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Master Thesis

European Union's Budget Support and the conditions under which it is effective: the case of Sector Budget Support in Health sector

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‘Thank you to my wonderful family and my great friends for
all their support encouragement!’

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Abbreviations

ADB	Asian Development Bank
AEL	Aid Effectiveness Literature
BoPs	Balance of Payments Support
BS	Budget Support
BWI	Bretton Woods Institutions
CFSP	Common Foreign and Security policy
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DD	Development Decade
DFID	Department for International Development
DG DEVCO	Directorate General for Development Cooperation
EC	European Commission
EU	European Union
GBS	General Budget Support
GDP	Gross Domestic product
HI	Historical Institutionalism
HIPC	Heavily Indebted Poor Countries
HLC	High Level Conference
IDD	International Development Department
IFIs	International Financial Institutions
IMF	International Monetary Fund
IOB	Policy and Operations Evaluation Department of Netherlands, Min. of Foreign Affairs
KKZ	Kaufmann, Kraay and Zoido-Lobaton indicators
MDG(s)	Millennium Development Goal(s)
MS	Member States
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OECD	Organization of Economic Cooperation and Development
OLS	Ordinary Least Square regression
PFM	Public Financial Management
PG	Partner Government
PRSP	Poverty Reduction Strategy Paper
RCI	Rational Choice Institutionalism
SAP(s)	Structural Adjustment Programmes
SBS	Sector Budget Support
SWAp	Sector Wide Approach
WB	World Bank

Introduction

At the beginnings of the 2000s, both the international aid arena and development policy of the EU went through major reforms. During these events, Budget Support (BS) has been presented as a new and effective aid delivery method. Being a government-to-government direct financial transfer, it was viewed capable to cope with the drawbacks of other aid instruments, to support attaining the Millennium Development Goals (MDGs) and to implement the Paris Declaration principles. The European Union (EU) had a particular interest in promoting this aid method. After a period of glory, its popularity decreased dramatically. The critical voices started to call it a blank check for corrupt regimes. Its supporters were bringing as proof of its effectiveness the various evaluation reports. Nevertheless, these assessment reports show mixed results and the effectiveness of this instrument appears to depend on a country by country basis.

This master thesis puts forward two questions. The first one asks whether BS has contributed to one of its missions: the attainment of MDGs. This question ignores the mixed results of the evaluation reports and checks whether EU Budget Support works independent of the characteristics of the beneficiary countries. The second question which is the main question of this study tries to identify the conditions for the BS effectiveness in the MDGs' attainment.

Analyzing the 16 beneficiaries of the EU Sector Budget Support in the health sector during 2004-2015, and applying an econometric method, this dissertation argues that these countries had better results in diminishing the infant mortality in the years with EU BS disbursements in the health sector. However, it is difficult to say that there is a causal relation. Finding the response to the second question involved studying the aid effectiveness literature. Based on it, there are identified three possible hypotheses for the BS to be effective. The recipient country should have: (i) a qualitative institutional environment; (ii) a qualitative policy environment; or (iii) it should invest high domestic resources in the health sector. The results suggest that the quality of the economic policies might be the right response for the BS to have immediate results in reducing the infant and maternal mortality rate. In case of HIV prevalence the estimations bring an unexpected outcome. The provision of higher volumes of budget support in a country with qualitative institutions affects negatively the reduction of HIV prevalence rate. Such results are ascribed to the limits of the used model, and it calls for further investigations.

The Thesis is organized as follows: Chapter I discusses the context of Budget support; Chapter II reviews the aid effectiveness literature that underpins the 3 identified hypotheses for responding to the thesis main question; Chapter III lays the research design and methodology; Chapter IV describes the obtained results. Finally, the last part is reserved for the Conclusion.

Chapter I: The Budget Support Context

As specified in the introduction, the main purpose of this Master Thesis is to identify when the Budget Support provided by the EU proved to be an effective method. Nevertheless, this chapter aims to describe the context of Budget Support. It firstly defines the Budget Support. Secondly, it introduced the research question. Thirdly, it includes the BS in the evolution of EU development policies. This gives the chance to understand the rise of this instrument and its current place in the range of aid tools used by EU.

1.1. Defining Budget Support

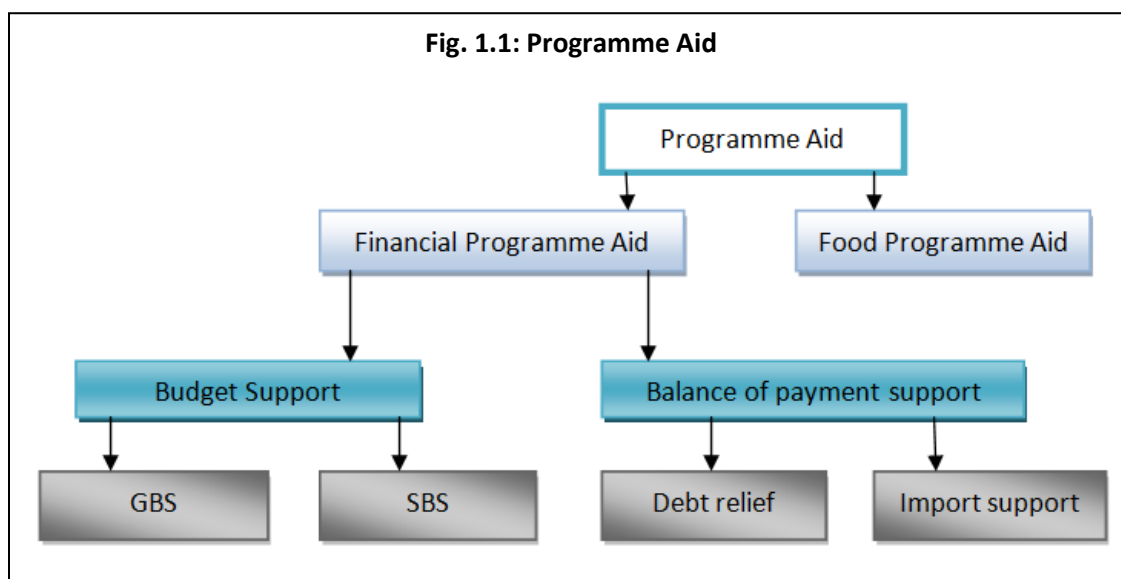
The Budget Support (BS) can be simply defined as: an aid delivery method which involves a direct transfer of funds from the donor to the recipient's budget. Once the transfer is done, the funds are managed using Partner Government (PG) national system. During the late 1990s and at the beginnings of 2000s, the BS was presented as a new aid method by the donor community. Nevertheless, similar mechanisms have been used in the past (Langan, 2015). Two main examples: the balance-of-payment support which continued under Structural Adjustment Programmes in the 1980s. Both of them supposed government-to-government financial transfers from donor to recipient (Knoll, 2008). Is it the "Lack of Historical Memory in the Aid Community" mentioned by Easterly, 2002 or the BS has specific characteristics? In order to identify these particular features, it is necessary to give a general overview on the aid approaches and on the hierarchy of aid methods. This will be the purpose of this section.

Despite the existence of different classifications, hierarchies and definitions of aid approaches and modalities, this dissertation will follow a classical vision which is also consistent with the EU's aid methods framework (European Commission, 2004). This framework refers to three approaches: project approach, sector approach and programme approach. Each of them will be presented below.

The project approach is materialized through the use of the projects. A simple example would be: financing the construction of a hospital or a school. For more details check the Annex 1.

The sector approach is an intermediary approach. This supposes that aid is directed to comprehensive programmes for development of whole sectors as health, education, agriculture... (Degnbol-Martinussen, Engberg-Pedersen, 2003: 49) The sector approach may be implemented through different financing instruments including the project or sector budget support (check Annex 2).

The programme approach¹ is quite difficult to be defined (Van Bilzen, 2015: 11-13). In 1991, the OECD has formulated it as “[programme which] consists of contribution made available to recipient country for general development purposes, i.e. balance of payment support, general budget support and commodity assistance, not [being] linked to specific project activities”(IOB Evaluation, 2012: 33 citing OECD (1991) Principles of Programme Assistance. OECD, Paris). The Fig. 1.1 presents a well-known classification of the programme aid instruments and each these instruments will be cursory defined further down.



Source: IDD and Associates, 2005: 203

The food programme aid is a transfer of resources in kind providing balance of payments or budgetary support². These resources could be sold on the open market and provided either as a grant or loan.

The financial programme aid supposes a transfer of financial resources for the balance of payments or budgetary support. The Balance of payment support (BoPs) is a wide aid method. It might be provided to support the imports. In this case, BoPs purposes to maintain or increase the foreign exchange reserves (European Commission,2008). Also, it may aim to support the exports (the Fig. 1.1 omits mentioning it). Usually, it is done through price subsidies for balancing the short term fluctuations in export earnings (eg: the EU’s Stabex and Sysmin)(Van Bilzen, 2015: 15). The Debt Relief is a particular form of BoPs. This may imply various mechanisms from lowering the interest rate to cancelling the principal (Ibid.: 16). The rational is that the relief of debt frees up national

¹ Other terms used to define approximately the same thing are: programme-based approach (PBA), macro-support, macro or global approach, budgetary aid...

² OECD site: “Food Aid” <https://data.oecd.org/oda/food-aid.htm> last checked 7th of April, 2018;

resources which could be used to invest in social development or economic growth (Hauck, V. et al.,2005).

The BS implies a direct transfer of financial resources to recipient's national budget. One of its ancestor methods was the controversial Structural Adjustment Programmes (SAPs). For understanding the novelty of BS, it would be useful to mention the differences between them. The SAP presumed a transfer of financial resources made conditional on a number of requirements (ex-ante conditionality) (Koeberle, Stavreski, 2006: 4). These conditions were usually determined by the donors and it involved the adoption of a range of neoliberal institutional and economic reforms (Ibidem). It was a policy-based programme as it focused on policy action (Ibid. p. 5). Conversely, in case of BS, there is a policy dialogue between the donor and recipient. Both decide the policies to be implemented (partnership-based) and the targets to measure the results (result-based). The funds are transferred before the adoption of policies (ex-post conditionality). It aims the reduction of poverty and economic growth³. Following what it has just been said, a comprehensive definition of BS would be: *BS is a pro-poor focused aid method which "involves policy dialogue, financial transfer to the national treasury account of the partner country, performance assessment and capacity development, based on partnership and mutual accountability"* (European Commission,2012:11).

The difference that arises between different types of Budget Support refers to the extent of earmarking (European Union,2007:12-13). The General Budget Support (GBS) funds are not earmarked and the policy dialogue concentrates on the overall government policy (Ibidem.). While the Sector Budget Support (SBS) is earmarked for a selected sector and, respectively, the policy dialogue focuses only on the sector in issue.

1.2. The research question

The effectiveness of Budget Support is a controversial subject. The BS proponents call to analyze the BS evaluation and assessment reports. These show a range of positive results: increase of public spending in social sectors, improvement of government capacity in public finance management, strengthening government ownership and accountability, positive impact on the dialogue between EU and PGs, improved coordination and harmonization among donors (DEval, 2017:xii; Beynon, Dusu, 2010). On the other side, the BS opponents either disregard these studies or consider them biased. They say BS is ideal for feeding the corruption in the developing countries. Thus, a first question would be: **what is the impact of budget support in the recipient countries?** Has it helped to progress the achievement of any objectives, of MDGs, for example? It is true that

³ For a comparative chart, check the Annex 3;

many evaluation reports presented positive performance (Burkina Faso, Bangladesh, Pakistan) (ECA, 2010), but there are, also, reports which revealed mixed (Namibia, Nepal, Tanzania, Niger) (Ibid.) or unsatisfactory results (Moldova, Egypt, Ukraine) (ECA Press 2013, 2016a, 2016b). The results seem to depend on a country by country basis. But all BS recipients need to meet a set of eligibility criteria before and during the BS programme (European Commission, 2012). Despite them, **there is a variation in the effectiveness of BS to achieve its objectives** and namely this aspect represents the main research problem of this Master Thesis.

Taking into account the aforementioned problem, it may be inferred that there is a conditional effectiveness of BS. This study attempts to identify these conditions. In order to limit its scope, it takes the EU SBS in Health sector (SBS Health) as a case study. Thus, the main research question of this Master Thesis is: ***“Under which conditions the EU Sector Budget Support proved to be an effective aid delivery method in the Health Sector?”***

Part of the Aid Effectiveness Literature (AEL) confirms the conditionality of aid effectiveness (see Chapter II) and the same could be assumed regarding the BS. Based on this literature, three hypotheses are selected: that EU SBS Health is more effective in (i) a qualitative institutional environment; (ii) in qualitative policy environment; (iii) in a country with high domestic resources invested in the health sector.

For replying to this question, the study employs the cross country regression as a research method analyzing all 16 EU SBS Health recipients in the period 2004-2015 (see Annex 9). 2004 is the year of the first EU SBS disbursement in health sector. The unavailability of certain data did not allow extending the covered period beyond 2015. The effectiveness of SBS Health is measured based on achievement of the MDGs in the Health sector. As the succeeding sections clarify, BS was viewed as the best method to help the developing countries attaining the MDGs. More information about the research design, method and operationalization is provided in Chapter III.

The justifications for choosing the health sector are manifold. First of all, the MDGs reserved a special role for the health sector (check goals 4-6, Annex 4). This wasn't accidentally; it is a strategic sector with important positive externalities for the long-term development of a country. It would be more justifiable to study how BS works in such sectors, so, its improvement would have a multiplication effect. Secondly, thanks to MDGs, all SBS programmes linked to health followed, at least partially, common objectives; thereby, it is easier to define its effectiveness. The SBS in education sector could have worked too, especially, that the EU has been more active in this sector. Though, the availability of data for measuring the evolution of MDGs in the education is reduced in comparison with the one referring to the health sector. Thirdly, other options have been dismissed

based on various grounds. The GBS is not a good option. Its purpose is to support the entire National Poverty Reduction Strategy of a country, thus it's difficult to grasp its impact. In addition, there will be more problems with the endogeneity for GBS and SBS in Public Administration and Justice in comparison with other types of BS.

The following sections present the historical evolution of EU development policy and of BS. The purpose is to offer a general overview about the EU aid policy, to provide the historical context in which the BS has been adopted and its evolution.

1.3. Short description of donor community and EU aid policies and methods, 1950s-1990s

In Europe, the provision of aid goes back to the interwar period. The same could be said about budget support. The Great Britain, France, Belgium provided forms of budget support (Van Bilzen, 2015:199-200). Nevertheless, the European Union aid dates back to 1957 Rome Treaty: after the French delegation put the issue on the table in the last moment (Holland, Doidge, 2012: 2). The result was the creation of FEDOM⁴. Since then, the EU aid policy and methods witnessed many metamorphoses as result of decolonization, enlargements, economic crises, new geopolitical conjunctures, new economic development theories... A cursory exposition of these trends will be provided below.

The United Nations (UN) declared the 1960s as the first decade of development aid (DD1) (Van Bilzen, 2015:227). Like most of the other donors, during the 1960s the EEC preferred method was the projects which promoted industrialization (Moyo,2009:14). Unfortunately, the EAMA/ACP countries' weak industries, lack of entrepreneurial class and qualified labor force, cronyism, and mismanagement were generating inefficient projects, later-on called "white elephants" (Defraigne, Belliogoli, 2010). The next decades brought other aid modalities; notwithstanding, the project approach remained the main aid delivery method of EEC/EU.

During the 1970s, the G-77 started to speak about the New International Economic Order (NIEO). The Lomé Convention (1975), being viewed, at the moment, as the best model of development, realized a couple of NIEO objectives (Holland, Doidge,2012: 59). One of them was: BoPs schemes creation for compensating the instability of export revenue from agricultural (STABEX) and mining (SYSMIN) products (Holland,2002:32-35). After the 1973 oil crisis, and the flow of petrodollars into the international banks, the poor countries were borrowing a lot. The donor community placed the focus on poverty (Moyo, 2010: 16-17) increasing the use of programme-based approach

⁴ At that time the EDF was called FEDOM;

for tackling the balance-of-payment problems of non-oil developing countries (Van Bilzen, 2015:392).

The 1980s or the DD3 remained in the history as the “lost decade”. A world-wide recession led to a decline of commodity price, raise of interest rate and skyrocketed international debt (Ibidem). The solution was restructuring the debt and the SAPs came into spotlight. Their slogan was: “Adjustment with growth”, but their result: zero growth per capita (Easterly, 2001:101-104). The EEC remained rather neutral to the adjustment process. It applied partially the conditionality (Holland, Doidge, 2012: 59) and moved towards import support programmes (Van Bilzen, 2015:444).

The DD4 was the decade of the 2nd generation of structural adjustments through debt relief (Ibid. p. 490). The very high debt of many poor countries made the BWI to establish the HIPS (Heavily Indebted Countries Initiative) in 1996 and require the Poverty reduction Strategy Papers (PRSPs). The programme included partial forgiveness of loans for countries with good (id est neoliberal) policies (Easterly, 2001:124). Though in 1999, the HIPC become Enhanced HIPC and this time, basically, every country received debt relief (Ibid. p. 123-124). The debt was, primarily, the domain of Member States (MS) and the Community stayed distanced from this issue till 2005 (Holland, Doidge, 2012:62).

In EU, the Maastricht Treaty was signed which included the development policy in the competence of the EC/EU development policy and created the Common Foreign and Security Policy (CFSP). This was the official end of political neutrality (Frisch, 2008:23-24) and the emergence of conditionality. The Community could earmark the aid to mirror the BWI adjustment reforms (Holland, Doidge, 2012: 60-61).

The end of Cold War and the “aid fatigue” resulted in a sharp decrease of aid flows (Van Bilzen, 2015:495). The international organizations as OECD/DAC, UN, BWI retried to re-galvanize the interest in aid through different initiatives (Riddell, 2007: 40-41). Their reports and publications depicted the plight of poor countries and highlighted the high gap between the donors’ grand talks and declining aid levels. As the next section will show, these initiatives formed a propitious backdrop for the raise of BS.

1.4. The raise of Budget Support during the 2000s

The switch to BS has been facilitated by a number of events and factors. The most important of them were: (i) the disappointment and uselessness of traditional aid methods; (ii) the Millennium Declaration Goals (MDGs); (iii) the Paris Declaration on aid effectiveness and (iv) EU increased role in shaping aid agenda. Each of them will be presented in the following subsections.

1.4.1. The disappointment with the old aid methods

During the 1990s, there was a disappointment with aid, in general. After, 4 decades of development cooperation, the results were unsatisfactory as shown in the Human Development Report, 1996 (Van Bilzen, 2015:495). The way the aid was provided was one of the concerns. The traditional project approach was considered as unproductive (check disadvantages in Annex 1). Another concern was the need to replace the SAPs and its ex-ante conditionality which proved to be inefficient. The export support programmes were accused for creating dependency. The BoPs (import programmes) lost its popularity as in the mid of 1990s, many of developing countries were no longer in need of foreign exchange thanks to the drop of regulated exchange rate. Finally, the Enhanced HIPC transformed the debt relief in a useless instrument (IOB Evaluation, 2012: 33).

1.4.2. The Millennium Declaration Goals

At the beginnings of the 2000s, the DD5 has not been announced; instead the 189 nations signed the Millennium Declaration (MD). This was a series of 8 goals with 19 measurable targets (check the Annex 4). The MDGs put a stress on fighting the poverty and supporting the education and health care. It highlighted the PGs shortage of funds thus promoting budgetary aid. As well, it criticized the donors' aid policies for their uncertainty, lack of common goals and weak possibilities to assess the outcomes (Ibid. p. 36).

In order to attain the MDGs, the developed countries pledged to increase the volume of aid by 0.7% ODA/GNI signing the Monterrey Consensus in Mexico, in 2002 (Riddell, 2007:43). The change in quantity of aid made the donors to review its quality too and the following High Level Conferences (HLC) came with solutions for it. The most important so far, was the Paris HCL.

1.4.3. The Paris Declaration

The demand to improve the quality of aid made the donors to adopt different commitments; the most important: Rome Declaration on Harmonization (2003), Paris Declaration on Aid Effectiveness (2005); Accra Agenda for Action (2008); and Busan Partnership for Effective Development Cooperation (2011). The Paris Declaration constituted a turning point in the history of foreign aid, as: Rome Declaration was just a preparing stage, while the other 2 HLC issued follow-up declarations. It formulated 5 principles presented in Fig. 1.2.: **ownership, alignment, harmonization, managing for results** and **mutual accountability** (DAC, 2006b:50-51) (check Annex 5):

Paris recommended the donors to employ the programme-based approach, especially budget support. Below, a short analysis of BS will permit to see how BS helps to implement these principles.

Fig. 1.2: Aid Effectiveness Pyramid



Source: DAC (2006b) "Development cooperation report 2005", Paris: DAC, p. 52;

The BS should improve the partnership among the donor and PG through the *policy dialogue*. This translates in a shift of rights and obligations to PG; respectively, this increases the PG's **ownership**. The BS mechanism implies medium and long term commitments, thus it ensures more *predictability and stability*. This, also, gives the possibility to the PG to deliver *its own agenda*. Through the Policy Dialogue, PRSP or CSP, the donors *align* to the PGs' Poverty alleviation strategies (Koeberle, Stavreski, 2006: 3-5). In addition, BS uses the country's institutional and administrative structures to channel the funds; this strengthens the principle of **alignment**. Normally, BS is coordinated in groups of donors. It might be even jointly implemented. These arrangements facilitate to achieve the **harmonization** among donors (Gerster, 2007). BS demands the PGs to report regularly to national Parliaments and other stakeholders about the way the budget is managed. Thanks to this, the *transparency* and *government accountability* will increase (Hauck et al. 2005). In the same time, the donors commit to provide timely and transparent information on BS flows and disbursements. Both of these aspects contribute to the Paris Declaration principle of **mutual accountability**. The International Community is encouraged to link BS with the "result oriented

outcome". Renouncing to policy-based conditionality, the donors focus more on what is actually happening. With the other words, the donors focus on the results of their actions and how these results help to attain the proposed goals. Another policy dialogue product is an agreed set of result-based indicators thanks to which the final results can be measured. In this way, the BS goes in line with the **managing for results** practice.

1.4.4. EU increased role in shaping aid agenda

The European Commission was an important advocate of budget support (Schimdt,2006: 13) and its role in promoting this aid modality should not be overlooked. After massive criticism, corruption scandals at the end of 1990s, threatens from certain MS to repatriate their aid funds contributions (Carbone, 2013b), the EU development policy witnessed extensive reforms (Holland,2012:101-103). Improving its aid architecture and receiving accolades for from its previous critics (Carbone,2013a), EU could significantly influence the global aid agenda which resulted in the promotion of BS. For backing this saying, it's worth mentioning, the MDGs endorsed the EU priorities (Holland, Doidge,2012: 231). The European Union declared its full commitment to MDGs by adopting various strategies as the Barcelona Commitments (2002) or the EU Strategy for Africa (2005) (Ibid.:229). The latter clearly indicated the use of BS as part of the strategy. EU was one of the first agencies that defined its policy on BS (in 2002) (Hauck et al.,2005) afterwards it became the largest BS provider in the world (Oxfam, July 29, 2011). The Paris Declaration largely reflected the EU's position (Carbone,2013a). The European donors became front-runners in following Paris agenda, aspect confirmed in the "European Consensus on Development" (2005) (Koch et al.,2016). The Accra Agenda for Action (2008) depicted the same strategies for improving the donors' coordination adopted by the EU in its "Code of Conduct on Complementarity and Division of Labour" (2007) (Carbone,2013a). All of these initiatives at both the EU and international levels strengthened the commitment to BS.

The reasons why the EU was so assertive in shaping the international aid agenda and pushing the BS are multiple. Firstly, EU wished to enhance its international visibility and legitimacy. It aimed to offer an alternative to Washington Consensus by contrasting the principle of ownership with the BWI conditionality (Ibidem). Secondly, by advocating the donors to work together, it advanced its preference for the multilateralism (Ibidem) conversely to the USA approach. Thirdly, the principles of BS gave a good opportunity for the EU to wholeheartedly embrace the Maastricht enounced principle of complementarity (Holland, Doidge,2012:184). Despite the EU active role, it

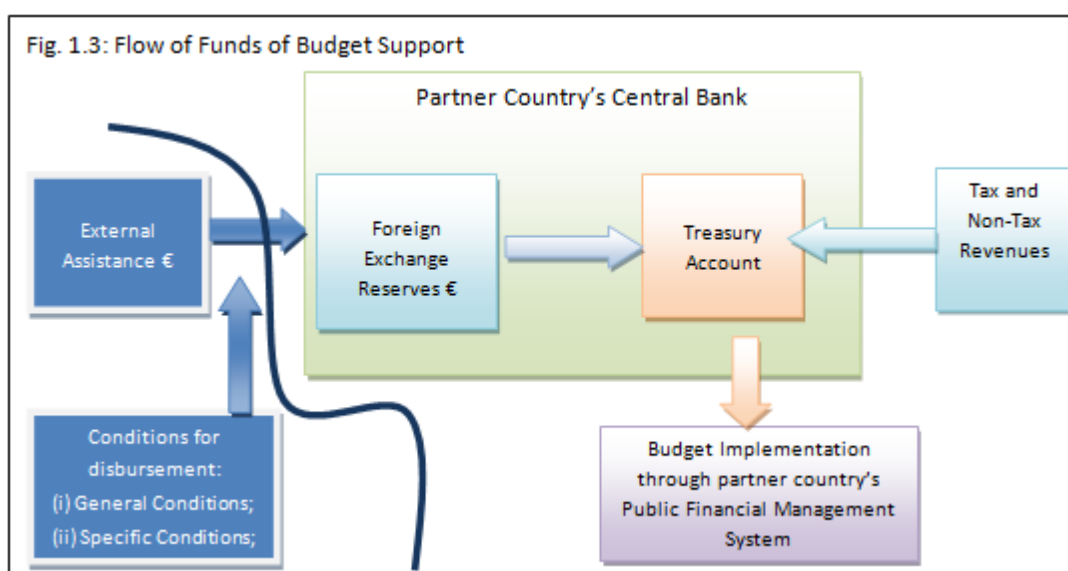
failed to attain most commitments including the use of BS. After that, the EU's position at the international arena was quite modest⁵.

1.5. The EU and Budget Support

This section has two objectives. The first one is to provide an overview of the EU approach on BS. Despite the BS being named the EU's preferred aid modality, its evolution in Europe wasn't that smooth. The analysis of its evolution represents the second objective.

1.5.1. The EU's approach on Budget Support

The overall philosophy of EU BS does not differ very much from the ones of the other donors. The EC views the BS as a transfer of financial resources to the National Treasury Account. According to the BS Guidelines, first the payment is made to the foreign exchange reserve of the Central Bank and after the Central Bank credits the National Treasury account. The transfers are made only after the agreed conditions are respected. Next, the funds are spent by PG in accordance to their public financial management (PFM) system. The Commission's responsibility resumes in checking that the conditions are met and the transfer is made. Any follow-up of how the funds are used is done according to the mandate of the PG (European Union, 2007:11). The thick line from the Figure 1.3 delimitates the EC responsibilities from what the PG is doing.



Source: European Union, 2007: 11

⁵ There's another reading of what happened in the last HLF, at Busan. The EU changed its strategy because context was different. One of the main Busan objectives was to keep the non-DAC donors on board. Thus EU had to renounce to its role of norm-maker for the one of "leadator" in the international (Lightfoot, Kim, 2017);

The BS delivered by the EC is released under the form of fixed and variable tranches (EC Directorate General for Development, 2006:81-89). This approach is not a typical one, few donors adopted it, another example is Switzerland (Sweden, Norway and UK embraced it occasionally) (Gerster,2007). Both types of tranches are subject to **general conditions** (i) existence of development strategy (sectoral strategy for SBS which includes sector reforms, improvement of sectoral governance and service delivery); (ii) macroeconomic stability (meaning to avoid unsustainable deficits, high or volatile inflation rate, volatility in exchange rate or financial markets) and (iii) PFM improvements (EC uses PEFA-PFM Performance measurement Framework instrument elaborated by the EC and WB) (European Commission,2012:33-39) and **specific conditions** which apply to the disbursement of each individual tranche (European Union, 2007:16). The fixed tranche is disbursed in “all or nothing” form – should any of the general or specific condition not be achieved, then the disbursement is not taking place. While the variable tranche is dependent on the extent to which certain pre-specified general and specific targets are attained (result-based approach). These are linked to the MDGs or they are powerful proxies to them. They are normally drawn from the sectoral development strategies and the targets are decided jointly by the EC and PG, for each year (EC Directorate General for Development,2006: 81-89). In addition to these conditions which should be better called eligibility criteria, there should be mentioned the political conditions applicable to all EU aid programs: good governance, democracy, human rights and rule of law (Holland, Doidge, 2012: 192-196). The EU may sanction the beneficiary country if there is any breach of these principles.

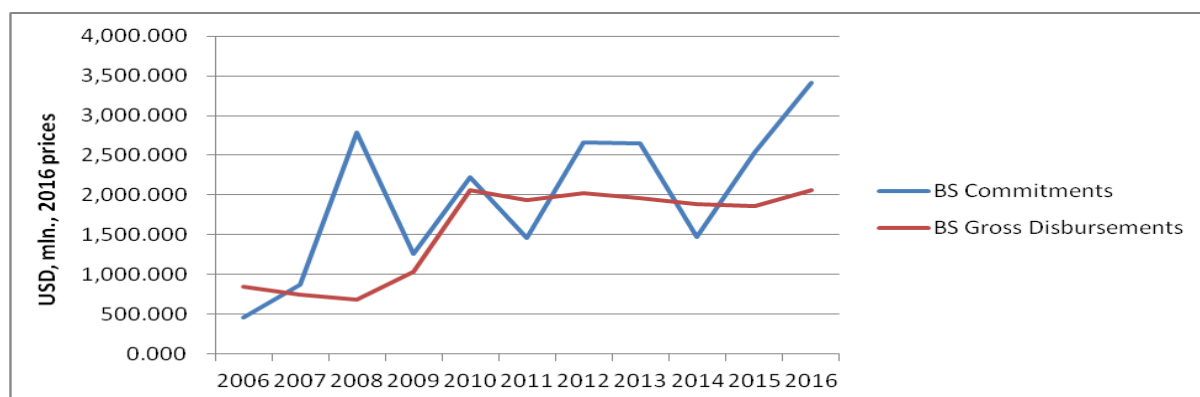
The policy theory behind the EU BS is the same as for the BS programmes of other donors. The programme’s inputs are the financial resources and the policy dialogue; its implementation should respect the 4 Paris principles. The previewed outputs could be classified in flow-of-funds, institutional and policy effects. The outcomes are the enhanced government effectiveness and the impact – sustainable growth and poverty reduction (check Annex 6).

1.5.2. The Evolution of Budget Support in the EU

The popularity of Budget Support started to rise with the Paris process for the reformation of aid system. Unfortunately, the OECD CRS does not have the data for BS during 2000-2006 but some data can be extracted from different reports. The amount of EU BS rose from \$1bn in 2000, to \$3.8 billion in 2008. The share of budget support in total EU commitments increased from 14.3% in 2000 to 42% in 2008 (Kitt, 2010:14). The ACP countries were the main beneficiaries (Schimdt,2006:

42). The trend of EU BS commitments and disbursements for 2006-2016 is presented in the graph 1.1:

Graph 1.1.: EU Institutions BS commitments and disbursements

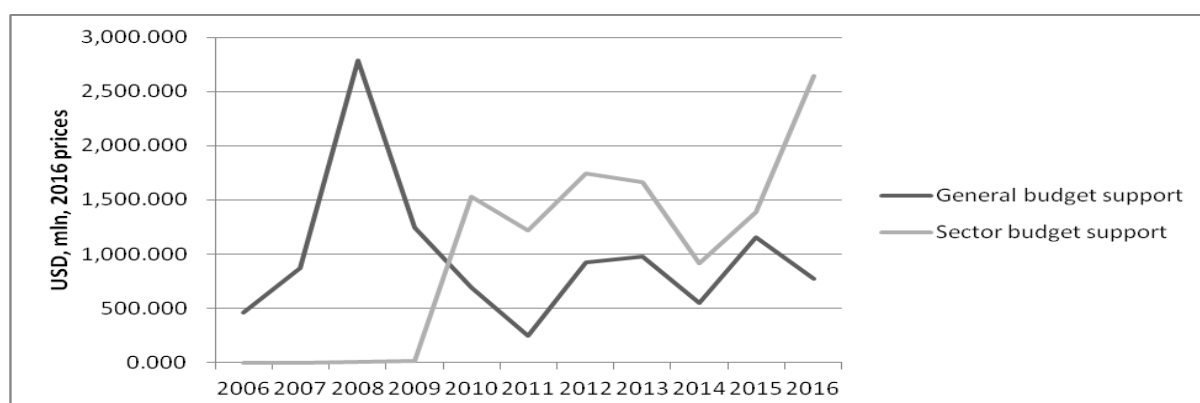


Source: OECD.Stat CRS 1 database

It shows: the BS commitments increased by 2008 and after it demonstrated a cyclical trend. Another observation is that the adoption of the BS seems to lead to the improvement of disbursement rate, and this refers to both the BS and the entire EU aid flow (check also Annex 7). An explanation could be: BS is a “bureaucracy’s nirvana” (Collier, n.d) in the sense that large amounts of money can be released on schedule without much trouble. Nevertheless, another interpretation not linked with BS would say the 1990s-2000s EU aid reforms brought results. As well, looking to the disbursements curve (graph 1.1.), the year 2009 seems to put an end to the constant growing trend from the previous years.

Returning back to the Budget Support, another observed trend is the declining curve of GBS commitments and the ascending one of SBS from 2009 (check graph 1.3. and the Annex 7).

Graph 1.2.: The EU GBS and SBS commitments, 2006-2016



Source: OECD.Stat CRS 1 database

The graph 1.2. reconfirms that starting from 2009, the GBS loses constantly from popularity. Instead of promised 50%, in 2015, only 20% of EU official development assistance funds were disbursed through BS (European Commission, 2016). The evidence shows that in reality the preferred EU method remains the project approach (check Annex 8). Nowadays, most of the BS is provided as SBS, GBS is rarely used. According to OECD, the EU GBS disbursements decreased from \$1,385 mln to \$657 mln (2016 prices). The MS reduced GBS even sharper. The reason could be the multiple corruption scandals, election frauds or conflicts in the recipient countries. The Koch et al. (2016) comes with another explanation. It says the Paris process and the use of GBS attempted to solve the principal-agent problem of aid by dropping the donors (the principal) interests through the ownership and alignment. As well, it tried to solve the collective action problem originating in a high number of donors, through the harmonization. According to the authors, the Paris Declaration did not take into account the high political, financial and technical costs of applying these principles, as well, it omitted the free-ride incentive of each individual donor.

After the drop of the GBS by most of the MS (see graph 7.3, Annex 7), the EU has been persuaded to do the same thing. In 2010, the EU launched a consultation for reforming the BS (European Commission, 2011). The new BS Guidelines (European Commission, 2012) transforms BS into a political instrument for promoting the western models of political governance (Tavakoli, 2011). It includes transparency and oversight of the budget as 4th eligibility criterion. EU is no longer seeking to have 50% of aid delivered through BS and it strengthens the risk management framework. Also, it offers greater differentiation in BS instruments by moving from 2 to 3 types of BS: Good Governance and Development Contracts, Sector Reform Contracts, State Building Contracts.

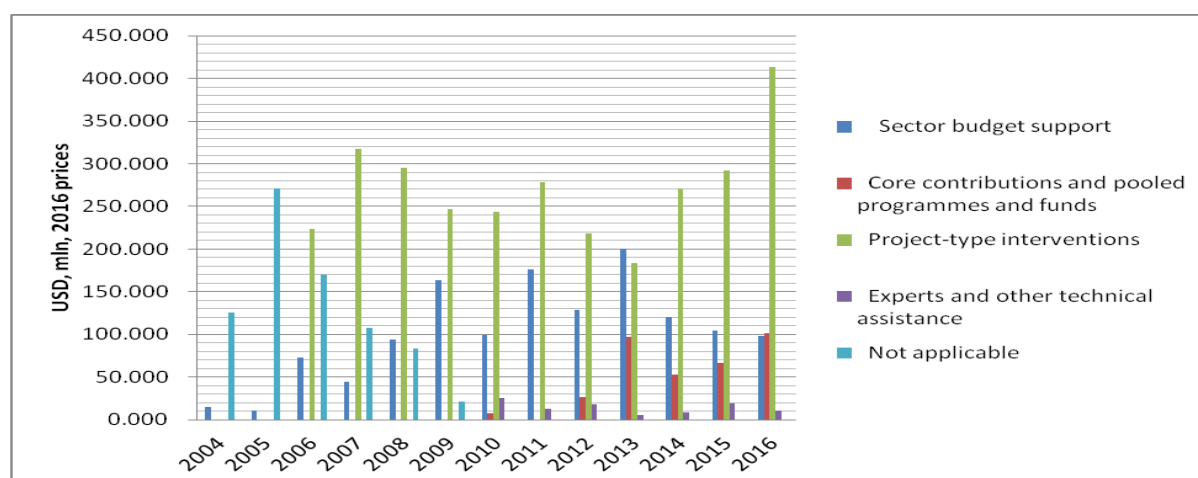
As aforementioned, after the heyday of GBS, the heyday of SBS came. The main sectors that the EU finances through the SBS are: education, government and civil society, and economic infrastructure (check the Annex 8). As this thesis focuses on the SBS in health sector (BS Health), the rest of this subsection analyzes the trends of EU aid in this sector and the use of BS Health.

The project approach remains the EU's most used method in providing aid in health sector. Between 2010 and 2016, 51% of EU aid funds in health care sector were delivered through projects. 26% corresponds to BS, though the share of BS is relatively higher here than in the other sectors. The graph 1.4. depicts the evolution of the EU aid modalities in the Health Sector.

Turning to the countries that are recipients of the EU BS Health, from 2004 to 2016, they were 17. By GDP per capita in 2017 (World Bank classification), only 5 are classified as low income countries (LIC) (Afghanistan, Burkina Faso, Liberia, Mozambique, Rwanda) and one as high income

country (HIC) – Barbados. The other 11 countries are lower middle income countries (LMIC). This should not be a surprise, usually, the LMIC are countries in need of financial resources and with relatively greater chances to satisfy BS eligibility criteria than the LIC. Analyzing the flow of BS funds in health sector, it is necessary to mention that the other donors are quite active. Only 5 out the 17 countries received BS in health support from EU only (Afghanistan, Barbados, Egypt, Liberia, South Africa). If other aid instruments are considered, then all these 17 countries received aid in health sector from other donors. This means that EU should closely monitor the activity of other donors in this field.

Graph 1.4.: The evolution of the main EU aid methods in Health sector, disbursements



Source: OECD.Stat CRS 1 database and EU Aid Explorer for SBS amounts during 2004-2009⁶

The next Chapter is going to present the literature review. It firstly clarifies that despite a relatively large body of literature on EU development policy, the aid effectiveness literature has been deemed capable to suggest the hypotheses for having the response to the main question of this master thesis.

⁶ OECD started to apply more rigorous criteria to classify the aid methods per sector only in 2010; before, OECD had less diverse categories for aid methods classification. “Not Applicable” category includes all of the aid flows that could not be included in the then existent categories;

Chapter II: The literature review

The studies on EU development policy and Budget Support have proliferated in the last decades. Nevertheless, the aid effectiveness aspects have been slightly analyzed in these studies and this literature provides few hints on the possible effectiveness conditions for EU BS. As a generalization, the literature on EU development policy might be categorized as studies on: general aspects as historical evolution, institutional set-up, priorities, coherence... (e.g. Holland 2002; Carbone, 2007, 2008; Frisch, 2008; Grimm, 2008; Holand, Doidge, 2012, Bodestien et al 2016); EU impact on the international development arena and its relations with the other donors (e.g. Carbone, 2011; Carbone 2013a, Carbone, 2013b; Lightfoot, Kim, 2017; Verschaeve, Orbie 2018); and the relations between EU's and its MS' development policies (e.g. Carbone 2013a; Bodestien et al 2016; Orbie, Carbone 2016). The studies on BS, as well, focused around certain subjects as: novelty of this instrument (Hauck et al., 2005; Gerster, 2007; Knoll, 2008), donor coordination and collective action problem (Faust, Koch, 2014; Leiderer, 2015; Koch et al., 2016), conditionality, ownership and policy dialogue (Alvarez, 2010; Molenaers et al., 2010; Knoll, 2008; Langan, 2015; Del Biondo, Orbie, 2014). Thereby, the Aid Effectiveness, rather than European development policy or BS literature, deemed capable of providing potential answers to the thesis' main research question. This chapter presents the studies that served as sources of inspiration for the hypotheses of this master thesis: that BS is more effective in (i) a qualitative institutional environment; (ii) in a qualitative policy environment; (iii) in a country with high domestic resources invested in health sector. It surveys, also, different reviews about these studies and opinions of other authors.

The chapter is structured in five sections. The first one clarifies the main debate of Aid Effectiveness Literature (AEL). The next three present the literature review underpinning each of the three hypotheses. The last section informs about some dismissed hypotheses.

2.1. Aid Effectiveness debate

It is redundant to say that the main AEL question is: "Is aid effective in promoting growth and fighting poverty?" Generally speaking, the impressive amount of literature on this subject gives three responses: (i) aid is never working; (ii) aid is always working; and (iii) aid is conditionally effective. This thesis' problem and hypotheses are based on studies supporting the last response. They are analyzed in the next sections. The remaining of this section presents few well known studies supporting the first two positions⁷.

⁷ The number of papers referring to each category is much more extensive. Clemens et al, 2004 provides a quite comprehensive literature review following a similar classification.

Most of the literature backing the pessimistic stance was produced during the 2000s (Tarp, 2015). Moyo, 2009 is famous for her harsh criticism of systemic aid. She affirms aid negatively impacted the economic growth and democracy in Africa. Instead of aid, she argues for improved access to capital and to markets for the developing countries. Djankov et al., 2006 come with a similar view. They confirm that aid may harm the institutions of recipient countries. William Easterly is another well-known skeptic. Like Moyo, he affirms that the way aid works at the moment can neither stimulate growth nor improve the institutional framework (Easterly, 2001, 2002, 2003).

Hansen and Tarp, 2000 bring evidence that: aid is working everywhere. They survey the empirical cross country studies spanning from 1970s to 1990s. Based on different theoretical paradigms and empirical tools, they classify these studies into 3 generations. The first generation confirmed that aid increases the savings while the second generation - aid increases investments. Both savings and investments should spur the growth. The third generation refers to more sophisticated econometric studies. These used better data, better analytical tools and new insights from economic growth theories. A leading paper is Burnside and Dollar's one, 2000. Its conclusion is: aid has a positive impact if the recipients pursue good policies. Hansen and Tarp, 2000 disagree with it. They bring as argument other papers from the same generation that established a positive relation between aid and growth, irrespective of the policy and institutional environments. Hansen and Tarp observe the majority of empirical cross country studies proves aid to be effective, but the skeptical studies or the ones supporting conditional aid effectiveness are more popular.

2.2. Institutions and Aid Effectiveness

Before looking to what AEL says about the institutions, it is necessary to mention some important works concerning them. It is barely possible to argue that the institutions don't matter, although the neoclassical models clearly ignore them (North, 1991: 16). The work of Douglass North brought them into the attention of the economists, while the one of Acemoglu et al. (2001) provided the necessary evidence of the crucial role of institutions on the economic performance of a country. Because it is difficult to conclude whether better institutions make the countries rich or just the rich countries can afford better institutions, Acemoglu et al. (2001) use the settler mortality of the Europeans in the colonies as an instrumental variable for the quality of institutions. The theory behind this technique is that the Europeans established inclusive institutions in the colonies where the environment was favorable for their settlement; and extractive institutions in the unfavorable environments or highly populated colonies, so, they could better exploit the colonies' natural and human resources.

The same authors develop other papers stressing the impact of the institutions on a country's welfare. For example, Acemoglu et al. 2005 investigate what types of institutions matter when it comes to different economic outcomes. Most of these papers constitute the basis for their theory about the inclusive and extractive institutions for explaining the success of a society; theory - presented in their famous book: "Why nations fail" (Acemoglu, Robinson, 2012a). The inclusive institutions are the ones that create incentives and opportunities necessary to value the energy, creativity and entrepreneurship in society. The extractive institutions do not do it. In this book, they observe that aid is offered to countries with highly extractive institutions. As well, they mention the way aid is provided gives little if any incentives to the elite for changing the institutional set-up (Ibid. 450-455). Despite numerous accolades, the work of Acemoglu and Robinson did not remain without critics. A heated debate was between Sachs and these two authors (Sachs, 2012a; Acemoglu, Robinson, 2012b; Sachs, 2012b). Sachs considered (i) the institutional explanation as an oversimplified response to a complex problem; (ii) factors as geography, natural resources, healthy environment should not be neglected; (iii) the data on mortality rate and political institutions definition is not reliable; and (iv) the institutions are not as persistent.

The AEL has not been as critical. Burnside and Dollar, 2004 conclude that aid works better in a better institutional environment. They use a cross-section data set covering 124 countries during the 1990s and KKZ indicators as institutional quality measure. In comparison with their previous paper on policies (check section 2.3.), they were hesitant to base their conclusion only on cross-country statistical results. They brought, as well, some case studies as evidence to support their conclusion.

2.3. Policies and Aid Effectiveness

One of the most famous and cited study from AEL is Burnside, Dollar, 2000 (BD). This study put forward two questions (in the original paper there were three). The one presenting interest for this dissertation was: "Does aid have a positive effect in the presence of good economic policies?" Using a neoclassical model, new data on foreign aid and panel data instead of cross section analysis, BD runs a number of regressions where the growth rate in developing countries depends on the initial income level, an institutional and policy distortion index, foreign aid and aid interacted with policies. Its conclusion is intuitively perfect: aid is effective when combined with good policies. BD defines good policies as a mixture of fiscal, monetary and trade policies: budget surplus, inflation rate, and Sachs and Warner openness dummy. The authors did the robustness check by including and excluding the outliers and middle-income countries.

BD had a huge influence on the development policy being used by aid agencies to advocate the increase in foreign aid (Easterly, 2003) and greater selectivity in favor of good policies. As well, it stirred a tsunami of other papers, part of them supported its vision, and the other doubted it. A couple of papers belonging to each of these categories is presented below.

BD constituted the basis for the influential report of World Bank (WB): *Assessing Aid* published in 1998. This report advocated for directing aid to countries with good macroeconomic policies and it had a major impact on other donors' policies. Lensink and White, 2000 criticizes the report's theoretical basis which assumes that aid can reduce poverty only by increasing the economic growth. These authors mention other channels for attacking the poverty: the income distribution and investment in human development. Also, they call into question the need for good policies for the aid effectiveness noticing the problems with the BD policy index and with the robustness of the regressions' results. Hansen and Tarp, 2001 show that the inclusion of cases discarded by BD as outliers, or the change in model's specifications (e.g. entering the square of aid) make the findings non-robust. Using different techniques, they arrive to a different conclusion: the interaction among aid and good macroeconomic policy is insignificant. Collier and Dehn, 2001 incorporate the export price shocks into the BD model and the BD outcome becomes robust to the Hansen and Tarp, 2001 sample modifications.

Like many other studies from the skeptical camp regarding BD, Easterly et al., 2003 question the robustness of the obtained results. In comparison with them, they don't deviate from BD specifications like introducing additional control variables or using non-linear specifications. They follow the BD methodology extending only the period of time from 1993 to 1997 and adding more countries. With this additional data, the BD's conclusion doesn't hold. Easterly, 2003 and Easterly et al., 2004 raise doubts about the robustness of BD's results, if alternative definitions of aid, good policy and growth are used. It is necessary to be noted the BD's definition of good policy fitted very well the Washington Consensus conditionality.

2.4. Aid instruments, diminishing returns and Aid Effectiveness

The last hypothesis is based on Cordella, Dell'Ariccia' study (2003). This is one of the works that differentiate between aid instruments⁸. It distinguishes between budgetary aid and project aid. In case of budgetary aid, the donor has some influence over the recipient government expenditure, but it does not totally control its own funds. It may control its funds through project aid; though, it has no influence over the government spending. Considering these differences, the study's hypothesis is: BS works better if the recipient is development oriented and it has a higher budget

⁸ For more example of such papers, check Clemens et al, 2004

comparative to the provided aid. Firstly, the authors develop a theoretical model, next they are performing an empirical research to prove the veracity of their theoretical findings, and finally they check the robustness of their results. The regressions performed are based on BD approach using data for 45 countries during 1973-1993. Their hypothesis is validated: BS performs better when the funds are limited in comparison with the recipient's resources. In addition, they confirm the BD's findings (aid works better in a good policy environment). Their main result may, also, be interpreted as a confirmation of diminishing returns of BS. A drawback concerning this study is its inaccurate definition of BS. It includes: debt forgiveness, swaps, buybacks, rescheduling and financing. Probably, this explains the totally absolute results obtained by Beynon, Dusu, 2010. According to them, the countries receiving higher amount of GBS had a better MDGs performance than the ones receiving lower amounts or no GBS at all. However, their study was based on correlation analysis.

Another interesting study is Clemens et al. 2004. It differentiates between (i) emergency aid which is usually negatively correlated with growth; (ii) aid that affects growth for a long period of time like aid targeting education, health, democracy; and (iii) aid affecting short term growth. Budget support is included in the third category. The authors believe that it is wrong to try finding any short term relationship between growth and aggregate aid, as different aid categories follow different purposes, thus they have different impacts on economic growth. Instead such a relationship should be searched between the short term growth rate and their third aid category. They perform an extensive regression analysis typical for the aid-growth literature and various robustness tests. The conclusion is: the short-term impact aid has a significant positive effect on short-term growth. Moreover, the positive effect is present everywhere, however, it becomes stronger if the recipient country has better policies and institutions. Therefore, this study should be attached to the unconditional aid literature strand. As well, the authors identify that aid is subject to diminishing returns. This goes in line with other studies like Cordella, Dell'Ariccia, 2003 and Hansen, Tarp, 2001. The diminishing returns are interpreted as a problem of absorptive capacity of large amount of aid by the recipient economy.

Ouattara, Stroble 2008 criticize both studies from above. They object the use of commitments instead of disbursements in the case of Cordella, Dell'Ariccia, 2003. In case of Clemens et al. 2004, they question the criteria for classifying aid in three categories. Moreover, Ouattara, Stroble 2008 bring diametrically opposed results concerning the impact of different aid modalities on growth. Based on the way the donors disburse the aid, the researchers distinguish 4 aid categories: project aid, financial aid, technical assistance and food aid. Their study shows that project aid affects economic growth positively. Financial programme aid, which includes BS, appears

to have a negative impact at 10% significance level. This study confirms the importance of policy environment for aid effectiveness and it suggests that only project aid leads to diminishing returns.

2.5. Dismissed Hypotheses

There are three possible hypotheses not considered by this Master thesis: (i) BS is more effective when there is trust among the donor and recipient; (ii) aid and respectively BS is more effective if the recipient country is affected by negative external shocks; and (iii) aid is efficient outside the tropics.

The first hypothesis is based on Mosley and Abrar work (2006). According to it, the major determinant of aid effectiveness is the social capital or trust. The idea is: if there is trust between the donor and recipient, each of the parties avoids breaching the agreement: the donor disburses the agreed amount and the recipient implements the reforms, so the program will be effective. This is similar with the conclusion of Cordella, Dell’Ariccia, 2003: if the donors and recipients’ interests coincide – both are development oriented - the BS is functioning well. Such a hypothesis has not been included mostly because of the lack of data. For measuring how trustworthy a relation between the EU and a recipient of BS is, the stability or frequency of interruptions of agreed disbursements should be analyzed. A proxy could have served the BS suspensions from Molenaers et al., 2016. But, this won’t be a perfect proxy for measuring the trust between EU and its BS recipients as it counts only the suspensions. Plus, this dataset ends in 2014 and it would have limited the number of observations.

A number of studies pointed that aid should be directed to countries affected by negative external shocks (eg. Collier and Dehn, 2001 or Guillaumont and Chauvet, 2001). The difficulty for considering such an explanatory variable relies on having a proxy for negative shocks. Collier and Dehn, 2001 used the average price change and the average commodity price change of all shocks. But there were negative price change shocks offset by positive price shocks. Such cases should be dropped, thus building such a proxy is not an easy task.

The last potential hypothesis steams from the work of Dalgaard et al. (2004). They say aid does not work in tropics. Ouattara and Stroble 2008 confirm these findings. Nevertheless, this result may simply corroborate the institutional hypothesis. The tropics did not have the most favorable environment for Europeans’ settlement. Thereby, following Acemoglu et al. (2001) argument aid works badly in the tropics because of extractive institutions.

Chapter III: Research design and Methodology

After getting familiar with the context of budget support and the literature review underpinning the hypotheses of this thesis, the current chapter aims at presenting the research design and methodology. First of all, it announces the analytical framework. Secondly, it introduces the research design and the chosen method for responding to the research question. Last but not least, this chapter ends by providing the details about the used data and the limits of this study.

3.1. The Rational Choice Institutionalism as analytical framework

The game theory (e.g. Mosley, Abrar, 2006: 311-331; Svensson, 1998), contract theory (e.g. Gunning, 2006) or principal-agent theory (e.g. Koch, S et al., 2016) are the most often employed tools when the BS, or in general aid, is analyzed. This Master Thesis uses a different approach. The reasons for not going with any of those approaches are diverse. Firstly, the subject of this study is the effectiveness of an aid instrument delivered by a single donor: the European Union which, at least in theory, should follow the same purposes and approaches when providing aid⁹. Thus the effectiveness conditions should be searched on the other side of relation - the agent (PGs). Other reasons are linked to the scarcity of data, sensitivity of the subject (e.g.: EU geopolitical interests) and to the chosen methodological approach. This study proposes to use the Rational Choice Institutionalism (RCI) (Hall, Taylor, 1996) as an analytical framework. With the other words, the institutions in the PGs are the key for answering to the research question. A short description of RCI ideas and their implication in analyzing the EU Budget Support are provided below.

The institutions are *"the rules of the game in a society [...] that shape [the] human interaction"* (North, 1990:3). There should be made a clear distinction between the institutions and the organizations. If the institutions are the rules of game, the organizations are its players and the policies are their outcome (Ibidem). By establishing a stable human structure, the role of the institutions is to reduce the uncertainty (Ibid. 6) and to solve collective actions dilemmas (Hall, Taylor, 1996). Even if the actors/organizations are utility-maximizers, they act on incomplete information. This means that the political and economic competition is not efficient and the frequent result is: the adoption of inefficient institutions (North, 1990:8).

⁹ Nevertheless, it could be possible to claim such things from the EU. According to its Treaties, the EU development cooperation policy should follow such objectives as: Eradication of Poverty (Art. 208 TFEU), democracy, the rule of law, human rights, fundamental freedoms or other objectives of Foreign Policy as trade and security (Art. 21 TEU).

Intuitively, the role of the institutions in the aid recipient societies should be crucial for managing the received financial transfers. The aid and especially, BS are usually targeting the institutional change (see Annex 6). Very often this is a too difficult task. The institutions, inefficient or outdated, are difficult to change (Ibidem.). The Historical Institutionalism (HI) provides the best tools for understanding why it is like that. The HI and RCI are viewed as different schools (Thelen, Steinmo, 1992). Nevertheless, as Pollack, 2009 mentions the HI could be considered as a particular form of RCI if it is allowed to adopt the same assumptions about the actors and their preferences as RCI. HI developed an important concept of path dependence: *“the early decisions provide incentives to the actors to perpetuate institutional and policy choices inherited from the past”* (Ibidem.). The path dependence might be also explained following North’s reasoning. According to him, the institutions create the opportunities in the society (North, 1990:9). The organizations are designed to take advantage of these opportunities, as consequence, there will be a lock-in stemming from the relationship between the institutions and organizations.

Consider a country with disastrous institutions enshrined at the foundations of that society. The BS is the support given to one of the most important players: the government. If the reasons of that country’s failure consist in its foundations, the government will have little if any incentives to reform the institutions of that society. Thus, acting through the government for providing the aid is not a solution and BS is a bad method. This explains why BS may fail to achieve its purposes. However, what aspects of the society show when BS is not a good method? Is it, in general the institutional framework, or the policies adopted by the governments; or the resources it is ready to invest in developmental sectors? The purpose would be to come to a response to this question.

3.2. The research design

For responding to the research question, there are stated 3 hypotheses based on AEL. The identified variables and hypotheses are introduced through the descriptive-inferential model (Creswell, 2003:112-113). For each variable, there are a short clarification, a descriptive question and an inferential question to relate the independent variable with the dependent one. The hypotheses are presented under the form of affirmative sentences.

3.2.1. The Dependent Variables

Effectiveness of Budget Support refers to the degree to which BS programme is achieving its envisaged objectives. As BS was considered the best method for achieving the MDGs, thus, this study considers the evolution of 2000 MDGs indicators in Health (MDG 4, 5, 6) as a measurement for the BS effectiveness (see Annex 4). Each of the chosen indicators is analyzed separately.

The descriptive question related to the dependent variables is: What is the variation in the success rate of the EU BS in contributing to the achievement of 2000 MDGs in Health?

3.2.2. The Independent Variables and Hypotheses

Qualitative Institutions: This variable is inspired by the work of Acemoglu and Robinson, 2012, they distinguish between inclusive (qualitative) institutions and extractive institutions.

Descriptive question: What is the variation in the quality of institutions of EU SBS Health Beneficiary Countries?

Inferential Question: Is the variation in EU SBS effectiveness related to variation of the institutions quality of beneficiary countries?

Hypothesis 1: The EU SBS in Health is more effective in countries with qualitative institutions.

Good Policies: This variable is based on the conclusion of the Burnside and Dollar, 2000 seminal work. Aid can be effective if it is delivered in a good policy environment.

Descriptive question: What is the variation in the policy environment of Beneficiary Countries of EU SBS in Health?

Inferential Question: Is the variation in EU SBS effectiveness related to variation of PGs' policy environment?

Hypothesis 2: The EU SBS in Health is more effective in a good policy environment.

Aid funds versus government resources: the last independent variable is based on the paper of Cordella and Dell'Ariccia, 2003. According to their study the budget support is a better instrument if the aid funds are relatively smaller than the government's resources.

Descriptive question: What is the variation of the ratio of EU SBS disbursements and Beneficiaries' budgets in health?

Inferential Question: Is the variation in EU SBS effectiveness related to variation of the ratio of EU SBS disbursements and Beneficiaries' budgets in health?

Hypothesis 3: The EU SBS in Health is more effective if the EU SBS disbursements are smaller than the Beneficiaries' budgets in Health.

3.2.3. Method and scope

The evaluation of programmes brings important methodological challenges. According to Dijkstra and de Kemp, 2005, there are possible 4 approaches for evaluating the BS programme (see Annex 10). Considering the complexity of this aid method, they propose combining the econometric

and case studies approaches. This suggestion won't be followed because of the limits of this study. Instead, it will do cross-country regressions by employing an econometric method. The reason lies in the advantage of econometric methods which is its rigorous hypotheses testing.

The chosen method will be the Ordinary Least Square regression (OLS). The study will use a data sample comprehending all 16 EU SBS Health recipients in the period 2004-2015 (see Annex 9).

3.2.4. The operationalization of variables and the data

The current subsection is previewed for the operationalization of the above-identified variables and for the clarification concerning the used data.

The dependent variable: Effectiveness of BS will be measured using 3 indicators linked to monitoring the progress of MDGs 4, 5, 6. These are: (i) Maternal mortality ratio (modeled estimate, per 100,000 live births); (ii) Infant mortality rate (per 1,000 live births); (iii) Prevalence of HIV, total (% of population ages 15-49). Each of them is regressed separately. It would be possible to combine them, but by doing it, it is assumed that all three indicators measure identical problems with identical solutions. There are more indicators for monitoring the MDGs 2000 in health sector (United Nations, 2003:3), but these three permit having all data available for the entire sample and analyzed period. Most of the AEL uses the GDP per capita growth rate for operationalization of the dependent variable. But considering the analyzed sector and time span, this won't make sense. The improvement in Health sector may positively affects the growth rate in a long period of time through the improvement of labor productivity (Clemens et al, 2004). In short term, it has negative effects on GDP per capita as the number of population increases. The positive impact of labor productivity improvement may need 20 years or even more to outweigh the effect of increased population number in the GDP per capita (Acemoglu, Johnson, 2007).

The first independent variable: Inclusiveness of Institutions is probably the most difficult one to be operationalized due to the complexity of its notion. This thesis follows the same approach as Burnside and Dollar, 2004 using the average of the 6 Kaufmann, Kraay and Zoido-Lobaton indicators (KKZ indicators). The main reason for choosing this database is the availability of data for all 16 EU SBS Health recipients. There could have been used other alternatives, like International Country Risk Guide (ICRG) or Freedom House index, though; these don't have all of the data available. As well, if performing some regressions, KKZ seem to combine the information from these two sources (Burnside, Dollar, 2004).

The second independent variable: Good policies use the trade-to-GDP ratio and inflation rate (consumer prices, annual %). Ideally, the Good Policies variable should have followed the same

definition as given in Dollar and Burnside, 2000. The reason for applying such a definition of good policy for Health sector is that if a government is following good economic policies, then it implements good policies in the other sectors, as well. Burnside and Dollar employed a policy index which included the Sachs and Warner dummy as a trade openness index, inflation and fiscal surplus. Unfortunately, there is no updated dataset for Sachs and Warner dummy. In addition, the dummy has been criticized for its subjectivity and for being opaque (a close economy may mean different things) (Easterly, 2003). An alternative could have served the data originating from Global Enabling Trade Reports issued by World Economic Forum. Unfortunately, these reports provide data only for a couple of years and it excludes 6 out of the 16 analyzed countries. A similar problem refers to fiscal surplus¹⁰. Another option for measuring the quality of policies could be the CPIA provided by WB; once again, certain countries have no data provided. Thus, the study will follow Easterly, 2003 suggestion using the trade-to-GDP ratio for measuring the integration with global trade and the inflation rate for monetary policy.

The last variable which tests the findings of Cordella and Dell’Ariccia is simply operationalized through the ratio between the total BS disbursements and the total PGs’ public spending in health sector during the analyzed period.

The databank of the WB Data constitutes the source for all three indicators for measuring the MDGs performance, the KKZ indicators, the trade-to-GDP ratio, inflation rate (consumer prices, annual %), the government expenditure in the health sector (% GDP) and the number of population.

The data on EU BS disbursements in health sector was collected from the OECD CRS1. Unfortunately, this database distinguishes the BS from other aid instruments’ flows only starting from 2010. Such data can be found using OECD microdata feature. Thereby, the EU Aid explorer permitted to identify the beneficiaries of EU SBS in Health sector during 2004-2009 and the name of the programmes, while the microdata of OECD CRS1 provided the disbursed amounts in every year (in USD, current prices). The OECD CRS1 was also the source for the total aid in health sector received by the 15 beneficiaries of EU SBS, from all donors, during 2004-2015.

The Sub-Saharan Africa dummy is a control variable widely used in AEL. It will be applied in this study, as well. It was possible to use some other control variables like ethnic fractionalization index proposed by Alesina et al., 2003. Although, this index shows a high positive correlation with the Sub-Saharan Africa dummy (this should be of no surprise taking into account the way the African

¹⁰ It could have been calculated using “Revenue, excluding grants (% of GDP)”, “Grants, excluding technical cooperation (BoP, current US\$)”, “Expense (% of GDP)” from WB Database, but there is missing data for a number of countries;

countries borders were traced by the colonizers) and a high negative correlation with the quality of institutions indicators. The Annex 11 contains the names of all variables and their description.

3.2.5. The limits of the Research design and data

This master thesis has important limits which should not be ignored. These limits refer to each of the variable and the chosen research method.

The BS programmes may have various objectives and the recipient countries may be confronted with different problems in the health sector (as tuberculosis in Moldova). Thus, the above 3 MDGs for measuring the effectiveness of BS health are not grasping the entire BS impact. In addition, the aid funds, BS included, are fungible. It does not automatically mean that the BS funds could be diverted to achieve non-development objectives, though, this is a possibility. The BS funds could be used for other development programmes (let suppose some urgent expenses). Once again, there will be a positive effect of BS on development in general, but not visible in the 3 chosen MDGs.

The measurement of independent variables has, as well, drawbacks. The institutional quality indicators are subjective and the KKZ is not an exception. Thereby, there is the risk of “hallo effect”. This means the fast growing economies could be better rated even if the institutional framework has not improved (Burnside, Dollar, 2014). Regarding the institutions, there could be the risk of endogeneity, eg: influence of BS on institutional quality or of MDGs performance on institutional quality. But having analyzed only 12 years, there should be no causation from BS or MDGs performance on the institutions.

Some of problems linked to good policy measurement have been already stated above. The lack of the policy index following the BD Approach is an important one. Neither the inflation rate nor the trade-to-GDP ratio reflects the quality of government policies. Very often, the government has little influence on the inflation, while trade-to-GDP ratio may reflect the size of the economy. The small countries have higher trade-to-GDP ratios. Nevertheless, the most important issue is what would be the correct definition of good policies. The correct answer would be: it depends on the context and sector and this study ignores this aspect.

The chosen method has important limits as well. The reduced number of observations and the limited time span does not allow establishing a veritable causal link between the dependent and independent variables. There are performed some robustness checks but with reduced explanatory power. Such an exercise would require more observations, a longer period of time and the application of other methodologies.

Chapter IV: Empirical research

The last chapter of this dissertation is of a crucial importance for concluding this study. Its aim is twofold. Firstly, it intends to shed light on the chosen empirical strategy for checking the hypothesis mentioned above. Secondly, it provides the obtained results and interpretation.

4.1. The empirical strategy and the descriptive statistics

The two sub-sections from below aim to swiftly inform about the empirical strategy adopted to confirm or dismiss the hypotheses from the above and to summarize the used data used by this study.

4.1.1. The empirical strategy

The adopted strategy allows looking for the responses to the two questions raised in section 1.2. The first one is about the impact of EU BS in the achievement of MDGs. In fact, this is the same question as the descriptive question related to the dependent variables (see subsection 3.2.1). This question ignores the mixed results of the evaluation reports and checks whether EU SBS in the health sector works no matter of the circumstances in the beneficiary country. The second question which is the main question of this study tries to identify whether there are any conditions for the BS to be effective in the MDGs' attainment. Its response permits confirming or rejecting the aforementioned hypotheses.

For having the response to the first question, there is created a dummy for introducing the EU BS Health funds in the regression equation. The BS dummy (*bsdummy*) receives the value "1" for the years with EU BS disbursements in the health sector, and "0" for the years with no disbursements. Thus, the results tell us whether the countries performed better in the years with BS disbursements or not. The critics to such an approach would be that it is looking for instantaneous results and it is needed to allow the control variable: BS dummy to influence the dependent one with a time lag. The reason for following this approach is that the dialogue between the PGs and the EU concerning the strategy in the Health sector is taking place long before the funds to be disbursed. During the dialogue period, the PGs receive technical assistance from EU for identifying the problems and elaborating the strategy for the health sector. At the moment of funds' transfer, the agreed strategies should be started to be implemented.

Thus, the econometric model for having the response to the first question is:

$$Y_{MDG} = \beta_0 + \beta_1 bsdummy + \beta_2 X + \varepsilon \quad (1)$$

where Y_{MDG} denotes the infant mortality rate, maternal mortality ratio and HIV prevalence ratio, $bsdummy$ is the Budget Support dummy, X is a set of control variables: government expenditure in the health sector, total aid received in health sector, the average of KKZ indicators, inflation, trade-to-GDP ratio, GDP growth rate, number of population and Sub-Saharan Africa dummy (check Annex 11 for the abbreviations and notions of each of the variables). Before running the regression, it is checked that the correlation between the independent variables to be low. There are performed three separate regressions, each of them taking different dependent variables: $Y_{MDG} = \{infmort, matmort, prevhiv\}$.

The year and country effects are controlled, too. The use of country (year) variables allows to wash out the effect of non-observed country (year) characteristics; however, especially with small dataset and in presence of variables with relatively small variance, fixed effect control variables tend to reduce the significance of the explanatory variables. This is an important weakness, but this is mostly the consequence of the reduced dimension of the dataset.

The response to the second question is given by following a similar strategy. But, this time, there is used a categorical variable for representing the BS funds ($bscat$). This ranges from 1 to 4. It receives: (i) the value “1” for the years with no BS disbursements; (ii) “2” – for the years when BS disbursements were between 0.001-1.999% of Government expenditure in Health sector; (iii) “3” - BS disbursements between 2% - 4.999%; (iv) “4” - BS disbursements > 4.999%. The regression model is similar to equation (1):

$$Y_{MDG} = \beta_0 + \beta_1 bscat + \beta_2 X + \varepsilon \quad (2)$$

where the dependent and independent variables are the same as in equation (1) except the categorical variable inclusion for representing the BS funds ($bscat$). This model tells us whether the ratio between the received Budget Support funds and the Government expenditure in the health sector matters. The positive and significant coefficient for $bscat$ would confirm the third hypothesis.

The introduction of an interaction terms between the $bscat$ and the variable for measuring the institutional quality (kkz)¹¹, trade integration ($trad$) and inflation ($infl$) allows rejecting or not the first and second hypotheses. As an example, the equation for the interaction between institutional quality (kkz) and $bscat$ is below:

$$Y_{MDG} = \beta_0 + \beta_1 bscat + \beta_2 bscat * kkz + \beta_3 X + \varepsilon \quad (3)$$

¹¹ For avoiding having negative numbers or numbers less than 1 (- these would affect the interaction between the $bscat$ and kkz differently), the kkz indicators scores have been summed with 3.5, like that they range from 1 to 6, after that the average has been calculated. This manipulation has been done only for the OLS regressions. The tab 4.1. reflects the original values.

where the dependent and independent variables are the same as in equation (1) except the use of *bscat* and the interaction term between *bscat* and the variable for measuring the institutional quality (*bscat * kkz*). This time, there are run 9 regressions, basically (3 per each dependent variable). Once again, the year and country effects are controlled.

4.1.3. The descriptive statistics

The table 4.1. summarizes the data used by this study which refers to all 16 analyzed countries during 2004-2015.

Table 4.1: Descriptive statistics

Variable	Mean	Std. Dev.	Min	Max
Infant mortality rate (per 1000 live births)	41.01	21.73	11.70	94.50
Maternal mortality ratio (per 100 000 live births)	256.15	255.74	23.00	1110.00
Prevalence of HIV (% of pop. ages 15-49)	3.56	5.86	0.10	18.90
Government health expenditure (% of GDP)	1.90	1.21	0.30	5.83
Total aid received in health sector (per capita)	4.56	5.65	0.00	48.48
Total aid received in health sector (% of GDP)	0.76	1.28	0.00	10.72
*BS to Government health expenditure ratio	0.02	0.05	0.0007	0.23
Inflation, consumer prices (annual %)	6.74	4.85	-8.28	30.55
Trade (% of GDP)	82.18	44.86	34.85	311.36
Average of KKZ indicators	-0.46	0.57	-1.77	1.21
Voice and accountability	-0.40	0.72	-1.57	1.15
Political Stability	-0.52	0.86	-2.71	1.28
Regulatory Quality	-0.35	0.59	-1.86	1.16
Rule of Law	-0.71	0.64	-1.90	1.44
Control of Corruption	-0.41	0.65	-1.64	1.73
GDP growth rate	5.70	3.14	-6.00	21.02
GDP per capita (in current USD)	2764.98	3886.43	272.86	16762.71
Population, total (mln)	107.00	209.00	0.27	1310.00
Number of observations	192.00			

*BS to Government health expenditure ratio represents the ratio between the total amount of EU BS Health and the total amount of Government health expenditure during 2004-2015 (both in current USD).

The first three rows cover the data on the dependent variables and they show how different the analyzed countries are in terms of MDGs referring to the healthcare. The most striking difference refers to maternal mortality, with a lowest record of 23 deaths per 100'000 live births registered in Moldova, in 2015; and a highest one of 1110 deaths recorded in Liberia, in 2004. South Africa has a negative record for Prevalence of HIV for this sample of countries, with around 18% of people ages 15-49 infected with HIV.

These 16 countries spent on average 1.9% of their GDP¹² in the health sector. Afghanistan, India and South Africa spent less than 1%. The countries that allocate the highest GDP shares are Barbados (3-4% of GDP) and Moldova (on average 5.2% of GDP during the analyzed period). Liberia received the highest amount of aid in this period with \$48.48 USD per habitant (current prices) in 2015 which constituted 10.72% of Liberia's GDP in that year. This should be of no surprise. After more than 10 years of civil wars, this country is still in profound need of external assistance. If only the flows of EU BS funds to Liberia are analyzed, they represented 0.23% of the total amount of Liberia's government spending in health sector (the first EU BS disbursement was in 2012). In 2014, the EU BS disbursement was of 115% of Liberia's public spending in health sector. This should be viewed as exception as on average the EU BS funds constituted only 0.02% of all 16 countries' public expenditure during this period.

The data on inflation rate, trade-to GDP ratio, and the KKZ indicators respond to the descriptive questions referring to the first and second hypothesis (see subsection 2.2.2.). It might be said that there is a quite high heterogeneity. It is interesting to take a look to institutional indicators. The outliers are Afghanistan and Tajikistan with the worst average score of KKZ indicators. The minimum of -2.7 score for Political stability is odd as the lowest score should be of -2.5. This has been given to Afghanistan in 2009 for underlining the highly unstable political situation. In general, the Afghanistan Political stability average score is of -2.45 for this period. The best institutions seem to be in Barbados, just as the highest GDP/cap: \$16762.71 USD (current prices) registered in 2007. There have been many voices criticising the transfer of aid funds to a high income country like Barbados, especially considering such countries as Afghanistan, Burkina Faso, Liberia, Mozambique from our sample with a GDP/cap with less than 700 USD (current prices). The development cooperation transfers to Barbados, in fact, ceased in 2011.

4.2. Presentation and Interpretation of the Research results

This subsection presents the results obtained by this study and their interpretation. First of all, it reveals the findings on the impact of EU BS Health on the analyzed MDGs. Secondly, it provides the results on checked hypotheses and it presents them per each of the dependent variable.

4.2.1 The impact of budget support on MDGs indicators

The Tab. 12.1 of Annex 12 reports the results of the estimations on the relationship between the Budget Support dummy and the evolution of infant mortality, maternal mortality and prevalence of HIV rates. There are 3 columns per each dependent variable. The first one presents the

¹² This includes only the public expenditure on health from domestic sources.

estimations without controlling for the fixed effects of countries and years. The second one reports the estimations controlling the countries' effects, whilst the third one controls for both the countries and years unobserved effects. The years and countries dummies aren't included in Tab. 12.1 to save space.

Considering the limited sample of countries and time span, it should be of no surprise that the results are quite weak and few conclusions can be drawn. Nevertheless, it is possible to notice that except when controlling for years fixed effects, the Budget Support Dummy coefficients are negative and significant for infant mortality as regressand variable. Such a result is resilient to exclusion and inclusion of different control variables. A first conclusion would be that the 16 analyzed countries had better results in diminishing the infant mortality, in the years with EU BS Health disbursements. It won't be possible to say, though, that there is a causal relationship. The study of Beynon, Dusu 2010 confirms that the countries receiving BS (it was GBS in their case) performed better at decreasing the child mortality rate.

The impact BS Dummy on the other two dependent variables is, unfortunately, unclear. This might seem strange in case of maternal mortality rate; especially, taking into account that there is a high correlation between the infant and maternal mortality ratios (0.85 for the sample of 16 analyzed countries). An explanation would be that very often the causes of infant mortality may be easily remediated through access to basic services and simple, inexpensive interventions (Viguera Esteret al., 2011). The vaccine-preventable diseases, oral rehydration therapy or insecticide-treated nets makes a huge difference for diminishing infant mortality rate. The increase of public spending thanks to BS may improve the access to these types of interventions and an instantaneous impact is observed. On the other hand, the causes of maternal mortality rate are more complex (Fillipi et al., 2016). Its amelioration requires very often skilled care during and after the childbirth. Thus, a simple increase in public spending won't bring immediate results. A long-term strategy implying investment in medical personnel trainings, constructions of hospitals in remote rural areas and better equipment for the existed ones should be envisaged.

The HIV prevention strategies involve large information campaigns and AIDS-prevention education programs. This doesn't suppose only the state intervention, but also active participation of non-governmental groups. BS is focused mostly on the improvement of public administration and services in health sector. Most likely, it is difficult to find a clear link between Budget Support and HIV prevalence rate, even if this is one of the MDGs indicators. As well, Beynon, Dusu 2010 excluded the analysis of HIV/AIDS indicator from their study about the BS and MDG performance because of

the high amount of money provided through vertical funds. Thus, probably, there are important factors affecting the HIV prevalence that are not taken into account by the used econometric model.

4.2.2. The verdict on the analyzed hypotheses

The analyses of the regressions embodying the created BS categorical variable give the responses whether the three stated hypotheses of this master thesis may be rejected or confirmed. The results referring to each of the dependent variable: infant mortality, maternal mortality and HIV prevalence are presented separately in the tables 12.2, 12.3 and 12.4 of Annex 12. These tables include 4 columns for the results. The first column reports the OLS regression using the BS categorical variable. The second one provides the estimates of the regression which incorporates the interaction between the BS categorical variable and the average of KKZ indicators variable. The other two refer to the BS categorical variable interaction with inflation variable and trade variable, respectively. Each of these 4 regressions control for the countries and years fixed effects, but the years and countries dummies are excluded to save space.

4.2.2.1 Infant Mortality rate

It can be seen in Table 12.2. of Annex 12, that the significance level for the budget support categorical variable is low for infant mortality rate as dependent variable, in most of the performed regressions. The only exception is the inclusion of BS x Inflation interaction term. This implies that the ratio between the BS disbursements and the government expenditure amounts in health sector doesn't have a significant impact on the evolution of infant mortality. This confirms neither the findings of Beynon, Dusu, 2010 nor the ones of Cordella, Dell'Ariccia, 2003. Thereby, the third hypothesis doesn't hold, most likely.

Unexpectedly, the interaction between the institutional quality variable and BS categorical one receives low and insignificant coefficients. In general, the average of KKZ indicators variable does not receive significant coefficients if the dependent variable is infant mortality. This goes against the findings of Burnside and Dollar, 2004 which uses the same indicator for measuring the institutional quality. An explanation would be that the interaction term requires a time lag for manifesting the impact on infant mortality. Nevertheless, the first hypothesis can be neither confirmed nor dismissed. The interaction between BS categorical variable and trade-to-GDP ratio variable has insignificant results. But the interaction with the inflation variable acquire a positive coefficient and significant at 0.01 (significance) level. This may be a hint that the second hypothesis which stresses the importance of good economic policies. This hypothesis has more chances to point into the right direction. The provision of budgetary aid in countries with high inflation levels appears

to be harmful for the decrease of infant mortality rate. A stable economic environment may be very important for the provision of budgetary aid. Thus, despite all of the critics, the conclusion of Burnside and Dollar, 2000 might be true in case of Budget Support in health sector.

In conclusion, if the dependent variable is infant mortality, the first and third hypotheses are not confirmed. In case of quality of institutions as the independent variable, a time lag may be needed. If the definition of good economic policies resumes to low level of inflation, then probably the second hypothesis has more chances not to be rejected. Nevertheless, the limits mentioned in section 3.2.5 should be taken into consideration when interpreting the results. In the case of all three hypotheses, there are needed deeper studies with better data, more observations, longer periods of time, the use of time lags for arriving to firmer statements.

4.2.2.2. Maternal Mortality rate

The results for the regressions with the maternal mortality ratio as dependent variable are presented in Table 12.3. of Annex 12. They are very similar with the ones when the dependent variable is infant mortality. The coefficients of BS categorical variable are not significant. The interactions between BS categorical variable and KKZ indicators average variable or trade-to-GDP one, as well, do not acquire significant results. Only the one with inflation is significant at 0.1 level.

The conclusion is as for the above subsection: the first and third hypotheses are rather dismissed, but the limits of this study should be considered. The second hypothesis about the importance of economic policies appears to be more veridical; nevertheless, further investigations are needed.

It is also necessary to bring into attention that trade-to-GDP variable appears to be important for maternal mortality. It receives positive coefficients at high significance level and the results appear to be quite robust (check both 12.1. and 12.3. of Annex 12). It means, higher values of trade-to-GDP correspond to higher levels of maternal mortality. It may indicate that the trade-to-GDP ratio does not show the integration in the world trade in this case, but rather the economic dependence of the outside world because of weak economic activity inside the country. During the high instability periods in Liberia, for example, this ratio constituted more than 250%. Still, further studies are needed for clarifying the real relationship among these two variables.

4.2.2.3. HIV prevalence ratio

The Table 12.4 of Annex 12 reports the OLS regressions with HIV prevalence ratio as regressand variable and BS categorical variable as one of the independent ones. The coefficients of BS categorical variable tell that just as in case of infant and maternal mortality rates, the third

hypothesis is not confirmed. The countries that received lower amounts of BS comparing to the domestic resources neither performed better nor worse.

The obtained coefficient for the interaction term between BS categorical variable and the average of KKZ indicators one has a positive sign and it is significant at 0.1 level. This goes against the expectations. The countries with better institutions and higher amounts of budget support had fewer successes in fighting the HIV prevalence. The average of KKZ indicators control variable, on the other hand, shows all of the time negative coefficients at high significance level. Thus, the countries with better and improving institutions are more successful at fighting HIV prevalence. There might be various explanations for the positive coefficient of the interaction term. A first would refer to the drawbacks of the model and the possibility that it omitted important control variables for the HIV prevalence. Thereby, it will call for further investigations. Nevertheless, a second explanation would collude with the opinions of Moyo, 2009 and Djankov et al., 2006. The high amounts of budget support harm the institutions in the recipient countries and this affects the achievement of MDGs. But, there would be a number of problems. Firstly, it is unclear why the other two dependent variables don't show the same relation. Secondly, it is doubtful within 12 years the institutional set-up in the EU BS beneficiaries to be modified as result of Budget Support, especially considering its reduced amounts. Thirdly, if the coefficients of total aid control variable are analyzed in all 4 tables of Annex 12, they are, in majority of cases, negative and significant. Therefore, this study would rather agree with the literature supporting the idea of either conditional or unconditional effectiveness of aid (e.g. Clemens et al. 2004), rather than the pessimistic strand. Finally, it may be an indirect confirmation of Cordella, Dell'Ariccia, 2003: the higher amounts of BS made the interaction term to have positive coefficient, and not the quality of institutions. However, it is strange that the BS categorical variable does not show it. Therefore, the first mentioned reason concerning the drawbacks of the model is the preferred one.

The other interaction terms acquire no significance levels, so far. Thereby, if economic stability (considered as low inflation) may give some hints towards what conditions are needed for having some immediate effects in reducing the child and maternal morbidity rates, this cannot be said about the HIV prevalence. The hypothesis based on Burnside and Dollar, 2000 study cannot be confirmed, and, the limits of the current study should be taken into consideration, as well.

Conclusion

This master thesis attempts to identify whether the Budget Support delivered by the European Union contributed to the achievement of MDGs, and more importantly, to identify whether there were any conditions in the recipient countries that made the BS to be more effective. It uses the Rational Choice Institutionalism as an analytical framework. The EU as a benevolent donor by providing Budget Support assists one of the most important actors in the recipient country: the government. But if the government is one of the causes for the recipient country's failure, it is necessary to identify the aspects making worth supporting that government. Based on aid effectiveness literature, there are three hypotheses put forward: i) a qualitative institutional environment; (ii) a qualitative policy environment; and (iii) that the resources it is ready to invest in developmental sectors.

Analyzing the 16 beneficiaries of EU BS in the health sector during 2004-2015 by employing an econometric method, the study finds that countries obtained better results in diminishing the infant mortality in the years with EU BS disbursements. Nevertheless, it is not possible to say that there is a true causal relation. The results show BS combined with low inflation influences positively the reduction of child and maternal morbidity. If low inflation is viewed as a sign of good economic policies, then, this evidence supports the findings of Burnside and Dollar, 2000: a qualitative policy environment makes aid to be effective. Once again, it is difficult to speak about a veritable causal link. In case of HIV prevalence there is an unexpected outcome. The provision of higher volumes of budget support in a country with qualitative institutions affects negatively the reduction of HIV prevalence rate. Such results are subscribed to the limits of the used model, and it calls for further investigations. Apparently, the countries that received lower amounts of BS comparing to the domestic resources neither performed better nor worse. In general, the obtained results are quite fragile. There is the need for deeper studies with better data, more observations, longer periods of time, the use of time lags for arriving to firmer statements. At the same time, such econometric studies should be complemented with case studies.

This master thesis concludes by suggesting how this study could be extended so, that new light can be shed on the effectiveness of Budget Support delivered by the EU. The reality dismisses the assumption that the EU acts as a benevolent donor. It clearly follows strategic purposes. Its Budget Support programmes are designed for meeting two sets of objectives: the EU strategic objectives and the development ones. If the definition of Budget Support effectiveness is extended so it embodies the EU foreign policy objectives, one may ask: how many and how well the EU strategic and developmental objectives are met thanks to Budget Support?

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Annexes

Annex 1: The project approach

Tab. 1.1: Definition, advantages and disadvantages of project approach

Definition	<i>a series of activities aimed at bringing about clearly specified objectives within a defined time-period and with a defined budget</i> ¹⁰⁰	
	Advantages	Disadvantages
	• If the PG is not reliable, it allows to circumvent it and promote development¹⁰¹; • The donor has maximum control over the use resources (maximum consistency with the donors' priorities)¹⁰²; • Donor's possibility to come with tangible results and "show the flag"¹⁰³; • The public opinion in donor country may be intolerant to financial transfer to recipients' governments¹⁰⁴; • Regional initiatives, pilot projects, cooperation with non-state actors, or large international tenders with high transaction costs are better suited by the projects¹⁰⁵;	• Narrow view on how the funds are used without adequate appreciation of the 'fungibility' issue¹⁰⁶. • Inadequate local ownership¹⁰⁷; • Establishment of parallel systems (outside the PG budget) for managing the resources¹⁰⁸; • The donor has limited influence over the PGs programmes and policies (reduced consistency with the PG strategies)¹⁰⁹; • Aid fragmentation - each project may adopt different rules for tendering, implementation, reporting and evaluation¹¹⁰; • High Transaction costs steaming from aid fragmentation¹¹¹; • Low disbursement rate¹¹²; • High emphasis on new projects and reduced interest for maintenance servicing¹¹³;

¹⁰⁰ European Commission (2004) Aid Delivery Method : Project Cycle Management Guidelines, Brussels, p. 8 ;

¹⁰¹ Ibid. p. 14;

¹⁰² Ibid. p. 13;

¹⁰³ Van Bilzen, G (2015) "The development of aid" Newcastle upon Tyne : Cambridge Scholars, p. 197;

¹⁰⁴ Ibidem;

¹⁰⁵ European Commission (2004) Aid Delivery Method : Project Cycle Management Guidelines, Brussels, pag. 14 ;

¹⁰⁶ Fungibility refers to the fact that donors' projects frees financial resources of national budgets so, the PGs can re-direct them to other purposes like instead of building schools they would construct government palaces. However, the fungibility of aid does not characterize only the project approach, the other approaches suffer of it too (Ibid. p. 10);

¹⁰⁷ Ibid. p. 11;

¹⁰⁸ Ibidem;

¹⁰⁹ Ibid. p. 13 ;

¹¹⁰ IOB Evaluation (2012) *Budget Support: Conditional Results, Review of an Instrument (2000-2011)*, Ministry of Foreign affairs of the Netherlands (pag. 33);

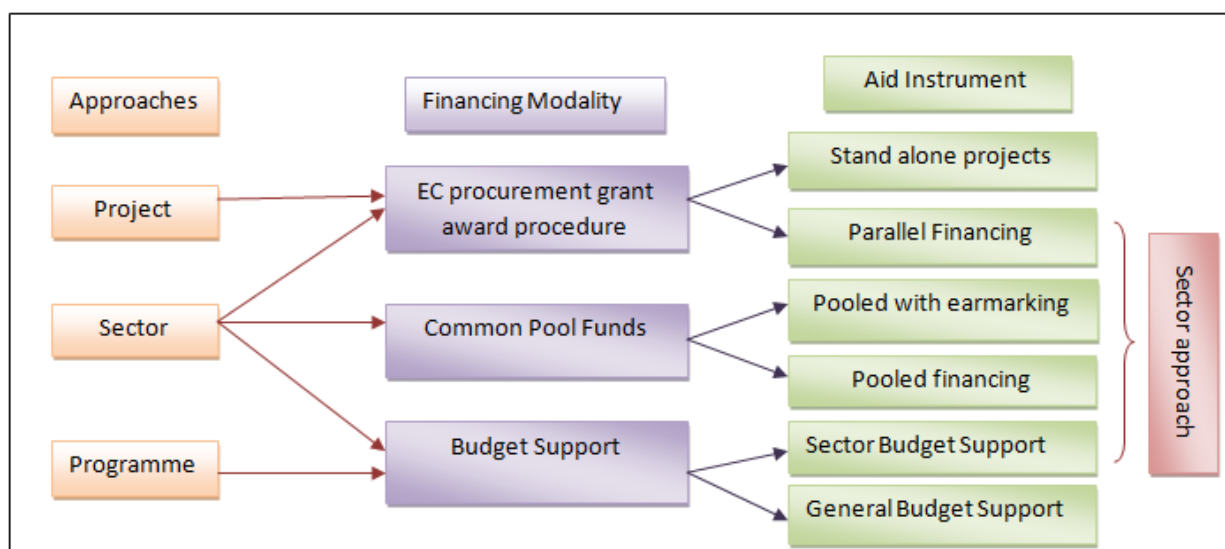
¹¹¹ European Commission (2004) Aid Delivery Method : Project Cycle Management Guidelines, Brussels, p. 13 ;

¹¹² Van Bilzen, G (2015) "The development of aid" Newcastle upon Tyne : Cambridge Scholars, p. 197;

¹¹³ Ibidem;

Annex 2: Sector Approach

Figure 2.1: The place of Sector Approach in the framework of European Commission Aid delivery Methods



Source: The figure represents a combination of two charts originating from: European Union (2007) Aid Delivery Methods. Guidelines on the Programming, Design & Management of General Budget Support, Brussels (pag. 12) and Tommasi D. (2007) “Options for Sector Wide Approaches (SWAs), 2nd Africa Region Education Capacity Development Workshop - Country Leadership and Implementation for Results in the EFA FTI Partnership”, Tunis, (p. 4).

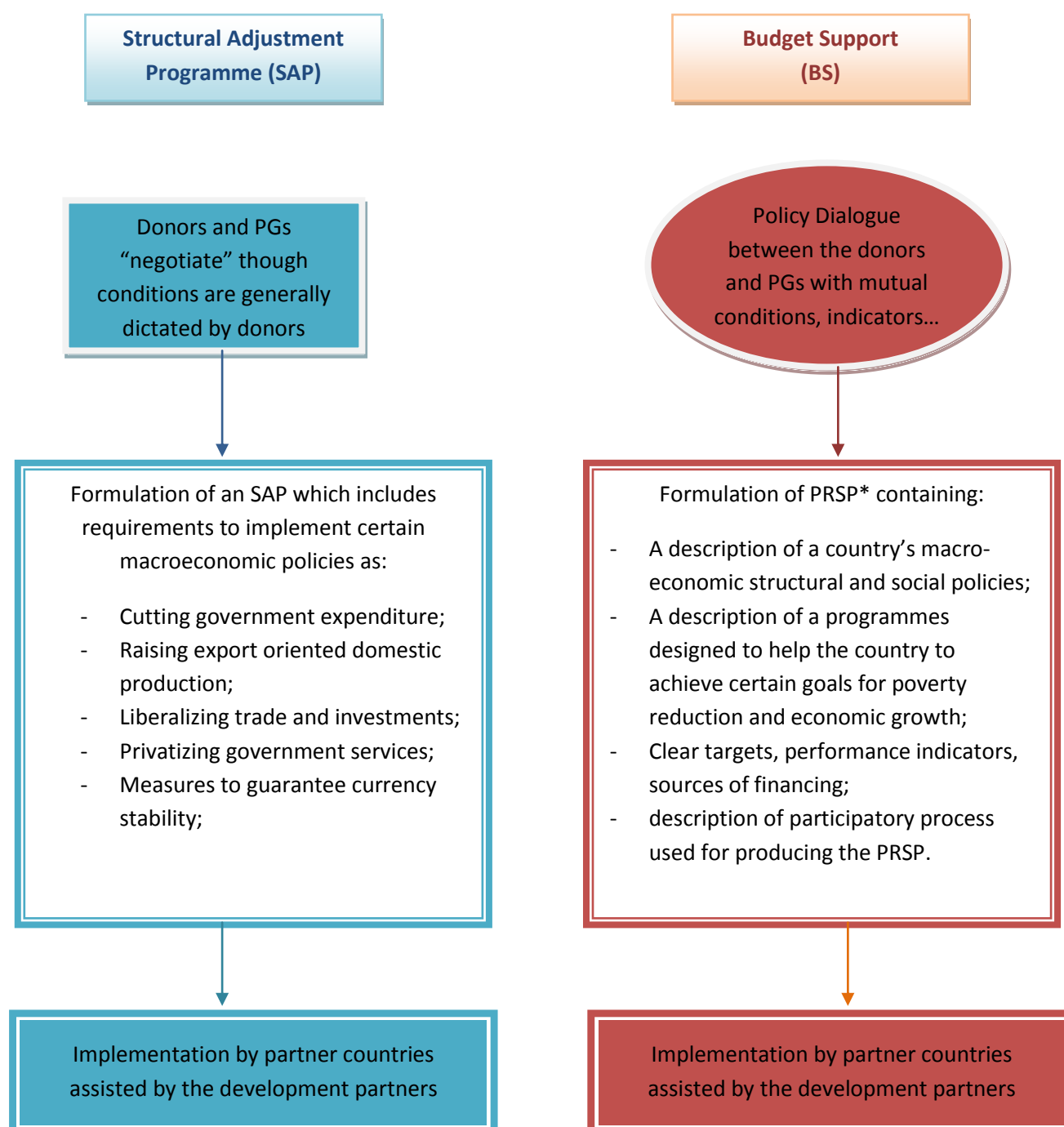
Tab 2.2: Distinction between sector and Project approach

Sector approach	Conventional project approach
• Country holistic view on entire sector	• Focus on project to support narrowly defined objectives
• Partnerships with mutual trust and shared accountability	• Recipient accountable to donor
• External partners' co-ordination and collective dialogue	• Bilateral negotiations and agreements
• Increased use of local procedures	• Parallel implementation arrangements
• Long-term capacity/system development in sector	• Short-term disbursement and success of projects
• Process-oriented approach through learning by doing	• Blueprint approach

Source: Saurenbach, V. (2012) “Sector Budget Support in the European Neighbourhood Policy: Promoting reform through conditionality” Master Thesis, College of Europe, Department Of European Interdisciplinary Studies, p. 7;

Annex 3: Comparison between the SAPs and BS

Figure 3.1: Structural Adjustment Programmes compared with Budget Support



* Country Strategy Paper in case of the EU;

Source: Hauck, Volker, Hasse, Oliver, Koppensteiner, Martin (2005) EC Budget Support: thumbs up or down? Discussion Paper No. 63 March 2005, European Centre for Development Policy Management;

Annex 4: Millennium Declaration: Goals and targets

Goal	Targets
GOAL 1: ERADICATE EXTREME POVERTY AND HUNGER	TARGET 1: Halve, between 1990 -2015, the proportion of people whose income is less than one dollar a day TARGET 2: Halve, between 1990 -2015, the proportion of people who suffer from hunger
GOAL 2: ACHIEVE UNIVERSAL PRIMARY EDUCATION	TARGET 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
GOAL 3: PROMOTE GENDER EQUALITY AND EMPOWER WOMEN	TARGET 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.
GOAL 4: REDUCE CHILD MORTALITY	TARGET 5: Reduce by two thirds, between 1990 -2015, the under-five mortality rate
GOAL 5: IMPROVE MATERNAL HEALTH	TARGET 6: Reduce by three quarters, between 1990 -2015, the maternal mortality ratio.
GOAL 6: COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES	TARGET 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS TARGET 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.
GOAL 7: ENSURE ENVIRONMENTAL SUSTAINABILITY	TARGET 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources TARGET 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation TARGET 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.
GOAL 8: DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT	TARGET 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Includes a commitment to good governance, development and poverty reduction – both nationally and internationally; TARGET 13: Address the special needs of the least developed countries. Includes: tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction. TARGET 14: Address the special needs of landlocked countries and small island developing States. TARGET 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term; TARGET 16: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth; TARGET 17: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries; TARGET 18: In cooperation with private sector, make available the benefits of new technologies, especially information and communications.

Source: United Nations (2003) "Indicators for Monitoring the Millennium Development Goals. Definitions, Rationale, Concepts and Sources" United Nations Publications, New York, p. 3-4;

Annex 5: The principles of Paris Declaration

Principles	Strategies
Ownership The developing countries lead their own development policies, strategies and co-ordinate development efforts. The donors should support and respect the developing countries' policies and helping strengthen their capacity to implement them (paragraphs 14 and 15 of the Paris Declaration).	• Partners have operational development strategies (as PRSPs or CSP with strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets)
Alignment The donors will base their overall support on partner countries' national development strategies, institutions and procedures. This means that donors' conditions should be drawn on the PGs' development strategy, as well, they should use as often as possible the local institutions and procedure for managing the aid (para. 16).	• <i>Reliable PG country systems;</i> • <i>Aligned aid flows on national priorities;</i> • <i>Strengthen capacity by co-ordinated support;</i> • <i>Use of country PFM systems;</i> • <i>Use of country procurement systems ;</i> • <i>Strengthen capacity by avoiding parallel implementation structures;</i> • <i>More predictable aid;</i> • <i>Untied aid;</i>
Harmonization The donors aim to coordinate their development work better amongst themselves. This means establishing common arrangements at country level for planning, funding and implementing development programmes (para. 32).	• Use of common arrangements or procedures (aid provided as programme-based approaches) • Encourage shared analysis
Managing for results Both donors and partner countries should concentrate more on the result of aid. This implies the implementation of performance assessment frameworks to measure the progress of national development strategies (para. 43-46).	• Results-oriented frameworks (transparent and monitorable performance assessment frameworks to assess progress against a) the national development strategies and b) sector programmes)
Mutual accountability All parties in aid relation should hold accountable to each other and to their citizens and Parliament for development results and the aid impact.	• Undertake mutual assessments (have mutual assessment reviews in place)

Source: DAC (2006b) "Development cooperation report 2005", Paris: DAC, p. 50-51, available at <http://www.oecd.org/development/effectiveness/36364587.pdf> (last checked 10th April, 2018) and DAC (2006a) "DAC in dates: the History of OECD's Development Assistance Committee", Paris: DAC, p. 66-67;

Annex 6: Intervention logic of Budget Support

Inputs	Implementation	Outputs	Outcomes	Impacts
PG policy and spending	Respect of good principles	Improved public policies, institutions, spending, and public services delivery	Positive responses by beneficiaries (service users and economic actors) to enhanced government public policy and service delivery	Sustainable Growth and Poverty Reduction
- Transfer of funds; - Policy Dialogue; - Capacity Building activities.	- Respect for ownership; - Alignment; - Harmonization; - Predictability.	- Improved macroeconomic and budget management; - Improved public services delivery; - Strengthened PFM and procurement systems; - Improved public policy formulation and execution processes; - ...	- Increased use of public goods and services ; - Increased business confidence and private sector investment and production deriving from more effective macro-economic and regulatory policies; - Improved competitiveness of economy; - ...	- Enhanced and sustainable growth; - Reduction in income and non-income poverty; - Empowerment and social improvement of poor people and disadvantaged groups; - Other areas, according to specific partnership frameworks and priorities;

Source: based on European Commission (2012) “Budget Support Guidelines”, Brussels: European Commission, p. 16

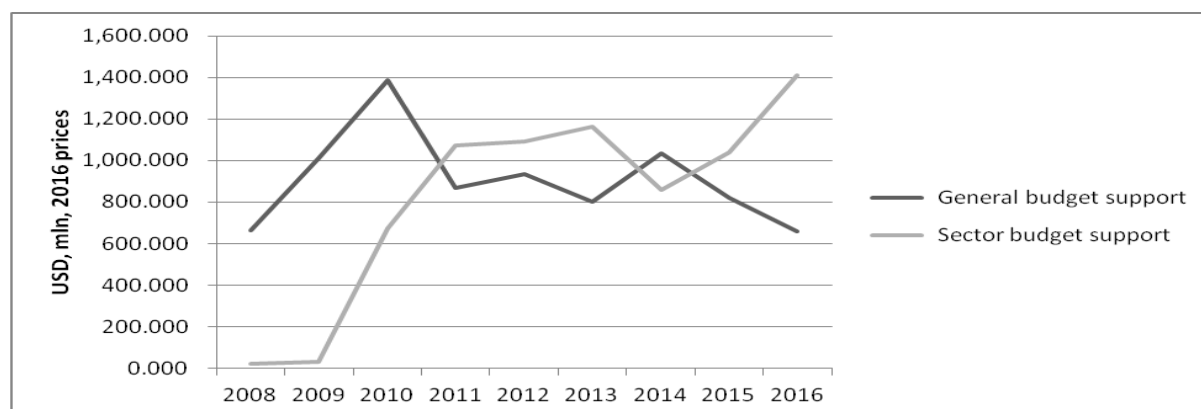
Annex 7: BS Commitments and Disbursements trends, EU and its Member States

Graph 7.1: EU Institutions commitments and disbursements, overall aid flows, 2002-2016



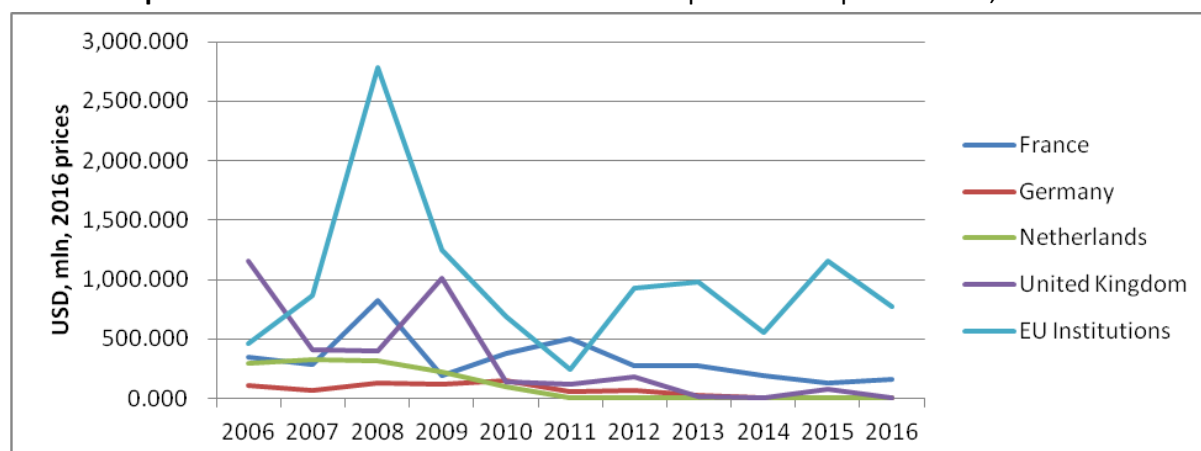
Source: OECD.Stat CRS 1 database

Graph 7.2: The EU GBS and SBS disbursements



Source: OECD.Stat CRS 1 database

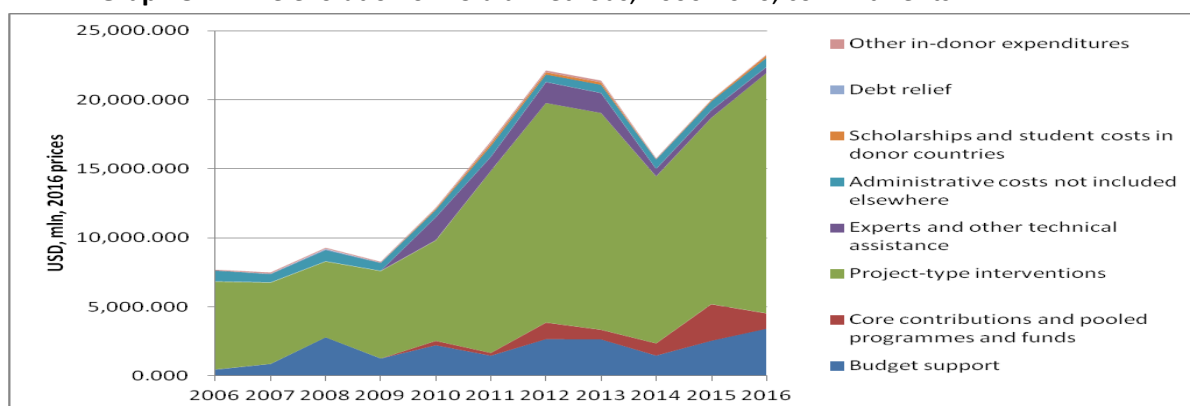
Graph 7.3: The GBS commitments of the most important European donors, 2006-2016



Source: OECD.Stat CRS 1 database

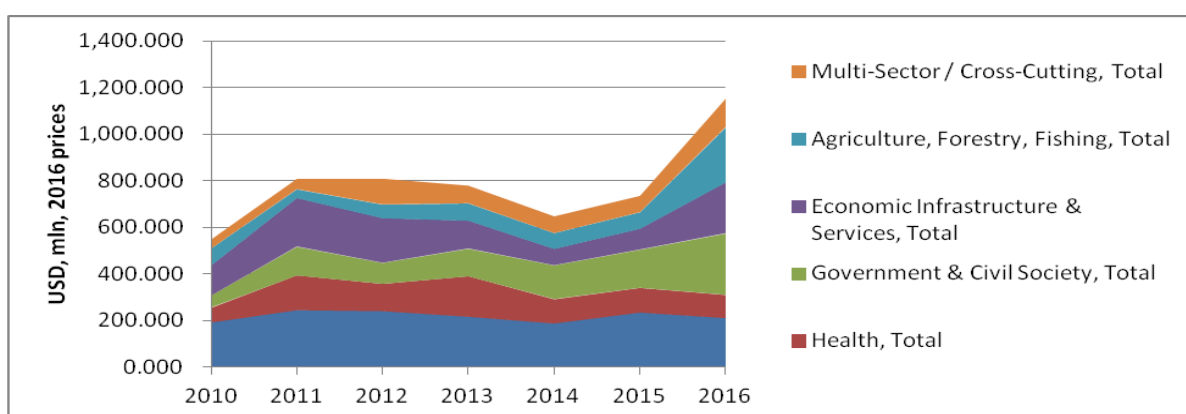
Annex 8: The evolution of aid methods of EU institutions

Graph 8.1.: The evolution of EU aid methods, 2006-2016, commitments



Source: OECD.Stat CRS 1 database

Graph 8.2.: The evolution of EU SBS per sector, 2010-2016



Source: OECD.Stat CRS 1 database

Annex 9: EU SBS recipients during 2004-2016

Tab. 9.1: EU Health SBS recipients during 2004-2016, Gross Disbursements, USD mln, current prices

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*
Afghanistan										1.360		0.284	
Barbados		0.256	1.410	2.381	4.679		3.217						
Burkina Faso										12.485	11.564	13.841	1.821
Egypt			37.655		43.271		27.417	28.527	0.072		0.038	0.021	
India					0.090	27.851	32.848	46.170	2.126	53.959	2.384		
Lao PDR*													0.707
Liberia									12.853	12.948	26.599	0.745	
Moldova						16.711	1.060	18.926	7.838		7.982	0.325	
Morocco		0.031	22.634		9.520	35.029	22.078	8.036	15.470	22.316	10.998	29.494	38.819
Mozambique	14.775	11.051	11.372	12.256	11.321	11.141	9.272				2.050	1.604	1.033
Peru						34.814		0.013	22.839	22.013	0.164		
Philippines					3.258	5.145	3.322	13.904	8.676	0.199	10.340	21.079	5.777
Rwanda											26.788	0.249	4.679
South Africa				23.272	21.636	16.864	0.097	48.888	31.037	58.151	2.940	1.664	7.956
Tajikistan												0.666	
Viet Nam									12.853	17.492	18.724	34.329	37.584
Zambia				6.845		16.014		11.819	15.424				

Source: OECD.Stat CRS 1 database and EU Aid explorer

*The study is focused only on the period: 2004-2015. Lao PDR received the first installment only in 2016, thereby it is not included in the sample.

Annex 10: Budget Support evaluation approaches**Tab 10.1.:** A typology of budget support evaluation approaches

	Qualitative	Quantitative
Country case study	Empirical scrutiny of policy theory	Analysis of the impact of government interventions using regression based approaches
Cross Country	Comparison of country case studies	Cross country regression

Source: Dijkstra, Geske, de Kemp, Antoine (2015) “Challenges in evaluating budget support and how to solve them”, Evaluation 21(1):83-98;

Annex 11: Variables names and description

Tab 11.1.: Indicators for measuring the dependent and independent variables

Indicator	Description
Mortality rate, infant (per 1,000 live births) (infmort)	Infant mortality rate is the number of infants dying before reaching one year of age, per 1,000 live births in a given year.
Maternal mortality ratio (modeled estimate, per 100,000 live births) ²⁷ (matmort)	Maternal mortality ratio is the number of women who die from pregnancy-related causes while pregnant or within 42 days of pregnancy termination per 100,000 live births. The data are estimated with a regression model using information on the proportion of maternal deaths among non-AIDS deaths in women ages 15-49, fertility, birth attendants, and GDP.
Prevalence of HIV, total (% of population ages 15-49) (hivprev)	Prevalence of HIV refers to the percentage of people ages 15-49 who are infected with HIV.
Domestic general government health expenditure (% of GDP)	Public expenditure on health from domestic sources as a share of the economy as measured by GDP.
Budget Support Dummy (bsdummy)	Dummy [1 for the year with BS disbursements].
Budget Support Categorical variable (bscat)	1 - for the year with no BS disbursements; 2 - BS disbursements between 0.001-1.999% of Domestic general government health expenditure; 3 - BS disbursements between 2% - 4.999%; 4 - BS disbursements > 4.999%.
Total Aid flows in Health sector	Total aid provided by all donors in health sector (per habitant).
Kaufmann, Kraay and Zoido-Lobaton indicators, average (kkz)	Average of 6 governance indicators (ranges from -2.5 to 2.5, increasing with better institutions). The 6 governance indicators are: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption.
Inflation, consumer prices (annual %)	Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used.
Trade (% of GDP)	Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product.
Sub-Saharan Africa Dummy	Dummy for Sub-Saharan Africa countries [1 if country in Sub Saharan].
GDP growth (annual %)	Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.
Population, total	Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship. The values shown are midyear estimates.

Source: WorldBank and OECD CSR 1

²⁷ The databank of the WB Database provides two indicators for maternal mortality. One is a national estimate and the other one is a modelled estimated. The second one has been preferred because of the full availability of data for all 16 countries.

Annex 12: The Regressions' results

Tab. 12.1.: Budget Support Impact regressions (using the Budget Support Dummy)

Dependent variable	Infant mortality			Maternal mortality			HIV prevalence		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Budget Support (dummy)	-5.145** (2.107)	-2.047** (1.006)	1.091 (0.770)	-28.47 (25.98)	-3.227 (8.760)	10.55 (9.518)	1.880*** (0.547)	-0.0589 (0.132)	0.156 (0.157)
Government expenditure	-3.916*** (1.047)	1.760 (1.535)	1.962** (0.903)	-39.33*** (14.07)	16.33 (12.43)	19.16* (10.42)	-0.514* (0.279)	0.277 (0.180)	0.251 (0.195)
Total aid	0.146 (0.206)	-0.552*** (0.165)	-0.309*** (0.0874)	11.30*** (3.117)	-2.494* (1.371)	-1.216 (1.294)	-0.244*** (0.0543)	-0.0751* (0.0406)	-0.0587* (0.0305)
KKZ indicators	-12.48*** (2.152)	-5.411 (4.719)	-3.319 (3.616)	-112.8*** (27.80)	11.61 (68.22)	26.52 (71.05)	1.647*** (0.529)	-4.046** (1.987)	-4.091** (1.903)
Inflation	0.0587 (0.214)	0.430*** (0.115)	0.147* (0.0857)	-3.467 (3.147)	3.708*** (1.177)	2.957** (1.332)	0.208*** (0.0632)	0.0201 (0.0177)	0.0106 (0.0210)
Trade-to-GDP	0.0276 (0.0217)	0.0272 (0.0245)	0.0211 (0.0176)	1.559*** (0.320)	0.765** (0.330)	0.805** (0.347)	-0.00855 (0.00723)	-0.0111* (0.00651)	-0.0124* (0.00711)
Sub-Saharan Africa	27.06*** (3.074)	2.153 (5.438)	0.759 (3.946)	244.5*** (37.80)	112.6 (92.02)	91.46 (93.86)	8.991*** (0.890)	6.700*** (2.311)	6.825*** (2.262)
GDP growth rate	0.403 (0.375)	0.283 (0.176)	-0.0131 (0.125)	5.178 (5.288)	1.262 (2.612)	0.0940 (2.521)	-0.0319 (0.105)	-0.00365 (0.0213)	-0.0152 (0.0198)
Population	1.13e-08*** (2.37e-09)	-1.46e-07*** (1.53e-08)	-5.45e-08*** (1.28e-08)	1.05e-07*** (2.68e-08)	-1.34e-06*** (3.26e-07)	-9.19e-07** (3.64e-07)	-2.07e-09*** (5.71e-10)	1.31e-08 (9.12e-09)	1.73e-08* (1.04e-08)
Constant	28.03*** (4.370)	58.83*** (8.718)	63.30*** (6.361)	3.012 (57.40)	592.1*** (129.9)	596.7*** (132.5)	1.897* (0.988)	-5.726* (2.978)	-5.905** (2.825)
Observations	192	192	192	192	192	192	192	192	192
R-squared	0.706	0.939	0.971	0.633	0.954	0.960	0.633	0.963	0.966

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Tab. 12.2: Infant Mortality rate as dependent variable

Dependent variable	Infant Mortality rate			
	(1)	(2)	(3)	(4)
Budget Support (categorical variable)	0.255 (0.490)	0.567 (0.640)	-1.690** (0.709)	-0.885 (1.325)
Government expenditure	2.021** (0.905)	1.986** (0.907)	2.214** (0.905)	2.006** (0.918)
Total aid	-0.293*** (0.0879)	-0.309*** (0.0925)	-0.302*** (0.0857)	-0.339*** (0.109)
KKZ indicators	-3.436 (3.601)	-4.481 (3.753)	-4.362 (3.350)	-3.305 (3.614)
Inflation	0.149* (0.0863)	0.145* (0.0854)	-0.284** (0.142)	0.165* (0.0878)
Trade-to-GDP	0.0226 (0.0176)	0.0187 (0.0171)	0.0326* (0.0167)	0.00817 (0.0271)
Sub-Saharan Africa	0.502 (3.912)	39.23*** (2.344)	39.76*** (2.369)	40.39*** (2.377)
GDP growth rate	-0.0179 (0.123)	-0.0351 (0.125)	-0.0988 (0.124)	-0.0148 (0.125)
Population	-5.25e-08*** (1.19e-08)	-5.41e-08*** (1.21e-08)	-5.84e-08*** (1.17e-08)	-5.23e-08*** (1.20e-08)
BS x KKZ indicators		0.766 (0.890)		
BS x Inflation			0.301*** (0.0891)	
BS x Trade-to-GDP				0.0142 (0.0154)
Constant	62.69*** (6.337)	6.442 (4.614)	7.998* (4.397)	6.583 (4.955)
Observations	192	192	192	192
R-squared	0.971	0.971	0.974	0.971

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Tab. 12.3: Maternal Mortality Ratio as dependent variable

Dependent variable	Maternal Mortality ratio			
	(1)	(2)	(3)	(4)
Budget Support (categorical variable)	6.453 (4.384)	13.60** (6.785)	-4.588 (6.424)	14.05 (13.67)
Government expenditure	18.66* (10.32)	17.86* (10.29)	19.75* (10.43)	18.75* (10.28)
Total aid	-1.267 (1.258)	-1.637 (1.283)	-1.319 (1.268)	-0.962 (1.347)
KKZ indicators	25.36 (71.06)	1.361 (77.31)	20.10 (70.91)	24.49 (70.30)
Inflation	2.990** (1.328)	2.887** (1.312)	0.529 (1.918)	2.883** (1.389)
Trade-to-GDP	0.825** (0.344)	0.735** (0.349)	0.881** (0.346)	0.921** (0.417)
Sub-Saharan Africa	88.17 (93.70)	238.3*** (37.65)	247.9*** (38.69)	241.8*** (40.87)
GDP growth rate	0.110 (2.515)	-0.286 (2.518)	-0.350 (2.540)	0.0898 (2.535)
Population	-9.08e-07** (3.59e-07)	-9.45e-07*** (3.60e-07)	-9.41e-07** (3.63e-07)	-9.09e-07** (3.61e-07)
BS x KKZ indicators		17.60 (13.20)		
BS x Inflation			1.709* (0.914)	
BS x Trade-to-GDP				-0.0945 (0.152)
Constant	587.5*** (131.1)	-67.25 (72.82)	-71.22 (75.37)	-90.13 (73.70)
Observations	192	192	192	192
R-squared	0.960	0.960	0.960	0.960

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Tab. 12.4: HIV prevalence rate as dependent variable

Dependent variable	HIV prevalence rate			
	(1)	(2)	(3)	(4)
Budget Support (categorical variable)	0.0325 (0.0748)	0.180 (0.133)	-0.0281 (0.138)	-0.401 (0.277)
Government expenditure	0.261 (0.193)	0.244 (0.192)	0.267 (0.198)	0.255 (0.192)
Total aid	-0.0561* (0.0298)	-0.0638* (0.0338)	-0.0564* (0.0296)	-0.0735* (0.0406)
KKZ indicators	-4.108** (1.910)	-4.604** (2.041)	-4.137** (1.922)	-4.058** (1.860)
Inflation	0.0108 (0.0212)	0.00870 (0.0210)	-0.00268 (0.0361)	0.0169 (0.0225)
Trade-to-GDP	-0.0122* (0.00705)	-0.0141* (0.00760)	-0.0119* (0.00709)	-0.0177* (0.0100)
Sub-Saharan Africa	6.789*** (2.251)	13.78*** (0.821)	13.96*** (0.845)	14.26*** (0.956)
GDP growth rate	-0.0160 (0.0199)	-0.0242 (0.0210)	-0.0185 (0.0204)	-0.0148 (0.0208)
Population	1.76e-08* (1.06e-08)	1.69e-08 (1.04e-08)	1.74e-08 (1.06e-08)	1.77e-08* (1.05e-08)
BS x KKZ indicators		0.364* (0.218)		
BS x Inflation			0.00938 (0.0176)	
BS x Trade-to-GDP				0.00540 (0.00354)
Constant	-5.989** (2.858)	-1.935 (1.409)	-2.215 (1.437)	-1.951 (1.344)
Observations	192	192	192	192
R-squared	0.966	0.967	0.966	0.967

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1