

ACCOMPANYING MEASURES TO BUDGET SUPPORT – ANY ADDED VALUE?

Summary

By directly transferring financial resources to recipient countries' national treasuries, budget support donors aim at supporting partner governments in implementing their own development strategies. Recent evaluations of budget support indicate positive effects toward pro-poor public expenditure and improvements in public financial management. Despite these potentials, budget support has become disputed among policy makers and practitioners due to its fiduciary and political risks.

In combination with the financial resources, the standard package of budget support comprises non-financial elements such as policy dialogue, conditionality, as well as technical assistance and capacity development. While overall effects of budget support have been investigated in a series of multi-donor evaluations, the contribution of the non-financial elements has not been specifically analysed.

A recent evaluation by DEval addresses this research gap by focusing on the element of technical assistance and capacity development, hereinafter referred to as *accompanying measures to budget support*¹. The evaluation arrives at the following conclusions:

- Accompanying measures are relevant for increasing the effectiveness of budget support. They address bottlenecks in the budget process and strengthen partner country systems. Hence, they directly contribute to good governance. Moreover, by building capacities of the partner government to address poverty reduction, accompanying measures can indirectly also increase the effectiveness of the entire budget support package.

¹ *Accompanying measures to budget support include all initiatives of financial and technical cooperation, which overlap in time with the allocation of general budget support and can contribute to its effectiveness due to interdependencies.*

- With a better understanding of the interrelations between different elements of budget support, policy makers and practitioners can integrate accompanying measures more strategically into their budget support programmes and tap potentials for synergies.
- Room for improvement remains with regard to coordination. In the process of planning and implementing accompanying measures, coordination should be improved both among the group of budget support donors, and within German development cooperation.

Why budget support?

International donors use general budget support to strengthen the ownership of a partner government by providing untied financial resources directly into the national budget through harmonised disbursement procedures. The partner government uses budget support funds to implement its own development strategy. Aligned to partner priorities, bound to the use of country systems, and harmonised among donors, general budget support is considered the most appropriate aid modality for realising the principles of effective aid as formulated in the Paris Declaration.

Among multiple goals of budget support, the core objectives are:

- Supporting the implementation of the national strategy for poverty reduction
- Promoting good governance through support for jointly agreed reform processes

While general budget support aims at cross-cutting reforms, sector budget support focuses on specific policy fields e.g. implementation of reforms in the health or education sector.

More than just money: elements of budget support

In addition to transferring financial resources to the recipient government's budget, the standard package of budget support comprises several non-financial elements. First, conditionality comes in the form of *Underlying Principles*, e.g. good governance or macro-economic stability, and a *Performance Assessment Framework*, a list of targets covering different areas of the national development plan. Second, budget support donors and the recipient government engage in policy dialogue at political and administrative levels. The third non-financial element are accompanying measures. Donors provide additional technical assistance and capacity development to strengthen the competencies of government and institutions in the recipient country and thus increase the overall effectiveness of the budget support programme.

A series of multi-donor evaluations indicate positive effects of budget support, notably relating to pro-poor expenditure. Moreover, evaluations conclude that budget support programmes have contributed to improving public financial management, fiscal transparency, and democratic control. Yet budget support remains contested among policy makers and practitioners due to its perceived fiduciary and political risks. However, it is not these presumably high risks that explain the increasingly critical attitude towards budget support, but rather political and economic changes within the donor countries.

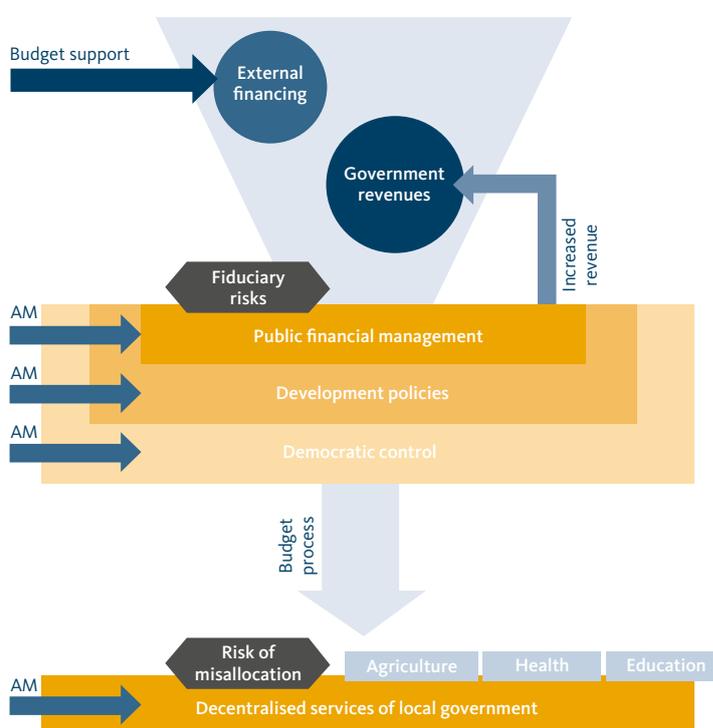
Accompanying measures

Most budget support donors implement accompanying measures parallel to their budget support programmes. Accompanying measures to budget support include all initiatives of financial and technical cooperation, which overlap in time with the allocation of general budget support and can contribute to its effectiveness due to interdependencies. German budget support uses a mix of modalities to support partner country systems directly. Commitments for accompanying measures increased substantially over the last years, both in total and in relation to the financial contribution of budget support.

Also the European Commission, the largest provider of budget support, increasingly uses accompanying measures to mitigate short-term fiduciary risks. In the medium term, accompanying measures of budget support can support national institutions of public financial management such as supreme audit institutions, tax authorities or decentralised units of financial administration. Moreover, donors can use accompanying measures to provide support to institutions of domestic accountability such as parliament or civil society organisations and to increase their capacities for engaging in the budget process and holding the government accountable.

Accompanying measures (AM) mostly address bottlenecks in the budget process. By strengthening the partner countries' systems, they directly contribute to good governance and indirectly to the budget support objective of poverty reduction (see figure 1).

Figure 1: Budget support and budget process in the recipient country



Source: authors' own

One added value of accompanying measures derives from the interrelations with other elements of budget support. By implementing accompanying measures, donors obtain important information about weaknesses in the budget process which they can feed back into the policy dialogue on different levels. Many donors use information from the policy dialogue for targeting their accompanying measures towards the identified

bottlenecks. Technical assistance and capacity development interventions benefit from being imbedded into the budget support context. Covered by the underlying principles of budget support, they are safeguarded against political risks.

Need for improved coordination

Although accompanying measures mostly address bottlenecks in the budget process, donors tend to favour certain specific thematic areas compared to others. In the area of public financial management, many donors provide support to the process of budget planning, whereas few accompanying measures address problems with budget implementation, the phase in the budget process when the government executes the budget as planned or in adjustment with short term political considerations. In a similar vein, donors tend to over-address planning issues in the thematic area of development policies.

Despite increased efforts, donor coordination is still insufficient in many areas. Donors do not use the policy dialogue systematically to coordinate the planning and implementation of their accompanying measures. Particularly in large budget support groups, donors lack an overview of the variety of technical assistance and capacity development implemented by other donors. Coordination works best in the area of public financial management due to well-functioning technical dialogue in sector working groups. However, donor representatives are less successful in coordinating accompanying measures in other thematic areas and dialogue fora due to diverging priorities and administrative requirements of their respective headquarters.

Within German development cooperation, tapping potential synergies between budget support and accompanying measures remains a particular challenge between KfW, which implements Germany's financial cooperation, including budget support, and GIZ, which is the main implementer for Germany's technical cooperation. Both coordinate their accompanying measures only selectively. While KfW links its accompanying measures directly to budget support, relevant measures of GIZ are not sufficiently integrated into the budget support portfolio. Despite contributing to the objectives of budget support, the various measures aimed at strengthening public financial management, fiscal decentralisation or democratic accountability are often not labelled as accompanying measures to budget support by representatives of GIZ.

Recent trends in budget support

The importance of budget support has waned in recent years. This trend is reflected in the aid-portfolios of bilateral donors, as well as in reduced shares of budget support within the national budgets of recipient countries, particularly in Sub-Saharan Africa. Despite decreasing bilateral commitments to budget support, Germany provides budget support indirectly as the largest financial contributor to the EU. In this context, accompanying measures remain relevant for directly strengthening country systems. In view of increasing domestic revenues in partner countries, it is crucial to support institutions and local actors in partner countries in their endeavour to improve oversight and scrutiny of the budget process. This is particularly important in countries such as Mozambique and Tanzania that expect significant revenues from natural resource extraction in the medium term and want to prevent negative effects from this.

Recent developments in bilateral aid portfolios as well as the EU's suggest a trend towards sector budget support. As sector budget support also depends on the quality of the partner countries' systems, targeted accompanying measures can help to increase its effectiveness. Interrelations between accompanying measures and other elements have also been identified in sector budget support programmes (Williamson and Dom, 2010). Moreover, partner governments in middle-income countries express a strong demand for sector-specific technical assistance and capacity development to accompany sector budget support. To what extent donors of sector budget support are able to influence key institutions of public financial management and crosscutting reforms in partner countries, remains an important question for further investigation.

Accompanying measures are also relevant in the context of fragile states. While bilateral donors tend to exercise restraint in this context, the European Commission provides general budget support to fragile states since 2012. Particularly in countries with weak government institutions, accompanying measures can contribute to establishing functional administrative capacities. In potential budget support countries, technical assistance and capacity development can be used to strengthen partner systems and to set up public financial management systems for a contingent (re)launch of budget support programmes.

Conclusion

Accompanying measures contribute to increasing the effectiveness of budget support programmes. They remain relevant even in a changing context of budget support. In countries where Germany has phased out its bilateral budget support, potentials for synergies remain between accompanying measures and the budget support programme of other donors, particularly the European Commission. The potential effects of combining aid modalities in the context of general budget support are also relevant for sector budget support.

- To realise potentials for synergies, donors should better integrate ongoing and planned accompanying measures with other elements of budget support.
- Budget support donors should use the different fora of policy dialogue better for identifying partner needs for additional

support and for coordinating accompanying measures among donors.

- Within German development cooperation, the entire process of planning, implementing and monitoring of ongoing and planned accompanying measures should be closely coordinated among representatives of BMZ, GIZ and KfW at country level.

Disclaimer

This policy brief builds on findings of a DEval evaluation on accompanying measures to general budget support in Sub-Saharan Africa. The evaluation focuses on the relevance, effectiveness and success factors of accompanying measures to general budget support in nine Sub-Saharan African countries between 2003 and 2013. The evaluation report is available online at www.deval.org.

Literature

Krisch, F., J. Schmitt and U. Dörr (2015), *Accompanying measures to general budget support in Sub-Saharan Africa*, German Institute for Development Evaluation (DEval), Bonn.

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The German Institute for Development Evaluation (DEval) is mandated by the German Federal Ministry for Economic Cooperation and Development (BMZ) to independently analyse and assess German development cooperation interventions. Evaluation reports contribute to the transparency of development results and provide policy-makers with evidence and lessons learned, based on which they can shape and improve their development policies.