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# Alpaca sweaters or Innovation Tourette's? Hopes for a more evidence-based approach to development policy in a grand coalition

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# The Current Column

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## Alpaca sweaters or Innovation Tourette's? Hopes for a more evidence-based approach to development policy in a grand coalition

Bonn, 2 December 2013. The signing of the draft coalition agreement sees the grand coalition's development policy beginning to take shape. At first glance, the development section of the agreement offers little that is new. It understands development policy as a global structural policy, and retains the overarching objectives of fighting global poverty and strengthening democracy and the rule of law. These were already key components of Germany's development policy under the last grand coalition. It is only in some individual aspects of the policy that "new" emphases can be identified. For example, the cap on the proportion of multilateral aid is to be lifted and explicit reference is made to budget support as a potentially effective instrument for increasing ownership by partner countries.

Does this mean that this grand coalition will see a return to what German Development Minister Dirk Niebel once described as "alpaca-sweater" development aid? Hardly. Rather, the draft agreement shows that, despite all gloomy predictions, a grand coalition also offers opportunities, for example, when it comes to making greater use of evidence in development policy. This is important, because development policy faces two fundamental dilemmas. On the one hand, it is a niche topic in socio-political terms, making it difficult for aid actors to raise their profile in this field, particularly since it remains almost impossible to present the outcomes of development policy effectively to the general public. In response to this situation, development-policy actors are attempting to achieve greater visibility by producing a constant stream of new concepts, approaches and instruments, a phenomenon that some observers are already referring to as "Innovation Tourette's". On the other hand, the lack of public interest in the details of development policy makes it easy for its approaches and concepts to be exploited to attack political opponents without having to worry too much about facts and evidence.

### Unfair demonisation of budget support

Budget support is a prime example of such a po-

litical football. Originally designed by donors as an instrument for jointly providing financial support to national development strategies in selected partner countries, it was intended to facilitate implementation of the principles for making aid more effective (ownership, alignment, harmonisation, results and mutual accountability), as laid out in the 2005 Paris Declaration. These principles are based on over 40 years of experience with the traditional project approach to aid provision, which has come in for increased criticism as a result of fragmentation, high transaction costs and the development of parallel structures for implementation and decision-making.

While there was broad consensus within the smaller community of development-policy actors about the suitability of budget support for implementing the principles of the Paris Declaration, the aid modality was quickly put down as a "blank cheque to corrupt regimes" and a high-risk instrument in the eyes of the wider public. What was often overlooked or intentionally omitted from discussions was the fact that, on the one hand, all forms of aid are open to misuse and, on the other, that the provision of financial assistance for the national budgets of partner countries is just one element of budget support programmes. Budget support refers to a whole package of financing measures, intensive policy dialogue, regular systematic assessment of the efforts and progress made by partner countries, and supporting measures for strengthening local capacity and structures.

At the same time, however, this instrument very easily lends itself to being used by political actors in donor countries to boost their image at home and to accuse their opponents of starry-eyed idealism and irresponsible handling of taxpayers' money. It has also not taken long for a tendency to take hold for budget support to be used to apply political pressure, not only in response to human rights abuses but to a whole range of crises and conflicts between donors and recipient governments, with donors stopping payments in part or in full. That governments have often opted

to use budget support as the sole means of applying this political pressure is likely due in no small part to the fact that issuing payment moratoriums allows donors to send out a strong 'zero tolerance' message at home without having to cut back on their own projects. This has led to the actual purpose of budget support (to make predictable contributions to finance government expenditures in developing countries while at the same time dismantling inefficient parallel structures) increasingly fading into the background. Evaluations carried out in countries such as Mali, Tunisia, Tanzania, and Zambia came to the conclusion that budget support is an effective financing instrument, facilitating significant increases in health-care and education spending, for example, and leading to progress in the accompanying policy dialogue. Budget support has also had a positive impact on the performance of public financial management systems in partner countries and strengthened implementing and supervisory institutions, thereby improving budgetary management. Conversely, there have been no indications of an increase in the risks usually cited in the public debate about budget support, such as crowding out of domestic tax revenue or increased corruption. At the same time, the evaluations have

shown that, as with other instruments, budget support cannot 'buy reforms' partner governments are not committed to. This is why it is important to assess ahead of time just how willing a partner country is to reform and to provide budget support selectively.

On the whole, the facts show that, provided the overall conditions are right, budget support can serve as an effective financing instrument while at the same time increasing ownership by partner countries, just as the draft coalition agreement states. This stands in stark contrast to the picture painted time and again in public debates over the last few years. As such, it may well be helpful to take a closer look at the evidence on existing and maligned approaches instead of announcing a new paradigm for development policy every time there is a change of government. This is not to say that there is no need for reform in German and European development policy or that global challenges do not call for new ideas and approaches and political courage. One certainly would have wished to see more of the latter in the coalition agreement. Nonetheless, a grand coalition does offer opportunities as well – for a more pragmatic and evidence-based development policy.



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