlands, Norway, Sweden & United Kingdom. SBS: European Commission & United Kingdom.		
TABLE 2: Selected indicators		<i>Mali</i>	<i>Zambia</i>	<i>Tunisia</i>
Income level		Low Income	Lower Middle Income	Upper Middle Income
GDP (current US\$ billion), 2010		9.3	16.2	44.3
GNI per capita, Atlas method (current US\$), 2010		600	1070	4070
Poverty headcount ratio at national poverty line (% of population)		47.4% (2006)	59.3% (2006)	3.8% (2005)
Life expectancy at birth, total (years), 2009		49	46	74
Literacy rate, adult total (% of people ages 15 and above)		26% (2006)	71% (2009)	78% (2008)
Human Development Index, 2010		0.309	0.395	0.683
Human Development Index Ranking, 2010		160	150	81
Total Budget Support as % of Public Expenditure (approx. average)		10	7	1.4
General Budget Support as % of total Budget Support		2003-09: 72%	2005-09: 81%	1996-08: 52%
<i>Source: World Bank Data 2010, Human Development Report 2010 and data from the evaluation reports</i>				

SECTION 1 – EXECUTIVE SUMMARY

Budget Support contributes to implementation of the Paris Declaration and Accra Agenda for Action. The application of the five principles of the Paris Declaration has benefited from Budget Support (BS) contributions to increase partner countries' control over aid funds, and to the development of frameworks and tools for policy dialogue, along with shared results matrices and monitoring systems. Such benefits are, however, subject to several conditions, namely to closer correspondence between partner countries' and donors' objectives and to improved harmonisation of donors around shared goals and approaches.

1 MAIN FINDINGS ON THE OUTPUTS OF THE BUDGET SUPPORT PROGRAMMES

- Their design has been appropriate to the local contexts and effective dialogue frameworks to accompany policy implementation and diversified technical assistance support have also been provided.
- However, alignment with partner countries' priorities and harmonisation among donors is far from complete.
- They have contributed to increase public financial resources and strengthening budget management.
- They have contributed to increased discretionary expenditure and allocative efficiency.
- They have provided effective support to the implementation of Public Financial Management (PFM) and other reforms whenever government and society were committed thereto, but they have proved once more unable to "buy" reform.

2 MAIN FINDINGS ON THE OUTCOMES AND IMPACTS OF THE BUDGET SUPPORT PROGRAMMES

- Only in the case of Tunisia has Budget Support provided a significant contribution to growth and private sector development, since the country's commitment was high and the programme operated in a strong opportunity framework characterised by trade and economic integration into the EU and world markets. In the other two cases, although financial flows were important, their contribution to stabilisation and growth policies has been limited when compared to other factors (regional and international commitments, export prices), and their support to economic reform has been weak.
- Its contribution to increased public investment and reform implementation in social sectors has helped the countries achieve significant outcomes in education and health.
- Its support to growth and social policies has contributed to reducing income and non-income poverty, but rural poverty has not been addressed adequately. Expectations of short-term impacts on poverty reduction have been unrealistic.

3 KEY LESSONS ON BUDGET SUPPORT FROM THE THREE COUNTRIES

- Budget Support is an effective tool in countries where the government has the capacity and the determination to put in place robust development policies.
- It benefits from complementarity with other forms of aid, especially for capacity-building.
- It is more beneficial, with higher degrees of harmonisation and alignment.
- It cannot determine major policy changes but can provide sound support to policy implementation, which is not possible with projects only.
- Its effect is strengthened and multiplied when it is linked to wider political and economic partnerships.
- Budget Support has been an instrument conducive to increasing transparency and accountability of budget processes and public expenditure management and so may be used to support anti-corruption policies.
- The choice between General and Sector Budget Support should be flexible and based on the context.

4 NEXT STEPS

- Reinforce the DAC mandate to manage the work on Budget Support evaluations and to consolidate the consensus on approaches and methodologies.
- Strengthen the participation of local stakeholders.
- Improve the data production and policy assessments on development results before the evaluation as such.
- Strengthen communication policy and tools to disseminate the results.

SECTION 2: SYNTHESIS OF THE MAIN FINDINGS AND CONCLUSIONS

1. MAIN FINDINGS ON THE CONTRIBUTION OF BUDGET SUPPORT TO THE AID FRAMEWORK AND PARTNER COUNTRY POLICIES

Increasing financial resources and strengthening budget management. Despite differences in the three countries, Budget Support financial flows have increased throughout the evaluation period in both absolute and relative terms, with positive effects on: (i) the size and share of aid, subject to recipient governments' budgetary processes; and (ii) the predictability of aid flows, although timeliness of disbursement has remained a challenge.

Adapted design of the programmes and flexible use of General and Sector Budget Support. In all three countries the operational design was mostly well-adapted to the specific local contexts. The choice between General and Sector Budget Support has not affected how the instrument operates, and has not affected directly its results either. It has been mainly related to the specific policy objectives and the corresponding institutional framework.

Positive dialogue frameworks and diversified use of Technical Assistance. Policy dialogue frameworks put in place to accompany Budget Support (although at different levels and degrees of complexity) have contributed significantly to strengthen the implementation of partner countries' development strategies or plans, whenever there was a congruence of objectives. Technical Assistance (TA) measures are not always embedded in the actual structure of the operations as specific programme components. In some cases they do provide complementary support, either in the form of classical project aid or through the adoption of innovative arrangements, as for example with several twinning programmes for institutional building in Tunisia, and a comprehensive basket-funded Public Financial Management programme in Zambia.

Harmonisation and alignment far from completed. The move to Budget Support was in itself an expression of Harmonisation & Alignment (e.g. in Zambia, as established in the Joint Assistance Strategy). In Tunisia (only in relation to General Budget Support) and Mali, the policy dialogue enhanced Harmonisation and Alignment and a virtuous circle has been established. However, all the evaluations underline that the harmonisation processes are far from complete. Donors often support less-coordinated initiatives in parallel with Budget Support. In Mali, and even more so in Zambia, the Performance Assessment Frameworks are an expression of diverging interests, their indicators and targets are not always realistic, and moreover, some indicators are barely measurable. In Tunisia, whereas the objectives and targets of the EU-Tunisia Association Agreement and the partner's ownership ensure strong harmonisation and alignment of General Budget Support, harmonisation is poor in Sector Budget Support. The principal recurrent bottlenecks in the harmonisation process are ill-coordinated sector interventions, unrealistic Performance Assessment Framework (PAF) conditions and targets, and a multiplicity of coordination structures. Such bottlenecks, especially when coupled with persisting amounts of off-budget aid, lead to limited improvements in terms of aggregate transaction costs and aid effectiveness.

Increased discretionary expenditure and allocative efficiency. In Mali and Zambia, where they represent a significant share of public expenditure (Table 2), both General and Sector Budget Support have contributed to ease financial management, provide additional flexibility and increase discretionary expenditure. In Tunisia, such effect has been less obvious, although not insignificant.

Allocative efficiency in favour of social sectors has improved in all cases, through the contribution of the funds and of the other components of Budget Support:

- in Mali, the policy framework in the social sectors was strengthened mainly as a consequence of the increased discretionary expenditure provided, given that sound policies were essentially already in place;
- in Zambia, Budget Support funds and other related inputs supported government allocations to social sectors, and had a leverage effect on their size as well;
- in Tunisia, the allocations improved mainly as a consequence of the overall policy dialogue and shared strategic priorities linked to Budget Support.

Effective support was provided to the implementation of Public Financial Management and other reforms when government and society were already committed thereto, but has proved unable to generate such commitment where that did not previously exist. All three evaluations conclude that Budget Support has been instrumental in improving Public Financial Management, including aggregate fiscal discipline and macroeconomic

management (e.g. external debt), prioritisation of expenditure and transparency. On the other hand, when a government is not committed - with the support of society - to given political and policy changes, Budget Support is unable to generate or even promote such commitment, and therefore ownership; this is true even where it represents an important share of public expenditure (Mali and Zambia) and its withdrawal could have negative effects (macro-economic and political imbalances or more simply important cuts on service delivery).

In Mali, Budget Support has been effective in accelerating the decentralisation and deconcentration of staff and financial resources, since this was a strong country-level objective. In no other case has the evaluation identified examples where conditionalities attached to Budget Support have influenced the content or pace of the reform. On the contrary, in some cases the excessive importance attached to conditionalities has given rise both to some policy incoherence and to some unnecessarily high transaction costs.

In Tunisia, Budget Support has been particularly effective in supporting important economic (trade liberalisation and taxation, financial sector restructuring, competition policies) and social (education) reforms, which were accorded top priority in the government's agenda and were supported by Tunisian enterprises and citizens generally. Indeed, the Tunisian case shows that commitment by government and people were affected and enhanced by the Association Agreement (AA) with the EU (signed in 1995), which opened up new opportunities for accelerated growth and integration. The important partnership agreement contributed to galvanising the commitment of the Tunisians, while Budget Support played an irreplaceable role in facilitating and assisting reform implementation.

In Zambia, the same pattern was observed: in addition to the above-mentioned improvements in Public Financial Management reforms and fiscal discipline, improvements were recorded in terms of budget cycle, and more recently in the adoption by the Cabinet of the decentralisation implementation plan. Moreover, Budget Support has helped improve the conditions for revealing corruption and misappropriation of funds. On the other hand, Budget Support has not been able to influence institutional and key sectoral reforms in sectors where there was no agreement on priorities or strategies (e.g. agriculture), or policy content conducive to improving governance.

2. MAIN FINDINGS ON THE CONTRIBUTION OF BUDGET SUPPORT TO DEVELOPMENT RESULTS

Sound macro-economic policies have supported economic growth. Economic reform enhanced private sector development only in Tunisia (albeit with certain drawbacks). All three evaluations conclude that the macroeconomic stabilisation policies put in place by the governments had a positive effect on economic growth.

In Mali, the evaluation highlights poor performance of the economy in terms of private investment and ease of doing business, owing to weak economic reforms. Budget Support has only partly contributed to sound macro-economic policies, as other important factors also played a part, for example the macro-economic convergence framework within the West Africa Economic and Monetary Union (WAEMU) and the surveillance by the international institutions. On the other hand, it did not include specific components in support of economic reforms.

In Zambia, substantial investments were recorded in some major economic sectors, but public investments to improve opportunities in the rural economy were poor. Budget Support provided a limited contribution to the macro-economic policies that were mainly driven by other more important factors (export prices, debt relief). In agriculture, the financial contribution provided by General Budget Support has fed doubtful subsidy policies, on which significant divergences between government and donors have persisted.

In Tunisia, the Association Agreement with the EU facilitated the launch of ambitious reforms aimed at overcoming the dual system (offshore-only export sector *versus* protected and State-dominated domestic market) and at ensuring competitive integration of the national economy into the EU and world markets. On the negative side, the political control of the domestic market and the lack of competitiveness in agriculture and services has remained strong: the strong economic and civil dynamics triggered by the reform and the persistence of the authoritarian patronage system have clashed. The Budget Support contribution to economic reform has been effective, although its capacity to influence better economic governance and more competitive domestic market policies was hindered by weak political support.

Increased public investment has produced significant outcomes in education and health. In all three countries the reforms and related investments supported by higher levels of public expenditure produced

significant outcomes and also some measurable impacts. In Mali and Zambia, basic education and health were targeted, whereas in Tunisia secondary and tertiary education and vocational training were tackled.

In all three countries, important achievements in education in terms of enrolment, gender balance, and access from poor areas were registered. In Zambia the improved health service coverage led to a reduction in the incidence of diseases such as tuberculosis, malaria and diarrhoea, as well as to a reduction of child and maternal mortality. In addition, all evaluations highlighted some weaknesses in the quality of services provided. On the other hand, the massive inflow of children and students from poor remote rural areas – in Zambia and to some extent in Tunisia - also explains why average scores did not improve, despite investments in teachers and classrooms.

Budget Support's contribution to government social policies has been significant. In a framework of converging objectives between partner countries and donors, it has been able to contribute to a combination of increased discretionary expenditure, enhanced Public Financial Management and policy backstopping, in a way that would not have been possible through traditional projects.

Income and non-income poverty have decreased only over the longer term, but rural poverty has not been tackled adequately. In the three countries – especially where the period considered was longer - the evaluations indicate that economic growth and social achievements have brought about a significant reduction in poverty, especially in urban areas, and have also alleviated exclusion from basic services in rural areas. The low effect on the rural poor was particularly evident in Zambia, where rural income poverty has not been tackled adequately by the government. In Tunisia, despite a constant decrease of the total number of poor over the last fifteen years, a similar deterioration in the poverty situation in rural areas has been observed.

Budget Support has contributed to both income and non-income poverty reduction in Tunisia, through its contribution to economic reform, growth policies and education reform. It has mainly contributed to non-income poverty reduction in Mali and Zambia, via its support to education and health. In addition, its contribution to budget stabilisation and to Public Financial Management strengthened the growth policies and their impact on income poverty.

3. LESSONS AND RELEVANT ISSUES

Some lessons on key Budget Support features may be drawn from the three evaluations:

- **It is a useful and well established financing modality**, with positive effects on macro-economic management and on public investment in the priority sectors; none of the three evaluations found evidence that the risks many associate with Budget Support, for example crowding out of domestic revenue and increased corruption, have materialised in practice.
- **It contributes to improved accountability and transparency of budgeting processes and public expenditure**, and is a valid support for the implementation of reforms when governments and citizens are actively committed thereto.
- **It benefits from complementarity with other forms of aid.** In addition to technical assistance embedded in the actual structure of Budget Support operations, the effectiveness of programmes can be increased when associated with complementary and coordinated support provided either in the form of classic project aid or of more innovative twinning arrangements, especially for capacity-building purposes.
- **It is more beneficial, with higher degrees of harmonisation and alignment.** Currently, differences in conditionalities (as shown by the too dissimilar and sometimes unrealistic targets in the PAFs), multiplicity of monitoring missions and diversity of disbursement procedures have negative effects on transaction costs on the one hand, and on policy and political dialogue on the other hand. The underlying reasons are partly rooted in a substantial lack of consensus on the goal hierarchy of Budget Support (financing *versus* governance) in and between donor countries and agencies, and thus, cannot be resolved at country level alone.
- **It cannot generate major policy changes but can provide sound support to policy implementation, whenever country ownership is high.** Through its combination of financial and non-financial inputs, Budget Support has proved an effective mechanism where the overall objectives and strategies of the partner country

and donors converge and where conditionalities are established on a shared and verifiable basis (strong country ownership). In such cases, when compared to projects, it has a strong value-added and may generate higher leverage effects.

- **Budget Support benefits are strengthened and multiplied when it is linked to wider political and economic partnerships**, which enhance the development opportunities of the partner country, thereby increasing its ownership.

Some issues of general significance, based on the experience of the three evaluations, should also be highlighted:

- **Choice between General and Sector Budget Support.** The reasons for choosing one type of Budget Support of the other were not deeply explored in the 3 evaluations. However, although the differences between General and Sector Budget Support are modest *per se*, the key problem is to make the right context analysis and to clarify the objectives of the various partners. It is likely that, whenever a sector policy does not entail difficult coordination issues, Sector Budget Support ensures a closer partnership, more flexible institutional arrangements, and gives better sectoral outcomes. A different scenario, however, is illustrated by Sector Budget Support in Tunisia, where policies aimed at enhancing employability needed strong coordination between the national institutions, at both macro-economic and wider sector levels (industry, labour, local development). For a stronger effect on employability and employment, it would have been opportune to set up a pool of partner institutions, coordinated by a strong government body (Finance or Planning), along with a form of General Budget Support.
- **Is it an instrument for fighting corruption?** The Budget Support instrument has been conducive to increasing transparency and accountability in public expenditure management in the three countries. As an instrument for supporting anti-corruption policies in public administration and domestic markets, it should be supported by strong government ownership and adequate mobilisation of civil society.
- **Methodological issues.** The methodology adopted contributed to better identification of development results and the specific role of Budget Support in their achievement, as well as better consideration of the political economy of the contexts in which Budget Support has operated. Partner country ownership, well-documented formal and informal policy dialogue, evidence of donor coordination and capacity-building measures, are all essential for success. The methodology allows an understanding of the contribution of Budget Support to development results in a given context, via its influence on country policies.

4. NEXT STEPS

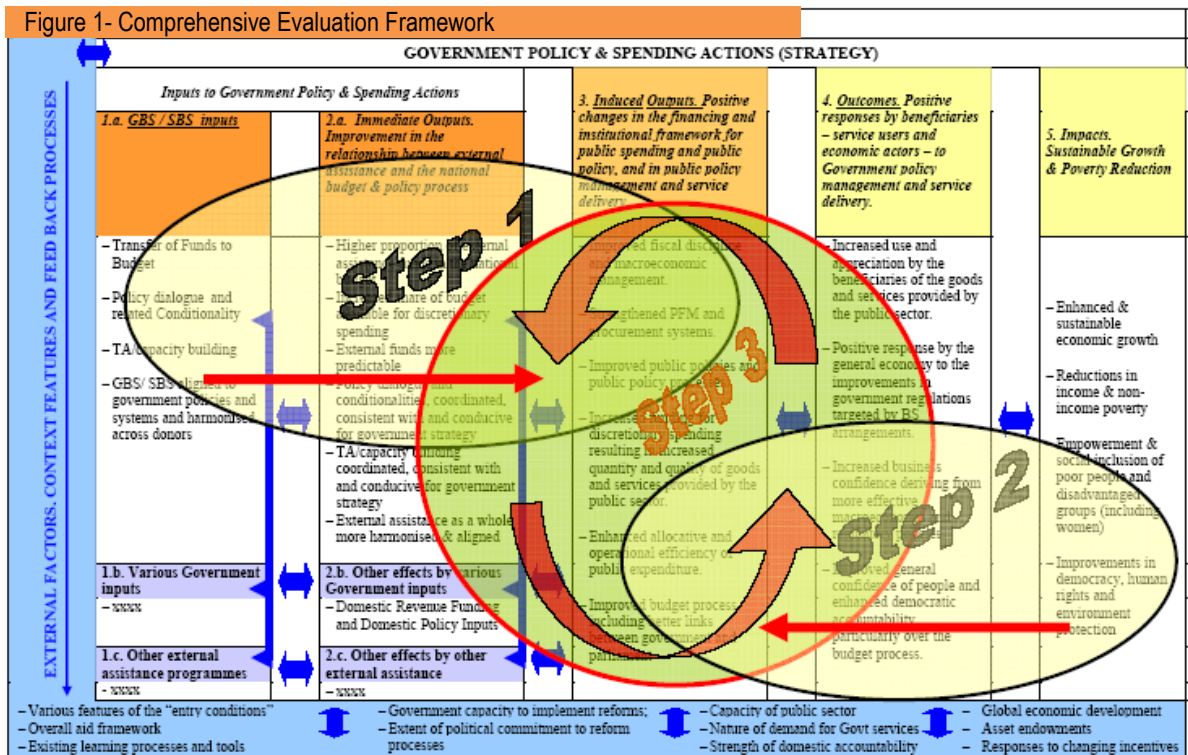
The experience has shown the importance of carrying out joint evaluations with a shared approach, comparing the results and achieving joint conclusions. Yet, much remains to be done in this respect. In particular there is a need to:

- reinforce the DAC mandate to improve and increase joint evaluation practice, with particular reference to joint interventions and results networking among DAC members;
- strengthen the participation of local stakeholders in the evaluations and particularly in the production of data and policy assessments, in order to lay the foundations for a stronger focus on development results;
- build into the Budget Support process, objectives and tools to improve data production and policy assessments on development results;
- consolidate the consensus on evaluation approaches and methodologies and encourage simplification in their application;
- strengthen communication policy and tools for disseminating results to improve understanding on Budget Support strengths and limitations.

SECTION 3 – COUNTRY NOTES

This section provides an overview of the main findings and conclusions of the evaluations at country level, including a description of the application of the methodology and some specific recommendations. Each country note is structured along the following chapters: (1) the country context; (2) main findings according to the various steps of the methodology, as explained below; (3) conclusions and recommendations; (4) key issues in the application of the methodology.

To allow a better understanding of the country notes, it is necessary to provide a short explanation of the key features of the 3 Step methodology. This basically distinguishes between the evaluation of the Budget Support effects on the aid, budget and policy framework (Step 1), and the evaluation of the effects of government policies and other historical factors on the development outcomes and impacts (Step 2). Once the two evaluations have been carried out, sometimes through overlapping analyses, but separated conceptual frameworks, a cross checking analysis is undertaken to assess the contribution of Budget Support to the development outcomes and impacts (Step 3). The methodology uses a classic diagram of effects (or intervention logic), including five levels (inputs, direct outputs, induced outputs, outcomes and impacts), in an open system that interacts with the context, other aid and non-aid factors and feed-back processes. Step 1 identifies the inputs and assesses their effects on direct outputs (direct effects on aid framework and budget) and induced outputs (induced changes in government financial and policy management). Step 2 identifies potential linkages from levels 4 and 5 of the diagram (outcomes and impacts) back to level 3, the induced outputs. Step 3 includes an analysis of the relative influence of Budget Support on the government policies and interventions identified in Step 2 to be among the principal determinants of the targeted outcomes and impacts.



COUNTRY NOTE MALI

1. THE CONTEXT FOR THE MALI EVALUATION

Mali is a land-locked country in the Sahel, with an estimated population of 14.5 million in 2009, and a population growth rate of 3.6% per year. Despite achieving an average annual GDP growth rate of 5% over 1998 to 2008, Mali still ranks among the poorest countries in the World, with a Human Development Index of 0.309 in 2010 (160th out of 169 countries in the HDI).

In spite of its limited economic diversification, its vulnerability to changing climatic conditions and a relatively unfavourable business climate, Mali has over the last ten years maintained a stable macroeconomic environment. The process of democratisation, under way since the early 1990s, has generated peace and stability, whilst also promoting important social and institutional changes. On the basis of the *Cadre stratégique de lutte contre la pauvreté 2002-2006 (CSLP – the PRSP)* and the *Cadre stratégique pour la croissance et la réduction de la pauvreté 2007-2011 (CSCR – the poverty reduction and growth strategy)*, Mali has put in place key development programmes, which have contributed to the country's improved socio-economic situation. A common country strategy for development assistance has been in place since September 2007, jointly developed by the Government and its Cooperating Partners (CPs).

Budget support to Mali has risen from 12% of Official Development Assistance (ODA) in 1999 to 42% in 2009, and the number of CPs with GBS or SBS operations has grown from three to ten. Total Budget Support disbursed during the period of the evaluation has amounted to FCFA 634 billion, some Euro 966 million.

The Mali study involved the evaluation of 32 (out of 33) Budget Support operations which have been conducted in Mali over 2003 to 2009 by ten Cooperating Partners (CPs)². These included:

- ✓ 17 GBS operations;
- ✓ One SBS supporting Decentralisation and Public Sector Reform;
- ✓ 9 SBS operations in the Education sector;
- ✓ One SBS operation supporting PFM reform; and
- ✓ 4 SBS operations for Health & Social Development.

The overall objective of the evaluation was: *“to assess to what extent the Budget Support operations in question have been successful in providing the partner government with the means necessary to implement its national and sectoral development strategies, in facilitating improvements in the efficiency and effectiveness of these strategies, and, as a consequence, in attaining sustainable outcomes and impacts on growth and development”*.

2. MAIN FINDINGS

2.1 Step 1 (inputs, direct and induced outputs)

Financial resources/ contribution to financing the budget

Over the evaluation period and most especially since 2006, Budget Support has provided the Government of Mali with a level of additional budgetary resources sufficient to constitute a “critical mass” of financing, which permitted a major increase in the level of discretionary spending and a fast expansion in the share of ODA managed through the national budget process.

Budget Support disbursements increased steadily from 5% of public spending in 2004 to more than 13% in 2009, and from 18% of total ODA in 2004 to 42% in 2009. Between 2006 and 2009, Budget Support comprised over 10% of public spending.

² African Development Bank, Belgium, Canada, Commission of the European Union, Denmark, France, Netherlands, Spain, Sweden, World Bank.

Between 1999 and 2009, the volume of Budget Support quadrupled, whereas total ODA only doubled in volume. Thus, there was a major increase in the proportion of external aid managed through the Government Budget, which was due in large part to the relative expansion of Budget Support.

Adapted Design, dialogue framework and use of TA.

In Mali, GBS and SBS have contributed significantly to the establishment of structures for policy dialogue, through the introduction of a harmonised annual review calendar and through the provision of technical assistance support. These structures have supported the implementation and monitoring of national development programmes, in particular the CSLP / CSCRP, education and health sector policies, and policies to strengthen public finance management, decentralisation and public sector reform.

Harmonisation and Alignment (H&A)

Budget Support is the most predictable aid modality in Mali, with annual disbursements between 2002 and 2009, averaging 94% of projected disbursements. Nevertheless, the timing of disbursements by quarter, especially for SBS variable tranches, has been subject to regular delays, with considerable costs in terms of unplanned domestic borrowing and the delayed implementation of development programmes.

Due to the efforts of the Government and the CPs, Budget Support has been the aid modality with the highest level of harmonisation and alignment in Mali, and very probably the modality with the lowest level of transaction costs per FCFA disbursed. Nevertheless, the annual process of assessment of the annual disbursement conditions for GBS and SBS is not yet fully harmonised and still generates unnecessary transaction costs.

Discretionary expenditure and allocative efficiency.

Due to its "critical mass" and its flexibility as a financing instrument, as well as the existence of the annual national strategy review that it helped to institutionalise over 2003 to 2009, Budget Support has assisted in improving the overall efficiency of resource allocation and in meeting the critical strategic requirements of the priority sectors.

- ✓ The decline in the proportion of public expenditures allocated to the priority sectors witnessed at the outset of the decade was reversed over 2003 to 2009, when allocations to the priority sectors rose from 39% to 54% of total public spending;
- ✓ The sectors which received the highest proportions of these increases were the highest priority sectors: health, education, agriculture and transport;
- ✓ The fast increase over the period in the numbers of pupils in primary schools placed pressure on government to increase the supply of teachers. This demand was met in large part by expanding the numbers of contract teachers through the Alternative Strategy for the Recruitment of Teaching Personnel (SARPE). It was only possible to finance this strategy as a result of the Education SBS and GBS.
- ✓ There was expansion in each of the key outputs of the health sector during the evaluation period: most notably the number of functional community health centres rose from 605 in 2002 to 993 in 2009, which would have been impossible without SBS and GBS funding.

Effective support to implementation of PFM & other reforms

The conditionality and dialogue related to the strengthening of PFM in Mali helped to stimulate the establishment of the integrated PFM reform programme (PAGAM / GFP) and the acceleration of its implementation. Despite the resulting improvements in the quality of PFM, important weaknesses still remain. While it is clear that the overall quality of PFM improved from 2006 – 2009 – a fact attested to by the PEFA study of 2010, the 2009 external evaluation of the Mali PFM reform programme and the IMF's reports of 2009, the most recent reports of the *Vérificateur General* demonstrate that there remain significant weaknesses in treasury management and in public accounting.

GBS and SBS conditionalities have had a decisive influence on the speed with which the Government proceeded with deconcentration and decentralisation. However, the evaluation identified no other clear-cut examples of policy changes or of accelerated implementation of policies resulting from Budget Support conditionality. On the other hand, several examples were identified of policy inconsistencies and increased transaction costs generated by conditionality.

2.2 Step 2 (outcomes and impacts and their determinants)

This section presents the findings linked to the assessment of the outcomes and impacts, which result from the implementation of government policies and action.

Macro-economic policies and economic growth

The financial contribution of Budget Support has been important in helping Mali to achieve, over the evaluation period, an average real rate of economic growth of 5% per annum, the highest attained within the West African Economic and Monetary Union (UEMOA-WAEMU). Although the prudent macroeconomic policy pursued by the Authorities was essential to the achievement of this result, the increased funding provided by Budget Support helped to ensure that the primary fiscal deficit (after grants) remained close to 0% of GDP from 2003 to 2008 (as compared with an average of -1,6% over 2000-2002), which in turn helped to restrain inflation. In addition, Budget Support helped preserve a buoyant level of public investment, which partially compensated for the stagnation of private investment.

Budget Support dialogue was not, however, a significant contributory factor in this process. In relation to macroeconomic policy, the driving forces seem to have been the Authorities' own commitment to a prudent policy, backed by the political commitment to the WAEMU convergence criteria and to keeping on track with the IMF.

In relation to private investment, there has been a striking absence of reforms to the business climate. Despite minor improvements, Mali's position in the World Bank's "Doing Business" index remains low - (153rd in the World and 24th out of the 46 Sub-Saharan Africa countries, June 2010). This has been a prominent subject in the Budget Support dialogue, but this dialogue has not been successful in generating an appropriate policy response. The private sector focus group attributed this to the attention given to trivial matters within the "Doing Business" agenda, while ignoring more serious problems in government regulation and in the operation of the financial sector.

Positive outcomes in education and health.

In education and health, strongly positive outcomes were achieved as a result of the sectoral strategies pursued and the higher levels of spending attained under Budget Support. Between 2002 and 2009, the gross enrolment rate for basic (primary) education rose from 64% to 81%. Over the same period, the repetition rate fell (from 20% to 14%) and the completion rate increased (from 40% to 56%). Without the additional funding of SBS and GBS, it would have been impossible to finance the essential sector outputs (school buildings, teachers and textbooks) correlated with these achievements. Over the same period, the majority of the outcome indicators in the health sector have shown significant improvement (for example the use of ante-natal services has increased from 54 % in 2002 to 90 % in 2009). GBS and SBS funds contributed in a major way to the financing of expanded sector infrastructure and GBS (on its own) to the financing of additional health personnel, each of which is closely correlated with the improved outcomes achieved.

Econometric analysis undertaken by the Mali evaluation shows a significant link between registered outcomes and increased public expenditure on health and education infrastructure and personnel. The analysis also points to the importance of differentiated investment choices. For example, analysis of the different interventions in the primary education sector support the hypothesis that a reorientation of investments (e.g. more water and sanitation facilities and increased adoption of new strategies for the training and selection of teachers) could have led to improved results while maintaining unchanged the overall level of investment.

Poverty reduction

A new household budget survey, which takes account of the latest population census, will be needed in order to reach a definitive judgement on the evolution of poverty. Nevertheless, all of the available data point to steady reductions in the incidence of poverty over the evaluation period – both in urban and rural areas. Nominal per capita GDP has increased by 63% over the last ten years and, according to the most recent data available from household surveys, the incidence of poverty has fallen from 61% in 2000 to 51% in 2005, while the Gini coefficient has reduced from 0.400 in 2000 to 0.388 in 2005. Economic growth and low inflation seem to have been the determining factors in this process, aided in turn by the financial flows from Budget Support.

2.3 Step 3 (Causality Links between BS and the Outcomes/Impacts)

Step 3 builds on the joint consideration of Steps 1 and 2 to draw a number of conclusions in terms of the specific contribution of Budget Support to development results.

In Mali, the primary contribution of Budget Support has been as a flexible, effective mechanism for financing the national development strategy. The resources provided have substantially furthered macroeconomic management (in addition to other more important factors) and have ensured a key support to public investment in the social sectors, thus contributing to growth, increased access to basic social services, and income poverty reduction. Their provision has not been associated with any significant perverse effect such as crowding out of domestic revenue or increased corruption.

Policy dialogue and the general focus of the conditionality matrices have helped to monitor progress and have thus contributed to greater transparency in policy implementation. They have also highlighted the need for increased accountability and efficiency in public financial management, thus contributing to an improved public expenditure process and to greater development results. On the other hand, concrete PAF conditions have not played a significant role in shaping the orientation, pace and incidence of reforms, with only weak effects on their implementation and outcomes. Indeed, the occasional attempts to force policy choices upon government have generally resulted in higher transaction costs and incoherences in policy, rather than in improved implementation and accountability. Notwithstanding the broadly positive perception of Government regarding the management of Budget Support by its Cooperating Partners, shortcomings in the extent of harmonisation and a lack of attention to the timely disbursement of Budget Support have also weakened the impact of Budget Support in Mali. Attention to these questions would allow Budget Support to have a still more positive effect in the future.

2.4 Cross-cutting themes

In the course of the evaluation, a number of significant findings emerged in relation to cross-cutting issues:

- *GBS vs. SBS*: The experience of Mali suggests that SBS and GBS are in practice remarkably similar – they may both be used to finance sectoral spending and to support sector policies and reform strategies, and they are both subject to the same conditions for success. The Malian experience demonstrates above all that Budget Support – sectoral or general – is effective when its primary objective is to finance and monitor the implementation of a given policy. It is much less effective when its primary objective is to change a given policy or to adapt its contents, through the means of conditionality. Budget Support functions best as a means of supporting national policies, for which there is a clear and coherent political commitment and for which implementation structures are in place, or can easily be established. Where these conditions were in place (such as in the health and education sectors), policy dialogue was generally better informed and more fluid under SBS than GBS. However, the evaluation attributed this more to the nature of the personnel engaged at the sector level – both from Government and Cooperating Partners – than to any causal influence of the SBS modality itself. Good sector dialogue and analysis is important for effective policy implementation; yet Cooperating Partners are reluctant to recruit sectoral expertise and invest in sectoral analysis in sectors where they are not providing direct funding through projects or SBS, even though such funding could equally be provided through GBS. The differences in the quality of dialogue are thus caused by the policies of Cooperating Partners, regarding human resources and the division of labour, rather than any specific features of the SBS modality.
- *Governance and Democratic accountability*: The evaluation explicitly addressed the issue of progress in strengthening accountability and transparency, through the implementation of reforms to PFM, including, notably, reforms to procurement systems and to procedures regarding the disclosure of information on public budgets and public accounts. Steady progress was made in these areas during the evaluation period. There were delays in the creation of an independent Court of Accounts (from the existing Accounts Chamber within the Supreme Court), which led to tension in the GBS dialogue and to certain disbursements being withheld. Government explained that these delays were due to the need to introduce constitutional changes, which in turn would require a national referendum on the Constitution. Moreover, the evaluation found that allocations to the two main institutions of accountability – the *Bureau du Vérificateur Général* and the Supreme Court (with its Accounts Chamber) increased by 42% from 2004 to 2009. In short, although linkages to fraud and corruption were not examined in detail, Budget Support was associated with a deepening of measures to

identify and control corruption, and no evidence was found that Budget Support might have inadvertently contributed to its increase.

- *Gender*: Through the dialogue on the CSLP/ CSCR as well as through the sector dialogue, Budget Support providers have insisted on attention to gender related issues, and the GBS PAF and the SBS matrices for health and education required health and education indicators to be differentiated by gender. The achievements in the health sector were generally favourable to women. In primary education, the enrolment of girls improved, as did completion rates and progression rates in secondary school. However, the improvement was no faster than the aggregate improvements in these indicators, thus gender disparities in education remained unchanged during the evaluation period.

3. CONCLUSIONS AND RECOMMENDATIONS

The most important contributions made by GBS and SBS in Mali have been their financial transfers and their support to the creation of structures for the coordination, programming and monitoring of policies and reform programmes (through the introduction of a harmonised annual calendar of policy reviews and through the provision of technical assistance support to the CSLP (PRSP) Unit and the equivalent sectoral structures). Policy dialogue had less effect and was at times a source of confusion and unnecessary transaction costs, due to the efforts made to change or adapt national policies through conditionality.

In the future, the Government of Mali and its Cooperating Partners should strive to strengthen further the benefits of the financial transfers made through Budget Support and of the support to policy coordination structures, while correcting past errors in the design and practice of policy dialogue:

- **To strengthen the impact of Budget Support financial transfers**, the following steps are required:
 - ✓ Increase the predictability of disbursements (in aggregate and in terms of timing within year);
 - ✓ Develop a harmonised monitoring framework for GBS and SBS, with a single set of indicators, so as to avoid duplications and inconsistencies;
 - ✓ Simplify the definition and assessment of indicators (particularly for variable tranches);
 - ✓ Increase the flexibility in the utilisation of SBS funds, by eliminating all earmarking requirements (tying disbursements to results rather than to budget lines).
- **To strengthen the effectiveness of structures for policy coordination, programming and monitoring**:
 - ✓ Harmonise both the timing and the substance (including monitoring indicators) of the sectoral reviews, the global review of the poverty and growth strategy and the annual budget review (for GBS), so that the whole review framework might operate as a unified whole, with substantially reduced transaction costs.
 - ✓ Within the annual calendar, programme studies to evaluate priority policies and programmes and make available to Government the necessary technical assistance to: (i) support the implementation of such studies; and (ii) strengthen internal capacity for policy review and analysis.
 - ✓ Increase the public availability of the information generated by annual reviews so as to promote public debate on development strategies and their outcomes.
- **In order to strengthen the quality of policy dialogue**, a process of reflection and self-assessment of current practices is needed. At present, dialogue is designed as a mechanism for monitoring disbursement conditions, whereas it should also allow for the open exchange of ideas, in the interest of resolving problems of mutual concern. In order to establish structures and practices which promote this type of dialogue, the following actions are recommended:
 - ✓ Redefine the objectives of policy dialogue so as to emphasise its contribution to national processes of policy design and implementation, as well as to the formulation and monitoring of the national budget.
 - ✓ Base the definition of "policy triggers" and disbursement indicators strictly on the implementation targets agreed with the Government for priority national policies and programmes.
 - ✓ Introduce, into the harmonised annual review calendar, space for reflection and debate on the implementation of national policies and programmes.

4. METHODOLOGY

4.1 The Approach to Step 1

Step 1 of the methodology involved an analysis of the validity - in relation to the Malian experience - of the "programme theory" of budget support: the hypothesised intervention logic, defined in the OECD-DAC methodology. It comprised 13 Evaluation Questions, across the first three levels of the framework – Inputs, Direct Outputs and Induced Outputs. These questions were addressed through a variety of techniques: analysis of the documentation, construction and analysis of databases on the relevant financial and other data at central and sectoral level; interviews with key Resource Persons; Focus Group discussions at sectoral level.

4.2 The Approach to Step 2

Step 2 of the methodology involved an analysis of the determining factors - internal and external – responsible for generating the outcomes and impacts targeted by the national and sectoral strategies supported by Budget Support. It comprised 4 Evaluation Questions, which aimed to identify potential linkages from levels 4 and 5 of the framework (outcomes and impacts) back to level 3, the induced Outputs. It involved three rather different types and combinations of analysis across three different outcome/ impact areas. Qualitative and quantitative analyses (including documentary and data analyses, interviews and Focus Groups) were carried out in relation to (i) the determinants of outcomes and impacts regarding economic growth and poverty reduction, and (ii) the determinants of outcomes in terms of improved systems at the level of the *collectivités territoriales*. To assess the outcomes and impacts in the health and education sectors, (iii) different types of econometric and statistical techniques were applied.

The choice of techniques was significantly limited by the availability of data – most significantly the absence of a country-wide household budget survey for the post 2006 period, and by the level of funding available to the team for analytical activities. Essentially, the level of funding meant that detailed statistical analysis involving econometric techniques could only be envisaged for the health and education sectors.

4.3 The Approach to Step 3

Step 3 of the methodology involved an analysis of the relative influence of GBS and/ or SBS on the government policies and interventions identified in Step 2 to be among the principal determinants of the outcomes and impacts targeted by the national and sectoral strategies supported by Budget Support. It comprised 4 Evaluation Questions, which aimed to synthesise the analysis emerging respectively from Step 1 and Step 2. Essentially, this involved an analysis, by the team, of the results of Steps 2 and 1, using these results to answer five questions. The questions aimed at identifying and assessing the significance of the following chain of influence: Budget Support > government policies (as assessed through Step 1) and government policies > outcomes and impacts targeted by the government and BS Financial Agreements (as assessed through Step2).

4.4 Strengths and weaknesses of the methodology

The methodology adopted contributed to a better identification of the development results and the specific role of Budget Support in their achievement, as well as a better consideration of the political economy in which Budget Support has operated. The fact that the methodology can be applied in a country such as Mali, despite the significant weaknesses in data systems suggests that it could plausibly be applied in the vast majority of Budget Support recipient countries.

The methodology allows for a profound understanding of the contribution of Budget Support to development results in a given context, via its funding flows or its influence on country policies and implementation processes. It does not provide evidence for 'attribution' of such results neither to country policies nor to Budget Support.

The most obvious shortcoming, which the Mali Budget Support evaluation has presented, is that it has been a long, complex and unwieldy process, which should be shortened and simplified in the future. This could be done through the adoption of a number of measures, such as: undertaking evaluations more frequently; delivering separated evaluation products (Step 1, 2 and 3); adapting and reducing the number of EQs; streamlining the management and quality assurance so as to simplify the preparation of comments and reduce the number of document revisions.

COUNTRY NOTE ZAMBIA

1. THE CONTEXT FOR THE ZAMBIA EVALUATION

Four decades ago Zambia was one of the most prosperous countries in Sub Saharan Africa, but now it is one of the poorest. According to the national poverty line, 64% of the 13 million Zambians are classified as poor. Zambia's development was adversely affected by external shocks that came in quick succession first in 1973 when the oil prices quadrupled and next in 1974 when copper prices declined considerably. Due to massive loans from the International Monetary Fund (IMF) and the World Bank to cover budget deficits the country became heavily indebted. Since the year 2000, Zambia has registered a more encouraging macroeconomic trend. Real GDP growth improved from 3.6% in 2000 to 6.3% in 2009, with an average of 5.2% for the whole decade. In March 2005, when Zambia reached its Highly Indebted Poor Countries (HIPC) completion point, its total foreign debt was reduced from USD 7.1 billion to USD 4.5 billion. Under the Multilateral Debt Relief Initiative Zambia's debt stock was further reduced to USD 0.5 billion by the end of 2006. Politically, Zambia has experienced a somehow typical political development for many African countries, whose political regimes are characterized by both, democratic and authoritarian elements.

Aid relations have evolved substantially. The 1990s witnessed the start of sector cooperation, which contributed to a harmonisation process that resulted in 2007 in the *Joint Assistance Strategy for Zambia* (JASZ). In 2005 the Government of the Republic of Zambia (GRZ) and Cooperating Partners (CPs) had signed a Memorandum of Understanding on the provision of Poverty Reduction Budget support (PRBS). The evaluation of budget support in Zambia covered PRBS and sector budget support (in health, roads and public financial management), focusing on the years 2005-2010. The evaluation analysed strategies of CPs to provide budget support, the process and structure of donor harmonisation and alignment to government policies and systems as well as the effects of the modality on institutional performance, public financial management and budget allocations. Moreover, the evaluation analysed the impact of (government) interventions in a number of key sectors.

2. MAIN FINDINGS

2.1 Step 1 (inputs, direct and induced outputs)

Financial resources

Budget Support (BS) financial flows in Zambia have become more important in absolute terms and as a percentage of total aid. In 2005, budget support, including sector support and PRBS loans and grants, has increased from USD 109 million to USD 248 million in 2009 (and USD 221 million in 2010). The financial flows have increased the size and share of aid subject to GRZ's budgetary processes, facilitating planning, accounting, and reporting procedures for the Government with regard to aid inflows. In 2009, total budget support contributions accounted for 9 % of government expenditure (and BS grants for 7.9 %). That year, budget support accounted for about 20% of total aid and at least 32% of grants to the Government. Nevertheless, the contribution of aid to the national budget declined from 30% in 2006 to less than 20% in 2010. Overall, budget support contributed to the improved predictability of aid, although aggregate figures conceal substantial deviations of individual CP's disbursements from commitments.

Design, dialogue framework and use of TA

The overall operational design of BS in Zambia was mostly well developed and adapted to the specific local context. A comprehensive dialogue structure has been established around the budget support process, in continuation of previous efforts of harmonisation and alignment of development aid to Zambia. In line with the principles of the Paris Declaration, a comprehensive public financial management (PFM) reform programme is funded by BS donors, using a multi-donor basket funding mechanism (and SBS by the EC) in addition to other complementary BS-related TA, e.g. in support of the Office of the Auditor General. At the same time, other important PFM-related TA outside this programme is insufficiently coordinated with these activities. This is an expression of the remaining challenges, owing to persistent fragmentation on both sides of the dialogue process. On the side of GRZ (Government of the Republic of Zambia), the government-wide ownership for the dialogue process was still weak, and fragmentation of administrative structures on the side of GRZ has made it difficult to

provide strong incentives for CPs' alignment. On the donor side, there have been regular attempts to strengthen the dialogue process but – in a similar fashion – remaining heterogeneity among donors themselves has created several challenges for harmonisation, alignment and mutual accountability. No specific dialogue mechanisms related to sector budget support operations have been established, as SBS-related issues are usually dealt with either within the formats of GBS or within the dialogue structures linked to SWAPs.

Harmonisation and alignment

The move toward BS was in itself an expression of harmonisation and alignment in Zambia as established in the Joint Assistance Strategy for Zambia (JASZ). At the same time, diverging interests and interpretations among CPs of the role of the underlying principles and the hierarchy of objectives related to GBS have led to a somewhat incoherent incentive system for GRZ. The performance assessment frameworks (PAF and related indicators) are an expression of these diverging interests. Their indicators and targets are not always realistic, and some of the indicators are barely measurable. Moreover, with BS far from being the dominant mode of aid delivery, the situation of managing two different worlds of aid delivery – one aiming at harmonisation and alignment, the other at individual visibility and project success – has increased the transaction cost of dialogue as donor agencies have had to maintain full capacities for both forms of aid. As a result, while coordination among donors has improved considerably, the incomplete integration of BS with other aid modalities, ill-coordinated sector interventions, a sometimes unrealistic PAF, and the multiplication of coordination structures, have limited the positive effects of the instrument. In addition, the amount of off-budget aid requiring parallel planning, administration, and reporting processes is still substantial, leading to limited improvements in terms of aggregate transaction costs.

Discretionary expenditure and allocative efficiency.

Budget support was predominantly additional to domestic financing and there has been no evidence for substantial crowding out of domestic resources. It has contributed to strengthening of financial management, providing additional flexibility and increasing discretionary expenditure. This applies especially to those sectors that are predominantly funded through budgetary resources and in particular to the social sectors, where the increase in budget and expenditure was higher than what could be explained by the increase in budget support and overall growth of the total budget. Zambia's budget has also become more pro-poor over recent years, as poverty related expenditure increased as a share of the total budget and as a share of GDP.

Support to implementation of PFM & other reforms

BS has been instrumental in improving Public Financial Management (PFM), including prioritisation of expenditure and transparency and aggregate fiscal discipline and macroeconomic management (although other factors were more important for the latter).

Nevertheless, these improvements were mostly due to the CPs' general focus on PFM in the policy dialogue and to the TA provided and less to a reaction by GRZ to individual (PAF) conditionality based on PFM targets and indicators. At the same time, the basket funded PFM programme has been less effective than could have been because it was maybe too ambitiously designed and at the same time perceived mainly as a donor tool to control fiduciary risks rather than as a genuine capacity development programme, owned and led by GRZ. Improvements have also been recorded in some politically highly visible areas such as the budget cycle, and more recently, in the adoption by the Cabinet of the decentralisation policy. These results were partly an effect of a high level policy dialogue and conditionality in times of crisis. Moreover, budget support helped improve the conditions for revealing corruption and misappropriation of funds. On the other hand, BS has not been able to influence institutional and key sectoral reforms in sectors where there was no agreement on priorities and strategies (e.g. agriculture) or policy content conducive to improving governance and the accountability of government to parliament and civil society.

2.2 Step 2 (outcomes and impacts and their determinants)

Macroeconomic policies and economic growth

In recent years, Zambia has performed fairly well with regard to macroeconomic management and fiscal discipline. The Bank of Zambia has managed monetary policy well with a view to reducing inflation, while at the same time maintaining conditions to facilitate economic growth. While the strong economic growth was a main factor, budget support certainly helped to maintain fiscal discipline, in particular during the international financial

and economic crisis. The HIPC/MDRI debt relief helped bring down external and domestic debt to moderate levels, and international reserves have increased significantly. From 2003 onwards, real GDP growth fluctuated from 5.7%-6.3%. Substantial investments have been recorded in some of the major sectors, particularly in mining, manufacturing, and tourism. On the negative side, the agricultural sector underperforms. A reason for the stagnant situation is a continuous low level of productivity caused by the sector's high weather-dependency, farmers' limited access to agricultural inputs and credit as well as outstanding land reforms. The key macroeconomic policy challenge ahead is to create fiscal space for spending, to enhance economic diversification and reduce Zambia's dependence on copper exports. A simulation of Dutch disease effects for Zambia shows that the effect is modest: about 20-30% of the amount of aid is 'lost' through the induced fall in exports so that the aid-financed increase amounts to 70-80% of the total amount. This 20%-30% proportion is a sizable effect but much lower than what has been suggested in policy discussions in Zambia.

Sector results

In the *health sector*, budget support contributed to a more harmonised and coordinated approach and strengthened ownership by making GRZ responsible for progress in the sector. Domestic resources to the Ministry of Health's budget increased from 48% in 2005 to more than 60% in 2008 (net of general budget support). Budget increases between 2005 and 2010 contributed to improved service delivery and especially to the improvement of urban and rural health facilities, medical staff, drugs supply and utilisation of facilities. The number of health workers increased from 12,000 in 2005 to 17,000 in 2010; the availability of essential drugs improved from 71% to 82%. The percentage of fully immunised children in the worst performing districts improved from 63% in 2005 to 69% in 2010. The efforts of GRZ and CPs produced positive results, with the reduction of tuberculosis and (recently) malaria and underweight children. Significant improvement in indicators such as infant mortality, child mortality and maternal mortality was also recorded, although results in these indicators are still off track. The impact analysis did find positive impacts on child mortality rates, maternal death, malaria, and diarrhoea.

In the *education sector*, budget support and the sector pool have accounted for about 12% of the total resources of the Ministry of Education and about 30% of the discretionary budget. Through PRBS, CPs were able to discuss the development of the education sector and the required budgets at a higher level. Domestic resources almost doubled between 2005 and 2010 and expenditure increased from USD 326 million to USD 590 million (constant prices). The budget increases have enabled the Ministry to invest further in teachers, classrooms and books. The number of basic schools increased from 7,600 in 2005 to 8,400 in 2010, the number of teachers from 50,000 to 63,000 and the number of basic school pupils from 2.9 million to 3.4 million. The enrolment of girls improved and gender parity was almost achieved at the lower and middle basic levels. The number of grade 9 examination candidates increased from 190,000 in 2005 to 280,000 in 2010 (with an increase of female candidates from 89,000 to 133,000). Partly as a result of a lack of resources, the quality of education remained low. However, it must be noted that, with the increased access of underprivileged groups, the composition of the children enrolled in basic education has changed and this has had an impact on average examination results.

In *agriculture*, both Government and CPs agreed that an improvement of the sector was a condition *sine qua non* for the reduction of poverty in rural areas, but they disagreed about the instruments. While CPs preferred investments to enhance productivity through farming techniques and capital investment (like irrigation), the Government has raised expenditures for the subsidies provided by the Fertilizer Support Programme (FSP) and the Food Reserve Authority (FRA). *De facto*, (general) budget support contributed to these expanding programmes that used the majority of resources from the Ministry, thereby preventing other investments to modernise the sector. The evaluation concluded that the potential of the FSP was undermined by poor targeting and implementation.

For the *roads sector*, general and sector budget support contributed to improvements in the road network, and especially the paved trunk and main roads' network. Econometric analyses showed significant positive effects of roads on income and school attendance in rural areas. However, CPs have not managed to give a higher priority to the (unpaved) roads in rural areas. The same applies to (rural) *water and sanitation*. The econometric analyses showed positive effects on health and school attendance and a correlation with income. The GRZ budget for *water and sanitation*, however, is relatively small, and project support is the dominant aid modality, especially in rural areas.

Poverty reduction

Economic policy was favourable for economic growth, but this was not enough for a sharp reduction of poverty levels. In spite of the economic growth, poverty has not reduced very much and the already high income disparities have further widened between 1998 and 2006. According to 2006 data, 64% of the households may be classified as poor (and in rural areas 80%). Preliminary data of the most recent survey (2010) do not suggest much improvement. Especially rural poverty is persistent. One of the main causes has been the low growth of agricultural production. A simulation of the (potential) effects of aid also showed that these groups do not automatically belong to the main beneficiaries of an increase in aid. Aid *may* substantially reduce the relative returns to land through the occurrence of Dutch Disease effects.³ This has especially an effect on small farmers. This means that increases in aid should be accompanied by well-targeted programmes. One of the main programmes in the agricultural sector, the Fertiliser Support Programme, was not sufficiently targeted at the poorest groups. Large disparities continued to exist between urban and rural areas and between the poorest groups and other groups, even though more dynamic analyses also point to some improvements in health and education. In basic education, the poorest groups, especially, benefited from improved access. Roads and water and sanitation programmes are also insufficiently targeted at the poorest groups.

2.3 Step 3 (Causality Links between BS and Outcomes/Impacts)

The first and most important lesson from the Zambian experience is that the congruence of fundamental sector interests and strategies between CPs and GRZ is a condition for the effectiveness of budget support. This is revealed by a comparison between the two major social sectors and the remaining sectors (agriculture, roads, water & sanitation). Despite all problems, the two major social sectors have seen the most elaborated links between sector policies and the Budget Support process. Not only are these the two sectors where CPs have been most attentive in promoting harmonisation, but they are also relatively important for the GRZ, and ownership for policy improvements has been relatively strong. In contrast, when objectives diverge or when opinions about the best strategy to realise these objectives are sharply divided - like in the Zambian agricultural sector - there is an inherent contradiction between ownership and donor influence. Rural water & sanitation has appeared as the subsector with the lowest ownership of GRZ, which is also reflected by the relatively small amount of budget flows. A simple replacement of project funds by GBS could entail the risk of reducing the total flow of funds available for the sector. Here, strong ownership is a condition for enhancing the effectiveness of Budget Support.

2.4 Cross-cutting themes

Although the team did not explicitly analyse cross-cutting themes, a number of issues may be mentioned:

- *GBS vs. SBS*: In Zambia, there are few dedicated SBS mechanisms, e.g. for dialogue, conditionality, etc., as the SBS relies mostly on GBS structures and other existing mechanisms. In practice, most CPs apply a wide variation of aid modalities, including GBS, SBS, basket funds and pooled funding, and projects (on and off budget), but not always in a very coordinated or integrated way. Moreover, in practice, they have shifted continuously between aid modalities. In general GBS enhances allocative efficiency and government ownership, while SBS and basket funds enhance sector ownership. It appears that GBS is more effective in raising general issues (including general sector issues). GBS funding also gives CPs (and especially CPs providing lower amounts of aid) better access to the GRZ. GBS is not effective if there is no strong government ownership or if preferences between GRZ and CPs diverge.
- *Corruption*: during the evaluation, corruption cases and other irregularities in several sectors (especially health and roads) were an issue in the policy dialogue. Through GBS and SBS, CPs were also in a better position to insist on strengthening oversight institutions (in accordance with their perspective on fiduciary risks), i.e. improving the financial systems in the sector and on strengthening the position and effectiveness

³ Through aid the relative price of non-tradables will rise to generate the extra supply needed to meet the increase in demand. As a result, the costs for farmers will increase while the price of their products will not.

of the Auditor General. Seen from this perspective, it is more plausible to assume that these changes have contributed to the revelation of the fraud, than that budget support has contributed to it. However, domestic politics in Zambia of how to deal with such scandals remained deficient. The political consequences drawn by the government have been weak. As a result, for instance, the fraud scandal in the health sector has had a negative impact on the sector dialogue and thereby impaired the effectiveness of sector cooperation and – consequently – of budget support.

- *Gender*. Through the PRBS Policy dialogue as well as through the sector dialogue CPs have insisted on improving gender related issues. The PRBS PAF included gender related targets (such as bursaries for girls). Progress in the health sector was especially important for women. In education, the enrolment of girls has improved, although dropout remains a problem at the higher basic level. Nevertheless, there are large and persistent differences within the country and at the district level, with the highest imbalances in the poorest and most rural districts. The improvement of water and sanitation is especially important for girls in rural areas, but here progress was low. One of the background studies did not find evidence for the feminisation of poverty.

3. CONCLUSIONS AND RECOMMENDATIONS

3.1 Conclusions

1. The financing function of Budget Support in Zambia has performed fairly well, although aid predictability has not improved substantially. The share of Budget Support has increased over time and represented the lion share of the Government's fiscal space and the poverty orientation of the budget has gained weight.
2. Budget support has not performed to its anticipated potential as an instrument to promote policy reforms and governance.
3. The convergence of fundamental sector interests and strategies between GRZ and CPs has been conducive for the effectiveness of Budget Support. When these interests and strategies diverged, Budget Support was not effective in realising objectives of CPs.
4. Within its short existence, Budget Support could not contribute very much to the reduction of poverty in Zambia. While improvements are visible in a number of areas, developments have been slow.
5. Budget support has not performed to its perceived potential in realising its objectives. This is not only the result of a lack of commitment and/or capacity of the GRZ level, but also of the limited progress of the PRBS group regarding harmonisation and alignment. This has not rendered the instrument ineffective, but has impaired its concrete application.

3.2 Recommendations

1. Develop less pretension and more pragmatism on the objectives of Budget Support.
2. Develop more realism about the potential contribution of Budget Support – and aid in general – to the reduction of income poverty.
3. Ensure that GBS partners send coherent signals.
4. Improve the predictability of BS commitments and disbursements and ensure timely disbursements.
5. Develop a joint GRZ/Cooperating Partner Capacity Development Strategy and establish a formalised dialogue and coordination framework in line with the Sector Advisory Group arrangement.
6. Ensure that the PRBS dialogue and the PAF do not get overloaded with specific sector issues.
7. Make the PAF more effective by ensuring that the PAF indicators and targets provide the right incentives.
8. Improve the planning and programming of evaluations and include the evaluation of PRBS and SBS in the relevant MoUs.

4. METHODOLOGY

The non-linear 3 Step approach applied by the evaluation team has allowed, on the one hand, a better understanding of the specific influence of Budget Support on aid, budget and policy framework. On the other hand it has helped assess the role of government policy and actions in the actual achievement of the targeted development results. Various issues, however, remain to be double checked and fine-tuned in the application of the approach, to reduce its complexity and improve its adaptability.

The synthesis report extensively describes the methodology for step I. The analysis for this component relied on data from different sources: semi-structured interviews of key stakeholders and experts during two field visits, existing evaluation reports, reviews, other official documents and academic literature, information on financial flows, micro- and macro-economic data and indicators, and a background report by a local consultant. The acquired data was coded using Atlas.ti®, a software package for textual analysis in order to incorporate all available information in the evaluation team's assessments and to help sustain objectivity of judgments. Key documents, interview minutes, etc. were coded and these codes were linked through an "analytical grid" that corresponded to the evaluation questions. The attribution of the direct and induced outputs to budget support inputs then was established based on the coded information, the background reports and the analysis from sector teams. Where possible attribution was based on contribution analysis using performance measures.

The impact of government interventions (step II) was first of all assessed through an analysis of the sector dialogue (interviews, literature review and document analysis) and the development of sector budgets. To this end, the evaluation included five sector case studies. The sector case studies combined quantitative techniques with more qualitative approaches, such as interviews, focus group discussions, field visits, and a document and literature review. The second step involved a description of the translation of sector budgets into sector programmes and investment and an assessment of the impact of these investments. Here sector programmes, sector plans, budget plans, budget reviews and annual reviews were extremely helpful. The sector analyses were also combined with a benefit incidence analysis, focusing on the distributional effects of government spending across the population (including gender differences) and across regions (including urban rural differences).

The five sector case studies include statistical / econometric techniques for the measurement of the impact of government interventions in these sectors. These techniques include fixed effects regressions, difference in difference regressions, and propensity score matching. For data, the evaluation relied on a combination of administrative and survey data. The analysis showed strong impacts of socioeconomic variables (for instance in the education sector).

Health effects of interventions were measured with fixed effects regressions using administrative and survey data (DHS). For the education sector, the team used a difference in difference approach to measure the impact of investments on enrolment. A potential endogeneity bias resulting from reverse causality was tested using lags. The evaluation also analysed the impact of interventions on examination attendance and examinations results for grades 7 and 9 using several regression techniques, including random effects and fixed effects regressions. The quantitative analyses for the roads and the Water & Sanitation Sector (WSS) sector are based on the Living Conditions Monitoring Surveys (LCMS) and the Zambian Demographic and Health Surveys (DHS). These surveys were used for descriptive statistics, comparisons over time and econometric analyses aiming at assessing the impact of access to roads and improved WSS, respectively. To this end, two estimation techniques were used: fixed effects panel regressions and propensity score matching. The agriculture case study involved three inter-related activities, namely: stakeholder interviews, a literature review and an econometric analysis. The econometric analysis was conducted using existing data, mainly drawing on the Supplementary Survey (SS) produced by the Food Security Research Project (FSRP) and the Central Statistical Office (CSO). The team co-operated closely with staff of Michigan State University and the FSRP.

As a contribution to the evaluation, AIID (2010) undertook a simulation of macroeconomic effects of aid inflows in Zambia using a general Equilibrium model that was developed by Clausen / Schürenberg (2009). The authors developed several scenarios, with different assumptions for capital and labour in the copper sector.

The Step 3 involved a comparative analysis, based on the separate monographs (on governance issues and sector results), focusing the factors on both side of the relationship that had an impact on the effectiveness of Budget Support (i.e. government strengths and weaknesses, ownership and harmonization and alignment). A two day workshop was part of this analysis.

COUNTRY NOTE TUNISIA

1. THE CONTEXT FOR TUNISIA EVALUATION

In the early seventies, Tunisia, as a net exporter of petrol benefitting from the favourable oil situation, initiated the opening-up of its economy based on exports of manufactured goods, whilst continuing to protect its internal market. The end of favourable economic conditions and the inefficiencies of the State-controlled economic system, however, led to a large-scale and long-term financial, economic and social crisis, from the late 1970s up to the mid-1980s. In response to the crisis, the country undertook a major political and economic shift, through a series of macroeconomic reforms, as part of a Structural Adjustment Programme (SAP) developed in accordance with the WB and the IMF. In the decade 1986-1995, major changes took place in terms of macroeconomic stabilization and social pacification, but the country's economy remained essentially closed and dominated by a dualistic system: competitive offshore / state-owned and protected domestic market.

The Association Agreement (AA) signed with the EU in 1995 as part of the Barcelona process represented a tremendous opportunity. It enabled the country to embark on a competitive integration process encompassing the liberalization of the internal market and the integration into the international economy, together with strong international partnerships involving political agreements, financial support and access to technology and to appropriate standards. In 2008, after twelve years of deep transformations of the Tunisian economy, the Free Trade Area entered into force. Over this period of time (1996-2008), the progress achieved by Tunisia in terms of economic stability and growth, social welfare and training of its human capital has been very high. Thanks to the benefits from an increased competitiveness, the country has become more attractive to foreign capital. Weaknesses and unfinished tasks remain, however, particularly as regards the level of competitiveness and transparency of the internal market and the employment⁴.

General and Sectoral Budget Support programmes were established to facilitate the reform process that took place since 1996. The evaluation focused on the assessment of seven of the 12 Budget Support operations financed by the Commission of the European Union (EC) in the period 1996-2008. Of these, four are GBS programmes and were co-financed and implemented jointly with the WB and the AfDB, while the remaining three are SBS operations in the areas of secondary and tertiary education, and Vocational Education and Training (VET).

2. MAIN FINDINGS

2.1 Step 1 (inputs, direct and induced outputs)

Adapted design and selection of inputs. The operational design of Budget Support operations in Tunisia has been progressively adapted to increase responsiveness to the local context. This can be seen both when looking at the overall and specific objectives and when looking at the design of the operations in terms of duration, number and typology of instalments, conditionalities and inclusion (lack thereof) of specific TA components.

Increased financial resources and aid predictability. Average annual amounts of financial resources allocated by the EC in the form of Budget Support have increased throughout the evaluation period in both absolute and relative terms, accounting for a total of €628 mln or 60% of resources allocated by the Commission over the whole period. On the other side, the relative weight of BS resources as a share of total ODA has remained at a level of about 30%. Aid predictability has been significantly higher for Budget Support operations as opposed to project aid.

Articulated dialogue framework and use of TA. In Tunisia, the provision of Budget Support is characterised by the existence of a comprehensive and articulated dialogue structure linked to the long term partnership established through the AA between the European Union and the Tunisian government in 1995. The opportunity framework represented by the AA has: i) strengthened the commitment of the Tunisian government in its economic and social reform processes; and ii) provided a framework of strategic coherence within which the international technical and financial cooperation has taken place. Institutionalised dialogue frameworks at the

⁴ The contrast between the deep changes and openings in the economy and society, which took place over the last fifteen years, and the persistence of strong economic inefficiencies and social inequalities supported by an authoritarian and over-centralised governance was at the base of the great upheavals occurred in 2011.

level of the AA ensured high level discussion and monitoring of the principles, scope and objectives of the reforms; whereas dialogue instances linked to BS focused around the specific measures to be implemented in crucial phases of the reform process. This is particularly true for GBS where policy dialogue has significantly contributed to the implementation of the development strategies / plans of the partner country..

Diversified conditionality frameworks have supported the implementation of all BS operations. Conditionalities are the result of policy dialogue leading to the joint identification of key measures to be included as indicators in the matrixes but also feed policy dialogue serving as benchmarks to assess government performance during programme implementation. Equal importance is given in the matrixes to process and result indicators. This, far from indicating lack of confidence towards the commitment of the Tunisian government has instead contributed to closely monitor crucial steps of the reforms processes while at the same time providing a mechanism of 'external discipline' that has helped the government to overcome institutional-political resistances to change.

Technical assistance / capacity building measures have been embedded as programme components only in the case of SBS operations and with mixed results: more significant in relation to the components linked to public finance management (e.g. support in the definition and subsequent implementation of Mid-Term Expenditure Frameworks - MTEFs), less so with reference to the components aimed at supporting policy development. This said, it is worth noting that the strategic coherence provided by the AA has facilitated a significant complementarity between BS and other programmes. TAs, twinning arrangements, analytical work and studies financed by the main CPs have, in fact, often fed the BS policy dialogue (namely GBS) providing the basis for the definition of conditionalities to be included in the matrixes, and have contributed to the strengthening of government capacities to effectively manage the reforms supported by BS (again mostly in relation to GBS, e.g. implementation of custom reforms, financial sector reforms, privatisation and investment promotion...).

Harmonisation and Alignment (H&A). The mentioned strong international partnership and country ownership have also ensured high levels of alignment of the BS objectives, conditionalities and procedures. On the harmonisation and coordination side, the situation is diversified. The three GBS partners have attained very high levels of harmonisation and coordination, which have also led to significant declines in transaction costs. In the SBS programmes, instead, the EC is the sole donor, and the government has not put in place initiatives to promote and lead coordination and dialogue among the various CPs involved at sectoral level, according to sound sector-wide approaches. As a consequence, SBS has worked in isolation, its policy support has been limited and the transaction costs have remained high (various donors have various government counterparts even when they intervene in the same sector/sub-sector and their interventions require parallel planning, negotiation, administration, and reporting processes).

Discretionary expenditure and allocative efficiency. Despite the limited BS contribution in terms of financial resources, these have nevertheless provided some budgetary flexibility. Considering all BS programmes, BS receipts account for between 0.4% and 1% of GDP, and cover an average of 1.4% of public expenditure. In this regard it is also worth noting that although SBS in secondary and tertiary education and VET provided over 50% of the additional resources needed to finance the first investments of the envisaged reforms, the provision of financial resources did not trigger in itself the implementation of reforms that would have been pursued even in the absence of such contribution.

Effective support to implementation of PFM & other reforms. In line with the key pillars of the EU-Tunisia Association Agreement, BS programmes have focused on supporting the Government of Tunisia (GoT) in the implementation of: i) economic reforms; ii) the modernisation of the education sector; iii) sound and transparent public finance management and economic governance.

BS has been particularly effective in supporting important economic (trade liberalisation and taxation, financial sector restructuring, private sector policies) and social (education) reforms, which were accorded top priority in the government's agenda and were supported by Tunisian enterprises and citizens. The formal policy dialogue, linked to the formulation and monitoring of the conditionalities, has helped establish a shared road map and an external discipline. The informal policy dialogue (particularly in the case of GBS) has mainly helped identify the bottlenecks in the process and find joint flexible solutions in terms of TA, establishment of new support programmes and studies. Without Budget Support (namely GBS), such dialogue would not have been in place, as shown by the experience of the other CPs.

The support provided by GBS (including the financial resources and the close policy dialogue) to the implementation of the economic reform has enhanced the credibility and the operational dimension of the

Association Agreement, which -in turn- has created the conditions for the success of the country-led reform process. This virtuous triangulation is key to understand BS in Tunisia.

GBS programmes have included specific attention and measures to strengthen PFM, although this was relatively solid since the early '90s, after years of structural adjustment. On the economic governance, actual progresses have been supported through GBS and the non-fulfilment of important conditionalities (like in the case of the bid for the 2nd GSM licence) has been sanctioned. The overall competition and transparency policy and legal framework in the domestic market, however, has not improved as expected, due to the low commitment of the government in this area and the tolerance of its main international partners. It's possible to say that in this case the above mentioned triangulation AA-government-BS has not worked and the Budget Support alone was not able to determine the change.

2.2 Step 2 (outcomes and impacts and their determinants)

Sound macro-economic policies have supported economic growth, and economic reform has enhanced private sector development, although with some drawbacks. Over the evaluation period, important results have been registered. Tunisia has achieved macro-economic stabilisation (controlled inflation, contained fiscal deficit, and reduced external debt) while maintaining relatively high levels of economic growth (average growth rate of almost 5% per annum)., As a result of trade liberalisation and economic integration policies, of taxation and custom reforms, and of the gradual opening of the domestic market, foreign trade has almost doubled and exports have increased at a higher rate than imports. The restructuring of the financial sector and reforms in the private sector and business environment have led to significant improvements in terms of banking and insurance performance indicators, to a reduced role of the State in the economy and to a huge increase and diversification of private enterprises (which have tripled) as well as to an improved competitiveness of the export sectors. Significant improvements in the institutional, strategic and financial management of the higher education sector have led among others to significant quantitative increases (and territorial equity) in access to education.

On the other hand, actual competition and transparency in the domestic market, competitiveness of infrastructures and economic and financial services, and the enforcement of civil justice remain weak, thus reducing the attractiveness for private investment (private investment has grown but at rates that barely compensate the reduced levels of public investment) and limiting the potential for employment creation. In particular, although employment creation depends mainly on investment and growth, the low impact of reforms in the education and vocational training sectors on youth employability raises strong concerns as the number of young unemployed graduates increases in absolute terms even though their percentage in the total number of unemployed is decreasing. Low levels of investments and domestic competition, along with insufficient quality and relevance of higher education and vocational training, still need to be addressed to effectively combat unemployment.

Poverty reduction. Throughout the period of the evaluation, characterised by a relatively high level of economic growth, GDP per capita has increased at an average rate of 3.8% over the period, registering an overall increase of more than 50% between 1996 and 2008. As a result, poverty (measured by the poverty headcount ratio at the poverty line) has significantly declined from 6.2% in 1995 to 3.8% in 2005. This said, available data indicate that while poverty was primarily an urban phenomenon up until 2000, this trend has been reversed. For the first time in the last twenty years rural poverty has recorded significantly higher levels than urban poverty.

2.3 Step 3 (Causality Links between BS and the Outcomes/Impacts)

Finally, Step 3 builds on the joint consideration of Steps 1 and 2 to draw a number of conclusions in terms of the specific contribution of BS (and its various components) to the development results.

A comprehensive support to the implementation of key economic and sectoral reforms, when connected to country commitment and wider partnerships. Both Step 1 and 2 have confirmed the importance of the AA. Step 1 has highlighted its role in strengthening the ownership and determination of the government toward the reforms, and -as a consequence- facilitating the role of BS as an operational support to the design and implementation of such reforms. Step 2 has highlighted the role of the AA as a development opportunity for the success of the reforms in the achievement of the expected economic and social results. Step 1 and 2 have highlighted also other factors that historically have distinguished Tunisia in the regional context and have worked

in convergence with the AA, namely the vocation and experience of the country toward an export led model and its specific propensity toward international partnership and innovation.

Step 3 has put together all such partial conclusions, to help clarify in which way and with which intensity BS has operated to facilitate the performance of government policies and how it has interacted with other factors. For each of the policies identified (in Step 2) as being responsible for the achievement of the targeted development results, the specific BS contributions (as from Step 1) have been summarised and double checked, and they have been scored according to a five levels scale. Table 3 below summarises the conclusions of Step 3.

Table 3: Summary of BS contribution (scores) to GoT policies and their contribution to development results

Level of BS contribution* to..	GoT Policies having contributed to..	Development results	Other historical and/or policy interacting factors, besides the AA
Moderate to Strong	Macroeconomic stabilisation	Macroeconomic stability, growth and poverty reduction	Long experience of Structural Adjustment with WB/IMF
Strong	Trade liberalisation	Trade and economic growth and poverty reduction	Experience and propensity toward export-led models
Very Strong	Private sector development and restructuring of financial sector	Moderate investment & employment growth, enhanced competitiveness and incomes	Resistance of national monopolies in domestic market
Strong	Upgrading of education system	High increase of access & equity, moderate increase of quality & employability	Vocation toward social modernisation, but lack of SWAP
Strong	Improving PFM	Macroeconomic stability and growth	Long experience of Structural Adjustment with WB/IMF
Moderate	Improving public expenditure transparency and accountability	Good information, but limited participation of citizens	Very centralised state and controlled participation
Moderate	Improving other cross cutting policies (gender, justice, environment)	Low increase of domestic competition	Resistance of national monopolies in domestic market. Other historical factors

*Scale of judgement: Absent, Moderate, Moderate to Strong, Strong and Very Strong

2.4 Cross-cutting themes

In the course of the evaluation, a number of significant findings emerged in relation to cross-cutting issues:

Governance and Democratic accountability:.. Accountability is highly valued in Tunisia and recent improvements have been registered in terms of reduced bureaucracy affecting the private sector, and increased accountability in PFM. Although Tunisia had already achieved major objectives in terms of accountability and transparency of budgeting processes, these improvements have been attained also with the support of GBS. On the other side, despite the fact that Tunisia remains the most virtuous country in the region, no improvements have been registered in the Corruption Perception Index (calculated by Transparency International) over the period 2001-2009. Corruption remains high in public regulation of domestic market, and the enforcement of civil justice remains weak. GBS has supported a number of specific improvements in this respect, but the overall management of the domestic competition framework is politically biased.

Gender: Throughout the last ten years, economic opportunities for women have increased particularly thanks to the improved levels of education and to the gradual opening-up of the Tunisian economy. Women are fully integrated in the social and civil life and are well represented in the political and professional realms. Improvements, however, cannot be linked to policy dialogue or conditionalities introduced through Budget Support but are rather the reflection of a historical attention to women since independence.

GBS and SBS. GBS has proved to be the most appropriate means to support the large economic reforms in Tunisia. SBS on the other hand, despite being a perfectly suitable modality to support the reforms in the education sector, has had a more limited effect due to the absence of a strong government-led sectoral approach allowing coordination and harmonisation among CPs, and to limited policy dialogue.

3. CONCLUSIONS AND RECOMMENDATIONS

3.1 Overall Conclusions

Importance of the broader strategic framework. EC-WB-AfDB funded GBS in Tunisia has contributed to the achievement of significant development results in terms of growth, private sector development and poverty reduction. The EC funded SBS to secondary and tertiary education and vocational training has contributed to an initial modernisation of the national school system and to significant improvements in access, including territorial equity. Such successes are rooted in the complementarity of GBS and partly SBS with a comprehensive long-term economic and political partnership. The EU-Tunisia Association Agreement has provided the framework of opportunities (successful trade and economic integration) and the means (political support, funds, technology, standards and models) for the government of Tunisia to embark with determination and capacity in a complex economic and social reform process. However, in a number of sensitive areas, particularly in economic governance (domestic competition, administrative and economic justice), despite the fulfilment of the conditionalities and some visible improvements, BS has been unable to promote change, since the Government's commitment was low and the political pressure by key international partners was weak.

Strong policy dialogue and harmonization are key factors of success. GBS has proved to be the most appropriate aid modality in supporting the comprehensive reform process undertaken by the GoT. Despite their relatively limited amount, GBS funds have contributed to an increased flexibility in budget management. In addition, unlike other forms of aid, the very nature of the BS programmes, including in depth discussion of policies and budgets, identification of crucial features in reform design and implementation, and joint monitoring, has allowed to open up important windows for policy dialogue at both formal and informal level, which have accompanied and supported the reform processes. Harmonization among the three CPs has been a key factor of success. The high level of government coordination has ensured a strong alignment with national systems.

3.2 Recommendations

Importance of a strong partnership to maximize the effects of BS. The experience of Budget Support in Tunisia suggests that some key improvements to ensure effective support to the reform process and the related development results should start from strengthening the broad political and economic partnership of the AA and the related dialogue. It might be difficult to reform agriculture policies and restructure agriculture, without further integration of the agricultural market, and the same applies to the service market. A closer political dialogue with the EU and the convergence of the EU member states to facilitate and strengthen GoT commitment in the politically sensitive areas that affect the implementation of the reform is also important.

Effective policy dialogue and flexible Technical Assistance. Where there is strong government commitment, policy dialogue should be used not only to monitor the implementation of agreed reforms but also to support the actual definition of specific policy measures of ongoing reform efforts.

Future Budget Support programmes should integrate internal or external packages of flexible technical assistance, to be able to respond to arising needs through diversified mechanisms including on-the-spot advice and studies, longer term inter-institutional support (twinning arrangements), and specific technical support projects (e.g. TA to the industrial upgrading project in Tunisia).

Minimum amount of financial resources. Despite the limited direct impact of Budget Support receipts, the provision of financial resources has had significant indirect effects (credibility, window for dialogue, ...). To this end, it is recommended that the financing function of Budget Support programmes be not overlooked and that overall amounts be kept above a minimum threshold capable of ensuring that the CPs are recognised as important partners, thereby allowing their participation to crucial dialogue processes.

SBS should be set up where the government has adequate coordination capacities to ensure the harmonised involvement of all relevant sectors and sub-sectors, and where the CPs are ready to harmonise their approaches and procedures under the government leadership. This means that SBS should be set up in the future where the conditions and the commitment for a sector wide approach exist.

4. METHODOLOGY

4.1 The Approach to Step 1

Step 1 of the methodology comprised 13 Evaluation Questions (EQs) across the first three levels of the intervention logic (3 EQs at level 1 – Budget Support inputs, 4 EQs at level 2 – Direct outputs; and 6 EQs at level 3 – Induced outputs). As such, it did not present specific methodological innovations. A thorough analysis of the changes in the PFM and policy processes and outputs was carried out, with a detailed investigation of their causality links with the Budget Support inputs and direct outputs.

However, by focusing on the non-linear and synergic relations across the evaluation framework, the approach has highlighted:

- The strong relations between Budget Support operations and the global partnership established between the EU and Tunisia through the AA;
- The double dimension of dialogue, at the level of the AA (on key principles and objectives of reform), and at the level of BS (especially GBS, on reform implementation).

Overall, the application of Step 1 has allowed to identify: i) in what areas Budget Support programmes have contributed to the implementation of government policies; ii) through which mechanisms (funds, dialogue, conditionalities, alignment, harmonisation,...); and iii) with what level of success or failure.

4.2 The Approach to Step 2

Step 2 involved an analysis of the determining factors – internal and external – of the outcomes and impacts targeted by the national strategies supported by Budget Support. It comprised 8 EQs that aimed at identifying linkages between level 4 (outcomes) and 5 (impacts), and level 3 (induced outputs).

The application of Step 2 involved two complementary types of analysis:

- A political economy analysis encompassing economic literature review, data analysis and interviews with high level resource informants, which has helped identify the main policy choices that have underpinned the development strategy of the country and the historical features that can be linked to the present performance in terms of growth and development results; and
- Three combined types of statistical analyses:
 - A cluster analysis focusing on 6 countries of the region with a view to identify the specific factors linked to economic and social growth in each country;
 - A statistical regression to identify the relation between two dependant variables (GNP per capita growth and the Human Development Index) and a number of national variables related to policy and non-policy factors; and
 - A dynamic panel data analysis to improve the understanding of the relation between specific policies over time and the *intended* results.

The combination of these different types of analysis has helped identify a clear set of government policies and other government outputs, with their respective timeframes, which have affected –positively and, in some cases, negatively - the development results in terms of economic growth and progress in social indicators. It is worth recalling that during this step, the assessment aimed at identifying the determining factors without restricting the analysis to the search for a direct relation between G/SBS inputs and such outcomes and impacts.

4.3 The Approach to Step 3

Finally, Step 3 combines the results of the two previous steps, as shown in Table 3 above.

4.4 Strength and weakness of the 3 Step approach

The evaluation team has found that the 3 Step approach allows two draw a clear and fundamental distinction between aid and policy effects, including between their respective roles and responsibilities toward the achievement of the development results. It permits to combine different types of analytical tools, including political economy analysis, thorough budgetary and policy assessments, and impact evaluation.

The approach needs to be simplified and partly mainstreamed both in government policies and donor coordination.