

Effects of the Exit from Budget Support on Good Governance: Findings from Four Sub-Saharan Countries

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Abstract : Background: Domestic accountability, budget transparency and public financial management (PFM) are considered vital components of good governance in developing countries. The aid modality budget support (BS) promotes these governance functions in developing countries. BS engages in political decision-making and provides financial and technical support to poverty reduction strategies of the partner countries. Nevertheless, many donors have withdrawn their support from this modality due to cases of corruption, fraud or human rights violations. This exit from BS is leaving a finance and governance vacuum in the countries. The evaluation team analyzed the consequences of terminating the use of this modality and found particularly negative effects for good governance outcomes. Methodology: The evaluation uses a qualitative (theory-based) approach consisting of a comparative case study design, which is complemented by a process-tracing approach. For the case studies, the team conducted over 100 semi-structured interviews in Malawi, Uganda, Rwanda and Zambia and used four country-specific, tailor-made budget analysis. In combination with a previous DEval evaluation synthesis on the effects of BS, the team was able to create a before-and-after comparison that yields causal effects. Main Findings: In all four countries domestic accountability and budget transparency declined if other forms of pressure are not replacing BS's mutual accountability mechanisms. In Malawi a fraud scandal created pressure from the society and from donors so that accountability was improved. In the other countries, these pressure mechanisms were absent so that domestic accountability declined. BS enables donors to actively participate in political processes of the partner country as donors transfer funds into the treasury of the partner country and conduct a high-level political dialogue. The results confirm that the exit from BS created a governance vacuum that, if not compensated through external/internal pressure, leads to a deterioration of good governance. For example, in the case of highly aid dependent Malawi did the possibility of a relaunch of BS provide sufficient incentives to push for governance reforms. Overall the results show that the three good governance areas are negatively affected by the exit from BS. This stands in contrast to positive effects found before the exit. The team concludes that the relationship is causal, because the before-and-after comparison coherently shows that the presence of BS correlates with positive effects and the absence with negative effects. Conclusion: These findings strongly suggest that BS is an effective modality to promote governance and its abolishment is likely to cause governance disruptions. Donors and partner governments should find ways to re-engage in closely coordinated policy-based aid modalities. In addition, a coordinated and carefully managed exit-strategy should be in place before an exit from similar modalities is considered. Particularly a continued framework of mutual accountability and a high-level political dialogue should be aspired to maintain pressure and oversight that is required to achieve good governance.

Keywords : budget support, domestic accountability, public financial management and budget transparency, Sub-Saharan Africa

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