

Evaluation Insights



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Assessing the impacts of budget support

Case studies in Mali, Tunisia and Zambia

By Enzo Caputo, Antonie de Kemp and Andrew Lawson

Some donors provide part of their aid through government budgets. There is growing interest in finding out whether or not this form of assistance – known as budget support – is an effective way to achieve sound development policies, poverty reduction and economic growth. To address this need, members of the OECD DAC Network on Development Evaluation developed a new approach to evaluate the results of budget support and tested this approach in three countries.

This note provides an overview of the main findings and conclusions emerging from the three evaluations of budget support operations in Mali, Tunisia and Zambia. The evaluations were carried out under the supervision of a Steering Group, led by the European Commission, of the DAC Network on Development Evaluation.

The three applications took place in quite different country contexts, with the countries receiving different absolute and relative amounts of general and sector budget support (Table 1). The coverage and scope of the evaluations also differed.¹ The synthesis therefore does not attempt to draw general and definitive conclusions on budget support, but rather highlights lessons from these three countries that have important general implications. Further lessons from other country contexts are needed.

Budget support contributes to the implementation of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. Budget support has contributed to increasing partner countries' control over aid funds. Budget support operations have also supported the development of shared frameworks, tools for policy dialogue and shared results monitoring systems. Such benefits are, however, subject to agreement on objectives, harmonisation of donors and to alignment with partner country priorities in the implementation of budget support operations.

Main findings on the outputs of the budget support programmes

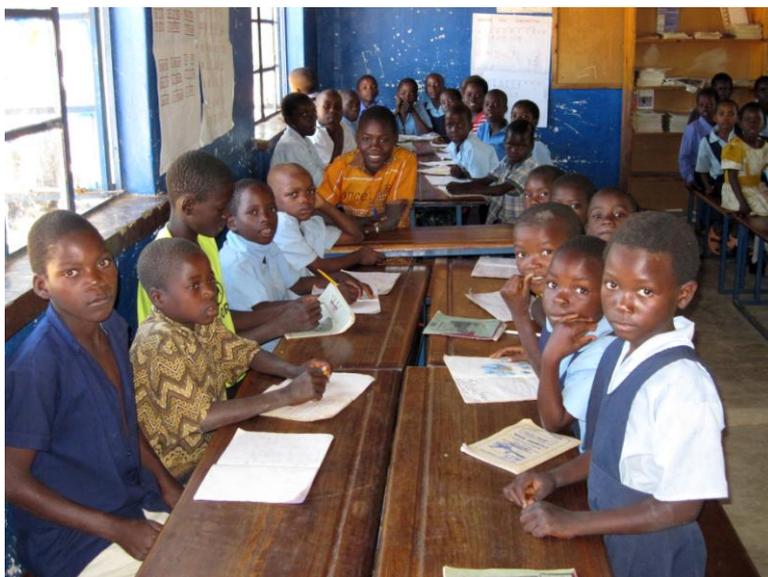
- The design of budget support has been appropriate to country contexts, with effective dialogue frameworks to accompany policy implementation and diversified technical assistance provided.
- However, alignment with partner countries' priorities and harmonisation among donors are far from complete.
- Budget support operations have contributed to increasing public financial resources and strengthening budget management. They have contributed to increased discretionary expenditure and allocative efficiency in national budgets.
- Programmes have provided effective support to implementation of public financial management and other reforms where government and society were committed thereto, but they have proved incapable of "buying" reform, confirming findings from other research.

Increasing financial resources and strengthening budget management:

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

Adapted design of the programmes and flexible use of general and sector budget support:

In all three countries the operational design was mostly well-adapted to the specific local contexts. The choice between general support and sector-specific support has not affected how the instrument operates, nor directly its results. Success has mainly been a factor of the policy objectives adopted and the corresponding institutional framework.



*Students at Chilenga basic school during a visit of the evaluation team in Chadiza, Zambia (Antonie de Kemp, 2010)
The study found that budget support increased government spending on education.*

Positive dialogue frameworks and diversified use of technical assistance: Policy dialogue frameworks put in place to accompany budget support (although at different levels and degrees of complexity) have contributed significantly to strengthening the implementation of the development strategies or plans of partner countries, when objectives converge. Technical assistance measures are not always sufficiently embedded in the actual structure of the operations (as specific programme components). In some cases, though, technical assistance does provide complementary support, either in the form of project aid or through the adoption of innovative arrangements. For example, twinning programmes were used for institution building in Tunisia and a comprehensive basket-funded public financial management programme was set up in Zambia.

Harmonisation and alignment far from complete: The move to budget support was in itself an expression of improved harmonisation and alignment. This was the case, for example, in Zambia, with the Joint Assistance Strategy. In Mali and, to some extent with general budget support in Tunisia, the policy dialogue enhanced harmonisation and alignment. However, all the evaluations underline that the harmonisation processes are far from complete. Donors often continue to support less-coordinated initiatives in parallel with budget support.

¹ Evaluation Coverage: The Mali evaluation looks at 32 out of 33 budget support operations financed by ten donors over the period 2003-09, including general budget support (PRSP support) and sector support to education, health and social policies, public finance management and decentralisation. In Tunisia, the evaluation covers 7 out of 12 operations financed by the European Commission over the period 1996-2009. Four were general and three sector budget support, covering secondary and tertiary education and vocational training. In Zambia, the evaluation covers Poverty Reduction Budget Support and sector budget support to roads, public financial management and health, 2002-2009.

Table 1. Budget Support in Case Study Countries

Country	Total Budget Support* % of Public Expenditure	General Budget and Sector Support	Donors Financing Budget Support
Mali	1,327 million USD (2003-2009) 10% of public expenditure	72% general budget 17% education sector 5% health sector 6% decentralisation	General : AfDB, World Bank-IDA, Canada, Denmark, European Commission, France, the Netherlands, Sweden Sector : Belgium, Canada, European Commission, France, the Netherlands, Sweden and Norway (joint), Spain
Zambia	1,268.4 million USD (2002-2010) 6.2% of public expenditure	88% general budget 12% sector support (mainly to roads)	Poverty reduction budget support : AfDB, European Commission, Finland, Germany, the Netherlands, Norway, Sweden, the United Kingdom, and the World Bank Sector : European Commission and the United Kingdom
Tunisia	549 million USD (1996-2009) 1.4% of public expenditure	76% general budget 24% education sector	General : AfDB, European Commission, World Bank Sector : European Commission

* The total amount of budget support covered by this evaluation during the indicated period (see Footnote 1 for coverage). For Tunisia, this represents about 62% of all budget support provided during this period. For Mali and Zambia, nearly all budget support was covered.

In Mali, and even more so in Zambia, the Performance Assessment Frameworks illustrate diverging interests, their indicators and targets are not always realistic, and, moreover, some indicators are barely measurable. In Tunisia, whereas the objectives and targets of the EU-Tunisia Association Agreement and the partner's ownership ensure strong harmonisation and alignment of general budget support, in sector budget support, harmonisation is poor. The principal recurrent bottlenecks in the harmonisation process are ill-coordinated sector interventions, unrealistic conditions and targets in Performance Assessment Frameworks, and a multiplicity of coordination structures. Such barriers, especially when coupled with persistent provision of off-budget aid, lead to limited improvements in terms of reducing aggregate transaction costs and improving development effectiveness.

Increased discretionary expenditure and allocative efficiency: Both general and sector budget support have contributed to easing financial management, providing additional flexibility and increasing discretionary expenditure in Mali and Zambia, where they represent a significant share of public expenditure (Table 1). In Tunisia, such an effect has been less obvious, although not insignificant.

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

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

Support provided to implementation of public financial management and other reforms was effective when government and society were already committed to these reforms, but aid alone was not able to generate this commitment: All three evaluations conclude that budget support has been instrumental in improving public financial management, including aggregate fiscal discipline and macroeconomic management (e.g. external debt), prioritisation of expenditure and transparency. On the other hand, when a government is not committed to given political and policy changes, budget support is unable to generate or even promote such commitment. This is true even where aid represents an important share of public expenditure (Mali and Zambia) and its withdrawal could have negative effects (macro-economic and political imbalances or cuts on service delivery).

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

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



A representative of the new Tunisian government at a workshop with the EC, EU member states, other donors and non-state actors to discuss the evaluation results (April 2011)

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

THE CONTRIBUTION OF BUDGET SUPPORT TO DEVELOPMENT RESULTS IN PARTNER COUNTRIES

Main findings on the outcomes and impacts of the Budget Support programmes

- In Tunisia, international support contributed to growth and private sector development, since the country's commitment to certain reforms was high and the programme operated in a context characterised by trade and economic integration into world markets. In the other two cases, although financial flows of budget support programmes had an impact on stabilisation and growth, other factors, such as regional and international commitments and export prices, played a more significant role.
- Budget support's contribution to increased public investment and reform in social sectors has helped the countries achieve significant outcomes in education and health. Support to growth and social policies has contributed to reducing income and non-income poverty, but rural poverty has not been addressed adequately. Expectations of short-term impacts on poverty reduction have been unrealistic.

All three evaluations conclude that the macroeconomic stabilisation policies put in place by the governments had positive effects on economic growth. Economic reform enhanced private sector development only in Tunisia (albeit with certain weaknesses related to the domestic market).

In Mali, budget support has only partly contributed to improved macro-economic policies, as other important factors also played a part, for example the macro-economic convergence framework within the West Africa Economic and Monetary Union and surveillance by international institutions. The evaluation points to weak economic reforms, resulting in poor performance of the economy in terms of private investment and ease of doing business. However, specific components to support of economic reforms were not included in the budget support operations.

In Zambia, substantial investments were recorded in some major economic sectors, but efforts to improve opportunities in the rural economy were insufficient. Budget support provided a limited contribution to the macro-economic policies. These were mainly driven by other factors (export prices, debt relief). In agriculture, the financial contribution provided by general budget support has financed doubtful subsidy policies, about which there are significant divergences of opinion between government and donors.



*Staff and community members at a health centre in Mali (EC, 2010)
The evaluation concluded that reforms and related investments from budget support produced significant outcomes in health.*

In Tunisia, the Association Agreement with the EU facilitated the launch of ambitious reforms aimed at overcoming the dual system (offshore-only export sector *versus* protected and State-dominated domestic market) and ensuring competitive integration of the national economy into the EU and world markets. On the negative side, the political control of the domestic market and the lack of competitiveness in agriculture and services remained strong. The reform triggered strong economic and civil dynamics, which clashed with the persistence of the authoritarian patronage system. The budget support contribution to economic reform has been effective, while it had little influence on creating better economic governance and more competitive domestic market policies, both of which lacked political support.

Increased public investment has produced significant outcomes in education and health: In all three countries the reforms and related investments supported by higher levels of public expenditure produced significant outcomes and also some measurable impacts. In Mali and Zambia, basic education and health were targeted, whereas in Tunisia secondary and tertiary education and vocational training were the focus.

In all three countries, important achievements in education were registered, in terms of total enrolment, increased participation of girls, and access for students from poor areas. In Zambia, the improved health service coverage led to a reduction in the incidence of diseases such as tuberculosis, malaria and diarrhoea, and also to a reduction of child and maternal mortality. All the evaluations also highlighted some weaknesses in the quality of health and education services provided. For instance, average test scores (used as an indicator of education quality) did not improve, despite investments in teachers and classrooms. However, this may be explained at least in part by the massive inflow of children from poor, remote rural areas – in Zambia and to some extent in Tunisia - who had never been to school, resulting in a dip in average scores.

Budget support’s contribution to government social policies has been significant. Where there was agreement between partner countries and donors on objectives, budget support has been able to contribute to a combination of increased discretionary expenditure, enhanced public financial management and policy backstopping in a way that would not have been possible through traditional aid modalities.

TABLE 2: Selected development indicators

Indicator	Mali	Zambia	Tunisia
Income level	Low	Lower middle	Upper middle
GDP (current USD billion), 2010	9.3	16.2	44.3
GNI per capita, Atlas method (current US\$), 2010	600 USD	1,070 USD	4,070 USD
Poverty (% of population at national poverty line)	47.4% (2006)	59.3% (2006)	3.8% (2005)
Life expectancy at birth (years), 2009	49	46	74
Adult literacy rate (% of people aged > 15)	26% (2006)	71% (2009)	78% (2008)
Human Development Index, 2010	0.309	0.395	0.683
Human Development Index Ranking, 2010	160	150	81

Source: World Bank Data 2010, Human Development Report 2010 and data from the evaluation reports

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

Budget support has contributed to both income and non-income poverty reduction in Tunisia, through its contribution to economic reform, growth policies and education reform. It has mainly contributed to non-income poverty reduction in Mali and Zambia, through support to education and health. In addition, its contribution to budget stabilisation and to public financial management buttressed growth policies and increased impact on income poverty.

LESSONS FROM THE THREE EVALUATIONS

Some lessons on key budget support features may be drawn from the three evaluations:

- **Budget support is an effective tool in a country where the government has the capacity and the determination to put in place and implement robust development policies.**
- **It is a useful and well established financing modality**, with positive effects on macro-economic management and on public investment in the priority sectors; none of the three evaluations found evidence that the risks many associate with budget support, for example crowding out of domestic revenue and increased corruption, have materialised in practice.
- **Budget support contributes to improved accountability and transparency of budgeting processes** and is a valid support for the implementation of reforms, when governments and citizens are actively committed thereto.
- **Budget support benefits from complementarity with other forms of aid.** In addition to technical assistance embedded in the actual structure of budget support operations, the effectiveness of budget support programmes can be increased when associated with complementary and coordinated support provided either in the form of classic project aid or more innovative twinning arrangements, especially for capacity-building purposes.
- **Budget support is more beneficial with higher degrees of harmonisation and alignment.** Currently, differences in conditionalities (as shown by the too- often different and sometimes unrealistic targets in the Performance Assessment Frameworks), multiplicity of monitoring missions and diversity of disbursement procedures from different donors have negative effects on both transaction costs and on the outcomes of policy and political dialogue. The underlying reasons are partly rooted in a substantial lack of consensus on the overall aims of budget support and the prioritisation of different goals (financing versus governance reform) in and between donor countries and agencies. These conflicts cannot be resolved at country level alone.
- **Budget support cannot generate major policy changes but can provide sound support to policy implementation, where country ownership is high.** Through its combination of financial and non-financial inputs, budget support has proved an effective mechanism where the overall objectives and strategies of the partner country and donors converge and where conditionalities are established on a shared and verifiable basis (strong country ownership). In such cases, budget support, compared to project aid, has a strong value-added and may generate higher leverage effects.



Women participate in a focus group discussion in Kalomo District during the evaluation study visit in Zambia (Hans de Voogd, 2010)

- **Policy dialogue is a key component to ensure the relevant and effective contribution of budget support to policy reform and implementation.** Its quality, however, depends on country ownership, harmonisation among the donors, and the depth of political and economic partnerships. Effective policy dialogue also requires high quality expertise of all participants, which may imply the need for technical assistance. Dialogue should take place on a formal and informal basis, to ensure full understanding and trust between the parties.
- **The benefits of budget support are strengthened and multiplied when the support is linked to wider political and economic partnerships that enhance the development opportunities for the partner country,** thereby increasing its ownership. In such cases budget support reinforces its role as a financial and technical cooperation instrument, while political dialogue and negotiations ensure respect for principles and wider development objectives.

LESSONS OF BROADER SIGNIFICANCE

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

- **Choice between general and sector budget support:** The reasons to choose one type of budget support over another were not deeply explored in the three evaluations. However, it is clear that the differences between general budget support and sector budget support are modest. The key problem facing any kind of budget support is to make the right context analysis and to clarify the objectives of the different partners. Sector-specific support may enable a closer partnership and more flexible institutional arrangements, which may result in better sectoral outcomes, compared to general support. However, in some cases, better overall coordination is needed, which cannot be achieved through sector support alone. For example, in Tunisia, education policies aimed at enhancing employability needed strong overall coordination between national institutions, at both macro-economic and wider sector levels (industry, labour, local development). For a stronger effect on employability and employment, it may have been better to have only well-coordinated general budget support.
- **Is it an instrument for fighting corruption?** The budget support instrument has been conducive to increasing transparency and accountability in public expenditure management in the three countries. In terms of supporting anti-corruption policies in public administration and domestic markets, however, the evidence shows that development co-operation in general – and budget support operations in particular – must be backed by a strong government commitment to transparency and reform, coupled with adequate mobilisation of civil society. As a case in point, co-operation in Tunisia did not have a tangible impact on reducing corruption in the domestic market because the government was not committed to do so.
- **Methodological issues:** The methodology adopted contributed to better identification of development results and the specific role of budget support in their achievement, as well as better consideration of the political economy of the contexts in which budget support has operated. Partner country ownership, well-documented formal and informal policy dialogue, evidence on donor coordination and capacity-building measures, are all essential for success in evaluating budget support. The methodology allows an understanding of the contribution of budget support to development results in a given context, through its influence on country policies.

NEXT STEPS

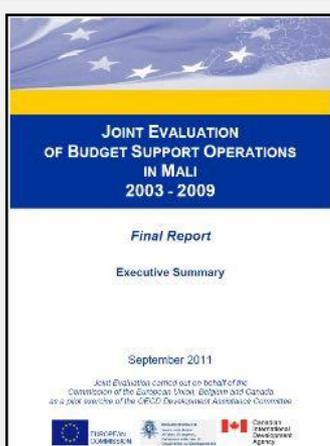
The experience has shown the importance of carrying out joint evaluations with a shared approach, comparing the results and drawing conclusions together. Yet much remains to be done in this respect.

In particular there is a need to:

- reinforce the OECD DAC commitment to improve and increase joint evaluation practice and results networking among DAC members (with particular reference to joint interventions);
- strengthen the participation of local stakeholders in evaluations and particularly in the production of data and policy assessments, in order to lay the foundations for a stronger focus on development results at country level;
- build into the budget support process, objectives and tools to improve data production and policy assessments on development results;
- consolidate the consensus on evaluation approaches and methodologies and encourage simplification in use;
- strengthen communication policy and tools for disseminating results to improve understanding on budget support and its strengths and limitations.

Evaluation Insights are informal working papers issued by the Network on Development Evaluation of the OECD DAC. These notes present emerging findings and policy messages from evaluations and share insights into the policy and practice of development evaluation. This note synthesises main findings on the contribution of budget support to development results, from three pilot evaluations in Mali, Tunisia and Zambia.

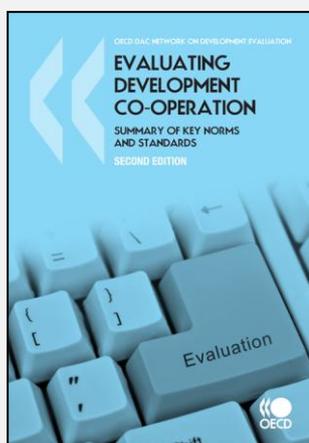
Further Reading



Evaluation Reports: Mali, Tunisia, Zambia

<http://oe.cd/dacbudgetsupport>

The evaluation reports described in this note are available online, together with further information on the methodology used for the studies and other OECD DAC work on budget support.



Summary of Key Norms and Standards - Second Edition (2010)

<http://oe.cd/DevEvalNorms>

This concise document contains the main elements of the OECD Development Assistance Committee's approach to evaluation, including core principles for evaluation policy and management, a description of the five main evaluation criteria and the internationally agreed quality standards for evaluation processes and outputs. A working tool for assessing evaluation systems and the use of evaluation in development agencies is also presented. The last section points to other resources, including specific guidance on various types of evaluation. Also available in French under the title: *Évaluer la Coopération pour le Développement: Récapitulatif des Normes et Standards de Référence*

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