THE FUTURE OF INTEGRATED POLICY-BASED DEVELOPMENT COOPERATION

Lessons from the Exit from General Budget Support in Malawi, Rwanda, Uganda and Zambia

Executive Summary

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EXECUTIVE SUMMARY

Background

By the turn of the millennium, the international community had begun to realize that to be effective development cooperation needed to take a multilevel and multidimensional approach, which should respect and implement a number of core principles such as country ownership, coordination and mutual accountability. These principles were formulated in the 2005 Paris Declaration on Aid Effectiveness (OECD DAC, 2005) and elsewhere in response to lessons learned from more than five decades of development cooperation. A consensus emerged in the international community that effective approaches to development cooperation had to bridge the gap between macro- and microlevel interventions by using the full range of instruments available (i.e. financial support, technical assistance, policy dialogue, and conditionality). Further, they should comply with the Paris principles of ownership, alignment, harmonization, mutual accountability and managing for results.

These lessons were interpreted by the international community to imply that a new and more effective approach to development cooperation had to be in the form of an integrated application of financial and technical support in tandem with high-level political and policy dialogue, which would ensure mutual accountability of donors and partner governments. One approach to implement this form of integrated policy-based development cooperation was in the form of multi-donor general budget support (GBS), which soon evolved into arguably the most prominent, but also most heatedly debated aid modality, in the 2000s.[9] It is an aid modality, often provided by multiple development partners,[10] to jointly support the partner government's national poverty-reduction strategy and national development plan. It finances a partner country's budget through a transfer of resources into the general budget (GBS) or for specific sectors – so-called sector budget support (SBS)[11]. This financial input is supplemented by policy dialogue, conditionality, technical assistance and capacity development – the non-financial inputs. Policy dialogue addresses overarching issues such as budget decisions at a high political level. The conditionality consists of the underlying principles and the Performance Assessment Framework (PAF). Underlying principles, for example, include macroeconomic stability or policies with respect to democratic principles and human rights. The PAF is developed in collaboration with the partner government to measure the reform progress. Capacity development provides technical assistance on issues addressed through budget support, such as public financial management (PFM) or domestic accountability.

Budget support was considered best suited to implement the principles for effective aid and to avoid its fragmentation. Between 2006 and 2010, European donor countries alone (either bilaterally or through the European Commission) provided some EUR 15.5 billion in budget support to partner countries (Orth *et al.*, 2017). According to the modality's intervention logic, budget support was expected to reduce transaction costs and increase the predictability of aid flows. It would also maintain national sovereignty because policy reforms are autonomously developed and not dictated by donors, which was a common criticism of structural adjustment programmes. In this way, the government is held accountable to the citizens through budget decisions and to donors based on the PAF. A number of evaluations and synthesis studies provided evidence that budget support indeed positively supports important development outcomes, e.g. increases in pro-poor spending and improvements in public financial management.

Despite its benefits and successes, donors started to suspend and exit from GBS around 2010 due to scandals in the recipient countries and accountability pressures at home. Owing to a shift towards more

[9] In a parallel development, aid donors such as Germany also had begun to implement a much more holistic – or 'multilevel' – approach to project-based aid by combining interventions at micro-, meso- and macrolevel in order to bridge the diagnosed gaps between earlier approaches.

[10] The European Commission and the European Member States often provided joint or multi-donor budget support, while the World Bank, IMF and some bilateral donors provided budget support also as a single donor.

[11] See Annex 2 for a glossary on budget support terminology.

conservative governments in the donor countries and corruption scandals, political setbacks, macroeconomic destabilization and human rights violations in various recipient countries, the appetite for budget support started to decline. By 2013, nearly all bilateral donors had stopped their GBS programmes.

Objective – evaluation questions

The aim of this evaluation is to understand whether effects of budget support[12] are robust against the exit from this modality and to understand how the aid portfolios are changing after the exit. The consequences of ending aid for sustaining development effects have only recently started to gain attention, and potential effects of the exit from aid modalities on programme results remain generally under-researched. The two central questions for this evaluation are:

- How do aid portfolios and the relationship between donors and partners change in the context of ending GBS?
- Are proven effects of budget support robust against the exit from the modality?[13]

The target audience of this evaluation is policymakers in Germany and other donor countries, bilateral and multilateral donors, as well as implementing agencies.

Methodology

This theory-based evaluation uses a comparative case study design, complemented by an innovative process tracing approach. Comparative case study designs are known to be comprehensive and suitable to evaluate complex interventions, but weaker regarding testing causal attributions. To address this limitation the method of this evaluation, the team augmented it with process tracing. Process tracing breaks the causal channel into smaller 'pieces' which are then easier to test. It is an approach particularly suited to answer 'if' and 'how' questions and provides higher confidence in the attribution of the effect.

The evaluation team selected Malawi, Uganda, Rwanda and Zambia as case study countries. The team collected evidence through semi-structured interviews, tailored-made budget analysis, administrative data and country reports in these countries. The team conducted 106 interviews with 145 representatives of the partner government, donors and civil society organizations (CSOs). Local consultants created custom-made budget analysis so that access to budget data was possible. The country cases were selected in a two-step criteria-based process. . In combination with a previous evaluation that synthesized the literature on the effects of budget support (Orth *et al.*, 2017), a before-and-after exit comparison of budget support effects is possible. (Orth *et al.*, 2017).

Results

The exit occurred between 2012 and 2014 in the four case study countries in response to breaches budget support conditionality (underlying principles). 'Exit' is defined as a suspension of more than one budget support cycle – usually a fiscal year – by several donors, so that suspensions can be differentiated from single delays in payment. In Malawi, a massive theft of public funds, known as the Cashgate scandal, led in 2013 to the exit of all donors. Donors suspended their GBS in Rwanda after a United Nations (UN) report exposed Rwanda's support of a Tutsi rebel movement in Democratic Republic of Congo (DRC). In Uganda, a corruption scandal in the Office of the Prime Minister triggered the exit of all donors. In Zambia, the exit was a gradual process that occurred in response to declining performance in the PAF indicators and corruption scandals. All these cases had in common that a breach of the underlying principles of budget support served as a justification for the exit. Under these circumstances, a trustful cooperation with the

[12] In this evaluation report, the term 'effect' integrates all budget support results on output, induced output, outcome and impact level of the budget support intervention logic.

[13] The evaluation team employs a narrow definition of sustainability from the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC) criteria for evaluating development assistance. According to this definition, sustainability is achieved if the benefits of a programme or project 'continue after donor funding ceased' (OECD DAC, 1991:2).

partner governments was no longer possible. Political factors and declining appetite for budget support might have spurred a fast exit.

The importance of GBS for the national budgets was high in all four countries, as it expanded the fiscal space for governments; the exit from the modality therefore had noticeable financial consequences. In 2010, GBS covered at least 5% of the central government expenditure in all four countries; in Malawi, this value was as high as 21%. By 2014, the share of GBS in the budget had virtually become zero in all four countries.

Policy dialogue

The exit from multi-donor GBS has weakened the policy dialogue between donors and partners, leading to a strongly reduced or absent exchange of ideas at a high political level. The high-level policy dialogue collapsed and the dialogue shifted to a technical level. This absence of a high-level political dialogue not only led to fewer opportunities for dialogue but also impaired the quality of the dialogue at the technical level. In addition, government involvement in donors' programmes declined and the influence of donors on policies was minimal or not structured.

Harmonization

During the GBS period, harmonization increased,[14] but since the exit, donor harmonization declined across all studied countries and donor approaches and programmes became more fragmented. Aid became fragmented as joint funding or programme-based approaches[15] only occurred in few sectors, in spite of the governments' preference for such approaches. The high fragmentation in donors' aid portfolio and re-bilateralization of development cooperation is problematic because it undermines aid effectiveness.

Public expenditure

Potentially poverty-relevant sectors (i.e. health, education and agriculture) received a lower share of the total budget after the exit from GBS in the case study countries, except for Zambia. The change in the budget composition was caused by policy changes towards productivity growth in the case of Uganda and Rwanda and huge debt service obligations in the case of Malawi. In Zambia, the share of public expenditure remained constant since the exit. One explanation, but possibly not the only one, for this exception is that ongoing election campaigns throughout the 2014-2016 period created an incentive to keep the expenditure high.

Public financial management

The exit from GBS and the resulting need for action led to increases in PFM reform efforts in Malawi, while the PFM reform efforts declined in Zambia and Uganda in consequence of the exit. In Rwanda, PFM reform efforts were not influenced by the exit from GBS. In Malawi, the scandal leading to the exit from GBS and the potential relaunch of budget support given the fulfilment of conditionality, caused internal and external pressure. This internal and external pressure led to improvements of the PFM system. For Uganda and Zambia, the omission of external pressure as a consequence of the exit from GBS led to a deterioration of the PFM reform efforts. The Rwanda government continues to regard PFM as a key governance tool and is the main driver of the reform regardless of the exit from GBS.

[14] The increase in harmonization, however, was not as high as expected (Orth *et al.*, 2017).

[15] The Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (OECD DAC) defines PBA as 'a way of engaging in development co-operation based on the principles of co-ordinated support for a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organisation' (OECD DAC, 2008, p. 148).

Domestic accountability and budget transparency

The exit from GBS led to a decrease in domestic accountability in Uganda and Zambia, while the incentive for a potential relaunch of budget support caused higher domestic accountability efforts in Malawi. The exit from GBS reduced the pressure from external actors, particularly donors, on the compliance with domestic accountability requirements. The exit also negatively affected the demand-side in Uganda and Zambia as the influence of CSOs and parliament on budget decisions decreased in consequence of the exit. In Malawi, the scandal and a possible re-entry into GBS given the fulfilment of preconditions led to sufficient pressure to slightly increase domestic accountability.

Budget transparency improved in all four countries if measured by the quantity of published documents. However, the quality of the provided information decreased due to the exit from GBS. The quality and relevance of budget information in Rwanda, Uganda and Zambia declined due to a lack of access to accurate budget expenditure data or easy-to-interpret data in consequence of the exit. In Malawi, efforts to fulfil the conditionality linked to the possible relaunch of GBS led to the removal of the backlog in audit reports, which helped to improve the basis for future budget transparency and hence the quality of the provided information.

Service delivery and non-income poverty

Results for service delivery are mixed since the exit from GBS, ranging from negative over negligible effects to slightly positive effects, but are from a thin data base and do not allow for conclusions on causality. For Malawi and Zambia, the few available statistics on education service delivery hint towards a negative development after the exit. In Uganda, results for education are diverging depending on the indicator and in Rwanda service delivery in health and education is improving.

Non-income poverty has so far been robust to the exit from GBS, but data on non-income poverty is only available up until 2015, and long-term effects are not yet visible. It appears that changes in poverty-relevant public expenditure due to the exit only had a negligible or no effect on non-income poverty thus far.

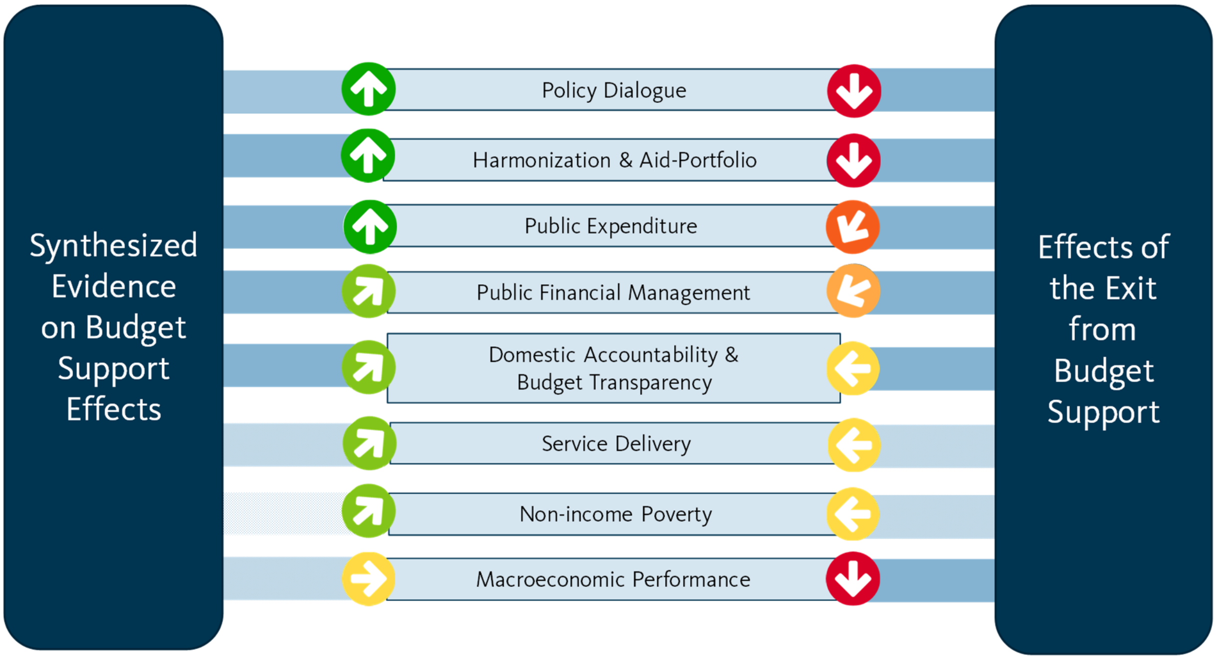
Macroeconomic performance

In all four countries, the gross domestic product (GDP) growth declined in the short run due the exit and the level of debt increased to offset the shortfall in multi-donor GBS payments. The annual GDP growth rates fell in all countries (except for Malawi) following the exit in 2012 and 2013 and reached growth rates close to the sub-Saharan average, while in previous and subsequent years the growth rates had been much higher than the regional average. The GDP growth rates recovered quickly if the government took adequate measures. The common response to the exit from GBS was to increase domestic borrowing to substitute the GBS payments. Only Zambia expanded external financing after the exit. For the highly aid-dependent Malawi (15% of the budget was financed through GBS in the year before the exit), the debt increase created extremely high debt service costs, which crowded out other public investment. Fiscal adjustment, that is, decreasing expenditure and/or increasing revenues, helped Rwanda and Uganda to minimize the fiscal deficit and recover quickly after the exit. Malawi and Zambia accumulated high fiscal deficits and their GDP growth remained low.

Robustness of effects

The analysis, based on the combination of the comparative case study design and process tracing, shows that the exit from GBS led to negative developments in most policies and structures that had benefited from the introduction of GBS. The consequences of the exit from GBS are most pronounced for a decrease in harmonization, higher fragmentation of the aid portfolio and weakened policy dialogue. Effects of budget support during the budget support period are consistently positive, whereas after the exit these effects became negative in all of the four case studies. The analysis further shows large differences for public expenditure, PFM and macroeconomic performance; but for these areas, the outcomes after the exit vary between the countries. For example, PFM remained constant in the case of Rwanda, while Uganda and Zambia experienced a decline and the possible relaunch of GBS in Malawi stimulated the reform effort. Overall, the PFM reform effort decreased due to a lack of external pressure since the exit. For service delivery and non-income poverty, the repercussions are less clear, because the evidence base before and after the exit is not sufficient (see Figure 2).

Figure 2 Comparison of results of the evaluation synthesis (left) with the exit evaluation (right)



Source: own, icons provided by Dave Gandy from www.flaticon.com.
Note: The arrows indicate the effect direction and effect magnitude. Arrows facing vertically up/down indicate a strong positive/negative effect. Diagonal arrows indicate that the effect is predominantly positive/negative. Horizontal arrows indicate that there were no or contradictory effects. The shading of the bars indicated the quality of the evidence base from good (solid), medium (darker shade) to weak (lighter shade).

Conclusions

This evaluation finds that the broad and mostly unplanned exit from multi-donor GBS in the four case study countries undid most positive effects associated with the provision of budget support in those countries. The findings also show that the exit from multi-donor GBS and the associated changes in aid portfolios have implications that reach far beyond the mere suspension or reprogramming of financial support for partner governments: the exit negatively affects the overall relationship between donors and partner governments as well as between donors and thus the overall quality and effectiveness of development cooperation in those countries.

The evaluation observes a substantial deterioration of donor coordination and harmonization across the four case studies, with an almost full reversal to levels of aid fragmentation that most development experts on both sides of the aid relation had believed to be a thing of the past. Stand-alone project-type funding is the prevailing modality in bilateral aid portfolios. Joint funding, in turn, is rare and limited to a few sectors and programmes, despite budget support still being the preferred modality for partner governments to receive external support for their development strategies and policies. The negative externalities and costs of high fragmentation of aid make it difficult for donors to create ownership of the partner government and to address systematic and broader governance issues. As a direct consequence of this, there was a substantial decrease in donors' influence on partner governments' strategic policy formulation and reform agendas.

The diminished involvement of donors in policy planning and monitoring, in combination with the absence of a framework for mutual accountability since the exit, translates into a more limited reform commitment of partner governments to combat poverty. Large providers of external assistance still have some leverage, but the extent of this varies substantially and hinges primarily on the amount of the donors' financial contributions or the donors' central role in the provision of services, for example in health.[16]

Budget support on average only accounted for 10% of official development assistance (ODA) across all DAC donor countries. Yet it achieved positive effects in a number of important areas for development (including public expenditure, PFM, service delivery quantity and the supply-side of domestic accountability); managed to create formalized structures for policy dialogue; and established a framework for mutual accountability (Orth *et al.*, 2017), which other aid modalities that account for much larger shares of ODA have not been able to achieve in a similar way and at comparable cost. With the exit from GBS, although the total level of aid receipts remained constant in most countries, the established structures largely disappeared and the majority of positive achievements of budget support were negatively affected or even reversed. Donors' aid portfolios are more fragmented since the exit from GBS and apparently do not provide sufficient incentive to maintain similar formalized structures for policy dialogue and mutual accountability.

These developments are at odds with recently adopted agendas, including the Fourth High Level Forum on Aid Effectiveness (OECD DAC, 2011), the Sustainable Development Goals (SDG 17) (UN, 2017) and the Addis Ababa Action Agenda on financing the SDGs (UN, 2015), underscore the need of inclusive partnerships, enhanced ownership of partner governments and stronger alignment of strategies.
Individual donor strategies, such as Germany's 'Marshall Plan with Africa' – also acknowledge the need to 'develop a common, international strategy and take a coordinated approach' (BMZ, 2017, p. 13) and thus aim to increase harmonization among donors and ownership of the partner countries.

It seems highly unlikely that donors will be able to live up to the ambitious goals and principles formulated in these agendas unless they jointly re-engage in integrated approaches to development cooperation.

Recommendations

1 **Bilateral and multilateral donors should jointly (re)engage in integrated policy-based approaches to support partner development strategies.**

Bilateral and multilateral donors should (re)engage in joint approaches that support the national development plans and poverty-reduction strategies of the partner government to ensure ownership and better alignment of donors' programmes to these strategies, thus being policy based. The approaches should combine the whole spectrum of instruments in an integrated approach.

The global agenda 2030 as well as individual donors' strategies, such as Germany's Marshall Plan with Africa, that focus on coordination and concerted action will have to rely on such joint policy-based approaches to be successfully implemented.

1a **Bilateral and multilateral donors should design such approaches around the integrated provision of funding, technical assistance, policy dialogue and mutual accountability that ensure jointly coordinated implementation.**

The findings from this exit evaluation support the existing evidence that the integrated mix of inputs as is provided through budget support lead to important developmental outcomes. Future aid modalities should thus integrate at least the following inputs:

- A formalized dialogue.
- Targeted technical assistance and capacity development that addresses the main bottlenecks in partner systems that hinder the effective formulation and implementation of policies and reforms. Technical assistance and policy dialogue generate important synergies. On one hand, working with partner governments on the bottlenecks generates important information that feeds into the joint

[16] Only in the case of highly aid-dependent Malawi did the possibility of a relaunch of GBS provide sufficient incentives to push for reforms. In the other three countries, reform efforts continued, but were not attributable to donor influence.

policy dialogue, and on the other hand, the policy dialogue strengthens the targeting and acceptance by partners of the technical assistance activities.

- A framework for mutual accountability that serves to enhance donors' coordination in decision making. At the same time, this framework allows the partner government to predict the volume of disbursements and assume its responsibilities.

Furthermore, any such integrated approach should be based on the principles of harmonization, coordination, and joint planning and implementation.

1b In order to improve the design of such integrated approaches and its' individual components, donors and partners should invest in closing evidence gaps regarding the effectiveness of individual inputs.

While evidence strongly suggests that the described 'package' of inputs works to produce important development outcomes, there is less understanding how exactly the individual inputs work together and, therefore, how to improve this interaction. Future empirical work should thus focus on the analysis of causal mechanisms for specific inputs so that integrated policy-based approaches can be designed to be even more effective than previous GBS programmes.

2 Bilateral and multilateral donors together with partner governments should develop strategies for the coordinated and carefully managed exit from integrated policy-based approaches such as budget support, even and especially for those cases when a sudden and unplanned exit is warranted, e.g. due to a breach of underlying principles.

The goal of an exit strategy should be to structure a coordinated exit, ensure sustainable programme effects even after the programme ends, and minimize negative repercussions of the exit. Such an exit should be organized as a coordinated withdrawal of donors and without diluting the political signal intended with the exit. Established processes and structures, most importantly the policy dialogue and the arrangements for mutual accountability, should be continued.

2a Throughout the exit from integrated policy-based approaches, bilateral and multilateral donors and partner governments should continue the policy dialogue.

Early communication, consultation and involvement of stakeholders – most importantly of the partner government – is crucial throughout the exit to ensure a coordinated retreat of donors. The policy dialogue was formally tied to policy-based modalities such as budget support, but content-wise and on a conceptual level, the dialogue can take place independently of the modality. It could serve to discuss aims and indicators of the national development strategy.

However, without integrated policy-based approaches such as budget support, the connectional element in the policy and technical dialogue is lacking. Bilateral and multilateral donors, possibly by nominating a lead donor, have to ensure that dialogue at the policy and technical levels continues in a coordinated manner.

2b Throughout the exit from integrated policy-based approaches, bilateral and multilateral donors and partner governments should ensure that arrangements for mutual accountability remain in place.

To minimize negative repercussions of the exit, the arrangements for mutual accountability (e.g. a Performance Assessment Framework) help to define responsibilities and targets throughout the exit.

2c Bilateral and multilateral donors should be prepared to adopt immediate, short-term measures to deal with acute shortfalls in indispensable spending, particularly in the social sectors.

Where the sudden exit from budget support (e.g. because of a breach of underlying principles) or similar modalities means that the partner government would in the short run not be able to fund crucial expenditures, such as for medication and electricity in hospitals, bilateral and multilateral donors should be prepared to adopt immediate measures to counterbalance these shortfalls in indispensable spending. Through effective earmarking this should be done in a way as not to dilute the political signal intended to be given with the exit. This might imply that donors would need to jointly build compensation funds (either jointly at the country level or across countries) from which to fund such expenditure, not necessarily through government channels.