

# Development in Brief



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## How Effective Is Budget Support? Results From Recent Evaluations

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Budget support has long been a subject of controversial debate in international development cooperation. From a pure financial perspective, budget support involves the transfer of funds to the partner government's national treasury to finance the partner country's national budget. The partner country then spends the money in accordance with the respective national rules and regulations in order to achieve development policy objectives. However, budget support also includes a political dialogue process where spending priorities and reform programmes are discussed and their execution is monitored. Budget support is also often accompanied by measures that are targeted at strengthening public financial management in the partner countries (audit offices, spending management and tax administration etc.).

The advocates of budget support argue that this strengthens the ownership of the partner country and results in structural improvements to the country's overall system rather than just having a positive impact on an individual project level. On the other hand, critics point out the limited influence at this high level and the difficulty in precisely tracking the funds invested in the partner system.

### A new methodological approach to evaluating budget support effectiveness

The exact proof of the effectiveness of budget support is a complex issue. However, over the last few years a range of budget support evaluations (including Zambia, Mali, Tanzania and Mozambique) have been conducted in accordance with a new "Three Steps Approach" methodology that has been developed by the Development Assistance Committee of the OECD (Organization for Economic Cooperation and Development). The evaluations follow three steps:

**Step 1:** Assessment of the inputs and the direct and induced outputs of budget support (e.g.

increase in public social expenditure and benefits).

**Step 2:** Identification of changes at the level of outcome and impact (e.g. reduction of poverty, improved education results).

**Step 3:** Analysis and attribution of the contribution of budget support (step 1) to impact (step 2), also taking into account other contributing factors (e.g. tax-funded measures by partner governments, other forms of donor contribution).

### Budget support strengthens social sectors ... though the impact on income poverty remains low

The evaluation studies demonstrate that budget support helped to achieve significant, positive results in all the cases investigated. Thanks to budget support, poverty-related expenditure increased in the partner countries. As a result considerable improvements in the areas of health and education have been achieved. The observable impact on the reduction of income poverty was smaller. One explanation for this is that improvements in education and health result in increased income opportunities only much later. Furthermore certain topics that are particularly relevant for fighting income poverty (e.g. agricultural productivity) were often not given priority in the political dialogue associated with budget support.

### Better public financial management

Clear positive developments in the areas of public financial management and macro-economic performance as well as transparency and accountability were found in all countries studied. On the one hand, greater use of the partner's national financial systems through budget support had a positive impact. On the other hand, targeted measures associated to budget support to improve financial

management, auditing and tax collection also proved worthwhile.

The evaluations also indicate that the substitution of the partner countries' own national revenue, as feared by budget support critics, did not materialise. On the contrary, the reforms in the tax system supported by budget support have resulted in strengthening the tax revenue of the partner countries.

### Conditionality often ineffective

Budget support is often combined with conditionality, such as the consideration of democratic principles and human rights. In some cases, explicit variable budget support tranches that are only disbursed once certain objectives have been met have also been used. Budget support evaluations indicate, however, that these conditions are often ineffective: political measures that are of high priority for a partner government cannot be substantially changed by suspending budget support payments. This finding confirms earlier studies on the limited impact of conditionality ("can't buy reforms").

### Potential of political dialogue is not fully exploited

A critical point is the missed opportunity regarding the full potential of the political dialogue related to budget support. Considerable improvements have been made regarding donor harmonisation and a forum was set up for monitoring progress towards development policy goals. However, political dialogue showed a lack of problem-solving orientation and thus performed below potential.

### Conclusion

Budget support can have positive and far-reaching effects upon development. Yet, there appears to be potential for improvement, above all in terms of political dialogue, that should focus more upon constructive problem solving and less upon conditionality. ■

### Literature

Fiscus/ADE (2014), "Meta-Evaluation of Budget Support Vol 1 (Draft)", study commissioned by the European Commission.