

# ON THE FUTURE OF INTEGRATED POLICY-BASED DEVELOPMENT COOPERATION

## *Lessons from the exit from general budget support in Malawi, Rwanda, Uganda and Zambia*

### Summary

At the turn of the millennium, the international community assessed and rated the development cooperation approaches as having limited effectiveness. On the basis of this finding, the Paris Principles for more effective development cooperation were formulated in 2005. These Principles include partner ownership, partner orientation, donor harmonization, results-oriented management and mutual accountability. Implementation of these Principles required approaches that were aligned with the strategies of the partner governments and that systematically integrated the contributions of political, financial and technical cooperation. One of these modalities was budget support, which was popular at first but soon became part of a controversial debate concerning possible fiduciary and political risks of this modality. The debate intensified over the years and eventually led to the withdrawal of many donors from general budget support.

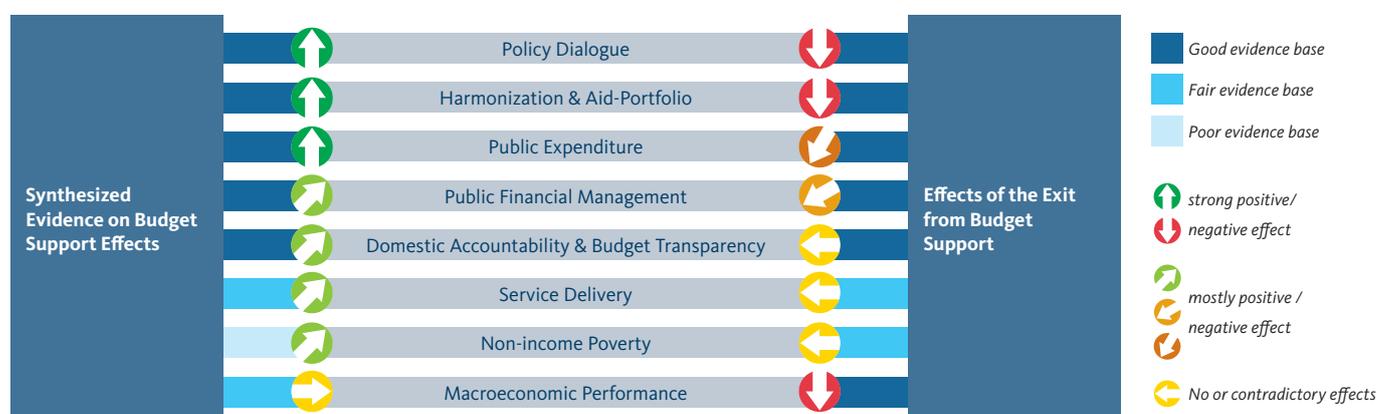
The DEval evaluation analysed the impact of the exit from budget support and came to the following conclusions:

- Large parts of the positive effects of budget support will not survive an unplanned and uncoordinated exit.
- The exit from budget support weakens the dialogue structures between donors and partners. This applies in particular to political dialogue regarding development strategies, policies and budget allocation.
- Harmonization between donors is decreasing and donor portfolios are becoming more fragmented.
- In the short term, the exit from budget support contributes to macroeconomic destabilization in the partner countries.

- New (external) incentives, such as the prospect of a donor return or forthcoming elections, can compensate for the loss of budget support in areas where systemic effects have been created by budget support programmes, for example, in public financial management.

Despite accounting for only a relatively small share of total official development assistance (ODA), budget support has had a positive impact on the entire development portfolio in recipient countries and has improved coordination between donors. Other development cooperation instruments, with much larger shares of total ODA, have not been as effective. The evaluation therefore recommends – particularly in light of current initiatives such as the Marshall Plan with Africa – to increase the use of approaches that directly support partner governments in the implementation of their own development strategies and policies. These approaches should also be discussed at the European level with the EU Commission and Member States. Such policy-based development cooperation modalities should specifically combine financial contributions, technical cooperation, policy dialogue and mutual accountability arrangements in an integrated approach.

Similarly, sustainable strategies for a potential exit from these approaches should be planned from the outset to ensure that already achieved positive effects can be maintained. In particular, established structures for policy dialogue and mutual accountability should be maintained beyond the exit.

**Figure 1: Comparison of budget support effects before and after exit**

Source: Orth, M., M. Birsan and G. Gotz (2018)

## Objectives and functionality of budget support

The main objective of budget support is to financially support partner governments in implementing their national poverty reduction strategy (financing function) and to promote democratic accountability and good governance (governance function). To this end budget support consists of four pillars: (a) financial support that directly supports the partner government's budget and thereby simultaneously strengthens public financial management; (b) political dialogue; (c) technical assistance and capacity building (TA/CD); and (d) conditionality and mutual accountability rules consisting of underlying principles (e.g. democratic governance) and target indicators; the 'performance assessment framework' (PAF).

## Exit from budget support

Acceptance of budget support has declined significantly in donor countries since the beginning of the 2010s. Cases of corruption or human rights violations in the recipient countries have led to the suspension or complete exit from budget support, which was often unplanned and uncoordinated. Bilateral donors in particular have almost completely stopped general budget support since 2012. In 2008, Germany still provided general budget support in seven partner countries committing around €130 million, but by 2015 it had completely withdrawn from budget support. Multilateral donors and the European Commission, on the other hand, continue to use the modality.

Despite donors' widespread abandonment of integrated policy-based approaches like budget support, the principles of effective

development cooperation are reflected in many current development policy agendas. The Global Partnership for Effective Development Co-operation continues to evaluate the effectiveness of development cooperation largely based on these principles. Germany's Marshall Plan with Africa also stresses the importance of ownership by African governments and the need for an integrated concept.

## Exit evaluation: case selection and procedure

The DEval evaluation analysed the impact of the exit from budget support in four case study countries, namely Malawi, Rwanda, Uganda and Zambia. A common feature across the four countries is that the exit took place at short notice due to a violation of underlying principles. To assess the causal link between observed effects and the exit from budget support, a comparative case study design was supplemented by process tracing. In addition, the consequences of the exit were compared with the results of a previous DEval study on budget support effectiveness (Orth et al., 2017). This study provided an evaluation synthesis in which studies on budget support effects were systematically evaluated.

## Results

Figure 1 compares the outcomes of the evaluation synthesis on budget support effects with the results after the exit from budget support. The former are largely positive, while the latter tend to be negative. It becomes clear that the positive effects of budget support usually do not outlast an early and uncoordinated exit.

## Negative effects of the exit

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- The exit from budget support weakens the dialogue structures between donors and partners. This applies in particular to policy dialogue on development strategies, policies and budget allocation.

With the disappearance of the high-level political dialogue, partner governments participate less in the design of donor programmes and donors have fewer possibilities to contribute to national policies. Furthermore, issues discussed at a technical level are no longer consolidated at a higher political level.

- Donor harmonization is declining and donor portfolios are more fragmented.

In the partner countries, the overall volume of ODA hardly changed after the exit as budget support funds were reprogrammed, mostly towards project-based instruments and less into other multi-donor approaches, such as basket funds. The decline in multi-donor approaches, in combination with the disappearance of dialogue structures, led to a decline in coordination and harmonization between donors.

- In the short term, the exit from budget support contributes to economic destabilization.

The discontinuation of budget support was compensated by new public debt. The rising public debt increases the risk of crowding out private investment and entails higher government expenses for debt servicing. The exit is associated with a decline in GDP growth in three of the four case study countries (Malawi being the exception): it fell by up to 5 percentage points compared to the regional average and only recovered after about two years.

## Systemic effects

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Budget support had systemic effects in key areas. These include:

- Increase in potentially poverty-relevant government spending
- Improving public finance
- Strengthening national accountability

Whether these effects are robust against an unplanned exit at short notice depends on whether new incentives for reforms exist or, alternatively, the partner government assumes greater responsibility for reforms. Such incentives have been created by

the prospect of donors returning to budget support (Malawi) or by the desire to secure votes in election campaigns (Zambia). If such incentives are absent, negative effects will occur and the systemic effects of budget support do not survive the exit.

The available data suggest that the exit had no effect on the provision of public services and non-income poverty. However, there is still insufficient data to assess any possible long-term effects of the exit.

## Conclusion and recommendations

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The share of budget support in total ODA payments between 2000 and 2016 averaged only 10 per cent in countries that received it. Nevertheless, budget support has had a positive impact in key areas, creating formalized structures for political dialogue and a framework for mutual accountability. Other modalities with a much larger share of ODA have not reached similar achievements.

The structures established through budget support – such as policy dialogue, alignment with partner policies and the use of performance indicators to measure reform progress – also had a positive influence on harmonization and coordination in other modalities and thus on their effectiveness.

The comprehensive and sudden exit from budget support in the four case study countries has largely offset its positive effects. The effects of the budget support exit go far beyond simply suspending financial support; the loss of the established structures impairs the quality and effectiveness of development cooperation as a whole. As a result, development cooperation is once again confronted with the challenges that programme-based approaches were meant to solve.

To ensure the sustainability of the budget support effects, strategies should be designed from the outset to ensure a coordinated and structured exit and to minimize negative effects. This includes early communication, consultation and involvement of the partner government about the exit process. Continuing the dialogue at a high political level is essential to address issues that are discussed in various technical dialogues.

In order to implement strategies that require coordinated and joint action – such as the Agenda 2030 or the German Marshall Plan with Africa – donors should consider integrated approaches of development cooperation to support partner strategies and

policies, whether through budget support or through modalities with similar characteristics.

The evaluation formulates the following recommendations accordingly:

## Recommendations

Bilateral and multilateral donors should (again) use integrated policy-based approaches to support the partners' development strategies.

Bilateral and multilateral actors as well as partner governments should develop strategies for a coordinated and carefully managed exit from integrated policy-based approaches (e.g. budget support), especially for cases where a quick and unplanned exit is necessary due to violation of conditionalities.

Bilateral and multilateral donors should design approaches to provide funding, technical assistance, policy dialogue and mutual accountability in an integrated manner to ensure a coordinated implementation.

Bilateral and multilateral donors as well as partner governments should continue the policy dialogue throughout the exit of policy-based approaches.

To increase the effectiveness of the single components of integrated approaches, donors and partner governments should aim to fill the evidence gaps regarding the impact of these individual components.

Throughout the exit of integrated policy-based approaches, donors and partner governments should ensure that rules on mutual accountability remain in force.

Bi- and multilateral donors should be prepared to address acute funding gaps, especially in the social sectors, with short-term emergency measures.

## References

**Orth, M. et al. (2017)**, *What We Know about the Effectiveness of Budget Support. Evaluation Synthesis*, German Institute for Development Evaluation (DEval), Bonn.

**Orth, M., M. Birsan and G. Gotz (2018)**, *The Future of Integrated Policy-Based Development Cooperation. Lessons from the Exit from General Budget Support in Malawi, Rwanda, Uganda and Zambia*, 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.