

HOW EFFECTIVE IS BUDGET SUPPORT AS AN AID MODALITY?

Summary

Budget support was once considered to be the most consistent aid modality for implementing the principles of the 2005 Paris Declaration on Aid Effectiveness (see box below). More recently, however, many donors have withdrawn their support for this modality.

In light of the controversial political debate about the effectiveness and risks of budget support, DEval has prepared an evaluation synthesis to take stock of the situation. The evaluation synthesis provides the most comprehensive compilation of evidence of the modality's effectiveness to date. It answers the key question of what (positive and negative) effects can be unequivocally attributed to budget support, and identifies existing knowledge gaps.

The evaluation synthesis arrived at the following key findings:

- Budget support leads to increased public spending, particularly in the 'social' sectors of education and health.
- Budget support has a positive effect on the quality of public sector financial management in recipient countries.
- Budget support strengthens the 'supply side' of domestic accountability (ministries of finance and statistical offices). No long-term effects were identified for the 'demand side' of domestic accountability (parliament, civil society, media, etc.).
- Budget support improves access to public services. However, it was not possible to identify any effect on the quality of services.
- Budget support strengthens existing macroeconomic stability in recipient countries. However, it was not possible to attribute further improvements in economic performance to budget support alone.

Budget support combines financial contributions, policy dialogue, technical assistance and conditionality in order to promote key development objectives. DEval's evaluation synthesis

substantiates the relevant effects of budget support. Bilateral donors should therefore once again consider to invest more in joint integrated policy-based approaches that provide an overall package of financial and non-financial contributions and recommit to the 'aid effectiveness principles'.

The Paris Declaration and programme-based approaches

Around the turn of the millennium, international development cooperation underwent a paradigm shift: past approaches to development cooperation had a strong focus on donor control and on political conditionality and had not achieved the desired results. The international community gradually formulated a new agenda for more effective aid, culminating in the 2005 Paris Declaration and the definition of five principles for a new form of cooperation:

- Ownership
- Alignment
- Harmonization
- Managing for Results
- Mutual Accountability

To implement these principles, new aid modalities commonly known as programme-based approaches had to be adopted. Of the programme-based approaches, budget support was considered the modality best suited to implement the 'aid effectiveness principles'.

Objectives and definition of budget support

The primary objective of budget support is to provide partner governments with financial support to implement their national poverty reduction strategies (financing function) and to promote democratic accountability and good governance through reform processes negotiated in national institutions and forums (governance function). Financial contributions are paid directly

to the treasury of the partner government. Non-financial contributions to supporting reform processes consist of conditionalities, policy dialogue and technical assistance.

While greater emphasis was placed on the financing function of budget support when the debate first began in the early 2000s, the focus increasingly shifted to the governance function of this aid modality in the years that followed. The term 'budget support' is therefore misleading as it focuses exclusively on the financial component of this modality, while in practice it consists in the joint and integrated provision of financial and technical assistance in combination with high-level policy dialogue and a formalized framework to ensure mutual accountability.

The controversy surrounding budget support

With some experts from the development community becoming increasingly sceptical about the aid modality, discussions have tended to focus less on the potential and more on the alleged fiduciary and political risks of budget support.

In recent years, there has been a sharp decline in the acceptance of budget support in donor countries and, in many instances, cases of corruption in recipient countries and growing scepticism about the modality have been used as a reason to suspend or stop budget support contributions altogether. Bilateral donors in particular – including Germany – have provided almost no general budget support since 2012/2013. Only multilateral donors continue to use the aid modality to any considerable degree.

Despite a growing number of country evaluations and initial synthesis studies that attest to the positive effects of budget support, empirical findings on the effectiveness of the aid modality have yet to bring discussions onto a more objective level. This is mainly because these studies are based on a very limited number of cases and do not always reflect the extent to which the results are actually supported by evidence. This is where DEval's evaluation synthesis comes into play.

Systematic review of evidence

To establish which effects can be attributed unequivocally to budget support and to identify remaining knowledge gaps, DEval's evaluation synthesis draws on virtually all available literature (95 sources: 32 evaluations, 42 academic publications and

21 works of 'grey' literature). These sources were subjected to a systematic quality assessment before being used.¹ The findings of the mainly qualitative evaluations and studies were then collated in line with Campbell Collaboration's² high standards for systematic reviews. Findings were only attributed directly to budget support and included in the findings of the evaluation synthesis if they were corroborated in sufficient numbers by independent studies (at least 10 different sources, including at least one from the category 'best evidence').

Findings of the evaluation synthesis

The evaluation synthesis concludes that most of the effects attributed to budget support in the generally recognized intervention logic (OECD DAC, 2012) are well or very well supported by evidence. The evidence is particularly strong in the case of effects relating to the efficiency of public financial management and pro-poor spending policy in recipient countries.

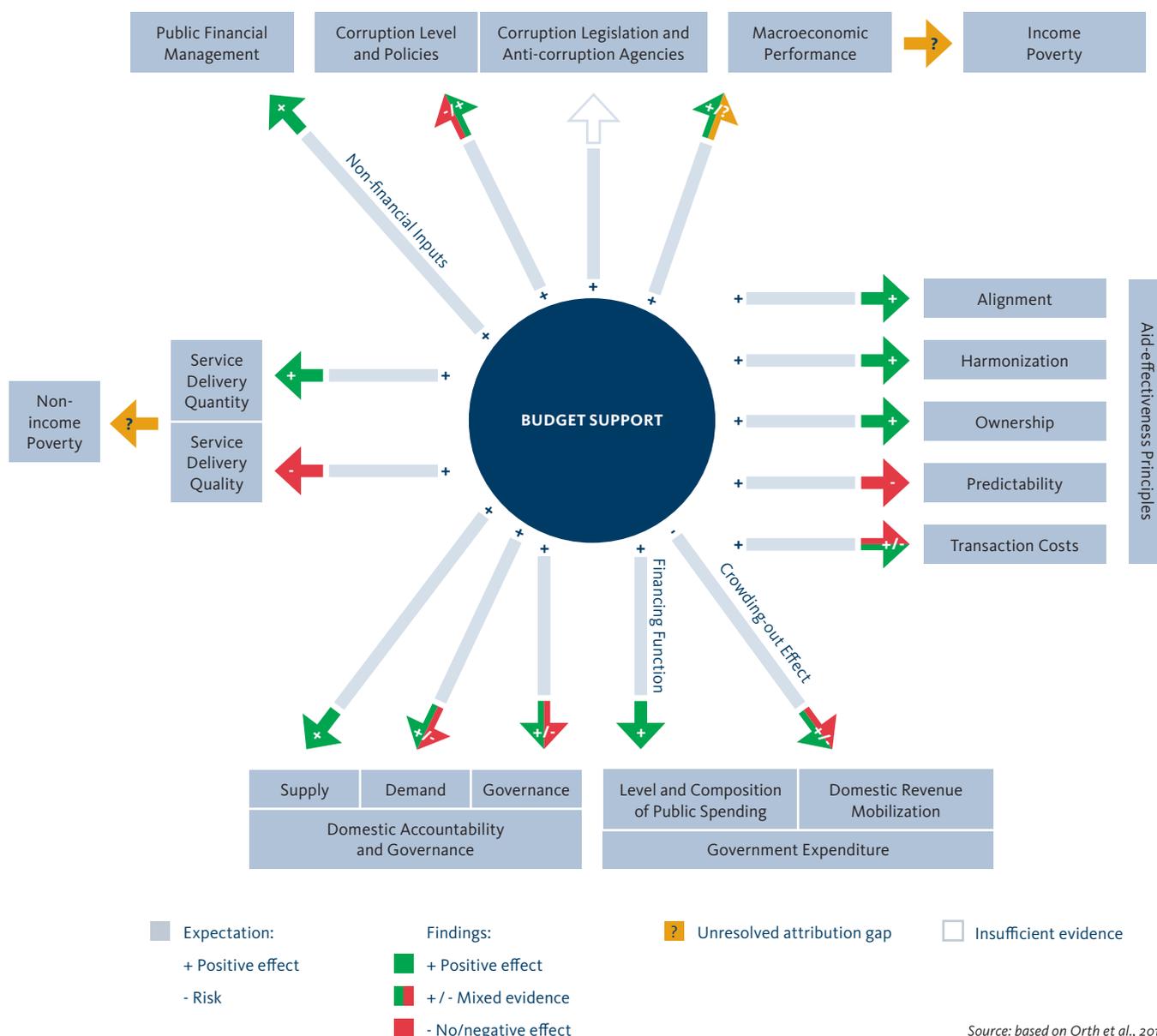
In key intervention areas of budget support, the effects directly attributable to this aid modality are largely positive or at least positive in certain contexts:

- Budget support leads to increased public spending, particularly in the 'social' sectors of education and health.
- Budget support has a positive effect on the quality of public financial management in recipient countries, especially on budget planning and preparation and budget transparency.
- Budget support strengthens the 'supply side' of domestic accountability, particularly the efficiency of institutions such as ministries of finance and statistical offices. The role and efficiency of supreme audit institutions are strengthened considerably by budget support. By contrast, no long-term effects of budget support were identified for the 'demand side' of domestic accountability (parliament, civil society, media, etc.).
- Budget support improves access to public services, particularly in the education and health sectors. However, it was not possible to determine whether it also improves the quality of service provision.
- Budget support promotes existing macroeconomic stability in recipient countries and facilitates the repayment of domestic debt. However, it is not possible to attribute further improvements in recipient countries' economic performance to budget support.

¹ For the purposes of the quality assessment, sources were divided into the categories 'best evidence' and 'second best evidence'.

² <https://campbellcollaboration.org/>

Effects of budget support



The evaluation synthesis also highlights significant gaps in the evidence regarding the effectiveness and risks of budget support. In particular, the analysed studies contain surprisingly little reference to the risk of corruption in connection with budget support, which is a major topic of discussion in political circles in donor countries. The evaluation synthesis shows that, although there is no evidence of budget support having a systematic negative effect on corruption risks, available evidence also cannot corroborate whether budget support actually reduces corruption risks.

Similarly, longer-term and indirect positive changes in recipient countries, such as reductions in income and non-income poverty, cannot be directly attributed to budget support either. This does not mean, however, that budget support has no effect on income and non-income poverty. It merely indicates that the observed changes at this level cannot be unambiguously attributed to the aid modality due to methodological challenges.

In summary, the above-mentioned effects show that the interaction of financial and non-financial inputs within the

framework of budget support has a positive impact, and that budget support should therefore be considered an effective aid modality.

Summary and recommendations

The evaluation synthesis provides the most comprehensive insight into existing evidence on budget support. Owing to the strict requirements imposed by the evaluation synthesis for the corroboration of findings, it may be assumed that the findings are extremely reliable.

Admittedly, there are still knowledge gaps in key areas. These need to be closed and taken into account to a greater extent in joint integrated policy-based approaches in the future. These gaps relate to the effectiveness of budget support at the level of income and non-income poverty and to potential risks such as

the misappropriation of funds provided through budget support and the misallocation of funds by partner governments.

Nonetheless, the evaluation synthesis shows above all that the combination of financial contributions, policy dialogue, technical assistance and conditionality in such an integrated approach is effective in terms of the promotion of key development objectives. This combination is particularly effective in the areas of pro-poor spending policy, public financial management and budget processes, the provision of public goods and services and ultimately the supply side of domestic accountability. Based on these findings, the evaluation synthesis concludes that bilateral donors should once again consider to invest more in integrated policy-based approaches that offer partners a coherent overall package of financial and non-financial contributions in line with the internationally recognized 'aid effectiveness principles'.

Sources

OECD DAC (2012), *Evaluating Budget Support. Methodological Approach*, OECD DAC, Paris.

Orth, M., J. Schmitt, F. Krisch, S. Oltsch (2017), *What we know about the effectiveness of budget support. Evaluation Synthesis*, 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 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.