Ministry of Foreign Affairs of the Netherlands

IOB Evaluation

Case Studies
Budget support: Conditional Results

Review of an instrument (2000-2011)

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Abbreviations

AfDB	African Development Bank
ADV	Asian Development Bank
AQIM	North African branch of Al-Qaeda
CFAA	Country Financial Accountability Assessment
CMLN	Comité Militaire de Libération Nationale
CNRDR	Comité National pour le Redressement de la Démocratie et la Restauration de l'Etat
CPAA	Country Procurement Accountability Assessment
CPIA	Country Policy and Institutional Assessment
CTSP	Comité Transitoire pour le Salut de Peuple
DFID	Department for International Development (United Kingdom)
EC	European Commission
EFA	European Finance Association
EIU	Economic Intelligence Unit
ERP	Economic Recovery Programme
ESAF	Enhanced Structural Adjustment Facility
FM	Framework Memorandum
FNDP	Fifth National Development Plan
FSLN	Sandinista National Liberation Front
GBS	General budget support
GDP	Gross domestic product
GNP	Gross national product
GPRS	Ghana Poverty Reduction Strategy
HIPC	Heavily Indebted Poor Countries
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group (WB)
IMF	International Monetary Fund
IOB	Policy and Operations Evaluation Department of the Netherlands Ministry of Foreign Affairs
JAST	Joint Assistance Strategy Tanzania
JASZ	Joint Assistance Strategy Zambia
JFA	Joint Financing Arrangement
LMIC	Lower middle-income country
MASP	Multi-Annual Strategic Plan
MDBS	Multi-Donor Budget Support
MCC	Millennium Challenge Corporation
MDF	Multilateral Debt Fund
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MYSP	Multi-Year Strategic Plan
MMD	Movement for Multi-Party Democracy
MoFEP	Ministry of Finance and Economic Planning
MoU	Memorandum of Understanding

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MPI	Ministry of Planning and Investment
MPLA	Mouvement Populaire pour la Libération de l'Azawad
NACP	National Anti-Corruption Plan
NDC	National Democratic Congress
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
NPP	New Patriotc Party
ODA	Official Development Assistance
PAF	Performance Assessment Framework
PAR	Public Administration Reform
PF	Patriotic Front
PFM	Public Finance Management
PFM	Partnership Framework Memorandum
PNDC	Provisional National Defense Council
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SAC	Structural Adjustment Credit
SCAP	Strategie Commune d'Assistance Pays
SPA	Strategic Partnership Africa
TAS	Tanzania Assistance Strategy
TK	Dutch House of Representatives
TR	Track Record
UDPM	Union Démocratique du Peuple Malien
UEMOA	West African Economic and Monetary Union
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIP	United National Independence Party
UP	Underlying Principles
WB	World Bank
WTO	World Trade Organization

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Nicaragua country case study

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1.1 Introduction

In 2005, a Joint Financing Arrangement (JFA) for budget support went into effect in Nicaragua, in which two multilateral and seven bilateral donors initially participated.[1] In 2007, another multilateral donor joined, but some bilateral donors also began to withdraw. The Netherlands gave Nicaragua a total of €26 million in budget support between 2005 and 2008, which constituted about one-third of the Netherlands' total bilateral aid during these four years. The grand total the country received from all donors in these years was US$300 million, which was about 12% of the total aid. The Arrangement was not renewed in 2010. Only the World Bank and the Inter-American Development Bank (IDB) continued giving Nicaragua budget support. The political context in Nicaragua played an important role both when this country started to receive budget support and when it was stopped (by the Netherlands). The Bolaños administration (2002–2007) enjoyed considerable donor confidence, but opinions of the Ortega government (2007–2012 and recently re-elected for the period 2012–2017) were much more critical.

1.2 Context

Nicaragua has been receiving substantial amounts of aid since the early 1990s, when an elected coalition government led by President Chamorro ended the rule of Sandinista President Ortega.[2] An important motive in the 1990s was to promote economic stability, as well as political stability in what was still a fragile democracy. The Netherlands gave a great deal of balance of payments support and debt relief in those years. The relationship between donors and the government cooled somewhat under President Alemán (1997–2002). He showed little interest in the donors' wishes, and increasingly there were signs that he was involved in massively corrupt practices. In October 1999, Alemán and his liberal party sealed a Pact with the second-largest parliamentary party, the Sandinistas. This Pact meant that all the seats for the various state organs, such as the supreme court, the supreme electoral council and the audit office, would be divided among these two parties. They also agreed that the leaders of these parties would from now on enjoy legal immunity.

Enrique Bolaños was elected president during the election in late 2001. He had been vice-president under Alemán and was from the same party, but he immediately launched an investigation into his predecessor's corrupt practices. This gained him the support of donors. But he lost the support of the majority of the liberal fraction in parliament, who remained loyal to Alemán, even though he was in prison. It thus became extremely difficult for Bolaños to implement his programme. This programme was aimed at economic growth, especially by attracting foreign investment. To achieve this, the state apparatus needed

1 This study is, unless otherwise mentioned, based on Geske Dijkstra and Arturo Grigsby, *Evaluation of General Budget Support to Nicaragua* 2005–2008. IOB Evaluation No. 329. Ministry of Foreign Affairs, The Hague, September 2010.

2 The Sandinista National Liberation Front (FSLN) was founded in 1961 with the aim of toppling dictator Somoza. In the 1970s, this guerrilla movement gained more and more support among the population, and in 1979, after several years of intense civil war, the front's leader, Daniel Ortega, assumed power.

to be modernised and the justice system improved. Poverty reduction became much less of a priority; the government believed that growth would automatically trickle down to the poor.

Nicaragua indicators (2010)

Inhabitants (in millions)	6
National income (in US$ billions)	6.6
Economic growth (%)*	3.4
Government expenditure (% GDP)	34
Budget support grants (in US$ millions)*	47
Budget support loans (in US$ millions)*	28
Budget support as % of total aid*	12
Income per capita (US$)	1,100
Poverty percentage**	45
Rural poverty**	68
Life expectancy (year, at birth)	73
Population growth (%, per year)	1.4
Literacy rate (%) (2005)	78
Ranking on development index (countries, 2011)	129

** 2005–2008 average per year*

*** 2009*

In November 2006, Ortega was elected president. The government made poverty reduction a much higher priority. Education and health care became free, and programmes were set up to make poor households more productive. Nicaragua began receiving large sums of money from Venezuela, but these funds were not always managed transparently, and a rumour began to circulate that they were mainly being used to secure Ortega's re-election. The government showed a preference for 'direct democracy' by means of 'civil power councils' and showed less respect for institutions of liberal democracy. In June 2008, two parties' legal status was revoked, and the mayoral elections in November of that year were marred by large-scale fraud. Freedom of the press also worsened somewhat, and social organisations that protested against all this met with violence committed by politically motivated gangs and police intimidation.

1.3 Motives, expectations and selection criteria

In 2003, the Netherlands and Sweden took the initiative to set up a joint system for budget support. This eventually resulted in the financing agreement in May 2005 between Nicaragua and nine donors: the European Commission, Finland, Germany, Norway, Sweden, Switzerland, the United Kingdom, and the World Bank. For administrative reasons, the IDB, who was already providing budget support, only joined later. An important motive was the idea that budget support is more effective; in particular, budget support was expected to bring an end to aid fragmentation. Moreover, donors had confidence in the Bolaños administration because of action taken against the president's corrupt predecessor and also because of other policy intentions.

In the period between 2003 and 2005, the Bolaños administration succeeded in fulfilling a number of the standard conditions for budget support. Macro-economic stability seemed guaranteed when an agreement was struck with the IMF in 2004, which also paved the way for Nicaragua's definite entry in the HIPC initiative. Many donors invested in technical assistance to improve the government's financial management, and the government and its civil servants were highly motivated to achieve this goal. The government organised consultation sessions throughout the country about her "national development plan" and was making efforts to devote more attention to the social sectors and poverty reduction in this plan. But there was broad concern about the Bolaños administration's commitment to poverty reduction. There was also concern about governance. Political parties were not functioning democratically, there was no rule of law, partly because the judiciary was not independent, and the Pact made it unlikely that the government would be able to improve rule of law.

An important motive for most bilateral donors, including the Netherlands and the EC, for granting budget support was that they wanted to support the planned reforms. They hoped to use budget support to exert pressure on the parliament in order to make it possible, for example, to have an independent judiciary – against the Pact's wishes. At the same time, they wanted to use a policy dialogue about budget support to improve the government's financial management, transparency and accountability, and make poverty reduction and social spending higher priorities on the agenda. According to the Dutch Multi-Annual Strategic Plan (MASP) from 2004, 'honest and democratic governance' was the most important objective of aid to Nicaragua, and 'budget support promoting good governance' was the first strategic outcome. Nicaragua clearly did not meet all conditions for budget support and therefore much value was attached to the political dialogue.

1.4 Implementation and scope

The financing arrangement contained an agreement about fundamental principles that both parties had to honour, and a performance matrix with policy measures and output indicators. The fundamental principles entailed, among other things, free and fair elections, respect for human rights, an independent judiciary and commitment to poverty reduction. Some of these were not met when support began. The matrix in 2005 contained 95 measures and 66 indicators. Progress was discussed twice a year at a high level: an annual meeting in May to discuss last year's performance, and a meeting in August to monitor on-going progress. After the May meeting, donors would tentatively commit an amount for the following year, and after the August meeting this amount would become definite so that the Nicaraguan government could incorporate it into its budget.

There were no agreements about what the limits of tolerance should be if Nicaragua were to go further astray from the fundamental principles. These limits were unlikely to be the same for all the different donors. Nor was there a joint agreement about how donors would respond to Nicaragua not meeting, or only partly meeting, the agreements in the matrix. The World Bank, the EC and Switzerland each had indicated their own explicit

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priorities within the matrix, and meeting these conditions would affect how much aid was transferred. As a result, budget support was not fully harmonised. In addition, several important donors in Nicaragua did not join the financing agreement on budget support (the United States, Spain, Canada and Japan), and budget support only constituted part of the aid provided by those donors that did participate: between 25% and 90%. Budget support was not earmarked and made full use of the national systems – alignment was therefore complete.

Budget support constituted 12% of total aid on average during the period 2005–2008, but it fluctuated strongly. Budget support as a percentage of total aid was high in 2004 (before the joint agreement) and 2006, but slightly lower in 2007 and much lower in 2005 and 2008. In 2005, the amount was lower because Nicaragua for some time did not fulfill several agreements with the IMF, and in 2008 because of the problems with the mayoral elections. In the best years, 2004 and 2006, budget support constituted more than 10% of government expenditure and about 2.5% of gross national product, but in 2008 this was only 1.9% of government expenditure and 0.6% of gross national product. Taken in the long term, budget support as a percentage of total aid was not any higher than programme aid was in the 1990s.

Table 1.1: Dutch bilateral aid to Nicaragua 2000–2011 (in millions of euros)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GBS*	10.5	38.2	7.5	7.3	6.7	9.0	10.0	13.2	6.0			
Sector			2.0	1.1	0.2	2.8	7.1	8.5	12.1	11.8	9.7	6.4
Other bilateral	9.2	9.7	8.1	0.2	2.0	7.5	9.5	5.2	7.5	10.0	10.2	8.5
Total	**19.7**	**47.9**	**17.6**	**8.6**	**9.0**	**19.3**	**26.6**	**26.9**	**25.6**	**21.8**	**19.9**	**14.8**

* *Including debt relief, in particular in 2001.*

Source: Midas, Pyramid; adapted by IOB.

1.5 Ownership and influence

The donors and the Bolaños administration largely agreed on the fundamental principles. But this ownership was limited to the president and a few high-level government officials and did not include the two dominant opposition parties in parliament. There was very little ownership of the performance matrix. The donors wanted to exert influence in all sectors of government policy: macro-economy, public finance management, social policy, production sectors, physical infrastructure and governance. The indicators were often ambitious, sometimes because data were not available every year and sometimes because the level had been set unrealistically high. This changed when Ortega took office in early 2007. His government was much less aligned with the fundamental principles, but it did have much more influence on the performance matrix. According to donors, the targets became less ambitious and therefore more realistic. So there was more government ownership of the matrix, but less ownership of the fundamental principles.

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More than half of the indicators went unmet during the first period, but that was not sufficient reason for the donors to stop payment – nor was the fact that the donors were unable to include indicators for the regional allocation of government expenditure. During this period donors exerted most pressure on issues that donors and the government agreed on, but not the parliament and other state institutions. In 2005, the parliament refused to pass certain laws that, according to the IMF, were necessary to guarantee stability in the medium to long term, and as a result the programme went 'off track'. The donors decided to suspend the budget support that had just been agreed on. This joint pressure ultimately resulted in the laws being passed, but they were sometimes unconstitutional and not all were implemented. Other issues that prompted donors to threaten to stop disbursing were the demands that the Audit Office would conduct an external audit of the budget and that a bye-law be drafted for the law passed in 2005 about judicial careers.[3] The audits did materialize, though delayed and with additional donor funds, but because the Pact appointed the leaders of the Audit Office, the quality left much to be desired. Moreover, the recommendations were not followed up on. The bye-law was eventually accepted in 2008, but judges were still being politically appointed retroactively in accordance with the Pact, so there was still no independent judiciary.[4]

During the Ortega period, a larger number of the indicators were met, and there was more progress in the area of poverty reduction. But the policy dialogue focused less and less on the performance matrix and more and more on political issues. From 2007 onwards, the donors stopped acting jointly. In late 2006, a law supported by Ortega's Sandinista party was passed that made therapeutic abortion punishable. For Sweden, that was reason enough to stop providing budget support. The Netherlands and other donors continued, but tried to reverse the law by means of the policy dialogue, which did not succeed though. Germany and Finland suspended budget support in 2008 for domestic political reasons. The deteriorating democratic situation in Nicaragua prompted the Netherlands to halve its budget support in 2008, and freeze it in 2009 following the fraudulent mayoral elections. The EC followed suit in 2009. Norway and Switzerland actually wanted to continue, but joined the others. The World Bank and IDB did not consider the fundamental principles to be as important as other donors did and continued providing budget support. IDB doubled its loans to Nicaragua in 2009 in the wake of the economic crisis.

Partly due to the influence of the policy dialogue, some improvements were made to the government's financial management and the planning of government investment. Donors and the recipient agreed on this topic. and many donors, including the Netherlands, provided technical assistance for it. The policy dialogue had little influence on the percentage of the national budget that was allocated to poverty reduction. The latter did increase before 2005, but between 2005 and 2008 it remained pretty constant. There was some formal influence on good governance, but in reality little has changed yet. Democracy, which was already weak in Nicaragua, deteriorated even further when Ortega took power. The policy dialogue was unable to prevent this from happening.

3 Without this bye-law, the 2005 law, itself approved under donor pressure, could not be implemented.
4 RNE Managua, 'Track record light 2010', revised on 16 February 2011.

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1.6 Intermediary effects

General budget support and the policy dialogue that accompanied it brought with it a very heavy schedule of meetings and a great deal of preparatory work for both donors and recipient. Nonetheless, several assumptions make it possible to conclude that the cost per dollar provided with budget support between 2005 and 2008 was lower than with project aid.

As indicated above, the national systems of budget, planning and accountability improved during the time that Nicaragua received budget support, especially during the Bolaños period. Social organisations took advantage of the government's increased transparency and were able to openly voice criticism. The policy dialogue with donors also improved coordination between ministries. Public finance management continued to improve under Ortega, but government transparency worsened. The government's accountability to its people therefore decreased in recent years.

Problems with the policy dialogue meant that budget support was not very predictable in Nicaragua: the amounts transferred in 2005, and also from 2008 onwards, were lower than expected. Predictability within a given year is also important. Donors transferred the agreed upon amounts on schedule only in the year 2006. In 2007, there were delays because new negotiations were necessary with the newly installed administration. All in all, most funds were only transferred in the fourth quarter in all these years. These late and sometimes uncertain transfers made it difficult for the government to actually spend the money.

If we look at the developments in the government's income and expenditure, it is striking that between 2003 and 2008 government expenditure increased sharply, from 16.4% to 19% of the gross national product (GNP). Expenditures peaked in 2003 (high payments on domestic debt), slid back again in 2004 and then remained pretty constant in terms of percentage of GNP, though at a slightly higher level than in 2002. It is difficult to conclude that this higher level is attributable to budget support or debt relief, because the income grew much more than expenditure during the years 2002–2007. The combination of higher income and essentially constant expenditure resulted in the reduction of the deficit. From 2005, the deficit was less than 1% of GNP after donations. Budget support might have contributed to this, but it is more likely that the government planned to have a low deficit regardless of how much budget support was coming in, all the more because of the unpredictability of the transfers and the fact that most contributions were made in the last quarter. Figures also reveal that there was a strong correlation between changes in budget support and the repayment of domestic debt between 2004 and 2008. Therefore, and also because of the unpredictability, the most likely use of budget support was to reduce domestic debt. As a result, budget support contributed to macro-economic stability between 2004 and 2007. The reduction of budget support in 2008 and 2009 caused domestic debt to rise again somewhat in those years, which in turn slightly decreased macro-economic stability.

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1.7 Impact: economic growth and poverty reduction

Budget support may also have contributed – by means of improved government policy or by means of the financial contributions – to economic growth and poverty reduction. Although the Bolaños and Ortega administrations had very different policies for economic growth, the outcomes at an aggregated level are approximately the same. During the Bolaños period (2002–2006), the economy grew an average of 3.3%. The average growth during the years 2007–2010 was slightly lower, especially because of the crisis, which led to a decline of GNP in 2009 of 1.5%. But in 2010 there was recovery again, with 4.5% growth. A growth of about 3% per year (over the entire period) may be positive, but it was not close to being sufficient to substantially reduce poverty.[5]

The different policies towards the social sectors and poverty reduction did lead to different outcomes. The percentage of the population living under the poverty line increased slightly in Nicaragua between 2001 and 2005, despite economic growth during these years. This kind of positive elasticity is highly unusual. On the other hand, poverty decreased between 2005 and 2009. The decline of extreme poverty is especially spectacular, particularly in rural areas (figure 1). The decline of extreme poverty can probably be partly attributed to the Ortega administration's programmes, but perhaps also to the rising price of coffee from 2006 onwards and the social safety net programme that was implemented in 2005 and 2006 and which was continued in an altered form in 2007.

The social indicators clearly improved in the longer term, from 1993 onwards. But between 2001 and 2006 they stagnated somewhat. The infant and child mortality figures only slowly decreased, and there was barely any improvement in access to primary education. The only more recent figures available are from government sources, and they show improvements, for example a strong decline of illiteracy in 2008 as a result of a literacy campaign. But government figures are not very reliable.

All in all, the percentage of expenditures on anti-poverty measures did rise in Nicaragua between 2002 and 2005 thanks to debt relief and conditionality, and it remained at this higher level afterwards. But the effects of this in terms of improving social indicators are disappointing, as the IEG evaluation of two PRSCs between 2004 and 2007 also concludes (Hinds 2010). A major problem is that much of what is registered as social expenditure or even expenditure on anti-poverty measures, still does not reach the poorest groups.

5 The World Bank estimates that a growth of 5.5% a year is needed to reduce extreme poverty by half, one of the Millennium goals.

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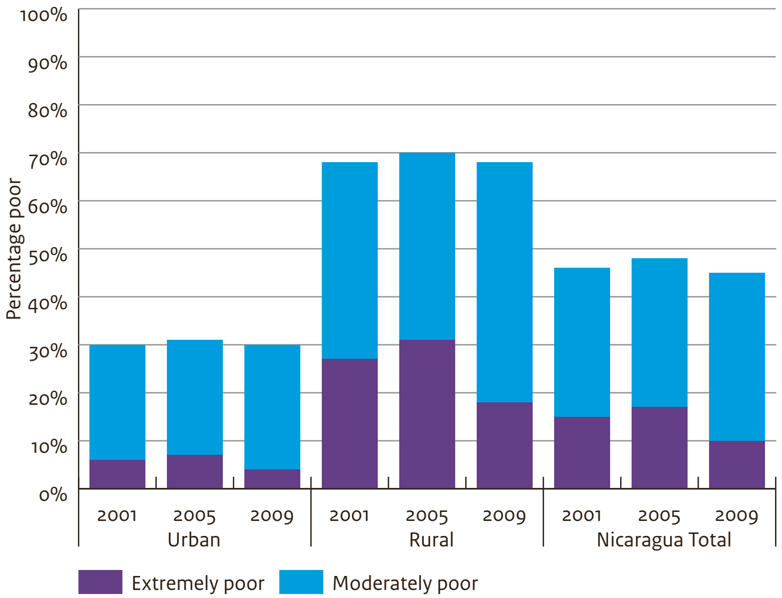
Figure 1.1: *Poverty development in Nicaragua 2001–2009 (in percentage of the population)*



Source: World Bank 2008 and FIDEG 2010: adapted by IOB

1.8 Conclusions

The donors wanted budget support to contribute to more effective aid, but from the beginning they also wanted, in particular, to use the policy dialogue to improve governance in Nicaragua. This was explicitly stated for the Netherlands in its MASP in late 2004. Actually, not all conditions for budget support were met at the beginning, because the Bolaños administration was not interested in fighting poverty. He and the donors agreed on his plans to modernise the state apparatus, but because the president did not have support in parliament, it was not realistic to expect much progress to be made.

The way in which the dialogue was conducted between 2005 and 2009 also shows that the objective of good governance was more important than that of fighting poverty. Most of the pressure exerted on Bolaños during his rule was on issues of good governance and not on making poverty reduction a higher priority, even though there was good reason to do this. During the Ortega administration, which did do more to reduce poverty, attention swiftly switched exclusively to issues such as human rights, democracy and, again, good governance. The problems with the mayoral elections caused most donors to stop budget support, even though it was quite possible to contribute to poverty reduction with this government.

Budget support definitely helped the government improve its financial management, and led to better investment planning, more coordination between ministries and, during the first period, also greater transparency. Social organisations used this transparency to critically monitor the Bolaños administration. But the Ortega administration partially reversed this transparency. Budget support also reduced transaction costs for donors and the recipient and contributed to macro-economic stability. Results in the area of poverty reduction and improved access to social services for the poor were initially disappointing. After 2007, a number of indicators improved, which is in any case partly attributable to the Ortega administration's better poverty reduction policy.

Not much was achieved, apart from the above-mentioned improvement of public finance management, in terms of the objective that was highest on the donors' priority list, namely improving governance. Some laws were passed, but in reality little has changed yet. Donors were unable to undo the deterioration of democracy and human rights under the Ortega administration.

1.9 Bibliography

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Vietnam country case study

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2.1 Introduction

In 2001 the Netherlands started to provide co-financing, for the amount of €6 million, to the World Bank's Poverty Reduction Support Credit (PRSC). In total, €82 million of budget support was granted this way between 2001 and 2008, which constituted 38% of overall Dutch ODA in those years. The annual amount was usually €8 million, with a peak in 2006 of €24 million. In 2007, the Netherlands halved this to €12 million. This was the result of the new minister's response to a report by the anti-corruption 'Task Force', which proposed tougher policy on corruption-related aspects of governance (see chapter 3). The 2008–2011 MASP announced that general budget support would be gradually cut back. Not meeting the conditions for 'good governance' played a part in this, but so did the fact that the Netherlands – a small donor – could only have limited influence on policy anyway. In 2008, the Netherlands gave €6 million, and it had intended to give another €3 million in 2009, but ultimately that never happened. This was due to higher expenditures than planned in areas such as drinking water, the environment and anti-corruption; moreover, overall ODA resources decreased because Vietnam was becoming a middle-income country, and the relationship with that country was broadening to other sectors as well. Other donors did continue to support the World Bank's PRSCs.[6]

2.2 Context

Vietnam has advanced in the past 30 years from being one of the world's poorest countries to a middle-income country. This rapid growth went hand in hand with an equally rapid reduction of poverty, from 58% of the population in 1993 to 37% in 1998, for example (Grawe 2010). This striking growth really took off after a first round of liberalisation in the agricultural sector in 1979 and after reforms were expanded and consolidated in the 1986 Doi Moi programme. The reform process slowed down in the 1990s. There are still many state enterprises today, and the commercial banks are owned by the state as well.

Little has changed politically. Vietnam is a one-party state, and the communist party is an important power broker, as is the army and other official state organs, such as ministers and parliament. Decision making in Vietnam is quite diffuse. Consultation takes place with many different organs. Consensus is sought, but often it is not clear who makes the decisions in the end (Van Donge and White 1999; Bartholomew and Lister 2005). As a result, there is no public accountability, and it is difficult for donors to determine with whom they have to conduct a political or policy dialogue.

The influence of aid or the policy dialogue on economic reform was limited. After Vietnam invaded Cambodia in 1978, most western donors left the country, after which it mainly received aid from the Soviet Union, Sweden and UNDP. After a low point in the early 1990s, western aid was again mobilised in 1994 after the United States embargo was lifted (Van Donge and White 1999). But aid (ODA) constituted only 4% of the net

6 Vietnam Royal Netherlands Embassy, Annual Report 2009.

national income between 1994 and 2003, and only 12% of government expenditure in 2001 (Bartholomew et al. 2006).

Vietnam indicators (2010)

Inhabitants (in millions)	87
National income (in US$ billions)	106.4
Economic growth (%)*	7.0
Government expenditure (% GDP)	32
Budget support as % of total aid*	10
Income per capita (US$)	1,100
Poverty percentage**	15
Rural poverty**	19
Life expectancy (year, at birth)	75
Population growth (%, per year)	1.1
Literacy rate (%) (2005)	93
Ranking on development index (countries, 2011)	128

** 2001–2006 average per year*

*** 2008*

Although IMF and the World Bank were already in the country from 1989 onwards, providing policy advice, the first loans from these institutions were only granted in 1993. The IMF launched a Standby programme to be followed a year later by an Enhanced Structural Adjustment Facility (ESAF). In 1994 the World Bank launched a two-year structural adjustment credit (SAC). The Asian Development Bank (ADB) gave sector balance of payments support from 1995 onwards for the agriculture and financial sectors. The ESAF went off track in 1997 (Van Donge and White, 1999), which for a long time prevented the World Bank from negotiating a new SAC. In 2001, Vietnam wrote an interim PRSP and concluded a PRGF programme with IMF. The World Bank decided then to convert the SAC, which was already being prepared, into a PRSC.

2.3 Motives, expectations and selection criteria

The previous SAC and ESAF loans were not prompted by high balance of payments deficits or high foreign debt, but they were intended to encourage policy reform. Vietnam was to continue its transition to a market economy, and donors believed that much still needed to be done, particularly in the areas of trade, state enterprises and commercial banks. In practice only some progress was made in terms of trade liberalisation during the 1990s. The PRSCs were also meant to encourage reforms, but they had a more flexible design.[7] Not meeting a single condition would no longer be cause to stop payment, nor were the PRSCs linked to the IMF's PRGF. The PRGF already went off track in 2002, and it was completely terminated in 2004. The reason for this was the refusal by the Vietnamese government to allow an audit of its foreign reserves (Bartholomew et al. 2006, p. 56). Macro-economically speaking, the country did not need an IMF programme.

[7] When Vietnam did not meet 7 of the 33 policy actions for PRSC 2, a discussion flared up in the Bank, and the outcome was that from now on it would look at the reform programme in a more holistic way (Grawe 2010).

For other (bilateral) donors, such as the Netherlands, an important motive for budget support was making aid more effective by using national systems and reducing the fragmentation of aid. Another motive was the ability to participate in the policy dialogue with the government in order to stimulate reforms, which was difficult to do through projects (Bartholomew et al. 2006, p. 26). It is not entirely clear why donors opted for co-financing with the World Bank, rather than setting up a new system for budget support that the WB could participate in. The reason was probably that it is not easy in Vietnam to set up a policy dialogue with the government. By joining the World Bank on this, bilateral donors could join discussions in areas in which they had an interest or had built up expertise (Bartholomew et al. 2006, p. 16).

Vietnam only met some of the conditions that most donors had set for budget support (Bartholomew et al. 2006). The country had a very good track record in the area of macro-economic policy, with a small budget deficit and a low foreign debt. Economic growth was high, and the country had proven it could reduce poverty. Apparently the government was also interested in budget support, seeing as it had written an interim PRSP. In 2002, donors approved the Comprehensive Poverty Reduction and Growth Strategy. The prospects for public financel management were bleak. The first government budget was published in 1999 (Bartholomew and Lister 2005, p. 427). In 2001, the budget only took up a single piece of A4 paper, and there was little transparency in the whole budget process (Grawe 2010). In 2005, the World Bank still wrote that Vietnam 'lacks the fiduciary standards and strategic direction' to allow budget support to increase.[8] The government did, however, show good will by letting Public Expenditure Reviews take place in 1996 and 2000, as well as a Country Financial Accountability Assessment in 2001 and a Country Procurement Accountability Assessment in 2002. In the eyes of the donors, progress had been made through a number of technical assistance programmes, and the risks were now acceptable. And finally, as far as governance was concerned, Vietnam scored below average on the Country Policy and Institutional Assessment (CPIA) in 2001–2003. This was mainly the result of a lack of democracy and not respecting human rights, such as freedom of expression. There was some improvement in transparency and participation through the decentralisation of administrative powers to local and provincial authorities (Bartholomew et al. 2006).

According to the Dutch track record, Vietnam had an unsatisfactory score (C) in cluster C, governance, from the beginning. Vietnam only received a B for transparency, but in other components of this cluster it scored a C. This did not prevent budget support from being granted. Vietnam still received a C (unsatisfactory) for governance in 2005 and 2006, when it had a much more extensive track record. This is not surprising, in light of the fact that the country had not really changed in terms of human rights and democracy. In 2007, this unsatisfactory mark was sufficient reason to reduce budget support for the first time.

[8] The World Bank, *Vietnam Development Report 2005: Governance, Joint Report of the Government-Donor-NGO Working Group, Consultative Group Meeting for Vietnam*, December 2005. Cited in Bartholomew and Lister 2005, p. 428.

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2.4 Implementation

The Netherlands was, together with Denmark, the United Kingdom and Sweden, one of the first co-financers. Sweden withdrew in 2002 because funds were being misused in another country, but returned in 2004 for PRSC 3. From PRSC 2 onwards, the Asian Development Bank, the European Commission, Canada and Japan also joined, and in 2004 Sweden returned and France, Ireland and Spain were added to the list as well. All in all, there were 11 co-financers (Bartholomew et al. 2006). Australia and Germany joined for PRSC 5, and by 2008 for PRSC 7 the total number of co-financers was 14 (Grawe 2010). The co-financers' joint contribution through the years was always slightly lower than the World Bank's contribution.

Only the World Bank negotiated on the policy matrix for PRSC 1, but the co-financers froze their contributions for six months in order to exert pressure on Vietnam to honour the conditions (Bartholomew et al. 2006, p. 38). The other donors were able to join the discussion from PRSC 2 onwards in 2003, and an annual cycle was introduced. The performance assessment matrix was set up in year t-1 and was divided into policy actions and outcomes. Part of the policy actions were triggers that had to be implemented before transfers took place in year n. But the donors were flexible about this. The World Bank coordinated the negotiations on behalf of the donors. The donors took part in working groups exploring issues or sectors based on their expertise and interests, and they also negotiated on actions and triggers. Donors who had not yet decided about contributing were invited to join the discussions, but donors who had definitely decided not to contribute, such as IMF and UNDP, were excluded (Bartholomew et al. 2006, pp. 16, 51). This did become possible later (Grawe 2010). The Ministry of Planning and Investment (MPI) was initially the coordinating institution in Vietnam (Bartholomew et al. 2006), but later it was the state bank (Grawe 2010, p. 10). The annual PRSC cycle dovetailed well with the planning and budgetary cycle in Vietnam, and the flexible employment of the actions in the matrix led the discussion about the PRSC to be integrated into the Vietnamese decision-making processes (Grawe 2010).

The PRSC funds gradually increased until 2006 to about 10% of total aid to Vietnam, and the percentage rose slightly more afterwards, to between 10 and 15 percent (Grawe 2010, p. 14). This means project aid still dominated, and almost all project aid went outside the government budget.[9] There was no sector budget support at all in Vietnam, though there were attempts to set up sector programmes in education and water, for example. But donors did not have enough confidence in sector budgets or in the institutional structure of a given sector to transfer freely disposable funds.[10]

9 According to Bartholomew et al. (2006). Grawe (2010) cites 2%–3%, but Dodd et al. (2010, p. 8) write about between 1.1% and 1.9% between 2001 and 2007.

10 Dutch documents often mention preparations for sector budget support, but this does not actually lead to it being implemented. The 2008–2011 MYSP, for example, states that the sector-wide programmes turned out to be difficult in Vietnam because of restrictive regulations and because donors were too keen to have a sector-wide programme in the water sector, as the ‘ setting’ was not ready for this yet.

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PRSC 1 was actually a structural adjustment credit, with actions for the PRSP's first pillar only, strengthening the market economy. On request of the co-financers, who wanted the PRSC to focus more on poverty, PRSC 2 also contained actions for the 2nd (social sectors) and 3rd (modern governance) pillars of the Plan, in particular for education, health care, natural resources, the environment and legal system reforms (Grawe 2010, p. 5). In PRSC 3, actions were introduced for infrastructure, water and other governance issues, but the economic policy actions were still in the majority. The number of sectors for which actions had been defined increased to 17 in the 4th and 5th PRSCs, and that number has remained constant. For each of the 17 policy areas, there are both policy actions and outcomes, but often actions are not the only cause of change in results, and so attribution is a problem.

Table 2.1: Dutch bilateral aid to Vietnam 2000–2011 (in millions of euros)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GBS		5.7	9.5	8.0	8.0	8.0	24.0	12.0	6.0			
Sector	0.8	1.1	0.6	0.0	4.0	7.4	2.0	6.0	6.1	14.4	7.7	9.3
Other bilateral	12.3	12.2	15.2	14.4	14.2	15.4	13.5	11.8	9.2	12.4	8.8	4.4
Total	**13.1**	**19.0**	**25.3**	**22.4**	**26.2**	**30.8**	**39.5**	**29.8**	**21.3**	**26.8**	**16.5**	**13.7**

Source: Midas, Pyramid; adapted by IOB.

2.5 Ownership and influence

In principal, Vietnamese development plans were the basis for the actions and indicators included in the performance assessment matrix. For the first five PRSCs, however, these would not be the Vietnamese five- or ten-year plans, but a parallel PRSP specially written for the donors. In 2006, the donors approved the Socio-economic Five-year Plan (2006–2010) as PRSP, and the PRSCs were based on that (Grawe 2010). Each year, the World Bank and other donors initially approached the government to find out whether it still intended to follow through with the policy that was put on paper, and then donors proposed, under leadership of the World Bank, triggers and actions for the different policy areas (Bartholomew et al. 2006). They were then discussed with the Vietnamese government. Negotiation on economic reforms was conducted at a high government level, but the sector working groups usually talked with low-level government officials. This diminished the influence of the donors. But even when negotiations took place with high-level government officials, it was not clear whether they were really in charge. It was with PRSC 6, for which the Vietnamese Five-year Plan served as a guideline, that line ministries got more involved in formulating policy actions. But the PRSC instrument could not generate consensus among the government and donors if it did not already exist (Grawe 2010). And when Vietnam, on further consideration, decided not to implement certain triggers, which is what happened in health care, that did not have consequences for the transfers (Dodd et al. 2010).

A Japanese evaluation concluded that donors did not provide motivation for reforms, but they did help design a path for concretely achieving reforms (Shimamura and Wada 2008). In the same vein, Bartholomew et al. (2006) wrote that, at most, donors had some influence on the *how* of the reforms, not on the *what*. They suggested that the World Bank probably was able to exert some influence behind the scenes. For example, triggers were developed about WTO membership (2003), anti-corruption (2004) and bank reforms (2005). But the latter had little chance of succeeding since the party had not yet approved such reforms in 2005. There was also little progress in the area of privatisation of state enterprises, and the reform programme supported by UNDP and other donors for reforming the state apparatus was also moving slowly (Public Administration Reform, PAR).[11]

Furthermore, triggers and other actions are often related to approving laws and regulations, but they are frequently of poor quality, vague and conflicting, and are interpreted differently in the provinces and municipalities (Bartholomew et al. 2006, p. 50). So it is unclear to what extent they really lead to change.

2.6 Intermediary effects

The transaction costs of the PRSC process are high for donors *and* the government, but they are lower than with projects. Projects often have parallel systems and procedures for budgeting, implementation and reporting (Bartholomew et al. 2006). The predictability of the World Bank's funds is good. But in the beginning, some co-financers were late in saying what they would transfer, as a result of which their contributions could not be included in the budget; or they paid too late, which meant the Ministry of Finance had to borrow (Bartholomew et al. 2006). The Ministry of Finance complained later as well that the co-financers' varying payment schemes led to some inconvenience (Grawe 2010, p. 13).

The policy dialogue on the PRSCs led to better coordination within the Vietnamese government, and between central government and sector ministries (Bartholomew et al. 2006, pp. 30-31). The coordination between ministries clearly improved as the PRSC process unfolded (Grawe 2010, p. 10). The policy dialogue also sharpened the focus on the role of budgets in policy implementation (Grawe 2010, p. 40).

The PRSCs encouraged the reform of public finance management (PFM), and of the public sector generally, partly by technical assistance programmes, such as a multi-donor trust fund for technical assistance to the Ministry of Finance, and partly by policy actions and triggers. But it did not happen quickly. All PRSCs emphasised more transparency in budgets, and transparency did increase. But for a long time, the budgets of the Ministry of Planning and Investments and the Ministry of Finance remained separate, as a result of which there was no alignment between capital expenditure and current expenses. This integration only took place in 2005 (Grawe 2010). Gradually the Ministry of Finance's other information

11 The Netherlands financed these reforms through the Ministry of Agriculture and Rural Development, but withdrew in 2009 because little progress had been made. The 2010 annual report acknowledges that this was not realistic 'given the complexity of this ministry and the vested interests'.

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systems improved as well, and in 2005 medium-term expenditure frameworks were set up, by way of a test, in four ministries and four provinces. This was slowly expanded in PRSCs 7–10. An independent audit office was also established in 2005. There are still major differences between budget and expenditures; a great deal of the expenditures remains outside the budget, and this is also true of revenues (Grawe 2010, pp. 25-26). Of the 12 indicators in the area of PFM, 7 show an improvement, 3 give a mixed picture, 1 shows no progress and 1 suggests the situation has worsened (Grawe 2010, p. 24).

The PRSCs do not contain any macro-economic policy actions or indicators, except that Vietnam has to maintain macro-economic stability. But Vietnam wanted that for itself, so the policy dialogue on budget support had no influence on this. The budget deficit was around 3% of GNP since 2000 (Bartholomew et al. 2006). Government income between 2001 and 2007 rose by 2 percentage points of GNP; half of this was attributable to oil income, and the other half to additional tax revenue (Grawe 2010, p. 25). Therefore, there is no evidence of budget support leading to lower tax revenue.

2.7 Impact: economic growth and poverty reduction

Budget support accounted for only 2%–3% of government expenditure. Total aid accounted for only 12% of government expenditure in 2001 (Bartholomew et al. 2006, p. 13), and this percentage declined as time went on. The results in terms of growth and poverty reduction are impressive. Annual GNP growth was 7.5% on average between 2001 and 2006 (Grawe 2010, p. 31). Inflation was initially below 5% but increased to 8% in 2006 and was slightly higher in 2007. However, economic growth was primarily driven by increased exports and foreign investment.

In the policy dialogue, the World Bank and other donors continuously emphasised reforms related to a free market economy, especially in the areas of trade liberalisation and the liberalisation of the banking sector. The Vietnamese government was especially keen on better integration into the global economy (Shimamura and Wada 2008). Results were achieved in this area with Vietnam's entry into the World Trade Organization in 2007. There was less political will in other areas. Nonetheless, the number of state enterprises declined by 40% between 2001 and 2005, and in 2004 foreign banks were admitted so that now there is more competition in the financial sector. In 2005, the party approved, in principle, further bank reforms (Grawe 2010, pp. 30-31). The share of the private sector has clearly grown, as indicators for employment and exports show, for example (table 2.2). Economic growth was probably stimulated by this further transition to a market economy.

Table 2.2: Vietnam: progress in transition to market economy		
	2001	2005
Investment (% of GNP)		35
Private investment (% of GNP)		18
Share of state enterprises in lending (%)	42	32
Jobs in private sector (millions)	1.3	4
Export, in % of GNP		61
Share private exports in non-oil exports (%)	44	77

Source: Grawe 2010, pp. 30-31.

The policy dialogue for the social sectors, education and health care focused on more spending, improving access to services, particularly for the poorest groups and ethnic minorities, and improving quality. From 2005 onwards, there were also indicators to support the programme for HIV/AIDS prevention and relief. The dialogue on water was mostly aimed at improving institutional accountability and designing a strategy for the sector. But the policy actions for this were not achieved on several occasions. The policy dialogue in the education sector was fairly effective because there was a great deal of agreement among donors and with the government, and also because the government was clearly efficiently organised. Donors were less in agreement when it came to the health care sector, and there was less agreement between donors and the government in the water sector. In the latter the division of tasks and authority were also less clear.

The percentage of expenditures on poverty reduction measures between 1997 and 2004 increased, but this trend already existed, and according Bartholomew et al. (2006) the PRSCs had no influence on this. The expenditures on education as a percentage of total expenditures between 2001 and 2005 increased more than indicated in the policy action of the PRSC, namely from 15.5% to 18.8%, while the indicator was 17.1%. Social expenditures increased from 43.3 % to 50% of the total between 2001 and 2005 (Grawe 2010, p. 25). According to Grawe (2010), the PRSCs did have some influence on the rise in spending on the social sectors and on the increased focus on poverty in the budget.

Table 2.3 shows that income poverty continued to decrease in Vietnam. Infant and child mortality also decreased, and access to water, sanitation and electricity improved. But income poverty mainly decreased because of rapid economic growth. The improvements in the health care and water and sanitation sectors, however, could not be attributed to the PRSCs in these areas, because they were not very successful. But the spectacular rise in enrolment in primary and lower secondary education is partly attributable to the (PRSCs): through higher expenditures on education, the coordinated support of the 'Education for All' initiative and programmes to improve the quality of education (Grawe 2010).

Table 2.3: Social indicators in Vietnam			
	1998	2002	2004
Income poverty (% of population)	37	29	20
Food poverty (% of population)		11	7
Food poverty with ethnic minorities (%)		69	61
Access to drinking water (%)		76	79
Access to sanitation (%)		25	32
Access to electricity, rural households (%)		77	88
Enrolment in primary education (%)	88	90	95*
Enrolment in lower secondary education (%)	62	72	90*
5th graders who cannot read well (%)		11	10*
Infant mortality (0/00)	37	31	18*
Child mortality (0/00)	48	38	24*

* 2005

Source: Grawe 2010, pp. 37, 38 and 43.

2.8 Conclusions

Economic growth has been high since Vietnam began to receive budget support through PRSCs, and progress in income poverty and the social indicators has remained spectacular. The financial contribution of budget support to these good results is marginal, but the policy dialogue has had some influence. The PRSCs have contributed to improvements in public financial management, to better coordination within the government and to a sharper focus on poverty reduction in the national budget. The latter in particular has increased enrolment in primary education. The policy dialogue on budget support also supported Vietnam's transition to a market economy. Donors certainly did not set the agenda in Vietnam, but sometimes they did influence *the way in which* the intended policy changes were implemented. The policy dialogue and the PRSC matrix also helped sometimes to keep the reforms Vietnam wanted on schedule. The high degree of ownership of formulated policy actions and triggers, on the one hand, and the flexible responses to Vietnam's not having met these actions (yet), on the other hand, certainly contributed to the possibility of exerting influence.

Although the World Bank was the most influential of the donors, the co-financers and even other donors were able to benefit from their participation in the policy dialogue. They were given access to deliberations, structured by sector, between donors and the Vietnamese government in the sectors that they had expertise in or had project interests in.

The PRSC process thereby contributes to donor coordination and to the effort to avoid parallel structures and aid fragmentation. A DFID country evaluation from 2007 confirmed that budget support is an efficient modality of aid in a country such as Vietnam, which has high economic growth and rapidly expanding services for the poor (Clarke et al. 2007). On the other hand, this evaluation concluded that sector support has a higher yield in terms of policy innovation and institutional reform, but at a higher cost in terms of the staff needed. According to Hansen and Tarp (2004), budget support not only contributed, through the PRSC, to improving the budgetary process and budget implementation, but the access to information and to the policy dialogue for a donor such as Denmark has had a positive impact on the quality of the rest of the aid portfolio.

From the beginning, Vietnam did not meet the conditions in the areas of human rights and democracy. Nor did donors succeed in improving human rights or democracy. In that respect, the World Bank's vision and priorities were dominant, and other donors adapted to this.

The Netherlands decided to cut back on budget support to Vietnam in 2007. This was clearly the consequence of changing insights in the Netherlands (see chapter 3) and not changes in Vietnam. Another reason was that the Netherlands, as a small donor, could only have marginal influence on policy anyway; that is why the Netherlands would from now on participate in the policy dialogue through the European Commission.[12] Strictly speaking, it is true that the Netherlands has little influence, but in light of the above-mentioned conclusions, the Netherlands' withdrawal from the PRSC process has had consequences for the effectiveness and efficiency of aid to Vietnam in general and also for the quality of other aid from the Netherlands.

[12] RNE 2007, 2008–2011 Multi-Annual Strategic Plan.

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3

Mali country case study

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3.1 Introduction

The Netherlands has been delivering macro-support to Mail since the 1980s. For a long time this was in the form of import support. The primary objective of budget support, as the ministry called it from the mid-1990s, was initially to reduce the government's budget deficit. A more modern form of this modality, actually only dates from 2006. That year, the government and seven donors (EC, WB, AfDB, the Netherlands, Sweden, Canada and France) signed the *accord cadre*, a framework agreement for budget support to that country. This framework was the basis for the 2007 *arrangement spécifique*, an agreement for multi-year and result-oriented macro-support. That year, the Malian government and donors also agreed on a joint development strategy, the *Strategie commune d'assistance pays* (SCAP).

Budget support has taken on an important role through the years in financing Mali's public finances. In total, the government received approximately €966 million in budget support between 2003 and 2009. The share of the modality increased from 12% of the bilateral aid in 1999 to 42% in 2009 (Lawson et al. 2011).

In 2011, ten donors provided general and/or sector budget support. The Netherlands is one of the largest bilateral donors in Mali, and until recently also one of the main proponents of budget support for that country. The Netherlands provides both general budget support and sector budget support to the education and health care sectors.

3.2 Context

Mali is one of the poorest countries in the world, and as such it depends strongly on foreign aid. The northern part of the country is partly situated in the Sahara and partly in the Sahel and has a desert climate. Agriculture is essentially only possible in the south-west, though long periods of drought can also adversely affect crops there.

Mali gained independence in 1960.[13] The country's first president, Modibo Keita, resisted the west, introduced a Malian currency and made overtures to socialist countries. Keita was not capable of generating economic growth, however. In 1968, the *Comité Militaire de Libération Nationale* (CMLN) staged a coup, led by Moussa Traoré. He introduced a one-party state in 1974, in which the only legitimate political party was his *Union Démocratique du Peuple Malien* (UDPM). The elections in 1979 heralded the formal end of the military dictatorship, but in effect the UDPM continued to rule politics.

13 Immediately after independence, Mali created a federation with Senegal. After several months, both countries continued life separately.

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The resistance against the lack of political freedom grew slowly but surely. In 1990, a rebellion broke out in the north of country led by the *Mouvement Populaire pour la Libération de l'Azawad* (MPLA) who sought more autonomy for the Tuareg. The rebellion became a catalyst for demonstrations and strikes in Bamako in 1991, which Traoré violently suppressed. In response, Colonel Amadou Toumani Touré deposed the sitting president and formed a transitional government with the *Comité Transitoire pour le Salut du Peup*le (CTSP).

Mali indicators (2010)	
Inhabitants (in millions)	15
National income (in US$ billions)	9.3
Economic growth (%)*	4.7
Government expenditure (% GDP)	23
Budget support grants (in EUR millions)*	125
Budget support loans (in EUR millions)*	47
Budget support as % of bilateral aid**	42
Income per capita (US$)	600
Poverty percentage	44
Rural poverty	51
Life expectancy (year, at birth)	49
Population growth (%, per year)	3.6
Literacy rate (%) (2005)	26
Ranking on development index (countries, 2011)	175

** 2006–2010 average per year*

*** 2009*

The first free elections in the country were held in 1992, in which Alpha Oumar Konaré, leader of the *ADEMA-PASJ* party, was elected president. The Tuareg received more autonomy that year too, but conflict in the north continued until 1996. Konaré was re-elected in 1997, after heavily contested elections. The independent Amadou Toumani Touré, who in 1991 had ensured the transition to democracy, took power in 2002. The president played an important role in the further advancement of democracy in Mali, in part also because he favoured consensus and far-reaching decentralisation, in which municipalities received substantial influence on the spending of local tax revenue. Touré was re-elected in April 2007. The problems in the north persisted, however. The central government has little influence in the north, where Tuareg rebels, the North African branch of Al-Qaida (AQIM) and the international drug trade, create an unsafe environment. After the civil war in Libya ended, large groups of heavily armed Tuareg warriors returned to the north of Mali, which increased insecurity in the region and caused tourism to decline sharply.

On 21 March 2012, a month before the elections, a group of military officers with the name *Comité national pour le redressement de la démocratie et la restauration de l'Etat* (CNRDR) staged a coup led by captain Amadou Sanago, who argued that the president had given the army insufficient resources to fight the Tuareg rebels. In late April, the country formed a transition government with head of parliament Dioncounda Traoré as interim president, which led the country into calmer waters again. The transition government's *Feuille de Route* is focusing on holding elections and regaining the northern part of the country.

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Economic development
Economic growth until 1995 was barely sufficient to absorb the effects of population growth. The living circumstances among most Malians barely improved. The causes included both the failing economic policy and the economy's fragility, which depended strongly on weather conditions and the price of a limited number of export products. After democracy was restored in 1992, the government launched a reform programme aimed at driving back the government's role in the economy, curtailing government, improving the way the public sector functions (through decentralisation, for example) and improving health care, education and rural and agricultural development.

Despite a fairly unfavourable business climate, Mali has enjoyed considerable economic growth and stable macro-economic development since the mid-1990s. After returning to the CFA franc in 1994, exports became more competitive. In 1997, the government implemented a reform programme under pressure from the IMF that helped to attract foreign investment and diversify the economy. In the first decade of this century, Mali achieved economic growth of 5.6% a year. High population growth, however, meant that this was considerably lower per capita, namely an average of 2.4% a year. Services and mining in particular became the most significant growth sectors. Mali is the third-largest producer of gold in Africa, and in 2010 the export of gold, thanks to its high price, constituted 67% of the country's exports (cotton constituted another 9%). Agriculture lagged behind until 2007, but in recent years it has been clawing its way back, largely thanks to increased rice production.

In 1998, Mail qualified for US$220 million worth of debt relief under the *Heavily Indebted Poor Countries Initiative*. Mali reached the HIPC *completion point* for this in 2000. The country also qualified for a further US$650 million of debt relief under the *Enhanced HIPC Initiative*, for which it reached the completion point in 2003. In 2006, Mali received further debt relief in the framework of the *Multilateral Debt Relief Initiative* (MDRI), as a result of which the total debt decreased from 67% of GDP to 27% of GDP.

3.3 Motives, expectations and selection criteria

General budget support for Mali emanated mainly from other forms of macro-support, including balance of payments support and debt relief. Macro-support was thus an important part of the Dutch bilateral cooperation programme with Mali in 1994. This support was primarily aimed at reducing the government deficit and improving the balance of payments. Macro-economic stability and reducing the government deficit remained key objectives as well when the Netherlands started to provide budget support after the turn of the century.[14] Related to this was the desire among donors to reform the Malian cotton parastatal, the deficits of which had to be constantly replenished from the government budget. Although some donors, including the Netherlands, wanted to use budget support as an instrument to generate alignment and strengthen the political dialogue,

14 See, for example, the various evaluation memorandums for granting budget support.

the initiatives that were initially developed for this purpose were not very successful. The Malian government and other donors, especially the financial institutions (i.e. IMF and the World Bank), were not able to see the good of bilateral donors 'pulling up a chair.' According to the Dutch embassy, the World Bank and IMF restricted their dialogue to macro-economic issues, while neglecting the attention for the poverty impact of macro-economic development and interventions. The Netherlands was a great proponent of alignment and joint dialogue, but stood pretty much alone in this endeavour.

Uncertainty began to rear its head among donors around the turn of the century regarding the reform policy of the Malian government. The fiasco of the 1997 elections led to major political unrest, which was further exacerbated by the sluggish pace of reforms in the textile, energy, banking and telecommunication sectors. When reforms in the cotton sector reached a deadlock in 2002, the Netherlands decided to switch from direct budget support to co-financing of the World Bank's adjustment programme. The World Bank and IMF continued to support the government, albeit with increasing trepidation. After the elections in 2002, the government seemed more willing to accept reforms, but it only had a limited capacity to implement them. Corruption was on the rise, and measures to fight it were essentially cosmetic. Good intentions, though, were enough reason for the financial institutions to re-adjust their evaluation (including the CPIA scores) in a positive sense.

The Netherlands was way ahead of the game with the objectives of achieving donor harmonisation and alignment, though it must have been disappointing that new insights were so slow to penetrate the consciousness of other donors, not to mention the Malian government. The Dutch embassy was convinced of its progressive and innovative approach. But the Dutch embassy unfortunately lost sight somewhat of the conditions for general budget support. Institutional capacity in particular still fell short. The government also showed too little ownership so far for the necessary reforms and fight against corruption, and on top of it showed little incentive to engage in a joint policy dialogue.

At times, the Dutch embassy had high expectations of the policy dialogue. For example, the track record of the 2010 Annual Report concluded that positive developments in Mali were under threat from a number of risks, including a further slowing down of reforms, diminishing state power, increasing violence and unrest in the north, rising corruption and strong population growth, which meant that economic growth was not reducing poverty to the extent that it should. The embassy responded to this by saying that it was necessary to strengthen the political dialogue and budget support:

'To limit the above risks, the common political dialogue between the TFPs and the Government, while also relying on civil society organizations, must be reinforced. General and sector budget support must also be pursued because they bring forth a productive dialogue with the Government. A suspension of budget support could bring about a break in dialogue and have negative consequences. Many examples throughout the world demonstrate that governments rarely react positively to coercion and that, on the other hand, a serious and strict dialogue has more chances of creating the desired outcomes.' (Track Record 2011, pp. 11-12).

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3.4 Implementation

The importance of budget support increased significantly between 1999 and 2009, having quadrupled. During this period, Mali received almost one billion euros in budget support (Lawson et al. 2011). While this modality constituted 12% of ODA in 1999, it increased to 42% by 2009. The percentage of budget support that financed public expenditure increased from 5% in 2004 to more than 13% in 2009. Between 2003 and 2009, 64% of the available macro-support was in the form of general budget support. Education received 24% directly, health 5%, and 7% was available for decentralisation.[15]

Table 3.1: Budget support to Mali (2003–2010)

	2003	2004	2005	2006	2007	2008	2009	2010
In millions of euros:								
GBS	132.0	50.8	95.4	125.2	74.4	82.3	135.7	135.8
SBS				60.3	66.6	76.4	67.0	32.9
Total	**132.0**	**50.8**	**95.4**	**185.5**	**141.0**	**158.7**	**202.7**	**168.8**
As % of total bilateral aid:								
GBS	41%	18%	27%	23%	18%	23%	28%	
SBS				11%	16%	2%	14%	
Total	**41%**	**18%**	**27%**	**34%**	**34%**	**25%**	**42%**	
As % of public expenditure:								
GBS	15%	5%	9%	10%	6%	7%	9%	
SBS				5%	5%	6%	4%	
Total	**15%**	**5%**	**9%**	**15%**	**11%**	**13%**	**13%**	

Source: Lawson et al. 2011, p. 20. Data 2010 IMF (2012) and Ministère de l'Economie et des Financés (2010).

In 2006, the government and donors began to develop a structure for a joint policy dialogue, in which the annual reviews for general budget support and sector budget support were an important benchmark. In addition, technical assistance was also part of the budget support instrument.

The *Cadre Stratégique pour la Croissance et la Reduction de la Pauvreté*, Mali's second PRSP for the period 2007–2011, was the foundation for a multi-year agreement for the period 2007–2009.[16] The agreement made budget support disbursements dependent on the following:
- the macro-economic policy, an indicator of which is a positive assessment by the IMF;

[15] Strictly speaking, this does not exclusively concern sector budget support, because this form only gained currency in 2006. The consultants also considered Dutch and Swedish aid to the education sector between 2003 and 2005 as sector budget support.

[16] Budget support was provided on an annual basis until 2007. In that year, the Netherlands and Mali signed a multi-year agreement for the first time to cover the period 2007–2009.

- implementation of the PRSP according to the MTEF;
- improvement of government financing by implementing the *Plan d'Action Gouverrnemental d'Amelioration et de Modernisation de la Gestion des Finances Publiques*; and
- reform in the cotton sector.

Progress was measured on the basis of the assessment framework, the *Matrice Commune des Déclencheurs*. The following were key elements for the Netherlands:
1 promotion of good governance, including tackling fraud and mismanagement;
2 progress in the fiscal and administrative decentralisation process; and
3 guaranteeing macro-economic stability.
Serious agreements, however, were only made about macro-economic policy, with the IMF agreement as the basis for disbursements.

The Netherlands has granted macro-support (import support) in the amount of €6 million a year since 1994. This macro-support, regarded as budget support since 1994, increased to €12 million in 1998 while project aid simultaneously decreased (IOB 1999, p. 27). Since the late 1990s, Dutch budget support to Mali has been fairly consistent over the years.[17]

Table 3.2: Dutch bilateral aid to Mali 2000–2011 (in millions of euros)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GBS	27.2	9.1	9.5	8.1	10.0	10.0	10.0	10.0	12.0	12.0	13.0	15.0
Debt relief									2.0	2.0	2.0	2.0
SBS/Basket	3.3	5.5	10.1	10.3	16.6	20.1	28.1	28.0	32.0	33.8	21.7	19.3
Other	16.3	14.0	8.5	8.1	8.4	9.9	11.4	8.7	8.2	7.7	6.1	6.4
Total	**46.8**	**28.5**	**28.2**	**26.5**	**35.0**	**40.1**	**49.5**	**46.7**	**54.2**	**55.5**	**42.7**	**42.7**

Source: Midas, Pyramid; adapted by IOB.

In 2002, the Netherlands converted its direct budget support into co-financing of the World Bank's Structural Adjustment Credit (SAC) III. This was prompted by increasing uncertainty about the quality of management of government funds and the delay in economic reforms, especially the slow pace of reforms in the privatisation of the cotton sector. In 2004, the Netherlands went back to providing direct budget support on an annual basis. On the one hand, the World Bank programme had ended, and, on the other hand, the Netherlands and other bilateral donors reached an agreement in 2004 with the Malian government about a reform programme for the cotton sector. This meant there was no need any more to co-finance through the World Bank. Disbursements did depend on progress in the reform – i.e. splitting up – of the state cotton enterprise. In subsequent years, the Netherlands would also continue to sign bilateral agreements, which were based on the 2006 *arrangement cadre* for budget support. The basic principles of this agreement were respect for human rights, respect for the rule of law and good governance.

17 With the exception of an incidental, additional grant of €17 million in 2000, €5 million of which was debt relief and the rest a contribution to the budget deficit, which had strongly risen due to the higher cost of oil, the cotton crisis and the resulting worsening of the exchange rate.

In addition to general budget support, the Netherlands also provided sector budget support. After the sector approach had been introduced, the embassy focused on rural development, health and education, though the embassy remained involved in them such as the environment, good governance, women and development. In 2006, the Netherlands was the first donor to switch to providing sector budget support for the education and health sectors. As a result, more than 70% of bilateral aid took on the shape of budget support. One of the objectives of this was to increase the efficiency and effectiveness of interventions in both sectors in order to help achieve the MDGs in these sectors. At that point, it looked as if Mali was destined to not achieve a single of the MDGs. In 2010, the Netherlands decided to suspend budget support to the education sector because of a lack of progress in governance.

3.5 Ownership and influence

Great donor dependence, a weak institutional structure, poor implementation capacity and a dominant IMF and World Bank meant that ownership on the Malian end was limited at the beginning of the millennium. Little progress was booked in the areas of harmonisation and alignment until 2005, with the World Bank and IMF playing dominant roles and the role of bilateral donors being limited. The Malian government endorsed starting points for ownership and alignment, but did not play a leading role in the dialogue and demonstrated little decisiveness and leadership, as a result of which reforms were slow to come about. There was also an obsession with sector issues, and so the policy dialogue was not sufficiently keyed to important issues. The policy dialogue gradually improved in 2005 in the area of macro-economic policy, poverty reduction, public sector reforms and human rights. The 'Commission Mixte' functioned better, and after the implementation of the second PRSP, the monitoring function, which was essentially absent in the first PRSP, was also given a role to play. The Malian government, however, continued to show poor leadership (Ministère de l'Economie et des Finances 2011, p. 28).

The lack of Malian ownership did not mean that the influence of donors, with the exception of the international financial institutions in macro-economic policy, was great. Reform was usually slow to manifest itself. The restructuring of the cotton sector is the most striking example of this. The policy dialogue and conditionalities had a decisive impact on the improvement of public finance management and the pace of decentralisation, but were not very effective in other areas (Lawson et al. 2011, p. 3).

In fact, budget support was not more effective in Mali for the same reasons as it was not in Zambia. On the one hand, both countries were struggling with a weak institutional structure and a lack of capacity, and on the other hand, donor harmonisation in both countries had not progressed enough and donors continued to use the policy dialogue for their own interests (Caputo, De Kemp and Lawson 2011). An important difference between Zambia and Mali, however, is that budget support accounted for a much larger share of the government budget in the latter, which meant that the financial contribution to achieving a number of joint objectives was greater.

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As mentioned, the Netherlands was ahead of the game, but one wonders whether Mali, despite positive political developments, met the conditions for budget support. A first point of concern was poor institutional capacity, not the least of which was a poor level of education. Second, donors were under the impression that corruption was on the rise, and monitoring institutions and judiciary organisations were barely functioning. Monitoring accountability of the budget implementation (and therefore the spending of macro-support) was unsatisfactory (2007–2009 Evaluation Memorandum for Budget Support).[18]

Donor harmonisation did improve starting in 2006, but remained poorly developed. Donor procedures and reforms had a negative impact on the way agreements were carried out, and the number of donor initiatives was often counterproductive (Ministère de l'Economie et des Finances 2011, pp. 28-29). Donors continue to use the policy dialogue to push through their own ideas and ambitions. The large number of participants also makes it difficult to reach consensus.

3.6 Intermediary effects

Budget support helped increase the predictability of aid, especially from 2007 onwards, when agreements were made about a multi-year framework. Disbursements constituted an average of 94% of committed amounts. This percentage was considerably less for projects (Lawson et al. 2011). However, disbursements were often only made late in the year, which caused the implementation of development programmes to be delayed and led to costly domestic borrowing.

Lawson et al. (2011) also concluded that budget support, more than other modalities, contributed to harmonisation and alignment with national priorities, while the transaction costs were *probably* lower. On the other hand, the entire annual evaluation process was still insufficiently harmonised, which kept transaction costs unnecessarily high. Budget support did help generate funds for priority sectors. Although the modality was initially aligned with earlier forms of macro-support (such as balance of payments support), Lawson et al. (2011) concluded that from 2006 onwards the modality provided the government with an additional amount of funds that had sufficient critical mass to make a significant rise of discretionary expenditures possible. Budget support therefore had a positive influence on the implementation and monitoring of both national development programmes, *Cadre stratégique de lutte contre la pauvreté 2002–2006* (CSLP) and the *Cadre stratégique pour la croissance et la réduction de la pauvreté 2007–2011* (CSCRP), the sector policy in education and health care and policy aimed at strengthening public finance management, decentralisation and public sector reform.[19] More recently, however, budget support seems to be primarily

[18] It is striking that the embassy was quite critical in the early years of the millennium, more positive from about 2004–2005 onwards, to then take on a more critical tone again with the 2008 Track Record. The evaluation scores barely changed, however, and Mali scores a B (reasonably positive) in essentially all fronts every year. Apparently the system is not suited to sufficiently reflect these nuances.

[19] The evaluation examined both general budget support and sector budget support. The consultants conclude that there are few fundamental differences between these two forms (p. 4).

used to reduce the budget deficit or increase reserves. According to IMF, the budget deficit (excluding external financing, i.e. the 'basic balance') should be about equal to the budget support, which comes down to a deficit of more than 2% of GDP. In 2009, the deficit was 0.8% and in 2010 0.4%.

Mali, moreover, is slowly but surely achieving results in public finance management, the business climate and democracy. Policy dialogue and conditionalities contributed to the implementation of improved financial management, especially since 2006 (IMF 2009; PEFA 2010). The 2010 PEFA evaluation shows improvements in l18 of the 31 indicators (PEFA 2010).[20] Eleven indicators remained the same, and two indicators fell slightly (PEFA 2010).[21] Budget support had a positive and deciding influence on progress in the area of decentralisation and deconcentration (Lawson et al. 2011). At the same time, the report concluded that '… l'évaluation n'a guère identifié d'autres exemples de changements des politiques ou d'accélération de la mise en oeuvre d'une politique comme conséquence des conditionnalités d'AB' (Lawson et al. 2011, p. 3). The consultants concluded that conditionalities often have little effect, can be counterproductive and lead to high transaction costs:

'Ainsi, l'AB fonctionne mieux en tant que moyen d'appui à une politique nationale bien établie, pour laquelle il y a un engagement politique clair et cohérent et pour laquelle les structures de mise en oeuvre sont en place, ou peuvent se mettre en place rapidement. Quand ces éléments de base ne sont pas en place, il est très difficile, voire impossible, de les créer à travers l'AB elle-même.' (p. 4).

The consultants recommended that the conditionalities be aligned with the planned policy so that they can function as a catalyst instead of 'enforcing' reform. This conclusion is essentially at odds with the vision of the donors, who want reform to be the key commitment.

Despite the different positive developments, reforms were slow to materialise. The position and rights of women barely improved, and the fight against corruption has had little effect so far. The *bureau du vérificateur general* was established in 2004, and it functions as a de facto anti-corruption unit. Planned reforms, furthermore, provide the independent Audit Office with a mandate. A constitutional amendment was necessary to push through this reform, which donors had been wanting for a long time for (Embassy Annual Report 2011). Recent reports by the Auditor General (of the Malian Audit Office) still reveal significant weaknesses, however (Lawson et al. 2011). The patronage system and the social culture help fraud and bribery to persist. The government has been slow to implement an Action Plan to fight corruption.

Another bottleneck is low tax revenue (about 15% of GDP). It is especially important in order to increase tax revenue that the system of tax exemption is thoroughly reviewed (Embassy Annual Report 2011). Progress on this point is sluggish, however. While there is generally

[20] PEFA stands for Public Expenditure and Financial Accountability. It stands for an internationally applied methodology for the evaluation of the quality of budget management and public finance management.

[21] Effective control of salary payments and the reform of budgetary regulation for the legislative power.

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little empirical evidence that budget support has a negative effect on tax revenue, it does seem in Mali's case that the high level of budget support makes it less urgent to reform the tax system. On the other hand, tax revenue, as a percentage of GDP, has risen from 15% in 1999 to 17% in 2009 (Lawson et al. 2011).

3.7 Impact: economic growth and poverty reduction

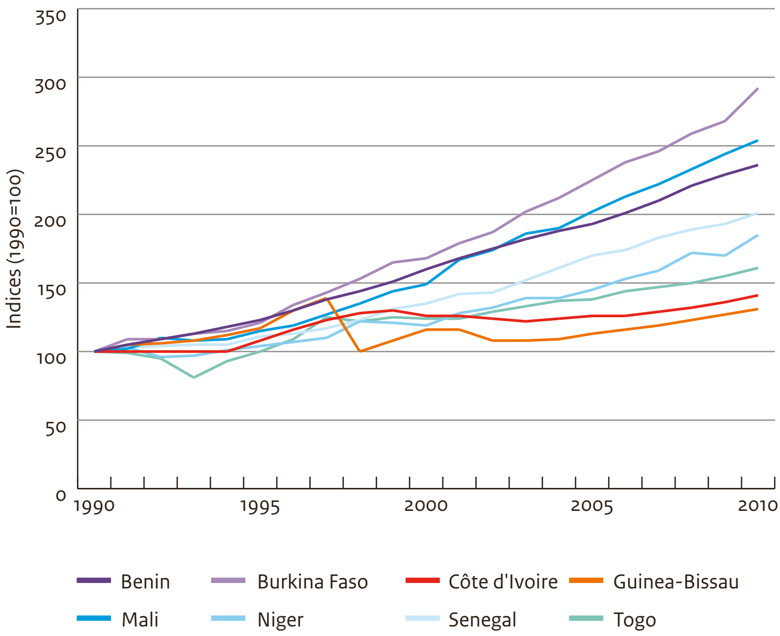
Mali's two PRSPs, the *Cadre stratégique de lutte contre la pauvreté 2002–2006* (CSLP), which is necessary to qualify for the Enhanced HIPC Initiative and the subsequent *Cadre stratégique pour la croissance et la réduction de la pauvreté 2007–2011* (CSCRP), were the basis for economic development and poverty reduction in Mali. The first PRSP focused mainly on improving access to basic services. The second PRSP paid more attention to the development of infrastructure and the strengthening of the productive sectors as an instrument for reducing poverty. The focus on what kind of an impact reforms in the cotton sector have had on poverty was part of this.

According to the recent evaluation of budget support to Mali, the modality has made a significant contribution to *economic growth* of more than 5% a year. This figure is the highest of the countries in the West African Economic and Monetary Union (UEMOA). The high price of gold was an important factor in this growth, however, and has resulted in gold becoming the most important export product.

Budget support did make it possible to invest in priority fields, without it being at the expense of macro-economic stability. The country had scarcely any budget deficit, which contributed to low inflation. Public investment compensated for stagnating private investment. It was mainly the financial support that contributed to this result, however. The policy dialogue and conditionalities barely played a role in macro-economic policy. The government's commitment was, supported by IMF and the UEMOA's convergence criteria, much more important. Conversely, the policy dialogue also had little influence on the much-needed improvement of the business climate, although Mali did climb somewhat last year on the World Bank's relative 'Doing Business' index (from 153 to 146).

Figure 3.1 shows that various countries receiving budget support in the UEMOA region (Burkina Faso, Mali and Benin) in the period 1990–2010 did indeed have the highest growth figures. But that was already the case around 2000. A country not receiving, or receiving little, budget support, such as Côte d'Ivoire, did considerably worse. The latter is also true of Guinea-Bissau, which began to increasingly receive budget support from 2006 onwards. From 2005 onwards, the country started to perform considerably better economically. Macro-support to Senegal declined rapidly from 2002 onwards whereas from that moment onwards that country, together with Mali, Burkina Faso and Niger, was among those countries with the highest economic growth. First, the countries that already had considerable economic growth – most likely fuelled by macro-economic policy – were the ones to receive budget support. Second, economic growth has a negative effect on the *relative* size of budget support: economic growth causes budget support to decline in terms of percentage of GDP.

Figure 3.1: *Economic growth in UEMOA countries (1990–2010)*

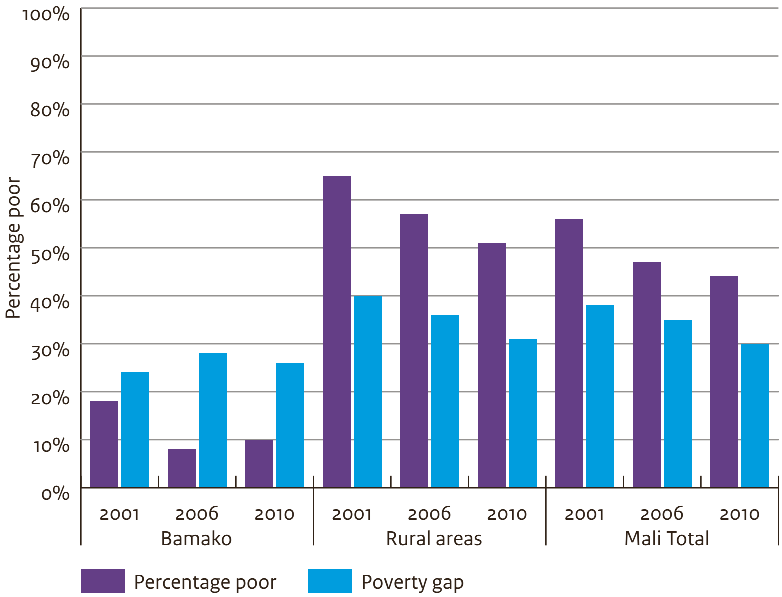


Source: WB; adapted by IOB

The same is true for the attribution of *poverty* reduction. Between 2001 and 2010, poverty declined by 12 percentage points (from 56% to 44%). In 2001, poor households had incomes that were on average 38% below the poverty line; in 2010, that decreased to 30%. Extreme poverty decreased from 32% in 2001 to 22% in 2010 (IMF 2011, p. 35). Poverty figures are highest among the rural population: 91% of the poor live in rural areas. Inequality is extremely high. Poverty has strongly declined in Kayes–Koulikoro, where the important gold mines are situated. On the other hand, however, the population in the southern city of Sikasso barely benefited from Mali's largest mine: poverty figures there, which were already the country's highest, increased further. High population growth (more than 3%) caused the number of poor people to increase as well (Lawson et al. 2011). The government did not succeed in developing a good employment policy (Track Record 2008). An agricultural law was approved in 2006 that attempted to transform subsistence agriculture into a diversified, modern, competitive and sustainable sector (Ministère de l'Economie et des Finances 2011, p. 13). The agricultural policy is intended to improve the living standard of the rural population and halt migration to the cities (Bamako in particular).

Budget support had, through an extension of public services, more impact on the living conditions of the poorest. Lawson et al. (2011) concluded that this service extension would not have been possible without general and sector budget support. From 2003 onwards, the relative importance of the priority sectors in terms of total expenditure increased from 39% to 54% in 2009 after years of decline. Most support went to the sectors that had been given the highest priority in the development plans: health care, education, agriculture and transport.

Figure 3.2: *Poverty development in Mali 2001–2010 (in percentage of the population)*



Source: INSTAT; adapted by IOB.

As in other countries, the *education sector* in Mali is one of the sectors in which aid is most harmonised and aligned. EFA and MDG objectives help to create a joint framework, while the sector has a relatively high degree of ownership due to its great political importance. There is generally little difference of opinion between donors and the government about priorities and strategy: the policy aims, and aimed in the past, to increase access to primary education and later also to improve its quality by investing in the education infrastructure. Budget support contributed significantly to this. Sector budget support accounts for 15%–20% of the budget since 2006, while another 11% of the general budget support can be accounted as support to the sector. Sector budget support contributed to a more effective policy dialogue, though the many consultation structures resulted in high transaction costs (Lawson et al. 2009, p. 57). Donors could use the sector dialogue to constantly emphasise bottlenecks, such as the quality and the importance of decentralisation in the sector. The achievement of the latter is one of the greatest results of the sector dialogue (Lawson et al. 2011, p. 58).

The importance of general, and especially sector, budget support in financing the sector was evident in the substantial increase of education on offer. Between 2003 and 2009, the number of primary schools almost doubled, classrooms rose by 60% and teachers by 70%. The number of textbooks almost tripled. These investments were necessary because of increased enrolment (from 1.3 million pupils in 2003 to 1.9 million in 2009). Enrolment in education increased from 45% in 2000 to 77% in 2009, which is still a very low enrolment rate (IMF 2012, p. 32). The increase in enrolment in primary education meant more teachers had to be trained, which was made financially possible by general budget support and sector budget support. The rise in the number of classrooms and textbooks would not have been possible to this degree without general and sector budget support. Despite higher enrolment, the percentage of pupils who had to repeat a year declined and the percentage that finished school rose (from 40% in 2002 to 56% in 2009). The quality of education, however, remained poor, and the impression exists that the level has declined in recent years (Lawson et al. 2011, pp. 61-62).[22] The rapid growth of the number of pupils is an important factor in this. In addition, the low enrolment of girls in education remains a major problem: 74% of girls attend primary school, but not more than half of them actually finish primary school (CPS MEALN 2010). Another concern is post-primary education, which is still insufficiently developed to absorb larger numbers of pupils from primary school.

The sector dialogue worsened from 2009 onwards. According to Lawson et al. 2011 (p. 67), this had to do with management problems, an overburdened ministry, an unstable institutional structure, as well as donor impatience (the Netherlands in particular) regarding the implementation of reforms in the sector (Lawson et al. 2011, p. 57). The lack of progress in setting up the new sector plan led the Netherlands to suspend disbursements in 2010. This had the desired shock effect and resulted in the problems of weak management, coordination and governance of the ministry being tackled.

As in other countries, it was difficult to improve the quality of management with budget support. Here too, donors seemed to reverse conditions and objectives. The Dutch embassy came to the conclusion that technical assistance and capacity development are important conditions for improving the quality of management in the ministry (see Embassy Annual Report 2010).

In that respect, the *health care sector* seems to have been more successful. This sector is characterised by an effective policy dialogue, high participation and a results-oriented approach (Lawson et al. 2011, p. 71). Although important problems continue to exist, major progress has been made in recent years. The quality of the dialogue has improved due to increased use of sector indicators as a basis for discussion. The sector is well organised. This is especially true in management, coordination and harmonisation, public finance

[22] What is often forgotten here is that the socio-economc background of primary school pupils has radically changed, which has a major influence on the average school performances. See also De Kemp and Ndakala 2011 (see bibliography chapter 4).

management and planning. Budget support has played an important part in this (Lawson et al. 2011, p. 82).

The health sector's financial stake has increased from 5.7% of the government budget in 2003 to 8.2% in 2009. Part of this increase is attributable to the budget support that the sector has been receiving since 2006. Sector budget support constitutes 11% of the sector's budget on average. General budget support, moreover, has financed an average annual growth of 0.8% of GDP per year (in addition to the rise, which was the result of an increase of internal funds; Lawson et al. 2011, p. 97). Overall, expenditures in the sector rose by 140% between 2003 and 2009.

In the health sector, general and sector budget support helped finance the expansion of the infrastructure and medical personnel. The number of local health centres increased from more than 600 in 2002 to almost 1,000 in 2009. Employees in the sector tripled during this period. Medical staff, however, increased most in the Bamako district, which further exacerbated existing inequalities (Lawson et al. 2011, pp. 74-75). The sector also achieved several significant results. The average distance to health care centres decreased, and antenatal care increased from 54% in 2002 to 90% in 2009. The professional supervision of childbirth rose from 40% in 2002 to 66% in 2009. Vaccinations for the major illnesses increased from 64%–74% in 2002 to almost 100% in 2009. Mother mortality declined between 2000 and 2008 from 980 per 100,000 births to 803. The results for most indicators were disappointing, however. Child mortality decreased slightly. A concern is the rise of tuberculosis.

Similar to the education sector, late disbursements by donors often resulted in projects being postponed. Another bottleneck is corruption in the sector, as is evident from the recent corruption scandal with funds from the Global Fund. But like in other countries, Global Fund is creating parallel structures in Mali, which are not embedded in government structures where great attention has been devoted to improving public finance management.

3.8 Conclusions

Mali has a long tradition of macro-support. Important traces of this are still evident in the import support and budget support given to the country. Although various donors, including the Netherlands have advocated the modality as an instrument for harmonisation, alignment and political and policy dialogue, for a long time it remained primarily a financing instrument in Mali, aimed at reducing the budget deficit and maintaining macro-economic stability. Indeed, a recent evaluation concluded that the *financing function* of budget support was particularly effective in Mali as well. The *conditionalities* linked to the financial resources were much less effective in achieving policy reforms.

The government did show on-going commitment to reducing poverty, but the planning and implementation of the intended policy was mediocre. The growth strategy lacked focus and follow-up. Slow progress in a number of reforms and in a number of sectors, whatever the reason may be, has made it impossible to achieve the MDG objectives. However, it could also be that achieving most of the MDGs was not feasible in Mali to begin with, given its starting situation (see also Easterly 2007). High population growth (3.6% a year) also severely restricts the chances of reducing poverty.

Financial support to one of the poorest countries in the world contributed significantly to macro-economic stability and the financing of public services. But various donors, including the Netherlands, were too optimistic about the possibility of influencing policy through budget support. The conditions for a harmonised policy dialogue were barely present, and the country lacked the implementation capacity to implement reform.

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4

Zambia country case study

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4.1 Introduction

In Zambia, the government and a number of development partners worked hard to better coordinate bilateral aid and gear it more to the country's policy priorities and anti-poverty programmes. In 2005, the government and four donors, including the Netherlands, signed a *Memorandum of Understanding* for general budget support, called *Poverty Reduction Budget Support* (PRBS). Shortly thereafter, five others joined. Between 2006 and 2010, the government received an average of US$200 million of budget support a year. The Netherlands contributed €44 million of this between 2006 and 2010. In 2009, this modality was good for 9% of the Zambian government's budget and 20% of bilateral aid. Economic growth caused the relative stake of total aid for the budget to decrease from 30% in 2006 to less than 20% in 2010. In early 2011, the Dutch Minister decided to discontinue bilateral aid to Zambia in the context of cutbacks in the development cooperation budget and in the number of partner countries. Ending budget support to the country dovetailed with the Dutch cabinet's policy of using the instrument of budget support more selectively (see chapter 3). Other donors continued to give budget support to Zambia.

4.2 Context

Copper-rich Zambia enjoyed relatively high prosperity when it gained independence in 1964, especially compared to other countries in Southern Africa. The metal was not only a blessing, however. The oil crisis in 1973 caused the demand for copper – and its price – to drop. Mismanagement of the nationalised mines resulted in a further decline of copper production and exports. Expecting the price to pick up again, Kenneth Kaunda, the first president of Zambia from 1964 to 1991 from the *United National Independence Party* (UNIP), took out extensive loans, but they merely led to a huge debt burden. In late 1991, Fredrick Chiluba, from the rival *Movement for Multi-Party Democracy* (MMD) party, won the elections. He charted a more liberal course, partly under pressure from IMF and the World Bank. The stagnating economy, high interest rates, debt service and the IMF's controversial adjustment programme, forced the country to make extensive cutbacks, however. These cutbacks were at the expense of both economic growth and public services (see, for example, White and Dijkstra 2003, pp. 436-439). Economic growth in the 1990s was negligible, which, in light of population growth, meant a decline in the average income. The change of power in late 1991 initially led to some democratisation, but in the second half of his term of office, Chiluba limited political rights and civil liberties. Partly as a result of that, Chiluba received insufficient support in 2001 for a third term.

Since the turn of the century, the economy has picked up again with average growth figures of 5%–6% a year. Privatisation of the copper industry, the rising price of copper, remission of the lion's share of the country's US$7 billion debt and good economic policy under President Levy Mwanawasa (MMD, 2002–2008) led to quieter times, though the needed reform seemed to stagnate under his successor Rupiah Banda (2008–2011). In 2011, the *Patriotic Front* (PF) won the elections, and Michael Sata was chosen as new president.

Throughout the 1990s, bilateral help to Zambia also changed with the introduction of the sector wide approach. Bilateral and multilateral donors (i.e. the World Bank and the African Development Bank) gradually exchanged projects for financial support in a particular sector (such as health, education and agriculture). This helped to coordinate aid. In 2003, the government and several development partners, including the Netherlands, signed an agreement for more cooperation, entitled *Harmonisation in Practice*. A year later, other donors joined as well, and *Wider Harmonisation in Practice* was a reality.

Zambia indicators (2010)

Inhabitants (in millions)	13
National income (in US$ billions)	16.2
Economic growth (%)*	6.2
Government expenditure (% GDP)	22.3
General budget support grants (US$ millions)	153
Budget support loans (in US$ millions)	68
Budget support as % of bilateral aid	32
Income per capita (US$)	1,070
Poverty percentage	60
Rural poverty (%)	78
Life expectancy (year, at birth)	51
Population growth (%, per year)	2.8
Literacy rate (%)	71
Ranking on development index (countries, 2011)	164

** 2006–2010 average per year*

In 2005, donors launched the Joint Assistance Strategy for Zambia (JASZ), the aim of which was to increase the efficiency and effectiveness of aid through further harmonisation. In 2007, 16 partners signed this strategy agreement for the period 2007–2010. The JASZ provided a framework for cooperation with the Zambian government in line with the principles of the *Fifth National Development Plan*, the prevailing strategic plan at the time in Zambia for poverty reduction. The JASZ gave its own interpretation of the five pillars of Paris (i.e. ownership, alignment, harmonisation, mutual accountability and managing for results). An important part of this was a better division of labour among donors, so that not all donors would focus on a few sectors any more (such as health or education), thereby 'orphaning' other sectors.

In line with these developments, the Zambian government, the European Commission, the World Bank, the United Kingdom and the Netherlands signed an agreement in 2005 to provide general budget support. Shortly thereafter, Norway, Sweden, Finland, Germany and the African Development Bank joined the ranks. In addition to general budget support, the United Kingdom and the European Commission provided sector budget support to the Ministry of Health. The Netherlands also supported, from the end of the 1990s, the education sector in particular through basket funding. Between 2006 and 2010, the Netherlands invested €94 million in the education sector this way. Together with Ireland, the Netherlands was the leading donor in the sector.

4.3 Motives, expectation and selection criteria

The motives for budget support derive from the *Joint Appraisal Report* that bilateral donors drafted in preparation for budget support for the period 2008–2010. This report emphasises the role of budget support as an instrument for reducing poverty and achieving the MDGs. An important reason for providing budget support to Zambia was the belief that this form of aid was more efficient, more effective and more sustainable than other forms because this modality – so the reasoning went – dovetailed perfectly with policy priorities in the recipient country and therefore created ownership. Budget support would help improve allocation and the quantity and quality of public services and reaching targets in priority sectors. It would also have a positive effect on achieving macro-economic objectives (in the areas of inflation, the budget deficit and government income), improving financial systems and domestic accountability. The document emphasises the *cohesion* of instruments: the policy dialogue would help define priorities and instruments, the financial support would remove financial barriers, conditionalities would provide the right stimuli and the technical assistance would help solve technical problems and contribute to capacity building.

It is important that in 2005 donors had sufficient confidence in the socio-economic policy of Mwanawasa, who was reform-minded and serious about fighting corruption. Conversely, the Zambian government did not hesitate to convey that general budget support was its preferred modality, which is not surprising in light of the great spending freedom it offered. Other considerations also played a part. Budget support gave donors access to the Ministry of Finance and the government, and there was a risk that smaller donors who did not provide budget support would be less effective in the policy dialogue.

Conditionalities were mainly set down in the *Underlying Principles* of the MoU. They concern the government's commitment to:
- fight poverty, including through a pattern of public expenditure consistent with poverty reduction priorities as identified in the National Development Plan
- pursuing sound macroeconomic policies, as evidenced by a positive IMF assessment of overall macroeconomic performance;
- public finance management reforms;
- peace, democratic principles, the rule of law, good governance and integrity in public life, including the fight against corruption.

Apart from these Underlying Principles, the government and involved donors were to put together a *Performance Assessment Framework* every year, a list with concrete targets and objectives. The Performance Assessment Framework was fairly unique because it not only had indicators for the Zambian government, but also several indicators for the donors (such as the degree to which commitments are honoured).

With the exception of the required positive IMF assessment, the fundamental principles were not defined very precisely. Moreover, they were quite interwoven with the expected revenue of budget support: good financial management was not a condition for budget support, but the commitment to improve it was. At the same time, there was an *expectation* that budget support would lead to improvements in public finance management. The same was true of other conditions, such as 'a policy aimed at poverty reduction'. Nor was there a uniform interpretation of the principles, and donors would handle them in different ways.

4.4 Implementation

In 2005, the Zambian government received US$109 million of budget support, an amount that had increased to US$248 in 2009 (in 2010 it was US$221 million). Budget support was on average 30% of bilateral aid in the period 2006–2010, and it financed more than 6% of government expenditure. Financially, these amounts were important because a large part of the total budget was secured in current obligations. Discretionary funds therefore increased considerably. To a lesser degree, budget support also helped improve the predictability of aid. The effect was limited, however, because other forms of aid remained important.

Table 4.1: Budget support to Zambia 2002–2010 (in US$ millions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
SBS				33.5	28.6	14.2	49.6	22.7	
GBS grants	65.4	32.8	52.1	66.8	102.8	141.5	163.6	192.9	152.5
GBS loans				9.0	8.8		30.6	32.6	68.4
Total Budget support	**65.4**	**32.8**	**52.1**	**109.3**	**140.2**	**155.7**	**243.8**	**248.2**	**220.9**

Source: De Kemp, Faust and Leiderer (2011)

Budget support helped to further harmonise aid. The instrument united donors into a group that spoke as much as possible with a single voice with the government about implementing the development agenda. The government and donors set up an effective structure for policy dialogue, in which the Annual Review and the Performance Assessment Framework were central elements. The technical assistance, on the other hand, remained very supply-oriented and focused on matters that were important to donors (mainly public finance management and reducing fiduciary risk).

Table 4.2: Dutch bilateral aid to Zambia 2000–2011 (in millions of euros)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GBS							5.8	8.0	10.0	10.0	10.0	
SBS/Basket	8.9	8.7	21.4	20.3	21.3	25.2	26.5	35.2	39.0	27.7	12.9	11.4
Other	12.9	13.3	7.2	4.6	15.2	6.8	6.3	7.2	8.8	7.1	4.1	3.3
Total	**30.9**	**22.0**	**28.6**	**24.9**	**36.5**	**32.0**	**38.6**	**50.3**	**57.8**	**44.8**	**27.0**	**14.7**

Source: Midas, Pyramid

4.5 Ownership and influence

Budget support promoted ownership by shifting from money for specific goals to freely disposable funds for the Zambian budget. This was evident in health care, for example. At the same, budget support's possibilities were insufficiently used because the government, and in particular the Ministry of Finance, still showed too little ownership. Part of the reason for this was the fact that consultation structures were badly anchored in the ministries. The fragmentation at the Zambian end, where sector ministries had great freedom to manoeuvre compared to the coordinating Ministry of Finance, gave donors the opportunity to introduce extensive individual sector interests in the policy dialogue, which could also undermine the effectiveness of the dialogue. This was evident in the *Performance Assessment Framework*, for example, which had strongly diverging targets.

The ownership of the Performance Assessment Framework was in theory quite considerable, because many indicators were derived from the *Fifth National Development Plan*. In practice, this ownership turned out to be substantially less. First, PRBS donors introduced a relatively large number of indicators (on average about 12 of the 36 indicators) that were directly related to the macro-economic policy, public finance management and public sector reform. These indicators were thus accorded a disproportionate amount of overall weight. Other indicators (such as in agriculture) were, even though they were included in the FNDP, completely unrealistic or there were no reliable data (rural water supply). The health sector had outcome indicators that the ministry had no direct influence on (such as mortality rates for children) and indicators that were included under donor pressure (such as the percentage of funds that was decentralised). The education sector was the one most capable of having its own indicators incorporated. These were not very ambitious, however, so that invariably the sector scored well. The procedure to give all the indicators equal weight and hence calculate an overall score was striking. Every year, donors noted that the overall score decreased (from 70% in 2006 to 58% in 2009), without asking themselves whether that was because objectives became more ambitious later or whether that was because indicators were changing. The results in 2010 were 'better' (62%) than in previous years, but that year the number of indicators had been drastically reduced, and several unrealistic indicators had been deleted.

In addition, flawed harmonisation on the donor's end undermined the instrument's potential effectiveness. While donors attempted as much as possible to act harmonised, diverging interests made this difficult in practice. Partly fuelled by several poorly functioning advisory groups in a number of sectors, donors used the PRBS policy dialogue to raise specific sector issues. The Performance Assessment Framework was not very consistent as a result. Bilateral donors wanted to push for outcome indicators, whereas both banks attached value to measuring direct government efforts. On top of that, different donors had 'incentive tranches' for different components. They also had no uniform vision on the underlying principles. Whereas – keeping in mind differences of interpretation – the strict adherence to these principles was an important condition for continuing budget support for donors such as the Netherlands, Germany and Sweden, the European Commission saw them more as objectives. Whereas the head of development cooperation of one donor had a problem if he responded inadequately to signs of corruption, another had a problem if he did not ensure that the budget was exhausted on time. So, many of the differences can essentially be traced back to differences in instructions from donor head offices. A harmonised policy at a decentralised level can be at odds with interests at the central level and a consistent policy of individual donors.

The above-mentioned flaws remained largely invisible during the first years of the MoU (2005–2008). The Mwanawasa administration did not engage energetically in reforms but was open to them and did develop initiatives. For example, the president took concrete measures to fight corruption. Conversely, the first years also served to gain experience with the instrument of budget support, and donors realised that important changes take time. The first Annual Reviews served more as baselines than as assessments whether the government was still on track. From 2008 onwards, and certainly following the death of President Mwanawasa, a shift gradually occurred. The new president, Rupiah Banda, was less perseverant according to many donors and more importantly he was less occupied with fighting corruption.

Banda's refusal to have former President Chiluba tried for corruption led to considerable irritation among donors, which flared up even more when the president had himself photographed with Chiluba. A corruption scandal in 2009 in the Ministry of Health, in which development money was misappropriated, put relations even more on edge. The Netherlands and Sweden suspended their aid to the sector and demanded that concrete measures be taken, including repayment of the misappropriated funds, putting the guilty parties on trial and making a clear action plan to prevent this kind of fraud from happening in the future.[23] That year, donors began to ventilate criticism on the anti-poverty policy. The direct cause were the initial results of a new household survey, showing that showed that poverty in Zambia in the past year only decreased marginally. Third, the donors were critical in 2010 of the sluggish progress with a number of reform efforts, including the decentralisation policy, the reform of the policy on employment terms in the public sector and the improvement of the financial management. This all meant that different PRBS

[23] Sweden also suspended its general budget support. The Netherlands had already paid the tranche for 2009.

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donors had doubts about the government's commitment to three of the four fundamental principles. In the changing political climate in a number of donor countries – including the Netherlands and Sweden – fiduciary issues in particular were of paramount importance.

Harmonisation turned out to be fragile in this situation. Although donors did everything in their power to act in unison towards the Zambian government, they did not completely succeed. One important reason is that budget support leaned heavily on the premise that the government would strictly adhere to the underlying principles. There was no plan B for moments in which that was not the case, and donors had various procedures for when the government continued to be in default. The differences expressed themselves, for example, during the corruption scandal in the health care sector. While the Netherlands and Sweden suspended their disbursements to the Ministry of Health in 2009, the European Commission made an extra payment that year. This confirmed the government's impression that while donors barked, they rarely bit and eventually paid up. In 2010, Sweden was the only donor to decide to stop budget support to Zambia, in any case in 2010 and 2011, because of concerns about the quality of governance, the deteriorating human rights situation (due to restrictions imposed on the media and civil society organisations) and the Banda administration's inadequate approach towards corruption. The Netherlands followed suit in 2011, but only for domestic political reasons.

4.6 Intermediary effects

Budget support contributed to some important improvements in governance, such as getting public finance management in order, the budgetary cycle, improvement of budgetary discipline, a more transparent budget process and strengthening the position of the Zambian Audit Office. It was precisely direct support to the Zambian government budget that gave donors a good argument to demand improvements in these areas. Critics have suggested that budget support can play into the hands of corruption. There is no evidence of this for Zambia. If anything, the instrument contributed to more transparent decision making, better financial management and stronger supervisory institutions.

There are also signs that budget support had a negative influence on tax revenue. The effect on expenditure in the social sectors is positive, and the rise in spending was greater than could be expected based only on budget support. Precisely this combination of sector dialogue and the PRBS dialogue turned out to be effective in increasing funds for the social sectors. In the health care sector, the Zambian government's share in total expenditure after years of decline increased again (from 48% in 2005 to 60% in 2008). Pressure from PRBS donors resulted in a larger part of expenditures being decentralised (from 8% in 2006 to 16% in 2010). In the education sector, the budget realistically increased by 54% between 2005 and 2010.

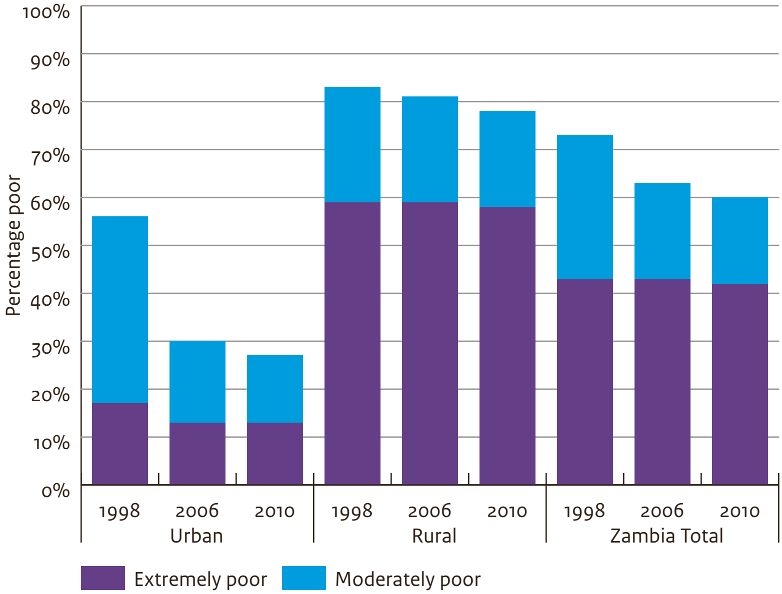
Donors had little influence, however, on major reforms in the area of governance, such as a more fundamental approach to corruption or the strengthening of democracy. Nor was budget support effective in achieving reforms in the sectors where the vision of the government and the donors strongly differed on priorities and strategic choices (such as the agricultural sector).The Zambian government also showed little ownership with rural water supplies in the sense that it freed few resources to solve bottlenecks. The evaluation concluded that transferring project funds to budget support for the water sector would presumably only lead to a reduction of funds available for rural water supply.

4.7 Impact: economic growth and poverty reduction

Unlike in previous decades, Zambia combined favourable economic development (with average growth rates of 5%–6% a year) and sound macro-economic policy, a cautious monetary policy (contributing inflation to drop considerably) and preserving budget discipline in the first ten years of the new millennium. Economic policy and economic growth reinforce each other. An important engine for economic growth was, again, copper exports, aided by both the privatisation of the copper mines and the rise of copper prices. Budget support (and debt relief in 2006) contributed to the preservation of budgetary discipline, especially during the international economic crisis.

Despite economic growth, poverty did not decrease much in Zambia in recent years. It remained particularly high in rural areas (78%). An important reason why households did not benefit more from economic growth is the lagging behind of the agricultural sector, which was not very productive. The government had put almost all its money on maize subsidies, for political reasons, but this primarily helped relatively rich farmers and not the poorest people. The Zambian government also invested in trunk roads, but much less so in connections in rural areas, though it is precisely these local roads that are so important if disadvantaged regions are going to be linked to the rest of the country economically and socially. It is not realistic to assume, however, that a few years of economic growth would suffice to drastically reduce poverty in rural areas. The financial aid offered seems extensive, but in fact it is not in terms of per capita of the poorer population.

Figure 4.1: *Poverty development in Zambia 1998–2010 (in percentage of the population)*



Source: CSO; adapted by IOB

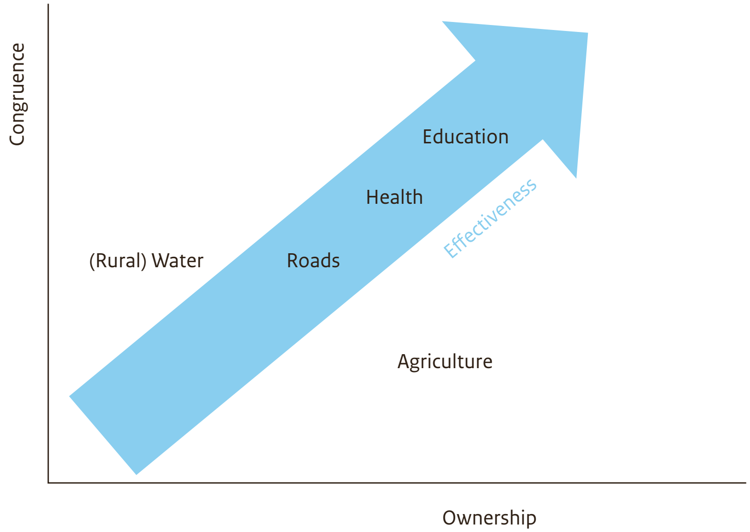
That the government did not succeed in substantially driving back income poverty in rural areas does not mean that the poorest did not benefit in any way whatsoever from economic growth. The additional funds for the social sectors helped to improve basic services. The number of employees in the health care sector rose from 12,000 in 2005 to more than 17,000 in 2010. In the same period, the availability of the most essential medicines increased from 71% to 82%, and the vaccination of children in the most inaccessible districts increased from 63% to 69%. Tuberculosis, malaria, diarrhoea and child and mother mortality declined significantly thanks to policy. In primary education, the number of teachers rose from 50,000 to 63,000, and the number of classrooms increased from 33,000 to 44,000. Investments contributed to the further growth of school enrolment from 2.9 million to 3.4 million pupils. The number of boys and girls that went from 7th to 8th grade doubled. Now, 52% of pupils finish the nine years of basic education, as opposed to 43% in 2005. Major inequalities continue to exist between urban and rural areas, but they are decreasing. In other sectors, such as water and sanitation, the effects are more limited (especially in rural areas). Good drinking water facilities are extremely important, but in rural areas the Zambian government did not invest much in this. Improvement had to come mainly from donor projects.

4.8 Conclusions

The first lesson from the Zambian example is that results can only be disappointing when donors have unrealistically high expectations of the instrument (see section 4.3). This holds for both the expectations of major reforms and short-term poverty reduction. Intervention theory is rudimentary on that point. Donors did not have a clear picture of the policy that was needed to reduce poverty in rural areas, so it is easy then to pass responsibility on to the government. Donors did use technical assistance for the improvement of public finance management (to limit fiduciary risk), but much less so for the development of policy to reduce poverty and rural poverty. Monitoring systems were not set up for this, and donors depended on figures that were only available once every four years.

This example also shows that budget support can indeed be effective, providing that government and donor priorities are aligned, and providing the government takes responsibility for the necessary reforms and investments. This willingness was lacking for several important reforms, and budget support is unable to buy this willingness. Budget support was effective in achieving a number of other objectives, such as improving budgeting processes or extending basic services. The government, together with the donors, did achieve some important results in several sectors. The donors could have presumably achieved more, however, if their actions had been more concerted. Serious differences sometimes lurked behind the veneer of harmonisation. As a result, the Zambian government sometimes received ambiguous signals, as a result of which the potential influence decreased.

Figure 4.2: *Effectiveness of budget support*



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5

Tanzania country case study

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5.1 Introduction

Tanzania has been a major aid recipient and as such received budget support for many years. Although the government and donors generally viewed the instrument as an alternative to project aid, the immediate reason for providing budget support was a different one. The 1998 *Multilateral Debt Fund* (MDF) made debt relief possible for Tanzania, and when the country reached the *HIPC Decision Point* in 2000, the government and five donors looked for a new form of macro-support. That year, they took the initiative for the provision of *Poverty Reduction Budget Support* (PRBS). The 2000 *Poverty Reduction Strategy Paper*, which was necessary to qualify for debt relief, served as a starting point. A year later, in 2001, Tanzania and nine development partners signed a Memorandum of Understanding (MoU) for budget support. The World Bank complemented this with its *Poverty Reduction Credit Support* (PRCS).

Unlike the first PRSP, the Tanzanians played a bigger part in putting together its successor, the 2005 MKUKUTA, and therefore it was less dictated by donor demands. The MKUKUTA was the foundation for the *GBS Partnership Framework Memorandum*, which was signed by the government and fourteen donors in 2006. Like other donors, the Netherlands also signed a bilateral agreement with the Tanzanian government for budget support for the years 2006–2008 and 2009–2010. This agreement provided for general budget support for the amount of €20 million a year, which was increased that same year to €120 million (i.e. €30 million a year), mainly thanks to impending surpluses in the development cooperation budget (see chapter 3).

In May 2011, the Tanzanian government and twelve donors signed a new five-year GBS Partnership Framework Memorandum. The Netherlands and Switzerland had ended their budget support to the country by then.

5.2 Context

Economic development in Tanzania was fairly favourable in the early years of independence (1961), which was the case in many African countries. Economic growth per capita of the population was about 4% a year (Mwase and Ndulu 2008, p. 431). President Julius Nyerere (1961–1985) believed that the population was not benefiting enough from this growth, however. After the *Arusha Declaration* in 1967, he introduced his own development model for Tanzania based on self-reliance and state control of the key industries. This African development model, however, did not generate the expected prosperity. Although public investment initially produced favourable results, economic mismanagement of the nationalised industries ultimately led to economic stagnation. External factors contributed equally to the demise: falling coffee prices in 1978, a second oil crisis in 1979 and a costly war against Idi Amin (Uganda) that same year. As a result, income per capita of the population declined by almost 2% annually (Mwase and Ndulu 2008, p. 433).

Nyerere stepped down voluntarily in 1985.[24] The policy of his successor, Ali Hassan Mwinyi (1985–1995), was economically and politically more liberal. He reduced import restrictions and encouraged private initiatives. This led to a recovery of economic growth, especially in the early years. The second half of his term, however, saw support for his reforms dwindle and corruption increase. The relationship with donors deteriorated, which resulted in a significant decline of aid. Economic growth basically came to a standstill as a result of these factors.

Tanzania indicators (2010)

Inhabitants (in millions)	45
National income (in US$ billions)	23
Economic growth (%)*	6.8
Government expenditure (% GDP)	27.4
Budget support grants (in US$ millions)*	425
Budget support loans (in US$ millions)*	289
Budget support as % of bilateral aid	39
Income per capita (US$)	530
Poverty percentage	33
Rural poverty (%)	38
Life expectancy (year, at birth)	57
Population growth (%, per year)	2.0
Literacy rate (%)	73
Ranking on development index (countries, 2011)	152

** 2006–2010 average per year*

The third president, Benjamin Mkapa (1995–2005), continued economic liberalisation and privatised a large number of state enterprises. This helped amend relations with donors. Mkapa's policy began to bear fruit in particular from 1999 onwards. The average annual economic growth from the end of the millennium onwards was 7%. Mining and tourism were the main drivers of this growth.

Jakaya Kikwete succeeded Mkapa in late 2005. Kikwete promised to end corruption, but several corruption scandals erupted under his rule. According to donors and other observers, the new president seemed less reform-minded than his predecessor and was more interested in domestic political relations than in relations with donors. Economic growth remained high, thanks to investments in mining and tourism, but poverty barely declined. Kikwete was re-elected in 2010.

5.3 Motives, expectations and selection criteria

Although debt relief at the beginning of the millennium was the most acute reason to introduce budget support, other factors played a part too. A key element of this was the objective to harmonise aid and to gear aid more to Tanzanian priorities. The first thoughts about this can be found in the *Helleiner Report* from 1995, which aimed to improve relations between the government and donors. The report was the basis for the 2002 *Tanzania Assistance Strategy* (TAS), which provided a framework for donor coordination,

[24] At that point, he was the second African president to do so, after Senghor in 1980 in Senegal.

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harmonisation and alignment. The introduction of a sector approach in several sectors, such as health care (1998), education (1999) and local government (1999), also contributed to this. In 2006, the government and donors adopted the *Joint Assistance Strategy for Tanzania* (JAST). Donors pledged to adapt their aid to the government's poverty reduction strategy and to strengthen domestic accountability through the use of national systems. The JAST called on donors to provide as much of the aid as possible in the form of budget support.

According to the 2006 *Partnership Framework Memorandum*, budget support promoted economic growth and poverty reduction by:
- providing additional resources to achieve these objectives;
- improving aid effectiveness by promoting ownership, and improving the allocation and strengthening of public finance management;
- developing a policy dialogue that contributes to a policy for growth and poverty reduction;
- using the national budgetary process; and
- improving the monitoring and evaluation and safeguarding of mutual accountability.

It was especially important for the Tanzanian government to gain control, by means of budget support, of its own development process. Unlike project aid, budget support aimed to:
- strengthen national ownership;
- increase the predictability of aid;
- reduce transaction costs; and
- increase domestic accountability (instead of accountability to foreign donors).

The donors' intervention was partly in line with this. Isolated donor projects would undermine local capacity and ownership by:
- creating parallel structures;
- removing the best people on the Tanzanian end; and
- creating unwieldy procedures for small projects that result in high transaction costs on the Tanzanian end.

Budget support, on the other hand, would strengthen local ownership by using domestic accountability systems and by building the government's capacity to develop and implement programmes. Reforming the financial systems would lead to more transparency, thereby reducing the risk of corruption. Harmonisation and more predictability would improve the budgetary process and ensure that financial aid was used more effectively. Conversely, the modality would give donors the opportunity to reduce their own transaction costs by limiting their involvement in the various sectors.

In Karel van Kesteren's book, *Verloren in wanorde* (Lost in disorder), the former Dutch ambassador in Dar es Salaam (2005–2009) cites a number of budget support's advantages:

1 the huge fragmentation of aid – both in Tanzania and elsewhere – led to massive losses of efficiency, a less than optimum spending of resources and high transaction costs;
2 all aid is fungible, so that it is ultimately not clear what the aid is actually financing;
3 financing specific projects is patronising, arrogant (as if it is a given that donors make better choices) and does not do justice to the priorities of the country in question. For example, Van Kesteren criticised the Global Funds' great attention on HIV/AIDS at the expense of other diseases (p. 173);
4 many projects were not sustainable because they didn't use the country's priorities as their starting point (pp. 166-167);
5 it is precisely when donors concentrate their resources on budget support that it will (because of its mass) strengthen the policy dialogue: 'a direct opportunity for donors to address government activities in recipient countries …' p. 158); and
6 budget support helps to strengthen democracy because its resources are part of the national budget, which creates democratic control on the spending of donor money, which, in turn, contributes to more effective anti-corruption measures. If anything, it is projects, with all their murky rules, that play into the hands of corruption (pp. 161-163).

In essence, Van Kesteren argues that the key factor behind poverty and lagging economic development is the existence of a funding gap: '…budget support is there for additional spending flexibility…' (p. 145). The former ambassador also had great faith in the possibility of using the policy dialogue to influence policy. He is not an advocate of huge, unwieldy meetings, however, such as annual reviews, but more in favour of a discussion between a few ambassadors with the Minister of Finance, 'so that matters can be dealt with quickly'.

Budget support came with a number of conditions, which were included as underlying principles in the GBS Partnership Framework Memorandum:

1 a sound macro-economic policy and macro-economic management;
2 commitment to achieving the MDGs and MKUKUTA objectives;
3 sound finance management;
4 peace, respect for human rights, the rule of law, democratic principles and an independent judiciary; and
5 good governance and domestic accountability.

In addition to these fundamental principles, the donors checked up on progress every year on a number of indicators, as set out in the *Performance Assessment Framework*. This is a matrix with three pillars (underlying processes, temporary process actions and results) and four focus areas (income growth, well-being, governance and accountability, and public finance management). One of the characteristics of the PAF in Tanzania was the large number of indicators (from 45 in 2005 to 78 in 2008), which continued to grow every year. Based on an assessment of the progress on these indicators, donors indicated how much budget support they were willing to transfer the following year. The underlying principles were not formally part of the annual review. They were put higher on the agenda, however (see Lawson et al. 2010).

5.4 Implementation

Tanzania has been one of the very largest recipients of budget support, not only absolute but also relative. The modality was good for US$930 million in 2009/2010, about 42% of total bilateral aid. This percentage, much to the chagrin of the Tanzanian government, has remained fairly constant through time.

Table 5.1: Total bilateral development aid (ODA) to Tanzania by modality

	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011
Budget support										
- Grants					293	386	484	478	482	480
- Loans					223	220	292	260	448	133
- Total	**312**	**283**	**385**	**407**	**516**	**606**	**776**	**738**	**930**	**526**
Basket funds		147	184	333	261	134	293	311	308	
Project funds	332	496	450	582	417	765	791	786	960	
Total bilateral	**644**	**926**	**1,019**	**1,322**	**1,194**	**1,505**	**1,860**	**1,835**	**2,198**	

** 2001/2002–2010/2011; in US$ millions*

Source: Tanzania Assistance Strategy Annual Implementation Reports; GBS annual Review Report 2007; ODI 2008; Wangwe et al. 2010, Ministry of Finance, MKUKUTA Annual Implementation Report 2010–2011.

Despite a sharp increase in aid to Tanzania, aid dependency declined. Between 2005 and 2010, general budget support financed 18%–20% of the government's expenditures (Lawson et al. 2010). In the period 2009–2010, it accounted for 12% of the government budget. This number decreased for the fiscal years 2010–2011, partly due to donor cutbacks, to approximately 6.4% of the government budget.

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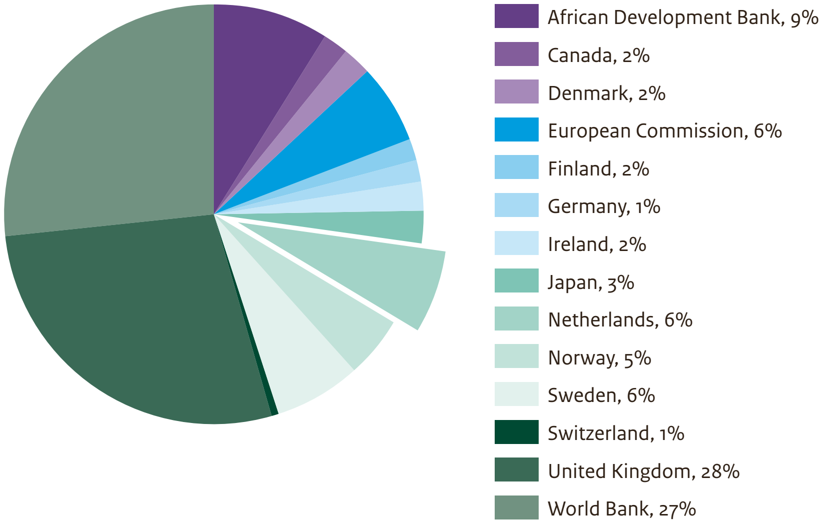
Figure 5.1: *Distribution of general budget support 2005/2006–2008/2009*



Source: Tanzania Assistance Strategy Annual Implementation Reports; GBS Annual Review Report 2007; ODI 2008; Wangwe et al. 2010, Ministry of Finance, MKUKUTA Annual Implementation Report 2010–2011.

The Netherlands granted a total amount of general €201 million in budget support to Tanzania between 2000 and 2008. The Netherlands gave almost the same amount in sector support as well, especially in health care, education and decentralisation.

Table 5.2: Dutch bilateral aid to Tanzania 2000–2011 (in EUR millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GBS	39.2	16.0	15.1	25.3	14.6	10.0	30.0	30.0	30.0			
Social funds	19.5											
Debt relief	31.2	9.2	53.5									
SBS/Basket	12.0	8.9	32.0	10.0	34.6	18.4	26.3	44.5	31.2	30.7	36.1	41.5
Other	0.3	24.7	29.1	22.1	13.7	12.9	11.0	9.5	9.6	7.0	8.6	6.5
Total	**102.2**	**58.8**	**129.7**	**57.5**	**62.9**	**41.3**	**67.3**	**84.0**	**70.8**	**37.7**	**44.7**	**48.1**

Source: Midas, Pyramid.

There were initially serious differences in the ministry about the desirability of granting Tanzania budget support. The budget holder, responsible for macro-support, was in favour of it, but the regional department was against it because of a high rate of corruption, a lack of accountability and poor implementation capacity (IOB 2008, p. 173). As a result of these differences of opinion, the Netherlands was unable to make a multi-year commitment. Dutch disbursements fluctuated, partly because at the beginning of the year it seemed as if there would be less money available at the end of the year than was actually the case. When the new ambassador took office 2005, the embassy became a great advocate of general budget support. Indeed, disbursements became more predictable until 2009.

5.5 Ownership and influence

Donors were positive about the new poverty reduction strategy (MKUKUTA) when they signed the new MoU in 2006, and in the spirit of the Paris Declaration, they had high expectations of the future. Nonetheless, the Performance Assessment Framework was extremely detailed, especially at the instigation of the donors. Tanzania's poverty reduction strategy should have been the main focus, and yet the donors kept coming up with more and more of their own priorities. As a result, the Tanzanian government viewed the PAF mainly as a set of conditions and not as an instrument in the policy dialogue (Claussen 2010, p. 2).

From 2008 onwards, the first cracks in the relationship began to appear. Several major corruption scandals, which were revealed in late 2007, played an important part in this. The first scandal involved fraud with an account for foreign funds at the Bank of Tanzania; the second case of corruption concerned a contract for an oil pipeline and the supply of generators (the (Richmond affair).[25] The Netherlands, and other donors, responded by suspending budget support to the country. According to the donors, the president dealt vigorously with the scandals, after which they resumed payment after all in 2008. Donors were becoming more critical of corruption, however, partly because of a changing political climate in their own countries, but also because, according to many donors, the Kikwete administration was not doing enough to fight corruption, despite the way it tackled had tackled both matters. This shift in confidence regarding the effects of development cooperation, and the revelation of corruption scandals, meant that fiduciary risk took on an increasingly important role in the policy dialogue.

A second factor that contributed to a tense relationship was the figures that were published for 2009 on poverty development in Tanzania. According to the 2007 *Household Budget Survey*, poverty was declining, especially in rural areas, but not much. Moreover, the business and investment climate was only improving marginally. In late 2009, Tanzania fell on the World Bank's Doing Business list. The sluggish pace of reform also caused several donors to question the government's commitment. Until 2011, targets were increasingly being missed. This contributed to politicisation, with the government and donors negotiating until after the reviews on the question of whether progress on an indicator was satisfactory or not. In May 2010, donors announced cutbacks of US$200 million in budget support for the years 2010–2011. The reasons were the sluggish pace of reform in public finance management and the only marginal improvement of the investment climate and a more fair distribution of public service resources.

[25] Under pressure from the parliament, the Tanzanian Prime Minister Edward Lowassa stepped down because of his role in the Richmond affair. Lowassa later became chairman of the Parliamentary Committee for Security and Foreign Affairs.

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The Tanzanian government, on the other hand, believed that donors were interfering too much with everyday matters ('entering the kitchen to do the cooking themselves') and also with matters that were exclusively Tanzania's responsibility (Wangwe et al. 2012, p. 34). Tanzanian government officials increasingly criticised the quality of the staff on the donor end: 'The tendency in their attitude (the DP staff) is now more to find fault or trying to show power instead of attempting to strike some compromises or picking up best practices to encourage; this problem is partly aggravated by high turnover of these staff and the consequent limitations in institutional memory'.[26]

As a consequence of the rising tensions, there was less interaction between the parties – apart from formal procedures. The policy dialogue did not so much become more political as more formal. The assessment of the PAF results became increasingly mechanical and rigid, focusing on whether the targets had been met or not, instead of an open discussion about progress in the sectors and any bottlenecks that may have arisen (Wangwe et al. 2010, p. 75; Lawson et al. 2010, p. 70).

The Netherlands contributed to this in recent years. In 2009, minister Koenders, acting single-handedly among donors, decided to suspend aid to Tanzania again after claims by a Dutch businessman had been ignored for years. The minister insisted to both the Dutch parliament and the Tanzanian government that this was not the only reason for suspending budget support, but more the result of a deteriorating business climate, but for others (Tanzanian government as well as other donors) this was not convincing.

The suspension of budget support created friction in diplomatic relations between the Netherlands and Tanzania. Other donors maintained that freezing budget support because of one incident was counterproductive and undermined harmonisation. The question remains whether the Netherlands' contribution merited the country to act as a loner. It seems as if Dutch political considerations were more important than the signal this would give to the Tanzanian government. Freezing budget support was not understood on the Tanzanian end, where it was mainly seen as a form of blackmail to protect the interests of a Dutch businessman. In early 2011, the Dutch decided to act single-handedly again, at exactly the time when donors were about to make a joint decision on the continuation of budget support to Tanzania. The bold manner in which the Netherlands conveyed this message to the Minister of Finance and Economic Affairs, and the pragmatic argument that it used, claiming that the Netherlands no longer had any obligations in Tanzania, only strengthened that impression.

[26] The quote is from Wangwe et al. 2010, p. 74.

5.6 Intermediary effects

In their evaluation of general budget support to Tanzania (which covered the period 1995–2005), Booth et al. (2005) concluded that budget support:
- had helped to strengthen donor harmonisation and gear aid more to national priorities;
- had led to an increase of external resources that were available for the national budgetary process, which greatly enhanced ownership in the Tanzanian government;
- had created more focus on strategic issues in the dialogue, and so played an important role in policy development; and
- was an important factor in improving technical assistance and capacity building.

These factors subsequently helped to improve the economic management, public finance management and allocative efficiency. On the other hand, however, the role of the parliament, and therefore domestic accountability, remained limited.

Lawson et al. (2010) also concluded that budget support succeeded in increasing discretionary resources for priority sectors, but that this had little influence on improving democratic control. In that sense, budget support had not delivered on the promise of policy leverage (Lawson et al. 2010, p. 6). The implementation of other reforms was equally sluggish. The evaluation concluded that Tanzanian political culture, which is centralised in nature, stands in the way of public sector reform: 'It is not simply a question of introducing new management technology and processes but of changing the fundamental ways in which the state sees its role and its own ways of organising' (ibid, p. 15). The authors call the results in the area of decentralisation quite successful. The pace of reform was not high, but there was progress, and lower-level governments received more authority and the percentage of government expenditure on lower-level governments also increased (17% in 2001 to 25% in 2007–2008).

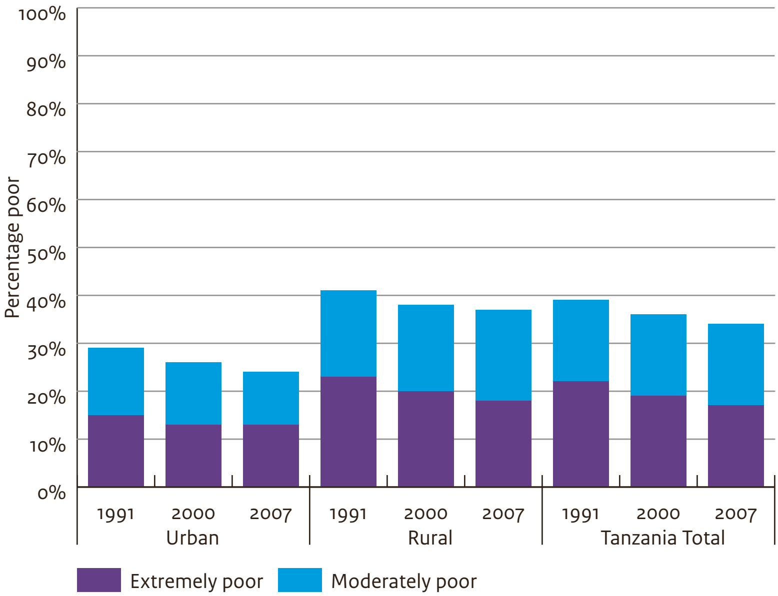
Reforms in the area of public finance management were initially a success, and the various measures led, to a limited degree, to better financial control, which the authors argue is the result of a decline in commitment by the Tanzanian government (ibid, p. 15). Another explanation is that the programme was too ambitious and exceeded the government's capacity to implement it (Hawkins 2009). Results in terms of improving the investment climate were indeed poor, but donors had unrealistic and sometimes misplaced expectations in this area (Lawson et al. 2010, p. 20). More than was usually the case, the evaluation concluded that the lack of reform was not only due to a lack of commitment but also to capacity problems and the increasing complexity of reforms as well as a failure by both parties to solve the problems in a constructive dialogue (ibid, p. 36).

There is no reliable study on the effect of budget support on transaction costs in Tanzania. Even if transaction costs did decrease, then this was offset by on-going and serious interest in other modalities of aid, especially by new donors (Global Fund, MCC, China).

5.7 Impact: economic growth and poverty reduction

During the first period of budget support – during Mkapa's term in office – Tanzania usually received quite a good assessment for macro-economic policy (IOB 2008, p. 173). Economic growth was high, inflation was low and Mkapa was working towards further economic liberalisation. The economy continued to develop favourably during the second period, though the investment climate barely improved. Despite an average annual economic growth of 7%, income poverty hardly decreased, from 36% in 2000 to 34% in 2007. One million more people now live in poverty than at the beginning of the millennium due to strong population growth. Economic growth mainly occurred in mining, construction, telecommunications and banks, all of which are sectors that employ few people. The majority of the professional population work in agriculture, and the average annual growth in that sector was 4%–5%. The effects of growth per capita were also limited thanks to high population growth.

Figure 5.2: *Poverty development in Tanzania 1991–2007 (in percentage of the population)*



Source: National Bureau of Statistics; Household Budget Survey 2007; adapted by IOB.

Poverty seems relatively low in Tanzania compared to neighbouring African countries. But Hoogeveen et al. (2008) point out that the Tanzanian poverty line is relatively low. Taking the internationally accepted 'dollar-a-day poverty line' as their benchmark, they estimate that approximately 58% of the population falls under the poverty line – a percentage that is more in line with neighbouring countries (such as Zambia). Inequality is relatively low and has barely increased in recent years.[27]

Much of the economic growth is related to a rise in government consumption, especially as a result of public services extensions in education, health care, and water and sanitation (Mkenda et al. 2010). Spending quadrupled in these sectors. Employment in these sectors is relatively limited, however, and that is why this rise in spending did not act as an engine to improve the lowest incomes. Investments in the social sectors, however, did help to reduce other kinds of deprivation and generate improvements in a number of the MDG targets. Today, almost 90% of the children are vaccinated against diphtheria, whooping cough and tetanus, and cases of malaria are strongly declining as well. This was partly responsible for a 40% decline in child mortality. The prevalence of HIV also decreased strongly. Distribution remained a problem, however. Although health care services were extended, access to and use of these services remained low in rural areas (Lawson et al. 2010, p. 11). Most services are situated in urban areas. The majority of the rural population has to travel more than five kilometres to see a doctor. In rural areas, 39% of women give birth in a clinic or health care centre; in cities it is 80%. Costs are also an obstacle for the use of health care services. In addition, personnel shortages are preventing improvements in health care.

In education, the number of teachers increased by 40%, and the number of schools by 33%. In 2001, the country abolished parent contributions to primary education. These factors all helped to increase the number of pupils enrolled in primary education by four million and 1.2 million in secondary education. The poorest income groups in particular benefited from free education and service extensions. In 2000, 47% of the poorest 20% of households went to school; by 2007, that had increased to 78% (for the highest 20% of incomes, this was 72% and 91%, respectively). Inequality remained high in secondary education, however. In 2002, 22% of the pupils in primary education went on to secondary education. In 2006, that had increased to 68%. But then it decreased to 52% again in 2009 (Lawson et al. 2010, p. 12).

Lawson et al. (2010) conclude that '…it is inconceivable that such a significant contribution to spending in these areas could have been made through other aid modalities' (p. vi). According to the authors, it was important that the government and donors had the same priorities in these areas. At the same time, they suggest that budget support did not always help to improve the quality or efficiency of public services and that inequality in sector allocations continued to exist, despite the attention devoted to this in the policy dialogue.

[27] An analysis of poverty is difficult in many African countries because income is not a good benchmark. That is why statists agencies use other benchmarks, such as food shortage (based on a specific number of calories needed) or a broader 'basic needs' poverty line. One problem with this is that consumption patterns change over time, as the massive introduction of mobile phones in Africa has shown. Many poor people make rational choices that may not always seem equally rational to us (such as the purchase of a TV, see also Banerjee and Duflo, 2011). The problem of measuring poverty accurately also makes the concept more prone to political manipulation, which is one of the reasons why it takes so long for results to become available.

5.8 Conclusions

In Tanzania, the government and donors have gained extensive experience with the instrument of general budget support. Two periods of budget support can be distinguished. Around the turn of the century, when the government and donors started with budget support, they viewed it as a more or less logical sequel to debt relief; during the second period, the scope of this modality grew markedly, fuelled by the Paris Agenda and confidence in the Tanzanian government's policy.

In recent years, donors have become more critical. According to them, it took a long time to draft a new MKUTA (poverty reduction strategy), but in the meantime there was insufficient progress in many areas, including poverty reduction, the promotion of a more or less equal and more strategic allocation of resources across regions, equal opportunity for everyone, improvement of the investment climate and strengthening of public finance management. Tanzania, meanwhile, criticised the lack of predictability of donor funds and excessive donor interference, which undermined local ownership and accountability.

Different evaluations conclude that the expectations, especially by donors, of budget support were too high. The instrument contributed to an expansion of social services, but barely influenced reform or poverty reduction. Donors tried to 'buy' reform with budget support, but the extensive and complex list of conditionalities backfired and had a negative impact on the policy dialogue (Lawson et al. 2001, p. vii; Wangwe et al. 2010, p. 24; Claussen 2010, pp. 4-5). As a result, mutual distrust grew, and parties resorted to formal structures for the policy dialogue instead of open discussions. In addition, capacity problems, both on the Tanzanian and donor ends, impeded the modality's potential effectiveness.

A lack of harmonisation undermined donor effectiveness (see also Fölscher, 2008, p. 23 and De Kemp, Faust and Leiderer 2011). This was evident, for instance, in the large number of bilateral agreements, which took precedence over the PAF and the fact that there continued to be two separate reporting systems, especially at the sector level (Afrodad 2007, p. 26; Wangwe et al. 2010, p. 15). Another example is the role of the Performance Assessment Framework. For some donors, the PAF is the primary monitoring instrument, while for others it is mainly an instrument in the dialogue, and for others it is an instrument that enables donors to disburse. For some donors (especially banks), the underlying processes are important, while others focus more on specific targets or results at the outcome level. On top of that, different variable tranches, and those of the overall PAF, undermine each other's effectiveness (Claussen 2010, p. 6). The government then opts for the tranches with the highest yield and the lowest risk.

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6

Ghana country case study

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6.1 Introduction

The Netherlands' development cooperation relationship with Ghana gradually took shape in the past 13 years in the areas of health care, the environment, governance and public finance management (PFM). The Netherlands is one of Ghana's largest bilateral donors, after the United Kingdom (DFID), and as such has often played a key role (Betley and Burton 2011). The Netherlands took the initiative, together with the EC, DFIC and the World Bank, to launch Multi-Donor Budget Support (MDBS) in Ghana, which at its peak counted eleven donors. The Dutch portfolio grew consistently between 2002 and 2007, but after 2007, the Netherlands gradually began to scale down relations. After having provided Ghana with general budget support (GBS) for ten years, the Netherlands has ended it in 2012.

In addition to cutbacks in the Netherlands, changes in Ghana have also prompted a discussion of GBS. Ghana has reached the status of lower middle-income country (LMIC); it has substantial income from oil wells on the horizon; and Sino-Ghanaian relations are flourishing. Ghana's relationship with China is generating a variety of dynamic projects, and Chinese aid is essentially free of conditions. This is making it more difficult for other donors to influence policy. Ghana can now choose which development model it wishes to pursue (Tan-Mullins, Mohan and Power 2010). The Netherlands will remain present for another eight years to provide technical assistance when needed. Relations will concentrate increasingly on issues that are mutually important (MASP 2012–2015).

6.2 Context

While Ghana was still relatively prosperous when it gained independence in 1957, from 1965 onwards the economy declined and corruption increased (Tagoe 2010). In the early 1980s, a military coup by the *Provisional National Defense Council* (PNDC), led by air force captain J.J. Rawlings, seemed to lead to a positive change. The IMF and the World Bank supported Rawlings' socio-democratic *National Democratic Congress* (NDC) with an economic recovery programme (ERP). Structural adjustments led to macro-economic stability and economic growth, but civilians barely noticed any progress. The authoritarian NDC was increasingly confronted with internal and external pressure to democratise the country. This resulted in the first free, competitive election in eleven years in 1992. Despite waning confidence in the NDC, voters still elected the party in 1992 and 1996.

The return of the multi-party system and the corresponding election campaigns caused the focus on structural reform and poverty reduction to subside (Whitfield 2010). In 1995, the Ghanaian government developed a five-year plan and 'Vision 2020' under pressure from donors, but these documents had little practical value (Foster and Zormelo 2002). The NDC government lacked a long-term vision on policy and budget. Rawlings increasingly distanced himself from neoliberalism (Whitfield 2010). The IMF suspended its loan to Ghana in 1996 for the country's failing monetary and budgetary policies. The IMF resumed its support in 1998, and between 1998 and 2001 the Netherlands started to co-finance €20 million worth of balance of payments support with the World Bank.

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Ghana's national economy reached a low point in the late 1990s. John Kufuor's liberal-democratic New Patriotic Party (NPP) narrowly won the 2000 elections. During the election year, the IMF programme temporarily went 'off track' again. In 2001, Ghana received extensive incidental budget support (€80 million) as compensation for its contribution to the UN ECOMOG peacekeeping force in Liberia. The money was transferred to the Central Bank, officially as exchange rate compensation (IOB 2008, p. 169). The Netherlands also wanted to support the development of the Ghana Poverty Reduction Strategy (GPRS) and the transition to the opposition government.

The economy began to recover in 2001, partly as a result of higher prices and increased production of gold and cacao, and a further depreciation of the national currency (The EIU 2002). Confidence in Ghana also increased thanks to President Kufuor's proactive attitude in the national and regional contexts. In 2002, after a slow start, the GPRS process started gaining momentum. The country completed a new PRGF with the IMF that year, which, together with the approved poverty reduction strategy (GPRS I, 2002–2005), resulted in Ghana's admission to the HIPC initiative's Completion Point. After re-election in 2004, the government focused on reviewing the poverty reduction strategy in 2005 (GPRS II, 2006–2009), to which were added the development priorities in the Millennium goals (MDGs), NEPAD and UNCTAD.

The Kufuor government began both its first and second terms in office making many promises to its people and donors, the confidence of whom they enjoyed. The first scheduled actions were institutional reform, followed by structural improvements in society. During the government's first term in office, it was not held accountable for the lack of clearly visible development in light of the short time it had been in office, its good intentions and the relatively favourable circumstances in Ghana. Support for the NPP government waned as the 2008 elections approached, however. The party's failure to live up to campaign promises, the global crisis, natural disasters and strikes took their toll. As a result, a new NDC government, led by Atta Mills, was given a chance in 2009.

6.3 Motives, expectations and selection criteria

Ghana was in a relatively favourable starting position for budget support in the late 1990s in terms of governance.[28] Ghana scored above average in the areas of legislation, civil rights and freedom of expression, for example. The NPP also launched the National Anti-Corruption Plan (NACP) after it took power in 2001, with the aim of implementing zero tolerance with corruption. It also appointed a National Reconciliation Commission to address alleged improprieties in public administration. In addition, the government's openness to reorganising public administration did not go unnoticed (TR 2002 and 2003; Cavalcanti 2007). As described above, in 2003 a poverty reduction strategy had been approved, and there was a new IMF agreement as well.

[28] Unless otherwise mentioned, this section is based on the Annual Report and the MDBS agreement from 2003.

The new government also generated confidence in others by committing itself to a strict monetary and budgetary policy, and by implementing a number of important reforms regarding public finance management (TR 2002; Lawson et al. 2007). The neoliberal policy framework of poverty reduction, moreover, had the potential to promote a favourable business and investment climate. The Netherlands wanted take stock and intensify the cooperation, trade and investment opportunities for Dutch products and services (2001–2004 Annual Reports).

In March 2003, the government signed the Framework Memorandum (FM) for Multi-Donor Budget Support (MDBS) with nine development partners: the African Development Bank (AfDB), Canada, Denmark, the EC, Germany, the Netherlands, Switzerland, the United Kingdom and the World Bank.[29] Even though the donors thought the poverty reduction strategy should be more specific and that it should be linked to the budget, the strategy was nonetheless the basis for policy agreements with the government. Donors gave the benefit of doubt to the intentions of both the strategy and the government (Whitfield 2010). Although donors pushed for well-calibrated reform in areas such as privatisation, decentralisation and public sector reform, the Performance Assessment Framework (PAF) revealed that most attention went to public finance management (PFM) and improving the medium- to long-term estimates for expenditures. The donors proposed that they offer part of the GBS as a resource for technical assistance, but the government declined.

The MDBS partners intended to use the policy dialogue to play a facilitating role in structuring and improving intra- and inter-ministerial communication and cooperation at the decentralised levels. This would ensure that issues transcending the sector, such as poverty, would receive attention as well. Combining forces under the MDBS was also intended to strengthen the position and capacity of the Ministry of Finance and Economic Planning (MoFEP) in order to break through the project-oriented character of aid. A strong MoFEP, moreover, that worked with line ministers and the national planning and development commission would ensure that policy and budget were more aligned. Improvements in public finance management had to lead to more transparency and better control of public resources. The Netherlands devoted additional attention to improving and increasing participation, consultation and transparency by developing independent research platforms and by supporting a critical and well-organised civil society.

[29] France and Japan, who initially served as observers with the IMF, UNICEF and the United Nations (UNDP), raised the total number of MDBS partners to 11, in 2005 and 2008, respectively.

6.4 Implementation

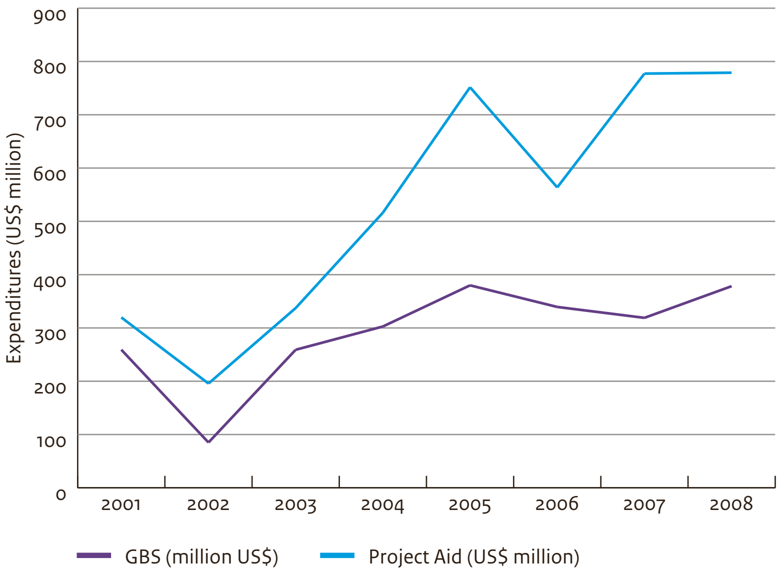
The Framework Memorandum was the foundation for the MDBS agreement. The scope of the annual budget support depended on two assessments. The progress of the PRGF was a determining factor for the payment of the fixed 'tranche', and it comprised half of the committed budget support. The payment of the flexible 'tranche' depended on progress on the indicators of the performance assessment matrix (PAF) agreed upon by the government and donors. The PAF contained indicators for the short and medium to long term, and the government reported annually on progress. The fixed tranche was disbursed in the first quarter, while the flexible tranche was paid between the third quarter and the end of year. From 2006, decisions regarding both tranches were made for the following year (t+1) based on the assessment of the previous year (t-1). The fixed and flexible tranches were determined in the second quarter (May) and second half of the financial year, respectively.

The PAF covers three pillars: (1) the development of a particular sector, (2) social sectors and (3) governance and PFM. Assessment of progress usually rests on more general progress than on triggers from the PAF (Lawson et al. 2007). In 2006, donors decided for the first time not to pay 10% of the flexible tranche, which amounted to €14 million, because Ghana scored an unsatisfactory on one of the ten triggers (2006 Annual Report). The triggers gained in importance between 2006 and 2009. It is striking that timely and comprehensive reporting became a condition as well, and that the Netherlands used this trigger to refrain from fully paying the performance grant in 2008 (MASP 2009), whereas the Netherlands had a reputation for promoting a more holistic approach. In order to improve predictability, many donors eventually decided to increase the amount of the fixed tranche. The United Kingdom, Canada and the Netherlands, for example, changed the 50:50 ratio to 80:20 in mid-2006 (2006 Annual Report).

It was not always easy for the eleven donors and the government to come to an agreement (Betley and Burton 2011). During the first period, the government still spent a lot of time dealing with the donors' individual initiatives, procedures and systems (AFRODAD 2007). There was also an intense debate between donors about whether the indicators should be result-oriented (the European Commission's preference) or process-oriented (the World Bank's preference) (Lawson et al. 2007; Woll 2008).

Despite agreements to reduce earmarked programme and project aid, traditional forms of aid continued to be granted and were even increased (see figure 1). Budget support accounted for 25%–35% of ODA in the period 2003–2006, and about 10% of total government expenditure (Killick 2007). From 2006 onwards, budget support nevertheless represented only 5% of total government expenditure (Survey SPA 2008).

Figure 6.1: *General budget support and project aid to Ghana 2001–2008 (in US$ millions)*



Source: NDPC, GoG and UNDP (MDG Rapport 2010).

Since 2003, the relative importance of unearmarked budget support decreased due to the increase of project aid and government income (table 6.1). The amount of GBS with respect to gross domestic product (GDP) only started to decline from 2008 onwards, in particular because of the discovery of oil and capital inflows from China.

Table 6.1: MDBS to Ghana 2003–2010

	2003	2004	2005	2006	2007	2008	2009	2010
Budget support (US$ millions)	277.9	309.0	281.9	312.2	316.6	368.1	525.2	403.9
Budget support (% total ODA)	30.0	26.7	29.3	33.0	26.5	25.7	34.6	23.4
Budget support (% gov't expenditure)	-	12.7	10.2	8.3	7.7	8.3	9.3	5.5
Budget support (% GDP)	3.6	3.5	2.6	1.5	1.3	1.3	2.0	1.3

Source: official MoFEP data, Ghana (in Betley and Burton 2011, p. 2)

The Netherlands spent the most on general budget support to Ghana between 2007 and 2010 (Table 6.2).

Table 6.2: Dutch bilateral aid to Ghana 2000–2011 (in millions of euros)												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GBS			8.8	7.2	10.0	10.0	14.7	25.0	24.3	25.0	20.0	10.0
Incidental		80.6			6.5							
Co-financing	6.8	6.5										
Debt relief	0.0	0.0	42.8	14.4								
SBS/Basket	3.7	6.0	17.5	10.0	18.8	5.6	21.3	18.4	25.4	25.0	25.1	25.0
Other	17.9	22.4	8.3	7.1	10.8	4.5	9.7	20.9	7.4	14.7	9.9	10.3
Total	**28.4**	**115.6**	**77.4**	**38.6**	**46.1**	**20.2**	**45.7**	**64.3**	**57.2**	**64.7**	**55.0**	**45.3**

Source: Midas, Pyramid.

6.5 Ownership and influence

The PAF was essentially based on poverty reduction strategies, but ownership of the first strategy in particular was minor. The Kufuor government did leave more of a mark on the second strategy in 2006, central elements of which were economic growth and the development of the private sector. But the government had little say in the PAF's indicators and triggers. That the government actually had very different priorities than the donors was evident from the way the funds from the United States' Millennium Challenge Account were spent. Most of it was spent on production and infrastructure and not on poverty reduction (Woll 2008). The government displayed a great deal of openness and involvement in the MDBS dialogue, in which sensitive and closed issues were made public and discussed. As a result, donors felt they could interfere with everything. This made the MDBS an exercise in detail, in which the government was challenged about incidents. This was at the expense of an open and broad discussion about problems and potential solutions (Killick 2007).

The government largely gave in to the donors' demands, despite the fear of losing its autonomy or the elections. For example, various government subsidies were abandoned under pressure by donors, the most sensitive of which was the fuel subsidy in 2004, following the re-election of the NPP.[30] This contributed to a discussion about the influence of donors and the loss of independence.

Donors, conversely, believed there was a major problem regarding the implementation of approved measures as the institutional capacity had shortcomings (TR 2009, MASP 2008). In the run-up to the 2008 elections, Kufuor II came under heavy pressure as a result of rising energy prices, the threat of strikes in the public sector and unfulfilled promises. The government resorted to populist, short-sighted policies to win votes, and the issue of poverty was pushed into the background. Kufuor's party lost the elections anyway.

30 Subsidising products in the energy and water sectors put tremendous pressure on the government budget. Abolishing these subsidies was a condition for the PRFG and MDBS (2005–2006 Annual Reports).

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In light of the new government's socio-economic inclination, donors expected the focus on poverty reduction and redistribution to increase again. The MDBS was extended to 2012. The new government was able to rapidly stabilise the macro-economy, but budget deficits persisted as a result of decreases in tax revenue, among other things. In 2011, 72% of the PAF targets were met, and the PFM already achieved higher scores in completeness and transparency. The constitution was also revised to promote democratic processes (World Bank 2011). Donors had confidence in the leadership and ownership of the Mills administration.

6.6 Intermediary effects

Over time, the MDBS in Ghana developed into *the* forum for development aid. The character of the MDBS, which was comprehensive and transcended sectors, convinced donors to use the MDBS dialogue for modalities other than budget support as well, so that it covered 90% of the donors and 95% of total aid (Betley and Burton 2011, p. 19). A distinction was made between the overarching dialogue and sector working groups; donors would only participate in working groups that they had expertise in (Calvalcanti 2007). This reduced transaction costs, certainly for the government. The donors did not have less work, but different work (MASP 2008) and others concluded that transaction costs for donors increased (Quartey et al. 2011, p. 52).

The predictability of budget support improved from 2006 onwards, when a new timeline was introduced. Over time, donors adhered more and more to their commitments, and 90% of the funds were disbursed within the stipulated budget year, though the exact time did still deviate frequently from the agreements (Survey SPA 2008, p. 26).

The MDBS dialogue also improved coordination between the Ministry of Finance and Economic Planning and the line ministries. This had a positive impact on the quality of implementation by the central government. Some progress was also made in the area of Public Finance Management (PFM). Since 2006, the budget is first approved by parliament, and both internal and external audits have been institutionalised., and the overspending of the line ministry budgets has decreased. The administration and management of incomes, debt, expenditures and salaries improved, but systematic and accurate reporting remained difficult (TR 2009 and 2010). Much expenditure was still made that had not been budgeted (TR 2009).

The donors' strong influence on the content of the PAF and the growing focus on accountability regarding the PAF also stood in the way of government accountability to the citizens of Ghana. The government did give enough space to parliament, the rule of law, evaluation and audit departments, media and civil society. However, apart from the media, the role of these organisations was limited in practice (Quartey et al. 2011).[31]

[31] The media is an important factor in the fight against corruption. On several occasions, the media uncovered major and minor corruption scandals, which prompted the government to look into the situations and take action (2005 Annual Report).

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Budget support played an important role in improving macro-economic stability, but the commitment of the Ministry of Finance and Planning was essential to this process.[32] The majority of budget support resources, especially in the beginning, were used to relieve domestic debts and build international reserves for domestic credit for the private sector and to fight poverty. In addition, government income increased between 1999 and 2005 (Lawson et al. 2007).

6.7 Impact: economic growth and poverty reduction

As was the case in other African countries, the Ghanaian economy developed favourably after the turn of the century (see also Radelet, 2010). Between 1999 and 2002, the average annual GDP growth was 4.2%. This rose every year after that until it surpassed 8% in 2008. This growth was mainly attributable to favourable international prices and an increase in the production of the most important export products and a low oil import price. In 2009, the international financial crisis caused this growth to slow down, but in 2010 the economy recovered with a growth of 7.7%. In late 2010, Ghana achieved the status of middle-income country.

Despite the relatively positive economic development, Ghana did not progress much on a number of cornerstones in the development strategy. The government did not succeed in modernising agriculture or industry. Government policy helped cacao production to double between 2000 and 2005, but the planned investments in food production, such as grain, rice, horticulture, food processing and sales markets lagged behind. The production of cotton, coffee, meat and fish decreased (Whitfield 2010).

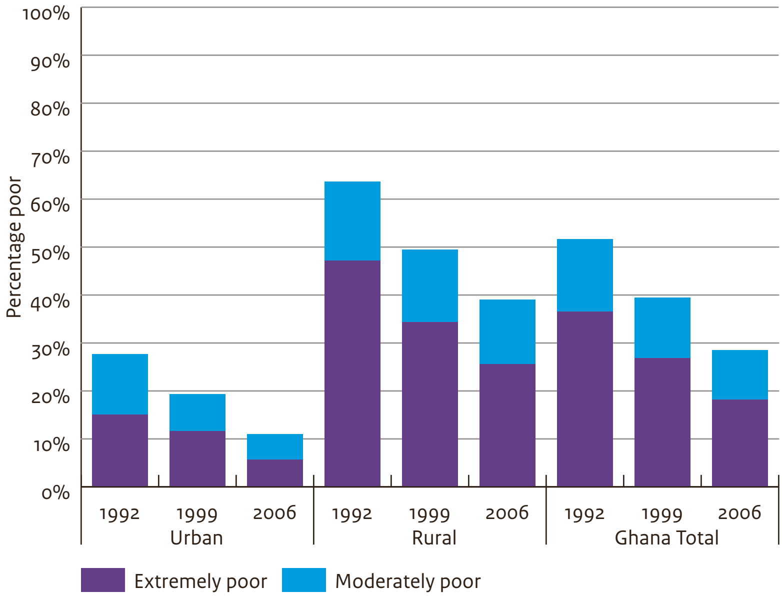
Economic growth, supported by foreign investment, development expenditures and debt relief, helped to reduce poverty. Transfers made by Ghanaian migrants to their families at home also contributed to this.[33] The number of households below the poverty line decreased from 52% to 28% between 1991 and 2006 (MASP 2008–2011). Extreme poverty also decreased sharply.[34] In 2006, 18% of the population lived in extreme poverty, as opposed to 36% in 1991. The percentage of malnourished young children declined from 30% to 13% (AR MDBS 2010). Significant regional differences remain, however.

32 Domestic debt was reduced from 23.7% to 10.8% of GDP between 2002 and 2005. Inflation decreased, and the Cedi stabilised and increased compared to the euro and dollar (Lawson et al. 2007, pp. 40-41).

33 The financial crisis in 2008 led to a dramatic drop in transfers made by Ghanaian migrants, which may have had a negative impact on poverty development (MDG Report 2010).

34 The World Bank estimated in 1995 that GDP would have to show an annual growth of 5.8% in order to resume the living standard of 1965 in 2000. Based on this, it would take 10 years before the average citizen could escape poverty and 40 years for the very poorest (Foster and Zormelo 2002).

Figure 6.2: *Poverty development in Ghana 1992–2006 (in percentage of the population)*



Source: MDG Report 2010; adapted by IOB.

Poverty is especially high in the north, where 58% of the people live in poverty, as opposed to 19% in de rest of Ghana (Aide Memoire 2011). Unlike the rest of the country, poverty in the extreme north has not improved but deteriorated (MDG Report 2010). The south benefitted from mining and agriculture, supported by a better economy and physical infrastructure and emerging services, while the neglected agricultural sector in the north did not attract any investment (Whitfield 2010, pp. 723-725). The north is struggling with poor infrastructure and inadequate public services, which has led to massive migration from the region (MASP 2008 and 2009).

Government programmes have gone a long way to improve public services. Ghana has already achieved the MDG 7 target on safe drinking water (World Bank 2011, p. 20). Improvement of sanitation facilities is far behind schedule, however. Achieving MDG 7 in its entirety would require five times the improvement seen between 1993 and 2008 (Results Chain MASP 2008–2011).

Enrolment in *primary education* improved markedly, in part because school fees were abolished and school lunches were introduced in 2004. The number of children attending school increased particularly in disadvantaged northern regions (MDG Report 2010). Nonetheless, various studies conclude that many resources were not distributed to disadvantaged areas, and that only 21% of the investments reached the poorest households (World Bank 2011, p. 29). For example, 43% of the school programme ended up with the wealthiest 20%, and not more than 7% ended up with the poorest quintile (Aide Memoire 2011, p. 23). This statistical analysis, however, hides the fact that the poor's access to basic services did improve on a few essential points (see also table 6.3).

The quick rise in enrolment had a drawback as well. More pupils in primary education accounted for a worsening teacher-pupil ratio, and such a quick demand for new teachers affected their training level. The growth in the number of teachers and rising salaries also means there is barely any room for investment in buildings or teaching materials. So in 2011, for example, 96% of the budget was spent on salaries (World Bank 2011, p. 13). Another bottleneck is the persistent absence of head teachers (World Bank 2011, pp. 22-29).

Table 6.3: Enrolment in primary education and access to health care services by income (2004–2010)

	Poorest 20%	Second quintile (20%)	Middle 20%	Fourth quintile (20%)	Wealthiest 20%
Enrolment in primary education					
2004	43%	56%	64%	68%	78%
2010	59%	72%	77%	82%	86%
Financial obstacles preventing access to health care services					
2004	74%	68%	60%	51%	33%
2010	60%	50%	49%	41%	31%

Source: DHS Ghana, UN Data; adapted by IOB.

In *health care*, the number of doctors per capita of the population doubled, and the number of nurses rose slightly. A greater focus on vaccinations, malaria and malnutrition caused the mortality rates of young children, after years of stagnation, to sharply decline in several regions (World Bank 2011). Nevertheless, in 2008 only four regions were ahead of schedule to achieve the MDGs (MDG Report 2010). Mother mortality also remained high, and Ghana is unlikely to achieve this millennium goal (Aide Memoire 2011; World Bank 2011, p. 37). The distribution of financial resources and operational inefficiencies play an important role here too. In disadvantaged areas, the absence of medicine and social workers, as well as the distance and cost of treatment, are huge stumbling blocks. The Netherlands, as leading donor, advocated a health care system that is accessible to disadvantaged Ghanaians by contributing to the foundation of a national health care insurance. Today, 80% of the population has joined this system (Results Chain MASP 2008–2011). The premium is too high for the poorest households, however (Aide Memoire 2011, p. 23).

6.8 Conclusions

Ghana is one of the most stable countries in its region. Because of this, and because there was significant agreement on preferences between the government and donors, the country was an ideal candidate for budget support. The Ghanaian government was open to the donors' vision, and this attitude enabled the policy dialogue to be broadly oriented and effective, even though it only gained strength over time. Donors are generally satisfied with this dialogue and the processes that they believed emerged from it, even though it is not always clear to what degree results could really be attributed to this dialogue.

Ghana made progress in important areas during the first decade of this century. The country has reached middle-income status and has made excellent progress in a number of MDGs, democracy and the quality of governance. Poverty has sharply declined, though recent data is lacking, and the country has implemented significant improvements in education and health care.

Ghana still faces a number of challenges in the areas of anti-corruption, public participation, PFM and poverty reduction, but macro-economic and political stability has laid the foundation for a cooperation that is increasingly less financial and more technical in nature.

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Published by:

Ministry of Foreign Affairs
Policy and Operations Evaluation Department (IOB)
P.O. box 20061 | 2500 EB The Hague | The Netherlands
www.rijksoverheid.nl/BZ-evaluaties

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Cover: Budget support: Putting all one's eggs in one basket or walking on eggshells? (Hollandse Hoogte)
Chapter 1: Market in Nicaragua (Hollandse Hoogte)
Chapter 2: Agriculture in Vietnam (Hollandse Hoogte)
Chapter 3: Basic education in Mali (Hollandse Hoogte)
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Chapter 5: Health care in Tanzania (Hollandse Hoogte)
Chapter 6: Trade in Ghana (Hollandse Hoogte)

In the past decade, donors, including the Netherlands, have increasingly supported the budgets of governments in developing countries directly. It was felt that this general budget support would make aid more efficient and effective, and generate more sustainable results. It would also give donors the opportunity to encourage reform through the accompanying policy dialogue.

IOB has concluded that the instrument contributed to economic growth and the extension of public services. Public finance management and democratic control improved as well. Budget support is not suitable for pursuing major reform, however, unless the recipient government takes ownership of it.

This report includes the results of six country case studies.

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