



European  
Commission



## Synthesis of Budget Support Evaluations:

# Analysis of the Findings, Conclusions and Recommendations of seven Country Evaluations of Budget Support

*Study carried out on behalf of  
the European Commission*

Development  
and Cooperation  
EuropeAid





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*The opinions expressed in this document represent the author’s point of view,  
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The report is now in its final form but it is planned that its recommendations should be developed and taken forward. Any comments or suggestions on the implementation of the recommendations of this Synthesis Report would therefore be gratefully received and should be sent to Europe Aid at [EUROPEAID-08@ec.europa.eu](mailto:EUROPEAID-08@ec.europa.eu).

## Acronyms and Abbreviations

AA	Association Agreement
AFDB	African Development Bank
ANC	African National Congress (South Africa)
BoT	Bank of Tanzania (Central Bank)
BS	Budget Support
CCM	<i>Chama Cha Mapinduzi</i> Party of the Revolution (Tanzania)
CD	Capacity Development
CRS	Creditor Reporting System (OECD-DAC)
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
Danida	Danish International Development Agency
DFID	Department for International Development (United Kingdom)
DAC	Development Assistance Committee (of OECD)
DP	Development Partner
EPA	External Payments Account (of the Bank of Tanzania)
EU	European Union
EQ	Evaluation Question
FDI	Foreign Direct Investment
FRELIMO	Frente de Libertação de Moçambique <i>Mozambique Liberation Front</i>
GBS	General Budget Support
GCCC	<i>Gabinete Central de Combate a Corrupção</i> Central Office for Combating of Corruption (Mozambique)
GDP	Gross Domestic Product
GNI	Gross National Income
GoSA	Government of South Africa
HDI	Human Development Index
ICAI	Independent Commission for Aid Impact (United Kingdom)
IDD	International Development Department, University of Birmingham
IEG	Independent Evaluation Group of the World Bank
IFMIS	Integrated Financial Management Information System

IMF	International Monetary Fund
IOB	Policy & Operations Evaluation Department, Ministry of Foreign Affairs, the Netherlands
LIC	Lower Income Country
MDG	Millennium Development Goal
MIC	Middle Income Country
MDM	Democratic Movement of Mozambique <i>Movimento Democrático de Moçambique</i>
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
Norad	Norwegian Agency for Development Cooperation
OAG	Office of the Auditor General (Zambia)
OECD	Organisation for Economic Co-operation and Development
ODA	Official Development Assistance
PAF	Performance Assessment Framework
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PRSC	Poverty Reduction Support Credit (World Bank)
PRSP	Poverty Reduction Strategy Paper
RDP	Recovery & Development Programme (South Africa)
SAG	Sector Advisory Group (Zambia)
SAI	Supreme Audit Institution
SBS	Sector Budget Support
Sida	Swedish International Development Cooperation Agency
SSA	Sub-Saharan Africa
TA	Technical Assistance
TDCA	Trade & Development Cooperation Agreement (South Africa)
WB	World Bank
WDI	World Development Indicators
WGI	Worldwide Governance Indicators

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## Executive Summary

1. This Report has been prepared by Fiscus, UK for the Evaluation Unit of Europe Aid. It presents a synthesis of the seven evaluations of General and Sector Budget Support, undertaken in Tunisia, Mali, Zambia, Tanzania, South Africa, Mozambique and Morocco over 2010 - 2014. These represent the full set of evaluations completed to date, following the revised methodological approach for evaluation of budget support, adopted by the OECD-DAC Network on development evaluation in 2012. The study builds on preliminary findings reported in 2011 in OECD-DAC's Evaluation Insights, based on the Tunisia, Mali and Zambia cases.
2. **The principal goal has been to draw up a summary of the lessons from recent experience with budget support and to develop a corresponding set of recommendations.** A central question addressed is how far Budget Support has contributed towards the achievement of targeted development results and how far it has had positive or negative unintended effects. General and Sectoral Budget Support operations have been compared and an analysis has been made of the relative contributions and roles of the different components of Budget Support.
3. **An additional objective has been to identify the strengths and weaknesses of the “3 step approach” to the evaluation of Budget Support,** which has been adopted by the OECD-DAC Network on Development Evaluation and applied in each of these cases. The specific tools and evaluation techniques used by each evaluation team have been compared and assessed so as to develop recommendations on possible improvements to evaluation practice. The results of this assessment are presented in a separate volume. (Volume II.)

## Summary of Key Findings

4. **The experience of these seven countries demonstrates that budget support can achieve significant results within a diverse and often challenging set of contexts.** In particular, it has contributed in important ways to upgrading the capability of these governments to manage their public finances, to deliver services and to regulate economic activity, for the benefit of their citizens.
5. In the Low Income Countries, the increased flow of funds resulting from budget support has been the principal contribution, supporting a considerable improvement in the coverage and utilisation of services – particularly in education and health. There have also been improvements in macroeconomic performance, a significant strengthening of PFM systems and some gains in transparency and oversight, as well as in the legal and institutional framework for fighting corruption.
6. In the Middle Income Countries, support to reforms through policy dialogue and technical assistance/ capacity development have been the primary contributions, although in South Africa the provision of funds enabled the government to finance programmes that it would not otherwise have been able to finance at that time. The funds supported a government driven

process of policy and service delivery innovation, aimed at democratising public services and improving their impact on poverty, inequality and public governance. Where appropriate, the resulting innovations were scaled up and mainstreamed into national policy on water & sanitation, primary health care, access to justice, access to technology and employment promotion. In Morocco and Tunisia, GBS and SBS have provided support to tax reforms and to regulatory and institutional changes aimed at modernising these economies and promoting their insertion in the World economy. The coverage of health services and of secondary and tertiary education has also been improved, as too have adult literacy services in Morocco.

7. **Tangible outcomes have been achieved in all cases and there are also indications of positive impacts on economic growth and on non-income poverty.** During the evaluation period, there were significant reductions in income poverty in Mali, Morocco, South Africa and Tunisia, although it is difficult to attribute this directly to budget support.
8. **The delivery mechanisms for budget support were fully consistent with the commitments in the Paris Declaration, the Accra Agenda for Action and the Busan Declaration.** In particular, budget support processes proved themselves to be more closely aligned to government policies and processes than any other aid modality.
9. **None of the negative effects commonly assumed to be associated with budget support were found to be present:**
  - Domestic revenue generation remained buoyant throughout the evaluation, and there were no signs of disincentive effects resulting from budget support flows.
  - In the 4 LIC countries, where budget support represented a high percentage of public expenditure, these additional resources were used predominantly to raise spending within the priority sectors, most especially in education, health and roads.
  - Transparency and accountability systems improved during the evaluation period, especially within the LICs, where there was also a marginal improvement in the control of corruption, as reported in the Worldwide Governance Indicators.
10. **Annual disbursements were largely consistent with the amounts projected in the budgets and treasury plans of the recipient governments** and, thus, proved to be significantly more predictable than other aid modalities, with annual disbursements of 90-100% of projections, as compared with 60-80% for projects and common basket funds. The timing of disbursements within year proved more problematic.
11. **Transaction costs were found to be lower – per unit of aid disbursed - than for projects and common basket funds.** The nature of transaction costs also changed, with a greater attention to policy rather than administrative issues. On the other hand, transaction costs were perceived to be higher than they should have been. This was, in part, due to continued shortcomings in the

quality of harmonisation, and in part due to excessively complex assessment and disbursement conditions.

12. **The main achievements as regards policy dialogue related to the establishment of institutional frameworks and processes but the substance of dialogue was often less than satisfactory.** It worked reasonably well as a mechanism for establishing milestones and progress targets for agreed reforms and for lending external discipline to the monitoring process. Sometimes, the policy dialogue was useful in bringing in outside ideas, perspectives and experiences. Yet, as a whole, the perception was that policy dialogue had not been as effective as it should have been in aiding strategic forward-thinking and problem solving.
13. Technical assistance and capacity development was provided both as an integral part of budget support operations and as a parallel accompanying measure in each of the seven countries. However, the perception was that the potential of the technical assistance/ capacity building component was not fully exploited, especially because its use was not strategically planned and there was a lack of flexible arrangements for responding to identified needs in an agile manner.

## Lessons learned

14. Three key lessons emerged from the analysis of the different combinations of Contexts-Mechanisms-Outcomes (C-M-O), thrown up by these seven cases, as well as a preliminary conclusion on the choice of General or Sector Budget Support:
  - **Trust and confidence in donor-government relations are essential for an open and honest policy dialogue.** Governments and donors will always have differences in their priorities but in a partnership where the main issues of agreement and disagreement can be put on the table, dialogue can proceed constructively. This can only occur where there is a firm base of trust and confidence. Underlying tensions in donor-government relations undermine the honest debate and free information exchange essential for a strategic problem-solving dialogue. For these reasons, Budget Support worked best where the policy dialogue was concentrated on the mutual areas of interest of the beneficiary governments and their Development Partners.
  - **Effective policy dialogue requires explicit measures to develop the space for strategic problem-solving discussion.** In Morocco, the limited attention to final outcomes and impacts meant that the space for genuinely strategic discussions was limited. In Mozambique, Tanzania and Zambia, disagreements over underlying principles changed the character of policy dialogue so that the space for strategic problem-solving dialogue was largely lost. As a consequence, policy issues, which should have been on the table, were not adequately discussed.
  - **Budget support funding is not correlated with policy leverage.** Despite the significant funds provided in the LICs, there were reforms which the partner governments did not undertake despite losing funding. In the MICs, by contrast, donors

did not raise fundamental policy issues but were able to influence aspects of the design of reforms through policy dialogue and technical assistance, even though levels of budget support funding comprised less than 2% of public spending. Budget support influenced policy, where interests converged; where they did not converge, domestic political interests drove the agenda and, those interests proved impervious to external influence. In this respect, the synthesis confirms preliminary findings from Mali, Tunisia and Zambia published in the OECD-DAC’s “Evaluation Insights”.

15. Regarding the choice of General or Sector Budget Support, the main conclusion is that national development strategies appear to be more successful where there exists a combination of effective policy development at the sector level with attention to strategic crosscutting issues at the central level. The ability to combine these processes effectively will depend primarily on contextual factors. GBS can support inter-sectoral working in a way in which SBS cannot but SBS may be better suited to supporting detailed policy development within a single sector. In most cases, a combination of GBS and SBS would probably be more effective but such decisions must be guided by analysis of the context and by the wishes of the partner government.

## Recommendations

16. **The evidence of these seven evaluations, as well as from other recent research and evaluation work, all points in the same direction.** It shows that budget support works as an aid instrument to support partner governments who either a) need to scale up the delivery of services or upgrade their quality and lack the domestic revenue sources to do it; and/ or b) wish to undertake policy reforms or innovations with short-term risks and costs where a framework of international partnership can assist implementation. Despite this evidence, amongst many Development Agencies, the appetite for budget support has visibly diminished to the extent that several of its previous proponents have either stopped its provision or significantly reduced the proportions of their portfolios disbursed in this way. While there may be legitimate internal reasons for such changes, there does not appear to be evidence related to the functioning and achievements of budget support to justify such a substantive policy change.
17. If anything, evidence suggests that a more consistent adherence to the principles of budget support would have achieved greater benefits. Many of the shortcomings in budget support mechanisms derive from a failure to embrace a high level, partnership-based approach and to adhere to the implementation requirements of such an approach.
18. **The challenge for the future is to re-assert the value of budget support, while strengthening design and implementation mechanisms so as to maximise its benefits.** The starting point for such a process must be a deeper discussion and debate of the results presented in this synthesis report and in other related research. Out of such a process, a collaborative framework should emerge to take forward recommendations.
19. A series of measures are recommended based around eight lines of action:

1. **Create a consensus on the need for learning and policy adaptation** by disseminating the results of evaluations on budget support, increasing awareness of its benefits and limitations, and highlighting the actions needed to maximise its potential.
2. **Improve the management processes for budget support and the related processes for identifying and mitigating risks**, based upon a more structured analysis of the context and a more objective assessment of the appropriateness of different modalities, including the choice between General and Sector Budget Support.
3. **Focus on the reduction of income poverty and inequality as the primary goal of budget support**, strengthening the design and management processes for budget support so as to contribute more to this goal.
4. **Reinforce the partnership basis of budget support by taking steps to strengthen trust and confidence** in donor-government relations.
5. **Nurture strategic problem-solving dialogue** by developing a comprehensive approach to policy dialogue, and a related set of processes and capabilities. Such a dialogue should be framed within a medium to long term perspective, should respect country ownership and should give due attention to implementation capacities.
6. **Use Budget Support to promote greater social accountability in relation to public budgets and public policy decisions**. As a minimum, it is vital to ensure that civil society and the media are given systematic access to the policy documents, progress reports and conclusions, emerging from the policy dialogue process, so as to be able to participate in this dialogue and assist in monitoring the implementation of agreed reforms and policy actions.
7. **Increase the value-added of the technical assistance/capacity development inputs of budget support** by identifying capacity development (CD) needs more carefully, planning the use of TA/ CD inputs more strategically and developing more flexible arrangements for responding to identified needs in an agile manner.
8. **Simplify the design and management structures for budget support and enhance donor-donor harmonisation** so as to eliminate the inefficiencies, which create unnecessary transaction costs and undermine predictability of disbursements.

# 1. Introduction: Background, Objectives & Methodology

## 1.1 Objectives and Scope of the Synthesis

20. **The objective of this study is to draw lessons from the seven evaluations of General and Sector Budget Support, which have been undertaken in Tunisia, Mali, Zambia, Tanzania, South Africa, Mozambique and Morocco over 2010 - 2014.** These represent the full set of evaluations, which have been completed to date, following the revised methodological approach for evaluation of budget support, adopted by the OECD-DAC Network on development evaluation in 2012. Five of these seven country studies<sup>1</sup> are multi-donor evaluations, assessing the joint effects of all the General and Sector Budget Support operations financed by different Development Partners in these countries. The evaluation periods differ slightly but cover the years from 1996 to 2012. Independent teams undertook all seven evaluations, although they were managed by Evaluation Management Groups, comprising representatives of the different funding agencies.
21. The seven evaluations here synthesised cover exclusively countries in Africa, but they include low and middle income countries, as well as countries with different political structures and administrative heritages (Anglophone, Francophone, Lusophone and Arabic), and countries which have received different types of budget support. As such, they provide a reasonable sample from which to draw conclusions and to make some comparisons with past evaluations – in particular, the 2006 evaluation of seven countries<sup>2</sup>, which applied the initial OECD-DAC methodological approach, and with other research publications<sup>3</sup> on the subject of budget support. This synthesis paper also builds on an early OECD-DAC synthesis<sup>4</sup> of the first three evaluations, which piloted the revised methodological approach in Tunisia, Zambia and Mali.
22. This Synthesis Analysis reviews the findings, conclusions and recommendations of these seven evaluations. It draws a distinction between the budget support operations in middle income countries (Morocco, South Africa and Tunisia), where these operations represent a marginal percentage of the respective government budgets (0.2 to 2.3% of public spending), and those in

<sup>1</sup> The South Africa and Tunisia evaluations cover only EU Budget Support operations. In South Africa there were no other Budget Support operations during the period in question. In Tunisia, the Budget Support provided by the World Bank and the African Development Bank provided support to reform efforts also supported by the EU; thus the “policy dialogue inputs” by these agencies are also covered in the Tunisia evaluation, even if details of World Bank and AfDB disbursements are not examined.

<sup>2</sup> IDD and Associates, (2006), Evaluation of General Budget Support: Synthesis Report, International Development Department, University of Birmingham, UK. The report summarized the results of country evaluations in Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam.

<sup>3</sup> The most significant of these is IOB (2012), Budget Support: Conditional Results – Review of an instrument, Netherlands Ministry of Foreign Affairs, The Hague. The bibliography presents a full list of references.

<sup>4</sup> Caputo, E., A. de Kemp and A. Lawson (October 2011), Assessing the Impacts of Budget Support: Case studies in Mali, Tunisia and Zambia, OECD-DAC Evaluation Insights; Paris

lower income countries (Mali, Mozambique, Tanzania, Zambia), where budget support has represented 6 -15 % of public spending within the respective periods evaluated (Table 1). It also distinguishes between General and Sector Budget Support and examines in some detail the relevance of the differences in the design and management structures for budget support in each of these countries.

**Table 1: Countries evaluated - Value & Significance of GBS/ SBS Disbursements**

<i>Value &amp; Significance of Budget Support as annual average</i>	<i>Mozambique (2005-2012)</i>	<i>Tanzania (2004-2011)</i>	<i>Zambia (2005-2010)</i>	<i>Mali (2003-2009)</i>	<i>South Africa (2000-2011)</i>	<i>Morocco (2005-2012)</i>	<i>Tunisia (1996-2008)</i>
BS Disbursements (USD Millions)	414	660	186	182	166	599	65
of which GBS (%)	100%	96%	87%	71%	0%	0%	63%
of which SBS (%)	0%	4%	13%	29%	100%	100%	37%
BS disbursements as % GDP	4.5%	3.6%	1.5%	2.8%	0.07%	0.7%	0.20%
BS as % Total Expenditure	15.4%	14.8%	6.5%	11.6%	0.2%	2.3%	0.7%
BS as % total ODA	20.2%	27.7%	15.5%	22.7%	N/A	18.4%	7.5%

*Memorandum Items:*

<i>Average Total ODA % GDP (%)</i>	22.50	12.95	9.84	12.24	N/A	4.01	2.70
<i>Average Total Expenditure % GDP (%)</i>	29.45	24.29	23.59	24.01	28.39	31.62	29.57
<i>Average Total Revenue % GDP (%)</i>	25.74	20.03	25.22	26.10	26.71	28.67	27.54

*Source: IMF Data for GDP, Expenditure & Revenue. OECD-DAC data for ODA. Evaluation Reports data for BS disbursements (inc. GBS & SBS)*

23. **A central question addressed is how far Budget Support has made a contribution towards the achievement of targeted development results and how far it has had positive or negative unintended effects.** In this respect, we analyse the relative contributions and roles of the different components of Budget Support – unearmarked discretionary funds, policy dialogue and technical assistance/capacity building measures. We also consider the lessons that may be learned from the processes of donor harmonisation, which have accompanied budget support in each of these countries.
24. The principal goals have been to draw up a clear summary of the lessons, which may be learned from recent experience with budget support, and to develop a corresponding set of recommendations. These recommendations are presented in our concluding chapter.
25. **An additional objective has been to identify the strengths and weaknesses of the “3 step approach” to the evaluation of Budget Support,** which has been adopted by the OECD-DAC and applied in each of these cases. The specific tools and evaluation techniques used by each evaluation team have been compared and assessed so as to develop recommendations on possible improvements to evaluation practice. The results of this assessment are presented in a separate volume. (Volume II.)



## Scope of the Synthesis

26. **The scope of this synthesis is limited to a desk review of the seven evaluations**, drawing out similarities and comparisons in the findings, conclusions and recommendations and, where relevant, comparing these with the corresponding conclusions of existing literature on budget support. It has involved neither additional quantitative analysis nor qualitative research. However, the draft of this report underwent a process of validation based on the comments of the team leaders of the evaluations, of the Authorities of the concerned countries, of the Europe Aid Evaluation Unit, and of other informed stakeholders, including the participants of a workshop held in Brussels on Wednesday 24<sup>th</sup>, September 2014, where the draft report was presented.
27. Although BS evaluations have been carried out in several countries (listed in full in Annex One), the revised methodological approach adopted within the framework of the OECD/DAC has only been applied for the evaluations covered by this Synthesis. Presently, evaluations covering Burundi and Uganda are under implementation and further evaluations in Paraguay, Rwanda and Sierra Leone are planned to start in the near future.

### 1.2 The definition of Budget Support, its modus operandi and the logic of the 3 Step Approach

28. Before describing the approach we have adopted to the synthesis task, it is important to clarify some of the underlying concepts. In this section, we therefore present a definition of budget support and summarise the different objectives commonly pursued through budget support as well as the different working approaches, which have been applied. We then make reference to the main items of the methodological “3 Step Approach”, adopted within the framework of the OECD-DAC and employed in each of these evaluations (The details are provided in Annex 2.)

#### What is Budget Support? And how does it work?

29. Budget Support is defined by the OECD-DAC<sup>5</sup> as ‘*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.*’ The EC’s Budget Support Guidelines add that the transfer of financial resources is made ‘*following respect by the latter of agreed conditions for payment*’. This requirement is implicit in the OECD-DAC definition and a key aspect of the definition used in the seven evaluations here synthesised.
30. The OECD-DAC definition thus characterises budget support as a particular type of Programme Aid. The definition distinguishes Budget Support from Balance of Payments support, where the transfer of foreign exchange would be to the Central Bank, and also from Debt Relief, where the transfer of foreign exchange would be directly to the country’s creditors.

<sup>5</sup> OECD-DAC (2006), Harmonizing Donor Practice for Effective Aid Delivery: Volume II – Budget Support, Sector-Wide Approaches and Capacity Development in Public Financial Management, OECD-DAC, Paris. The same definition is presented in OECD-DAC (2012).



31. The features distinguishing budget support are the nature of its objectives, the nature of the corresponding disbursement conditions, and the fact that it is perceived as a package of inputs, including policy dialogue and technical assistance or capacity-building measures, as well as financial transfers. Whereas the primary purpose of programme aid (structural adjustment programmes, balance of payments support and debt relief) was to support macroeconomic stabilisation, the principal objective of budget support is to contribute to the implementation of a development strategy. Within this broad objective, a distinction is drawn between:
- General Budget Support (GBS), whose purpose is to contribute to the implementation of a national development or poverty reduction strategy, with conditions and policy dialogue thus focused on over-arching policy objectives and national budgetary priorities; and
  - Sector Budget Support (SBS), whose purpose is to contribute to accelerated progress towards the government’s development or reform goals within a specific sector, with policy dialogue and conditions focused on sector-specific issues and concerns.
32. For both GBS and SBS, the transfer of external resources is made to the national treasury account in the Central Bank, and in both cases, the specific use of these funds is decided through the domestic budgetary process – in other words, through decisions made by the Government, and in most cases then approved by the Legislature. Herein lies an important distinction between Budget Support and Common Basket Funding (CBF). In the latter, the use of funding is commonly decided by a CBF committee, comprising government and donor representatives of the sector. This effectively removes the decision-making power over resource allocation of the most pertinent national authorities.
33. In the context of the Paris Declaration of 2005, ownership by the partner country was a fundamental principle of Budget Support, achieved through the provision of unearmarked financial support to a government strategy or reform programme and through a process of alignment to government procedures. This contrasts sharply with the era of structural adjustment, when disbursements were essentially conditional upon the implementation of reforms, largely designed by external financing agencies. Subsequent evaluations pointed clearly to the weakness of such an approach: most notably, where an effective domestic constituency in support of reform was not in evidence, policy reforms were not sustained. (Killick, 1998; White, 1999; Tarp & Hjertholm, 2000; Dollar & Svensson, 2000.)
34. **Thus, partnership, rather than conditionality, is an essential defining feature of Budget Support.** Within this partnership model, there remains a legitimate role for disbursement conditions but not, as with policy conditionality, as a mechanism to “buy” policy reforms. Rather, the role for disbursement conditions within the partnership model is two-fold:

- firstly, it is a method of accountability (due diligence) for the agency providing budget support – a way of ensuring that the ‘eligibility conditions’ for Budget Support remain in place, and that the basis for the partnership continues to be sound;
- secondly, it is a monitoring mechanism to assist the partner government in formulating milestones and progress targets for its development strategy and reform programme, so as to assess progress in an objective and public manner, thus increasing domestic accountability and encouraging resolute pursuit of the national and/or sectoral strategy.

**35. Performance Assessment Frameworks (PAFs) or other results oriented frameworks**

**provide the framework for both of these functions to be performed.** Policy dialogue can exert influence on reforms. However, this level of influence has only arisen after a good working relationship has been established with the government and both formal and informal channels of influence have been developed. Within this approach, policy dialogue can be relatively easily combined with the monitoring of disbursement conditions. So long as there is confidence that the basis for partnership remains, it is possible to discuss the reasons why certain targets may have been missed or implemented more slowly than might be desirable. Partners can review together what changes could be introduced to the design of reforms or to the adopted approaches to implementation, with the Development Partners bringing to the table their international experience of addressing similar issues, whilst also deploying appropriate technical assistance and support to capacity development.

36. This model of “partnership Budget Support” may be said to have been the prevailing philosophy up until 2007 or 2008. This approach was endorsed by the Paris Declaration of 2005, as well as being explicitly adopted in the internal policies and guidelines of the EU (2002), DFID (2005), NORAD (2005) and the World Bank (2005), amongst others<sup>6</sup>. Crucially, this model of “partnership Budget Support” relies on an appropriate level of selectivity in the choice of partners - that is to say on a structured process of selection of the partner governments eligible for Budget Support. Specifically, selected partner governments would require both appropriate policies and strategies, and the commitment and the capability to implement them.

## Improving governance through Budget Support conditionality

37. **After the mid-2000’s, there was a notable shift in the approach of many of the European bi-lateral agencies towards a more active “leveraging” of improvements in governance.** This shift took various forms – the insistence upon larger numbers of PAF indicators linked to governance improvements, the inclusion of more governance-related indicators within performance tranches and a greater willingness to suspend payments of budget support due to perceived breaches of underlying principles, related to governance.

<sup>6</sup> DFID (2005), Partnerships for Poverty Reduction: Rethinking conditionality – a UK Policy Paper, DFID, London; Europe Aid (2002), Guidelines for the Provision of Budget Support to Third Countries, EC, Brussels; NORAD (2005), Direct Budget Support, disbursement mechanisms and predictability, NORAD, Oslo; World Bank (2005), Review of World Bank Conditionality, World Bank, Washington D.C.

38. The motivations for this change were numerous. In part, it was related to changes in government attitudes following elections in different European countries. In part, it was due to a spate of scandals in budget support receiving countries involving high-level corruption, misappropriation of funds and electoral irregularities. In part, it may have been due to the apparent success of budget support partners in driving faster improvements in PFM systems within the receiving countries. (This success was reported in ODI, 2005 with regard to Tanzania and in IDD, 2006 in 5 out of the 7 countries evaluated.)
39. **The increased interest in good governance as an objective in itself combined with an increased belief in the capacity to exert external influence led to a shift away from partnership and towards conditionality.** In the latter part of the period covered by these seven evaluations, many budget support providers shifted from assessing governance and respect for underlying principles as one aspect of selectivity, towards the active exertion of influence with the objective of obtaining steady improvements in governance (Hayman, 2011, Molenaers et al., 2010, Dijkstra, 2013). Although most budget support policy documents continued to state that it would not be used to “buy policy influence”, several agencies did introduce measures seeking to “buy” governance improvements through budget support. For many agencies, good governance became an end goal of budget support, on a par with the achievement of growth and poverty reduction. (IOB, 2012.)

### The Intervention Logic for Budget Support and its incorporation in the evaluation methodology

40. The foregoing serves to show that while many Development Agencies provide budget support to partner countries, the objectives they aim to achieve and their perceptions of how budget support may be expected to work differ substantially. Moreover, the thinking within individual agencies has evolved over time, moving from a rather idealised “partnership model” towards a realisation of the need for a degree of conditionality and, in some cases, towards the active promotion of budget support as a mechanism of “policy leverage”. Simultaneously, there has been an increased interest in good governance as an end goal and not just as a means to improve the effectiveness of national development strategies.
41. **The Intervention Logic underlying the OECD-DAC evaluation methodology attempts to capture the interactions and combined effects of the full set of budget support operations provided to any single country** within a specific period of time. It is a fundamental principle that the effects of all GBS and SBS operations must be evaluated as an integrated whole.
42. **The OECD-DAC methodological approach recognises that budget support is not a development programme in itself but rather a means to support a programme of policy and public spending actions by a partner government.** The final outcomes and impacts of GBS and SBS therefore depend predominantly on the quality and effectiveness of the strategies of the partner government, given the constraints imposed by the institutional and socio-economic environment. Accordingly, the approach draws a sharp distinction between the (rather limited)

direct outputs which budget support might be expected to produce and the more important “induced outputs” resulting from its interactions with government processes.

43. The Intervention Logic (IL) underlying the approach is thus based on a set of structured relationships at five levels covering Inputs, Direct Outputs, Induced Outputs, Outcomes and Impacts. In order to avoid implicit assumptions of causality between budget support inputs and final outcomes and impacts, the analysis is furthermore separated into three steps. For each country evaluation, some adaptation of the Intervention Logic (IL) is needed, based on an assessment of the relevance and applicability of the range of inputs, direct outputs, induced outputs, outcomes and impacts identified in the standardised IL. (See Annex Two for details).

### 1.3 Approach to the synthesis task and its potential limitations

44. **The great limitation of research or evaluation based on case studies is the problem of “external validity”.** While a country study may be able to explain why the budget support instrument worked in specific circumstances, it is hard to generalise the findings from one specific case. By combining several country case studies some patterns may be discerned and a more general validity of the identified relationships may reasonably be assumed. This is especially so when the selection of cases has been made with certain theories on expected relationships in mind, which the case studies then serve to test or refine. (Blatter & Haverland, 2012). As the number of country evaluations increases, it will become easier to consider such a research design but in this instance our cases simply represent the first countries to have completed evaluations following the revised methodological approach. How then can we maximise the external validity of the findings from the given set of seven case studies?
45. **The approach we have adopted to the synthesis process is that of ‘realist synthesis’.** (Pawson & Tilley, 1997; Pawson 2002). The starting assumption of the realist school is that most programmes of reform or social change work only in limited circumstances. Therefore, the discovery and documentation of the ‘scope conditions’ within which a programme works becomes the main objective of the process of synthesis. Realist synthesis does this through the analysis of change Mechanisms (M) working within different Contexts (C) and producing a range of Outcomes (O). By careful examination of these C-M-O combinations, it is possible to define to a certain level of detail the “boundary conditions” within which a programme theory will work, leading to a more tailored theory and to a better understanding of its transferability.
46. Thus, the systematic analysis of a range of C-M-O combinations produces a continual refinement of programme theory, by learning both from success (favourable outcomes) and failure (unfavourable outcomes). In this sense, realist synthesis builds on the ideas of Karl Popper (Popper, 1959) regarding the importance of being able to falsify a theory. Where a theory (or hypothesis) is open to falsification, it then becomes possible to refine the theory through the experience of failure. Learning from mistakes is essential to the process.

47. We have therefore aimed to categorise the results (Outcomes) identified in the seven evaluations by reference to the Context of each country and the Mechanism of budget support utilised. In this way, we have generated a template for documenting the C-M-O combinations emerging from the seven case histories. We have focused on the following indicators:
- **Context** has been captured through indicators relating to the economic, social and governance context, as well as an analysis of the aid situation and the political framework<sup>7</sup>.
  - **Mechanisms** are documented by reference to the scale of budget support disbursements, the number of providers, the balance between General and Sector Budget Support, the mix of inputs provided, the nature of conditionality, the structures and mechanisms for policy dialogue and the structures and mechanisms for managing TA/capacity building. Three indicators of the efficiency of budget support mechanisms are also examined – the predictability of disbursements, the reported transaction costs, and the quality of the contributions to the policy dialogue process. Thus, mechanisms encompass both the inputs and the direct outputs of budget support – the first two levels of the Intervention Logic.
  - **Outcomes** comprise the results documented in each of the evaluations in relation to Induced Outputs, Outcomes and Impacts – the final three levels of the Intervention Logic.
48. In examining the different C-M-O combinations, we have initially separated the three middle income countries (Morocco, South Africa and Tunisia) from the four lower income countries (Mali, Mozambique, Tanzania, Zambia). Within each of the country groups, we have considered the emerging patterns, and then compared them with each other in the final chapter.
49. Clearly, the wider validity of these findings is limited by the relatively limited number of cases, and by the very particular nature of each of the Middle Income Country (MIC) cases. This heterogeneity of the MIC cases makes it difficult to be confident of the wider validity of the patterns and relationships identified. There is also a problem of endogeneity, in that certain key aspects of the Context (GDP per capita, the quality of governance) also feature as Outcomes. We have attempted to deal with this by focusing on the context at the outset of the budget support period rather than during its duration but we are aware that this is not a satisfactory solution. Notwithstanding these methodological shortcomings, we believe that the realist synthesis framework does provide a useful way of grouping and comparing the results of country case studies. It is our hope that new case studies might be inserted into this framework so as to refine the preliminary hypotheses, which we have developed.
50. A further limitation on the validity of our conclusions is that we have had to assume that the findings reported in the seven evaluations here synthesised are themselves adequately justified, with evidence of an adequate level of reliability. However, this does not seem an unduly brave

<sup>7</sup> We note, in passing, that the evaluations include political economy analysis (PEA) only to a rather limited extent. This reflects the virtual absence of PEA from the design processes for the operations in these 7 countries. More recent guidelines (e.g., EU, 2012) require a more detailed analysis, using PEA techniques.

assumption. Each of the seven evaluations reports on the quality of evidence for the responses to each Evaluation Question (in most cases in the matrices included as “Volume Two”) and we believe that the Management Groups for these evaluations would therefore have demanded changes in the conclusions presented, if these were not considered sufficiently evidence-based.

## 1.4 Structure of the Report

51. Following this introductory chapter, this report is structured as follows:

- **Chapter 2** analyses the findings and conclusions of the four evaluations in low income countries (LICs) – Mali, Mozambique, Tanzania and Zambia. It categorises first the key elements of the Context (C), then documents the Mechanisms (M) utilised, before then summarising the main Outcomes (O) achieved in the four countries. A final section examines these C-M-O combinations together in order to derive some hypotheses regarding the effects of budget support in LICs.
- **Chapter 3** analyses the findings and conclusions of the three evaluations relating to middle income countries (MICs) – Morocco, South Africa and Tunisia. It follows the same structure as Chapter 2, closing with some hypotheses regarding the effects of budget support in such countries.
- **Chapter 4** summarises the lessons learned from these seven countries. It concludes with recommendations regarding the future design and management of budget support.
- **The Annexes** contain additional material to support the analysis in the text:
  - **Annex One:** Listing of Country evaluations undertaken of Budget Support;
  - **Annex Two:** Overview of the “3 Step Approach”;
  - **Annex Three:** Suspensions of Budget Support due to Underlying Principles: the cases of Mozambique, Tanzania and Zambia;
  - **Annex Four:** Effects of Variable/ Performance tranches: experience from Mozambique;
  - **Annex Five:** Comparing Budget Support with other modalities: evidence from Mozambique.
- **Volume Two**, which comprises a separate report, reviews the experience of applying the revised OECD-DAC methodological approach to GBS/ SBS evaluation and presents recommendations to improve its application in future.

## 2. Budget Support to Low Income Countries

52. This Chapter analyses the findings and conclusions of the four evaluations relating to Low Income Countries – Mali, Mozambique, Tanzania and Zambia<sup>8</sup>. It is presented in four sub-sections. The first three cover respectively the Context (C) in which budget support has been provided, the Mechanisms (M) utilised for its provision, and the main Outcomes (O) achieved. A final section, then examines these C-M-O combinations together in order to derive some hypotheses regarding the effects of budget support in lower income countries.

### 2.1 The context for Budget Support

53. In this section, we examine the context for budget support in the four countries, based on an analysis of data relating to (i) economic and social indicators, (ii) governance indicators, (iii) the political framework, and (iv) the nature of aid relations. For the analysis of context, we have taken the year 2004 as the relevant year for comparison, being at or near the beginning of the evaluation period for each country.

54. The presentation of the political and governance context is relatively weak in the evaluations, with the exception of the Mozambique and, to a lesser extent, the Zambia reports. It would be appropriate for future evaluations to dedicate more time to such analysis and to provide certain internationally comparable data (such as WGI indicators) as a standard requirement. Hence, the relatively simple analysis here presented provides only an indication of the subjects to be covered in future evaluations, which should normally also include more in-depth political economy analysis of the public administration system. Feasibility and design work for budget support operations should also include a similar scope of analysis.

### Economic & Social indicators

55. As may be seen from Table 2, at the outset of the evaluation period, Mali, Mozambique, Tanzania and Zambia all had per capita incomes and HDI scores below the average for Sub-Saharan Africa. Despite having a higher per capita income, Zambia had a much higher poverty headcount than the other three countries, a fact also reflected in a high prevalence of malnutrition. On the other hand, Zambia enjoyed the highest levels of literacy and of net primary enrolment of the four countries – two indicators for which Mali ranked especially low. Mozambique and Zambia had lower levels of life expectancy in 2004, probably reflecting their higher levels of incidence of HIV-AIDS.

56. While the contextual differences relating to economic and social indicators are relatively small, it would be legitimate to group Mali and Mozambique together, while distinguishing Tanzania due to its more favourable poverty and social indicators, and Zambia due to its higher per capita incomes. Table 3 below presents this simple categorisation.

<sup>8</sup> In the latter years of the evaluation period, Zambia became classified as a Lower Middle Income Country, as a consequence of fast economic growth driven by increases in the volume and prices of copper exports (copper prices increased five-fold from 2002-2006.) In 2004, it was still a Low Income Country.



**Table 2: Economic and Social Indicators for the Low Income Countries, 2004**

	Mozambique (2005-2012)	Tanzania (2004-2011)	Zambia (2005- 2010)	Mali (2003- 2009)	SSA (2004 - 2011)
	2004	2004	2004	2004	2004
<b>GNI per capita, Atlas method (current US\$)</b>	260	360	410	310	428.75
<b>Poverty headcount ratio at national poverty line (% of population)</b>	54.10	35.70	68.00	55.60	52.43
<b>HDI</b>	0.34	0.42	0.47	0.36	0.45
<b>Life expectancy at birth, total (years)</b>	47.74	52.84	45.77	50.53	52.25
<b>Literacy rate, adult total (% of people ages 15 and above)</b>	48.16	69.43	69.15	24.00	33.05
<b>Net enrollment rate, primary (% of primary school age children)</b>	69.96	86.05	87.00	55.94	64.54
<b>Prevalence of undernourishment (% of population)</b>	40.10	37.80	45.30	19.80	31.80
<b>Depth of the food deficit (kilocalories per person per day)</b>	308	277	323	124	239.74

Sources: World Bank, World Development Indicators; United Nations, Human Development Index.

**Table 3: Simplified categorisation of the Socio-economic Status of the LIC countries, 2004**

	Per Capita Income	
	Higher	Lower
<b>Poverty &amp; social indicators</b>	Higher	TANZANIA
	Lower	ZAMBIA MALI MOZAMBIQUE

## Governance indicators

57. Our categorisation of the governance context is based on an analysis of the data generated by the World Bank's Worldwide Governance Indicators (WGI)<sup>9</sup>. Clearly, this does not do justice to the complexity of the governance situation in each of these countries but it gives a reasonable idea of relative strengths and weaknesses. Moreover, the indicators of governance quoted in the individual evaluation reports comprise source data for the WGI (Afrobarometer, Bertelsmann Transformation Index, Freedom House, Transparency International Corruption Perceptions Index), as do the main alternative indicators of government effectiveness - the African Development Bank and World Bank Country Policy & Institutional Assessments (CPIA).

58. For each of the six identified dimensions of governance, the WGI produces estimates ranging from – 2.5 to + 2.5. From these estimates, a percentile ranking is produced (from 0 = lowest to 100 = highest) of the respective scores within each dimension for the countries and territories covered by the WGI. Table 4 shows the percentile rankings for the four countries. They are situated within the upper part of the second quartile of the 200 plus countries covered by the WGI: in other words, they score below the world averages for governance but they are not in the

<sup>9</sup> Details of the WGI methodology are presented in Kraay, Kaufmann & Mastruzzi (2010). As the authors explain: 'Indicators are based on several hundred variables obtained from 31 different data sources, capturing governance perceptions as reported by survey respondents, NGOs, commercial business information providers and public sector organisations worldwide.'



bottom 25%. However, the two dimensions with the lowest average scores – control of corruption and regulatory quality – have scores which place these countries only slightly above the bottom 25 %, so they are clearly not “good performers” with regard to governance.

**Table 4: Governance status of the LIC countries, WGI percentile rankings 2004, reflecting significant differences**

WGI Governance dimensions	Mali (2004)	Mozambique (2004)	Tanzania (2004)	Zambia (2004)
Voice & Accountability	57.2	47.1	34.1	36.1
Rule of Law	47.8	32.5	42.6	35.9
Regulatory Quality	35.3	34.3	36.3	31.9
Political Stability & Absence of Violence/ Terrorism	63.0	44.7	24.5	51.9
Government Effectiveness	30.7	35.6	42.4	20.0
Control of Corruption	37.6	31.2	32.2	26.8

Source: World Bank, Worldwide Governance Indicators

59. A feature of the WGI is that for each dimension and each country, it publishes both the estimated score and the standard error. The standard errors are relatively high, which means that in many cases, the differences in scores between countries ranked within the same decile are not in fact statistically significant<sup>10</sup>. In Table 4 we have classified the scores using a colour scheme to reflect the statistically significant differences. Accordingly, where all scores are equivalently low (i.e. with no statistically significant differences), they are shown in red; where one score is significantly superior to all the others, it is marked in green; and where there is a statistically significant intermediate scoring, this is marked in yellow. In this way, it is possible to establish a simple ranking of the quality of governance across the four countries in 2004:

- **Mali scores the best**, scoring poorly on control of corruption and regulatory quality but with significantly superior scores on 3 of the 6 dimensions.
- **Tanzania may be ranked second**. It is notable that it is the best performer with regard to government effectiveness.
- **Mozambique may be ranked third**, scoring better than Zambia on voice & accountability and on government effectiveness.
- **Zambia scores the lowest**, scoring better only for political stability and absence of violence.

60. The low ranking of Zambia with respect to governance is explained as follows in the evaluation report: *‘In combination with a historical pattern of single-party rule organised by centralised patronage, the fragile systems of checks and balances has created incentives and opportunities*

<sup>10</sup> Clearly this is a generalization, given that standard errors do differ by dimension and by country but it is a useful rule of thumb for interpreting the WGI rankings. For example, regarding control of corruption, Mali has the highest estimate of the 4 countries, -0.5 but with a standard error of +/- 0.2; Zambia has the lowest estimate, -0.7 but also with a standard error of +/- 0.2, thus the difference is not statistically significant.

*for the ruling party to undermine electoral competitiveness...In an increasingly politicised environment in which the opposition is gaining in popularity, several GRZ initiatives have attempted to constrain political transparency, reduce the influence of critical non-governmental organisations and shield politicians involved in corruption scandals from judicial prosecution.’* (IOB, 2011; pp. 105-106).

61. An apparent anomaly worth highlighting in WGI 2004 is the high ranking of Mali (63 %) and low ranking of Tanzania (24.5%) with respect to political stability and absence of violence. These scores are surprising given the *coup d'état* that Mali suffered in 2012 in response to the Tuareg uprising in the North, and the fact that Tanzania has suffered no comparable event of civil unrest either before or since 2004. However, in 2004 (and indeed up to 2008), Mali was perceived both domestically and internationally as peaceful and stable, following the political settlement reached with the signing of the ‘*Pacte National*’ in 1992, the period of peace that then followed and the orderly alternation of power between Presidents Konaré and Touré after the 2002 election. By contrast, the 1998 bombing of the US embassy in Dar es Salaam led to an extensive hunt for Al Qaeda collaborators in Tanzania, which was still continuing in 2004; moreover, there was significant unrest – especially in Zanzibar – between Christians and Muslims in the lead-up to the 2005 national elections. WGI scores for this dimension later diverged, with the ranking for Mali being 37.7 % in 2010 and 3.8% in 2012, compared with 46.2% and 46.9% respectively for Tanzania.

## The political framework

62. The WGI governance scores address certain aspects of the political system. In particular, the voice and accountability dimension captures perceptions of the extent to which ‘*a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and a free media*’ (Kraay et al., 2010). However, there are other aspects of the political framework, which are important in determining the ability of a government to achieve satisfactory public policy and spending outcomes.
63. **Consistency in political leadership has been found to be an important success factor within developing and transitional country governments**, which are expanding and improving their public services and pursuing complex programmes of reforms. (Robinson, 2007.) Frequent changes of government undermine the development of an institutional memory, compel a more short-term policy focus and fore-shorten the natural cycle of policy analysis, formulation and implementation.
64. **At the same time, the political leadership should feel accountable for their actions and should remain attentive to citizens’ needs.** Political leaders, who remain in place for too long and/or who have a limited probability of being voted out of office are likely to lose a sense of accountability and receptivity to the interests of the electorate. Although not sufficient in itself, this concern is clearly reflected in the constitutional requirement that a President may only hold

office for two terms, a requirement, which is common to Mali, Mozambique, Tanzania and Zambia (as well as the vast majority of constitutional democracies in the world.)

65. How can consistency in leadership be best combined with accountability and attentiveness to voters' needs? Which indicators might be used to assess whether the political structures of budget support receiving countries adequately capture this balance? These are extremely difficult questions, for which there is probably no satisfactory answer. Nevertheless, it is important to recognise some of the particularities of these four countries in this regard:

- **Tanzania and Mozambique** have political systems dominated by their majority parties – CCM (*Chama Cha Mapinduzi*) and Frelimo, which in one form or another have been in government since Independence. This has ensured consistency in leadership and has generated hierarchical and relatively disciplined public administration systems. On the other hand, most observers agree that this has undermined accountability, and both the country evaluations report that this has tended to make the political leadership averse to criticism and less than fully attentive to their voters' needs. The fact that Presidential candidates are constitutionally restricted to two terms serves, to a degree, as a counterweight but the evaluations confirm that this has not been sufficient to ensure an adequate level of accountability.
- **Zambia** has been ruled from 1991 to 2011 by the Movement for Multi-Party Democracy (MMD) who were able to peacefully end the regime of President Kaunda and introduce multi-party democracy. The new regime under President Chiluba initially showed strong democratic credentials but in the latter half of the 1990s democratic accountability began to deteriorate, with political rights and civil liberties being curtailed. Civil protest proved effective in 2001 in preventing President Chiluba from changing the Constitution and running for a third term but the MMD candidates still won elections in 2002, 2006 and 2008. This permitted an increasing concentration of power in the hands of the executive vis-à-vis the legislature, the judiciary and civil society. (IOB, 2011; p.104.) However, it does not seem that shortcomings in accountability were compensated by increased consistency of leadership or greater efficiency in government. The low WGI scores on government effectiveness are testament to this. The evaluation also points to the fragmentation within government, the lack of discipline displayed by sector Ministers and the consequent negative effects on the efficacy of Sector Advisory Groups (SAGs). (IOB, 2011.)
- Since the restoration of democracy in 1992, **Mali** has been ruled by two presidents and a variety of parties and parliamentary coalitions. President Alpha Konaré of the Alliance for Democracy in Mali (ADEMA) won both the 1992 and 1997 elections, with ADEMA also winning a majority of the parliamentary seats in each case. The 2002 and 2007 elections were both won by President Amadou Toumani Touré, standing as an independent in each case, while no party won an overall majority in Parliament in either

election. Thus, of the four countries, it might be said that Mali comes closest to combining consistency in leadership at the presidential level, with a reasonable level of alternation of power between political parties and coalitions.

## The nature of Aid relations

66. There are conflicting theories about how policy dialogue and conditionality may foster institutional and policy reforms in budget support receiving countries. However, the degree of aid dependency is clearly relevant. In addition, constructive dialogue between government and donors requires a context where Development Cooperation is seen to provide a genuine added value. For this, it seems desirable to have a starting context where a) there is an existing framework for dialogue and b) where underlying relations are good.

**Table 5: The Nature of Aid Relations in the 4 recipient LICs – key variables**

	Mali (2003-2009)	Mozambique (2005-2012)	Tanzania (2004-2011)	Zambia (2005-2010)
<b>ODA as % GDP (period average)</b>	12.2 %	22.5%	13.0%	9.8%
<b>Budget Support as % ODA (period average)</b>	22.7%	20.2%	27.7%	15.5%
<b>Joint Assistance Framework</b>	Yes	No	Yes	Yes
<b>Degree of tension in Aid Relations</b>	Low	Medium	Medium	Medium

Sources: ODA statistics from OECD-DAC CRS; other data from Evaluation reports, with degree of tension in aid relations interpreted by author from information in Evaluation reports.

67. We may characterise the nature of aid relations in the four countries as follows (Table 5):

- All four countries have a relatively high level of aid dependence, most especially so in Mozambique, and less so in Zambia;
- 3 of the 4 countries had established “Joint Assistance Strategies” with their DPs prior to the outset of the evaluation period and all 4 had created formal structures for the management of aid, led by the central agencies of government (Finance and/or Planning).
- The evaluation reports indicate that the degree of tension in aid relations was low in Mali, where there were no significant suspensions of budget support during the whole of the evaluation period<sup>11</sup>.
- Although there were significant suspensions of budget support in each of the other three countries related to perceived breaches of underlying principles, we classify the degree of tension as “medium” because the reasons for these suspensions were in each case addressed and the financial consequences were not excessive. Moreover, the other three countries had relatively favourable Government-Donor relations at the outset of the period, which then deteriorated.

<sup>11</sup> There were delays in Mali in the release of some variable tranches of SBS - not due to disagreements over underlying principles but to administrative reasons, such as delays in making reports available.

68. Notwithstanding this “medium” classification<sup>12</sup> of the degree of tension in donor relations in Tanzania and Zambia<sup>13</sup>, the shift in donor attitudes during the evaluation period, was sharp and long lasting and had deep effects on the quality of policy dialogue. (ITAD, 2013; pp. 6-7 & 44-45). We do not believe that this should be interpreted as a contextual problem but rather as a weakness in the mechanism for responding to potential breaches of underlying principles. We return to this point below.

## Conclusions on the context in the 4 LICs

69. Overall, we would describe this as a difficult context for budget support but with a relatively more favourable situation in Mali:

- These were four low income countries, with significant poverty levels, high levels of malnutrition, and generally poor social indicators.
- Zambia had a marginally higher per capita income, and a greater potential for growth given the existence of an established copper mining industry.
- Each country suffered from a combination of deficiencies in the political framework and weaknesses in governance, most especially Mozambique and Zambia.
- Mali had a relatively more favourable political framework and governance status.
- All had high levels of aid dependency, which in Mozambique, Tanzania and Zambia generated a degree of tension in relations with Development Partners.

## 2.2 The mechanisms for implementation of Budget Support

70. Here, we examine the mechanisms for implementation of budget support, based on an analysis of data relating to (i) the inputs provided and (ii) the quality of the implementation frameworks.

### (i) The scale, nature and relevance of budget support inputs

**Table 6 -The Mechanisms of budget support: (i) Inputs provided**

Budget Support Inputs provided (annual averages)	Mali 2003-2009	Mozambique 2005-2012	Tanzania 2004-2011	Zambia 2005-2010
BS disbursements (US\$m)	182	414	660	186
BS as % ODA <sup>14</sup>	22.7 %	20.2 %	27.7 %	15.5 %
BS as % Total expenditure	11.6 %	15.4 %	14.8 %	6.5 %

<sup>12</sup> Within this categorization, Malawi, Ethiopia and Uganda would be characterized as countries experiencing high tension in relations because budget support suspensions had more significant financial effects due to the length of the suspensions or the scale of resources involved. See also Molenaers et al., 2013.

<sup>13</sup> In Tanzania this shift in attitudes followed the revelation of the “Richmond” and Bank of Tanzania External Payments Account corruption scandals in 2008. In Zambia, this shift (in 2000) was prompted by poor poverty results, disagreements over fertilizer subsidies, and a corruption scandal in the health sector.

<sup>14</sup> The OECD-DAC Creditor Reporting System tends to overstate project and common basket fund disbursements but is the only available international source. By way of example, the Tanzania Ministry of Finance estimates that Budget Support averaged 37% of ODA.

Number of BS Providers	10	19	14	9
	7 bilateral; 3 multilateral	16 bilateral; 3 multilateral	11 bilateral; 3 multilateral	6 bilateral; 3 multilateral
GBS/ SBS balance	71% GBS SBS: Health, Education, Decentralisation PFM, Cotton	100% GBS	96% GBS SBS: Education, Roads	87 % GBS SBS: Roads, Health, PFM
Use of Variable/ Performance tranches	Yes	Yes	Yes	Yes
Technical Assistance/ capacity-building	Yes: significant	Yes: significant	Yes but limited	Yes: significant

Sources: ODA statistics from OECD-DAC CRS; Other data from Evaluation reports.

71. Table 6 presents an overview of the budget support inputs provided in the four countries:

- The scale of budget support is everywhere significant, with average annual disbursements comprising 6.5 % of public spending in Zambia and exceeding 10 % in Mali, Mozambique and Tanzania.
- Technical assistance/ capacity-building inputs were provided in each country but generally as an accompanying parallel measure, rather than as a fully integrated element of budget support. TA has generally been directed to support PFM reform, strengthening of internal and external audit, improvements in revenue generation and strengthening of statistics offices. In Mali, there was also support to the PRSP (*CSLP*) monitoring unit within the Ministry of Finance, to the planning and statistics units of the main sector ministries, and to the unit coordinating the decentralisation process. Tanzania is notable for its more limited use of technical assistance.
- Sector Budget Support is significant in Mali and Zambia, directed both to the classic service delivery sectors of education, health and roads and also to PFM reform and, in Mali, to decentralisation and the cotton sub-sector<sup>15</sup>.
- There are variable/performance tranches in each country. Although growing in significance in the recent years, they represent less than 20% of total disbursements<sup>16</sup>.

(ii) Quality of implementation frameworks: a) Predictable financing

72. **An important operational objective of budget support is to achieve predictability between actual disbursements and the forecast disbursement levels incorporated in the budget and treasury plans of the recipient government.** A lack of predictability was identified as a significant problem in the earlier years of budget support as noted in the Joint Evaluation of 2006 (IDD, 2006). These four evaluations suggest that the problem of predictability in annual

<sup>15</sup> The Cotton SBS was concluded in 2006 and was thus not analysed in the evaluation.

<sup>16</sup> Precise data on the value of variable tranche disbursements are not presented in the evaluations but in Zambia they are reported to comprise 16% of the total in 2007 (Gerster & Chikwekwe, 2007), and 11 - 15% of the total in Mozambique in 2012. (US\$ 49 m. disbursed out of a potential US\$ 70m: ITAD, 2013, p.74)

disbursements has now largely been solved and that with the right administrative arrangements for approving annual disbursements, budget support can attain levels of predictability considerably higher than projects or common basket funds:

- In **Tanzania, Mozambique and Mali** budget support disbursements were close to 100% of annual forecasts, whereas disbursements by other modalities fluctuated between 50 % and 80 % of budgeted forecasts, with much higher levels of volatility from one year to another.
- In **Zambia**, annual budget support disbursements were below 80 % in 2006 and 2007 but fluctuated around 100 % in the final 3 years, suggesting that a learning and adaptation period is generally needed for annual predictability to be attained.

73. Predictability of within-year disbursements proved more difficult to achieve in each of the four countries. This is technically more challenging, requiring various elements including an appropriately structured calendar of disbursement decisions, a design of disbursement conditions or “triggers” built on feasible reporting requirements<sup>17</sup>, good treasury/ cash planning by the Ministry of Finance, and efficiency in decision-making channels between the HQ and field offices of the Development Partners.

74. **In Mozambique and Tanzania the objectives of in-year predictability and of front-loading of disbursements were largely achieved in normal years.** In Mali and Zambia, this proved more difficult and the resulting costs in terms of unplanned domestic borrowing and delayed expenditures were sometimes considerable. However, there is evidence of learning by doing and of good practices being shared between countries and between Development Partners, suggesting that these operational objectives should be increasingly achieved through the budget support mechanism.

75. Unexpected suspensions of payments due to perceived breaches of underlying principles present a different kind of problem. Mali was the only country of the four, which did not suffer significant suspensions of this type. We consider below the motivations and the effects of such suspensions (including any apparent effects on the quality of governance).

76. **Frequent unexpected suspensions may seriously undermine the value of budget support as a financing mechanism.** While under some circumstances it may be wise to reduce domestic arrears (e.g. Ghana; ODI, 2007) or debt, the real value of budget support to LIC recipient countries is to boost discretionary budget resources in a predictable manner, so that well-planned investments and enhancements of recurrent spending (for expansion of teacher numbers, for example) may be brought forward, with positive effects on the coverage or quality of public services and long term impacts on income or non-income poverty. If budget support is used as

<sup>17</sup> Two problems reported in Mali are relevant in this respect: 1) some of the indicators incorporated in the Decentralisation SBS were not based on existing data sources and therefore proved impossible to report upon; 2) for the health and education SBSs, certain indicators were not automatically generated by existing reporting systems and therefore required apparently complex re-calculations from existing data.



“residual spending” and if it causes the build-up of payment arrears, then its value to the recipient country is diminished<sup>18</sup>. It is for this reason that some African countries are reported to be expressing a preference for project-based support. (IEG, 2010; p.xxviii.)

**77. The evaluations report that the most significant effects of the suspensions in Mozambique, Tanzania and Zambia were on the quality of dialogue.** The financial effects of the various suspensions were neither extensive nor long lasting because in most cases they did not involve the larger budget support providers<sup>19</sup> and because the suspensions comprised deferments rather than outright cancellations of disbursements. Nevertheless, the effects on dialogue were significant – as we discuss in our conclusions.

### Implementation frameworks: b) Harmonised delivery structures

**78.** A common rationale for the provision of budget support is that, in addition to being *a priori* more fully aligned to government policies and processes, it is an aid modality that lends itself more easily to harmonisation across providers and thus involves lower transaction costs than other modalities. How harmonised has the delivery process been in the four evaluated LICs?

**79. On the positive side, there is much evidence of progress in harmonisation efforts,** especially if one considers that the number of budget support providers in these countries ranged from 9 to 19 (Table 7.):

- In each case, all of the budget support providers are signatories of a common Memorandum of Understanding;
- There is an integrated calendar for the annual assessment of progress and for decision-making on disbursement;
- The calendar integrates sectoral reviews with the annual assessment of progress with the poverty-reduction strategy and the annual assessment of GBS disbursement conditions.
- For most agencies – the occasional exceptions being the African Development Bank and the World Bank – the indicators used to assess progress are incorporated in harmonised performance assessment frameworks (PAFs) at the central and sectoral levels (in the case of SBS arrangements);

**80.** In Mali and Zambia, this harmonised delivery mechanism was built up in the early years of the evaluation period, while in Mozambique and Tanzania, which were earlier starters with budget support, it was established in the 2002 – 2005 period: *‘the core essentials of a structured,*

<sup>18</sup> A study by Celasun and Walliser (2006) shows that the greater the differences between commitments and disbursements, the fewer budget support funds are used for additional expenditures: in such cases, it is much more likely that domestic debt increases or reduces.

<sup>19</sup> Most significantly, in no case did these suspensions affect disbursement by the World Bank through its PRSC operations. EU budget support arrangements were also unaffected, because the Cotonou agreement includes a different procedure for addressing breaches of underlying principles.



*harmonised assessment and disbursement process had been established in Tanzania from the outset of the evaluation period and have been preserved.* (ITAD, 2013; p. 29.)

- 81. Budget support is widely acknowledged to have lower transaction costs per unit of aid than projects or common basket funds, but the transaction costs of the BS delivery mechanism are still considered too high.** The stakeholders interviewed in these four evaluations all agreed that budget support compared favourably with other modalities in terms of transaction costs per unit of aid. This view is confirmed<sup>20</sup> by the UK National Audit Office in regard to DFID (NAO, 2008) and with regard to SIDA by Bigsten et al. (2011), who estimate that the administrative costs per Swedish Krona spent through budget support are 19% of those for projects (quoted in IOB, 2012).
- 82.** Notwithstanding the recognition of the potential for transaction cost savings through GBS/ SBS, each of the evaluations point to unnecessarily high levels of such costs. In Mali, this is perceived essentially as ‘unfinished business’ with regard to the harmonisation agenda<sup>21</sup>: *‘the annual process of assessment...is not yet fully harmonised and still generates unnecessary transaction costs’* (ECO-Consult, 2011; p.10). The Mozambique and Tanzania evaluations, by contrast, point to increased levels of transaction costs in the second half of the evaluation period, as a consequence of a declining level of trust between DPs and the Government and the resultant growth in the variable/ performance tranches (reaching 7 in Mozambique and 12 in Tanzania) and the number of indicators and disbursement conditions included in the SBS and GBS arrangements.
- 83.** In Zambia, the persistently high transaction costs are presented as a reflection of, on the one hand, the high level of fragmentation and the consequent inefficiencies in the GRZ public administration and, on the other, the divergences in opinions between Development Partners regarding the ultimate objectives of budget support: *‘while some cooperating partners apparently understand budget support as a poverty reduction-oriented financing instrument, other cooperating partners seem more keen to use budget support as an instrument to promote public administration and governance reforms’* (IOB, 2011; p.90.)
- 84. Thus, in Mozambique, Tanzania and Zambia, the impression is that the harmonisation process has reached a plateau and that only through fundamental changes can further progress be envisaged.** Only the Mali evaluation showed confidence in the potential for continued improvements in harmonisation and control of transaction costs, a position almost

<sup>20</sup> Further evidence for this conclusion is provided by a World Bank study of 2005, which calculates that \$142 could be disbursed through PRSCs for every one dollar of preparation & supervision costs, as opposed to only \$32 for projects. (Quoted in ODI, 2007 and NAO, 2008.)

<sup>21</sup> As examples of this unfinished business, the Mali evaluation points to the lack of coherence between the demand for indicators and the existing supply of information. It also notes a lack of coherence between sectoral and central levels, for example: for the health and education sectors, different indicators were included in the SBS PAFs and in the GBS PAFs in order to measure progress within the same reform areas.

certainly influenced by the more favourable nature of aid relations at that time - a contextual difference identified in section 2.1 above.

## (ii) Implementation frameworks: c) the framework for policy dialogue

85. The opportunity for constructive policy dialogue between government and the budget support providers is perceived as one of the critical advantages of the modality. How may we assess the quality of the mechanisms created for this purpose in the LICs?
86. **On the positive side, in each of these countries budget support has created integrated structures for setting and monitoring annual progress targets for the national development strategy and for key sectoral strategies.** Such structures did not previously exist or were not fully functional. Moreover, the structures established have created new opportunities for policy input from civil society. The importance of these achievements is well captured in the Tanzania evaluation<sup>22</sup>: *‘In terms of harmonisation, alignment and stakeholder engagement, the existing framework for dialogue scores relatively well. [...] The Budget Support framework for dialogue can also be credited with promoting the use of results and indicators within the Tanzanian policy process.’* (ITAD, 2013; p.31)
87. In the case of Mali, the policy dialogue mechanism was considered relatively effective and was seen to have generated relevant results: *‘these structures have facilitated the implementation and monitoring of national development programmes, in particular the CSLP / CSCRP, (the poverty reduction strategy) education and health sector policies, and policies to strengthen public finance management, decentralisation and public sector reform’.* (ECO-Consult, 2011: p. 10)
88. In the other three countries, the substance of the policy dialogue did not benefit from the initial gains made in the establishment of harmonised monitoring mechanisms, and was perceived by the evaluations as falling significantly short of expectations. This was especially true in Mozambique and Tanzania, the countries with the more mature budget support processes, where progressive improvements in the efficiency and effectiveness of dialogue were expected:
- The transaction costs of the dialogue framework were seen to be high, and, in the second half of the evaluation period, actually rising due to an excess of dialogue layers and committees, and due to protracted discussions over setting PAF targets and interpreting performance against those targets;

<sup>22</sup> The Mali evaluation is perhaps still more explicit about the importance of this achievement: *‘Le fait que ce cadre commun de suivi soit en place, qu’il se fonde sur un système de programmation stratégique basé sur des résultats, qu’il permette des discussions relativement ouvertes en faisant participer la société civile, est un acquis fondamental de l’ABG. Avant 2007, un tel cadre commun n’existait pas.’* (ECO-Consult, 2011; p. 30)

- In all three countries, the PAF had become too big, attempting to address a dozen or more sectors and thematic areas, due to the demands of the different budget support providers to respond to their specific concerns and interests<sup>23</sup>;
- In Tanzania, the PAF was especially problematic involving an excessive number of indicators (89 at its peak in 2007/08), but also a lack of coherence, consistency and “SMART-ness” in the definition of indicators<sup>24</sup> (ITAD, 2013; pp. 31-35);
- The combination of a donor-driven process and a high level of transaction costs generated severe disincentives against the participation of senior civil servants, further eroding the already declining level of ownership and diminishing the quality of debate and discussion.

**89. The most serious problem identified was the lack of a strategic, problem-solving orientation.** In Mozambique, Tanzania and Zambia, dialogue had been focused rather narrowly on the definition and subsequent monitoring of the indicators in the PAF, without a more extensive discussion of the reasons for progress or lack of progress and with no apparent analysis of policy options. For example, the Tanzania evaluation pointed to ‘*the notable scarcity of documentation on policy ideas, case studies or international examples presented by members of the Budget Support Group*’ (ITAD, 2013; p.36).

**90. At the heart of the problem lay a lack of appreciation on the Donors’ side of the need for the policy dialogue to be owned and led by Government.** Initial dissatisfaction on the part of Donors with the pace of progress of reforms and with the quality of governance led to a desire to ‘raise the bar’ for disbursement by demanding the inclusion of additional and more ambitious targets in the PAF. As the PAF became bigger and, with it the scope of dialogue, this began to expose capacity deficiencies on both sides: the Governments clearly had limitations in their administrative and technical capacity to design and manage reforms, which made it impossible to address reform requirements across a dozen or more sectors or thematic areas simultaneously. Donors also had limitations in their ability to draw on technical expertise to support the dialogue process. Beyond the requirements for selected areas such as PFM, the oversight institutions and the social sectors, it proved difficult to address these gaps with technical assistance and capacity building – in part, because of the procedural complexities of procuring good technical assistance, in part, because the potential needs were not well identified and discussed between the parties in the first place.

**91. Finally, it should be said that the concept of budget support dialogue as a shared process of problem solving was not one that had been internalised by the majority of the providers at**

<sup>23</sup> In Tanzania, it was said that far from being a tool for monitoring the government’s own targets, the PAF had become ‘the sum total of all Development Partners’ individual preferences and requirements’. (Claussen and Martinsen, 2011).

<sup>24</sup> 12 % of the indicators were found to be in practice unmeasurable; and over a third of the indicators were changed each year, suggesting at best a rather transient strategic significance.

**the outset of these operations.** If it had, one would have expected to see a process more deliberately structured with this in mind, with the capacity requirements foreseen from the outset and with space (and resources) for research and evaluation work to feed the dialogue. These elements were not in place in any of the four cases. Moreover, as underlying tensions became more severe in Mozambique, Tanzania and Zambia, the ‘auditing function’ of the budget support dialogue increasingly squeezed out the space for a more constructive problem-solving dialogue.

**92. Mali did not suffer to the same extent from these weaknesses in the dialogue framework, and it is worth considering why.** Issues did arise in Mali with indicators being “forced” into the PAF and into the variable tranche frameworks by the budget support providers. This was especially the case with the indicators for decentralisation, public sector reform and establishment of the independent *Cour des Comptes*, the majority of which were not fulfilled. This created some frustration but, significantly, it did not lead to any lasting tensions. Positive dialogue continued in education and health, as well as on PFM and macroeconomic issues, and significant results were generated. This was attributed to the technical capacities existing in these areas (on both sides of the relationship) and to the fact that relationships were well established, with a good number of donor staff in place for long periods<sup>25</sup>.

**93. It is also worth highlighting the success of the policy dialogue related to Mozambique’s entry into the Extractive Industries Transparency Initiative (EITI), where a different approach was adopted.** *‘At one level, the way in which this was done was quite “traditional” – a PAF indicator on progress to EITI compliance was developed and indicators on transparency of the fiscal arrangements for natural resources were included in the variable tranches. But much wider efforts were made to promote debate and thinking on the optimum design of arrangements. Various papers on the future management of natural resource revenues were presented and discussed at the Nordic- Mozambique conference on inclusive growth of May 2012, study tours were organised to examine the experience of other countries and substantial advisory support was provided by the IMF and by Norway.’* (ITAD, 2014; p. 77.)

#### (ii) Implementation frameworks: d) the “underlying principles”

**94.** The four budget support arrangements include clauses in their MoUs identifying a set of underlying principles ‘critical to the continuation of the budget support partnership’. These are defined in quite a general way, of which the text in the Tanzania MoU is a good example:

- Sound macroeconomic management;
- Commitment to achieving the MKUKUTA (poverty reduction strategy) objectives and the MDGs;
- Sound budgeting and PFM systems;
- Continuing peace and respect for human rights, the rule of law, democratic principles and

<sup>25</sup> A good number of the Donors’ sector staff were Malian staff members, with a long-term presence.

the independence of the judiciary.

- Good governance, accountability of the government to its citizens and integrity of public life, including the active fight against corruption.

95. Beyond the requirement to initiate a ‘high level policy dialogue’ to discuss potential breaches of underlying principles, none of the MoUs define a clear procedure either for assessing whether the underlying principles are being respected or for defining the corrective actions to be taken. This has been a cause of some concern within the recipient countries, in particular in Mozambique where the government has insisted that in the new MoU for budget support, there should be a tighter definition both of principles and procedures.
96. In Mali, there were no suspensions of disbursements due to underlying principles during the evaluation period. This may perhaps reflect a stronger governance situation in Mali, or perhaps the fact that there was less underlying tension in relations with donors.
97. The other three countries did experience suspensions of disbursements, for which we provide the details in Annex Three. The three suspensions in Mozambique were especially controversial, with Government stakeholders maintaining that the “pre-emptive” suspension by certain partners was not needed, while several DPs expressed a conviction that corrective actions would not have been taken in the absence of the decision to suspend disbursements. The evaluation expresses the view that *‘the suspension of payments in early 2010 was instrumental in generating corrective actions at the time of the “crispação” but not necessary at the time of the revelation of the education payroll fraud in late 2011’*. (ITAD, 2014; p.78.)
98. **These experiences illustrate the weakness of the mechanism for monitoring respect of underlying principles and responding to identified breaches, as well as more fundamental differences in the perception of the objectives of budget support.** The budget support MoUs in each of these countries present the view that disbursements should only be suspended in extreme circumstances, because the guarantee of a predictable flow of resources is fundamental to the partnership. Some budget support providers would add that, as budget support promotes the strengthening of PFM systems and anti-corruption mechanisms, the level of detection of fraud is likely to improve as these systems become stronger. To suspend budget support each time such a case is detected would be akin to “shooting the messenger” for bringing bad news. What is important is that cases of fraud should be made public and that corrective actions should be introduced and vigorously pursued. The absence of such a process might legitimately be considered a violation of underlying principles but the occurrence of fraud should not, in itself, be considered as such.
99. The fact that several budget support providers were prepared to make pre-emptive suspensions of payments in instances of fraud in Zambia and Mozambique suggests that this original philosophy was no longer the dominant one by 2008. In Tanzania, the suspension in early 2008 proved to be a turning point in relations, with the level of conditionality of disbursements systematically

increasing thereafter – with more PAF conditions (especially process conditions), a stricter assessment of performance against conditions and greater use of variable and performance tranches. (ITAD, 2014; pp.41-42) The evaluation concluded that these changes did not generate improvements in governance and ‘served only to deepen feelings of distrust and to move further away from a constructive policy dialogue.’

## 2.3 Outcomes achieved: Induced Outputs, Outcomes & Impacts

100. What have been the outcomes<sup>26</sup> achieved through budget support in each of these four countries? We summarise the results identified in the evaluations with regard to Induced Outputs, Outcomes and Impacts.

### Induced Outputs

101. Regarding **macroeconomic policy**, we noted above that budget support represented for each of these four countries a budgetary inflow equivalent to 6 – 16 % of public spending. With the exception of Mali where a significant proportion of budget support was initially dedicated to the reduction of domestic debt, budget support flows in these countries translated predominantly into increased expenditure. Where a reasonable level of predictability in the value and timing of disbursements can be established – as we have noted for these four countries above in section 2.2, (with some reservations for Mali), this would seem to be the most common response in Low Income Countries. The cross-sectional analysis included in IOB (2013) shows that every additional one percentage point of budget support (in % of GDP) leads to an increase in government expenditure of 0.6% of GDP.
102. What effects did budget support have on the different components of expenditure? Although none of the evaluations model these effects directly, they all provide evidence of budget support being associated with positive changes in expenditure composition. As Table 7 shows, budget support has contributed to a stabilisation of the fiscal deficit and a reduction in the level of interest payments, as well as increases in the level of domestically financed investments and in overall expenditure allocations to the higher priority sectors. It has also generally been associated with increases in the relative share of salaries in the budget, reflecting the fact that it has commonly supported the expansion in numbers of teachers and health personnel<sup>27</sup>.

**Table 7: Budget support contributions to improved expenditure composition in LICs**

Key components of Public Expenditure	Mali 2003-2009	Mozambique 2005-2012	Tanzania 2005/06 -	Zambia 2005-2010
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<sup>26</sup> We use the word “outcomes” in a generic sense because we are following the ‘realist synthesis’ approach of Pawson and Pawson & Tilley, described in Chapter 1. The OECD-DAC methodological approach distinguishes induced outputs, outcomes and impacts as separate components.

<sup>27</sup> In Mali, Mozambique and Tanzania, it was also associated with salary increases, which were reportedly long overdue. The parallel increase in domestic revenues made these increases possible without threatening the sustainability of the government cost structure. In Zambia, the wage bill expansion was driven predominantly by salary increases, which for example comprised 78% of wage bill expansion in the education sector over 2005-2009. (De Kemp & Ndakala, 2011.) The evaluation identifies this as a potential threat to the continuation of investment in poverty-reducing programmes.



2011/ 12				
<b>Total Expenditure as % GDP</b>	No change: 24.9% to 24.1%	Big increase: 23.6% to 32.6%	Modest rise: 23% to 26.2%	Modest fall: 25.7% to 22.7%
<b>Fiscal Deficit (after grants) as % GDP</b>	Stable: 3 % GDP	Modest rise: -2.4% to -4.1%	Modest fall: -5.5% to -5.0%	Stable: -2.6% to -3.1%
<b>Interest payments as % GDP</b>	Big fall: 2.3% (2002) to 1.1% (2009)	Modest rise: 0.8% to 1.0%	Modest fall: 1.3% to 1.1%	Big fall: 2.7% to 1.8%
<b>Domestically financed investment as % GDP</b>	Modest rise: 3.6% to 4.0% 2007 peak 4.6%	Big increase: 3.2% to 6.1%	Big increase: 1.8% to 4.6%	Modest rise: 1.7% to 2.9%
<b>Priority Sector Expenditure a) as % GDP; b) as % of total expenditure</b>	Big increase: a) 9.6 to 12.9% b) 39 to 54%	Big increase: a) 14.4 to 21.6% b) 61 to 67%	Big increase: a) 8.8 to 13.9% b) 40 to 53%	Big increase: a) 6.1% (2005) to 8.3% (2008); b) 35 to 45%
<b>Wages &amp; Salaries as % GDP.</b>	Modest rise: 4.2% to 4.7%	Big increase: 6.8 to 10.2%	Big increase: 3.9 to 6.6%	Modest rise: 7.6 to 8.1%

Sources: Evaluation reports: (Data on poverty-reducing expenditure used for Zambia as “priority sector expenditure”).

**103. Especially notable is the contribution of budget support to increased poverty-reducing or priority sector expenditure.** These expenditures are defined slightly differently in each country but invariably include recurrent and investment expenditure on education, health, water, agriculture, roads and social protection. Detailed analyses of expenditure changes in each country evaluation suggest that the primary beneficiaries of budget support funding were education, health and social development in Mali, education and to a lesser extent agriculture and good governance in Mozambique, education and roads in Tanzania and health, education and agriculture in Zambia. The levels of spending attained in these sectors would not have been possible in the absence of budget support; nor is there any evidence of allocations from tax resources being “crowded out” by budget support, indeed the opposite is the case in Zambia, where there is evidence of additional domestic resources being “crowded in” by budget support. (IOB, 2011; pp. 136-148.)

**104. Increased expenditure on health and education generated additional sector outputs,** which were found from the “Step Two” analyses conducted to be closely correlated with sector outcomes. For example, in Mali, without the additional funding of SBS and GBS, it would have been impossible to generate the education sector outputs (school buildings, teachers and textbooks) correlated with improved outcomes. GBS and SBS funds contributed in a major way to the financing of expanded health sector infrastructure and GBS (on its own) to the financing of additional health personnel. In Zambia, the budget increases to the health sector contributed to improved service delivery and especially to improved primary health facilities in urban and rural areas. The number of health workers increased from 12,000 in 2005 to 17,000 in 2010 and the availability of essential drugs improved from 71% to 82%.

**105. There is no evidence of budget support generating disincentive effects to domestic revenue generation.** This is consistent with the findings of cross-sectional analysis presented in IOB (2012), which show no statistically significant impact of budget support on tax revenue. In each of the four countries, budget support has been associated with substantial real increases in revenue collections, and in Mozambique and Tanzania with extensive revenue reforms, which generated significant increases in the revenue share in GDP.

**106. Improvements in the quality of public finance management (PFM) have been recorded in the four countries.** Improvements are evidenced in the repeat PEFA assessments and also in independent reports by the IMF Fiscal Affairs Department. The evaluations conclude that the combination of a structured set of PFM reform targets incorporated in the PAF, increased domestic budget funding (enhanced by GBS) and substantial technical assistance has been successful in generating a faster rate of progress in PFM reform than would have been achieved in the absence of budget support. This result is consistent with De Renzio et al (2010)<sup>28</sup>, who in a cross-sectional analysis of PEFA assessments in 100 countries find that the share of total aid provided as GBS is positively and significantly associated with better PFM quality.

**107.** Notwithstanding the favourable progress with PFM reforms identified in each country, the evaluations also sound some warning notes regarding the scope and direction of reforms:

- In Mali, the evaluation points to long-standing problems with the processes of treasury management, commitment control, and the preparation of bank reconciliations and management accounts – a linked network of deficiencies, arising from the partial coverage of controls, particularly with regard to autonomous government agencies, project accounts, and facilities for ‘emergency authorisation of expenditure’;
- In Tanzania, a similar set of problems is identified, giving rise to very substantial payment arrears. The evaluation points to the absence in the PFM reform plan of corrective actions to address these problems and the misplaced attention to more sophisticated reforms such as programme-budgeting, the migration to accrual based accounting and the extension of the integrated financial management system to local governments;
- In Zambia, there have been significant delays with the implementation of the computerised Integrated Financial Management Information System (IFMIS), a key component of the reform programme. The delays are said to be rooted in GRZ’s choice of a highly sophisticated system despite limited implementation capacities.

**108. Without a step up in the quality of advisory support, the budget support process may prove unable to continue to contribute to successful PFM reform in beneficiary countries.**

<sup>28</sup> De Renzio, P., M. Andrews and Z. Mills (November 2010), *Evaluation of Donor Support to PFM Reforms in Developing Countries: Analytical Study of quantitative cross-country evidence*, Overseas Development Institute, London.



These warning notes are indicative of the inherent difficulty, which the implementation of “second generation” PFM reforms is likely to present for LIC countries, such as these four<sup>29</sup>. This is a challenge which will require a higher quality of advisory support to the implementation process, both in terms of technical assistance and in terms of the policy dialogue around PFM issues.

109. Whether budget support has or has not induced improvements in democratic governance is a controversial question. As we have noted above in the discussion of mechanisms, the general shift towards a greater use of conditionality and towards more frequent suspensions of payments in response to the discovery of instances of fraud have been largely motivated by a perception by budget support providers that governance has not improved fast enough. In fact, the evidence of these four countries suggests that there have been improvements.

110. **Gains in transparency and accountability may be identified in 3 of the 4 countries:**

- In **Mozambique**, improvements were introduced to the quality and accessibility of budget documentation, permitting an increased score on the Open Budget Index (OBI) from 28% in 2008 to 47% in 2012. There has also been an improvement in the work of the *Tribunal Administrativo* (the supreme audit institution), with a big increase in the number of annual audits (from 29 audits in 2004 to over 400 since 2009) and a consequent improvement in the PEFA score from D+ in 2006 to C+ in 2011.
- **Tanzania** also achieved improvements in transparency, with its OBI score rising from 36 % in 2008 to 47 % in 2012. The quality of parliamentary scrutiny of budgets was also strengthened and there were major gains in the scope, timeliness and quality of the external audit reports of the National Audit Office (NAO), generating an improvement in the PEFA score for external audit from D+ in 2006 to B+ in 2010.
- The **Zambia** evaluation reports that the strengthening of the OAG’s external auditing capacity was one of the more substantial achievements of budget support. Improvements in budget transparency were not, however, attained.
- In **Mali**, there were no such equivalent gains, essentially because it proved impossible to change the status of the Accounts Chamber of the Supreme Court into a fully fledged Court of Accounts (*Cour des Comptes*). This was in part because this would have required a constitutional change and therefore a referendum but also because the Supreme Court opposed even more modest initiatives to improve its status, such as the provision of budgetary autonomy and the improvement of the judicial status (and therefore the salaries) of the auditors working in the accounts chamber.

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<sup>29</sup> Drawing on a wider set of case studies, IEG (2010) also point to the difficulties which have been faced in addressing more complex PFM reforms, such as bringing extra-budgetary funds on-budget or managing contingent liabilities.

111. The improvements achieved in Mozambique, Tanzania and Zambia were attributed to a combination of substantial technical assistance support to the audit institutions, increases in their budgets (facilitated by GBS) and increased attention to the quality of transparency and oversight within the budget support dialogue. While technical assistance was quite probably the most important of these inputs, the evaluations lay emphasis on the significance of this combination of inputs, stressing that equivalent gains would not have been obtained through stand-alone technical assistance projects.
112. **Improvements to the legislative and institutional framework for the control of corruption were identified in Mozambique and Tanzania.** The details are as follows:
- The **Tanzania** Prevention and Combating of Corruption Act was passed in 2007, which amongst other things strengthened the independence and the powers of the Prevention & Combating of Corruption Bureau (PCCB). The budget of the PCCB was considerably expanded and it also received a modest amount of technical assistance; as a result, it enlarged the scale of its operations, more than doubling the total number of cases prosecuted from 202 in 2004 to 587 in 2010.
  - **Mozambique** passed its first anti-corruption law in 2004. It was supplemented by a package of 5 additional draft laws submitted to Parliament in 2011, of which 3 were passed into law. The Central Office for Combating Corruption – *Gabinete Central de Combate a Corrupção (GCCC)* – received a significant increase in budget funding during the evaluation period as well as technical assistance. The number of cases going to court per year increased from the time of the establishment of the GCCC in 2005 to reach 88 in 2012.
113. In these cases too, the improvements achieved were attributed to a combination of technical assistance, budget increases (facilitated by GBS) and increased attention within the budget support dialogue. A High Level Dialogue on corruption was established in Tanzania following the events of 2008, and a similar committee in Mozambique to follow up the Governance Action Plan agreed in the wake of the suspension of budget support in 2010. (See Annex 3 for details.) The evaluations conclude that these committees were able to establish new channels of communication on corruption issues, which facilitated the progress made.
114. **One should not overstate the importance of these improvements: they are first steps and do not constitute a fundamental change in the quality of governance.** Nevertheless, they are important first steps: transparency is no guarantee of improved accountability but it is a necessary condition for its achievement; similarly anti-corruption legislation and institutions are no guarantee that corruption will be controlled but they are again a necessary first step.
115. **The Worldwide Governance Indicators (WGI) point, if anything, to modest improvements in Mozambique, Tanzania and Zambia in the control of corruption and in voice & accountability.** (See Table 8.) Mali is the exception but it represents a special case because the declining perceptions of governance are clearly linked to the decline in peace and

security, resulting from the Tuareg unrest in the north of Mali, which had begun to manifest itself from 2009. Thus, the balance of evidence from these countries suggests that, even if the improvements fall some way short of being transformational, budget support is more likely to be associated with an improvement in governance rather than a decline. At a wider level, IOB (2012) reports that ‘*international comparative analysis shows that a positive correlation exists between the amount of budget support received and an improvement in the Kaufmann (WGI) indicators for good governance*’.

**Table 8: Governance status of the LIC countries, WGI percentile rankings 2010 (showing change in rankings from 2004)**

WGI Governance dimensions	Mali (2010)	Mozambique (2010)	Tanzania (2010)	Zambia (2010)
<b>Voice &amp; Accountability</b>	54.0 (-3.2)	45.5 (-1.6)	43.6 (+9.5)	39.3 (+3.2)
<b>Rule of Law</b>	40.3 (-7.5)	39.3 (+6.8)	38.4 (-4.2)	37.4 (+1.5)
<b>Regulatory Quality</b>	34.9 (-0.4)	38.3 (+4.0)	36.8 (+0.5)	35.4 (+3.5)
<b>Political Stability &amp; Absence of Violence/ Terrorism</b>	37.7 (-25.3)	57.1 (+12.4)	46.2 (+21.7)	62.3 (+10.4)
<b>Government Effectiveness</b>	22.0 (-8.7)	34.4 (-1.2)	33.5 (-8.9)	22.5 (+2.5)
<b>Control of Corruption</b>	30.0 (-7.6)	41.4 (+10.2)	34.8 (+2.6)	32.9 (+6.1)

Source: World Bank, Worldwide Governance Indicators

**116. The Mali evaluation also points to progress in decentralisation resulting from the budget support dialogue.** Decentralisation represented an important part of the dialogue in Mali and was the subject both of a dedicated SBS for decentralisation/public sector reform and of specific conditions within the health and education SBSs regarding the deconcentration of budget management responsibilities. Within these sectors, significant progress was made in deconcentration of budgets, despite the initial reticence of the Ministry of Finance, who were concerned by the limited capacities at the regional and local levels. The provision of training in budget management by TA staff procured through the education and health SBSs proved important in overcoming this initial reticence. Progress was also made in allocating an increased proportion of the investment budget to the local governments (*collectivités territoriales*). However, there was no progress in strengthening the legal and constitutional basis for decentralisation, essentially because there was limited political support for such changes, in the absence of a clear and shared vision for decentralised governance.

## Outcomes

**117. In these four countries, the increased public expenditures in the priority sectors made possible by Budget Support have permitted a significant expansion in the coverage of key social services.** The primary beneficiary sector has been education, although health coverage

also expanded in Mali and Zambia, and roads in Tanzania. Econometric analysis, undertaken under “Step Two” of the evaluation methodology shows a strong causal relationship between the outcomes achieved and the investments financed by the increase in public expenditure made possible by budget support:

- In **Mali**, between 2002 and 2009, the gross enrolment rate for basic (primary) education rose from 64% to 81%, while the repetition rate fell (from 20% to 14%) and the completion rate increased (from 40% to 56%). In the same period, the majority of health sector outcome indicators improved significantly (e.g. use of antenatal services increased from 54% in 2002 to 90% in 2009).
- In **Zambia**, the percentage of immunised children in the worst performing districts improved from 63% to 69%; incidence of tuberculosis, malaria and underweight amongst children were reduced, and infant, child and maternal mortality indicators all improved. Enrolment in primary education (Grades 1-7) increased by more than 80% between 2000 and 2010 (1.6 million to 3 million children), while investments in teachers, school infrastructure, text books and facilities reduced drop-out and repetition, and improved progression and completion rates, with pass rates in grade 7 rising from 50% in 2000 to 84% in 2010, and grade 9 completion rates from 34% to 50%. The gender gap decreased, with parity almost being achieved at the basic level.
- In **Mozambique**, 40 % more children were in primary school in 2012 as compared with 2004, with the largest gains observed being for poorer households, and the gender gap reducing to some 4% by the close of the period. Meanwhile, pupil numbers in secondary school were 65 % higher in 2012 as compared with 2004, with 18% of the relevant age group in secondary schooling as compared with 6% in 2003.
- **Tanzania** had experienced a similar expansion of primary education coverage in an earlier phase of budget support (ODI, 2005). In this phase, budget support helped to retain net primary enrolments well above the 90% level, whilst also permitting a major expansion of secondary enrolments. As a result of the investments in secondary school teachers and facilities, the transition rate from primary to secondary education more than doubled from 20% in 2006 to 54% in 2012. In addition, the roads network was expanded by 14% between 2005 and 2008, while maintaining road conditions at a similar standard<sup>30</sup>.

**118. In some cases, the scale of the expansion of primary and secondary education meant that quality could not be sustained.** In Tanzania, average exam pass rates deteriorated at both primary and secondary levels. They began to improve again at the primary level in 2011 but

<sup>30</sup> Zambia also saw some improvement in the road network, in part facilitated by budget support. Econometric analysis showed that roads have a significant positive effect on income and on school attendance in rural areas. It seems likely that this would also hold true in Tanzania, where population densities and income levels in rural areas are broadly similar.

secondary school pass rates continue to hover at 10-12%. A significant contributory factor is the fact that an increasing number of children of parents with little or no schooling are now attending secondary school. Econometric analysis shows that parental education levels are a major determinant of performance at the secondary level in Tanzania, (ITAD, 2013; pp. 100-104.) Therefore, diminishing marginal returns are almost inevitable as system expansion occurs. Nevertheless, this is an international problem, which many other countries have experienced in the past; thus, a constructive policy dialogue ought to contribute to solving such problems.

**119. In Zambia and Mozambique, enhanced agriculture sector funding generated disappointing outcomes, as a consequence of inappropriate policies.** In both cases, budget support finance helped to expand funding but policy dialogue did not generate an agreed set of effective policies. Effective outcomes require not only enhanced funding but also appropriate policies and the capability to implement them. Outside of the education, health and roads sectors, budget support in LICs has struggled to generate these success factors.

## Impacts

**120. All four countries recorded high real rates of GDP growth during the evaluation periods.**

In all cases, growth rates compared well with neighbouring countries, with Mali for example achieving the highest average growth rates in the WAEMU region within the period. In three of the four countries, average growth rates were marginally higher than in the pre-evaluation period, benefitting from the generally more favourable international conditions and in the case of Zambia, from rising copper prices. In Mozambique, growth rates were essentially unchanged, remaining high by regional standards.

**Table 9: Average Annual Growth rates in Real GDP, 2000 - 2004 and 2005 – 2010**

Real GDP Growth	Average 2000-2004 a)	Average 2005 -2010 b)	Difference b) – a)
Mali	4.56%	5.17%	+0.61
Mozambique	7.48%	7.43%	-0.05
Tanzania	6.56%	6.93%	+0.37
Zambia	4.46%	6.23%	+1.77

Source: IMF, Article IV reports.

**121. The evaluations assert that budget support contributed to the favourable economic growth performance in three principal ways:**

- Firstly, by facilitating the expansion of government spending<sup>31</sup>, without a corresponding reduction in private spending (through taxation, or through domestic government borrowing), budget support stimulated domestic demand.

<sup>31</sup> As we have noted in the case of Mali, a proportion of budget support was used to reduce domestic debt, which would therefore have increased the availability of credit to the private sector, either directly through the payment of arrears to contractors or through increasing bank liquidity by buying back Treasury Bills.

- Secondly, because a high proportion of the increase in government spending was allocated to domestically financed investment expenditures, this contributed to asset creation and helped to address infrastructure constraints, with a positive effect on productivity.
- Thirdly, by permitting higher spending in conjunction with sustainable fiscal deficits, budget support contributed to macroeconomic stability and thus to private sector confidence, giving a boost to both domestic investment and foreign direct investment (FDI). In Mali, a focus group of national businessmen also stated that the existence of ongoing budget support operations promoted external confidence in the economy, facilitating trading and cross-border financing arrangements.

122. None of the evaluations formally test these relationships through macroeconomic modelling or quantitative analysis, relying on a theory-based analysis supported by the testimonials of well-informed commentators such as the IMF, the Central Bank and national businessmen. Nevertheless, the macroeconomic phenomena that might have offset the positive benefits of a foreign exchange inflow through budget support were not present, with each country maintaining inflation in single digits, achieving steady increases in the ratio of private sector credit to GDP, and suffering only modest appreciations in the real exchange rate. The finding that budget support has a modest positive effect on economic growth is supported by the wider literature on aid and growth, on which IOB, 2013 finds that *‘the most rigorous studies show a positive, long-term effect.’*

123. **The evaluations also conclude that the effects on growth would have been greater if budget support could have induced more effective government action to improve the business environment and to address infrastructure constraints more effectively.** None of the four countries achieved any significant improvement in Doing Business Indicators or in Global Competitiveness Indicators. Private sector focus groups in Tanzania and Mali reported that energy constraints were a perennial problem - due both to limited coverage of rural electrification programmes and frequent power outages in urban areas.

124. **With regard to trends in income poverty, the findings are less favourable, with Mali being the only country to experience a significant reduction during the evaluation period.**

The details are as follows:

- In **Mozambique**, there was no statistically significant change in poverty between the early and the late 2000s, with 54.1% of the population reported below the poverty line in 2003 and 54.7% in 2009, according to the official poverty figures.
- In **Tanzania**, the 2007 Household Budget Survey estimated that the proportion of the population living below the poverty line decreased from 35.6% in 2001 to 33.3% in 2007, an estimated decline within the boundaries of statistical error.

- In **Zambia**, according to official statistics the proportion of the population living below the poverty line fell from 73% in 1998 to 68% in 2004 and 64% in 2006. This modest overall change was driven predominantly by reductions in the proportion of the urban population living in poverty, which fell from 56% (1998) to 53% (2004) to 34% in 2006. Rural poverty remained largely unchanged at 83%, 78% and 80% respectively.
- **Mali** is the only country which reports significant reductions in income poverty, with official statistics reporting 61% of the population under the poverty line in 2000, declining to 51% in 2005. The World Bank’s WDI estimates a poverty headcount of 43.6 % in 2010 suggesting a continuation of the downward trend reported in the evaluation.

**125.** The evaluations explain the limited impact on income poverty by reference to three factors. In the first place, the scale of budget support – at 1.5% to 4.5 % of GDP, although important, was still too modest to expect a significant short-term impact on poverty. Secondly, the bulk of increased public spending facilitated by budget support was directed to increased social sector spending, which might be expected to have a longer term impact on poverty but limited immediate effects on income growth or employment. Thirdly, none of the four countries followed a detailed set of public policies aimed at reducing income poverty. All had poverty reduction strategies but these were more in the nature of aspirational plans rather than true strategies. In particular, none of the four countries followed a coherent agriculture development strategy, aimed at accelerating agricultural growth and improving rural incomes.

**126. Budget support did however have a significant effect on the reduction of non-income poverty and the improvement of social welfare.** This was directly related to the major gains achieved in the coverage of education and health services. The importance of these changes should not be underestimated : from a situation in the late 1990s, where universal primary education (UPE) was but a distant dream, Tanzania, Mozambique and Zambia are all now close to achieving and sustaining UPE, whilst also extending secondary education dramatically, so that it is no longer the preserve of a privileged 10% of the population. Mali is at an earlier stage in its development path but the gains made during the evaluation period were also transformational. As a consequence, each country has achieved significant improvements in the Human Development Index (HDI) during the evaluation period. (Table 10).

**Table 10: Improvements in the Human Development Index, 2004 – 2010**

UN Human Development Index (HDI)	2004	2011	Percentage Change
<b>Mali</b>	0.36 (2003)	0.40 (2010)	+11%
<b>Mozambique</b>	0.34	0.38	+12%
<b>Tanzania</b>	0.42	0.48	+14%
<b>Zambia</b>	0.47	0.53	+13%



<b>Sub-Saharan Africa</b>	0.45	0.49	+10%
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Source: United Nations, Human Development Index, 2013.

## 2.4 Conclusions on the experience of budget support in LICs

127. In this section we summarise our overall conclusions regarding the outcomes of budget support in Mali, Mozambique, Tanzania and Zambia and their relationship to the context and the mechanisms. From this analysis, we derive two hypotheses, which we will test in Chapter 3 against the experience of budget support in Morocco, South Africa and Tunisia.

### Some significant achievements...

128. **The expansion of social service utilisation has been the principal outcome achieved through budget support in these four LICs.** There has been a major expansion of education coverage, as a result of which Mozambique, Tanzania and Zambia are now close to achieving sustained universal primary enrolment, while also substantially increasing access to secondary schooling. Mali has also made big steps in this direction, while simultaneously improving the coverage of health care services, as too has Zambia. The coverage of the national road network was also significantly extended in Zambia and Tanzania. The improved coverage of services resulted from the increased public spending on priority sectors, made possible by budget support funding, which in addition was able to “crowd in” an increased percentage of domestic resources for these sectors.

129. In addition to this major achievement, there were also important gains in other areas:

- At the output level, budget support contributed to improvements in public finance management, as well as to more modest improvements in transparency, in the quality of oversight by supreme audit institutions, and in the legal and institutional framework for combating corruption.
- At the impact level, budget support funds made possible higher levels of domestic investment, while lowering debt servicing costs and helping to keep fiscal deficits at a sustainable level. All of these effects have contributed to the high growth levels achieved in the four countries, although the drivers of growth lay elsewhere and the commitment to prudent macroeconomic management was already well established.
- With the exception of Mali, faster growth did not translate into greater reductions in income poverty within the evaluation period, although improved service delivery did bring gains in social welfare. These were reflected in key measures of non-income poverty, such as literacy and enrolment levels, life expectancy and the UN Human Development Index.

130. In Mozambique, Tanzania and Zambia there are grounds for confidence that these gains can be sustained. Domestic revenue collections have grown significantly and are now able to replace the funding previously provided through budget support; the delivery systems for these expanded services are all operating within the rules and structures of the respective public sector

administrations, without depending on salary top-ups and external TA. National mechanisms of oversight of these services and programmes are in place, working through supreme audit institutions, parliament and its committees, and the existing frameworks for wider citizen participation.

131. The gains achieved in Mali have to a degree been threatened by the coup d'état and the ensuing turbulence. Yet, with the restoration of democracy and the return to normality, observers are confident that the structures of service delivery and public administration will be quickly re-established, building on the gains achieved during the evaluation period.
132. **Overall, this adds up to an impressive balance sheet, particularly given the starting context.** These are all low income countries with capacity constraints and human resource limitations. They all suffer from substantial deficiencies in governance. Indeed, during the evaluation period, disbursements were suspended in Mozambique due to electoral irregularities and in Tanzania, Zambia and Mozambique due to corruption scandals. Despite these set-backs, progress continued to be made and significant outcomes were achieved.

### Yet, some missed opportunities...

133. **The inability of the budget support dialogue to generate a focused and realistic programme of actions to reduce income poverty was perhaps the major shortcoming of the instrument.** A large part of the explanation lies in the fact that none of the countries followed a detailed set of public policies aimed at reducing income poverty. All had poverty reduction strategies but these were more in the nature of aspirational plans rather than true strategies built on analysis of the microfoundations of balanced growth. In addition, on the part of the donors, there was a lack of appreciation of the scale of the challenge of poverty reduction. In the late 1990s and early 2000s, a number of LICs had achieved sharp reductions in income poverty, simply by sustaining high levels of economic growth – the poverty headcount in Mozambique, for example, fell by 15 percentage points between 1996 and 2003, lifting 3 million people out of poverty. Therefore, there was, perhaps, an implicit belief that poverty reduction through “trickle-down” would continue. In Mali, it did to a degree but in the other countries more deliberate public policy initiatives were needed to reduce income poverty.
134. The question to be addressed is why was the policy dialogue unable to address this problem? Why were there not more analyses and more ideas forthcoming about how to improve the effectiveness of poverty reduction strategies? Does the lack of success in this area point to a weakness in the budget support mechanism, which might be corrected, or does it point to the inherent limits of the instrument in LIC contexts?

### Factors constraining success: context?

135. In these countries, what prevented the budget support process from achieving positive outcomes in agriculture, infrastructure, energy, private sector development or other sectors more directly linked to income poverty reduction? The Zambia evaluation concludes that in order to

achieve positive sector outcomes from budget support funding, two conditions must hold (IOB, 2011, p.18):

- *‘First, sectors of interest must be supported by strong government ownership.’*
- *‘Second, government policies and the objectives of cooperating partners must be aligned.’*

136. Clearly, the context is important for ownership, which must ultimately be driven by political interests. Political leaders will naturally be interested in public policies and programmes, which can win votes, and they may also have more pernicious, vested interests. This may exclude an interest in complicated policies, which are difficult to “sell” to the electorate or in policies which run counter to those vested interests but it is nevertheless likely to include a long list of public policy actions, related to social services, employment generation and income growth.

137. Secondly, ownership demands that government must play the lead role in policy development. Although it is possible to draw on technical advice from outside of government, ultimately the capacity for leadership and coordination from within government will prove a binding constraint. How many policy development processes can an LIC government expect to lead simultaneously? In adopting the “Big Fast Results” approach to policy development, previously applied in Malaysia and Indonesia, the President’s Office in Tanzania chose to limit its attention to six sectors<sup>32</sup>. This seems at first sight a small number; yet, six sectors already represents a wider scope for productive partnership than was achieved in any of these countries, where successful partnership was generally limited to education, and in some cases health or roads, as well as PFM, macroeconomic management and certain aspects of governance. The PAFs in each of these countries chose to address more than six sectors or thematic areas: 10-12 in Zambia, Mozambique and Tanzania and 8 in Mali, which possibly as a result was characterised by the most harmonious and productive policy dialogue of the four. Thus, a lack of focus in the policy dialogue appears to have been part of the problem.

138. Context may also place a limit on the extent to which alignment of interests between Development Partners and Government proves possible. There would appear to be two significant factors in this respect: the number of partners involved and the quality of donor-donor relations. On the issue of numbers, it seems more than a coincidence, that Mali with 10 budget support partners enjoyed better dialogue than Mozambique with 19 or Tanzania with 14. However, the nine partners in Zambia still struggled to achieve harmonised positions amongst themselves and to align with government outside of health, education and PFM.

139. This suggests that the quality of donor relations with government and the quality of intra-donor relations may in fact represent more significant constraints than has previously been thought. Mali again benefitted from good donor-government relations, whereas in Zambia

<sup>32</sup> These were energy & natural gas, agriculture, water, education, transport and mobilisation of resources.

Tanzania and Mozambique, they deteriorated quickly following governance and corruption concerns and remained poor for a long time subsequently.

**140. A first hypothesis is that there must be trust and confidence within donor-government relations for a successful policy dialogue and successful sector outcomes.** The evidence from these countries suggests that once trust is lost, it will not be restored automatically: deliberate efforts are needed, probably involving outside agents such as outside facilitators or resource persons, who may be in a position to take a more objective or more “arm’s length” viewpoint<sup>33</sup>. If donor-government relations are poor at the outset and this is not deliberately and systematically addressed, it is likely to prove to be a binding constraint on the scope of successful policy dialogue.

### Or mechanisms?

**141.** How effective were the budget support mechanisms? Our analysis above pointed to several areas, where a reasonable degree of operational efficiency has been attained but also to two rather deep fault-lines, where processes were not working adequately:

- Following an initial ‘learning and adaptation period’, budget support has broadly succeeded in establishing mechanisms to ensure predictability in disbursements. This relates both to the overall level of disbursements relative to budgeted commitments and to the timing of disbursements within year.
- Harmonised processes have been established for managing the annual assessment of progress and for coordinating disbursement decision-making. Considering some of the underlying differences in the perceived objectives of budget support of the different Development Partners, this is a significant achievement.
- Budget support has generally succeeded in boosting the resources available for discretionary expenditure, without generating disincentive effects for domestic revenue generation.
- It has also succeeded in channelling those additional resources towards priority sectors, and moreover has helped to crowd-in additional domestic funding for priority sectors.
- The two big “fault-lines” relate to the policy dialogue and the process of defining and monitoring underlying principles and responding to suspected breaches of the principles.

**142.** The policy dialogue was perhaps especially poor in Tanzania post 2008 but many of the concerns identified there were also present in Zambia and Mozambique, albeit to a lesser extent. At the root of the problem lies the fact that the dialogue framework has a dual function: on the one hand it monitors progress with reforms and service delivery processes, as a way of assessing

<sup>33</sup> The “Independent Monitoring Group”, established in Tanzania in the wake of the Helleiner report of 1995 is an interesting model in this respect. However, it seems that the IMG lost some influence, following the decision to make it a group of purely Tanzanian academics; maintenance of a mixed national-international membership would appear to be desirable.

eligibility for disbursements, and secondly, it provides a framework for forward-looking discussions aimed at strategic problem-solving.

143. However, a problem-solving dialogue must be based on partnership and trust: the experience of Tanzania suggests that once the trust is diminished, the space for a constructive process of shared problem solving is likely to be whittled away. This is not an inevitable process – the policy dialogue in Mali survived several major disagreements, while still remaining productive; a constructive dialogue over EITI membership took place in Mozambique at a time when there were serious disagreements over governance issues; yet, it seems clear that the space for strategic, problem-solving dialogue needs to be explicitly protected.
144. **Our second hypothesis, then, is that the policy dialogue mechanism requires explicit measures to protect the space for strategic, problem-solving dialogue.** These measures might take different forms: steps to separate the forum for progress monitoring from the forum for forward-thinking dialogue, the deliberate introduction of new external actors, such as academics or subject specialists, into certain problem-solving discussions. The Mali, Tanzania and Mozambique evaluations all recommend structured programmes of research and evaluation of specific sector policy issues to feed the dialogue. There must also be an explicit consciousness that budget support needs to be a partnership and that this requires an appropriate code of conduct on both sides<sup>34</sup>.
145. **One of the necessary measures would be a clarification of the definition and application of underlying principles.** The cases of Mozambique and Zambia, in particular, demonstrate that there are significantly different perceptions among budget support providers over when it is or is not legitimate to suspend budget support on suspicion that underlying principles have been breached. The Budget Support MoUs define underlying principles as ‘critical to the continuation of the budget support partnership’, suggesting that disbursements should only be suspended in extreme circumstances, because the guarantee of a predictable flow of resources is fundamental to the partnership.
146. Under this definition, the suspensions following the EPA and Richmond scandals in Tanzania in 2008 and the electoral irregularities in Mozambique in 2009/ 2010 were considered legitimate (by the evaluation teams) and, indeed, were accepted as such by the partner governments. However, the suspensions in Zambia in 2010 and in Mozambique in 2011 and 2012 due to the discovery of fraud in the health and education sectors were not considered by the evaluation teams to have been consistent with the criteria in the MoUs. These latter suspensions were justified as methods of putting pressure on government not only to move faster to take corrective actions over these events but to be more generally active in the fight against corruption. In short, these suspensions were used as a mechanism of policy leverage.

<sup>34</sup> In both the Tanzania and the Mozambique evaluations, confidential stories were shared with the evaluation team of inappropriate behaviour on both sides of the relationship: fists being banged on tables, voices being raised inappropriately, disrespect shown to Ministers and Ambassadors, etc.

**147. The experience of these LICs suggests that repeated attempts to use policy leverage will undermine the effectiveness of budget support as a financing tool and as a mechanism of policy dialogue.** Development Partners may have legitimate doubts over the commitment of a partner government to the fight against corruption or to other underlying principles; yet, if those doubts are well founded, threats to suspend budget support (policy leverage) will not generate sustainable change in the behaviour of the partner government – many years of research on structural adjustment and on budget support have proven this. The only solution in such a context is to stop budget support altogether and use other methods of development cooperation – probably working outside of government. If, however, the context is considered sufficient for public spending to allow for services to be delivered, then there is a basis for partnership and a basis for achieving important outcomes through budget support, as has been demonstrated in the cases of Mali, Mozambique, Tanzania and Zambia.

### 3. Budget Support to Middle Income Countries

148. This Chapter analyses the findings and conclusions of the three evaluations relating to Middle Income Countries – Morocco, South Africa and Tunisia. It is presented in four sub-sections, following the same structure as Chapter 2. The first three consider the Context (C) in which budget support has been provided, the Mechanisms (M) utilised for its provision, and the main Outcomes (O) achieved. A final section examines these C-M-O combinations together in order to derive some hypotheses regarding the effects of budget support in Middle Income Countries. We also test whether our two LIC hypotheses are applicable in the MIC context.

#### 3.1 The context for Budget Support in the MICs

149. Here, we examine the context for budget support in the three countries, based on an analysis of data relating to (i) economic and social indicators, (ii) governance indicators, (iii) the political framework, and (iv) the nature of aid relations. We take 2000 as the reference year, reflecting the context at the start of the evaluation period.

#### Economic & Social indicators

**Table 11: Economic and Social Indicators for the Middle Income Countries, 2000**

Economic & Social Indicators at start of Budget Support period	South Africa (2000-2011)	Morocco (2005-2012)	Tunisia (1996-2008)	LMIC
	2000	2000	2000	2000
<i>GNI per capita, Atlas method (current US\$)</i>	3,050	1,320	2,310	871
<i>Poverty headcount ratio at national poverty line (% of population)</i>	38.0	15.3	32.4	45.2
<i>Unemployment, total (% of total labor force) (ILO estimate)</i>	26.7	13.6	15.7	12.9
<i>HDI</i>	0.63	0.53	0.65	0.51
<i>Life expectancy at birth, total (years)</i>	55.8	68.1	72.6	62.9
<i>Literacy rate, adult total (% of people ages 15 and above)</i>	N/A	51.3	74.3	76.0
<i>Net enrollment rate, primary (% of primary school age children)</i>	94.5	75.6	96.3	80.5
<i>Prevalence of undernourishment (% of population)</i>	5.0	6.6	5.0	21.0
<i>Depth of the food deficit (kilocalories per person per day)</i>	31.0	38.0	4.0	143.3

Sources: World Bank, World Development Indicators; United Nations, Human Development Index.

150. In 2000, Morocco, Tunisia and South Africa all had per capita incomes above the average for Lower Middle Income Countries (LMIC). Their HDI scores, poverty headcount ratios and most social indicators were also better than the LMIC average but with some striking exceptions. Unemployment rates were above the LMIC average in all 3 countries; literacy rates were lower than the average in Morocco; and life expectancy lower than the average in South Africa, reflecting its higher levels of incidence of HIV-AIDS. In short, in 2000, these were all firmly established as middle income countries but still dealing with significant social problems.



## Governance indicators

151. Just as for the LICs, our categorisation of the governance context is based on an analysis of the data generated by the World Bank’s Worldwide Governance Indicators (WGI)<sup>35</sup>. Table 12 shows the percentile rankings for the three countries. Following the approach in Chapter 2, we have used a colour scheme to highlight where there are statistically significant differences in the rankings<sup>36</sup>.

**Table 12: Governance status of the MIC countries, reflecting significant differences (WGI percentile rankings 2000),**

WGI Governance dimensions (percentile rankings)	Morocco (2000)	South Africa (2000)	Tunisia (2000)
Voice & Accountability	33.7	70.2	28.4
Rule of Law	56.0	55.0	47.4
Regulatory Quality	52.5	64.7	52.0
Political Stability & Absence of Violence/ Terrorism	38.5	35.6	56.7
Government Effectiveness	54.6	75.6	71.2
Control of Corruption	59.0	73.2	59.0

Source: World Bank, Worldwide Governance Indicators

152. In 2000 the three countries were situated essentially within the third quartile of the 200 plus countries covered by the WGI. South Africa scored better than Morocco and Tunisia across most dimensions of governance but had a relatively low score for ‘political stability/ absence of violence’, as also did Morocco. Reflecting the restrictions on democratic rights and freedom of the press, which then existed, Tunisia and Morocco scored poorly for ‘voice and accountability’, with their estimated levels ranking lower than the four countries in our LIC sample.

## The political framework

153. The estimates of voice and accountability presented above already give a strong indication of the nature of the political systems in these countries but, as we noted in Chapter 2, there are aspects, which are not well addressed by the WGI governance scores. Specifically, to what extent did Morocco, Tunisia and South Africa combine consistency in leadership with accountability

<sup>35</sup> Details of the WGI methodology are presented in Kraay, Kaufmann & Mastruzzi (2010): ‘Indicators are based on several hundred variables obtained from 31 different data sources, capturing governance perceptions as reported by survey respondents, NGOs, commercial business information providers and public sector organisations worldwide.’ For each of the dimensions of governance, the WGI produces estimates ranging from – 2.5 to + 2.5. From these estimates, a percentile ranking is produced (from 0 = lowest to 100 = highest) of the scores within each dimension for the more than 200 countries and territories it covers.

<sup>36</sup> An important feature of the WGI is that for each dimension and each country, it publishes both the estimated score and the standard error. These standard errors are relatively high, which means that in many cases, the differences in scores between countries ranked within the same decile are not in fact statistically significant. In Table 12, where all scores are equivalently low (i.e. with no statistically significant differences), they are shown in red; where one score is significantly superior to all the others, it is marked in green.

and attentiveness to voters' needs<sup>37</sup>? We do not have clear-cut indicators but there are some facts about these countries which are clearly relevant in this respect:

- **South Africa** is a parliamentary representative democracy, in which the President serves as head of state and head of government in the same manner as prime ministers in other nations. Following the end of apartheid and the first open, multi-party elections in 1994, the ANC (African National Congress) have consistently won the majority of the popular votes both for the national legislature and the 9 provincial legislatures (although Western Cape was won by the Democratic Alliance in 2009.) This helped to develop experience within the new post-apartheid bureaucracy and has established consistency in the conduct of social and economic policy, with several leading ministers remaining in government for long periods, most notably Trevor Manuel, who has been a government minister from 1994 to 2014, most of this period as Minister of Finance.
- Although South Africa has a strong constitution that foresees a division of powers, has a related bill of rights and a two-term limitation on the period of the Presidency, the absence of any alternation of government for over 20 years and the dominance of the ANC represents a threat to accountability and the system of checks and balances. The top leaders of the ANC decide on government posts and have been in the position to put into place loyal personnel in all major agencies and institutions such as the intelligence service, police and army and also the judicial services. However, although the opposition is fragmented, it has been increasing, and the increasing differentiation of the factions within the ANC (Trade Unions, Communist Party and Youth League besides the 'historical' ANC party) has generated a degree of internal accountability and may lead to important political changes in the future.
- From 1956 to 2011, **Tunisia** operated as a de facto single party state, with political power controlled by the secular Constitutional Democratic Rally (RCD). Habib Bourguiba, having led Tunisia to Independence in 1956, put an end to the monarchy and established himself as President from 1957. Although he had a strong modernising agenda, based around a secular state and a neutral foreign policy, as well as the active promotion of gender equality, he also promoted a cult of personality around himself and remained as president until 1987, when he was (peacefully) deposed by his successor, Zine El Abidine Ben Ali. Initially, Ben Ali promised an opening up of democratic spaces, and allowed opposition parties to be established but through a combination of restrictive rules and electoral manipulation, he was able to remain in power until 2011. The Ben Ali regime was criticised by Amnesty International for restriction of basic human rights, for suppression of human rights organisations and for imposing controls on press freedom. However, Ben Ali introduced economic reforms, which served to

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<sup>37</sup> See Chapter 2, Section 2.1 for an explanation of the rationale for this dual focus on consistency in leadership and accountability of the political leadership.

increase growth and foreign investment. Moreover, his pro-Western foreign policy and his success in suppressing violent Islamist extremists moderated Western criticism of the slow pace of improvement in democratic practices. Internal opposition eventually erupted into a national uprising in 2011, forcing Ben Ali to seek exile in Saudi Arabia and paving the way for the introduction of multi-party democracy. The Tunisian revolution was the first of the “Arab Spring” uprisings.

- **Morocco** is a parliamentary constitutional monarchy but, throughout the evaluation period, it operated within a constitutional framework which granted substantial powers to the king<sup>38</sup>, both as the secular political leader of the nation and as the “Commander of the Faithful”, being a direct descendant of the Prophet Mohammed. In 1996, a bi-cameral parliament was established, following the 1992 amendment of the Constitution. Under these arrangements, the King presided over the Council of Ministers and appointed a Prime Minister from the party leaders elected to parliament. The King also appointed the members of government on the recommendations of the Prime Minister. The arrangement was described as one in which the King ‘not only reigned but also governed’ (AfDB/ OECD, 2008<sup>39</sup>). This consistency of leadership may perhaps have facilitated the implementation of the agenda of trade liberalisation and economic reform supported by budget support. Nevertheless, following the 2011 “Arab spring” uprising in Tunisia, Egypt and other countries, there were also public demonstrations against King Mohammed VI in Morocco. This prompted constitutional changes, including a strengthening of the powers of parliament, clarification of the constitutional mandates of certain judicial and anti-corruption bodies, and introduction of decentralised governance through elected local governments.

## The nature of Aid relations

**154.** As may be seen from Table 13, these are clearly not aid dependent countries. Estimates of Official Development Assistance (ODA) presented in the evaluations amount to 2% of GDP or less. Interestingly, a significant proportion of this in each country is provided as budget support, which is in each case the modality preferred by the government. Given the limited role of ODA, it is not surprising that none of these countries has developed a formal “Joint Assistance Strategy” as a harmonised framework to manage aid.

**155. In Morocco and Tunisia, the framework for the management of development cooperation with the European Union and its Member States is provided by the Association Agreement (AA), signed as part of the Barcelona Process.** In 1995, Tunisia became the first country within the region to sign an Association Agreement and in the same year it joined the WTO. This coincided with a shift in national economic policy towards liberalisation of the

<sup>38</sup> King Mohammed VI has reigned since July 1999, after taking over upon the death of his father, King Hassan II, who had ruled since 1961.

<sup>39</sup> African Development Bank & OECD, (2008), Morocco: Economic Perspectives, Paris & Tunis.

domestic market and competitive integration within the world economy. The AA ‘represented an excellent opportunity to make this leap forward. It allowed the country to embark on competitive integration, accompanied by a strong international partnership, involving political agreements, financial support and access to appropriate standards and technologies’. (DRN, 2011) It is the AA and the related WTO processes that provided the wider framework for policy dialogue under budget support in both Morocco and Tunisia. Morocco reached Advanced Status in 2013, the first country within the region to do so.

**Table 13: The Nature of Aid Relations in the 3 recipient MICs – key variables**

	Morocco (2005-2012)	South Africa (2000-2011)	Tunisia (1996-2008)
<b>ODA as % GDP (period average)</b>	1.6%	0.3%	2.0%
<b>Budget Support as % ODA (period average)</b>	43.0%	23.0%	32.0%
<b>Joint Assistance Framework</b>	No	No	No
<b>Trade &amp; Cooperation Agreement</b>	Yes: AA	Yes: TDCA	Yes: AA
<b>Degree of tension in Aid Relations</b>	Low-Medium	Low	Low

Sources: Data from Evaluation reports, with degree of tension in aid relations interpreted by author from information in Evaluation reports, based on common criteria for LIC and MIC countries.

**156. The Trade & Development Cooperation Agreement (TDCA) ratified in 2004 provided a comparable framework for South Africa.** The Agreement provides the legal framework for relations between South Africa and the EU. It was designed to strengthen cooperation and to permit the pursuit of a number of common objectives, including supporting SA in its economic and social transition process, promoting SA’s integration in the Southern African and the World economy, and expanding and liberalising trade in goods, services and capital between the parties.

### 3.2 The mechanisms for implementation of budget support

**157.** Following the same structure as for the LIC countries, we here examine the mechanisms for implementation of budget support in Morocco, South Africa and Tunisia. This is based on an analysis of (i) the inputs provided and (ii) the quality of the implementation frameworks.

#### (i) The scale and nature of budget support inputs

**158.** Table 14 presents an overview of the budget support inputs provided in these three countries. Again, there are important similarities but also some significant differences:

- The scale of budget support is minor both relative to total public expenditure and relative to GDP in each country but in absolute values the level of disbursements is, in South Africa and Tunisia, only marginally lower than in the LICs, and in Morocco higher than all countries except Tanzania (See Table 1 for comparison.)

- Sector Budget Support is the predominant modality, with GBS only present in Tunisia. The SBS operations cover a very wide range of sectors and thematic areas. In Morocco, several of the SBS operations are in fact directed to sub-sectors.
- There are variable/performance tranches in each country. The evaluations do not present precise estimates of their value but they have essentially the same significance as in the LICs, representing no more than 20 % of disbursements.

**Table 14 -The Mechanisms of budget support in MICs: (i) Inputs**

Budget Support Inputs provided (annual averages)	Morocco (2005-2012)	South Africa (2000-2011)	Tunisia <sup>40</sup> (1996-2008)
<b>BS disbursements (US\$ m)</b>	599	166	65
<b>BS as % GDP</b>	0.7 %	0.07 %	0.4 %
<b>BS as % Total expenditure</b>	2.3 %	0.3 %	1.4 %
<b>Number of BS Providers</b>	7 3 bilateral (AFD, AECID, KfW); 4 multilateral (AfDB, EIB, EU, WB)	1 EU	3 AfDB, EU & WB
<b>GBS/ SBS balance</b>	100% SBS Financial Sector, Public Governance, Educ., Health, Water, Housing, Agriculture, Transport, Energy, +1 multi-sectoral	100% SBS Employment & Private Sector Devpt., Water, Health, Education, Governance, Urban Renewal	63% GBS; 37% SBS SBS: Secondary & Higher Education Vocational Training
<b>Use of Variable/ Performance tranches</b>	Yes	Yes	Yes
<b>Technical Assistance/ capacity-building</b>	Yes	Yes but more limited	Yes

Sources: Evaluation Reports.

**159. It is not really possible to speak of an “MIC model” for budget support.** Whereas the LIC budget support arrangements tend to have a number of common features, the specific designs of the budget support arrangements in these three MIC countries were unique:

- In **Morocco**, there were 54 budget support operations during the evaluation period (2005-2012), provided by 7 Development Partners (DPs) covering 8 sectors, the thematic area of Public Governance (*la gouvernance publique* – including Public Administration, PFM and Fiscal reform), and one multi-sectoral operation. There are unified matrices of disbursement conditions and a joint process of assessment and monitoring for the SBS operations for the Finance Sector, Public Governance, Health and Education, which represent nearly 80% of disbursements. The Health and Education SBS include outcome targets linked to variable tranches. In the other sectors, the focus

<sup>40</sup> The Tunisia evaluation was limited to EU budget support operations, and thus the estimate of annual BS disbursements is likely to be an under-estimate.

is predominantly on the reform of legal, regulatory and organisational frameworks and the disbursement conditions are process conditions related to specific steps in the sequence of reform of these frameworks.

- In **South Africa**, all SBS funds are paid into the Reconstruction & Development Programme (RDP) Fund, which is a fund managed by the Ministry of Finance outside of the normal budget procedure and then channelled to the appropriate executing departments and agencies. The specific use of Budget Support funds is decided by the government through proposals from the Minister of Finance to the Cabinet. The use of Budget Support funds is therefore 'on Treasury' but not voted upon by Parliament. It is, however, audited by the Auditor General, and annual financial statements and annual audits are submitted to Parliament in addition to being made available to the general public. The purpose of the RDP Fund is firstly to avoid any potential problems of cash management which might result from the use of aid funds to finance items included in the Budget, in the event of late disbursements from DPs; and secondly to provide the potential to “top up” the budgets of spending agencies undertaking innovatory activities. During the evaluation period, the RDP Fund has been used specifically to finance innovations in service delivery processes, which might help to increase the impact of public spending on poverty and inequality.
- The budget support programme in **Tunisia** comes closest to the model of budget support commonly utilised in LICs. It involves a mix of SBS for Higher Education and Vocational Training provided exclusively by the EU, and GBS provided jointly between the African Development Bank, the EU and the World Bank to support policy and institutional reforms linked to the national strategy of de-regulation and market liberalisation. SBS involves a mix of fixed tranches and variable tranches linked primarily to outcomes, while GBS includes fixed and variable tranches, as well as “floating tranches” (from the AfDB and WB) linked to process conditions, related to the reform timeline.

**160. Technical assistance/ capacity development inputs are provided in each country.** In Tunisia and Morocco, a good proportion of this is integrated directly into the budget support financing agreements. In addition to classic advisory and capacity building support, it also provides for analytical studies and preparatory inputs linked to the design of reforms, and for support to the monitoring of disbursement conditions. In South Africa, technical assistance (namely national expertise) is widely provided as a support to the implementation of the innovative programmes and, in some cases, as an accompanying parallel measure linked to the TDCA partnership framework. In the latter case, international TA is used but generally rather less than in Tunisia and Morocco. Overall, the relative importance of TA/ CD inputs is significantly greater in the MICs.

## (ii) Quality of implementation frameworks: a) Predictable financing

161. We stressed in Chapter 2 the importance of predictable disbursements for budget support in LICs. This is especially because of the relative scale of budget support funding in LICs and because for many LICs the range of financing options available to cover cash shortfalls during budget execution is limited. In MICs, these concerns are of much less relevance.
162. In the three MICs, total annual disbursements are relatively consistent with the projected value of disbursements, and are generally reported to show a higher level of predictability than other modalities. The timing of disbursements within year tends to be rather more variable but for the reasons outlined above, this has not proven to be a significant problem.

## (ii) Implementation frameworks: b) Harmonised delivery structures

163. **In general, the degree of attention devoted to the task of harmonising budget support delivery processes across providers is less in the MICs than in the LICs.** This is in part because there are fewer providers and therefore the need for harmonisation is not so urgently perceived; and in part it is because budget support is not generally conceived as a programme of support to a single unified national development strategy but rather as a method of supporting discrete reforms in different sectors. The demand from Government therefore tends to be for discrete SBS operations rather than for unified design and assessment processes coordinated across the different operations.
164. Budget support in Morocco reflects this more limited scope of harmonisation. Fully harmonised matrices of disbursement conditions exist only for the SBSs in the Financial sector and Public Governance<sup>41</sup>, which also have a framework for joint preparation and monitoring missions. In education and health, there is a history of cooperation between DPs so that the different SBS programmes are broadly coherent with each other and with the national sector strategy. However, reflecting the fragmented management structures for these sectors, the disbursement conditions, dialogue structures and technical assistance for the individual SBS operations are focused on specific sub-sectors, programmes or regions. In other sectors, the SBS arrangements are effectively stand-alone operations managed independently from one another. The evaluation recommends that donors should put in place common frameworks for the full programme cycle (design, management, monitoring, evaluation) of SBS operations; it also recommends putting a stop to “sub-sectoral budget support”.
165. In Tunisia, a more harmonised framework has been established focused around the national programme of structural reforms to liberalise the economy and promote trade. The framework for delivery of GBS is fully harmonised between the three providers, and this has served to reduce transaction costs considerably. The quality of coordination at the sector level is less strong however. The EU provide the only SBS arrangements in Secondary & Higher Education and

<sup>41</sup> These are the largest SBS arrangements, representing 46% of total budget support disbursements.



Vocational Training but the sector frameworks to coordinate these SBSs with interventions financed through project and common basket funds are reported not to be working efficiently, as the government does not promote sector dialogue among the partners.

166. In South Africa, the government initiative to use the Reconstruction & Development Programme (RDP) Fund as the means by which to channel budget support and other aid has largely solved the harmonisation problem. The fact that the EU is the only budget support provider considerably simplifies harmonisation across SBS operations. A small number of technical assistance and own-managed development projects remain outside of the RDP framework but they represent a minority of total ODA.

## (ii) Implementation frameworks: c) the framework for policy dialogue

167. As we noted in Chapter 2, the opportunity for constructive policy dialogue between government and the budget support providers is perceived as one of the critical advantages of the modality. How may we assess the quality of the mechanisms created for this purpose in the MICs? The experience of the three countries is in fact quite varied:

- **Tunisia** provides an excellent example of a comprehensive framework for policy dialogue within the GBS arrangements, but displays weaker structures for SBS. GBS dialogue is linked to the long-term partnership established through the Association Agreement between the EU and Tunisia, which has created a *'framework of strategic coherence within which international technical and financial cooperation has taken place'*. (DRN, 2011) Institutionalised dialogue frameworks at the level of the AA have permitted high-level discussion of the scope and objectives of the national programme of reforms, while GBS dialogue structures have permitted discussion of the details and sequencing of the specific measures required for each reform. These latter discussions have culminated in agreed matrices of actions and targets to be achieved, creating a framework for the monitoring of progress, while at the same time providing a mechanism of external discipline that has helped the government to overcome resistance to change. In addition, technical assistance inputs have been provided to assist with the design and monitoring of these matrices, and also to undertake background studies to feed into and animate the policy discussions. In the education sector, however, the SBS dialogue has been limited to specific technical issues, such as the inclusion of the MTEF in the sectoral budgeting process, and has not given attention to the objectives and modalities of sector reform.
- In principle, it should have been possible for **Morocco** to adopt a similar framework to that of Tunisia but this was complicated by the exclusive use of SBS rather than GBS arrangements. Morocco also signed an Association Agreement with the EU in 1996 and thereafter launched a set of reforms to liberalise the economy, promote trade integration and modernise the regulatory framework. However, the strategic discussions that take place in the framework of the AA are less closely linked to the SBS dialogue, which is

focused predominantly on the operational requirements for implementing reforms. In common with Tunisia, budget support dialogue has helped to generate agreed matrices of actions and targets to be achieved, as well as a framework for the monitoring of progress and a structure of external discipline to facilitate implementation. However, the substance and end result of these tax and regulatory reforms does not form part of the dialogue: strategic objectives are decided and monitored within government itself, with the SBS dialogue essentially focused on the design of the operational milestones within the reform process.

- **South Africa** also has an SBS dialogue, which has been focused predominantly on programme-level issues. The Government of South Africa (GoSA) has chosen to use budget support to provide additional financing for the piloting of innovations in service delivery, aimed at raising transparency and public participation and improving the impact of public services on poverty and inequality. Dialogue around those areas is welcomed but the choice of which programmes to finance is made by GoSA and the design of the subsequent strategies to scale up policy experimentation and innovations is also decided within GoSA. Thus, budget support has served to enhance a South African-owned process of policy experimentation and innovation, but, given the policy capacities of the GoSA, the need for policy dialogue with budget support partners is quite limited. In various cases, it has ‘*helped shape and/or integrate innovative aspects within policy design*’ (Particip, 2014) but dialogue remains essentially at the programme level, rather than at the level of sectoral or national strategies.

168. In the context of the TDCA and the EU-SA Strategic Partnership, a Dialogue Facility has been established in South Africa, in order to facilitate a wider strategic dialogue. It provides not only for the financing of short and medium term expertise for conferences, workshops, studies, specific sector meetings and events, but also for exploratory missions from and to South Africa. Such a facility has a real potential to enhance policy dialogue and in the latter years of the evaluation, it has started to be better used in some of the sector programmes.

## (ii) Implementation frameworks: d) the “underlying principles”

169. **The problem of the application of underlying principles has not presented itself in these three countries.** At the time of the evaluation, the policy of the European Union on budget support required that there should be an assessment of eligibility conditions prior to the initiation of budget support and annually at the time of disbursement. The World Bank and the African Development Bank were also required to justify the use of budget support against a set of criteria, similar to the EU’s ‘eligibility conditions’. This set of conditions was less demanding than the more broadly framed ‘underlying principles’, incorporated in the Memoranda of Understanding of the budget support programmes in the four LICs.

### 3.3 Outcomes achieved: Induced Outputs, Outcomes and Impacts

170. What have been the outcomes<sup>42</sup> achieved through budget support in Morocco, South Africa and Tunisia? We summarise the results identified in the evaluations with regard to Induced Outputs, Outcomes and Impacts.

#### Induced Outputs

171. We consider first the “Induced Outputs” - the changes in public policy, public spending and service delivery processes, to which the budget support processes are judged to have contributed. We briefly examine the changes related to macroeconomic management, public expenditure allocations, public finance management (PFM), and good governance, before focusing on the primary area where results have been achieved, namely in public sector policies and in the reform of legal, regulatory and institutional structures.
172. **Given the small scale of the operations relative to GDP and public spending, the immediate “flow of funds” effects of budget support on the macro-economy were insignificant.** We noted above that budget support represented a budgetary inflow equivalent to 0.3% to 2.3% of public spending, with South Africa at the lower end of this scale, and Tunisia and Morocco towards the higher end. For South Africa, this represented less than 0.1% of GDP and for Tunisia and Morocco a maximum of 1% GDP. In the latter cases, the evaluations concluded that such a flow would have provided increased flexibility in budgetary and treasury management – something which would have been reflected in reduced levels of payment arrears, and possibly in lower levels of issuance of Treasury Bills.
173. In Tunisia, the reforms supported by budget support have contributed directly to the process of competitive transformation, which the country undertook over 1996 – 2008, culminating in the establishment of the Free Trade Area. Over this period, Tunisia made *‘very significant progress in terms of economic growth and stability, social well being and training of human capital’*. Specifically, GBS contributed to the implementation of tax reform and tariff dismantling, and therefore to the positive results in terms of foreign trade. GBS also helped to improve economic governance and legality in business, although the standards achieved were not sufficient to attract the foreign investment necessary to permit the desired degree of integration of national businesses into the international economy.
174. In Morocco too, budget support contributed to reforms in the tax system, which served to improve domestic resource mobilisation. It also supported improvements in the legal and regulatory framework for the financial sector and for the private sector more broadly and thus would also have had a positive effect on the dynamism of the economy. However, a criticism made in the evaluation is that the focus on the end result of reforms was not always present; thus,

<sup>42</sup> We use the word “outcomes” in a generic sense because we are following the ‘realist synthesis’ approach of Pawson and Pawson & Tilley, described in Chapter 1. The OECD-DAC evaluation methodology distinguishes induced outputs, outcomes and impacts as separate components.

while apparently important reforms were facilitated by budget support, it is not yet clear how these regulatory and institutional changes have affected the macro-economy. The report emphasises the need for closer attention to final results both in the design of reforms and in the accompanying processes of monitoring and evaluation.

175. In South Africa, the focus of support was more at the programme level – specifically in promoting innovation in the design of different types of service delivery programme. Many of these have now been scaled up, mainstreamed into policy and adopted as national programmes, notably with regard to water & sanitation, primary health care, access to justice and employment promotion. This has had positive effects on the effectiveness of expenditures but has not generated specific effects at the macroeconomic level.
176. **With regard to public expenditure allocations, budget support did not generate significant changes in the structure of expenditure in the MICs.** Given the small scale of the operations, such changes would only have been possible through expenditure restructuring measures introduced by the partner governments. In South Africa, the policy innovations introduced through the RDP covered a number of sectors and did not imply any shifts in sector shares at the aggregate level. However, given the prevailing budgetary restrictions, budget support did serve to finance programmes through the RDP that would not otherwise have been funded at the time. In Morocco, sector shares remained broadly stable but, within education, the sub-sectors of non-formal education and adult literacy did receive net budget increases, as a consequence of budget support.
177. **In Morocco and Tunisia, Public Finance Management (PFM) reforms were an aspect of the budget support agenda but had more modest objectives than in the LIC programmes.** In Tunisia, support was provided to the development of a Medium Term Expenditure Framework. In Morocco, support was provided to the reform of tax systems, in particular VAT, and also to the development of a new Public Finance Law, and to improvements in the presentation of expenditure estimates. There was also wider support across sectors to the introduction of performance management concepts and techniques. Nevertheless, the wider context of PFM – how effectively resources were being allocated, whether the budget could be made more strategic or not – were not aspects of the dialogue.
178. It should be said that in each of these countries, and most especially in South Africa, PFM systems are stronger than in the LICs. However, even in South Africa, there are significant weaknesses at the sub-national level, and in Tunisia and Morocco, PFM systems remain some way below the standards of the OECD countries. An upgrading of PFM systems would certainly facilitate the more effective implementation of public policy and the limited attention to this area within the budget support dialogue represents a missed opportunity.
179. **Improvements to democratic governance represented only a modest part of the budget support agenda in the MICs, addressing only specific issues for which the governments**

**sought assistance.** In South Africa, there were programmes focused on access to justice and on strengthening of provincial legislative assemblies. In addition, the overall governance of service delivery and the need for public participation were important cross-cutting themes in the innovations supported through the RDP. In Tunisia and Morocco there was attention given to regulations, codes and practices within a variety of sectors, including the financial sector. However, the focus was on issues related primarily to the effectiveness of government, rather than on broader questions of voice and accountability and the control of corruption.

180. The more limited attention paid to democratic governance issues in the MICs is one of the significant differences from budget support in LIC countries. There was clearly no demand for such inputs from the respective governments and in the absence of a reform agenda to which Development Partners were invited to contribute, efforts to engage in this area would probably have been fruitless.
181. Nevertheless, as we noted above, the WGI ratings for voice and accountability in Morocco and Tunisia were below those of the LICs during the period evaluated. Domestic concerns over the lack of voice and accountability eventually erupted in the Arab Spring uprisings and, in fact, led to improvements in democratic governance in both countries. At one level, this proves the point that domestic forces are the primary drivers of changes in governance but it does raise the question whether greater attention should have been paid to these issues in the budget support policy dialogue?
182. One could argue that a programme of modest reforms should have been demanded as a condition of budget support. On the other hand, it is very likely that the respective governments would either have refused to do this or would have failed to implement such conditions; in the process, dialogue over economic reforms would certainly have suffered. Some have argued that the opening up of trade and the liberalisation of the economic framework in Tunisia and Morocco may have facilitated subsequent democratic reforms. If so, then a strong line on governance issues during the evaluation period would in practice have been counterproductive.
183. **The primary contribution of budget support in the MIC countries has been to support reforms in sectoral policies, service delivery processes and legal and regulatory frameworks.** Support to these reforms has taken different forms in each country:
- In **South Africa**, the various SBS programmes have facilitated the piloting of policy innovations, incorporating a more active engagement of citizens in the design and monitoring of services and in the process of public governance, with a view to promoting greater democracy and strengthening the fight against poverty and inequality. Innovations have been introduced in a wide range of sectors including water & sanitation, health, justice, education, employment, private sector development and the provincial legislative assemblies. In several cases, these innovations have been scaled up, mainstreamed into policy and incorporated into national programmes.

- In **Morocco**, the primary focus has been on tax reforms and on legal, regulatory and organisational frameworks, supporting the introduction of reforms in these areas within the financial sector, public administration systems, health (where a new health insurance scheme was introduced), education and housing/ urban development. Support was also provided to the expansion of service delivery, particularly in health and education, with an accent on adult literacy and non-formal education.
- In **Tunisia**, support was provided to a range of policy reforms aimed at addressing the requirements of the broader economic strategy to liberalise the domestic market and strengthen the ability of Tunisian economic actors to compete in the international market. GBS contributed to the dismantling of trade tariffs and the reform of tax systems, and to a lesser extent the reform of the business environment and the removal of obstacles to competition. SBS aimed to promote reforms to secondary and higher education and vocational training aimed at adapting the domestic labour market to the needs of a modern, internationally competitive economy. However, it was only partly successful in this aim, with the primary change being simply an expansion of the scale of existing programmes.

## Outcomes & Impacts

**184. The innovations to the design of service delivery programmes and their related governance arrangements in South Africa are credited with having generated positive development outcomes in a number of sectors** (Particip, 2014), for example:

- *‘The approach launched and tested in the water sector has been a determining factor of the success in increasing access to clean water and sanitation facilities in the poorest areas between 2000 and 2007.*
- *The GoSA programme, Access to Justice and Constitutional Rights has produced important results by mobilising local networks of intermediation in the most marginalised areas, which have started responding to the democratic needs of the poor.*
- *Strengthened legislative assemblies, access of the poor to advanced technologies and improved access to primary health facilities are all consolidated outcomes of the policies and programmes supported through SBS.*

**185.** In South Africa, therefore, the purpose of the programme innovations promoted (and in part financed) by SBS was to improve service delivery outcomes so as to reach the poor and more marginalised members of society and engage them more directly in the design and, hence, in the use of public services. Across a number of sectors this objective was achieved, and these policy innovations have already been scaled up and mainstreamed into national programmes within a number of sectors. To date, the effect on sectoral outcomes is primarily noticeable in the areas described above but it is anticipated that over time the successful innovations will be scaled up

more extensively, so that these outcomes might be replicated more widely and in the longer term have impact on poverty and inequality.

**186. In Morocco, attention was focused on the processes needed to generate improvements in legal, regulatory and organisational frameworks,** without much attempt to target specific outcomes and impacts, which were perceived as longer term objectives. Nevertheless, budget support still contributed to the following outcomes within the evaluation period:

- Increased coverage of the banking system, and increased use of the expanded range of financial products available to individuals and companies, including greater use of guarantees for loans to SMEs;
- Wider adoption of health insurance and increased use of health care services, resulting in reduced rates of morbidity and mortality, in particular maternal mortality;
- Improved school attendance, at each level of the system, resulting in a reduction in drop-out rates and improved progression rates.
- An increase in the adult literacy rate from 52% in 2004 to 67% in 2011.

**187.** The improvements in provision of social services were not, however, able to impact upon the significant disparities in utilisation of such services existing between urban and rural areas and between more and less disadvantaged regions. In the health sector, there was an improvement in the utilisation of maternal and reproductive health services but in the education sector gender disparities remained significant at all levels of the system, except primary.

**188. In Tunisia, there was a clear link between the reforms supported and the overall strategy of liberalising the economy and promoting its competitive integration into the World economy.** Thus, the GBS operations targeted improvements with regard to increased trade, greater competitiveness, enhanced investment, and economic growth while the SBS arrangements targeted improvements in employment and in the accessibility and quality of higher education and vocational training. Progress was achieved in most but not all of these areas (DRN, 2011, pp. 69-79):

- Real economic growth averaged 5 % per annum for the period, driven in particular by the expansion of manufacturing exports. Real per capita GDP grew 3.9% per annum over 1996 – 2008, as compared with 1.8% over 1987 – 1996.
- Trade between Tunisia and the European Union more than doubled in real terms between 1995 and 2006, with the surplus in favour of the EU gradually falling.
- The trade deficit was steadily reduced with the coverage of imports by exports rising from 76.5% in 1995 to 98.2% in 2008.
- Private investment doubled in real terms from 1996 to 2008, with average annual growth of 7.5%. This was driven by expanded FDI, due in particular to privatisations, most notably of telecommunications, while domestic private investment actually



declined. This was mainly due to the difficulties in liberalising the domestic market (persistence of monopolies, uncertain legal framework) and was the main cause of the inadequate growth of employment.

- Productivity steadily improved over the period, leaving Tunisia with the highest productivity of the countries in the Maghreb region at the close of the period. Unfortunately, improvements in Total Factor Productivity were still insufficient to generate an accelerated rate of employment growth.
- The number of apprentices in vocational training increased from 40,000 in 1996 to 103,500 in 2008. The number of graduates in higher education increased by 8.5% annually over 2000 to 2008, generating an aggregate rise of 70%. Graduate numbers over the same period increased by 180%, demonstrating a significant improvement in internal efficiency.
- However, the growth in graduate numbers would have needed much higher investment rates to be successfully absorbed into the labour market; moreover, there was little change in the quality of education and training and in its suitability to a modernised economy.

### 3.4 Overall Conclusions on Budget Support in MICs

#### Significant results, from diverse programmes...

189. The budget support programmes evaluated in the three MIC countries have diverse structures and objectives; yet all have succeeded in generating results of relevance to the strategic interests of these countries:

- Innovations were promoted in South Africa, which provide the potential for closer engagement of the poor and marginalised in the process of service delivery. Where the scaling up process has been carried out, as in the Water & Sanitation and other sectors, there is evidence that these innovations helped the Government of South Africa to impact more forcefully on poverty and inequality.
- Tax and customs reforms and changes to the legal and regulatory framework were introduced in Morocco supported by the SBS programmes. These reforms have helped to liberalise the domestic market and to increase the diversity of financial services, while contributing to the modernisation of public administration systems and to the improvement of social service provision. These are component parts of a wider reform agenda, which the Government of Morocco is managing at its own pace.
- In Tunisia, the contribution of GBS to strategic reforms was more direct, providing immediate support to tax reforms, tariff dismantling and market liberalisation measures. Each of these represent integral elements of a wider strategy to promote integration into the World economy, under the auspices of the Association Agreement with the EU. Support through SBS operations to the upgrading of the secondary and

higher education and vocational training systems was less successful, assisting in expanding the coverage but with less impact on quality or on the adaptation of the curricula to the international market.

190. In each country, the relevance of the budget support contributions to the wider strategic agenda is clear. Moreover, there is little doubt over the sustainability of these results. Despite the important political changes which occurred in Tunisia and Morocco in connection with the Arab Spring, the national commitment to the trade and development strategy underlying the AA remains strong and the results of these operations are clearly feeding into that process. In South Africa, the reconstruction and development programme – to which budget support has made a financial contribution – is part of a wider national agenda to continually adapt public services to the needs of the poor and there is no doubt that the innovations developed within that framework will continue to be taken forward and scaled up, where possible.

### Success factors in the MICs and lessons for the LICs...

191. What has driven the results achieved by budget support? Two factors suggest themselves which provide clear lessons for the design of budget support in LICs:
- **Respect for ownership** is the most striking feature of these operations. The budget support programmes provided support in the areas where the recipient governments wanted it, in line with the development objectives of the donors. In Tunisia, the resulting programme was at a high strategic level; in South Africa and Morocco, the programmes were oriented more to specific sectors, yet the budget support providers accepted their allotted places and operated accordingly. There was no attempt to determine the agenda from the outside. In LICs, the balance of power is not the same and donors frequently try to determine the agenda, creating resentment and rarely obtaining results. The lesson is that by respecting ownership, trust and confidence is created between the partners, giving the potential to achieve sustainable results.
  - **A realistic level of ambitions** is the second significant feature. The scope of engagement in dialogue in each case was broadly consistent with the level of expertise on each side. In Morocco, a relatively large number of sectors were covered by SBS but within each the focus of dialogue was relatively narrow, and as a result the budget support partners were able to bring the degree of detailed attention to the definition of sequenced steps for reform which the Government of Morocco wanted and valued. Thus, the second lesson is that realistic ambitions are important in order to ensure that the results targeted are feasible and that a genuinely useful, technically informed dialogue can take place. By contrast, we noted in chapter 2 the wide scope of sectors and thematic areas, which the Performance Assessment Frameworks in LICs attempted to cover and the deficiencies in which this resulted.

## What could be improved in the MICs?

192. The Morocco, Tunisia and South Africa evaluations provide a range of useful lessons on how to improve the effectiveness of budget support in MICs. Four cross-cutting themes emerge:

- (i) **The need to focus budget support at the appropriate strategic level.** One of the problems identified in Morocco was the existence of a significant number of budget support operations focused on the sub-sector or programme level. It was also noted that the focus of reforms supported by budget support tended to be at the operational level, with only limited attention given to the definition and tracking of the higher level outcomes and impacts to which those reforms were targeted. Ideally, budget support should facilitate broader strategic processes. Where budget support is too focused at the operational level, its value added is more limited. For this reason, the Morocco evaluation recommends the avoidance of SBS operations supporting sub-sectoral or regional programmes and a shift of focus towards outcomes rather than just outputs.
- (ii) **The need for a balance between strategic guidance and operational “plumbing”.** The Morocco case also reveals the difficulties that may arise in trying to incorporate a high-level strategic focus within a demand-driven, ownership-based approach. In contrast to Tunisia, the Government of Morocco did not want strategic advice; it wanted operational advice, for example on how to sequence the legal and regulatory steps in the introduction of health insurance. Budget support provided this and it was well appreciated by the Government but the end objectives of these legal and regulatory reforms were not always clear. What concrete outcomes and impacts were expected and were the reforms contributing as effectively as possible to them? These questions were not always properly addressed, in part because the Government did not invite debate on these matters, in part, because the budget support teams were not sufficiently geared up to provide such advice. Budget support should respond to Government demands but it should also “push the envelope” of strategic thinking – helping governments to ensure that reforms are not just efficiently implemented but also effective in generating relevant outcomes and promoting the right impacts. Yet, in the process, it is important not to forget the merits of attention to detail: good policy advice is a combination of strategic vision and operational plumbing.
- (iii) **The need to establish an appropriate balance between General and Sector Budget Support:** one observation that emerges from our analysis is that within Tunisia and Morocco – two countries with similar contexts and both signatories of Association Agreements, the operation that achieved the most outstanding results was the GBS operation in Tunisia, focused on market liberalisation and deregulation. The SBS operations in Tunisia were less successful in promoting reforms to policies on higher education and vocational training, where scale improvements were made but the desired adaptations to the demands of a modern labour market were not achieved. The SBS

operations in Morocco also achieved results related to customs tariff dismantling and aspects of de-regulation but not in such a coherent and effective way as the GBS operation in Tunisia. The key difference would seem to be that the GBS operation in Tunisia was able to promote a strong level of inter-sectoral cooperation between the Ministries of Finance, Planning, Trade & Industry and Labour. By its very nature, an SBS operation is less effective in promoting inter-sectoral collaboration than GBS. While clearly the choice of modality must respond to the context and to the wishes of the partner government, this experience would seem to demand some reflection on whether the heavy reliance on SBS operations in MICs is appropriate.

- (iv) **The need to give more attention to harmonisation.** Finally, the Morocco case also highlighted the deficiencies in the harmonisation of budget support frameworks, which continue to be found in the MICs, especially where large numbers of SBS operations are implemented simultaneously, without a coordinating framework being imposed by the recipient government. Here, there is an opportunity to import some learning from LICs on the importance of an integrated approach within each sector and the use of joint PAFs, joint missions and common review processes.

### Refining our hypotheses....

193. In our conclusions to Chapter 2, we presented two hypotheses, which emerged from our analysis of the experience of budget support in the four LICs. We are now in a position to test those hypotheses against the experience of the three MIC countries.
194. **The first hypothesis was that there must be trust and confidence within donor-government relations for a successful policy dialogue and successful sector outcomes.** In each of the MICs, donor-government relations were always characterised by trust, based on mutual respect. As a result, underlying tensions in donor-government relations were never a constraint to the maintenance of a good policy dialogue. This lends support to this hypothesis.
195. The MIC experience also provides some indication of the circumstances in which effective donor-government relations are likely to be preserved and deepened. In particular, we identified respect for ownership as a stronger feature of the MIC experience with budget support. If it could also be made a defining feature of the LIC experience, then it seems likely that this would further strengthen Donor-Government relations.
196. Of relevance too is the fact that the Association Agreements in Tunisia and Morocco and the TDCA in South Africa placed the aid agenda within a wider strategic context of a comprehensive cooperation. Budget support was part of a wider dialogue about shared prosperity, thus lending a firmer foundation to donor-government relations. In the LICs, the impression is that the “aid debate” has become increasingly divorced from the deeper “development debate”: if these links could be strengthened, it would also provide firmer foundations for the trust and confidence required within donor-government relations.

197. Another key difference in LICs was that the integrity of the partnership was sometimes undermined by attempts to use policy leverage to compel governments to implement more speedily their reforms to democratic governance. In practice, in none of the three MIC cases was there evidence of attempts to use policy leverage to compel partner governments to adopt reform measures, which they did not want. The ownership of the partner governments over the policy agenda was respected and this helped to strengthen the partnership.
198. What did happen occasionally in the MICs was that as part of a shared dialogue on reforms, new targets and indicators were included, as a way of widening the policy space for reform. For example, in Morocco, the Government was opposed to introducing VAT in the agricultural sector but donors argued for its inclusion within a general reform agenda, which included, amongst other things, a revision of VAT. Despite formally accepting these measures into the reform agenda, there was initially no progress (as a result of which money was not disbursed for that particular criterion). However, the tabling of the issue and its discussion eventually generated progress through the 2014 budget law.
199. It is legitimate within a partnership to exert influence and promote changes for the wider good. Yet, there is a way to contribute to a shared development agenda, which respects ownership – by pushing on open doors rather than breaking down closed ones, by listening before speaking and by not imposing external agendas. These are all good habits, which Development Partners display more in the MICs than in the LICs. A wider commitment to such an approach is needed.
200. **The second hypothesis was that policy dialogue requires explicit measures to develop the space for strategic problem-solving discussion.** In the LICs, it was found that this space was limited. Two factors appeared to be at play: (i) the process of verifying the fulfilment of disbursement conditions had become so focused on details that the attention to the wider strategic concerns had often been lost; and (ii) in cases where there was underlying tension in the donor-government relationship (Mozambique, Tanzania, Zambia), it proved very difficult to pursue the ‘auditing’ function of budget support dialogue alongside the problem-solving/ ideas-sharing function.
201. In the MICs, underlying tensions have been essentially absent: relationships have been respectful and it has always proven possible to manage the ‘auditing’ function of dialogue with a light touch. However, the focus on details has also been an issue within MICs.
202. **The MIC cases show that it is not sufficient simply to protect the space for strategic problem-solving policy dialogue, it is necessary to embed this in the overall approach to the design and management of disbursements.** The framework, used extensively in Morocco and Tunisia, of detailed matrices of process conditions, often linked to a ‘floating’ tranche of budget support, is in many ways a throw-back to old-fashioned structural adjustment. It undermines the predictability of disbursements and encourages a concentration on details. A higher-level focus

is needed, which addresses outcomes and impacts and encourages debate and analysis on the optimum choice and design of reforms.

## 4. Lessons Learned and Final Recommendations

203. This chapter provides a summary of the lessons learned from the evaluations of budget support in these seven countries. It first summarises the key achievements, then outlines a number of lessons regarding the requirements for effective budget support, before briefly reviewing what has been learned about the advantages and disadvantages of Sectoral and General Budget Support. We conclude with a set of recommendations for the improvement of the future design and management of budget support.

### 4.1 Achievements to date and challenges for the future

#### Significant achievements in a diverse and challenging set of contexts

204. **The experience of these seven countries demonstrates that budget support can achieve significant results within a diverse and often challenging set of contexts.** In particular, it has contributed in important ways to upgrading the capability of these governments to manage their public finances, to deliver services and to regulate economic activity, for the benefit of their citizens.

205. In the Low Income Countries, the increased flow of funds resulting from budget support has been the principal contribution, supporting a considerable improvement in the coverage and utilisation of services – particularly in education and health. There have also been improvements in macroeconomic performance, a significant strengthening of PFM systems and some gains in transparency and oversight, as well as in the legal and institutional framework for fighting corruption.

206. In the Middle Income Countries, support to reforms through policy dialogue and technical assistance/ capacity development have been the primary contributions, although in South Africa the provision of funds enabled the government to finance programmes that it would not otherwise have been able to finance at that time. This supported a government driven process of policy and service delivery innovation, aimed at democratising public services and improving their impact on poverty, inequality and public governance. Where appropriate, the resulting innovations were scaled up and mainstreamed into national policy. In Morocco and Tunisia, GBS and SBS have provided support to tax reforms and to regulatory and institutional changes aimed at modernising these economies and promoting their insertion in the World economy. The coverage of health services and of secondary and tertiary education has also been improved, as too have adult literacy services in Morocco.

207. **Tangible outcomes have been achieved in all cases and there are also indications of positive impacts on economic growth and on non-income poverty.** During the evaluation period, there were significant reductions in income poverty in Mali, Morocco, South Africa and Tunisia, although it is difficult to attribute this directly to budget support.



**208. The delivery mechanisms for budget support were fully consistent with the commitments in the Paris Declaration, the Accra Agenda for Action and the Busan Declaration.** In particular, budget support processes proved themselves to be more closely aligned to government policies and processes than any other aid modality.

**209. None of the negative effects commonly assumed to be associated with budget support were found to be present:**

- Domestic revenue generation remained buoyant throughout the evaluation, and there were no signs of disincentive effects resulting from budget support flows. Major revenue reforms directly supported by budget support were introduced in Morocco, Mozambique, Tanzania and Tunisia, and in these countries, as well as in South Africa, revenue to GDP ratios increased, in Mozambique and Tanzania dramatically so. In Mali and Zambia, revenue to GDP ratios remained stable, allowing aggregate revenues to rise in step with economic growth.
- In the 4 LIC countries, where budget support represented a high percentage of public expenditure, these additional resources were used predominantly to raise spending within the priority sectors, most especially in education, health and roads.
- The quality of transparency and accountability systems improved during the evaluation period, especially within the LICs, where there was also a marginal improvement in the public perception of corruption, as reported in the Worldwide Governance Indicators.

**210. Annual disbursements were largely consistent with the amounts projected in the budgets and treasury plans of the recipient governments** and, thus, proved to be significantly more predictable than other aid modalities, with annual disbursements of 90-100% of projections, as compared with 60-80% for projects and common basket funds. The timing of disbursements within year proved more problematic, especially in Mali, where in 2008 it resulted in a large amount of unplanned domestic borrowing.

**211. Transaction costs were found to be lower – per unit of aid disbursed - than for projects and common basket funds.** The nature of transaction costs also changed with a greater attention to policy rather than administrative issues. On the other hand, transaction costs were perceived as being higher than they should have been. This was, in part, due to continued shortcomings in the quality of harmonisation, and in part due to excessively complex assessment and disbursement conditions.

**212. The main achievements as regards policy dialogue related to the establishment of institutional frameworks and processes but the substance of dialogue was often less than satisfactory.** It worked reasonably well as a mechanism for establishing milestones and progress targets for agreed reforms and for lending external discipline to the monitoring process. These aspects were appreciated in Morocco and Tunisia and were also relevant in the LICs, where reforms in PFM and democratic governance were said to have progressed faster than they would

have done in the absence of such a framework. Sometimes, the policy dialogue was useful in bringing in outside ideas, perspectives and experiences. This was the case in South Africa, where a specially created Dialogue Facility holds the potential for further such contributions in future. Yet, as a whole, the perception was that policy dialogue had not been as effective as it should have been in aiding strategic forward-thinking and problem solving.

**213. Technical assistance and capacity development was provided both as an integral part of budget support operations and as a parallel accompanying measure** in each of the seven countries. It was found to be useful in the LICs in strengthening the capabilities of revenue offices, oversight institutions, PFM coordination units and statistics offices, as well sectoral policy and planning units. In the MICs, it was used more to undertake studies feeding into the design of the reforms and innovations supported by budget support or to directly advise on the construction of the milestones and progress targets, against which to monitor reform progress. However, a general perception in all the evaluations was that the potential of the technical assistance/ capacity building component was not fulfilled, especially because its use was not strategically planned and, apart from the Dialogue Facility created in South Africa, there was a lack of flexible arrangements for responding to identified needs in an agile manner.

**214. Despite a positive overall balance sheet, the seven evaluations point to a number of areas, where improvements in the budget support delivery mechanism could generate greater results.** The challenge is to consolidate the achievements to date, while optimising the potential of the modality. Our recommendations present proposals on how this challenge might be met.

## 4.2 Lessons learned on the requirements for effective Budget Support

**215.** In the course of our analysis of the various C-M-O combinations (Contexts-Mechanisms-Outcomes) emerging from these seven case studies, we developed two hypotheses regarding the requirements for effective budget support. These arose from the analysis of the four LIC countries but were confirmed and, to a degree, refined by the three MIC cases. We therefore present them here as lessons learned, alongside a third lesson, which builds on preliminary conclusions drawn from the Mali, Tunisia and Zambia cases<sup>43</sup>.

### Trust and confidence in donor-government relations are essential

- **The first lesson is that trust and confidence in donor-government relations are essential for an open and honest policy dialogue.** Governments and donors will always have differences in their policy priorities but in a partnership where the main issues of agreement and disagreement can be put on the table, dialogue can proceed constructively. This can only occur where there is a firm base of trust and confidence based on mutual respect. For these reasons, Budget Support worked best where the policy dialogue was concentrated on the mutual areas of interest of the beneficiary

<sup>43</sup> Caputo, E., A. de Kemp and A. Lawson (October 2011), Assessing the Impacts of Budget Support: Case studies in Mali, Tunisia and Zambia, OECD-DAC Evaluation Insights; Paris

governments and their Development Partners. The evidence from these countries demonstrates that underlying tensions in donor-government relations undermine the open and honest debate and free information exchange, which is essential for a strategic problem solving dialogue. Where donor-government relations were poor and this was not deliberately and appropriately addressed, it proved to be a binding constraint on the success of policy dialogue.

216. Some subsidiary lessons emerged about the contextual conditions and the implementation mechanisms likely to promote trust and confidence in donor-government relations:

- **Respect for the ownership of the policy agenda by the partner government is a precondition for strong partnership and meaningful dialogue.** The budget support programmes in the MICs provided support in line with the development objectives of the donors, but in the areas where the recipient governments wanted it. There was no attempt to determine the agenda from the outside. In LICs, the balance of power was not the same and donors frequently tried to determine the agenda – in many cases largely dictating the content of the GBS/ SBS Performance Assessment Frameworks, creating resentment and undermining the quality of dialogue. There must be an explicit consciousness that budget support needs to be a partnership, and that this requires an appropriate code of conduct on both sides<sup>44</sup>.
- **The lack of clarity over the application of underlying principles and the related procedures may lead to unpredictable suspensions, which undermine trust and confidence.** The Budget Support MoUs in the LICs define underlying principles as ‘critical to the continuation of the budget support partnership’, suggesting that disbursements should only be suspended in extreme circumstances. However, if the ‘extreme circumstances’ and the corresponding procedures for responding are not well defined, suspensions of budget support may occur at unexpected moments and the interpretation of underlying principles may be perceived as one sided.
- **The existence of a wider strategic cooperation framework to guide overall donor-government relations provides a stronger basis for an effective partnership.** For Morocco and Tunisia this was provided by their Association Agreements with the EU and for South Africa by the Trade & Development Cooperation Agreement (TDCA). In each case, these agreements helped to ensure that budget support was part of a wider dialogue about shared prosperity, thus lending a firmer foundation to donor-government relations.
- **Effective donor-donor relations are also important for a successful policy dialogue: in this respect, the involvement of a large number of donors is an additional risk**

<sup>44</sup> In both the Tanzania and the Mozambique evaluations, confidential stories were shared with the evaluation team of inappropriate behaviour on both sides of the relationship: fists being banged on tables, voices being raised inappropriately, disrespect shown to Ministers and Ambassadors, etc.

**factor.** It seems more than coincidental that the countries which enjoyed better donor-government relations tended to have less donor stakeholders involved in budget support dialogue – 10 in Mali, 7 in Morocco, 3 in Tunisia and 1 in South Africa. Of course, there were other factors at play, and Zambia with 9 partners suffered from poor donor-government relations. However, with larger numbers there is a greater diversity in opinions and in behavioural styles, as well as a weaker level of peer-to-peer pressure amongst donors, therefore the probability of mismanagement of the dialogue becomes higher. Effective donor-donor relations enable effective donor-government relations and are more likely when the number of partners is manageable.

## Strategic problem-solving dialogue must be nurtured

**217. The second lesson is that the policy dialogue requires explicit measures to develop the space for strategic problem-solving discussion.** In Morocco, the limited attention to final outcomes and impacts and the lack of a forum in which to analyse the use of the budget as a policy tool meant that the space for genuinely strategic discussions was limited. In Mozambique, Tanzania and Zambia, disagreements over underlying principles changed the character of policy dialogue so that the space for strategic problem-solving dialogue was largely lost. As a consequence, policy issues, which should have been on the table, were not adequately discussed – in particular, how to develop public policies to reduce income poverty.

**218.** Three factors were identified as relevant in nurturing the space for strategic problem-solving discussion:

- **The design, disbursement conditions and management processes for budget support must have a strategic problem solving and policy oriented focus.** In the LIC countries and in some of the MIC operations, the process of verifying the fulfilment of disbursement conditions became so focused on details that attention to wider strategic concerns was virtually squeezed out. The large number of detailed indicators and milestones in the PAF, many of which were focused at the process and output level, often obscured the end objective of policy reforms. In Morocco, this problem was exacerbated by the focus of some SBS operations on sub-sectors, programmes or regions, rather than at the sector level.
- **The overall scope of dialogue must be consistent with capacity and expertise on both sides.** A common problem in Mozambique, Tanzania and Zambia was that the PAF incorporated too many sectors and thematic areas. The technical and administrative limitations of most governments will make it difficult to give adequate attention to an excessively wide range of reforms, and donor offices also struggle to muster the necessary capacity to bring value added to debate across many sectors and themes. In Mali, there were 8 themes/ sectors covered by GBS and SBS and a more strategic problem-solving debate resulted.

- **A separation between the forward-thinking dialogue and the process of “auditing” progress to decide on disbursements is likely to be advantageous.** In order to address the unsatisfactory nature of the dialogue in Tanzania, the evaluation recommended to introduce this separation by holding a progress review early in the year and a forward-looking discussion some months later. It also recommended a greater involvement of new external actors, such as academics or subject specialists, into the forward-thinking problem-solving discussions<sup>45</sup>.

## Money can't buy reform

### 219. **Our third lesson is that budget support funding is not correlated with policy leverage:**

despite the significant funds provided in the LICs, in each of the four countries, there were reforms which the partner governments did not undertake despite losing variable tranche funding, or suffering delays in disbursements. In the MICs, by contrast, budget support was able to influence the design of reforms through policy dialogue and technical assistance, even where levels of budget support funding comprised less than 2% of public spending. Budget support influenced policy, where interests converged; where they did not converge, domestic political interests drove the agenda and, as has been found in past evaluations, those domestic political interests proved impervious to external influence.

220. In this respect our synthesis fully confirms the preliminary findings from Mali, Tunisia and Zambia (Caputo et al. 2011) published in the OECD-DAC's "Evaluation Insights". The first synthesis report from these three cases found that *'programmes have provided effective support to implementation of public financial management and other reforms, where government and society were committed thereto, but they have proved incapable of "buying reform", confirming findings from other research.'* Having extended the synthesis to a further 4 countries, this preliminary finding can now be confirmed as a clear lesson from experience to date.

## 4.3 The choice of General or Sector Budget Support

221. The sample of seven cases we have examined provided a representative mix of the different combinations of Sector and General Budget Support commonly found. Two countries, Morocco and South Africa had only SBS operations, three – Tunisia, Mali and Zambia, had a mix of GBS and SBS and two, Tanzania and Mozambique had an exclusive or very heavy GBS dominance. What did the evaluations reveal about the relative influence of the choice of mechanism?

222. **In the first place, it is worth stressing that the relative differences between SBS and GBS proved to be modest.** All operations disbursed into the national treasury account and involved no earmarking; all operations were able to include a mix of national and sectoral perspectives,

<sup>45</sup> The Tanzania evaluation in fact recommended a full separation of the two functions with an independent team taking responsibility for assessing progress annually and reporting back to donors. The donor stakeholders did not support this recommendation, however, partly because they felt that a donor engagement in both monitoring and forward-thinking was needed and, partly, out of doubts over the difficulties of identifying an objective and appropriately qualified team.

either because SBS operations included PFM and public sector reform components or because GBS operations included sectoral components. With the exception of South Africa and Morocco, all countries had integrated policy dialogue structures, with sectoral and thematic working groups feeding into national level frameworks linked to GBS.

223. However, the different Context-Mechanism-Outcome (C-M-O) combinations did reveal some patterns of interest:

- In South Africa, where there was a high level of government effectiveness and thus a combination of relatively strong sectors and a strong integrating/ coordinating function from the Ministry of Finance, GBS and SBS operations would probably have worked equally well.
- In Morocco, SBS operations succeeded in supporting implementation of pre-defined reforms and development initiatives, which did not require inter-sectoral analysis and coordination. However, in the absence of a GBS operation, it was not possible to promote inter-sectoral processes, which might have helped to adapt sectoral and national policies towards the reduction of inter-regional inequalities, or to make better use of the budget as a tool to re-allocate resources towards strategic priorities.
- In Tunisia, GBS operations were able to promote improved inter-sectoral coordination in order to address the requirements of market de-regulation and the opening up of trade. By contrast, in the absence of a significant presence of the Ministry of Finance and other central agencies, the SBS operations in secondary and higher education and in vocational training were unable to promote changes in policy aimed at re-orienting higher education and training towards the needs of a modern, open economy.
- In Mali, the combination of SBS operations in Health, Education and Decentralisation, with a significant GBS operation was able to generate cross-sector support – and Ministry of Finance backing – for important reforms to decentralised financial management in health and education, as well as policy reforms to teacher training and other aspects of service delivery. The combination of GBS and SBS together proved effective.
- In Mozambique and Tanzania, the quality of sector policy development was variable, depending essentially on capacity and institutional issues within the sectors. Thus, while education policies and reforms were broadly successful, and well supported by GBS, other sectors were weaker. The combination of GBS arrangements with stronger SBS arrangements might have made a difference but the evaluations suggest that the sectors were driven by their own internal dynamics and that SBS operations would have made no difference to this.

224. **The main conclusion we draw is that national development strategies appear to be more successful where there is a combination of effective policy development at the sector level**

**with attention to strategic, cross-cutting issues at the central level.** The ability to combine these processes effectively will depend primarily on contextual factors related to the capacity of the partner governments and the nature of the prevailing institutional arrangements. GBS can support inter-sectoral working in a way in which SBS cannot but SBS may be better suited to supporting detailed policy development within a single sector. In the majority of cases, a combination of GBS and SBS would probably be most effective but such decisions must always be guided by careful analysis of the context and the wishes of the partner government.

#### 4.4 Recommendations for the Way Forward

225. Before outlining our recommendations, it is worth reflecting on the significance of the findings across these seven evaluations. Amongst many of the Development Agencies, the appetite for budget support has visibly diminished since the late 2000s to the extent that a number of its previous proponents have either stopped its provision altogether or significantly reduced the proportions of their portfolios disbursed in this way. While there may be legitimate internal reasons for such changes, such as reduced aid budgets or changed priorities, the simple fact is that there does not appear to be any evidence related to the functioning and achievements of budget support to justify such a substantive change in policy.
226. **The evidence of these seven evaluations, as well as the evidence from other recent research and evaluation work, all points in the same direction.** It shows clearly that budget support does work as an aid instrument to support partner governments who either a) need to scale up the delivery of services or upgrade their quality and lack the domestic revenue sources to do it; or b) wish to undertake policy reforms or innovations with short-term risks and costs where a framework of international partnership can assist implementation.
227. Budget support requires certain pre-conditions to be in place, notably the prior existence of a national development strategy or sector policy to support. In addition, Budget Support works best where policy dialogue and related spending plans are focused on the mutual areas of interest of the beneficiary governments and their Development Partners. Moreover, there are things that budget support is not suited to – such as support to community-based initiatives. Nevertheless, many governments in developing and transition countries do need support in scaling up services or implementing reforms, and the combination of funds, dialogue and technical assistance, which budget support provides, has proven to be well suited to these requirements.
228. **If anything, the evidence suggests that a stronger and more consistent adherence to the principles of budget support would have achieved greater benefits.** Many of the shortcomings we have identified in the budget support mechanisms – the persistence of high transaction costs, the lack of predictability in the timing of disbursements and, most especially, the difficulties in maintaining a consistently strategic problem-solving dialogue – derive from a failure to embrace a high level, partnership-based approach to development cooperation and to adhere to the implementation requirements of such an approach.



**229. The challenge for the future is therefore to re-assert the value of budget support, while strengthening its design and implementation mechanisms so as to maximise its benefits.**

The starting point for such a process must be a deeper discussion and debate of the results presented in this Synthesis Analysis and in other related research. It is important that the results should be discussed, dissected, and crosschecked and that additional research should be undertaken to test and refine the conclusions here presented.

**230.** Out of such a process, a collaborative framework should emerge to take forward the recommendations here presented. These recommendations demand actions by all budget support providers as well as by partner governments benefiting or wishing to benefit in future from budget support. The precise way in which recommendations are taken forward will evidently differ from stakeholder to stakeholder. The intention here is to present a series of lines of action which can serve as a guiding framework for this process.

**231.** We recommend a series of measures based around eight lines of action:

1. **Create a consensus on the need for learning and policy adaptation** by disseminating the results of evaluations on budget support, increasing awareness of its benefits and limitations, and highlighting the actions needed to maximise its potential.
2. **Improve the management processes for budget support and the related processes for identifying and mitigating risks**, based upon a more structured analysis of the context and a more objective assessment of the appropriateness of different modalities, including the choice between General and Sector Budget Support.
3. **Focus the reduction of income poverty and inequality as the primary goal of budget support**, strengthening the design and management processes for budget support so as to contribute more to this goal.
4. **Reinforce the partnership basis of budget support by taking steps to strengthen trust and confidence** in donor-government relations.
5. **Nurture strategic problem-solving dialogue** by developing a comprehensive approach to policy dialogue and a related set of processes and capabilities. Such a dialogue should be framed within a medium to long term perspective, should respect country ownership of the policy process, and should give due attention to implementation capacities.
6. **Use Budget Support to promote greater social accountability in relation to public budgets and public policy decisions.** As a minimum, it is vital to ensure that civil society and the media are given systematic access to the policy documents, progress reports and conclusions, emerging from the policy dialogue process, so as to be able to participate in this dialogue and assist in monitoring the implementation of agreed reforms and policy actions.

7. **Increase the value-added of the technical assistance/ capacity development inputs of budget support** by identifying capacity development (CD) needs more carefully, planning the use of TA/ CD inputs more strategically and developing more flexible arrangements for responding to identified needs in an agile manner.
8. **Simplify the design and management structures for budget support and enhance donor-donor harmonisation** so as to eliminate the inefficiencies, which create unnecessary transaction costs and undermine predictability of disbursements.

## Creating a consensus on the need for learning and policy adaptation

232. Budget support is utilised in more than 80 developing and transition countries across the World, provided by some 25 development agencies and banks. Any attempt to reform the way budget support is designed and managed will need these stakeholders to reach a broad consensus on the changes that are needed to maximise its potential as an instrument of development. Many of the shortcomings we have identified are the result of unrealistic expectations and/ or the lack of an adequate level of preparedness (in terms of policies, capabilities and expectations) to manage the risks of budget support and follow its philosophy effectively. The first step towards correcting this is to share information more widely and promote learning from the evaluations undertaken. We therefore recommend:

- Firstly, that this synthesis and the seven evaluation reports should be distributed and publicised as widely as possible, using appropriate ICT and social media channels;
- Secondly, that a series of seminars should be organised to discuss and take forward the conclusions of this synthesis report.

## Improve donors’ management processes for budget support

233. Many countries benefitting from budget support have weaknesses in democratic governance, shortcomings in their political frameworks and significant capacity limitations. This need not be a reason for avoiding budget support but it does demand a heightened awareness of risks, a corresponding adaptation of the scale and structure of budget support operations and of donor implementation capabilities. In these evaluations, donors were sometimes found to be poorly prepared to manage the risks of budget support and to engage with the implementation challenges. Some agencies are better prepared than others but for many the benefits of budget support would be increased and the risks reduced through improvements in management processes. We recommend consideration of the following actions:

- A review of existing guidelines and procedures for the management cycle of budget support, from feasibility and design work, through formulation to implementation, monitoring and evaluation. Such reviews might usefully be managed as peer-to-peer processes, involving two or more agencies reviewing each other’s procedures.

- The introduction into current procedures of a more structured analysis of the context for budget support, including political economy analysis, an assessment of the quality of donor-donor relations and donor-government relations, and a more objective assessment of the appropriateness of different aid modalities.
- The introduction of more precise criteria for choosing between SBS or GBS, based upon their respective merits and their appropriateness to the context.

## Focus on reduction of income poverty and inequality as the primary goal

234. The inability of the budget support dialogue to generate a focused and realistic programme of actions to reduce income poverty was perhaps the major shortcoming of the instrument within the LICs. In no country is it a straightforward task to reduce poverty and inequality but none of the low income countries actually followed a detailed set of public policies aimed at reducing income poverty. All had poverty reduction strategies but these were in the nature of aspirational plans rather than true strategies built on analysis of the micro foundations of balanced growth. The budget support dialogue proved unable to address this problem in part because of weaknesses in the quality of that policy dialogue but also because the goal of income poverty reduction did not always take centre stage.

235. **We recommend that the reduction of income poverty and of inequality should be re-asserted as the primary goal of budget support.** This would entail, in most countries, increased attention to agriculture and the productive sectors, as well as to infrastructure and employment creation. It need not necessarily entail reduced attention to social welfare and non-income poverty but it does require more careful attention to the constraints faced by the poor and more precise analysis of the public policy and spending actions, which might relieve these constraints.

## Reinforce the partnership basis of budget support

236. **A key lesson was that trust and confidence in donor-government relations are essential for an open and honest policy dialogue.** Governments and donors will always have differences in their policy priorities but where the main issues of agreement and disagreement can be put on the table, dialogue can proceed constructively. This can only occur where there is a genuine partnership and a firm base of trust and confidence based on mutual respect.

237. We recommend that actions should be taken to reinforce the partnership basis of budget support and to address the factors that have tended to undermine trust and confidence in donor-government relations. Specifically, we recommend the following:

- Steps should be taken to re-assert the fundamental importance of respect for the ownership of the policy agenda by the partner government.
- Wherever budget support is of significant importance, the definition and application of underlying principles and the related procedures should be clarified within the

Memoranda of Understanding for budget support, so as to ensure that disbursements are only suspended when justified based upon the agreed provisions, processes and procedures.

- Where possible, seek to develop linkages between budget support operations and wider strategic cooperation frameworks (such as the TDCA in South Africa or the Association Agreements in Morocco and Tunisia) so as to provide a stronger basis for an effective partnership<sup>46</sup>.
- In order to facilitate effective donor-donor relations as the basis of effective donor-government relations, the number of donors, involved in GBS and SBS dialogue fora should be limited. Specifically, it is recommended that governments should aim to limit the number of donors in any GBS or sectoral dialogue framework to a maximum of 10, always ensuring that the agencies involved are capable of providing both significant funding (for example, US \$ 5 or 10 million per year as a minimum) and valuable expertise to assist with policy development and implementation. This in turn would entail the introduction of a clear division of labour between donors.

## Nurture strategic problem-solving dialogue

**238. Policy dialogue requires explicit measures to develop the space for strategic problem-solving discussion.** We therefore recommend the following actions:

- The design of budget support, its disbursement conditions and management processes should all have a strategic problem solving and policy oriented focus. Specifically:
  - SBS operations should be focused at the sector level, and not on sub-sectors, programmes or regions.
  - The number of indicators and ‘trigger actions’ included within any Performance Assessment Framework should be government-determined, limited in number, and focused on results or reform actions of genuine strategic importance.
  - The number of indicators based on process actions or on output measures should be limited, with the primary focus placed on the targeting and tracking of outcomes.
- The overall scope of dialogue should be limited so as to be consistent with the capacity and expertise of the partner government, and the budget support providers. The number of sectors and thematic areas targeted by reforms should therefore be limited to maximum of 10 but in many countries would probably need to be less than this. (This

<sup>46</sup> For Mali, the West African Economic and Monetary Union (WAEMU; UEMOA in French) showed itself to be an influential and respected organization. Efforts to connect the donor-government dialogue more closely to WAEMU initiatives and interests might prove fruitful, as an alternative way of approaching this objective.

maximum would therefore limit the number of separate SBS operations at any one time, as well as the number of sectors/ thematic areas included in a GBS PAF.)

- A separation between the forward-thinking dialogue and the process of “auditing” progress to decide on disbursements should be introduced into all GBS or SBS processes. This would involve holding the annual progress review (or reviews) at a different time from events organised for forward-looking, problem-solving discussion. These latter events should also be organised to include external ‘third-party’ stakeholders, such as academics or subject matter specialists.
- A defined programme of research and evaluation work (with the appropriate funding ) should accompany all budget support operations, so as to strengthen continuously the analytical basis of the policy dialogue.
- Donors should develop formal processes to strengthen their expertise in policy analysis and dialogue, including:
  - A formalisation of the division of labour, so that specific agencies would specialise in a limited number of specific sectors or thematic areas.
  - Internal processes within each agency to organise the recruitment, placement and training of staff in such as way as deepen expertise in the chosen areas of specialisation.
  - Procedures should be established to share good practices across countries and to provide adequate technical back-stopping.

## Maximise opportunities for promoting Social Accountability

**239. Budget Support can and should promote greater social accountability in relation to public budgets and public policy decisions.** The evaluations all note that civil society organisations and the media are given a degree of access to the policy documents, progress reports and conclusions, emerging from the Budget Support policy dialogue. In some of the countries, this degree of engagement with public policy issues was a new phenomenon and to some extent, Budget Support can be said to have facilitated the extension of the existing mechanisms of social accountability. However, in several countries, the impression is that this degree of access is granted as a favour rather than a right, and the process of engagement of civil society has too often seemed ritualistic rather than genuine.

**240.** It is important to find ways of deepening citizen engagement in the debates on public policies and public spending choices to which Budget Support gives rise. In any democratic society, public policy decisions and public spending choices need to be subject to the forces of social accountability. Where Budget Support can help to strengthen such processes, it is essential to maximise the opportunities available. A number of actions could be taken to facilitate progress towards stronger social accountability:

- Access to the documentation, progress reports and budgetary data produced through the Budget Support dialogue should be systematic and guaranteed, potentially through a dedicated internet portal;
- Support to CSOs and citizen groups in improving understanding of public budgets and public policy issues should continue to be provided and, where necessary, strengthened.
- Increased attention should be given to the design of more effective, innovative channels to engage the private sector and civil society in the policy debates promoted through Budget Support, recognising the potential that exists for mobilisation of citizen power, ideas and finance<sup>47</sup>.

## Increase the value-added of technical assistance/capacity building inputs

**241. The potential of the technical assistance/ capacity development component of Budget Support must be fully realised.** A general perception in all the evaluations was that this was not the case, because the use of TA/ capacity development was not strategically planned and there was a lack of flexible arrangements for responding to identified needs in an agile manner. It is vital that these problems should be corrected. We recommend:

- That the role of TA/ capacity development inputs within a budget support package should be formally defined so as to complement policy dialogue and facilitate progress towards the agreed targets in the national development plan or sector policy.
- That the use of TA/ capacity development inputs should be planned and programmed so as to address identified needs, through a combination of research studies, training, coaching and advisory services. While it would be useful to retain the ability to allocate TA/ CD inputs on an ‘ad hoc’ basis so as to meet unexpected needs, the general practice of having large “TA funds” with no specific outputs or outcomes defined should be avoided.
- That flexible facilities to promote capacity development should be put in place, which, in addition to short, medium and long-term TA for advisory and training inputs, might provide for twinning arrangements, support for conferences/ workshops, research studies, data collection and analysis, and exploratory/ learning missions to and from partner countries (along the lines of the Dialogue Facility in South Africa.)

## Simplify and harmonise

**242. Finally, it is necessary to introduce measures to correct the remaining inefficiencies in budget support delivery mechanisms,** which generate unnecessary transaction costs and

<sup>47</sup> By way of example, it was pointed out by the South African Government representative at the dissemination seminar where the draft of this synthesis report was presented that the level of private funding available through Corporate Social Responsibility (CSR) schemes in South Africa far exceeds the value of Official Development Assistance. The scope of the SBS programmes in South Africa could thus be dramatically expanded by “crowding in” these CSR resources.

continue to undermine the predictability of disbursements of budget support within year. Specifically we recommend the following actions:

- All budget support arrangements should be organised so that the assessment of disbursement conditions is fully completed in year “t” and a projection of the value and timing of disbursements in year “t+1” may be provided to the partner government in time to incorporate in its treasury management plan. Administrative procedures for the approval of disbursements should be organised so as to respect the planned timing of disbursements as far as possible.
- The numbers of disbursement conditions in GBS or SBS (and thus incorporated in the integrated PAF) should be limited.
- The number of separate variable or performance tranches supporting any GBS or SBS process should also be limited, in particular by harmonising across each donor operation so that the same indicators and performance areas are selected.
- The above recommendations relating to the limitation on the number of partners and the introduction of a formal division of labour should be implemented in all on-going operations so as to limit transaction costs.
- Efforts should be made to maximise the harmonisation of processes and procedures so as to reduce transaction costs, wherever possible.



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## Annex I: Listing of Country Evaluations of Budget Support undertaken to date

Ronsholt (2014) reports that country studies evaluating budget support have been undertaken in 22 countries overall, counting both the (generally shorter, more desk based) country studies undertaken as part of agency specific evaluations and thematic studies, and those that have followed the OECD-DAC methodological approach in either its original or revised form<sup>48</sup>.

**Table 15: Budget Support Evaluations at country level utilising the OECD-DAC Methodology**

Country	2006 Synthesis Report	Stand-alone Country Evaluations	2014 Synthesis Report
<b>Burkina Faso</b>	IDD, 2006: Multi-donor; 1994-2004		
<b>Ghana</b>		ODI, 2007: Multi-donor; 2003-2006	
<b>Malawi</b>	IDD, 2006: Multi-donor; 1994-2004		
<b>Mali</b>			ECO-Consult, 2011: Multi-Donor; 2003-2009
<b>Morocco</b>			ADE, 2014; Multi-Donor; 2005 – 2012
<b>Mozambique</b>	IDD, 2006: Multi-donor; 1994-2004		ITAD, 2014; Multi-Donor; 2005-2012
<b>Nicaragua</b>	IDD, 2006: Multi-donor; 1994-2004		
<b>Rwanda</b>	IDD, 2006: Multi-donor; 1994-2004		
<b>South Africa</b>			Particip, 2013; EU SBS; 2000-2011.
<b>Tanzania</b>		ODI, 2005: Multi-donor; 1994-2004	ITAD, 2013; Multi-donor; 2005 – 2012.
<b>Tunisia</b>			DRN, 2011; EU GBS/ SBS; 1996 – 2008
<b>Uganda</b>	IDD, 2006: Multi-donor; 1994-2004		
<b>Vietnam</b>	IDD, 2006: Multi-donor; 1994-2004		
<b>Zambia</b>			IOB, 2011; Multi-donor; 2005-2010

<sup>48</sup> In addition to the 14 countries listed in Table 15, country evaluations of budget support have also been undertaken in Armenia, Benin, Burundi, Cape Verde, DRC, Ethiopia, Lao PDR and Pakistan. See Ronsholt, 2014, Annex B as well as the source documents: IEG (2010), ICAI (2012), IOB (2012), Austrian Development Cooperation (2010), ODI (2010) and Oxfam (2011).

## Annex II: Overview of the “3-Step” Approach

The OECD-DAC methodology recognises that budget support is not a development programme in itself but rather a means to support a programme of policy and public spending actions by a partner government. The final outcomes and impacts of GBS and SBS therefore depend predominantly on the quality and effectiveness of the strategies of the partner government, given the constraints imposed by the institutional and socio-economic environment. Accordingly, the evaluation methodology draws a sharp distinction between the (rather limited) direct outputs which budget support might be expected to produce simply as a consequence of its introduction into the aid landscape, and the more important “induced outputs” resulting from its interactions with government processes. The Intervention Logic (IL) underlying the methodology is based on a set of structured relationships at five levels, as follows:

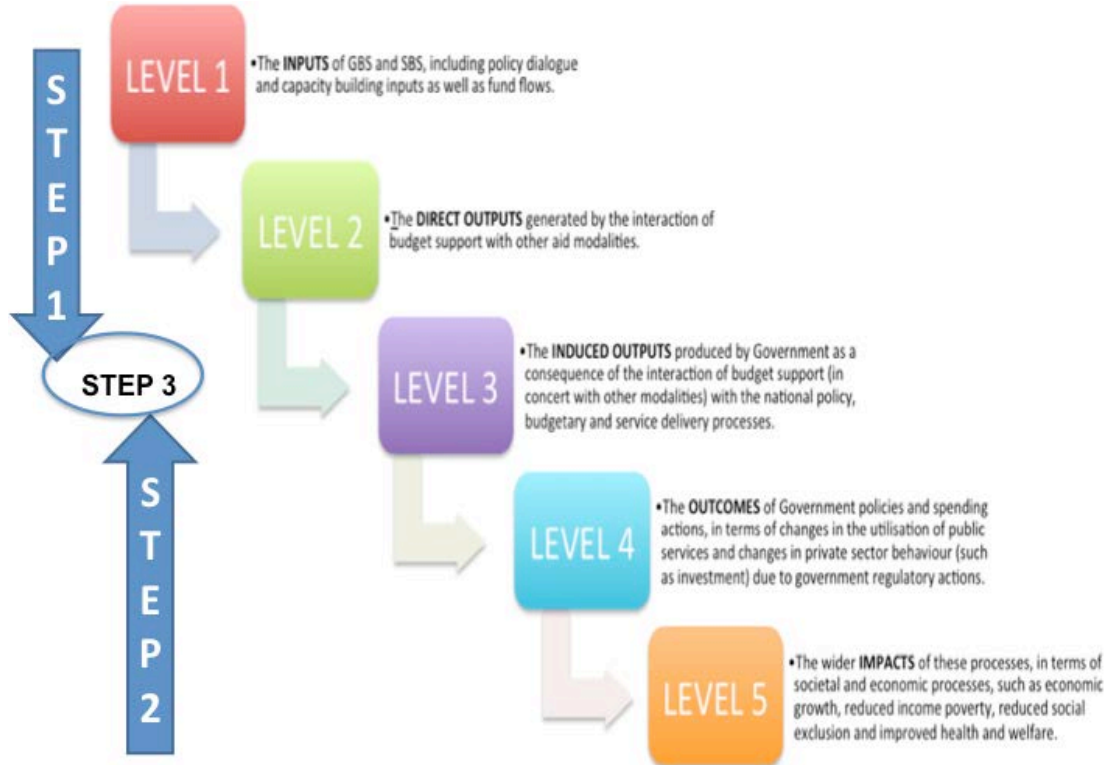
- **Level One**, which examines the **Inputs** of GBS and SBS, including policy dialogue and capacity-building inputs as well as fund flows.
- **Level Two**, which details the **Direct Outputs** generated by the interaction of budget support with other aid modalities.
- **Level Three**, which documents the **Induced Outputs** produced by Government as a consequence of the interaction of budget support (in complement with other modalities) with the national policy, budgetary and service delivery processes.
- **Level Four**, which records the **Outcomes** of Government policies and spending actions, in terms of changes in the utilisation of public services by the public and changes in private sector behaviour due to government regulatory actions.
- **Level Five**, which records the wider **Impacts** of these processes, in terms of societal and economic processes, such as economic growth, reduced income poverty, reduced social exclusion and improved health and welfare (reduced non-income poverty).

In order to avoid implicit assumptions of causality between budget support inputs and final outcomes and impacts, the analysis is separated into three steps, as illustrated in Figure 1:

- **Step One** covers levels 1-3. It provides the basis for understanding how Budget Support has been inserted into the public spending and policy making process and with what effects (direct and induced outputs), given the influence of other aid modalities and internal government processes working alongside Budget Support.
- **Step Two** begins from an identification of the most significant outcomes and impacts related to the implementation of the Government’s national and sectoral development strategies (levels 4 & 5) and then examines – through a combination of econometric and qualitative analysis – what have been the primary determinants of those outcomes and impacts.
- **Step Three** brings together the findings from Steps One and Two, identifying which of the “induced outputs” of Budget Support identified in Step One also feature amongst the primary

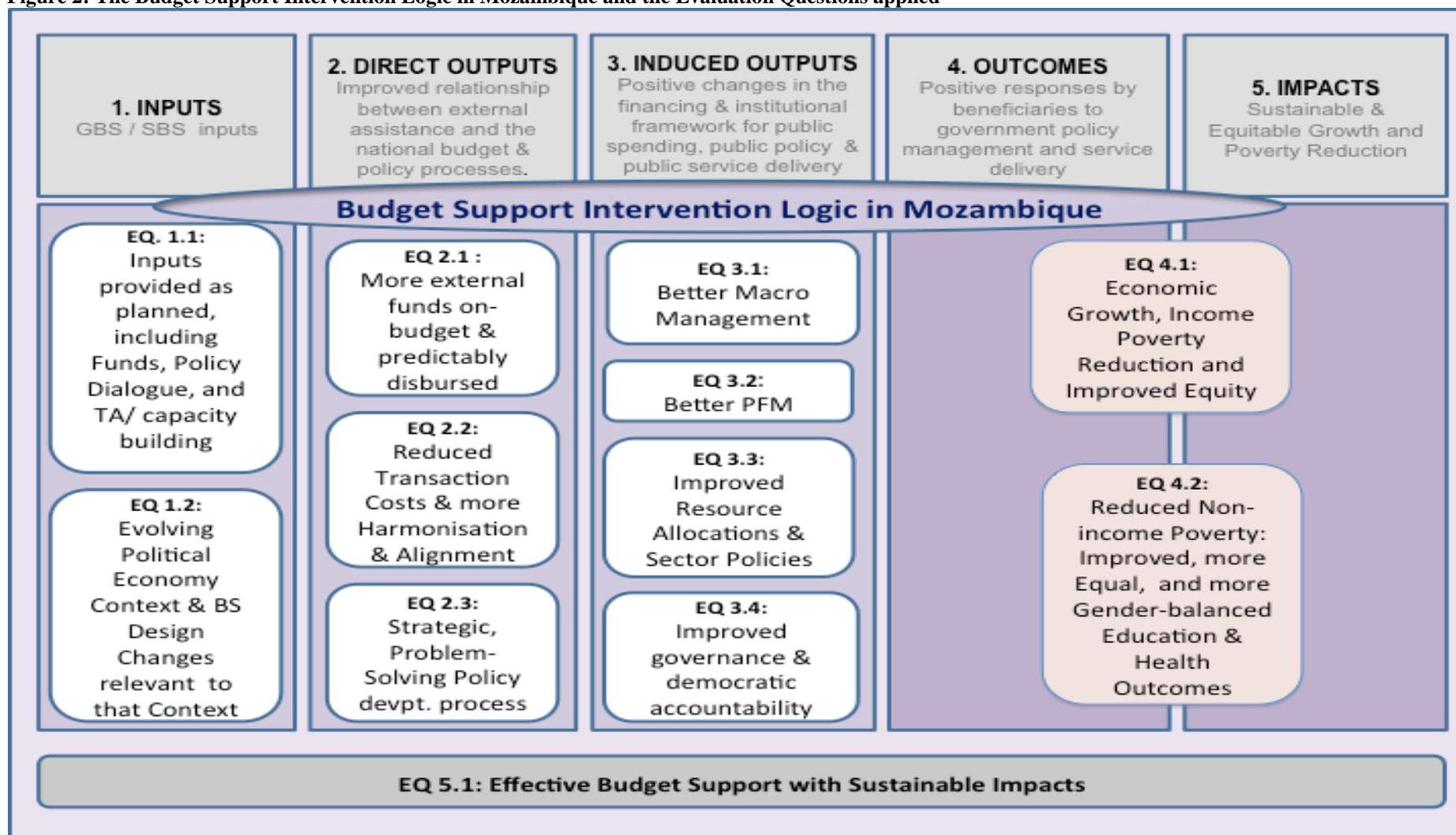
determinants of outcomes and impacts identified through Step Two. In this way, it permits an assessment of the contribution of Budget Support to final outcomes and impacts and an identification of the key points of weakness in the Intervention Logic.

**Figure 1: The 5 levels and the 3 Steps of the Evaluation methodology**



For each country evaluation, some adaptation of the Intervention Logic (IL) is needed, based on an assessment of the relevance and applicability of the range of inputs, direct outputs, induced outputs, outcomes and impacts identified in the standardised IL. Amongst other things, this adaptation takes account of (i) the scale of the budget support operations in question; (ii) the scale of external assistance as a whole and (iii) the range of issues covered by the PAF and the associated dialogue framework. A resulting set of Evaluation Questions is then compiled to guide the evaluation process. Figure 2 provides, as an example, the Evaluation Questions applied in the Mozambique case.

Figure 2: The Budget Support Intervention Logic in Mozambique and the Evaluation Questions applied



## Annex III: Suspensions of budget support due to suspected breaches of underlying principles

**In Mali, there were no suspensions of disbursements due to underlying principles during the evaluation period.** This may perhaps reflect the stronger governance situation in Mali, or perhaps the fact that there was less underlying tension in relations with donors. (See 2.1 above.)

The other three countries did experience suspensions of disbursements:

- In **Tanzania**, two “grand corruption” cases uncovered during fiscal year 2007/08 led to a brief suspension of payments. These were the “EPA scandal”, involving fraudulent payments of some US \$100 million made from the Bank of Tanzania External Payments Account over 2004-2005, and the Richmond power scandal, involving the improper award of a contract for the construction of a power plant. The Richmond scandal was the subject of a Parliamentary Select Committee investigation, which led to the resignation of Prime Minister Lowassa and two other Ministers in February 2008. The Governor of the Bank of Tanzania and several other officials were sacked one month earlier due to the EPA scandal, and there were corrective actions initiated within the Ministry of Energy and the Bank of Tanzania. The official reaction of the Budget Support Group (BSG) was to request information from Government on the actions being taken, and, in some cases to suspend disbursements during the process of analysis of those reports. The concern was to demonstrate that the Government was fulfilling its commitment to the ‘active fight against corruption’. In the end, BSG members concluded that this principle had not been breached, a decision which the evaluation team judged to have been correct. However, several BSG members pointed to the lack of prosecutions brought as a result of these scandals, as an illustration of a lack of sincerity in exerting full accountability for these actions. For many BSG members this left a feeling of dissatisfaction, which lingered throughout the evaluation period, with a significant impact on the quality of dialogue<sup>49</sup>.
- In 2009 in **Zambia**, after a whistle-blower tipped off the Anti-Corruption Commission about theft in the Ministry of Health, involving the disappearance of some US \$2 million in 2008-09 and an estimated US \$ 6 million since 2006, Sweden and the Netherlands suspended their budget support (as well as their direct support to the sector through projects and common funds). Resumption of funding was tied to implementation of an action plan, involving recovery of the misappropriated funds, prosecution of the officers involved and the introduction of new controls. In contrast to the Tanzania case, it proved difficult for the budget support donors to reach a common position, with the majority not suspending disbursements, due to the fact that an internal process had unearthed the scandal and

<sup>49</sup> There was a further suspension in 2010 by the Netherlands, due to a ‘lack of sufficient action to improve the business environment’. This suspension caused considerable resentment from the Tanzania Government, because evidence was drawn only in part from the PAF, and in part from the case of one Dutch businessman, who was considered to have been treated in an irregular manner through the Tanzanian court system.



corrective actions were being taken by the appropriate institutions. Other agencies felt that corrective actions were too slow and were indicative of a wider lack of commitment to the fight against corruption.

- In **Mozambique**, there were three suspensions in the evaluation period. The most notable was provoked by irregularities in the conduct of the 2009 elections. The observer groups were critical of the pre-election processes, noting that the National Electoral Commission decision to disqualify, for ostensibly technical reasons, the (opposition) MDM candidates' nomination papers in 9 of the 13 parliamentary constituencies had substantially restricted voter choice<sup>50</sup>. Some irregularities were also documented with election-day processes, including ballot stuffing and tabulation fraud at some polling stations. The electoral irregularities reported, combined with on going concerns about slow progress in the fight against corruption, prompted the G-19 Budget Support group to report to Government that it felt that a breach of the underlying principles for Budget Support might have occurred. This led to the suspension of Budget Support disbursements by 4 DPs and an intense process of dialogue between Government and the G-19. As a result, Government agreed to implement a Governance Action Plan, whose key elements included the preparation of revisions to the electoral law, certain measures to promote political inclusivity, and a package of Anti-Corruption legislation. In addition, an informal agreement was reached for the Government to promote the acceptance of the MDM as a formal opposition "*bancada*" ("bench") – a proposal, which the parliamentary authorities accepted<sup>51</sup>. There were two further suspensions of disbursements in Mozambique prompted by health procurement irregularities in 2011 and by education payroll irregularities in 2012.

The three suspensions in Mozambique were especially controversial, with Government stakeholders maintaining that the "pre-emptive" suspension by certain partners was not needed, while several DPs expressed a conviction that corrective actions would not have been taken in the absence of the decision to suspend disbursements. The evaluation expresses the view that *'the suspension of payments in early 2010 was instrumental in generating corrective actions at the time of the "crispação" but not necessary at the time of the revelation of the education payroll fraud in late 2011'*. (ITAD, 2014; p.78.)

<sup>50</sup> As a rough indication of the impact this might have had, if MDM had won the same percentage of parliamentary as presidential votes (8.59 %), they would have won some 15-20 seats, as opposed to the 8, they actually won.

<sup>51</sup> Normally, MDM would have required 10 seats to obtain the status of a *bancada*; without which, their rights to debating time and other such parliamentary privileges would have been significantly restricted.

## Annex IV: Effects of Variable/ Performance Tranches: the case of Mozambique

The foregoing is simply a direct quotation from the Mozambique evaluation (ITAD, 2014; pp.73-77.) The other evaluations do not present any comparable analysis of the effects of variable tranches and therefore we are not in a position to draw strong conclusions from this one case but it is nevertheless of considerable interest.

**One aspect of the changing design of Budget Support in Mozambique has been the increased use of “variable tranches” (VTs) or “performance tranches”,** in which the value of disbursements is linked either to the completion of certain reforms or to the achievement of specific service delivery outcomes. The EU, Sweden and Switzerland employed such mechanisms from the outset of the period but Denmark, Germany and most recently the United Kingdom have incorporated them during the evaluation period<sup>52</sup>. The relative importance of these variable tranches has remained quite modest<sup>53</sup>. The actual size of the variable portion for the six Development Agencies using the instrument is shown in Table 14. In 2012, the maximum variable tranche disbursement would have comprised \$70 million, of which \$49 million were paid – approximately 11 % of total Budget Support disbursements.

**Table 16: Variable tranche disbursements, 2012 - 2014**

	2012		2013		2014	
	potential	granted	potential	granted	potential	granted
<b>Donor's currency (million)</b>						
Denmark	22	18	22	13.2	22	16.5
UK	no variable tranche		7	4	7	4.4
Germany	10	8	5	4	5	not known
Switzerland	?	?	?	?	4	3.2
Sweden	180	115	90	67.5	no contract	
EU	21	14.375	21	14.375	21	14.375
<b>USD (million)</b>						
Denmark	3.8	3.1	3.9	2.3	3.9	2.9
UK	no variable tranche		10.8	6.2	10.8	6.8
Germany	12.9	10.3	6.6	5.3	6.6	not known
Switzerland					4.3	3.4
Sweden	26.6	17.0	13.8	10.4	no contract	
EU	27.0	18.5	27.6	18.9	27.6	18.9
<b>All VTs in USD</b>	<b>70.2</b>	<b>48.8</b>	<b>62.7</b>	<b>43.0</b>	<b>53.1</b>	<b>32.0</b>

Source: Orlowski, 2013

As can be seen from the table above, the rate of disbursements of variable tranches was 70 % in 2012 and 69% in 2013, reflecting the fact that the majority of indicators were in fact attained. Can we conclude from this that the increased use of variable tranches had a positive incentive effect on government reform efforts? It has been impossible to undertake a comprehensive assessment of this question essentially because it is too complex a task to undertake with limited resources. There have been regular changes in the definition of indicators across the evaluation period, the range of policy issues involved is broad and the web of underlying causality mechanisms with which VT-

<sup>52</sup> Interestingly, Ireland abandoned its use of variable tranches during the evaluation period. We have unfortunately not been able to obtain documentation on the reasons for this change.

<sup>53</sup> We are indebted to Dieter Orlowski for the provision of information presented in this section: Orlowski, D. (September, 2013), *Impact of variable tranches on policy and reforms*, Internal Note for Danida, Maputo.

induced incentives would need to interact is too complex to untangle easily. However, we can point to two sources of evidence:

- The data do not suggest any trend improvement in performance against PAF indicators since 2010, when variable tranches have been more significant. From 2006 to 2009, 45-60% of indicators were assessed as achieved, and only 10-15 % as not achieved, with a relatively large group (25-40%) assessed as ‘not achieved but with some progress’. Over 2010 – 2012, the number assessed as achieved remained broadly the same at 45-55% but the number assessed as not achieved rose sharply approaching 30 % in 2012, with a corresponding decline in those assessed as ‘not achieved but with progress’. Clearly, there are several factors at play, including potentially more challenging targets and/ or more rigorous standards of assessment, but the simple numbers do not suggest a trend improvement in performance.
- A more revealing body of evidence emerges from an internal study done for Danida to assess the potential incentive effects of variable tranches. (Orlowski, 2013) Interviews were undertaken with the DPs using variable tranches within their Budget Support operations as well as with officials from MPD and the Ministry of Finance. As may be seen from Box 2, the results do not suggest any systematic incentive effects.

Although indicative rather than conclusive, the evidence suggests that variable tranches do not provide any significant additional incentive to meet reform targets. There are already factors favouring reform progress – which is to be expected given that these are targets agreed by Government and linked to national strategies and plans - but there is no sense that those targets, to which DPs attach variable tranches are given any extra priority. Indeed, Government stakeholders in interviews with Orlowski and with the evaluation team quite pointedly stated that they considered it inappropriate to give higher priority to some PAF targets over others.

**Box 1: Stakeholder’s feedback on the Incentive effects of Variable Tranches**

**Have variable tranches had positive incentive effects in Mozambique?**

*About two thirds of the variable tranches have been committed and subsequently disbursed in recent years. Does this suggest that incentives have worked? We wanted to know from donor representatives whether and how the variable tranche had contributed to this success.*

**Surprisingly, no one had a convincing story to offer.** Rather, as one interviewee put it, a “happy confluence of events” resulted in difficult indicator targets being attained. One example is the internal revenue target. Most donors use this indicator as a trigger for the variable tranche. Yet, several motives drive the revenue collection effort: notably, there is a strong political interest in increasing public spending and reducing aid dependence and the target is an essential parameter in the IMF programme. As a result, the target is usually met, but probably not because of the additional incentive of receiving variable tranches.

Anti-corruption and procurement triggers appear in most donors’ variable tranches: progress is visible although still below expectations. Was progress due to the incentive effect of a variable tranche? Interviewees indicated that progress was made because of the threat that the donor appetite for GBS would fade quickly. Changes were prompted by the wider threat, not by the immediate effect of non-payment of variable tranches.

**There was anecdotal evidence of effects on internal decision-making processes.** The Ministry of Planning called a donor in order to clarify the exact definition of the target so that it would not be missed for lack of precision. A line ministry was called by the Ministry of Finance, to ensure that the sector would meet a target linked to a variable tranche.

We had expected the existence of an internal version of the PAF indicator table with amounts shown in the line of each indicator: it does not appear to exist. The PAF table is apparently monitored regularly by the Council of Ministers, and indicators linked to variable tranches are shaded; but the table does not show disbursement amounts.

We had also expected reports about the possible impact of incentives on decision-making within sectors and were interested in whether variable tranches have in fact strengthened the position of reform champions. No one had a story of this sort to tell.

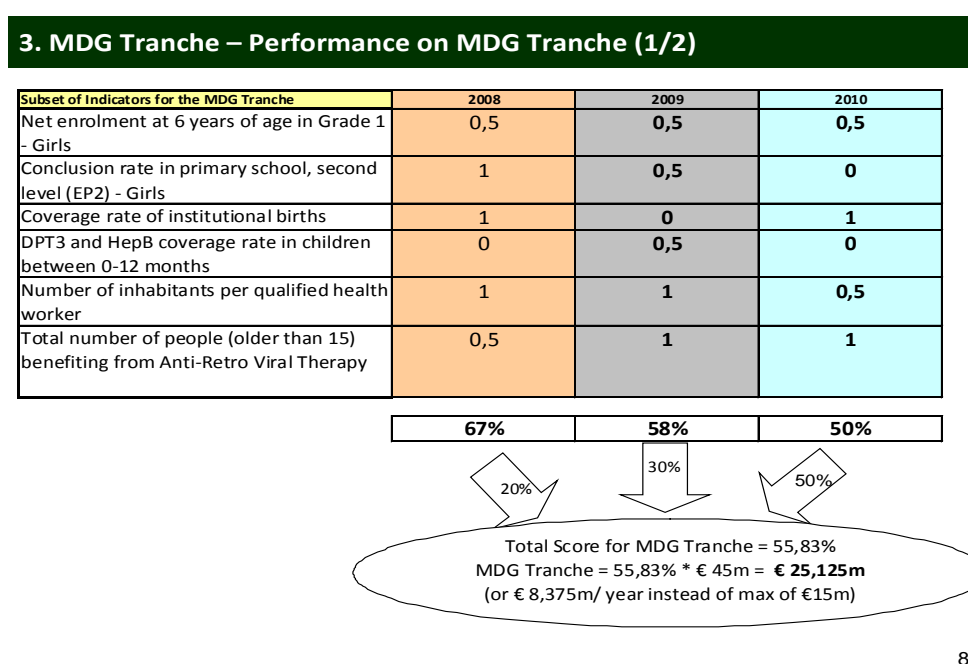
**Officials of the Ministries of Finance and of Planning stated that indicators to which variable tranches are attached do not receive higher attention than others.** The government has defined its policies and uses a set of indicators to monitor their implementation. Giving special attention to areas where financial rewards can be attained would degrade others to second-class indicators, and should therefore be avoided.

**Officials accept that donors have variable tranches essentially for domestic reasons, and see this as an element of risk.** They were opposed to the idea of donors bunching up behind a reduced set of triggers, with higher values attached to each, because this could reduce predictability. The potential variability was presented as an unavoidable risk, not as a challenge to ensure predictability by influencing and closely monitoring results.

Source: Orłowski, 2013.

Where Government has failed to meet targets linked to variable tranches, there is no clear evidence that this has been due to a lack of political will or administrative effort. Experience with the EU's mechanism for determining the Millennium Development Grant tranche is instructive in this respect. Under this mechanism, performance against social sector outcome indicators over 2008–2010 determined disbursements for the years 2012–2014. The amount at stake (€15 million per year, €45 million in total) was significant. The number of indicators (six) was limited, the mechanism was clearly defined, and announced well in advance. The targets were drawn directly from sectoral and national plans and they were neither controversial nor politically difficult. Yet, the assessment in 2011 was mixed: performance, as measured by the degree of achievement of targets declined over the years and, as a result, Mozambique lost an annual €6.6 million of potential budget support in each of the years 2012 – 2014.

**Figure 3: Mozambique: Assessment of Performance to determine EU MDG tranche for 2012-2014**



Source: Presentation by the EU on 02 June 2011, as quoted in Orlowski, 2013

Yet a closer examination of the targets reveals a set of relatively complex policy problems. For example, there are a variety of reasons – social, economic and cultural - why both matriculation and completion rates for girls tend to be low in Mozambique. Designing specific public policy interventions to address this problem requires a detailed understanding of its causes and of how those causes may vary between rural and urban areas and by locality. Dedicating resources to research and to pilot testing of potential policy responses might thus have proven more helpful than the provision of a variable tranche incentive mechanism. This is especially probable in the light of the known weaknesses in the policy research and development process within Mozambique: to expect this process to generate new and more effective policy solutions simply as

a result of a variable tranche incentive seems somewhat unrealistic.

The increased use of variable tranches in Mozambique has been primarily driven by policy requirements from DP headquarters to show a closer link between Budget support disbursements and the achievement of results. In addition, the selection of indicators seems to reflect concerns over corruption and governance. Only the EU still attaches variable tranches to service delivery, in health and education: attention has shifted to governance issues: in particular, to indicators in the areas of anti-corruption, transparency in natural resource management, procurement, external audit and internal controls.

**There is no clear evidence that the increased use of variable tranches has generated incentives to give increased attention or to dedicate additional resources to the related reforms and policy actions.** Moreover, increased use of this mechanism has raised transaction costs (albeit fairly modestly to date) and there is a risk that it may undermine the predictability of Budget Support. In addition – and perhaps most significantly – it may have served to divert attention from addressing underlying problems in the quality of research and policy development processes at the sector level.

## Annex V: Comparing Budget Support with other modalities: evidence from Mozambique

The foregoing is another direct quotation from the Mozambique evaluation (ITAD, 2014; pp.173-175.) The other evaluations do not present a comparable analysis of the effects of alternative modalities, so again we are not in a position to draw strong conclusions from this one case but it presents interesting hypotheses for testing through other country cases..

### Could other modalities support scaling up of service delivery as effectively as Budget Support?

**Neither project funding nor common basket funding could have achieved the same results as Budget Support, with the same degree of efficiency, effectiveness and sustainability:**

- The funding provided through GBS of US \$ 450 million per annum would have been equivalent to about 100 additional project and CBF operations, disbursing an average of \$4-5 million each per annum. These additional transaction costs would almost certainly have been prohibitive, given existing constraints on absorptive capacity.
- It would have been difficult for GoM to utilise such operations to finance recruitment of additional teachers or to provide non-salary recurrent cost funding.
- With the average levels of predictability of disbursements from projects (56%) and of CBF operations (79%) achieved during the evaluation period, there would need to have been a systematic over-programming of some 40 %, and even with such adjustments the annual volatility of disbursements would have proven problematic.
- The sustainability of this incremental funding would have been difficult to ensure, whereas Budget Support funding is gradually being replaced with domestic revenue, using the same planning and budgeting procedures and hence ensuring sustainability.
- Finally, while we have concluded that the influence of Budget Support policy dialogue has been relatively modest, it has served to generate certain improvements in the design and implementation of policies and strategies, which could not have been generated by the more limited spaces for dialogue offered by project and CBF arrangements.

The analysis of common basket funding (CBF) mechanisms has not formed a major part of the terms of reference for this evaluation but the prominence of the PROAGRI, FASE and PROSAUDE mechanisms in agriculture, education and health has permitted at least some analysis of these three mechanisms. The contrasting performance of the three is quite revealing.

A central tenet of good public finance is that there should always exist an effective “budget challenge function”, which is normally provided by the Ministry of Finance and/or the Ministry of Planning, as well as by the Legislature. This “budget challenge” requires all sectoral proposals for spending to be assessed against competing demands from other sectors, against national policy priorities and against the prevailing rules of financial and personnel management. In the absence



of this challenge from the centre, sectoral agencies will tend to assign themselves larger budgets than necessary and to spend them less on service delivery functions and more on sectoral administration functions and processes, from which they directly benefit.

**Box 2: Why PROSAUDE is not SBS and how GBS/ SBS could be different**

**In the last decade health sector fragmentation has been aggravated in Mozambique by the presence of multiple donors and the onset of vertical funds, which now dominate in the sector.**

Sector stakeholders responded to this fragmentation by developing a sector SWAp in the 1990s followed by the establishment of three common funds and then in 2009 their amalgamation into one – PROSAUDE II. The intention of the health partners involved was to transition to SBS, but in spite of this, PROSAUDE II has not moved beyond the original arrangement.

**PROSAUDE II is on-budget, and on-Treasury, using a dedicated account in the CUT, but it is a project account, effectively controlled by MISAU and overseen by the PROSAUDE partners.** The funds are not budgeted through standard government procedures and hence not subject to the budget contest, which that process incorporates. There is no procedural manual, although a broadly based budget is drawn up for PROSAUDE II spending. It is not controlled or monitored according to government procedures, and there are no written rules governing budget revisions, virements etc. PROSAUDE II funds are often spent on items which cannot be covered by the OE such as salary top-ups, salaries of new employees pending registration on e-CAF, per diems and other personnel items, which would normally be met by GoM. In this respect they circumvent, rather than follow, government procedures. This is done with good intent, and in recognition of the serious shortage of human resources in the health sector. Nonetheless, the process has created a perverse incentive, removing the urgency to reform health sector salary scales and bureaucratic recruitment procedures.

**PROSAUDE II has not made the transition to SBS for several reasons:** first because there has not been a consensus amongst PROSAUDE signatories, in favour of SBS (partly a result of the documented and persistent limitations of GoM financial systems, and the difficulty in obtaining reliable audits); second, with the growth of vertical funds, PROSAUDE II financial leverage became less (averaging around 20% of the Health Budget in recent years but a lower proportion of total resources for health); and third, MISAU does not favour SBS because it values the flexibility of using PROSAUDE II funds to cover expenses that cannot be paid from OE.

**GBS would be different because funds would flow through the OE** and would not be dedicated to any particular sector or purpose. National accounting systems, including Treasury budget monitoring systems, would apply, and there would be no opportunity for MISAU to circumvent regulations, for instance in hiring staff without TA approval. Flexibility would in that sense, be reduced. How would SBS be different? Funds would flow to an account controlled by MoF (not MISAU) and would be used to enhance the OE ceilings of beneficiary health agencies. They would be budgeted in concert with OE funds. Like GBS, SBS funds would form part of a single budget governed according to standard budget monitoring, review and audit arrangements.

**The outcome of both SBS and GBS would be lower transaction costs, greater transparency, and the ending of the perverse incentives described above.**

A common weakness in many CBF mechanisms is that they inadvertently by-pass the budget challenge function by excluding both the Legislature and the Ministry of Finance and other central agencies from the process of scrutinising proposals for spending from the sectoral basket fund. In many CBFs, sector ministries submit proposals directly to sector donors, without the involvement

of the Ministry of Finance. Sector donors may sometimes be able to apply an adequate budget challenge function but there are often conflicts of interest which prevent this: notably, sector donors share the objective of sector ministries to increase the sectoral budget and will tend to put a lower valuation on the budget demands of other sectors.

In the case of FASE, - perhaps because the scale of funding required was too great to permit a “go it alone mentality” to develop in the sector, perhaps because the DPs involved had more rigorous processes for assessing the sustainability of spending plans – there was a greater consciousness of the need to use the FASE common fund as a complement to GoM funding through the budget. Thus, teacher salaries were never financed through FASE and it was always understood that the Direct Support to Schools (ADE) grants would need to be transferred to the Budget over time.

Notwithstanding the success of FASE, we would contend that most large-scale Common Basket Funds are likely to generate the sort of perverse incentives, which have been prominent in PROAGRI and PROSAUDE. (See Box). For these reasons, General or Sector Budget Support is likely to be a less distortionary and more sustainable method of providing external support to scale up service delivery and poverty-reducing spending. The case of GBS in Mozambique provides an excellent example of how these processes may work, even in quite difficult environments.

