



Should OECD Donors Deliver Aid Through Poor Country Government Budgets?

OECD donor countries now channel about US\$ 5 billion – some 5 per cent of their aid – directly to the budgets of developing country governments. A new independent evaluation, released today at a conference hosted by the OECD, shows that this system of delivering aid can be an effective way to strengthen the management of public financial systems in developing countries, and has helped to improve access to services like healthcare and education.

This joint evaluation, the first of its kind, looks at the use and effectiveness of these direct payments, also known as general budget support, by drawing on the experience of seven countries over five years: Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam. *An Evaluation of General Budget Support (1994-2004)* is an independent report, carried out by the University of Birmingham on behalf of more than thirty donor and partner countries. It was initiated and supported by the OECD's Development Assistance Committee's Evaluation Network.

The evaluation points out that when a developing country's government has the political will to reduce poverty, budget support can be an effective way for donors to deliver aid. Overall, it has helped to strengthen the relationship between donors and developing country governments, and encouraged better coordination between different donors. It has helped to strengthen planning and budget systems, making them more transparent and therefore accountable. It has also helped to prioritise areas of expenditure that target the poor like health and education.

The team of evaluators found no clear evidence that budget support funds were, in practice, more affected by corruption than other forms of aid.

They noted however, that donors should be prepared to better analyse political risks and gauge support for poverty reduction by a government. In some cases, the evaluation found that political risks had been underestimated by donors.

While there were increases in expenditure in areas such as health and education, any increase in the incomes of the very poor is not yet evident.

The evaluation of this mechanism to deliver aid provides valuable lessons for donors and developing country governments. Its recommendations include the following:

- Budget support is not a panacea: don't have unrealistic expectations
- Donors should continue to pursue a mix of mechanisms to deliver aid, and introduce budget support only gradually
- There should be more analysis of political risks, and this should be shared amongst donors
- Donors should better coordinate their technical assistance to governments, and support capacity development by using government systems wherever possible

- More attention should be given to how budget support could compliment other policy areas to increase incomes of the poor
- Build capacity at sectoral (health for example) and local and regional levels too, especially when funds are spent through de-centralised governments
- Focus primarily on areas of consensus between governments and donors
- Take a long term approach. It takes time to strengthen government institutions.

This in-depth evaluation will influence the way budget support is managed in practice and help to inform policy development in donor and partner countries.

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To obtain a copy of the study, journalists are invited to contact DFID media

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