Chapter 3

Budget Support by the European Union: What Do the External Evaluations Tell Us?

Karolyn Thunnissen

1. Historical Development and Use of Budget Support by the European Union

The European Commission (EC)[1] first introduced budget support in the 1990s. The approach evolved in the context of conditionality reform and in response to the evolution of the aid effectiveness agenda. The current approach has been implemented since the beginning of the 2000s. The 1980s were marked by a gradual shift from using only project aid, whose effectiveness was often found to be limited by unfavourable policy and governance contexts, to the introduction of sector-wide approaches and structural adjustment programs. Sector-wide approaches enabled projects to be aligned with partner countries' sector policies and enabled discussions about sector policies and sector governance. Sometimes these projects were implemented using the beneficiary country's budgetary processes.[2] At the same time, structural adjustment programs started providing direct budgetary support against prior conditions regarding major reform measures to be taken by the partner country. This support was accompanied by policy and governance discussions that aimed to improve the overall context for development and aid effectiveness. At the end of the 1990s, when evaluations of the effectiveness of structural adjustment programs implemented during the 1980s showed that using aid conditionalities did not generate sustainable policy reforms, budget support replaced structural adjustment programs: budget support was no longer triggered by the implementation of reform measures but was provided to eligible countries in support of their reform policies.

The form in which European Union (EU) budget support is implemented has evolved over time to reflect changing policy contexts and to take into account recommendations by external evaluations and by the European Court of Auditors. Unlike projects, budget support addresses the partner country's overall conditions for economic and social development. EU budget support has always been provided exclusively in the form of grants. It is coherent and complementary with other EU aid implementation modalities, including projects, technical assistance, delegated cooperation, co-financing, blending, humanitarian aid, and emergency assistance.

[1] The European Commission is the executive body of the EU and in charge of implementing the EU budget.

[2] Program estimates are a form of on-budget support whereby the institution responsible for the budget and activities is assessed beforehand.

The latest EU budget support policy was adopted in 2012[3]. Its guidelines were revised in 2017[4] to take into account the new European Consensus on Development that followed the international adoption of the UN 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda.

The EU's approach to budget support has always involved four interrelated components acting together in support of partner countries' policy implementation:

(i) **policy dialogue** with a partner country in order to reach agreement on the policies and reforms to which budget support can contribute;
(ii) **performance assessment** to achieve consensus on expected results and to measure progress achieved;
(iii) **financial transfers** to the Treasury account of the partner country once those results have been achieved and according to their degree of achievement; and
(iv) **capacity development** to enable countries to implement reforms successfully and to sustain results.

EU budget support is thus a performance-based modality, which provides a package of unconditional grant funding, capacity development and a platform for dialogue to partner countries in support of the implementation of their policies. Funding is totally fungible: it is an additional resource to domestic revenues and is used by the partner country's government according to domestic budgetary planning, execution and oversight processes and using domestic public finance management (PFM) systems. EU budget support grants can thus be used for both recurrent and investment expenditure.

Policy dialogue is a fundamental component of EU budget support. The general conditions (regarding public policy, macroeconomic stability, public finance management and, since 2012, budget transparency and oversight) provide the overall framework for dialogue with the government and other stakeholders, while variable tranche indicators enable a more in-depth discussion on key reforms and policy results. Because funds are transferred to the budget, the EU is able to discuss general PFM issues, overall budget allocations and sector spending as well as its results with the partner countries' authorities and other stakeholders. Due to the grant nature of the funding, the EU is particularly concerned that budget support should not be considered a substitute for efforts to raise revenues. Domestic resource mobilization is systematically raised in policy dialogue and is often supported through capacity strengthening and/or through the use of performance indicators. Monitoring of general policy outcomes and of sector-level policy processes, activities, outputs and, most importantly, outcomes are an essential input into the overall dialogue.

Although external experts hired in the context of technical cooperation can never be responsible for achieving the targets set for the agreed performance indicators,[5] the capacity building most often associated with budget support is used to enhance the government's capacity to design, implement, monitor, and evaluate policies and to deliver public services. Since EU budget support relies on the

[3] The policy direction is set out in the 2011 Budget Support Communication 'The Future Approach to EU Budget Support to Third Countries', and corresponding Council Conclusions COM(2011) 638; 13 October 2011; 3166th Foreign Affairs Council meeting, Brussels, 14 May 2012 *(http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/130241.pdf)*.

[4] See European Commission. 2017. *Budget Support Guidelines*. Brussels. *https://ec.europa.eu/international-partnerships/system/files/budget-support-guidelines-2017_en.pdf*

[5] Box 'Ten aspects to consider when assessing a performance indicator', in Annex 8 of the Budget Support Guidelines, op.cit., page 139.

monitoring of performance indicators, preferably outcome indicators, strengthening of national monitoring frameworks and associated statistical systems is a priority. Attention is also systematically paid to promoting the active engagement of nongovernment stakeholders in these monitoring frameworks.

2. Eligibility for European Union Budget Support

EU budget support has always been subject to the satisfaction of eligibility criteria.[6] These criteria need to be met before a program is approved and throughout implementation, in particular before disbursements. Although these eligibility criteria have evolved over the past 20 years, they have stayed faithful to the same underlying principles: budget support is performance-based and uses a dynamic approach to assess eligibility, looking at the country's past and recent performance in public policy, macroeconomics, public finance management (PFM), and budget transparency and oversight, against reform commitments. A stable macroeconomic environment, an established PFM system (including a budget and functioning external oversight) and a credible and relevant public policy are essential to achieving economic development and are thus crucial to the effectiveness of budget support.

The eligibility criteria for budget support are listed in Table 3.1.

Table 3.1: EU Eligibility Criteria for Budget Support at Approval and During Implementation

Criteria at Program Approval	Criteria During Implementation
Public policy. Existence of a credible and relevant national and/or sector policy in place	**Public policy.** Satisfactory progress in the implementation of the policy or strategy and continued credibility and relevance of that or any successor strategy
Macroeconomics. Existence of a credible and relevant program to restore and/or maintain macroeconomic stability	**Macroeconomics.** Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances
Public financial management. Existence of a credible and relevant program to improve public financial management, including domestic revenue mobilization	**Public financial management.** *S*atisfactory progress in implementation of reforms to improve public financial management, including domestic revenue mobilization, and continued relevance and credibility of the reform program
Budget transparency and oversight. The government has published either the executive's proposal or the enacted budget within the previous or current budget cycle.	**Budget transparency and oversight.** Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

While the first three criteria have always been linked to the provision of EU budget support, the inclusion of budget transparency and oversight as a stand-alone criterion resulted from the revised 2012 budget support policy. This revision also introduced the partner country's commitment to EU fundamental values of human rights, democracy and rule of law as a precondition to the provision of general budget support. The explicit reference to domestic revenue mobilization was added when the guidelines were updated in 2017 in order to take into account the Addis Ababa Action Agenda of 2015.

6 The eligibility criteria stem from EU financial regulations (see the 2018 EU Financial Regulation currently in force, Article 236).

Both an in-depth analysis of each of these eligibility criteria and an accompanying dialogue are undertaken prior to the formulation of a budget support program. This ensures that conditions for budget support effectiveness are in place, that the government is committed to the reforms the EU supports, and that it has the capacity and political back-up to implement them.

When the eligibility criteria are satisfied, the EU can provide budget support by transferring funds directly to the central bank of the partner country. These funds are then converted to the national currency, paid into the Treasury, and used to support national policy implementation using domestic systems, processes, and procedures. Funds cannot be used to build up foreign exchange reserves.[7] Responsibility for the management of these transferred resources rests with the partner government. These funds, like any other public monies, are subject to oversight by the national supreme audit institution and the parliament and subject to public scrutiny. In particular, the EU promotes the involvement of civil society organizations in order to foster domestic accountability.

The peculiarity of EU budget support lies in the disbursement of funds in a combination of fixed tranches, paid in full (or not at all) and variable tranches. Their payment is proportional to the progress in meeting benchmarks, as agreed at the beginning of the program. On average, the split of funds delivered through fixed and variable tranches is 50%.[8] The disbursement of each tranche is subject to the eligibility criteria mentioned above. Variable tranches provide an incentive for performance and allow focused discussions on key reforms and results to be held. They give the EU an effective and predictable way to adjust payment levels to the country's achievements and to discuss issues around under-performance without having to entirely stop program implementation.

In its mechanics, the EU's definition of budget support is exactly the same as that of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC), but with the additional aspect that disbursements take place only when eligibility criteria are satisfied and targets are met. EU budget support is therefore strongly focused on results: it relies on a qualitative assessment of the progress made in the four areas of eligibility (macroeconomic policies, PFM reform, sector policy implementation, and budget transparency and oversight) as well as on specific performance indicators (preferably outcome indicators) which measure the progress in the uptake of services delivered to the population. The performance indicators and their targets are drawn from partner countries' own policy monitoring matrixes, are agreed upfront at the beginning of a program, and can only be changed under exceptional circumstances.[9] Funds are released once progress is demonstrated, both on overall policies (fixed tranches) and on the specific performance indicators (variable tranches). The average disbursement rate of the 199 EU budget support programs approved and implemented between 2014 and 2019 was 83%. Most of the non-disbursed 17% came from the partial disbursement of variable tranches (when not all performance indicators reached their agreed

7 A specific clause in a budget support contract requires the partner country to provide documentary evidence that the Treasury account has been credited by the amount equivalent to the foreign exchange transfer at the exchange rate prevailing on the day funds were received. Budget support funds must be accounted as government revenues and included in the state budget.

8 However, great variation can be seen across countries; some programs provide only fixed tranches or only variable tranches in a given year.

9 In addition, changes to indicators or their targets have to be agreed no later than the end of the first quarter of the implementing year to which the result targets refer. In practice, as results of year N-1 are most often assessed mid-year N when outcome data become available, it is often too late to agree changes for subsequent years if data reveal weaknesses and/or deviations from expected outcomes. This rule ensures, first, that adequate attention is brought to the choice and definition of performance indicators used for variable tranches and, second, that there is a joint EU-partner commitment to reach the agreed targets.

targets). The remainder stems from fixed tranches not being disbursed (when program implementation was severely disrupted or eligibility to budget support not met any longer).

3. Types of Budget Support

Whereas previous EU budget support had been implemented as general or sector budget support, the 2012 policy introduced a further differentiation of the types of budget support and strengthened its contractual aspects. The EU now offers three types of budget support contracts:

- **Sustainable Development Goals contracts (SDG-Cs).**[10] These are provided at the macroeconomic level to support implementation of the overall national development strategy. A contract covers several SDGs and the approach is comprehensive and crosscutting. The partner country's commitment to the respect of the EU's fundamental values is a precondition for this type of support. The SDG-Cs call for stability and confidence in the overall policy stance and democratic governance of the partner country. This type of contract has an average duration of 4 years but can run from 3 to 6 years.
- **Support for fragile and transition countries.** This contract was introduced in 2012 and takes the form of a state and resilience building contract (SRBC).[11] The contract offers general budget support in the case of political transitions, post-disaster situations, and crises (such as the COVID-19 pandemic). Eligibility for this type of support includes a forward-looking approach, based on the partner country's political commitment to reform and to fundamental values. SRBCs can last from 1 year (for countries recovering from a crisis) to 3 years (in cases of more structural fragility). The average duration of SRBCs is 2.5 years.
- **Support for sector policies and reforms.** This is provided through sector reform performance contracts (SRPC), which account for the largest share of EU budget support (about 80%). SRPCs are more narrowly focused than the other two types of contracts and concentrate on one or a few closely related SDGs. They aim to improve governance and service delivery in a specific sector or a set of interlinked sectors. The average duration of SRPCs is 4 years.

4. Significance of European Union Budget Support

Over the period 2000–2019, new budget support commitments amounted to an average of €1.84 billion per year. This varied from €1.1 billion per year on average during 2000–2006, to €2.3 billion per year on average during 2007–2013 and €2.2 billion per year on average over 2014–2019.

Over the period 2000–2019, the EU provided budget support to about 100 countries.[12] As of 2015, EU sector budget support started being implemented in the Western Balkans for candidates and potential candidates for EU membership. In the most recent period, 2014–2019, just over €13 billion was committed to 231 budget support programs in 94 countries. The average value of a budget support contract was €56.4 million (equivalent to €15.4 million per contract per year on average). General budget support is at the high end of the scale, with an average amount of €99.4 million per SDG-C, equivalent to €25.5 million per year per contract, and €80 million on average per SRBC, which is equivalent to €32.5 million per contract per year. Sector budget support contracts are the most common type of contract and have the lowest average values. Over the period, 179 SRPCs were provided for an average value of €12.3 million per contract per year.

10 Previously known as good governance and development contracts (2012–2017).

11 Previously known as state building contracts (2012–2017). The resilience dimension was added in 2017.

12 This includes EU overseas countries and territories.

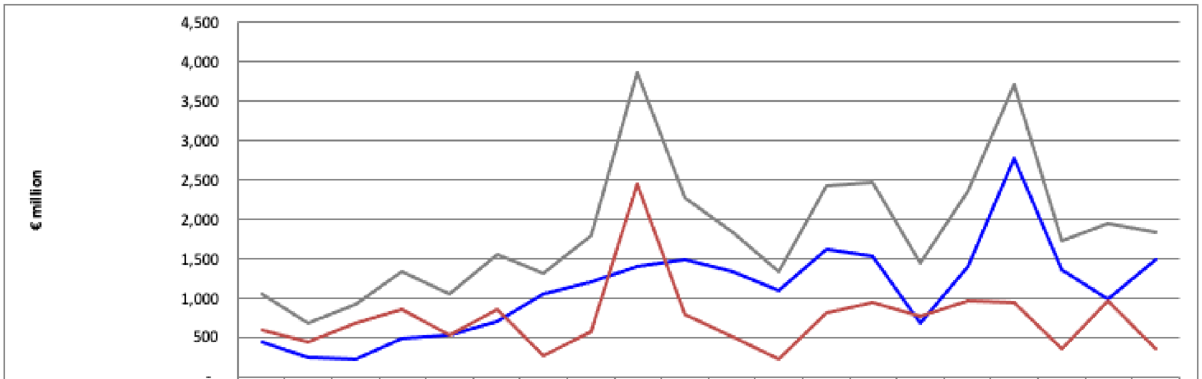
On average, the European Commission estimates that budget support amounts to 35%–40% of its country programmable aid, a very significant part of its portfolio of direct cooperation with partner countries.

5. Beneficiaries of EU Budget Support

Evolution of General and Sector Budget Support

EU budget support is provided as sector budget support (SRPCs) and as general budget support (which includes both SDG-Cs and SRBCs). Between 2000 and 2005, general budget support was the main type of budget support provided by the EU, representing 60% of the total budget support value (Figure 3.1). Over time, sector budget support has increased its share.

Figure 3.1: European Union Budget Support Commitments, 2000–2019 *(€ million)*



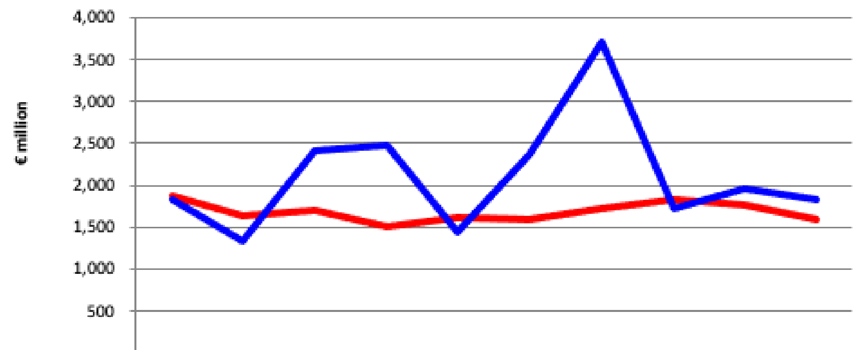
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sector Budget Support	453	252	227	478	523	697	1,052	1,215	1,407	1,493	1,327	1,104	1,618	1,532	673	1,403	2,774	1,360	993	1,487
General Budget Support	595	438	689	864	534	853	263	573	2,453	781	506	225	803	944	763	958	937	366	962	348
Total Budget Support	1,048	690	916	1,342	1,057	1,550	1,315	1,788	3,860	2,274	1,833	1,329	2,421	2,476	1,436	2,361	3,711	1,726	1,955	1,834

Source: European Commission, Unit E1 'Macro-economic Analysis, Fiscal Policies and Budget Support'

Sector budget support has been increasingly used by the EU since 2006, due both to the decreased use of general budget support (linked to the requirement that countries commit to fundamental values to be eligible for such support introduced in 2012), and to the introduction of sector budget support to the Western Balkans in 2015. Sector budget support represented 67% of all budget support provided over the period 2014–2019. In 2020, the EU increased its use of state resilience and building contracts in response to the COVID-19 pandemic, including in the Western Balkans, where hitherto only sector budget support could be provided.

Budget support is an effective and flexible instrument for many situations, including emergencies, which require a fast-track response to help stabilise a situation and to ensure the crisis does not deteriorate further at the expense of the population. New budget support commitments amounted to €3.86 billion in 2008 and remained well above average in 2009 and 2010. This partly reflects the EU's programming cycle (preparations for new budget support programs launched in 2007 started being approved by the end of 2008 and the beginning of 2009); partly the introduction of a few very large Millennium Development Goals contracts (the precursor of SDG-Cs); and partly the EU's reaction to the 2007–2009 global financial crisis, which resulted in the provision of budget support to countries suffering from economic collapse and/or soaring food prices.

Figure 3.2. Budget Support Disbursements (€ million)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Disbursements	1,868	1,626	1,702	1,510	1,607	1,588	1,729	1,830	1,756	1,600
New commitments	1,833	1,329	2,421	2,476	1,436	2,361	3,711	1,726	1,955	1,834

EU budget support disbursements (Figure 3.2) represented, on average, €1.68 billion a year over the period 2010–2019; 15% of EU total official development assistance (ODA) per year, or an estimated average of 29% of country programmable aid disbursements per year.

Since 2012, a new type of fast-track contract, the state building contract (SBC) has been used to support countries facing a crisis, including natural disasters or health pandemics. This type of support to countries in a situation of fragility or transition has overtaken SDG-Cs as general budget support. SBCs were introduced in 2012 and amounted to €180 million in commitments, or 21% of general budget support in 2012. Since 2017, they have been known as state and resilience building contracts (SRBCs). By 2019 they represented 88% of all new general budget support. Since 2012, just under €4 billion has been provided to fragile states in the form of SBCs or SRBCs.

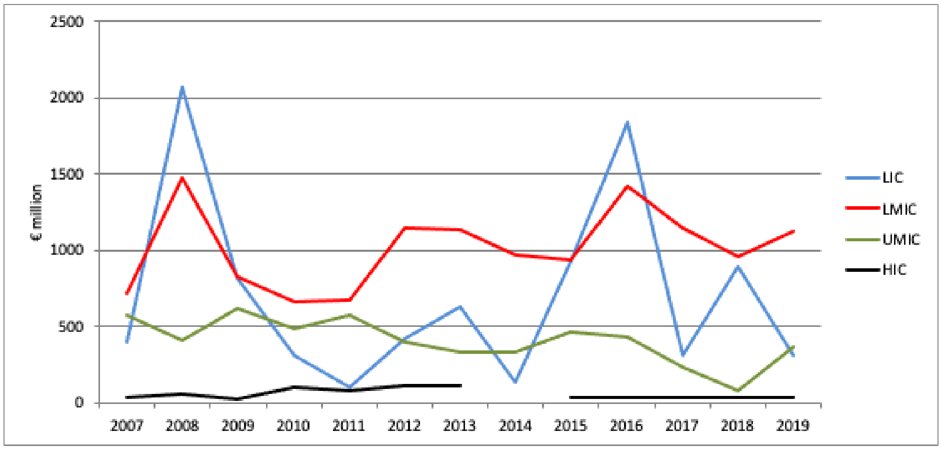
Budget Support Beneficiaries by Income Status Group

Low-income countries (LIC) and lower middle-income countries (LMIC) are the primary beneficiaries of EU budget support, accounting for 81% of total commitments during 2007–2019. During 2007–2013, 23 LICs benefited from a total amount of €4.75 billion through budget support, with the largest amounts going to Burkina Faso, Tanzania, and Mozambique. During 2014–2019, 18 LICs received €4.4 billion, with the largest recipients being Burkina Faso, Afghanistan and Niger (each receiving €450–€500 million). As seen above and in Figure 3.2, countries in a fragile or crisis context have been increasingly important recipients of budget support since 2012.

Since a number of LICs have moved to LMICs status, the group benefiting the most from EU budget support has changed over time. During 2007–2013, 33 LMICS received budget support, of which Morocco, South Africa and Egypt received the highest amounts (between €500 million and €1.3 billion each over 2007–2014). During 2014–2019, 63 LMICs received budget support, with the highest amounts provided to Morocco, Tunisia and Ukraine.

Upper middle-income (UMIC) and high-income countries (HIC) were minor recipients of budget support. Most of the 36 UMICs and HICs benefiting from budget support during 2007–2013 were small-island states receiving budget support at the end of their trade protocol with the EU, which protected sugar production. During the more recent period 2014–2019, 14 HICs received budget support, with 70% of the amounts going to Eastern European states.

Figure 3.3: European Union Budget Support Commitments by Income Status (€ million)



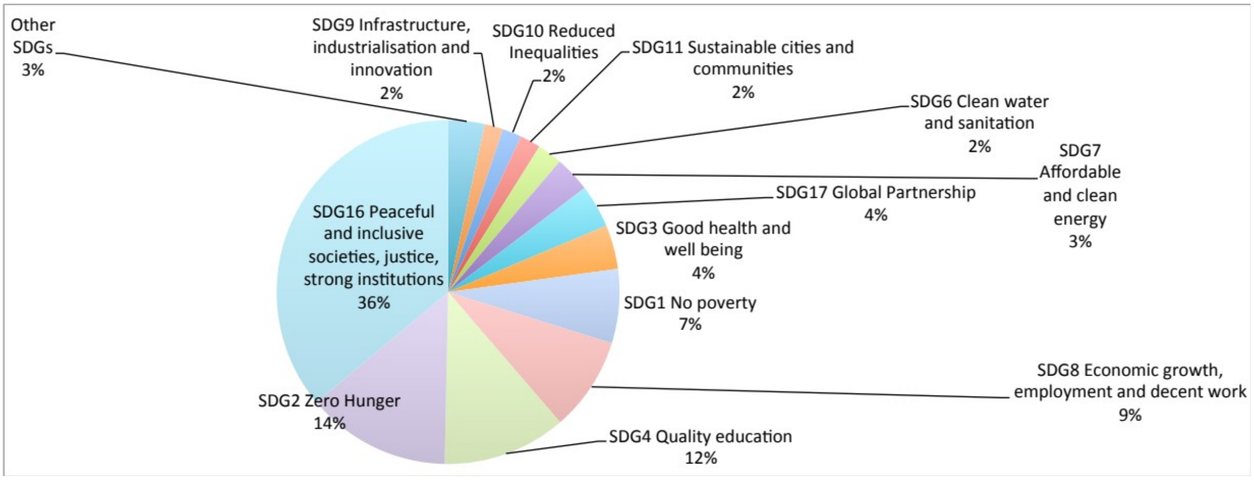
In terms of geographical areas, Africa remains the largest recipient of EU budget support, accounting for 60.4% of all budget support funding during 2014–2019 (€7.86 billion), followed by Asia and Eastern Europe (14% each) and Latin America (5%). The remaining 6% is accounted for by overseas countries and territories, and Caribbean and Pacific islands.

6. **Policy Reforms Supported by European Union Budget Support, 2014–2019**

The EU budget support portfolio directly or indirectly contributes to improvements in macroeconomic management, PFM, domestic revenue mobilization (DRM), budget transparency and oversight, and sector policies, through the in-depth analysis and policy dialogue of budget support eligibility criteria. In many cases, improvement in these areas also benefit from complementary technical assistance and specific budget support programs in support of SDG 16.

In addition, EU budget support supports reforms across a wide range of sectors and sub-sectors, with a dominant focus on governance issues (SDG 16), poverty reduction (SDG 1) and basic services (SDGs 3, 4, and 6)—**Figure 3.4**. Gender (SDG 5) and the fight against inequality (SDG 10) were supported as major cross-cutting issues. Gender was supported in 41.6% of budget support program amounts and the fight against inequality 13.2%, of budget support amounts over the period 2014–2019.

Figure 3.4: Policy Reforms Supported by the European Union during 2014–2019, by Main Sustainable Development Goal, Total Amounts Committed
(Percentage Share of Total Commitments)



The EU used its fast-disbursing SRBCs[13] to provide much needed support to health expenditure in countries hit by Ebola (Guinea, Liberia, and Sierra Leone). This support either facilitated the maintenance of health expenditure (Guinea) or increased it quite dramatically. For instance, in Sierra Leone, Ebola-related fixed-tranche disbursement helped to increase the share of recurrent spending of the health sector from 13.3% of GDP in 2011 to 19.7% in 2014, 20% in 2015, and 16.5% in 2016[14]. In the same way, the EU provided SRBCs to Nepal following the earthquake in 2015, Fiji and Dominica for post-cyclone recovery in 2016, and Dominica following hurricane Maria in 2018.

Where required, existing budget support operations can be amended to release larger amounts more quickly than originally planned. This was the case at the beginning of 2020, in the context of the COVID-19 pandemic, when some amounts planned for variable tranches in existing contracts were converted to fixed tranches and disbursed ahead of their planned schedule, in order to help governments fund COVID-19 preventive measures at very short notice. Some 2021 tranches have also been frontloaded to increase the EU's global response to the crisis. Where undisbursed funds from previous tranches were available, they were used to top-up existing programs.

7. Cooperation Between the European Union and the International Monetary Fund

The EU cooperates closely with the International Monetary Fund (IMF). First, IMF assessments are essential to inform EU decisions regarding eligibility for budget support (for the macroeconomic policies, but also when relevant for the assessment of PFM, DRM, and transparency reforms and for the financing of development or sector policy). This takes place in the context of Article IV consultations. IMF assessments are equally important for informing payment decisions. Nevertheless, in line with the EU's policy and regulatory framework, EU decisions on new budget support programs or budget support payments are not bound by IMF positions.

Second, the EU has signed a PFM Partnership Program with the IMF on the global architecture and policy agenda for PFM, DRM, and transparency. This program complements funding granted to the

[13] SRBCs can be prepared and disbursed very rapidly (in a matter of weeks rather than years) compared to other types of budget support.

[14] Source: Evaluation of EU State Building Contracts (2012-2018), Main report, page 58.
https://ec.europa.eu/international-partnerships/system/files/state-building-contracts-2012-2018-eval-dec-2020-main-report_en.pdf

IMF regional technical assistance centres. The EU has been the top funder of the IMF in the field of capacity development in the period 2018-2020. At the country level, IMF technical review or support missions complement technical assistance and capacity development projects that are funded and implemented directly by the EU.

8. Evaluations of EU Budget Support, 2010–2019

Since 2010, independent evaluation teams have undertaken 17 general and sector budget support evaluations. These were managed by evaluation management groups, comprising representatives of partner countries and funding agencies, under European Commission management. As shown in Table 3.2, of the total 17 evaluations undertaken, 11 were multi-donor evaluations assessing the joint effects of all the general and sector budget support operations financed by different development partners. Evaluation periods differed slightly across all 17 evaluations, which stretched from 1996 to 2018.

Table 3.2: Budget Support Evaluations Since 2010a

Type of Budget Support Evaluated[b]	Country Income Status[c]	Country and Completion Year of the Evaluation	Multi-Donor Budget Support and Evaluation	Period Covered
General budget support, SDG-Cs	LMIC	1. Tunisia (2011)	Yes	1996–2008
	LIC	2. Mali (2011)	Yes	2003–2009
	LIC	3. Zambia (2011)	Yes	2005–2010
	LIC	4. Tanzania (2013)	Yes	2004–2011
	LIC	5. Mozambique (2014)	Yes	2005–2012
	LIC	6. Uganda (2015)	Yes	2004–2013
	LIC	7. Burkina Faso (2016)	Yes	2009–2014
	LMIC	8. Ghana (2017)	Yes	2005–2015
General budget support, SRBCs	LIC	9. Sierra Leone (2016)	Yes	2002–2015
	LIC	10. Burundi (2015)	Yes	2005–2013
	LIC	11. All SRBCs, 23 countries (2020) [d]	No	2012–2018
Sector budget support, SRPCs	LMIC	12. South Africa (2013)	No	2000–2011
	LMIC	13. Morocco (2014)	Yes	2005–2012
	UMIC	14. Paraguay (2016)	No	2006–2014
	UMIC	15. Peru (2017)	No	2009–2016
	LMIC	16. Cambodia (2018)	No	2011–2016
	LMIC	17. El Salvador (2019)	No	2010–2017

LIC = low-income country, LMIC = lower middle-income country, SDG-C = Sustainable Development Goals contract, SRBC = state and resilience building contract, SRPC = sector reform performance contract, UMIC = upper middle-income country

[a] The evaluations can be found on **https://ec.europa.eu/international-partnerships/strategic-evaluation-reports_en**.

[b] The terminology used is that of the European Commission's 2017 Budget Support Guidelines. https://ec.europa.eu/international-partnerships/system/files/budget-support-guidelines-2017_en.pdf

[c] Country income status during the period of budget support provided (indicated in the last column of the table).

[d] This evaluation assessed the use of the SRBC instrument in the 23 countries where it had hitherto been provided. See **https://ec.europa.eu/international-partnerships/evaluation-eu-state-building-contracts-2012-2018_en**.

Methodology

The OECD-DAC methodological approach[15] to evaluating budget support, sometimes known as the three-step approach, was used in all the evaluations listed in Table 3.2. This approach acknowledges that budget support cannot deliver outcomes and impacts by itself, as it can only contribute to the outcomes and impacts that are achieved through the implementation of governmental policies and public spending. EU budget support focuses on the results and, in particular, on the outcomes of the policies it supports. It leaves the partner country to take full ownership of its policy process and full responsibility for the accountability of its results, while supporting it with discussions, advice, funding, capacity development, and results monitoring. Because of this approach, the EU cannot claim to have directly delivered any of the achieved outcomes but, since it has supported governments in reaching these results, it can claim that it has (or has not) contributed to the achievement of these results.

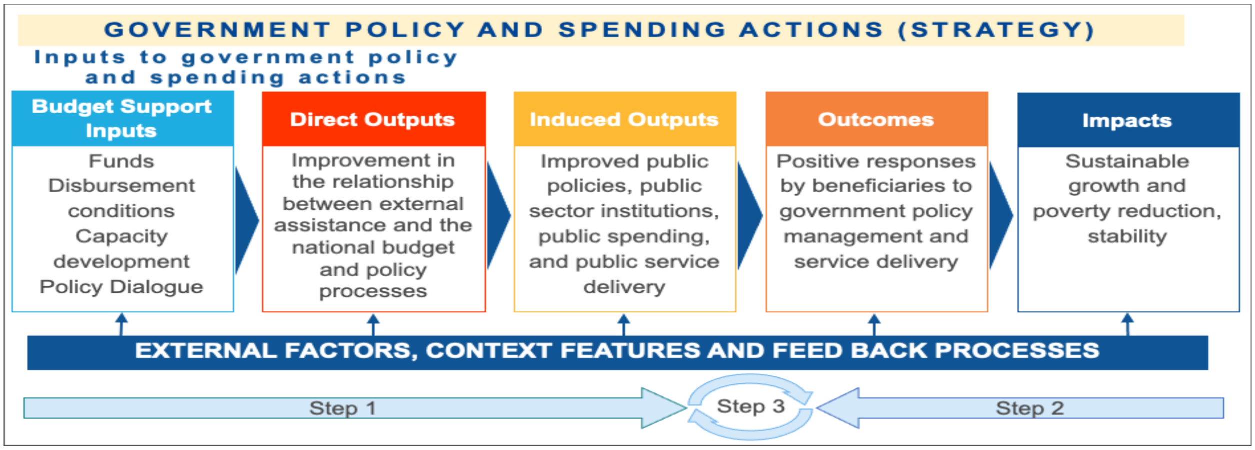
The OECD–DAC methodology is particularly well suited to evaluating EU budget support because it unravels and assesses the paths through which budget support inputs may have contributed to the improvement of public policies and institutions and also the extent to which these improved public policies and spending actions have caused changes in social and economic development.

In many cases, the EU is not the only development partner to have provided support for government policies. When evaluating budget support, the combined effects of all budget support operations in a given period of time in a country are considered. Given the influence of external factors, budget support evaluation cannot rely on a causality analysis and needs to differentiate between: the budget support's direct outputs (which can be expected to be produced directly by the budget support's inputs, e.g., funds, policy dialogue, technical assistance and performance measurement); and its induced outputs (which are situated at the level of public policy, institutional and spending changes, and which result from budget support direct outputs influencing and interacting with government processes).

To accommodate this complexity, the OECD–DAC approach to budget support evaluation is undertaken in three steps (Figure 3.5).

[15] See Evaluating Budget Support: **https://www.oecd.org/dac/evaluation/evaluatingbudgetsupport.htm**.

Figure 3.5: OECD–DAC Budget Support Comprehensive Evaluation Framework



Source: Adapted from **https://www.oecd.org/dac/evaluation/evaluatingbudgetsupport.htm**

Each step follows a very distinct logic:

- **Step 1.** Identifies the combined effects of all budget support provided to the country on aid, policy and institutional processes. The causal relationships between the budget support provided and changes in public policies, institutions, services delivery, and spending are analysed, recognizing that these changes are determined by the government and its policies beyond the budget support package. This step analyses the contribution of budget support inputs to outputs and induced outputs.
- **Step 2.** Identifies changes observed in outcomes and impacts as regards social and economic development which were targeted by the government policies supported (e.g, use of public services, business confidence and other sector outcomes) and analyses the factors determining these changes. These determining factors include public policy actions and also factors outside the government's control (e.g., private sector and civil society initiatives, other aid programs, and external factors). Step 2 links changes observed at outcome and impact levels to their explanatory factors. It usually involves an econometric regression analysis of change in two or more sectors supported by budget support.
- **Step 3.** Combines the results of step 1 and step 2. The analysis teases out the extent to which budget support, through its contribution to government policies and spending actions, may have contributed to the outcomes and impacts identified.

This evaluation framework assumes that there are two main driving forces which generate most of the changes in induced outputs and outcomes:

- the flow-of-funds effects resulting from the provision of the budget funds; and
- the policy and institutional effects resulting from the interplay of budget support funding, policy dialogue, capacity building and disbursement conditions (performance indicators) with domestic processes of policy making, budget formulation and budget execution.

Both streams of effects can be traced up to the induced output level, while also recognizing that other factors are at play. The contribution analysis of step 1, when confronted with the results of the attribution analysis undertaken in step 2, allows the evaluator to assess the contribution of budget support to the successes and/or failures of the government policies and strategies, in relation to the outcomes and impact that the budget support programs intended to promote. This last step 3 analysis is a qualitative contribution analysis.

Key Questions and Issues

Evaluation questions are country- and sector-specific and follow a similar pattern. An evaluation generally has no more than 12 questions. The first questions concern the relevance of the budget support and assess the extent to which the support responded to the institutional, political, economic, and social context of the country or sector and was coherent with government priorities. Subsequent questions analyse the direct effects of budget support inputs on aid processes, macroeconomic management, public finance management, the level and composition of public spending, policy formulation and implementation processes, and governance. Answers to these questions allow for the completion of step 1 of the evaluation methodology.

The scope of the budget support being evaluated (general and/or sector budget support) usually determines the number of questions asked under step 2 of the evaluation, with usually one question per theme or sector. These questions investigate the effectiveness and impact of the policies being supported. They start by identifying the changes in the competitive nature of the economy, in areas pursued by the budget support programs, in income and non-income poverty, in the use and quality of public services and their impact on the livelihood of the population. Once these changes are identified, the extent to which they are related to changes in macroeconomic management, PFM systems, sector policy or policy processes, and/or to other factors, is assessed. The scope of step 2 and the focus of the questions depends on the data available and may be limited due to the evaluation's budget and time constraints.

Step 3 is a conclusive evaluation question, which assesses the extent to which budget support has contributed to the policy and institutional changes that were found to be important factors in reaching the observed outcomes and impacts at sector and country levels. This question provides a qualitative assessment of the efficiency, effectiveness, and sustainability of the budget support provided.

Limitations of the Evaluation Approach and Recommendations for Improvement

This three-step evaluation methodology was tested several times before being adopted by the OECD-DAC network on development evaluation in 2012.[16] It was re-assessed in 2014 when the EU commissioned a synthesis of seven evaluations undertaken since 2010, looking at the strengths and weaknesses of the three-step approach.[17] The specific tools and evaluation techniques used by each evaluation team were compared and assessed in order to develop recommendations on possible improvements. The recommendations covered methodological aspects as well as managerial and process issues.

- A contextual analysis should be included in each evaluation.

[16] The methodology was tested in evaluations of budget supports in Mali, Zambia, and Tunisia in 2011. See **https://www.oecd.org/countries/zambia/evaluatingbudgetsupport.htm**.

[17] In addition to the three pre-cited evaluations of 2011, the synthesis included the evaluations of budget support in Tanzania (2013), Mozambique (2014), South Africa (2013) and Morocco (2014). See **https://www.oecd.org/dac/evaluation/Evaluation-Insights-Evaluating-the-Impact-of-BS-note-FINAL.pdf**

- Step 2 analysis should consider the possibility of using secondary rather than primary data analysis[18] and/or more qualitative approaches (such as benefit–incidence surveys or perception surveys).
- Development partners' management responses to evaluation recommendations need to be strengthened.
- Evaluation reporting formats should be simplified.
- The classification and presentation of evidence collected should be simplified to facilitate comparability across evaluations.

In addition, the study noted that the evaluation approach could become an integral part of the domestic policy processes if it was led by the country rather than by the development partners.

These recommendations were based on seven evaluations. Looking across the 17 evaluations examined in this chapter, it is clear that the application of the methodology provided more robust results at the step 1 level for sector budget support than for general budget support.[19] This was not due to the type of budget support but to the fact that, by coincidence, in five of the six sector budget supports evaluated, recipient governments chose to earmark EU funds to specific (and narrowly defined) spending programs. This made the effects of budget support more traceable and allowed for a counterfactual approach to be taken for step 1. At the same time, these five countries stood out for their poor monitoring of policy actions and outcomes, making it more difficult to undertake the step 2 analysis. To assess policy and budget support effectiveness, the 17 evaluations confirmed that strengthening partner countries' statistical institutions, statistical and monitoring systems, and accountability systems through improved and regular policy impact analysis needs to remain a priority.

Findings and Recommendations

Table 3.2 lists the 17 evaluations undertaken to date under EU management. Their findings and recommendations are presented in this chapter in three sections, one for each of the three types of budget support provided by the EU. The focus of the evaluations reflects the objectives of the three types of contracts: high-level strategic objectives requiring a cross-cutting approach for SDG-Cs; sector-level policies, reforms and governance for SRPCs; and transition to recovery, development and democratic governance and societal and state resilience for SRBCs. Correspondingly, the evaluations focused on the role of budget support in contributing to: global policy and governance achievements (SDG-Cs); sector or sub-sector outcomes and sector governance improvements (SRPCs); and consolidation of vital state functions, including the delivery of basic services to the population (SRBCs). The evaluations also differed in scope, with SRPC and SRBC evaluations looking, to a large extent, at EU budget support only; whereas SDG-Cs evaluations systematically considered the budget support being provided by all development partners to the country. SRBCs need to be examined separately from the other type of general budget support (SGC-Cs) because of the particularities of the countries and type of support provided.

[18] Most of the evaluations relied on the analysis of secondary data sourced from existing administrative or survey data. Primary data collection was mostly limited to information gained through focus group discussions and structured interviews. The synthesis discussed the possibility of undertaking specific survey work to provide primary data for a more precise and focused analysis.

[19] The evaluations can be found on **https://ec.europa.eu/international-partnerships/strategic-evaluation-reports_en**

The next three sections present evaluation findings related to SDG-Cs, SRPCs, and SRBC evaluation findings. A last section presents an overview of the main recommendations made across all 17 evaluations.

9. Evaluation Findings: General Budget Support

Eight multi-donor evaluations of general budget support have been undertaken since 2010 (Table 3.2).

These captured the interactions and combined effects of all budget support provided by all development partners in each of the eight countries[20] between 1996 and 2015. The countries included six low-income countries (LICs) with very high poverty levels, poor social indicators, deficiencies in their political framework, weaknesses in governance, and high levels of aid dependency (Burkina Faso, Mali, Mozambique, Tanzania, Uganda, and Zambia) and two lower middle-income countries (Ghana, which had high economic growth rates, low poverty, but high aid dependency, and Tunisia, which had higher per capita income and social indicators, very limited aid dependency but relatively high poverty rates and unemployment). The original evaluations contained in-depth analyses of the country contexts.[21]

Budget Support as a Package of Funds, Technical Assistance, Dialogue and Performance Measurement

The period being evaluated (roughly 2005–2015, although seven of the eight evaluations concentrated on the period 2005–2010) was a period of high and increasing ODA levels, with budget support being the EU's and multilateral development partners' preferred aid modality. Overall, budget support provided a significant and predictable source of funding for recipient governments and created fiscal space for them to undertake discretionary expenditure. The scale of budget support in relation to public expenditure was significant in all countries. Budget support annual disbursements represented as much as 25% of public expenditure in Uganda in the first half of the period; 15% of public expenditure in Burkina Faso; more than 10% in Mali, Mozambique and Tanzania; 8% in Ghana; and 6.5% in Zambia. Even in Tunisia, where it represented only 1.4% of public expenditure, budget support was an important source of funding for discretionary expenditure.

The predictability of the amounts of budget support was high, with disbursements close to planned amounts in most cases. This was true even though a lack of mutual accountability triggered temporary suspensions of budget support by the EU and other development partners in five of the eight countries during the evaluation period. In three cases, temporary suspension was linked to the government's breach of principles (major corruption and fraud cases had been brought to light in Tanzania in 2007 and 2008; Zambia in 2009; and Mozambique in 2009, 2011, and 2012). At the time, the EU's general budget support was not yet linked to respect for fundamental values, but only to the eligibility criteria, which continued to be satisfied. While corrective measures were discussed and then implemented, the EU continued to disburse funds, which eased the effect of these suspensions on the government's Treasury tensions. In the two other cases, Uganda (2012) and Ghana (2013 and 2014), underperformance on results, a deteriorating macroeconomic situation and serious concerns regarding PFM triggered all development partners, including the EU, to suspend budget support since the key conditions were no longer being met.

[20] The Tunisia evaluation considered only the EU's budget support programs, which were provided in a joint framework with the African Development Bank and the World Bank.

[21] The evaluations can be found on **https://ec.europa.eu/international-partnerships/strategic-evaluation-reports_en**

With these temporary suspensions and deferred disbursements of budget support due to the countries' breach of mutual accountability, the predictability of disbursement timing could not be maintained: in Mali, Uganda, and Zambia public expenditure was delayed and the government had to seek temporary domestic borrowing.

In almost all EU budget support, capacity development complements funding, policy dialogue, and performance monitoring. Technical assistance is used to strengthen the country's policy and PFM systems, to improve the accountability of the government toward its citizens, and to strengthen key institutions and policy-making processes. Typical areas of support include external oversight, monitoring and evaluation, underlying statistical data systems and processes, PFM, including gender budgeting and monitoring, and the active engagement of stakeholders in policy design, implementation and monitoring.

Technical assistance usefully complemented budget support in backing governance reforms and reinforcing capacities in PFM, audit, and statistics in six of the eight countries. Where sector budget support was provided alongside general budget support, sector capacities (e.g., in health, water, and sanitation) also benefited from technical assistance. In Ghana, major efforts were made to strengthen the capacities of civil society organizations and to enhance their role in policy processes. Overall, technical assistance remained a minor component of the budget support package and in many instances, evaluators estimated that more could have been done with better planning and a more flexible response to strengthen capacities at the subnational level where policy implementation takes place.

In every result identified in all eight evaluations as a direct or indirect effect of budget support, policy dialogue featured as a central element. Dialogue related to budget support was invariably a crucial factor in improving policies, governance, and policy decision making. Through their policy dialogue, development partners were able to put and keep specific issues on the government's priority agenda, draw attention to governance matters, and propose and discuss policy options. The development partners also used performance monitoring and the variable tranche indicators to discuss results of policy implementation, corrective measures, and implementation challenges.

The effectiveness of policy dialogue was helped by the strong coordination of budget support donors within a structured framework (Box 3.1). This facilitated harmonization, alignment, and the delivery of joint messages. During the period, temporary suspensions of budget support disbursements led to a severe deterioration of government–development partner relations in five countries. The overall positive assessment of budget support policy dialogue was tempered in several cases by a perceived lack of government ownership and leadership of the policy dialogue (this was not the case in Ghana) as well as by extending budget support areas of interest to ever wider governance and sector issues for which reform capacities were insufficient.

Box 3.1: Development Partner Harmonization and Alignment

All countries had strong formal budget support management structures and national monitoring frameworks. Budget support was managed in a harmonized manner despite the differences in the design and management of each development partner's budget support. During the periods evaluated, the number of active development partners in both general and sector budget support provision ranged from three (where there was only general budget support) to 19 (in Mozambique). Sector budget support was mostly directed toward social service delivery (health, education, roads, water and sanitation), technical and vocational training (Tunisia), PFM (Mali and Zambia) and decentralization

(Zambia). These management structures helped align the development partners with government policy priorities and with the use of national monitoring frameworks and systems and common delivery mechanisms. Their use considerably reduced transaction costs, making budget support a more efficient modality than projects or basket funds. EU budget support variable tranche triggers were drawn from these common performance assessment frameworks.

Budget Support Contributions to Improving Public Governance

General budget support was found to have induced and sometimes been instrumental in triggering positive and mostly lasting changes in four main areas: policy formulation and implementation, the composition of public spending, public finance management (PFM), and transparency and external oversight.

General budget support accompanied improvement in policies in several areas, depending on the objectives pursued and the weaknesses to be addressed. For example, budget support's focus on outcomes was instrumental in improving policy monitoring in Uganda and in institutionalizing government annual performance reports. These monitoring reports provided timely information to policy makers and implementers on previous performance and challenges, and thus significantly improved policy making. Strong gains were made in the water and sanitation sector, where policy processes and the quality of policies gradually improved, thanks to the consultative processes nourished by these performance assessments. In other sectors, data reliability did not improve, and policy changes remained based on uninformed political decision making. In Tunisia, budget support contributed to discrete improvements in specific areas of reform, including trade tariffs, business environment regulations, and the tax system.

Improvements in sector policies and delivery processes were particularly substantial when general budget support was paired with sector budget support. In several countries, budget support contributed to the strengthening of sector policies, the adoption of a sector-wide approach and the implementation of sector policies, e.g., for the health and water and sanitation sectors in Burkina Faso. However, sometimes the contributions of budget support were positive but insufficient, by themselves, to improve service delivery. This was the case in Ghana, where budget support played a positive role in improving policy formulation, enhancing intrasectoral coordination (in environment and decentralization), and in strengthening the capacities of key public institutions. It also improved legislation and tariff adjustments designed to benefit natural resource management. However, while budget support helped to maintain the pace of reform and improve the quality of policies in Ghana, it could not overcome the barriers to effective policy implementation.

In the six LICs, the discretionary funding enabled by budget support helped governments to significantly increase their social and pro-poor expenditure (health, education, social protection, water and sanitation, roads, and agriculture).

- In Mali, budget support provision was associated with an increase in expenditure on priority sectors from 39% of total public expenditure in 2003 to 54% in 2009.
- In Uganda, a trebling of poverty reduction expenditure was facilitated at the beginning of the 2004–2013 period when budget support funds came onstream. Budget support made it possible for these expenditures to remain protected from budget cuts during the entire period, but their

importance in per capita terms fell drastically after 2004–2005 as the government's priority spending turned to infrastructure and defence, and basic service expansion stalled.

- Even in countries where priority sectors already absorbed the largest share of public spending, this trend was clearly visible. In Mozambique, for example, the share of public expenditure on priority sectors rose from 61% to 67% during 2005–2012. This increase in spending would not have been possible without budget support.
- In Ghana, the government ring-fenced budget support funding for pro-poor sectors, private sector development, natural resources, energy and oil. Despite this, pro-poor spending and public investment decreased in relative terms over the evaluation period.

In the LICs and Ghana, additional funding benefited spending on wages (higher salaries and more health staff and teachers), non-salary recurrent expenditure (mainly in Ghana), and a higher share of domestic funding of public investments. In addition, the implementation of PFM reform programs improved domestic revenue mobilization in all countries except Uganda and Burkina Faso and was associated with stronger budget planning and budget execution capacity (see below), thus increasing the efficiency of spending and providing an additional window of opportunity to increase amounts available for discretionary expenditure.

In turn, greater expenditure in social and priority sectors expanded access and delivery of services in these sectors. In education, the number of schools, teachers, and textbooks increased; in health infrastructure, essential drugs availability and personnel improved; and in water services, access was expanded. In all countries, budget support directly contributed to an increased provision of health, education, and other basic services.

In all countries, except Burkina Faso (Box 3.2), PFM vastly improved, as evidenced by repeated Public Expenditure and Financial Accountability (PEFA)[22] assessments. Budget support played an important role in these improvements through the provision of technical assistance (on issues such as integrated financial information systems, budget management, audit, and the legislative framework), the monitoring of the performance indicators contained in the performance assessments frameworks and in the variable tranches, and the close attention paid to PFM in policy dialogue. In most countries (Box 3.3), budget support was linked to wide PFM improvements at both central and local government levels, except in Tunisia, where the focus on PFM was limited to support for the development of the medium-term expenditure framework. In exceptional cases, such as Ghana, progress in PFM reforms was real but very limited: technical assistance and dialogue brought PFM issues to the fore and contributed to legislative improvements but remained largely ineffective as they were not backed by a prioritized and sequenced reform strategy. Since the reforms applied to only part of the budget, the limited progress made did little to improve the general management of government finances.

[22] The Public Expenditure and Financial Accountability (PEFA) program was launched in 2001 by seven international development partners: The European Commission, International Monetary Fund, World Bank, and the governments of France, Norway, Switzerland, and the United Kingdom. See https://www.pefa.org/.

Box 3.2: Missed Opportunity to Improve Public Financial Management in Burkina Faso

In Burkina Faso, the PFM priority during 2009–2014 was the introduction of medium-term expenditure planning, and its associated budget program approach; some limited measures for improving budget execution (procurement and procurement control, simplification of expenditure chain); and the first attempts in favour of fiscal deconcentration (the delegation of some fiscal functions from the ministry of finance to line ministries or to sub-national administrative levels) and decentralization (the transfer of responsibility for revenue collection and expenditure management to sub-national levels of government). The role of budget support providers in these endeavours was very muted: they monitored developments, shared their concerns and recommendations with the government, and were occasionally solicited by the government to provide expertise for specific tasks. The slow progress of PFM reforms was not sanctioned by the development partners, who remained almost at the periphery of PFM efforts, possibly recognizing that many other priority issues needed to be addressed (notably the weakness of existing policies and corruption) for PFM reforms to improve expenditure effectiveness.

PFM = public financial management

Box 3.3: Technical Assistance for Public Financial Management in Uganda

Over the period 2004–2013, PFM in Uganda made huge strides at both central and local government levels, gains that were strongly associated with budget support, which helped catalyze these changes. Budget support brought substantial technical assistance, capacity building activities, and analytical services, which both strengthened PFM systems and provided budget support donors with leverage to push PFM issues in policy dialogue. A specific technical assistance support unit facilitated a coordinated effort, the production of common analytical materials (such as the relationship between fiscal decentralization, fiscal incentives, and decentralized services), and the common development and monitoring of PFM indicators and actions. Without budget support funding flowing through domestic PFM systems and the attention focused by development partners on PFM improvements, progress in PFM reforms would have been more limited.

PFM = public financial management

Contributions to Transparency and External Oversight were also made by budget support. Although they recognized the effectiveness of budget support, many EU Member States returned to project aid after 2010 (mainly because their constituents questioned the value of budget support). However, Member States entrust the European Commission to continue implementing budget support as the most effective way of promoting systemic changes, sustainable results, and domestic accountability. They are working closely with the European Commission in policy dialogue, capacity development, and performance monitoring, often through joint actions. To ensure the accountability of its actions to European taxpayers, the European Commission added budget transparency and external oversight as the fourth criterion for budget support eligibility. Within its budget support operations, the European Union prioritizes support for strengthening the functioning of supreme audit institutions (SAIs) and encourages the publication of budgets and budget accounts in a timely fashion. It also supports civil society participation in external oversight through the strengthening of the capacity of parliamentary committees and research bodies to scrutinize the budget. It also supports grassroots initiatives to enable populations to hold a government accountable for its spending actions (both budget management and service delivery).

In the two LMICs, budget support did not specifically target improved public accountability. In the six LICs, the evaluations confirmed that the EU's dynamic approach to transparency and oversight had paid off, often paving the way for improved governance over the periods considered (all before 2015). Transparency and external oversight improved, as did the control of corruption in a range of countries: Mozambique (improved budget documentation and legislative and institutional framework for the control of corruption); Tanzania (quality, timeliness and scope of audits, external scrutiny and the legal framework for corruption); Zambia (external auditing); Burkina Faso (external oversight, Box 3.2); Uganda (legal framework and strengthening of capacities of accountability institutions, Box 3.3). In Tanzania, corruption cases prosecuted more than doubled between 2010 and 2014. In all cases, improvements were linked to increased operating budgets for the relevant institutions (facilitated by the additional discretionary funding), technical assistance and increased attention within policy dialogue, all linked to the provision of budget support. In Uganda, it took the temporary suspension of budget support to bring the government's attention to corruption and governance issues.

Box 3.4: Improvement of External Oversight in Burkina Faso

Before 2014, the role of civil society in external scrutiny of public finance management and of the fight against corruption was strengthened through budget support. External oversight was an important part of the policy dialogue between the group of development partners providing budget support and the government. Discussions took place from the Prime Minister's Office to the technical level. Several development partners used performance indicators in the areas of external oversight and corruption as triggers for disbursement, reinforcing the significance they placed on these issues. To complement budget support, capacity strengthening support for the SAI, civil society, and other control institutions enabled them to be more effective. Although the dialogue did not produce the anticipated corruption and external oversight laws, the development partners' initiatives enabled civil society to make progress on other fronts, thus creating an improved environment for external oversight, which facilitated the subsequent adoption of an anticorruption law under the transitional government.

SAI = supreme audit institution.

Contributions to Improved Social Outcomes

The main objective of all EU budget support is poverty eradication and inequality reduction. General budget support should be used to support the attainment of the Sustainable Development Goals (SDGs). In most of the eight countries examined in this chapter, the provision of budget support coincided with a period when social indicators significantly improved. Regression analysis found these improvements to have been directly linked to the expanded delivery of key public services as a result of increased social and pro-poor spending. Budget support contributed, sometimes very significantly, to this higher spending. Improved outcomes were achieved in education (higher enrolment rates in primary education, higher transition rates from primary to secondary schools, and lower drop-out and repetition rates) and in health (greater use of health facilities, higher immunization rates, lower child and maternal mortality indicators, and lower incidence of diseases).

The gains were momentous, but not always equitable. Generally speaking, rural areas have lagged behind, regional differences have remained widespread, and gains in access have not always been accompanied by better quality of services. For example, greater education access was achieved in Ghana, Tunisia, and Zambia (Box 3.5), but the quality did not follow suit. In Burkina Faso, access to basic services such as education, health, and water and sanitation improved but their quality and infrastructure remained poor. In addition, in some countries, including Ghana and Uganda, the government's fiscal position strongly deteriorated at the end of the evaluated period and the lack of resources for non-salary recurrent expenditures and investments have seriously weakened the service delivery systems. Finally, service delivery at local government level has not always received adequate attention.

Box 3.5: Expansion of Coverage of Key Social Services in Zambia

The evaluation of budget support in Zambia noted that, in the education sector: "The budget increases have enabled the Ministry to invest more in teachers, classrooms and books. The number of basic schools increased from 7,600 in 2005 to 8,400 in 2010, the number of teachers from 50,000 to 63,000 and the number of primary school pupils from 2.9 million to 3.4 million. The enrolment of girls improved and gender parity was almost achieved at the lower and middle basic levels. The number of Grade 9 examination candidates increased from 190,000 in 2005 to 280,000 in 2010 (with an increase of female candidates from 89,000 to 133,000). Partly as a result of a lack of resources, the quality of education remained low. However, it must be noted that improved access among underprivileged groups changed the composition of classrooms in primary schools, which had an impact on average examination results." (page 18, Synthesis report).

Contributions to Higher Economic Growth and Reductions in Income and Non-Income Poverty

In Tunisia, the reforms supported by budget support contributed directly to the country's opening to international trade and coincided with a period of economic growth and stability. Budget support contributed to tax reforms and tariff dismantling as well as to the improvement of economic governance and the business environment, which was essential to improve Tunisia's international competitiveness (Box 3.6). It clearly also contributed to the Tunisian government's wider strategic agenda.

Box 3.6: Contribution of Budget Support to the Liberalization of the Tunisian Economy

Budget support in Tunisia supported a set of reforms aimed at liberalizing the domestic market, strengthening the competitiveness of the economy, reform secondary and technical education with a view to reduce youth unemployment. During the period of budget support, macroeconomic growth accelerated, the trade volume with the EU more than doubled in real terms between 1995 and 2006, the trade deficit decreased to near zero by 2008, private investment grew an average by 7.5% a year, labour productivity increased, and the number of apprentices in vocational training and higher education graduates increased dramatically, although they could only partially be absorbed in the labor market where high levels of unemployment persisted.

In the other seven countries, budget support represented a significant share of public expenditure. In tandem with support provided by the IMF, budget support was instrumental in providing essential resources for the maintenance of macroeconomic stability, strengthening the capacity to manage external shocks, and to ensure high economic growth rates. The evaluations confirmed that the eight countries had improved their macroeconomic performance, attaining generally higher growth rates than neighbouring countries that did not receive budget support (although Ghana's performance declined strongly over the evaluation period). The main reasons for these positive trends were the governments' overall prudent macroeconomic management and national and sector policies, as well as a number of favourable external factors, including debt relief. Within this conducive context, budget support helped stabilize the fiscal deficit and allowed higher spending without governments having to tap into domestic savings. This spending was often used for public investments, including public infrastructure, helping to stimulate domestic activity and productivity. In Ghana, when development partners stopped providing budget support in 2013–2014 this was an important factor in the government's decision to accept an IMF stabilization program.

Macroeconomic gains were particularly strong in countries that successfully managed to raise domestic revenues (a priority concern for the EU) and to increase social expenditure. Apart from Uganda, in all of the countries evaluated, domestic revenue mobilization (DRM) increased during the periods of EU budget support. By contrast, in Uganda DRM remained low, and, at the end of the evaluated period (i.e., after 2010) when budget support contributions declined, the government was unable to provide sufficient funding for public services and could no longer sustain social services. The Uganda evaluation suggested that the sheer volumes of budget support received probably crowded out local revenue mobilization. With a low DRM, the sustainability of gains was seriously compromised. In Mozambique and Tanzania, extensive revenue reforms to trigger higher DRM were implemented during periods of budget support provision.

With the improvement of social performance indicators, non-income poverty also decreased significantly in all eight countries over the period. The Human Development Index increased by 11%–14% between 2004 and 2010 in Mali, Mozambique, Tanzania, and Zambia. The period of budget support coincided with a sharp drop in poverty rates in some countries. Significant reductions in income poverty were achieved in Mali (from 61% of the population in 2000 to 51% in 2005) and

Ghana (from 17% in 2006 to 8% in 2013). Moderate poverty reduction was seen in Tanzania and Mozambique, but reductions were limited to the cities in Zambia.

The contribution of budget support to these improvements is not quantifiable and none of the gains made can be directly attributable to budget support. However, most evaluations found indirect positive links between budget support and poverty reduction.

10. Evaluation Findings: Sector Budget Support

While sector reform performance contracts (SRPCs) share the general objectives of budget support, they focus more narrowly on supporting sector policies and reforms and on improving governance and service delivery in a specific sector or in a set of closely interlinked sectors. In line with the Sustainable Development Agenda 2030's pledge not to leave anyone behind, SRPCs emphasize equitable access to, and the quality of, public service delivery, particularly for poor and vulnerable populations, and the promotion of gender equality and children's rights.

The EU has undertaken six sector budget support evaluations since 2010 in Cambodia, El Salvador, Morocco, Peru, Paraguay, and South Africa. The evaluated periods for each country were different but all fell within the 2000–2017 timeframe. These evaluations covered only EU support, except in Morocco where the evaluation encompassed budget support provided by four multilateral and three bilateral development partners. The number of SRPCs in each country varied widely, from 54 programs in Morocco to two in Cambodia.

The evaluated SRPCs were provided to support poverty reduction, macroeconomic policy implementation, good governance (public administration, PFM, and fiscal reform), social sector policies (education, health, social protection, social development), and sub-sector policies or programs (development of a national quality control system, promotion of the environment and trade, and the fight against drugs).

Policy Dialogue, Technical Assistance, and Performance Measurement

In contrast to general budget support (where funding was essential to the results achieved), in SRPCs, technical assistance, policy dialogue and performance measurement were the main drivers of effectiveness, with funding taking a second, even if strategic, place.

Of the six countries evaluated, Cambodia, El Salvador, Morocco, and South Africa were lower middle-income countries (LMICs), whereas Paraguay and Peru were upper middle-income countries (UMICs). Budget support represented the main, and often the only, aid delivery method for the EU in these countries and the volume of funding remained minor relative to total public funding. As opposed to general budget support, where funds could represent 15% or more of public expenditure, depending on the year considered, the countries considered here were not aid-dependent and SRPCs represented, at most, 0.6% of annual public expenditure.

However, this is not necessarily a general characteristic of SRPCs, but rather a particularity of those in this small sample of LMICs and UMICs. For example, the eight countries considered in the previous section on general budget support also benefited from sector budget support, which was found to be as essential as policy dialogue and technical assistance in contributing to observed results.

In the six cases of sector budget support evaluated, actual disbursements were close to planned disbursements, and SRPCS were more predictable than any other aid modality, both in amounts and in delivery timing. Some in-year unpredictability of timing occurred but it was well-managed by the authorities, leaving government budget and Treasury plans unaffected.

The technical assistance provided in the context of SRPCs was crucial to improving sector conditions for effective policy implementation in complementarity with budget support funding. Technical assistance nourished strategic dialogue on policy design and technical discussions on specific policy areas. It provided tools or outputs crucial for reforms to be pushed forward. It strengthened the capacities of the institutions responsible for policy implementation and provided preparatory inputs for the monitoring of disbursement conditions.

When the needs expressed by the recipient countries and the technical assistance provided by the EU were in harmony, and coordination between development partners was good, the support provided tended to be more effective (Box 3.7).

Box 3.7: Joint Pool for Technical Assistance in Cambodia

The EU set up a joint pool fund for technical assistance in Cambodia. This significantly improved the response to government capacity strengthening needs and priorities and aligned the support of the various development partners. The EU's technical assistance was instrumental in easing the massive institutional and human resource constraints on implementing important reforms in education and public finance management. It also contributed to improved budget efficiency through the tools it developed.

The role of policy dialogue is key in budget support, both in reaching agreement on the reforms to be supported and in monitoring progress in policy implementation. In the six countries, the depth and scope of the dialogue and its effects on policy decisions varied from strategic policy advice to technical and operational discussions. In Morocco, within the wider policy dialogue framework taking place under the EU–Morocco Association Agreement signed in 2000, policy dialogue focused on the operational requirements for implementing a set of reforms to liberalize the economy, promote trade integration and modernize the regulatory framework. In Paraguay, policy dialogue and performance indicators influenced the design and implementation of policies in education, social protection, and public finance management. In El Salvador and Peru, discussions were focused more on the technical issues that arose within the sectors supported.

Unlike general budget support, the delivery of SRPCs did not involve joint management structures with other providers of budget support. This was partly because the majority of SRPCs evaluated were designed to provide support for a specific reform within a sector or a subsector, rather than to support a sector-wide approach. When an SRPC supported a whole sector (for example, education in Cambodia, El Salvador, Morocco, and Paraguay), policy dialogue would take place within existing multi-donor sector policy dialogue structures. Where established dialogue mechanisms already existed, the dialogue was more strategic and more effective. For example, the dialogue with development partners in the education sector in Cambodia led to a strategic decision by the government to increase budget transfers to schools for their operating budgets.

Where SRPCs were provided as stand-alone operations, targeting very specific programs, sub-sectors or regions, the conditions for joint development partner dialogue were more limited. The EU was often the only development partner providing budget support in these areas (or, as in South Africa, the only development partner providing budget support at all). Development partners providing loans (e.g., multilateral lenders providing policy-based lending) were often leading a separate dialogue from those providing grants (e.g., the EU and bilateral development partners); this was more marked in LMICs and UMICs than in LICs. In the case of the SRPCs evaluated, dialogue was limited to the scope of the sub-sector or program supported, harmonization was less advanced, and there was less inclination to align disbursement triggers and positions on policy dialogue issues (El Salvador, Paraguay, and Peru).

In all cases, the use of variable tranches and of performance indicators provided an opportunity for discussing sector or subsector issues and finding solutions to identified problems. In some cases (e.g., Morocco) EU budget support was instrumental in setting up monitoring frameworks with actions and targets to be achieved. Dialogue on performance indicators sometimes led to strategic policy discussions and the monitoring of wider sector objectives. More often, the scope remained tightly linked to the variable tranche indicators, with the strategic dimension of policy design and implementation staying firmly with the government. Where the choices of performance indicators spanned several different areas of a sector policy or different sector policies, budget support overcame the internal fragmentation of management structures within and between beneficiary ministries by nurturing intra- and inter-institutional dialogue and coordination. The strengthening of the inter-institutional dialogue within government was a benefit of EU budget support, as noted in both Morocco and Paraguay.

Contribution to Improvements in Public Governance

In contrast to general budget support, which generated important gains in overall governance issues such as PFM, transparency and oversight, SRPCs focussed more narrowly on sector governance issues.

Dialogue in the context of SRPCs was more about operational matters and the discussion of performance at program and subsector level than about wider strategic objectives. However, where budget support was used to support new programs, such as Peru's fight against drugs or the creation of the Salvadoran National Quality Control System, the EU delegation and the technical assistance provided policy advice to the government at a crucial time while these new policies were being developed. In South Africa, such advice was very limited. In Morocco, the EU's technical advice on PFM led to progress on two highly sensitive areas in terms of defining strategic policy directions, namely the estimation and publication of tax expenditure and tax rationalisation (Box 3.8).

Box 3.8: Support for Governance in Morocco

Tax reform, which began in Morocco in the mid-1980s, achieved positive results until the late 1990s, when progress slowed. A new wave of reforms was undertaken from the late 1990s and was accompanied and supported by the EU and other development partners from 2005 onwards with budget support. This led to the simplification, rationalization, and harmonization of taxes, the development of a new Public Finance Law, and, importantly, since 2007 made it possible to report on tax expenditures in the Finance Act.

In the field of taxation, budget support was instrumental, not for launching reforms (which were initiated by the government), but for influencing their orientation on such critical issues as value-added tax (VAT), corporate tax, tax neutrality, rationalization of tax expenditure in order to align with good practices, particularly those underway in the EU. The intensity of the policy dialogue, the technical assistance and analytical work provided during the preparation phases, and the choice of disbursement conditions (performance indicators) were instrumental in advancing the reforms.

In most cases, technical assistance played an instrumental role in strengthening government capacities and producing tools and systems which were important to advance the reforms. In Morocco, technical assistance was particularly effective in supporting regulatory and institutional changes to modernize the Moroccan economy and facilitate its entry into the world economy. In Cambodia, El Salvador, and Peru, technical assistance played a key role in improving sector governance and in particular public finance management. Technical assistants exchanged ideas and provided analysis and policy proposals to nourish institutional strategies and policy development, produced management and technical tools, and delivered training in areas such as sector planning, budget management, financial management and results-based management reforms.

Great strides forward were identified in results-based planning and budgeting (Cambodia and Peru), in monitoring capacities (Cambodia), in strengthening inter-ministerial relationships and in the technical capacities of the institutions supported. This improved governance was recognized as key to sustainable and systemic improvements in policies and delivery that would lead to better sector outcomes. All such sector-level improvements were linked to technical assistance.

Even though the volume of funding provided by budget support was small relative to total public spending, budget support funds were essential in maintaining or even increasing spending in selected areas. In the six countries examined, the fiscal space created by budget support was used by the governments to ensure funding of specific programs, or to increase funding of existing programs.

- **Cambodia**. EU budget support helped reverse an increasing trend of underfunding non-salary expenditure in education by convincing authorities to increase school operating budgets and by enabling continued funding of some specific education initiatives, such as scholarships and multilingual education, which had been successfully piloted by other development partners.
- **El Salvador.** In 2010, EU macroeconomic support to El Salvador helped relieve the pressure on the national treasury in the aftermath of the global financial crisis of 2007–2009, when the government sought to implement an anti-crisis plan and increase social spending.
- **El Salvador, Paraguay, and Peru**. EU budget support allowed governments to increase funding of specific spending programs, including: the Salvadoran Quality Systems Programme; the very limited capital budget and the purchase of books and stationery in the education sector in Paraguay; and social protection for vulnerable people and nutritional programs in three regions in Peru.
- **Morocco**. Although aggregate budget spending remained stable, the budgets allocated to non-formal education and adult literacy were boosted by the attention given to these areas in the policy dialogue and indicators that accompanied EU budget support.
- **South Africa**. Budget support funds were used by the government to top up the budgets for innovative spending in service delivery processes in different areas (water and sanitation, health, justice, education, employment, private sector development, and the provincial legislative assemblies). In cases where public spending was verified to have reduced poverty and inequality levels, corresponding programs were mainstreamed into policy, scaled up, and funded domestically through the budget.

In all cases, EU funding enabled the respective governments to increase the scope of services delivered to the population. In Paraguay, Peru, and South Africa, this was easily identifiable as funds were channelled by the government to specific spending programs and regions, increasing coverage and efficiency in specific policy areas (education, social protection, and health). In other budget support programs, the link between EU funding and the increased access to public services was more indirect.

Evaluations also noted that, although EU budget support had contributed to an expansion in services, it was not always successful in increasing the quality of those services (e.g., education in Cambodia) or in addressing persistent inequalities in access to services.

Contribution to Improved Social Outcomes, Higher Economic Growth, and Reduction of Income and Non-Income Poverty

In the six countries, the evaluations found that budget support had made genuine and positive contributions to better sector governance, improved institutional capacities, and more efficient and higher spending. This enabled the governments to deliver more services to the population. These policy results, in turn, were either verified to have contributed to improved macroeconomic and social outcomes or were inferred to have contributed to these outcomes

- **El Salvador**. Funding, technical assistance to strengthen fiscal management, and dialogue about performance indicators targeting subsidy levels and social spending contributed to the country's progress towards an improved fiscal balance. Tax revenues increased and more funds were allocated to social spending. Overall, budget support programs in El Salvador were found to have contributed to improved education enrolment, grades, and coverage; access to water, sanitation, and electricity; pensions and other social transfers; and the promotion of a culture of quality.
- **Peru**. Budget support funds were directed by the government at specific programs and regions. It was found that regions that received the funds performed better than other regions in terms of the prevalence of chronic infant malnutrition, reductions in coca cultivation, and increases in the cultivation of industrial crops.
- **Paraguay**. The government directed EU budget support funding at child nutrition, teacher training, and the purchase of textbooks. These programs were considered by stakeholders to have increased education enrolment and to have improved the territorial distribution of education services.
- **South Africa**. The funding of innovative processes successfully increased access to and use of water and sanitation, primary health care, justice, and democratic participation by the poorest and most marginalized population groups.
- **Morocco**. Lower rates of morbidity and mortality, in particular maternal mortality, were achieved through the wider adoption of health insurance and increased use of health services, supported by budget support. An increase in the adult literacy rate from 52% in 2004 to 67% in 2011 and reduced drop-out rates and improved progression rates were attained, helped by the EU's budget support to education. More broadly, SRPCs supported legal and regulatory changes, which reinforced a wider liberalization of the domestic market.

However, budget support did little to reduce regional or urban–rural disparities in access and delivery of services. Moreover, some of the improvements linked to EU budget support were not linked to the improvement of sector outcomes and impacts, or at least the results could not be clearly seen. This was the case for the EU's budget support to education in Cambodia**.** The EU strongly contributed to increased and more efficient recurrent spending, but this did not lead to better or more uniform education outcomes (primary and secondary enrolment rates, and repetition rates) over the period. For example, the evaluation found that the provision of EU scholarships and better school governance, which the EU support emphasized, did not play a significant role in the positive changes observed in drop-out rates and early childhood enrolment rates. Other factors, including correct school entry age, access to drinking water, and the location of schools or school spaces were more important. However, in this specific case, it was also noted that by the time the evaluation was carried out, the improved sector policy implementation might not yet have had enough time to lead to the expected outcomes.

11. Evaluation Findings: State and Resilience Building Contracts

State and resilience building contracts (SRBCs) are provided by the EU in situations of fragility or transition. They address immediate needs by providing additional fiscal space and supporting key actions to help countries to ensure vital state functions and to deliver basic services to the population. They also aim at tackling the structural causes of fragility and at building up the state's economic resilience. Since SRBCs were introduced in 2012, individual evaluations of them have been undertaken in Burundi (2015) and Sierra Leone (2016). A thematic evaluation of the instrument was undertaken in 2019, covering the 23 countries that had received SRBCs since 2012. Between 2012 and 2019, 42 SRBCs were implemented in those 23 countries, with a disbursed amount of €3.9 billion.

Characteristics and Importance of the EU's SRBCs

SRBCs offered a rapid funding response in a high-risk environment. All SRBC recipient countries were characterized by social vulnerability, macroeconomic fragility, political instability, weak institutions and governance, lack of state legitimacy, volatile aid, and substantial and increasing risk levels. All countries displayed an urgent need for a large volume of funding. Most often, these situations arose in structurally fragile countries hit by a health, economic, political, climate and/or security crisis. Sometimes, situations of fragility were exacerbated by political change, natural or climate catastrophes, or external shocks (e.g., a drop in commodity prices). In these contexts, the EU's response has been to provide a rapid response in an emergency context, with budget support funding discussed with the IMF, to close an existing financing gap. On average, SRBCs represented 5% of domestic revenues.

SRBCs were usually prepared very rapidly, and conditions for disbursement could be adapted during implementation. Although the eligibility criteria were the same as for Sustainable Development Goals contracts (SDG-Cs) and sector reform performance contracts (SRPCs), they were interpreted more flexibly for SRBCs and their results were assessed through policy commitment and intent, rather than the policy track record. Flexibility was also shown in the way variable tranche performance indicators could be revised, the length and amounts of the contract could be adapted, and additional tranches could be provided in response to specific unexpected challenges.

This flexibility did not undermine the important role of the variable tranches as an incentive to reach specific targets: overall, only 75% of the planned value of variable tranches were disbursed. However, it was found to have diminished their potential role in stimulating the adoption of pro-stability and pro-growth policies.

Policy dialogue was key to all SRBCs, given that eligibility criteria were assessed on the basis of policy intent and political commitment, and disbursement conditions could be re-assessed rapidly in reaction to changes in the situation. The dynamic interpretation of disbursement conditions required intense and continuous discussions, focusing mostly on budget and fiscal issues, PFM, and fundamental values. Policy dialogue was most often undertaken bilaterally, but it was often undermined by a lack of political backing or consensus, weak institutional capacities, and the overbearing weight of the ministry of finance in discussions that concerned line ministries.

Technical dialogue was based on the performance indicators, which usually targeted the government actions (input and process indicators) that are essential for state functioning: economic and financial governance, social sectors (education, health, food security), and democratic governance. A characteristic of the EU's dialogue has been the concept of "proximity." The EU's presence on the ground, and the direct management of the SRBCs by the EU delegations (with headquarters support), facilitated these technical discussions, which often evolved into a more structured dialogue (through the setting up of monitoring platforms or committees), and facilitated dialogue between the ministry of finance, the services responsible for the actions covered by the performance indicators, the EU delegations, and technical assistants. In several cases, proximity and the rapid mobilization of funds through the SRBC also provided an opportunity for the policy dialogue to open the door to political dialogue in complex situations (e.g., in Afghanistan, Burundi before 2016, and The Gambia).

Technical assistance was often used but was not a driver in these programs. Most programs planned for technical assistance to strengthen governments' weak institutional capacities, but with little coordination among development partners and only a weak connection with the programs, the technical assistance was merely able to provide limited knowledge transfer and/or follow-up actions.

Contribution to Improved Public Governance

SRBCs targeted the strengthening of government capacities in:

- macroeconomic and fiscal stabilization and PFM systems, with an important focus on domestic revenue mobilization (DRM);
- provision of basic social services; and
- democracy and the rule of law.

Macroeconomic and fiscal stabilization policies are the IMF's mandate. The IMF provides partner countries with incentives to follow a macroeconomic stabilization policy. It is often backed up by EU budget support, first through the budget support eligibility criteria, which require the partner country to pursue a macroeconomic stabilization policy, and second by the EU's direct contribution to stabilization via the injection of large amounts of funding into national Treasury accounts right after the shock. The EU's role in supporting macroeconomic stabilization was particularly significant in fragile countries with a high security risk. Indeed, the large influx of EU funding and the EU's presence as a frontrunner in providing budget support has often provided a strong signal for other development partners to follow suit and provide support in a high-risk environment (Box 3.9).

Box 3.9: Support for the Central African Republic

In 2014–2015, the EU's SRBC was the only budget support provided to the Central African Republic. Equivalent to 15% of total revenues in 2014 and 12% in 2015, it covered as much as 36% of civil servants' salaries during and just after the peak of civil war violence. In 2016, the IMF, World Bank, African Development Bank, and France joined to assist and cover the gap on the balance of payments and state budget, in the form of budget support. In this manner, the relative weight of the EU SRBC gradually declined over the period. These various budget supports helped to relieve some of the pressure on public finances, but with domestic resources mobilization only increasing from 5% of GDP in 2014 to 9% of GDP in 2018, the country's Treasury remained extremely stressed during that period.

An increase in foreign direct investment has been observed in countries where the EU provided SRBCs, with the influx of foreign currency having a positive effect. The resumption of external debt interest payments and the availability of essential imports provided the wider public with more confidence in the government: during the periods of SRBC provision, the cost of domestic borrowing decreased, further easing the fiscal situation.

Fiscal stabilization was also enhanced by the EU's focus on domestic revenue mobilization (DRM). This was usually achieved through policy dialogue, the performance indicators of variable tranches and complementary technical assistance. In most cases, this focus on increased DRM paid off, with positive results obtained through better tax administration (including tax exemptions and the taxing of extractive industries), improving the sustainability of fiscal stabilization.

Public financial management (PFM), supported by the EU and other development partners, made good progress. Since vast amounts of grant funding were passing though domestic systems, PFM improvement and more rigorous treasury management were amongst the most important objectives of policy dialogue between the EU and the government. As a result, about half of the variable tranche performance indicators were linked to targets in the areas of PFM, including DRM, external audit, and transparency and anticorruption. PFM was a major focus of policy dialogue and technical assistance support. Although not all these efforts appeared to have paid off, improvements were noted, especially in treasury management, budget planning and procurement, and in democratic participation of budget programming. Transparency in budget execution and external oversight did not improve.

SRBCs enabled an increase in government recurrent spending on basic social services, mostly for salaries, in a general context of fiscal restraint. The additional space for discretionary spending allowed by EU SRBCs was found to have been crucial to protecting recurrent expenditures during the evaluation period. Capital expenditures did not increase. The allocation of the discretionary expenditure to social spending was, at least partly, influenced by the accompanying policy dialogue and use of performance indicators.

In line with the focus of early SRBCs, which was on stabilization rather than growth, the SRBCs did not seek to influence public policies other than macroeconomic and fiscal management. Nevertheless, EU SRBCs were instrumental in preserving and even increasing social services, despite the very difficult contexts. EU funding, coupled with an insistent dialogue on the need to protect social sector budget allocations and to fully execute available budget lines, as well as the inclusion of performance indicators targeting the protection of these budget allocations, enabled the maintenance of spending on social services and an increase in health spending. As a result of SRBCs, social services in fragile countries continued to be delivered. Health services, including drug availability, improved in all countries and especially so in those countries suffering from the Ebola pandemic. In some cases (Côte d'Ivoire, Madagascar), SRBCs also supported a better distribution of services over the territory.

In turn, the protection of basic services delivery was recognized in the evaluation to have contributed, alongside other international technical and financial support, to the attainment of SDGs, in particular to positive effects on health and education outcomes, such as lower infant mortality and improved maternal health. However, no evidence was found that the quality of services or the food security situation of the population improved as a result of EU SRBCs.

With regards to democracy and the rule of law, the strengthening of the institutions responsible for security, justice, peace and democratic governance has been slower than expected. The accent has been on policy reforms and legislation, which did not yet result in improved public governance over the period evaluated. About one-third of SRBCs specifically targeted the reinforcement of democracy and the rule of law through the use of performance indicators (on budget allocations, the creation of institutions, the reinforcement of institutional processes, the strengthening of institutional capacities). SRBCs were found to have been instrumental in triggering reforms in the fields of justice, internal security, decentralization, the fight against corruption, and citizen participation. Despite this good progress, the effect upon improved governance is not yet visible. In Niger, for example, the first two SRBCs supported reforms to justice and internal security. The EU, the United Nations Development Programme, and the EU Capacity-Building Mission (EUCAP) Sahel supported the government to prepare a national strategy for internal security and its action plan, which was adopted in 2017. Its implementation continued to be supported by the EU through a third SRBC during 2019.

Countries with an on-going political transition provided a favourable context for SRBCs, which could accompany a peace consolidation process by supporting stabilization and the strengthening of state functions, leading to stronger public governance. In others, efforts made were undermined by the difficult context, marked by persistent political and security fragility, continued macroeconomic risks, political resistance, and insufficient capacity to implement difficult reforms addressing structural bottlenecks. These problems were exacerbated by a lack of popular trust in state institutions and state legitimacy. In these cases, the SRBCs' efforts to improve governance were not successful.

Contribution of SRBCs to Economic Growth and Social Outcomes

The SRBC evaluation found that SRBCs had a positive and proven track record of contributing to macroeconomic and fiscal stabilization and strengthened PFM systems in contexts of fragility and risk. The flow of funds effect on social spending was also important.

However, the evaluation found that the early SRBCs paid insufficient attention to the structural causes of fragility and did not sufficiently integrate considerations about resilience. They did not seek to support structural reforms that could address fragility and the risk factors affecting longer-term economic growth. Nor were they able to have a positive impact upon population poverty and vulnerability. SRBCs rarely had an exit strategy, which could have defined the manner in which gains made could be consolidated and the follow-up programmes that the EU could have offered after emergency support had been delivered.

The SRBCs were found to be extremely valuable in responding to the specific and immediate needs of countries in crisis and/or countries in a situation of fragility or transition or in need of reconstruction. In these contexts, SRBCs brought opportune support that enabled countries to avoid further disintegration of the state's basic functions and allowed the government to resume delivery of basic public services to the population. SRBCs are the EU's only instrument capable of mobilizing, at very short notice, financial resources to be used for recurrent expenditure (usually salary payments) and continued state functioning, as well as providing technical resources to help strengthen the capacities of vital state institutions. These two effects combined have allowed populations to be protected from a total state collapse and to be provided with a minimum level of services.

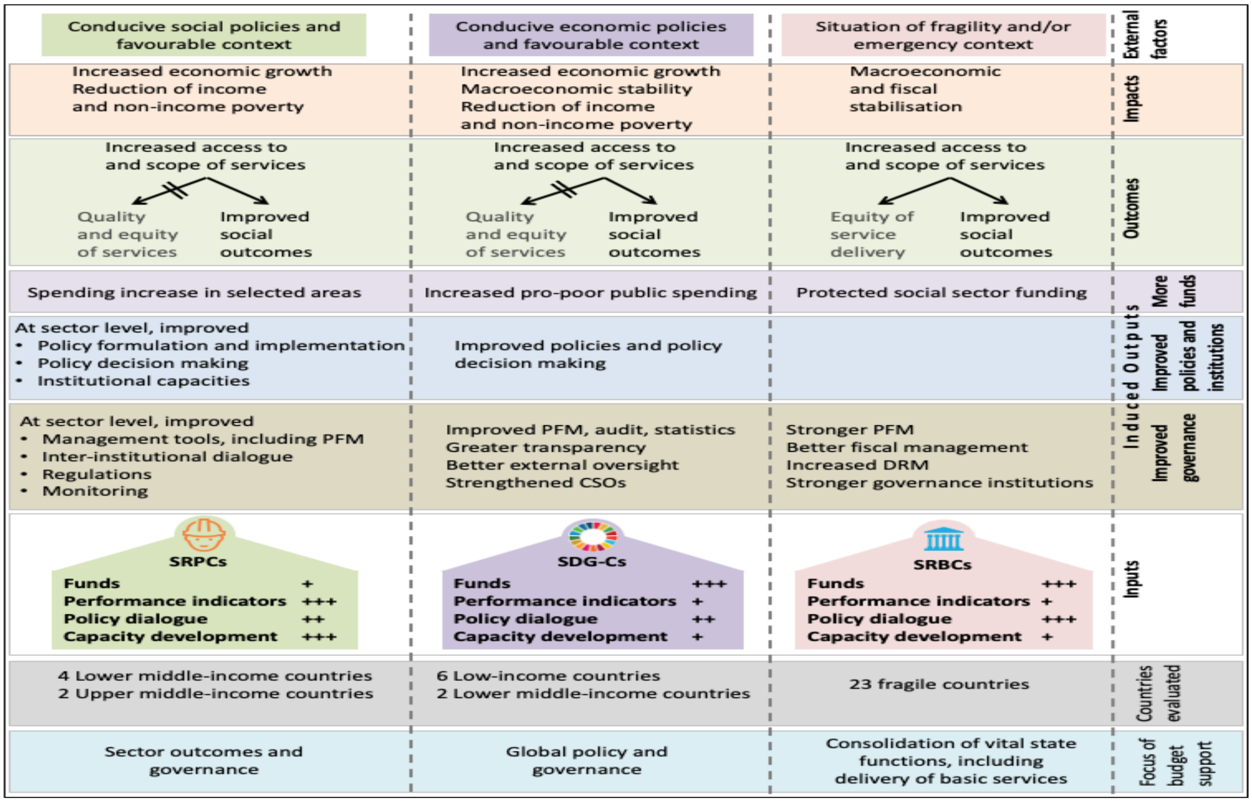
Although not covered by the evaluation, the current COVID-19 crisis illustrates how SRBCs can rapidly disburse funds to the Treasury to enable it to channel more resources to the health sector and tackle the extra strain on health services at a time of pandemic. This allows for more support to be given to vulnerable populations and/or for resources to become available at a time when domestic resource mobilization may be squeezed by negative effects of the crisis on the economy.

12. Summary of Findings for the Three Types of Budget Support

The evaluation findings for the three types of budget support are summarized in Figure 3.6. This provides a quick overview of the characteristics of, and the evaluation findings for, the three types of budget support. It includes their foci, inputs, induced outputs, and contributions to outcomes and impacts, as well as the external factors at play. It also qualifies, at the level of inputs, their relative contribution to the effectiveness of the budget support outputs and the induced outputs achieved.

The evaluation findings summarized here should be considered in their context. This synthesis was based on evaluations undertaken over the period 2011–2020 of budget support programs implemented during the period 1996–2018. Looking across the 17 evaluations and with the benefit of hindsight, it is clear that some of the progress to which budget support contributed was short-lived, especially when countries experienced drastic socio-political, economic, or security shocks. The risk of losing progress never disappears and it needs, therefore, to be monitored closely during budget support implementation. However, this finding may also indicate the need for a more in-depth consideration of the factors that would help ensure the sustainability of outputs and induced outputs when designing budget support and when evaluating its effectiveness.

Figure 3.6: EU Budget Support Contributions to Induced Outputs, Outcomes and Impacts by Type of Budget Support Contract



CSO = civil society organization, DRM = domestic revenue mobilization, PFM = public financial management, SRPC = sector reform performance contracts, SDG-C = Sustainable Development Goals contract, SRBC = state and resilience building contract.

Key:

+ minor contribution (accompanied change)
++ important contribution (change was facilitated but might have happened anyway)
+++ critical contribution (change would probably not have happened within the time frame and to the extent observed)

13. Recommendations of the Evaluations

Each of the 17 evaluations made a number of recommendations to improve the use of budget support in the country concerned and, sometimes, to improve the specific programs, policies and institutions supported. Below are those recommendations that were less context-specific and can be applied to the management and use of budget support in general.

- **The EU and other development partners need to establish new types of partnerships with partner countries, using cooperation modalities and tools in a different manner**. This point was made by several evaluations. Several different directions were recommended. For example, the evaluation of operations in Ghana proposed that the EU should use technical assistance and policy dialogue in a more balanced manner, focusing support on policy innovation and integration of cross-cutting issues. At the time Ghana was a country in transition between being a low-income country (LIC) and a lower middle-income country (LMIC).[23] The evaluations of budget support to El Salvador, Peru and South Africa, illustrated how these governments used EU budget support precisely in this manner, creating fiscal space that allowed them to fund non-essential new pilot programs and risk-taking initiatives that could later, if successful, be mainstreamed into policies.

- B**udget support should be focused on the areas of highest need and impact**. This recommendation was made by one evaluation. Future partnerships should be less ambitious but should concentrate on a few key areas, including mobilizing domestic revenue; reversing the underfunding of social service delivery; and strengthening governance institutions, accountability and enforcement. In short, to ensure that budget support is more strategic, a mix of funding, technical assistance, dialogue, and performance monitoring should be adapted to fit the specific weaknesses and/or opportunities in the specific country context. This would require both a thorough context analysis (including of inequalities, stakeholders, and the political economy) and a more careful understanding of the budget support's logical framework, so that outcomes and impacts potentially influenced by budget support can be defined and monitored.
- **Budget support needs to complement other aid modalities.** This point was made in several evaluations, which suggested that sector approaches that aligned a broader mix of external support instruments would offer a more flexible response to specific problems. Similarly, the use of mutually reinforcing support, such as sector support alongside governance support, was recommended wherever possible. Where several budget support programs coexist, they should be designed to foster complementarity and steered toward the achievement of common objectives. With regard to situations of fragility, EU budget support should be coordinated with EU humanitarian aid, as well as with the IMF and other development partners to provide synergies through complementary funding and technical support.
- **The EU should strengthen its policy dialogue.** All evaluations had at least one recommendation regarding this issue. Invariably, evaluations found that policy dialogue required strengthening at both central and local levels. Dialogue can begin with the discussion of performance indicators, and then extend to a dialogue on policy directions, based on the monitoring of progress in achieving sector and country outcomes and framed in a medium- to long-term perspective. For this, EU staff need to be equipped with adequate skills. Some evaluations recognized that the human resource needs for policy dialogue go beyond what the EU can realistically provide: the shortage of specifically qualified staff in charge of policy dialogue was particularly acute for the implementation of state and resilience building contracts (SRBCs). Guidance on policy dialogue and training for EU staff were recommended.
- **The EU needs to carefully consider the choice and use of performance indicators for the variable tranches.** This recommendation concerned mostly programs that had been designed before the 2012 budget support policy and its revised guidelines, which included much more detailed guidance on the definition, choice, and use of performance indicators. These guidelines provide detailed information on best practices in the choice and use of performance indicators.
- **EU technical assistance needs to improve.** Technical assistance was recognized to be an often essential component of budget support. Evaluations almost unanimously recommended improvements to the way technical assistance needs are identified, and, where relevant, this should

[23] Ghana passed from LIC to LMIC in 2011.

be done jointly with other development partners. The assistance needs to be better planned, deployed more strategically, and carried out in a more flexible manner. The recruitment procedures for technical assistants should be more flexible. The increased effectiveness of harmonized and coordinated technical assistance was underlined, and, in that context, the advantages of providing technical assistance through a pool fund were highlighted. Many evaluations also recommended increased attention be paid to strengthening local, and not just central, governance capacities. Weak implementation capacities at the local level were often identified as a major constraint on the effectiveness of policy implementation.

- **The EU should do more to strengthen the role of civil society, its participation in policy decision making and its capacity to act as an external check of accountability on public actions.** The participation of civil society should be encouraged and reinforced so citizens can take part in monitoring, public policy discussions, and external oversight. Almost all evaluations stressed this issue, arguing that it would lead to better ownership of the budget support programs, more effective policies, improved external oversight, and more transparent results.
- **The EU and other development partners should extend the duration of their support to particular sectors or themes so that gains can be consolidated.** This recommendation was made by several evaluations, sometimes in the context of PFM and macroeconomic stabilization in LMICs. This was also one of the main recommendations of the SRBC evaluation. Reforms take a long time to be implemented and to deliver results and years may pass before gains can be consolidated and results be deemed sustainable. Budget support design needs to be adapted accordingly, follow-on programs have to remain coherent, and an exit strategy should be devised. The EU has moved in this direction in recent years, and it is now increasingly approving 3-year SRBCs, instead of successive 1-year programs.