



Review of Budget Support Evaluations



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The views expressed are those of the author and do not necessarily represent the views of the Ministry of Foreign Affairs of Denmark. Errors and omissions are the responsibility of the author.

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List of Abbreviations

AfDB	African Development Bank
ADC	Austrian Development Cooperation
BS	Budget Support
CB	Capacity Building
CEF	Comprehensive Evaluation Framework
DFID	Department for International Development (United Kingdom)
DP	Development Partner
EU	European Union
GBS	General Budget Support
ICAI	Independent Commission for Aid Impact (United Kingdom)
IDD	International Development Department, University of Birmingham
IEG	Independent Evaluation Group of the World Bank
IOB	Policy & Operations Evaluation Department, Ministry of Foreign Affairs, the Netherlands
LIC	Low Income Country
MDG	Millennium Development Goal
MIC	Middle Income Country
NL	The Netherlands
ODA	Official Development Aid
ODI	Overseas Development Institute
OECD	Organisation of Economic Cooperation and Development
PAF	Performance Assessment Framework
PFM	Public Financial Management
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SBS	Sector Budget Support
TA	Technical Assistance
UK	United Kingdom
USD	United States Dollars
WB	World Bank

Executive Summary

Background

Since its gradual replacement of balance-of-payments and structural adjustment support in the late 1990s, budget support has been a prominent aid modality for the past 15 years and continues to enjoy this status among aid agencies and recipient countries.

A comprehensive multi-country and multi-agency evaluation study was completed in 2006, focused on the instrument's early years until 2004. Since then, several changes to the instruments and new developments in its application have taken place. Evaluation methodology has also been further refined.

In recent years a range of new evaluation studies of budget support has been completed, including a series of country evaluations and agency specific evaluations as well as some studies focused on specific aspects of the budget support modality. The current study reviews these evaluations and studies. It draws general conclusions and lessons that may be useful for future decisions on if, when and how to provide budget support. The review covers seven country studies¹, four agency specific evaluations² and two thematic studies³. These studies generally cover budget support up until at least 2009 and in some cases till 2012, i.e. 5-8 years beyond the coverage of the comprehensive 2006 study.

Effects of Budget Support

The ultimate goal for most Budget Support operations has been poverty reduction. This would be achieved through a combination of economic growth, redistribution and pro-poor service delivery. The evaluations suggest at best a weak link to poverty reduction, and in most cases conclude that linking budget support to economic growth and income-poverty reduction is inconclusive and inherently difficult due to lack of appropriate data, long time lags between budget support inputs and likely impact, numerous external factors at play, as well as attribution problems worsened by frequent lack of comprehensive growth strategies with a pro-poor focus at country level.

¹ Ghana, Nicaragua, Zambia, Mali, Tunisia, Tanzania and South Africa.

² World Bank; ADC Austria; DFID United Kingdom; Ministry of Foreign Affairs the Netherlands.

³ Themes: Sector Budget Support; Budget Support in Fragile Countries

Budget support has played an important role in expanding access to public services, particularly in the social sectors in many countries. This expansion has in some cases been very significant and has contributed to reduce non-income poverty. Budget support has provided the additional means to finance the incremental inputs needed for this expansion. However, the quality of public services have mostly remained unchanged – and in some cases possibly degraded due to the rapid expansion of access. The management issue of turning financial resources into improved service quality has not seen much progress.

Macro-economic stability and low interest rates facilitate economic growth. The financial means provided by budget support have helped most countries to maintain macro-economic stability by maintaining a limited fiscal deficit whilst expanding funding of public services in the social sectors. For a few of the countries the budget support funds have contributed mainly to reducing domestic debt levels and interest rates. No studies suggest that budget support have replaced domestic revenue collection, but on the other hand budget support operations do not appear to have had any significant impact on the level of domestic revenue collection either.

Improvement of PFM systems is common across budget support countries, and has been positively affected by both the expanded use of country PFM systems by budget support funds compared to other aid instruments and by the focus on PFM systems improvement in dialogue and performance frameworks. Parallel capacity building operations have also been instrumental in achieving such improvements.

Other aspects of good governance have not been much influenced by budget support. The effect on corruption is a continuously debated issue on which little evidence is available to support claims either way. Human and civil rights, the rule of law and democratic accountability are underlying conditions that have been gradually introduced during the existence of budget support, but is not seen as equally important for all aid agencies. The objective of promoting these fundamental values have at times been at odds with the pursuit of the objectives of economic growth and poverty reduction and therefore raises questions about the hierarchy of objectives for each agency – specifically because suspension of budget support has always been related to disputes over underlying principles and never to poor performance on poverty reduction. The different approaches to these issues by various development partners tend to undermine harmonization and to complicate the policy dialogue, whereas the attempts by development partners to push policy changes through dialogue and conditionality endangers national ownership and have rarely been successful.

Policy dialogue has had little, if any, influence on country policy. The dialogue's focus - in most countries - on negotiation and monitoring of performance targets and disbursement conditionality has created tension that is not conducive to an open dialogue on policy solutions for identified bottlenecks to economic growth and service provision. Dialogue works well only under particular circumstances characterized by trust between government and development partners and fundamental agreement on overall policy frameworks.

Budget support has helped to make progress towards the aid effectiveness commitments expressed in the Paris Declaration, even if benefits have not been as strong as expected. Harmonization among development partners has been facilitated by establishment of multi-donor budget support structures, and development partner alignment has been improved by linking budget support to national policy frameworks. Progress on government ownership of the operations appears more uneven and is negatively affected by the development partners' attempts to influence government policy formulation and implementation management. Limited country-dependence on budget support funds – i.e. mainly in middle income countries - and few development partners involved can also facilitate effective budget support due to stronger country ownership and simpler harmonisation.

Budget support is associated with higher predictability than other aid modalities, but remains a high risk instrument for the recipient governments as issues concerning the underlying principles can lead to significant reduction or suspension of budget support operations.

Transaction costs have proven to be significantly lower for budget support as compared to non-programme based operations of similar financial magnitude, but not lower than for other programme-based approaches. However, transaction costs are still significant for both development partners and recipient governments with extensive scope for further reduction.

Lessons for Future Budget Support Operations

Development partners need to reduce their expectations of the impact of budget support to more realistic levels. Overloading of budget support operations with multiple objectives, performance targets and disbursement conditions should be avoided.

Budget support can be an effective instrument where the development partner and the recipient government agree on the main policies and expenditure priorities. But policy dialogue is unlikely to lead to policy changes unless the government

specifically seeks expertise and experience from development partners to solve identified problems.

It is questionable if the use of performance tranches adds substantially to the level of development partner influence on policy or as an incentive to improved performance, whilst negative effects on predictability and other aspects of aid effectiveness are noted.

Budget support funding can help to scale up public service access, without increasing the fiscal deficit and endangering macro-economic stability. Such an expansion can have positive effects on non-income poverty and in the long term provide a basis for economic growth and reduction of income poverty but such impact is unlikely to be measurable within the typical 3-5 year duration of budget support commitments. Moreover, the sustainability of such results depends on continued funding and therefore on development partners' exit strategies, which have not been explicitly formulated.

Improving the quality of public services is an issue yet to be properly addressed in most countries. It requires addressing human and material resource management - including the efficiency of bureaucratic hierarchies and incentives of service outlet personnel – in order to link additional financial resources to service output. Experimentation with new policies and search for solutions to service quality problems may be supported through dialogue among sector experts on both government and development partner side, linked with targeted technical support and capacity building, and best pursued as part of SBS. This can also be a fruitful use of BS in countries with low aid dependency, where domestic revenue is available for scaling up of successful pilot programmes.

In contrast, GBS dialogue and capacity building support is best placed to advance macro-fiscal issues and high-level budget management - including sector allocations - as well as cross-sector public sector reform, such as improvements in PFM systems performance and anti-corruption measures.

Development partner agencies – particularly the smaller ones – need to identify a few sectors in which they have a comparative advantage and are able to consistently provide high quality inputs to a dialogue on solutions to sector problems.

Respect for human and civil rights, upholding democratic accountability and other aspects of good political governance may constitute legitimate entry conditions, but are unrealistic objectives for change under a budget support programme. Policy dialogue and conditionality are unlikely to promote political reform or change priorities as financial incentives rarely work for issues that are in conflict with cultural preferences and political power structures and, therefore, not backed by the

political elite. Guidance available to development partners' operations staff could help them deal with backsliding on such underlying principles, individually and collectively.

Development partners need to be flexible in cases of breaches of underlying principles in fragile countries, where socio-political rights are prone to occasional backsliding. Stable and predictable budget support can be crucial for developing a functional government in such fragile environments as other sources of revenue may be few and very volatile.

Technical assistance and capacity building remain important ingredients of budget support but may as well be provided as separate but linked operations. It has been most successful in relation to improving public financial management systems.

Benefits and results of budget support need to be more vigorously communicated to the public in both development partner and recipient countries. In recipient countries, this may promote public contribution to public policy debate. In development partner countries it may help to de-link support for budget support from individual cases of financial mismanagement involving recipient governments and emphasize the long term institution building objectives of budget support.

1 Introduction

1.1 Background

Budget support (BS) is a prominent aid modality in Danish Development Cooperation, and the Danish Strategy for Development Cooperation “The Right to a Better Life” (Danida 2012) indicates the ambition to make greater use of BS in order to promote ownership and mutual accountability. The group of countries receiving general budget support (GBS) from Denmark has nevertheless decreased from seven to four and now includes Mozambique, Ghana, Tanzania and Burkina Faso. Benin and Vietnam received Danish BS prior to Denmark initiating phasing out of development cooperation, and BS to Mali was interrupted due to developments in the political situation. Additionally, sector budget support (SBS) is used in a number of country programmes. SBS has been established as the preferred aid modality in bilateral sector programmes, but the number of SBS arrangements in Danish development cooperation remains limited. BS constituted 3.5% of Danish aid in 2011, of which GBS 2.1% and SBS 1.4%.

BS is “a method of financing a partner country’s budget through a transfer of resources from an external financing agency to the partner government’s national treasury. The funds thus transferred are managed in accordance with the recipient’s budgetary procedures”. Danida issued new guidelines for BS in 2012. In line with earlier practice, the new guidelines promote the view that BS consists of three elements that should interact in order to achieve country-specific goals: Financial transfers, policy dialogue and capacity development. The guidelines promote the approach of considering BS as an agreement (“a contract”) between the development partner (DP) and the partner country government based on shared objectives for poverty reduction, growth as well as good governance and democratisation.

The context for providing BS has changed significantly over the last 5-8 years and may continue to do so. From the side of DPs, there is an increased attention to the results agenda, and closer linkages to domestic security and commercial interests are significant factors in this development. At the same time, the economic growth and increased revenues in many partner countries together with the larger influx of foreign direct investment, public investments from non-OECD partners and increased access to international capital markets have decreased the importance of official development aid (ODA), including the significance of BS as a source of

general revenue. Globally, BS has constituted some 3-4% of total ODA since about 2002.

There is a wide range of expectations from BS, including increased DP influence on countries' policy and administrative reforms or other political issues in the partner country, increased focus on general principles of good governance, increased focus on national poverty eradication plans, increased budget transparency, increased effectiveness of the public administration, further alignment to national systems and promotion of the aid effectiveness agenda among DPs, better predictability of aid flows, and lower transaction costs compared to other aid modalities.

A joint evaluation of GBS 1994 – 2004 was commissioned by a group of DPs and completed in 2006 (IDD et al 2006). The evaluation involved country studies of Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam. These countries received in average 15% of their ODA as BS in 2004; with a range from 4% to 31% (IDD et al 2006, Annex B). BS has financed up to 25% of total, annual public expenditure, this percentage being reached in only a couple of countries.

Since 2006, a number of evaluations studies have been undertaken at both country and aid agency level. The considerable portfolio of evaluations now available include important lessons as to which of these many expectations BS has and has not met under various conditions.

1.2 Purpose

The objective of the current evaluation study is to establish an overview of current evaluation evidence regarding BS, which can enhance the dissemination and use of evaluation findings. The study will primarily be intended for use in connection with preparation and implementation of BS arrangements and is intended to supplement formal requirements and guidelines with information on practical experience with BS in the field. As such, the evaluation study will contribute to clarifying the theory of change upon which BS interventions can be based.

1.3 Methodology

The current study is based on the findings of a number of completed evaluation studies concerning BS. Those studies can all be considered independent of the agencies responsible for the BS operations being evaluated. They include three categories, namely:

- Country specific evaluation studies, including country studies in Ghana (2007), Nicaragua (2010), Mali (2011), Tunisia (2011), Zambia (2011), Tanzania (2013), and South Africa (2013);
- Agency specific evaluation studies, including operations by the World Bank (2010), DFID (2011), the Netherlands (2013) and Austria (2010);
- Thematic studies on BS, including a study on SBS (2010) and a study on BS in fragile environments (2011).

Most of the more recent country and agency specific evaluations include both GBS and SBS arrangements.

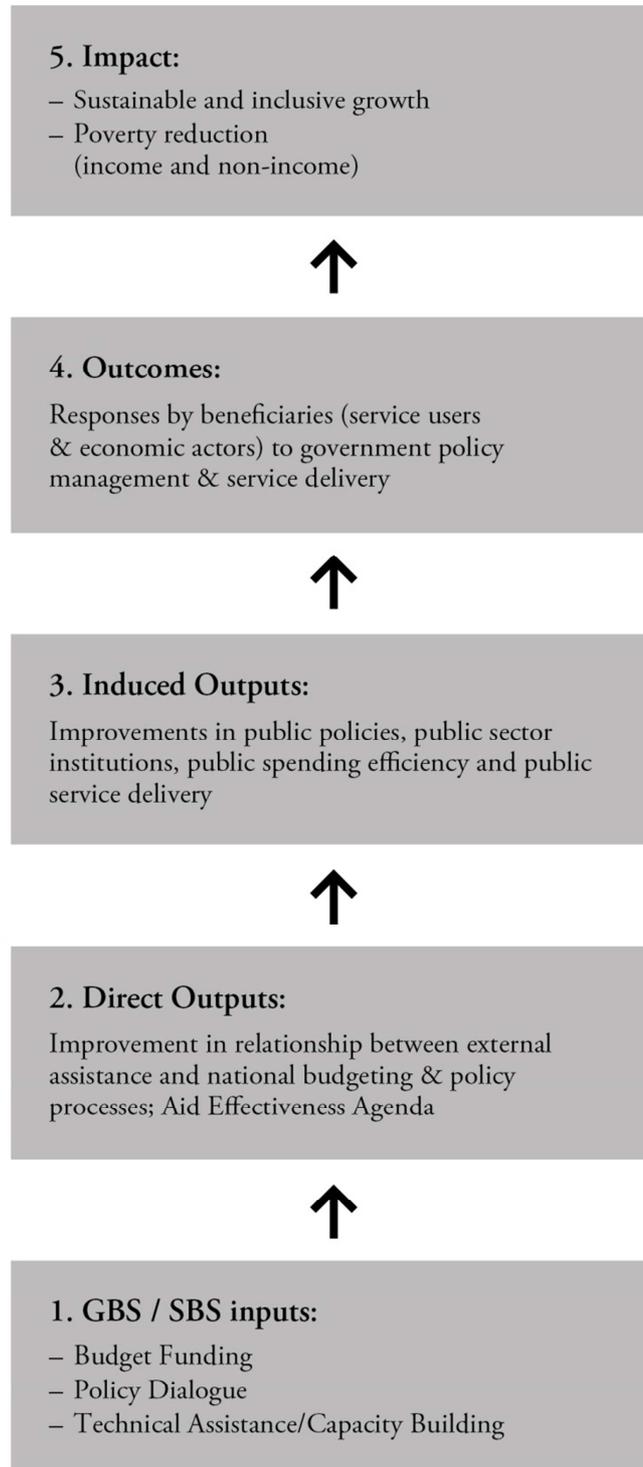
The methodology used by the evaluators varies somewhat among the evaluation studies. However, the studies generally seek answers to the same broad set of questions regarding the effects of BS and to learn lessons for the decisions, design and implementation of future BS operations. The main elements of the BS intervention logic assumed by the evaluations are quite similar, and illustrated in Figure 1 below. Moreover, a common element in all of the studies in those three categories is the use of country case studies.

The current study attempts to provide an overview of the findings from these studies, including emerging consensus on findings where they exist, and to discuss differences in findings on the same subject, where this is the case. The findings from the studies completed in recent years have been compared to the findings from the joint evaluation 2006 in order to establish the extent of consistency in findings and changes over time.

Annex B provides a schematic overview of the evaluation studies which form the basis for the current study, including the period of operations covered and the selection of countries for case studies. Methodological issues are discussed in more detail in Annex C.

In addition to the BS evaluation and thematic studies mentioned above, the current study also refers to other recent literature, which draws lessons from BS operations. A complete list of literature used for the current study is provided in the List of References – Annex A.

Figure 1. Intervention Logic for Budget Support Operations



2 Effects of Budget Support

2.1 Poverty Reduction

Income Poverty

Reducing income poverty is arguably the ultimate objective of most BS operations. It is therefore also the last link in the logical chain of cause and effect that would in principle lead from the BS operations to the anticipated impact. The effect on poverty is long-term, and expected to occur with substantial time lags. There are inevitably many other – potentially more important – factors influencing income poverty reduction than BS operations. Finally, poverty data is not readily available and is typically gathered with substantial intervals in most countries. Consequently, measuring and attributing changes in income poverty reduction to BS operations during a relatively short period of 5-10 years is notoriously difficult.

The evaluation studies have taken different approaches to this problem. The recent country studies using the OECD methodology have attempted to determine BS links and contribution to poverty reduction where income poverty data has been available. These evaluations show mixed results, concluding that reduction in income poverty has been achieved and partially influenced by BS operations in some countries (Mali and Tunisia), whilst in other countries, income poverty has not been significantly reduced despite substantial amounts of BS (Tanzania, Zambia and Nicaragua).

Three of the agency-specific evaluations consider impact on income poverty reduction and conclude that the evidence is too limited to reach conclusions, or that any available data points to insignificant differences in poverty reduction between countries that received substantial amounts of BS and comparable countries that did not (IEG 2010 p.13 & 84; IOB 2013 p.18; ICAI 2012 para. 2.58).

Any causal relation to BS may also be difficult to assess due to a lack of clear and comprehensive pro-poor focus of national growth strategies, sometimes relying on unproven assumptions about the links between economic growth and reduction in income poverty. Poverty is predominantly a rural problem, and often the inability to transform economic growth into poverty reduction is linked to the failure to reach the rural poor through targeted programmes or to unblock structural constraints to growth of the small-scale agricultural sector or other poverty related productive sectors (e.g. Zambia, ref. Caputo et al 2011 p.19; Tanzania, ref. ITAD 2013 p. viii; Nicaragua, ref. IOB 2010 p.12 and 102).

Non-Income Poverty

BS countries are also associated with non-income poverty – often using the status on select MDGs as relevant indicators of non-income poverty. Whilst clearly a reduction in non-income poverty is noted in many of the BS countries, evaluation reports again take different approaches to assessing and attributing changes to the contribution of BS operations. Yet, the close links between social service delivery (ref. below) and many aspects of non-income poverty as expressed by the MDGs make a more convincing case for a causal links to BS. Significant improvement in access to education by the poor is the most common contributing factor to reduced non-income poverty, reported in Tanzania, Zambia and Nicaragua, all of which saw little improvement in income poverty levels.

2.2 Macro-economic Performance

Macro-economic Stability

Macro-economic stability has been an important element of BS operations and is considered one of the ‘underlying principles’ (and therefore entry conditions) for BS in all countries concerned. At the same time, BS can have an important effect on maintaining macro-economic stability. Country evaluations almost uniformly report on achievement of this objective even if there are diverging views on the extent to which BS operations contributed (e.g. IOB 2013 p.144). BS funding has assisted countries to maintain fiscal discipline and keep fiscal deficit at manageable levels, and has in some cases been used primarily to pay off domestic debt (Nicaragua and to some extent Ghana and Mali, ref. IOB 2013 p.123) – thus helping to keep domestic interest rates low - whilst in others it has allowed an expansion of expenditure without an increase in the fiscal deficit (Tanzania, Ghana). In Mali, BS helped preserve a buoyant level of public investment, which partially compensated for the stagnation of private investment.

The effect is – not surprisingly – more pronounced in countries where BS constituted a significant share of government’s total budget resources, whereas in middle-income countries with substantially higher levels of domestic revenue, the effect has been moderate (Tunisia) or not considered an objective of BS (South Africa).

Economic Growth

With economic growth being one of the cornerstones for reduction of income poverty, it has consistently been an important objective of BS. Many of the BS countries have achieved substantial success in increasing the rates of economic growth during the periods of BS. Expanding public expenditure has a positive effect on growth, but this effect is arguably not stronger with BS than with other

funding modalities. Nevertheless, some of the evaluations (e.g. IEG 2010, IOB 2011 and ITAD 2013) identify a lack of comprehensive national growth strategies with a pro-poor focus. Whilst the growth strategies – and the supporting BS operations – have been able to resolve some bottlenecks to growth, other bottlenecks have not been addressed and have limited the rate of growth, or - as mentioned above - have limited the effect of economic growth on income poverty levels. Some of the most successful countries (Vietnam, ref. IEG 2010 p. xvi-xvii) had a growth-oriented reform momentum already underway at the time BS was initiated, but there are also examples of countries where BS operations have had a substantial effect on the formulation and execution of economic growth strategies – such as the support for the export-oriented economic sector in Tunisia.

2.3 Service Delivery

Strong evidence has been provided in most studies that access to basic services has improved as a result of BS programmes. The service sectors most frequently supported⁴ by BS operations (and most often the subject of SBS programmes) are education and health, whereas roads, water and sanitation, justice and agriculture have each been included in only a few of the countries evaluated. Support to private sector development and trade facilitation was provided by GBS in Tunisia and Ghana, and these sectors have also frequently featured as a focus for World Bank PRSCs where unblocking specific constraints to private sector investment has been a prominent feature.

Access to Public Services

Among the most prominent results of BS has been the expanded access to basic education in many countries (e.g. Ghana, Mali, Tanzania, Tunisia and Zambia), but access to health services is also found to be a frequent effect of BS (Ghana, Mali, Zambia). In addition, expansion of the road network was found as an effect of BS in Tanzania and Zambia whereas access to both justice and water/sanitation improved in South Africa.

These improvements have in some cases been accompanied by progress in equality of access to services, whether geographical or across income brackets. For example geographical equity in access to education services was noted in Tunisia (Caputo et al 2011 p.25) and Tanzania (ITAD 2013 p.112), and improved access to justice for the poor/marginalised groups in South Africa (Particip 2013 p.80). Conversely, in Zambia the primary road network was improved, whereas rural roads remained low priority (Caputo et al 2011 p.18).

⁴ 'Support' here means support through the three elements of BS namely budget finance, policy dialogue and TA/capacity building. The coverage of sectors is typically expressed by the content of the PAF.

Quality of Public Services

Improvements in the quality of public services, that can be associated with BS, have been less pronounced. The large scale expansion of services in basic education (Ghana, Tanzania and Zambia) has been accompanied by a deterioration of average education outcomes such as examination pass rates. Nevertheless, the Tanzania evaluation suggests that the absolute number of pupils passing examinations may increase at least a few years after the major jumps in enrolment rates have taken place and that average outcomes eventually recover if sustained support to the sector is maintained (ITAD 2013 p. xiii). In countries where government policy has been to introduce free basic services, it is likely that BS has contributed to ensure that quality and equity of services has been higher than it otherwise would have been (Mokoro 2010 p. ix).

2.4 Public Finances

Public expenditure

Public expenditure has increased as a result of BS in most countries (IOB 2013 p.113), Nicaragua being a possible exception (IOB 2010 p.84), but the budget ‘multiplier’ effect has varied considerably (IOB 2013 p.182). The identified poverty reducing sectors have received most of the additional allocations, with the education sector arguably the largest beneficiary. This has helped countries implement new policies at full national scale. There are several examples of countries – such as Zambia - where priority sectors have received additional allocations in excess of funds provided by BS, thus contributing to making the government’s overall budget more pro-poor (Caputo et al 2011 p.17). Even if BS funds were relatively limited compared to other resources, the marginal effect on discretionary budgets in selected sectors has often been very significant and contributed substantially to allocative and operational efficiency of expenditure.

In the countries where BS provided a quite small contribution to overall budgetary resources – such as Tunisia and South Africa – BS funds provided additional resources and budget flexibility that allowed sectors to experiment with new policy initiatives (Particip 2013 p. viii; Caputo et al 2011 p.23) of which the successful ones would subsequently be scaled up through the government’s domestic resources (as in South Africa).

Domestic Revenue Mobilisation

Overall, the evaluation studies find that domestic revenue is not being replaced by external revenue from BS operations. In most cases, domestic revenue mobilisation maintains its ratio to GDP. On the other hand, strengthening of domestic revenue

mobilisation is rarely a specific objective of BS programmes, even if there are successful examples such as Rwanda (ICAI 2012 para. 2.26). This begs the question of the sustainability of the expanded budgetary expenditures that BS programmes have given rise to in most of the low income countries, and how the phasing out of BS programmes should be managed (ref. *Exit Strategies* below).

2.5 Good Governance

A distinction can be made between political and technocratic elements of good governance. Political governance in this case concerns democratic rights, such as free and fair elections and accountability of the government to a democratically elected body, but also civil rights, such as freedom of expression, protection of minorities and vulnerable groups as well as freedom from state violence.

Technocratic governance includes elements such as a transparent and effective government, among others, by means of improved financial management of the government, control of corruption, property rights protection, regulatory quality and rule of law (IOB 2013 p.41). Whilst this may be a useful distinction in many respects, it is worth noting some overlap between the two categories. In particular the rule of law is important for enforcing the political and civil rights. We will first discuss BS effects on aspects of technocratic governance and then turn to political governance issues in the subsequent section 2.6 below.

Public Financial Management Systems

Strengthening of PFM systems appears to be one of the most common, positive effects of BS across countries. This may not come as a surprise as both the government and the DPs have strong incentives to focus on the proper functioning of the PFM systems in connection with BS operations. For the key government interlocutors – the ministries of finance and planning – BS strengthens their policy coordinating and budget allocating roles (IOB 2013 p.143), whereas for DPs well-functioning PFM systems provide the key to managing and minimising fiduciary risk of BS operations and are therefore closely monitored (ICAI 2012 para. 2.7; IOB 2010 p. xvii).

These positive effects appear to be a product mainly of a strong government commitment to PFM reform from the onset of BS, often combined with technical assistance and capacity building targeted at elements of the government's PFM reform programme. Policy dialogue and particularly conditionality seems to have had little if any effect (Lawson 2012 p.14). Some evaluations suggest that countries generally make progress on the simpler aspects of PFM reform – such as changing the budget and accounts classification system - whilst the more complex issues remain unresolved – such as bringing extra-budgetary funds onto the budget or

managing contingent liabilities (IEG 2010 p. xvii). Budget transparency is one element that is often improved.

Whilst positive effects on PFM systems are widespread, they are not without setbacks. In Tanzania, a comprehensive PFM reform program has been in place alongside BS operations since the early years of BS, but weaknesses persist in core PFM functions. In recent years the government's commitment to implementing the planned reforms are being questioned by DPs (ITAD 2013 p. xi and ICAI 2012 para. 2.11). In Nicaragua progress was made until 2006, whereas reversal of reforms took place under the new government thereafter (IEG 2010 p.67).

Anti-corruption

The impact of BS on overall governance and levels of corruption is a debated issue with little meaningful evidence to support claims either way (IEG 2010 p. xvii; IOB 2013 p.143; ICAI 2012 para 2.8). Experience shows, that corruption is not a problem specific to the BS modality. Potentially, the risks of losses when funding through the national budget may be much greater than in project aid, where the funds are under the DPs direct supervision, but such supervision relates only to DP funded projects or at most to complementary government funded activities closely related to those projects. At the same time, the use of a large number of special funds and earmarked resources for projects contributes to lack of budget transparency, which makes it easier to misappropriate money intended for development. With BS – and in particular GBS – DPs can legitimately raise questions and demand answers about fraud and corruption concerning all of the government's financial resources and moreover engage more extensively with budget management and control⁵, as the DPs in principle contribute to funding part of all budgetary expenditure. The paradox is that corruption scandals may well be an expression of improved financial management, transparency and better auditing to uncover irregularities in recipient countries (IOB 2013 p.38 and 78), improvement which may have been achieved partly through BS operations.

Rule of Law

In a few countries (Nicaragua and South Africa) the justice sector has been a specific focus of SBS. In South Africa the improved access to justice was fully supported by the government which – partly on its own initiative – worked with civil society organisations for effective implementation at the grass-roots level. This programme had positive effects on access to justice in poor areas (Particip 2013 p.48). In Nicaragua, the SBS programme attempted to change the system for

⁵ The Tanzania evaluation provides details of how dialogue on anti-corruption issues has been handled in practical terms (ITAD 2013 p. xi-xii).

appointing judges – a highly politicized process which may have been supported by the government but not by the dominant political parties in parliament. Whilst the requisite laws and regulations were passed under heavy DP pressure, they were in practice ignored (IOB 2010 p.69).

2.6 Socio-Political Rights

Democratic Accountability

Improved transparency of government has been associated with BS programmes in most of the countries evaluated, and budget (or fiscal) transparency has been an important part of that development, on which BS programmes may have had significant influence (e.g. Tanzania, Tunisia, Nicaragua). However, the extent to which the availability of more and better information was used to hold the government to account varies significantly, with extensive use by civil society and parliament in Nicaragua (IOB 2011 p.83) and limited participation of citizens in Tunisia (Caputo et al 2011 p.25). The decisive factor for the effect of transparency has been the pre-existing capacities of civil society organisations and parliament.

Political reform have hardly ever been a result of or significantly influenced by BS programmes and BS did not make governments more accountable to domestic institutions such as parliament (IOB 2013 p.143). Even where BS conditions have been implemented, the output has often been a change of ‘de jure’ nature (e.g. a new policy statement or law) with little if any intension of the government to implement the policy or enforce the law (e.g. Nicaragua IOB 2011 p.69).

Some success has been noted in DP support to strengthening parliament and civil society (e.g. Tanzania and South Africa), thereby raising the capacity of the citizens’ representatives to demand accountability. But such capacity development has often been the subject of parallel project support, the exception being a capacity building component for non-state actors in the SBS programme to the justice sector in South Africa in addition to parallel support (Particip 2013 p.48).

Human and Civil Rights

Human and civil rights are part of the ‘underlying principles’ for many – particularly European – DPs, but not for all DPs providing BS. Except for issues such as equal access to public services including women’s access to reproductive health, human and civil rights are rarely included as specific elements in BS operations.

DPs have become increasingly critical over time about honouring the underlying principles. Especially from 2007 onwards, they began to withhold BS because of corruption or the failure to respect democratic or human rights. Sometimes the

suspension of BS was a reaction to a significant change in the situation in a country (such as Nicaragua), but more often DPs had been dissatisfied with the governance situation for a while but were suddenly given a clear reason to cancel support – such as in Zambia (IOB 2013 p.139).

BS has typically not been terminated or suspended because the DPs had doubts about recipient governments' dedication to their poverty reduction policies, but because the affected countries achieved poor results in the area of good governance. This involved both political problems as well as cases of corruption scandals. In theory DPs can influence good governance through selection of criteria that are attached to BS in advance, this barely happened in practice. In terms of the 'underlying principles', DPs reserve the right to suspend budget support when one of these conditions is not met. However, not all of the underlying principles had been met at the start of BS, and so it was not clear where DPs were going to draw the line. Suspending BS in response to corruption scandals, violation of human rights or elections, that were not completely fair, has rarely led to the change that the DPs wished to see (IOB 2013 p.20-21 & 148).

These examples serve to illustrate the general conclusion from the evaluation reports that DPs will be successful only in assisting the government in implementing political reforms for which there is already broad political support.

2.7 Aid Effectiveness

The move to BS was itself an expression of the intent to improve aid effectiveness – as formulated in the Paris Declaration on Aid Effectiveness 2005 – with its focus on country ownership, harmonisation and alignment; and the anticipated benefits of improved aid predictability and reduced transactions costs. Whilst BS has not become the dominant aid modality – except in a few select countries – and therefore could only hope to deliver a partial contribution to that agenda, the aid effectiveness agenda within the BS modality also remains unfinished. Progress has been variable across countries and components of the agenda's components.

Alignment

Progress has arguably been the strongest as regards alignment. BS reflects good, though not perfect, alignment with national development strategies and is improving over time. Stronger alignment is possible where the national development strategy has a prioritized and costed framework and a strong annual review process. However, GBS programmes (e.g. World Bank PRSCs) occasionally include measures outside the national development plan, reflecting evolving issues,

which may have been solicited by clients (IEG 2010 p.88) but may also include measures demanded by DPs, e.g. anti-corruption measures following scandals.

Ownership

BS programmes have enjoyed a higher level of country ownership compared with preceding structural adjustment lending, particularly at the level of core ministries. BS helped to improve dialogue between core and line ministries, but engagement with parliament and civil society has been much less prominent (IEG 2010 p.88), thus emphasizing the potential gap between government ownership and country ownership. However, the emerging differences on priorities between DPs, and government and the resulting DP attempts at influencing the policy agenda through policy dialogue, risks undermining government ownership as seen in recent years in Tanzania (ITAD 2013 p.x-xi) and in Nicaragua during last years of the BS programmes (IOB 2010 p.11).

Harmonisation

Harmonisation has been the most challenging aspect of the aid effectiveness agenda. The evaluations of Mali, Tunisia and Zambia suggest that the principal bottlenecks in the harmonisation process comprise poorly coordinated sector interventions, unrealistic disbursement conditions and performance targets, and a multiplicity of coordination structures (Caputo et al p.5). These findings were confirmed in Tanzania and Nicaragua (ITAD 2013 p.xi; IOB 2011 p.11) whereas harmonisation within BS in South Africa was a minor issue due to the EU being the only BS provider. In Tunisia, effective harmonisation was achieved by the three DPs providing GBS (EU, WB and AfDB), who shared the main objectives and approaches.

Only one country – Vietnam, with strong policy ownership – has apparently fully met the original expectations of harmonization around a single Performance Assessment Framework (PAF), derived from the Poverty Reduction Support Paper (PRSP). Later on the underlying PRSP was merged with the government’s formal planning process, and subsequent policy matrixes have been based on annual reviews of the State Economic Development Plan (IEG 2010 p.46).

A particular harmonisation issue has developed during the past ten years in relation to responses to the violation of human rights, poor respect for democratic principles and other socio-political issues. When BS was suspended under such circumstances, DPs did not always act in harmony and sent mixed signals to the government (IOB 2013 p.21). Among the countries covered by evaluation case studies, sanctions for non-compliance were applied in a harmonised fashion only in Nicaragua, whereas individual DPs have taken diverging positions in Zambia,

Tanzania, Rwanda and Uganda (IOB 2013 p.90, 136, 141-142). Part of the problem is that some, major DPs (notably the World Bank) do not focus on political values, as such issues are outside their remit.

Predictability

Conclusions regarding predictability of disbursements are overall positive and point to an improvement since the early days of BS when predictability was a main issue (IDD 2006 para. S21). This concerns both the annual disbursement of commitments made and the medium-term predictability of annual commitments. Challenges remain regarding in-year predictability where some countries have suffered from delays in disbursement until the last quarter of the fiscal year (e.g. Mali). There are also often problems with providing the commitments in line with the budget preparation calendar, so that BS funds may be adequately taken into account before the budget is finalised, although this issue has been successfully addressed in some countries (e.g. Armenia ref. IEG 2010 p.28).

However, a specific issue regarding predictability has evolved since the early years of BS and concern fulfilment of the 'underlying principles'. It is difficult to determine clear criteria and threshold values for these principles. Therefore, potential aid cuts are difficult to predict for the recipient (IOB 2013 p.98). There is a risk that in case of a disagreement, DPs could jointly withdraw their support and the recipient country would be confronted with a large gap in its budget. It is for this reason that some African countries prefer to have project-based support (IEG 2010 p. xxviii)

Transactions Costs

On the ability of BS to reduce transactions costs the picture is not clear. There seems to be consensus that the transaction costs for each currency unit of aid disbursed were considerably lower for BS than project aid, but higher than for previous or parallel forms of programme aid, such as balance of payments support and debt relief (IOB 2013 p.124). However, two issues arise. First, what aid modality is being replaced by BS; and secondly, even if the aggregate transactions costs remain unchanged, are the costs being shifted around between the parties involved.

On the first issue, some evaluations suggest that BS has mainly replaced earlier types of programme aid and therefore that transactions costs may not have decreased, or at most to a modest extent. Other evaluations (e.g. ITAD 2013) compare to traditional project support as the counterfactual to BS and find on that basis that transactions costs for BS are much lower than for the alternative aid modalities. Only South Africa is a clear cut case, where SBS has been provided and

essentially replaced project aid, and even here the conclusions are not uniform across sectors (Particip 2013 p.28).

On the second question, transactions costs for DPs appear to have increased – particularly in countries with many DPs participating in BS and where many sectors are targeted by jointly monitored GBS operations - whilst the costs for line ministries and other sector institutions may have remained virtually unchanged (IEG 2010 p.52 & 90). Studies have diverging findings regarding changes in transactions costs for the central coordination ministries of BS, typically ministries for finance and planning⁶.

Nevertheless, there seems to be consensus among the evaluations that transactions costs are much higher than necessary and that the expected reduction has far from met expectations.

2.8 Policy Dialogue, Conditionality and Results Monitoring

Comprehensive structures for effective policy dialogue have been developed in most of the BS recipient countries, particularly in those with many DP contributors to and significant amounts of BS. However, the results of the dialogue have rarely met expectations. Two issues appear to have led to disappointment. One issue is DPs' often unrealistic level of expectation and attempts to overload the dialogue process. The other one is the potential tension between the policy formulating or problem solving aspects on the one hand and the target setting and results monitoring aspects related to disbursement conditionality on the other hand.

According to the EU's Budget Support Guidelines (EU 2012), policy dialogue includes two distinct features: First, "it provides a framework to take stock of the respective commitments and to assess progress on both sides"; Second, "it can be used as a forward-looking tool e.g. for exchanging experiences and information on the worldwide best practices, models and approaches regarding the policies supported, so that the partners can learn from each other and eventually strengthen the respective knowledge base and capacity".

The two features do not easily co-exist within the same organisational framework for policy dialogue. The tension is illustrated by examples from Ghana and Tanzania. The evaluation of BS in Tanzania 2006-13 finds a declining level of ownership by the government over the process, prompted to a large extent by a declining degree of trust in the Government, expressed explicitly and implicitly by the DPs. This in turn led to an increasing number of performance indicators

⁶ IEG 2010 suggests that such costs have decreased even in countries with no other provider of BS than the World Bank; whereas IOB 2013 finds that transactions costs for the coordinating ministries have increased.

reflecting the sum of all DPs' individual preferences and requirements. The overwhelming number of indicators and poor government engagement in defining them resulted in lack of consistency, coherence and measurability of the indicators. Consequently the dialogue structure becomes dominated by detailed indicator issues with no space for a problem-solving and experience sharing policy discussion. To the extent that performance indicators are used as disbursement conditionality, the focus of the dialogue becomes a negotiation of the details of the indicator targets and dispute over whether the targets have been met (ITAD 2013 p.32-36). A similar situation is also found in the earlier years of BS in the Ghana evaluation 2003-05 where the use of the PAF both as a monitoring framework and as a conditionality mechanism created contradictory incentives in which government has sought to establish modest performance targets (so as to secure predictable levels of BS) while DPs have pushed for more ambitious targets. It created a relatively confrontational structure of dialogue, in which there has been much attention to the detail of assessment processes, often at the expense of open discussion over strategic problems and their potential solutions (ODI 2007 p.8).

DPs have primarily attempted to exert influence on policy and governance by means of the annual agreements that accompany the delivery of BS. For that purpose – and in addition to the ‘underlying principles’ that must be respected – a PAF matrix has been developed every year. The PAF indicators entail, on the one hand, policy or measures (process indicators), and simultaneously outcomes. Whilst there is more ownership with outcome indicators because recipients can determine their own policies, in practice reliable annual figures are rarely available or the influence of the government on the outcomes is marginal. DPs have been eager to use the PAF to exercise control but have had different opinions about controlling via outcomes (results) or via policy (processes). Therefore, both were done in practice. DPs also wanted to exercise control in many areas, which resulted in extremely extensive frameworks, and it was not always clear where the priority lay. Moreover, indicators were not always relevant, could not always be reliably measured every year, and could not always be influenced by the government (IOB 2013 p.148-149).

It is important to bear in mind these disappointing experiences, but one should also recall other cases in which policy dialogue was constructive and effective (e.g. South Africa, see earlier references) and where the PAF has been developed and monitored in a collaborative and effective way (e.g. Rwanda and Vietnam, IEG 2010 p.40 & 46). The political process of decentralisation in Mali was also subject to extensive joint monitoring through the PAF. In combination with extensive institutional development support, this had a decisive influence on the speed with

which the government proceeded on the reform (ECO-Consult et al 2011 paragraphs PC8 and 274-276).

At the more general level, the IOB 2013 study concludes that DPs through BS have had some success in promoting reform of PFM systems and in increase of budget allocations to poverty reducing priority sectors. The influence on governance reform has been very limited.

3 Lessons regarding Budget Support Design and Execution

3.1 Setting Realistic Expectations to Results

The first and most important lesson from the evaluations is that DPs potential influence on government policy is very limited, and that the BS programmes financial resources do not provide an incentive to change that. Even where a government in financial distress caves in to disbursement conditionality, it typically leads to only formal fulfilment of the condition without effective implementation or enforcement of the measure (e.g. Nicaragua, IOB 2011 p.46; and for a wider cross-section of countries, IOB 2013 p.143). Government ownership and DP alignment are key to an effective policy dialogue which may contribute to policy formulation, increasing the pace of reform and solving specific implementation problems along the way.

Secondly, the evaluation findings regarding effects of BS programmes highlight the need for DPs to be realistic about the expected outcomes and impact. Whilst the findings suggest that some positive and robust results have been identified across most countries (such as scaling up public service access and improving PFM systems), confirming findings from the joint evaluation 1994-2004, most other results have been product of the specific country context in terms of (i) the relationship between DPs and the government, (ii) the relationship between the government and other domestic political actors, and (iii) the mix and convergence of objectives amongst DPs themselves.

Some of the most notable results of BS programmes have been found where there have been few DPs and strong economic and political incentives for the recipient and DPs to work towards common objectives (Tunisia and South Africa⁷). Few DPs involved means that BS becomes more focused and avoids dilution by diverging priorities of multiple DPs. Positive results are also found where DPs have fully supported government policy on expanding access to public services (mostly in education and health, but also positive examples from the roads and justice sectors). As BS programmes typically have more than one objective, being clear

⁷ These two countries had entered economic/political agreements with one of the major DPs in each country – the EU – namely an Association Agreement in the case of Tunisia (now considered a ‘neighbourhood country’) and a Trade and Development Cooperation Agreement in the case of South Africa. The special support by the EU to the post-apartheid regime’s early days is also mentioned as an exceptional basis for mutual trust.

on the priorities and the hierarchy of objectives is important - both for the DP internally, and in relation to other DPs and the government.

Different scenarios for Budget Support Effectiveness

As regards effectiveness of BS under different degrees of ownership, alignment and harmonisation, the seven country evaluations present four scenarios. Sometimes the situations in different sectors within the same country fall in different categories.

(i) *Shared priority and strategic approach*: Where there is strong government ownership of the policy agenda and a congruence of fundamental sector interests and strategies between the government and the DPs at large, the policy dialogue can be effective in sharpening the focus on specific, time-bound actions by identifying and including relevant targets and triggers in the PAF and discussing possible solutions to implementation problems. The financial resources will then help the government scale up implementation of its policy. Examples include health and education in Zambia and Mali, private sector development in Ghana, and the roads and education sectors in Tanzania).

(ii) *Shared priority and search for solutions*: Where the government is intent on reform to solve well-identified, priority problems and is keen to experiment with new policy initiatives, the policy dialogue can be effective in helping the government identify and formulate new policies - including through drawing on international experience – provided that the DPs involved act in harmony and accept government leadership in the process. The financial resources can then provide the fiscal space for funding the piloting of the new policies, even where the funding as share of the government budget is limited. In fact, low financial dependence on BS promotes government ownership and DP alignment. Examples include the health and justice sectors in South Africa and reform of the export-led economic sector in Tunisia.

(iii) *Diverging priority and strategic approach*: Conversely, when objectives between government and DPs (or among DPs) diverge or when opinions about the best strategy to realise these objectives are sharply divided, there is an inherent contradiction between ownership and DP influence which is likely to lead to ineffective BS programmes. This situation leads to tension and declining trust between the parties and will eventually reduce the substance and quality of the dialogue. Examples include the agricultural sector in Zambia and most sectors except roads in Tanzania.

(iv) *Low government priority*: In sectors which the government does not consider priorities, its ownership of a BS programme is likely to be low and

even if there is no significant divergence between government and DP opinions on strategy, BS is not likely to be effective. Examples of this situation include the domestically-focused economic sector in Tunisia, and rural water & sanitation in Zambia. There is even a risk that a simple replacement of project funds by BS could lead to a reduction in the total flow of funds to such a sector (Caputo et al 2011 p.24 and 18).

Trade-off between poverty reduction and other objectives

During the past decade, a particular problem has evolved concerning the trade-off between the socio-economic objectives (economic growth and poverty reduction) on the one hand and the ‘underlying principles’ on the other hand, especially the socio-political aspects (democratic principles, adherence to international agreements, human and civil rights).

Some of the strongest performers on poverty reduction (Vietnam and Rwanda) have had poor performance on some of those underlying principles, and the evaluation of Nicaragua suggests that a similar conflict developed there after the 2006 elections, eventually leading to suspension of BS. In another example, Zambia in 2010, DPs supporting education decided to suspend sector support because the ministry was showing poor commitment to carry out what were considered necessary reforms in the ‘underlying’ area of PFM, despite the education targets in the PAF for GBS being fully met (IOB 2013 p.75).

As DPs have reduced or suspended BS only as a result of perceived non-adherence to the underlying principles, it is important that BS programmes include specific mitigating measures in response to such suspension and that these mitigating measures help support progress in or sustainability of socio-economic results, e.g. by identifying the most important and vulnerable results of BS to be protected as well as alternative modalities for their continued support⁸.

3.2 Choice among Budget Support Options

General Budget Support or Sector Budget Support

Although GBS and SBS in many ways are very similar in practice (Caputo et al 2011 p.13) and GBS and SBS from a global perspective appear to perform equally well in the same countries (IEG 2010 p.81)⁹, the evaluation studies suggest that a common

⁸ ICAI 2012 p.8 provides an example of how DFID redirected BS resources under such circumstances.

⁹ This does not mean that good performance of GBS and SBS always goes hand in hand at the individual country, as witnessed in Tunisia where GBS was well harmonised and aligned between donors, whereas SBS in the education sector was not.

understanding of the two instruments' relative strengths and weaknesses is emerging.

GBS is best placed pursue allocative efficiency across sectors through its high level focus on the budget formulation and execution mechanisms, as well as policy dialogue and technical support to cross-sector reform issues such as PFM systems improvement, decentralisation and public service reforms (Caputo et al 2011 p.19; IEG 2010 p.xiii).

SBS appears best placed to support specific problem solutions at sector level as it can facilitate in-depth policy dialogue between sector experts on both government and DP side, complemented as needed by related technical assistance (ICAI 2012 para.2.19; Caputo et al 2011 p.19), though this is an area of substantial potential yet to be fully developed (Particip 2013 p.107). Sector dialogue has mostly revolved around policy and financial inputs, being the areas with which both DP representatives and their government counterparts have been most comfortable (ODI 2010 p. 26). In particular, SBS has still not responded well to addressing challenges in the downstream processes for management, delivery and accountability for services (ODI 2010 p.xi). The focus and depth of the sector dialogue and the quality of experts involved on both sides may be explanatory factors as to where progress has been made (Caputo et al 2011 p.13, and IEG 2010 p.90) and there are examples where this has worked well e.g. in Mali (ECO-Consult et al 2011 para. 303-304). In order to be able to contribute effectively to this dialogue, DPs – particularly the smaller agencies as highlighted by the ADC review (ECORYS 2010 p.91) – need to identify a few sectors in which they have a comparative advantage and are able to consistently provide high quality inputs to a dialogue on solutions to sector problems, whether through DP officials, technical advisers, or institutional links to domestic specialist institutions (public or private).

GBS and SBS are complementary. In the absence of SBS, GBS can easily become overloaded with sector level performance indicators and conditions and lead to coordination problems in respect of sector working groups as well as related delays in performance assessment and disbursement of GBS (IEG 2010 p.90-91). When that happens, the central policy dialogue and performance monitoring structures may provide inadequate space for in-depth discussions of sector issues and for effective target setting.

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

the government leadership (Caputo et al 2011 p.26). The same conclusion may be drawn regarding GBS as regards support to broad economic and political reforms.

Several studies warn that tight earmarking and traceability of funds to selected sectors – as often seen under SBS - can undermine the allocative and technical efficiency of the budget, by throwing the inter- or intra-sector budget allocations off balance (IOB 2013 p.53; Mokoro 2010 p.xi). This may be a particular danger if DPs have a set of preferences different to that of the government, and try to impose them on resource allocation processes by providing sector, sub-sector or line-item specific resources; or if DPs do not trust national budget systems, in which case efforts need to be made to strengthen the budget management process (e.g. Ghana, ODI 2007 Annex 7, p.45; and Nicaragua, IOB 2010 p.46).

However, from a pure DP perspective, SBS may be seen as a lower risk option to GBS as similar objectives might be pursued through the two instruments. In contrast to GBS, SBS does not link the DP to the recipient government's performance at large, thus limiting the political fallout from financial scandals involving the recipient government in other sectors (ODI 2007 annex 7, p. 45).

Variable tranches

BS is usually linked to a PAF that contains results-based indicators. Indicators may constitute a mixture of outcome, output, activity and process/input measures. DPs disburse fixed tranches of BS based meeting targets for selected PAF indicators. Some DPs, especially (though not exclusively) the EU and its member states, disburse part of their BS in terms of variable tranches in proportion to the degree of results achievement for selected indicators. Outcome indicators have comprised the largest indicator category accounting for almost 40% of the indicators (Eberhard and Beynon 2012 p.4).

The evaluations express doubts as to the value of variable performance tranches – other than as a measure signalling results-orientation to the DP's domestic audience - whilst others do not discuss or conclude on the issue¹⁰. Both theoretical and practical issues are highlighted.

¹⁰ Although not part of an independent evaluation, it may be worth noting an unpublished discussion paper by Eberhard and Beynon 'Conditionality, Predictability and Performance: A Study of EDF 9 General Budget Support Programmes' 2012, which deals extensively with the issue of variable tranches in BS operations for the African, Caribbean and Pacific countries under the 9th European Development Fund. The paper suggests that there is no correlation between the share of a variable tranche and its disbursement rate. However, a number of other factors are identified that are likely to be affecting this relationship. Moreover, further analysis of health and education outcome indicators suggests that there is a significantly positive incentive effect by the third year of a programme, also that the incentive effect may be stronger in countries with a weak policy environment than with a strong policy environment, although other factors may be at work and

The World Bank has expressed the belief that disbursements according to outcomes achieved are premature, as outcome indicators rarely change from year to year, the databases in recipient countries are typically unreliable, and attributions between policy measures and outcomes achieved are often difficult to establish (IEG 2010 para. 2.34). For those reasons it is difficult to link sanctions to the failure to meet objectives (IOB 2012 p.138).

In practical terms, it is questionable if the use of performance tranches adds substantially to the level of DP influence on policy (ICAI para 2.34) and as an incentive to improved performance, whilst negative effects on predictability and other aspects of aid effectiveness are noted in several evaluations.

The Tanzania evaluation found no evidence of performance tranches making a difference to the speed or focus of policy reforms (ITAD 2013 p.124). On the contrary, the evaluation of DFID's BS found that including a performance tranche in a BS operation appears only to reinforce the tendency for dialogue processes to become more formal and legalistic. The amounts of funding at stake for any given target or policy action are not large enough to create a significant financial incentive. The recipient government see performance tranches either as an unhelpful element of unpredictability in BS or as DPs trying to demonstrate their influence for a domestic audience. As performance assessments routinely rate government performance as 'partially satisfactory' and performance tranches vary only by small sums each year, this demonstration or signal may not be clear enough to be effective (ICAI 2012 para 2.47-2.48)¹¹.

Even if disbursement of the performance tranche is typically planned for the fiscal year following the assessment, the discussion about to what degree objectives are achieved often leads to delays (IOB 2013 p.98). For instance in Mali, delays especially with variable tranches, led the government to take out expensive domestic loans (IOB 2013 p.105 and Caputo et al 2011 p.14).

Variable tranches may negatively impact other aspects of aid effectiveness as well. One evaluation concludes that variable tranches go against the idea of ownership, and that they can compete amongst each other or with the remaining indicators, thereby rendering the agreed incentive system less coherent (IOB 2013 p.138). Other evaluations highlight the additional difficulties in harmonising BS disbursement mechanisms and their signalling effect (in general ref. IEG 2010 p.52;

further analysis of this issue is merited. If such effects are confirmed through further research, it may suggest that variable tranches should be larger in countries with relatively weak policy environment.

¹¹ For instance, the disbursement rate in South Africa was 99% (Particip 2013 p.33), which should be seen in the context of frequent riders to the financing agreements for BS including changes to the performance indicators and their targets.

and in Zambia ref. IOB 2011 p.22). In Tunisia, variable tranches were excluded from GBS exactly for the sake of harmonising disbursement mechanisms among the DPs (DRN 2011 p.23), whilst it was maintained for SBS where the EU was the sole development partner.

Stability Support in Fragile Environments

Danida, as well as many other DPs, consider BS to fragile states as a special case. In fact, the rationale for GBS may appear to be particularly compelling in fragile states. In these situations, state-building is supposed to be at the core of effective DP engagement (Oxfam 2011, p.19). GBS has been found to be a potentially effective instrument in terms of strengthening various government capabilities, not least PFM systems (ref. above), also in fragile situations (e.g. Lao PDR in IEG 2010 p.12 and p.57). Even if this does not cover all aspects of state-building, it is a critical part of the process. Using government systems avoids duplication and ensures better aid alignment to government priorities, and may be considered all the more crucial when government capacity is extremely weak. On the other hand, using GBS is premised on a number of (explicit and implicit) assumptions that may not be valid in fragile situations. This concerns in particular macro-economic stability and observance of other underlying principles (particularly socio-political issues), which are high risk factors by the very nature of country fragility.

It is important to make a clear distinction between GBS and stability support to fragile or post-conflict states. GBS aims to support a partner country's poverty reduction policy and assumes that the partner country fulfils the requirements to implement effective policy in this area. Stability support should not assume this. Rather it should aim at creating economic stability and help finance running expenses in order to prevent what is – at that moment – a fragile state from deteriorating any further (IOB 2013, p.23). In that way, BS may contribute to macro-stabilisation and restore the state institutions needed to improve observance of the underlying principles.

The EU guidelines for BS 2012, which is considered a model for Danida's corresponding guidelines (Danida 2013a), recognise this distinction by identifying different BS instruments of which State Building Contracts are meant for support to fragile states. For State Building Contracts no assessment of the pre-condition is required. The assessment of fundamental values will be done within the risk management framework (political risk category) during the identification phase and subsequently monitored during the formulation and implementation phases using the risk framework (EU 2012 p.7).

The Oxfam 2011 study emphasizes DPs' dilemma in prioritising between progress on socio-economic rights – such as poverty reduction - and civic/political rights (para. 150) and finds that, as a result of DPs' uncertain approach to GBS in fragile states, GBS has been volatile and erratic, despite the importance of predictability in fragile situations where government have fewer alternatives to fill resource shortfalls and where short-term predictability is needed for macro-stabilisation, and medium-term reliability is an important pre-requisite for restoration of the state's basic functions (para. 156). On that basis it highlights the need to be clear on objectives of support to fragile countries (para 162) and emerging good practice to inter alia (i) avoid overloading of the policy agenda, (ii) focus on government budget policy and management systems, (iii) pay attention to fiscal effects as well as (iv) build demand-driven accountability capacity (para 176).

Exit Strategies

Some DPs have used downward adjustments of volumes, have temporarily suspended or have exceptionally terminated GBS altogether, if the overall reform program could not remain on track (e.g. World Bank IEG p.22). However, there is a lack of explicit exit strategies for BS operations, where BS programmes are relatively successful. E.g. the ICAI report finds in both Rwanda and Tanzania, that DFID appeared to be operating on the assumption that BS should continue for as long as the underlying conditions were satisfied, giving the operations the appearance of a permanent subsidy rather than a tool for achieving specific development ends. More thought needs to be given to the question of when countries should graduate from BS. For the best-performing countries, BS may continue to deliver good value for money over the long term. For weaker performers, as domestic revenues grow, it may be better to reduce the share of BS in the country programme and devote more resources to helping address institutional bottlenecks to effective service delivery (ICAI para. 2.66). An exception to this general finding was noted in Afghanistan¹². The country-specific evaluations do not address this issue explicitly, but as mentioned in section 2.3 above, the sustainability of scaled up service delivery by means of BS funds may depend on the approach taken by DPs on phasing out of BS.

The earlier mentioned lack of harmonised approaches to suspension of BS, where a country has been backsliding on underlying principles, suggest that DPs do not have clear guidance for their operational staff on how to deal with such situations

¹² Afghanistan: An incentive program was created within the joint donor funding of recurrent expenditure to encourage the government to increase domestic revenue collection and thus budget sustainability so that donor support can make a phased out exit (Oxfam p.172).

individually and collectively. This may be an area for future strengthening of BS operations.

3.3 Technical Assistance and Capacity Building

Technical Assistance and capacity building (TA/CB) have accompanied BS in all countries evaluated, but the means, utilization and results vary widely. Relevant TA/CB support is often not embedded in the actual structure of the BS operations as specific programme components. In many cases the complementary support is provided in the form of classic project aid, or through more innovative arrangements, as for example with several twinning programmes for institution building in Tunisia, and a comprehensive basket-funded PFM programme in Zambia (Caputo et al 2011 p.5). Whereas TA/CB in relation to PFM systems reform has been common in BS countries (South Africa being the exception), the demand for and success of such components have been far from uniform across countries and sectors.

TA/CB can be provided to (i) strengthen the capacities of the institution leading the SBS-supported programme, (ii) facilitate the actual implementation of a component of the BS operation; (iii) strengthen the capacities of other sector actors; and (iv) facilitate exchange of high-level know-how for policy formulation and experimentation. Whilst purpose (ii) may be best supported as part of the BS package, purpose (iii) is typically supported as a separate operation. The remaining two purposes of TA/CB may be equally well supported as a component of the BS package or as a separate operation supporting the same sector.

Complementary TA/CB can be equally beneficial whether it is provided through projects or other freestanding measures. The evaluations show, however, that fragmentation and coordination problems are likely to occur unless the TA/CB is provided either through the BS management and monitoring framework or through some other type of sector-wide approach (SWAp), ref. the coordination problems related to PFM support in Zambia (Caputo et al 2011 p.16)

A need for CB is often mentioned by partner governments, whereas TA is mostly supply driven by DPs. Tanzania and South Africa provide examples of experiences with TA/CB from opposite ends of the spectrum. In Tanzania, the limited provisions for capacity building have tended to under-disburse because of the lack of demand from Government; largely driven by a negative perception of past capacity building and distrust of externally financed experts. Nevertheless, the transport sector offered a notable exception with successful use of TA which was linked to a positive environment for policy dialogue (ITAD 2013 p.40). In South Africa, TA/CB constituted a significant part of all six SBS supported sectors, and

was strongly demand driven. Whilst it was used for all four purposes mentioned above, the most successful use was made in relation to policy experimentation in the health sector (Particip 2013 p.25-26).

3.4 Communication to the Public

In the development partner country

The strategic decision to use BS at both global agency level and individual country level is limited by what DPs and their politicians can sell to the broader public. The relationship between DPs and their domestic constituencies also affect operational issues such as decisions to suspend BS or to use variable tranches. DPs apply conditions to aid delivery in part to respond to expectations from their domestic constituencies (ref. IOB 2013 chapter 3). Some of the tensions between what DP politicians favour and what is required for BS to be effective could be eased if DPs and recipient governments were better at communicating the merits (and costs) of different approaches. This means presenting development aid as a long-term institution-building process, instead of as a transaction to achieve quick results such as schools built and children vaccinated. Better communication should improve public understanding and tolerance of the risks inherent in aid delivery (ODI 2012 p. iv).

In the recipient country

One way of facilitating domestic accountability and demand for results in recipient countries is to make more information available as regards the objectives and results of BS programmes. This is already taking place in some countries; e.g. in Tanzania the proceedings of the annual review processes are open to a wide range of stakeholders, their results are published and are generally the subject of press releases (ITAD 2013 p.29). Such initiatives could be expanded and include publication of data from some of the sector-specific monitoring systems e.g. PFM systems performance ratings from PEFA assessments (ODI 2012 p.14-15).

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Annex B. Overview of Evaluation Studies Used

	Global	Country Specific Evaluations							Agency Specific Evaluations				Thematic Studies	
Commissioning Agency / Year Issued	Multi-DP 2006	Multi-DP 2007	IOB NL 2010	Multi-DP 2011	IOB NL 2011	EU 2011	Multi-DP 2013	EU 2013	IEG ¹³ WB 2010	ICAI UK 2012	IOB NL 2013	ADC Austria 2010	SBS ODI 2010	Fragile S Oxfam 2011
Period covered	1994-2004	2003-2005	2005-2008	2003-2009	2005-2009	1996-2008	2006-2012	2000-2011	2001-2008	2002-2011	2000-2011	2005-2009	1998-2009	2002-2009
Country Cases														
Cap Verde														
Burkina Faso														
Mali														
Benin														
Ghana														
DRC														
Burundi														
Rwanda														
Ethiopia														
Uganda														
Tanzania														
Malawi														
Mozambique														
Zambia														
South Africa														
Tunisia														
Nicaragua														
Vietnam														
Lao PDR														
Pakistan														
Armenia														

¹³ Included survey of 20 other countries in which PRSCs were implemented

Annex C. Methodological Issues

The joint evaluation by IDD 2006 has been the most comprehensive to date, being supported and guided by a group of 19 bilateral aid agencies (all OECD members), 3 multilateral aid agencies (World Bank, European Union and Inter-American Development Bank) as well as the OECD-DAC and IMF.

The subsequent evaluations or reviews of BS programmes are more fragmented, being either country specific, agency specific or focused on a thematic aspect of BS. They have to some extent also used different evaluation methodologies. These BS evaluation reports are therefore different in nature and are not equally comparable, though each of them brings valuable perspectives and findings to the table. Nevertheless, they have been compared and common findings extracted in the current study.

In order to understand differences in findings and the aspects of BS to which each study might contribute, the differences and common features of the studies are discussed below.

Independence of Evaluators

One common feature is that all of the evaluation studies can be considered independent of the agencies responsible for the BS operations being evaluated. They were undertaken either by independent consultants or by institutional evaluation departments, which report directly to the political/board level of the institution in parallel to operational management.

Country coverage and period of Budget Support operations

The joint evaluation (IDD 2006) is based on country cases covering LICs (Nicaragua being significantly wealthier than the rest) with high aid dependency at ODA to GNI ratios of 15-25% (except Vietnam 5-6%) and large scale BS operations (in average 15% of total ODA).

Ghana 2007 covers a LIC with high aid dependency (at the time) and a very short (3-year) period which largely overlaps the IDD joint evaluation 2006. It can therefore be seen as a supplement to the IDD joint evaluation, covering an additional country case.

The four country evaluations of Nicaragua, Mali, Zambia and Tanzania mainly cover the period 2005 onwards and therefore reflect the changes that have taken place in BS since the IDD joint evaluation. Like the IDD joint evaluation, however, they cover LICs with high aid dependency (with the exception of Nicaragua which became a lower MIC) and BS constituting 6-14% of budgetary resources.

The two EU commissioned evaluations of the Tunisia and South Africa (both MICs) cover a longer time span of some 12 years and thus overlaps from a time perspective with the IDD joint evaluation. But the two countries are distinctly different from those included in the IDD joint evaluation and subsequent country specific evaluations in that they are both MICs with low aid dependency; BS operations were in the order of 1% of budgetary resources.

The agency specific evaluations by IEG 2010, ICAI 2012 and IOB 2013 share some important features. They all cover longer periods of 8-12 years which significantly overlap with the IDD 2006 evaluation. Moreover, whilst they include detailed country case studies as a major feature of their evaluation methodology, they also draw on a range of other information sources to ensure comprehensive coverage of all the countries in which the respective agencies have provided BS.

It should be noted that the six country cases included in IOB 2013 report overlap substantially with the country-specific evaluation reports as five of the six countries are covered by individual evaluations, upon which IOB draws significantly. However, IOB includes a longer perspective on Ghana until 2011 (the ODI study till 2005 only) and adds Vietnam, both countries relevant to BS from Denmark.

Coverage of Development Partner Perspectives

The evaluation reports cover the perspectives of wide range of aid agencies, including the largest ones, the WB and the EU, as well as important bilateral aid agencies, UK/DFID and the Netherlands. The ADC review adds some perspectives from the angle of a small BS provider.

WB Poverty Reduction Support Credits (PRSCs) amounted to an average USD 825 mill p.a. (FY01-FY08) covering 27 countries (IEG 2010 p.6) and constituting 58% of total BS flows for the period 2001-2007 in the PRSC countries, but with substantial variations depending on country and closer to 40% in SSA countries where many bilateral DPs provide BS (IEG 2010 p.46). BS in the WB context comprise all Development Policy Loans (DPLs) of which PRSCs are linked to Poverty Reduction Strategies (or similar) and resemble GBS programmes of other DPs. Other DPLs (including sector DPLs equivalent of SBS) were significant in

volume and country coverage but were not considered in the IEG evaluation 2010. The IEG evaluation 2010 therefore covers GBS programmes only.

EU – BS provided by the EU grew rapidly during the 2000s from about EUR 1000 mill p.a. in the early years to about EUR 1700 million p.a. late in the decade; it covered about 80 countries. Most of the increase was due to SBS, whilst GBS remained at about EUR 500-600 mill p.a.¹⁴The EU has embarked on a series of country evaluations of BS using the OECD Budget Support evaluation methodology (ref. below), sometimes commissioned by the EU alone (e.g. South Africa) and in other cases as joint evaluations with other aid agencies (e.g. Tanzania). Eventually, this series of country evaluations will allow global conclusions to be drawn regarding EU's BS programmes.

DFID – in 2010/11 provided GBP 644 mill in BS covering 14 countries or approx. 500 mill p.a. average of 9 years 2003-2011 (ICAI 2012 p.2-3)

NL – provided EUR 145 mill p.a. of BS in average during 2000-2011, covering 23 countries; corresponding to EUR 1.75 bill over 12 years (IOB 2013 p.18)

ADC – one of the smallest BS providers, disbursed EUR 6-7 million p.a. in BS, covering four countries (ECORYS 2010).

Danida's BS disbursements at some EUR 75-80 million p.a.¹⁵ cover currently four (but previously up to seven) countries and is placing it in the same league as many other EU member states. For this reason the agency specific evaluation studies of BS provided by DFID, the Netherlands and Austria are particularly relevant.

Coverage of Budget Support Approaches and Content

The agency-specific evaluations reflect to some extent the different approaches to BS by the agency being evaluated. An important difference is that the World Bank's PRSC conditionality is policy/process based, whereas the EU (and increasingly EU member states) is to a large extent focused on results in terms of outputs and outcomes. There is also a difference in the scope of underlying principles, where the EU and member states increasingly monitor and react to socio-political rights which are outside the World Bank's remit.

The policy and sector content of BS may also differ. The World Bank has in particular focused on the investment climate; whereas EU and member states

¹⁴ Ref. European Commission/EuropeAid: 'Budget support - The effective way to finance development?' 2008, page 6

¹⁵ 2011: calculated as 3.5% of USD 2900 million @ 1.30 USD/EUR

increasingly focused on public service delivery, particularly in the social sectors; though there is substantial overlap.

All of the country-specific and agency-specific evaluations cover GBS as well as SBS, with the exception of the IEG 2010 report which covers only GBS.

As regards Fragile States, the coverage is limited. None of the country specific evaluations cover fragile states. The Thematic review by Oxfam 2011 is the main source of findings and lessons, although the IOB 2011 report also covers fragile states to a significant extent. The IEG 2010 report includes a few observations related to the fragility of Lao PDR, being the only fragile state investigated in detail by the evaluators.

Nature and Methodology of Evaluation

The methodology used by the evaluators varies somewhat among the evaluation studies. This is partly due to different approaches to evaluations by different institutions, partly because a few of the studies do not entirely share the objective or scope with the majority of evaluations and partly due to the evolution of the approach to BS evaluations during the past 10 years. However, the studies generally seek answers to the same broad set of questions regarding the effects of BS and lessons to improve the decisions, design and implementation of future BS operations. The intervention logic assumed by the evaluations is quite similar and corresponds to the analytical levels of the intervention logic set out in the OECD DAC methodology as illustrated in Figure 1. Moreover, a common element in all of the studies in those three categories is the use of country case studies.

As mentioned above the agency specific evaluations by IEG, ICAI and IOB use a wide range of information sources, in addition to country case studies in order to cover more globally the effects of the respective agencies' BS programmes. In assessing impact, moreover, IEG makes substantial use of comparison with a (control) group of countries with similar features, which did not receive BS, as well as comparison of the PRSC (GBS) operations with effects of programmes using other (previous or parallel) aid instruments.

The IOB report 2013 also considers the counterfactual in many of its findings by comparing BS recipient countries with non-BS countries. It also include a substantial element of general literature study and to some extent draws on the findings of the IEG report.

The new OECD methodological approach (ref. OECD 2012) has so far been used in Mali, Zambia, Tunisia, Tanzania and South Africa, with further evaluations

nearing completion in Mozambique and Morocco. This methodology applies a Comprehensive Evaluation Framework (CEF) which sets out the hypothesised sequence of effects of BS programmes across five analytical levels (budget support inputs, direct outputs, induced outputs, outcomes and impact) combined with a Three Step Approach, whereby:

- Step One encompasses the assessment of the inputs, direct outputs and induced outputs of budget support (levels 1, 2 and 3 of the CEF) including the analysis of the causal relations between these three levels;
- Step Two encompasses the assessment of the outcomes and impact of the government's policies, strategies and spending actions, which DPs supported and promoted with budget support, and identification of the main determining factors of those outcomes and impact (levels 4 and 5 of the CEF), through policy impact evaluation techniques;
- Step Three entails an exploration of the contribution of budget support to the government's policies, strategies and spending actions, which have produced the outcomes and impact identified in Step Two, to be carried out by combining and comparing the results of Steps One and Two (OECD 2012 p.5).

It should be noted that it is not the objective of the current study to compare or critique the methodological approaches of the individual evaluation studies. However, the tension between different approaches to evaluations of the outcomes and impact of BS is expressed in the IOB evaluation of the Netherlands' BS operations as follows: "The theory of change on the impact of budget support on poverty reduction is rudimentary, and DPs have barely made an attempt to focus on the impact of budget support on poverty. It was not clear what DPs wanted to achieve in what time span using which resources. This lack of a well-developed theory is part of the reason why the effects of poverty have received limited attention in evaluations of budget support. Indeed, even more so than with the relation between budget support and economic growth, evaluations of budget support assume what the effects of poverty are instead of actually analysing them. Various studies went no further than to state that since poverty had declined in a given country there must be a link between the two" (IOB 2013 p.197).

The ECORYS review of ADC's BS programmes is more limited in scope than the other agency specific evaluations. It does not attempt to address the issues of outputs, outcomes and impact of BS at country or global level, but focuses on how ADC (as a small development partner, providing BS in only a few countries) has positioned itself and contributed to multi-donor BS arrangements in the four

countries where it is active. From that perspective the evaluation study is highly relevant to Danida, which is in a not dissimilar position.

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