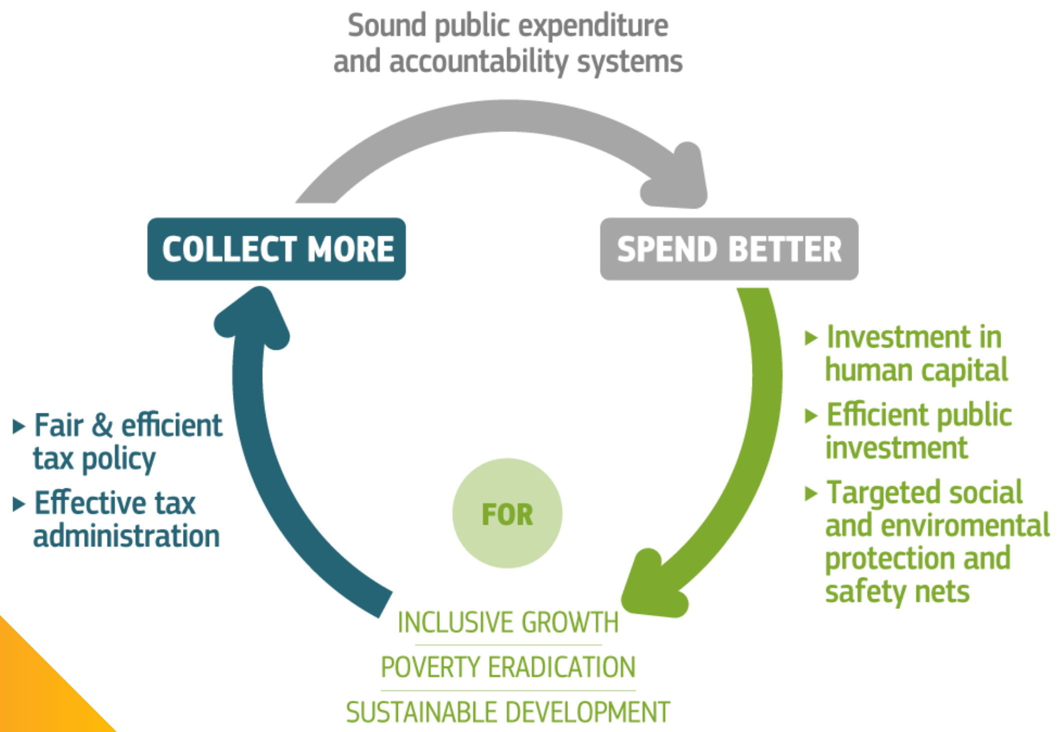
Evaluation of the European Union External Action

Thematic Evaluation

# Evaluation of EU Collect More Spend Better (2015-2020)

## Executive Summary

*June 2023*

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# Main findings and conclusions

## The European Union's CMSB approach: a comprehensive scheme guiding a paradigm shift in supporting Public Finance Management.

The 2030 Agenda for Sustainable Development adopted in September 2015 acknowledges the essential role of domestic public finance system in achieving the overall objectives of inclusive growth, poverty eradication and sustainable development. The implementation of public policies is highly dependent on the proper functioning of these systems, which must ensure fiscal discipline, strategic allocation of public resources and efficient public service delivery. The international community also recognises that i) intensifying efforts to improve Domestic Resource Mobilisation (DRM), ii) providing the right mix of public goods and services – particularly investment in human capital, infrastructure, social protection and safety nets, as well as environmental protection – and iii) creating an enabling environment for broad participation are key dimensions to be further strengthened.

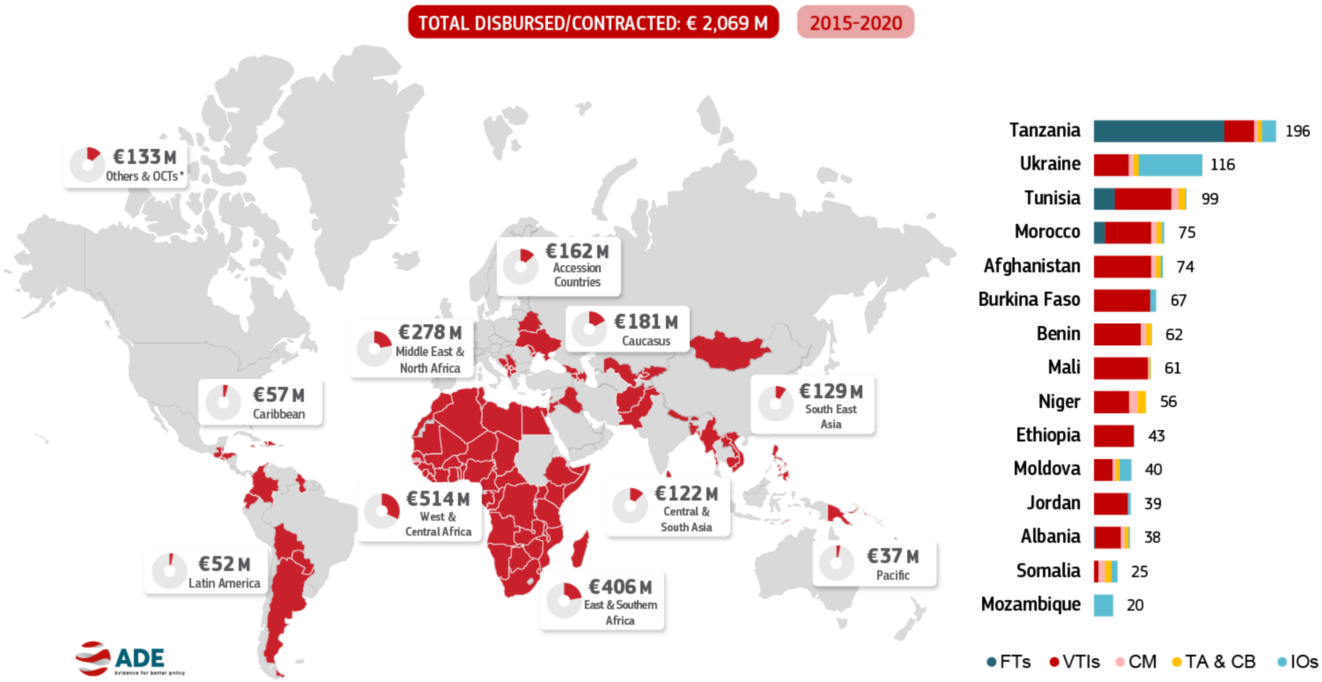
The European Union (EU) launched the "Collect More Spend Better" (CMSB) approach[1] as a contribution to the discussions on domestic public finance held in Addis Ababa in 2015 and the Post-2015 Development Agenda. This approach aimed at providing a holistic perspective regarding domestic resource mobilisation and public finance, covering the full spectrum of possible actions. These ranged from mobilising domestic revenue ("Collect More") to managing public spending and debt ("Spend Better"), all within a strong focus on transparency and accountability, to be promoted for both the "Collect" and "Spend" strands ("Global Public Finance").

Over the last 20 years, the EU has been a key supporter of the consolidation of Public Finance Management (PFM) systems in developing and emerging countries. This has been particularly notable in the significant budgetary support it has provided since the early 2000s. Between 2015 and 2020, the EU disbursed EUR 7.5 billion in support that was directly or indirectly related to CMSB. Of this sum, EUR 2 billion (27%) directly addressed priorities raised by the CMSB approach. Budget Support has been the main channel through which direct EU support has been delivered to public finance at country level, via i) variable tranche performance indicators (VTIs) in CMSB areas, ii) fixed tranches of the 12 Sector Reform Performance Contracts (SRPCs) specifically dedicated to PFM support, iii) complementary budget support measures in CMSB areas, and iv) high-level policy dialogue and technical dialogue on PFM/DRM. In addition to Budget Support, the EU has also used v) Technical Assistance/Capacity Building projects focused on CMSB, and vi) many partnerships with international organisations (IOs) related to CMSB, at both national, regional and international levels.

The area that received by far the largest amount of EU core CMSB funding was Africa, in particular Western and Central African countries. Beneficiaries from the Eastern and Southern Neighbourhoods, and, to a lesser extent, candidate countries and potential candidates from the Western Balkans also benefitted from significant support in implementing the CMSB approach.

[1] European Commission, Staff Working Document (SWD) "Collect More and Spend Better – Achieving development in an inclusive and sustainable way", 2015 https://data.europa.eu/doi/10.2841/37400

**Figure 1. Geographical mapping of EU core CMSB funding (in EUR million)**



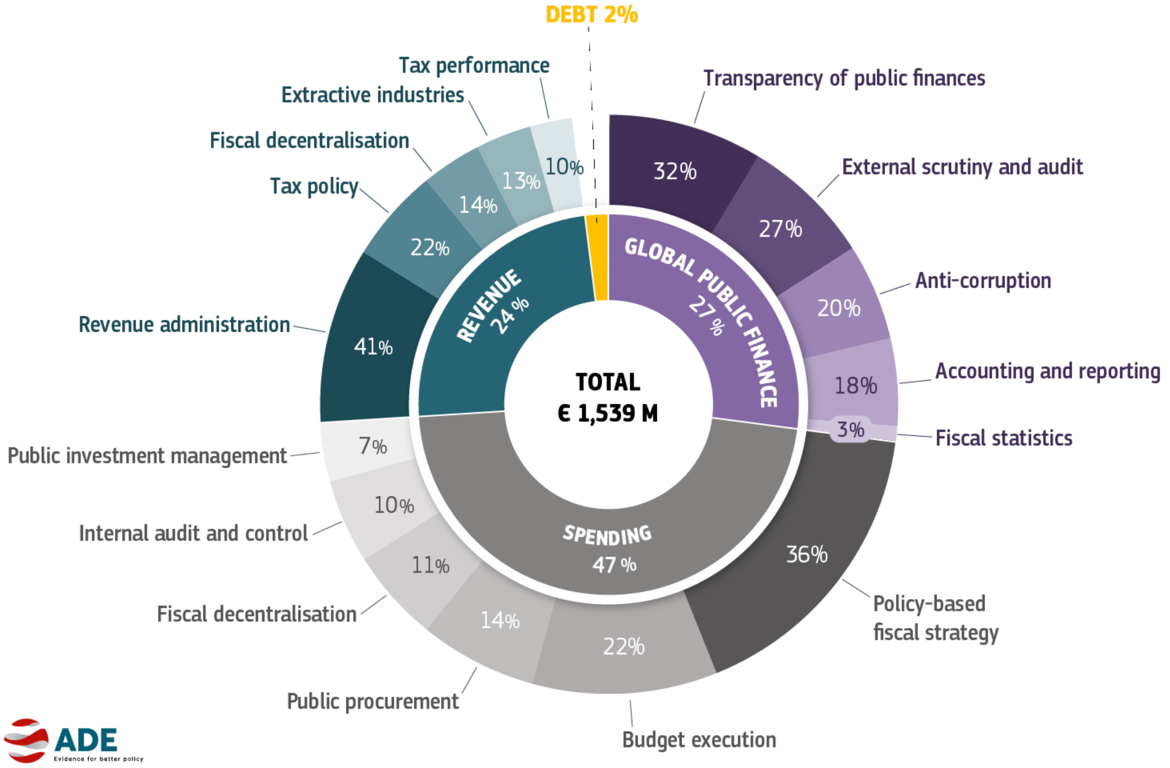

* € 125M to Others (regions/continents that do not fit in the regional classification) and € 8M to Overseas Countries and Territories (OCTs) such as the Greenland

FT: Budget support fixed tranches; VTI: Budget support variable tranche indicators; CM: Budget support complementary measures; TA: Technical assistance; CB: Capacity-building; IO: Partnerships with international organisations.

Source: EC Budget Support database and CRIS

Overall, EU support to DRM/PFM/debt at the country level addressed Global Public Finance, DRM and Spending fairly comprehensively and covered many of the diverse areas of the CMSB approach simultaneously. The EU put emphasis on transversal issues such as the formulation of PFM reforms, transparency, accountability and external scrutiny. Significant support was also provided to the "Spend Better" strand of the CMSB approach, notably policy-based budgeting, budget execution and internal control, as well as to a lesser extent, public procurement. The objectives linked to the ''Collect More'' strand of the approach received less attention in the design of EU support to public finance. Still, the EU devoted growing attention to domestic revenue mobilisation during the period under review, notably the strengthening of tax administration systems, in line with the agenda of the Addis Tax Initiative. Areas such as debt management, public investment management, fiscal statistics and the governance of State-Owned Enterprises (SOE) did not feature prominently in EU CMSB support, especially at the country level. Instead, it rather used international partnerships to address growing public debt issues and to support, jointly with other donors, the use of comparable, standardized and reliable revenue statistics.

**Figure 2. Distribution of budget support performance indicators related to core CMSB by main areas (commitments, in EUR million) (2015-2020)**



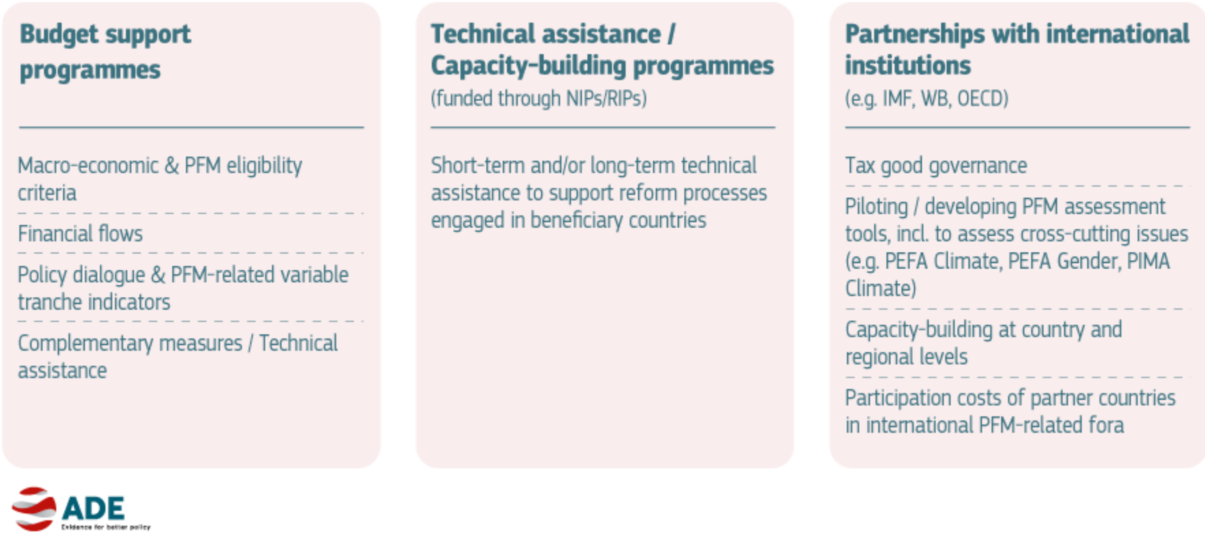

Source: EC Budget Support database

**At the country level, the EU's approach was pragmatic and adapted to different contexts and needs. It was facilitated by a mix of aid modalities and instruments, but underestimated the strong political economy dimension of PFM reforms.**

At the country level, the EU's CMSB approach was not a "one-size-fits-all" approach. The EU took pains to consider the contexts, needs and institutional specificities of the beneficiaries, as well as other partner interventions. The EU established close partnerships with beneficiaries, and its support was fully aligned with the policies and priorities of partner governments. National PFM reform strategies and action plans were largely informed by international diagnoses (e.g., Public Expenditure and Financial Accountability (PEFA), Tax Administration Diagnostic Assessment Tool (TADAT), encouraged by the EU. These diagnoses provided a solid understanding of the strengths and weaknesses of PFM systems of the beneficiary countries.

Combining incentives for reforms and capacity building through a mix of EU aid modalities and instruments (e.g., budget support; various Technical Assistance/Capacity Building interventions, including support through trust funds, twinning and TAIEX; partnerships with international institutions) allowed the EU to be adaptable in its response. This flexibility provided an opportunity to address the needs of the different partners and to adapt to specific contexts. In parallel, policy dialogue was progressively reinforced, especially at the strategic level.

**Figure 3. A mix of aid modalities to support the CMSB approach**




Overall, while the EU interventions were highly relevant to the needs identified, their design, especially that of budget support programmes, was often too optimistic regarding the pace of PFM reforms and the leverage effect to be expected from the selected performance indicators (in particular those at outcome level). The EU often underestimated the time needed for partners to make progress on PFM reforms and for reforms to take effect. This resulted in the setting of somewhat unrealistic or overambitious performance indicators or targets. The PFM reforms targeted by the process indicators have not been systematically monitored after being adopted, although their implementation has remained challenging. The short duration of budget support programmes compared to the time needed for reforms did not facilitate a long-term vision being adopted.

## The EU's CMSB support was often scattered, with few synergies within the country portfolios and with other EU interventions.

The comprehensiveness of the approach has led to a wide portfolio of EU CMSB support being developed. The support has often been scattered, with the different interventions varying in terms of scale and displaying relatively few synergies between them. While EU support in areas such as transparency and accountability has generally been multidimensional and has benefitted from considerably solid funding, other areas have only been addressed through a few performance indicators and/or complementary support with modest budgets. Obtaining a clear view of the EU's strategic priorities to support CMSB at the country level was not an easy task. The synergies within EU CMSB support and with other interventions, although promising, were still rather timid, especially 1) within budget support programmes (performance indicators and complementary measures), 2) between capacity-building support provided through TA, budget support complementary measures and international partnerships; 3) between EU CMSB support and other EU interventions in the field of sector policies, especially with Sectoral Reform and Performance Contracts implemented in priority sectors (education, agriculture, social protection). Overall, the integration of IMF/WB capacity development operations (partly funded by the EU) into the rationale of EU support provided at the country level remained underdeveloped.

**In financing international partnerships, the EU has made a significant contribution to fostering a strengthened and joint response from the international community, but this contribution has remained mostly financial.**

By channeling EUR 315 million (15% of CMSB support) through international partnerships – a significant portion of which was allocated to the IMF (for the Regional and Technical Assistance Centres (RTACs) and thematic funds in the field of domestic revenue mobilisation) –, the EU made a significant contribution to increasing overall capacities to support the strengthening of PFM systems, in a wide range of CMSB areas such as debt management, public procurement, anti-money laundering, tax policy and tax administration, international tax governance and cooperation, and the fight against tax evasion. The EU has been perceived as an important partner, especially financially speaking; its participation in major international fora has increased and become more visible in these areas. But its role in technical and strategic terms has remained limited, at least in guiding the technical support provided by the IFIs in these areas.

**The EU's in-house technical expertise, especially at the country level, was not commensurate with the ambition of the EU's approach.**

The comprehensive, pragmatic approach adopted by the EU requires strong capacities both in numbers and skills, especially at the country level. The role of EU Delegations range from ensuring the relevance and coherence of EU actions vis-à-vis the national context and international initiatives, feeding policy dialogue at the technical and strategic levels, monitoring external experts contracted by the EU, and coordinating with other development partners. The resources at headquarters have partly contributed to filling technical gaps and to feeding strategic dialogue. External experts have often played a key role, sometimes going beyond what their role should be, especially in conducting policy dialogue with the national authorities. EU Delegations have not always had the time and resources to steer the support provided in a close enough manner.

**The EU has contributed to the design and implementation of more relevant public finance management reforms, but overall, modest progress was made in the performance of public finance management systems.**

EU support to public finance has made a strong contribution to the formulation of relevant wide-reaching approaches to PFM reforms covering all the pillars of a good PFM system. One of the main contributions of the CMSB approach has been to shed lighter on the "Collect More" strand of the approach. EU-supported reforms have led to progress being made in small steps, mainly paving the way for improved tax administration efficiency. Beyond that, the EU has mainly contributed to advancing reforms related to transparency and accountability and to spending management, in particular the adoption of policy-based budgeting. Compared to other donors, the EU has played a role i) in establishing processes/tools to promote transparency within the various components of the PFM system; ii) in strengthening the actors responsible for ensuring budgetary control and accountability, iii) in beginning to emphasise the fight against corruption, and iv) in rolling out PFM reforms in priority sectors.

While reforms were adopted in the different segments of the PFM system between 2015 and 2020, the performance of beneficiaries' PFM systems as measured by the PEFA[2] only moderately improved.

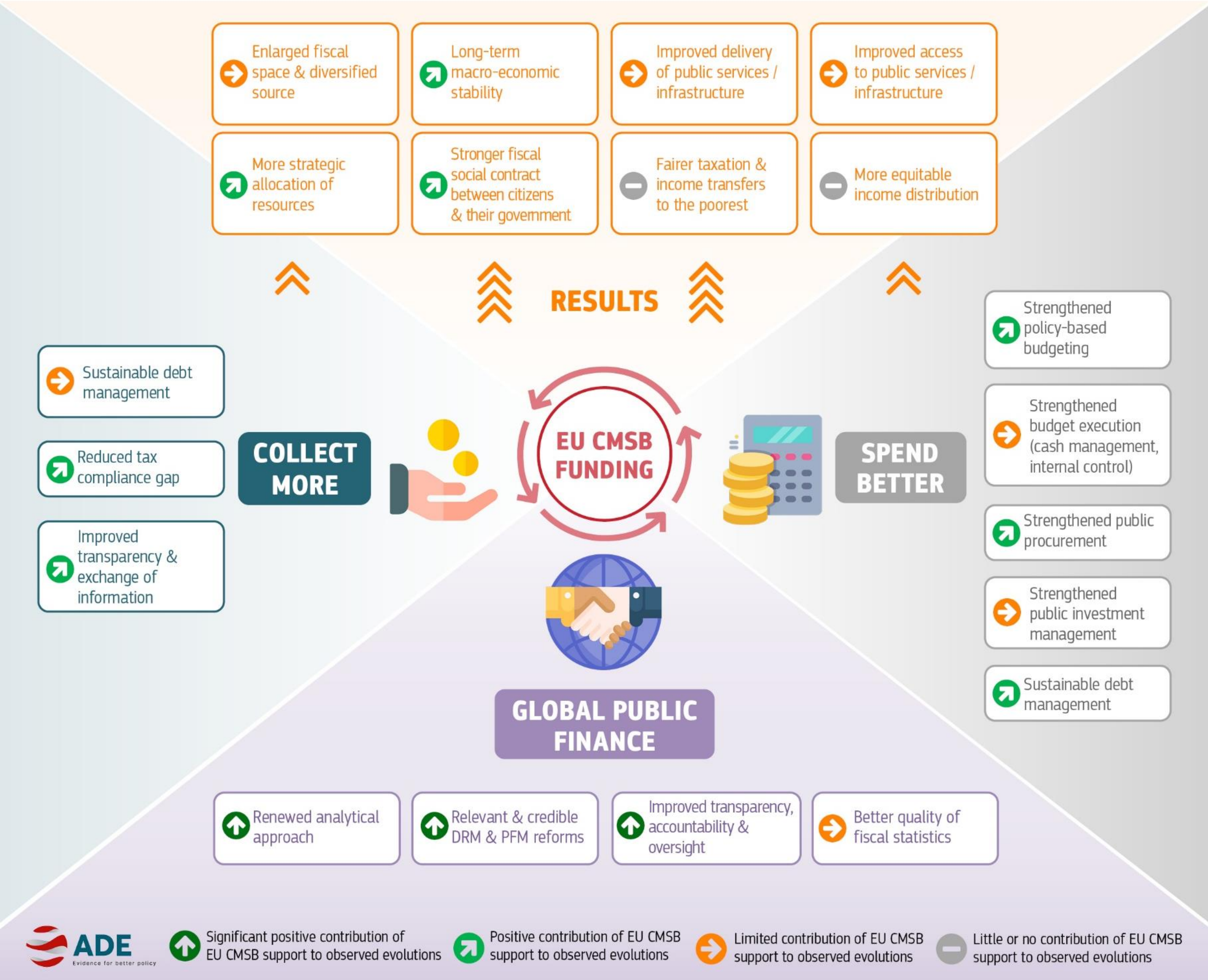
[2] PEFA is an internationally recognised methodology for assessing public financial management performance, initiated in 2001 and extensively used since then. It is one source for measuring PFM progress but does not cover all countries and is not systematically carried out on a regular basis.

The evolution emerging from the comparative analysis of PEFA scores is largely confirmed by qualitative analyses of case studies[3].

Overall, the EU, together with its main partners, has contributed to strengthen some components of PFM systems in the Collect, Spend and Debt strands. The PEFA pillar on policy-based fiscal strategy and budgeting, has been one of the best performing PFM pillars in most countries, indicating the robust progress made over the years in budget preparation. However, it still displayed stark shortcomings in terms of fiscal strategy and the alignment of budget with strategic plans. Slights improvements were also observed in terms of budget execution, particularly in internal control. Several components of PFM systems have remained at low performance levels (such as payroll controls, internal audits, public procurement, public investment management or external control).

[3] The comparative analysis of PEFA scores is based on a comparison of average scores during the period 2015-2019 (62 reports published) and the following 2020-2022 period (28 reports published).

**Figure 4. Contribution of EU CMSB support to observed evolutions in public finance management (2015-2020)**




Looking at the outcomes, these slight improvements in PFM systems have not led to sustainably widening the fiscal space. In turn, this has not allowed a significant increase in public spending. Besides, the countries' financing patterns have changed little over the last decade. At the same time, there is limited sustainable improvement in resource allocation and public service delivery. Evidence on front-line service delivery indeed remained patchy. Finally, the outcomes observed in the areas of transparency and accountability remained modest, notably in terms of public participation and budget transparency.

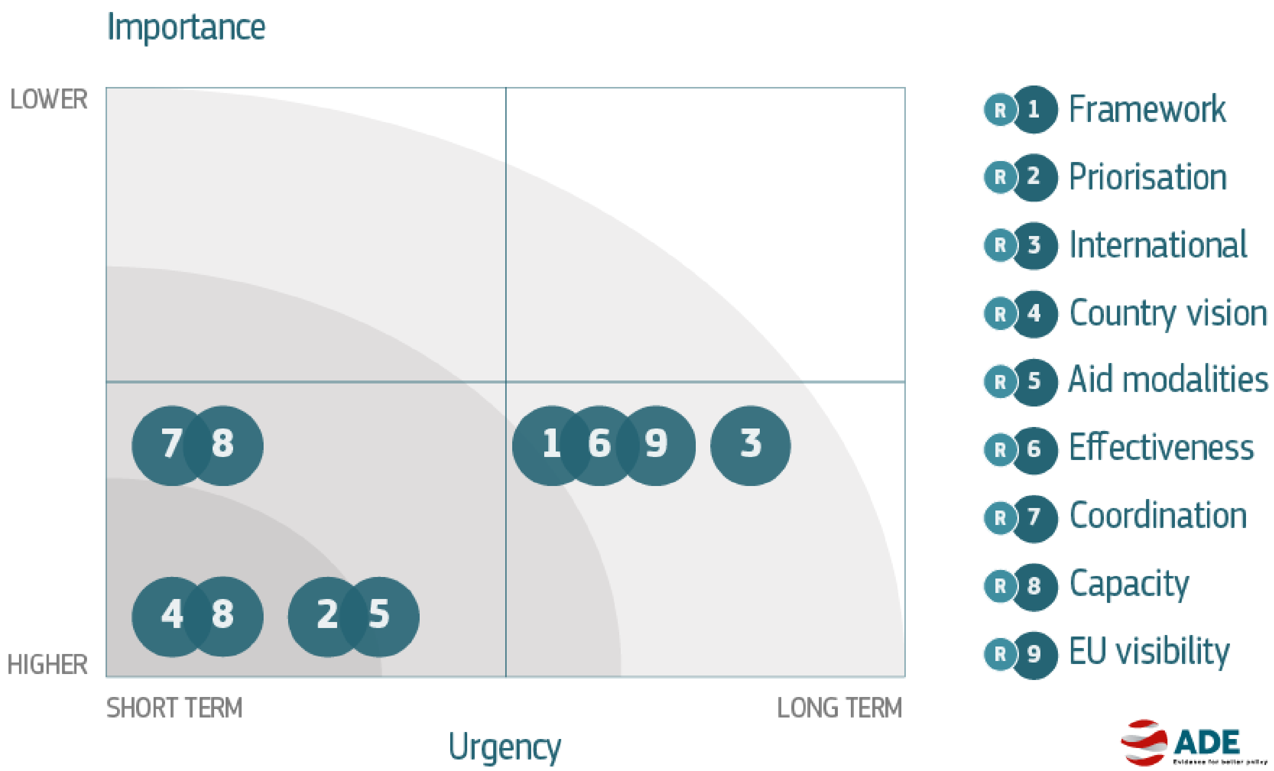
The support provided by the EU under the CMSB approach has been based on solid advantages that have enabled the EU to provide relevant responses to the needs of partners and that have reflected their policies.

Several weaknesses have affected the design and implementation of EU CMSB support and the leverage effect of the EU's portfolio as a whole: the lack of a country strategic framework, the dispersion of the EU's portfolio, limited synergies and limited EU in-house expertise.

But overall, the main factors that have constrained the implementation of PFM reforms are related to the international and national contexts. PFM reforms and progress remained mainly an issue individual to each country, depending on political commitments and local political economy. At the national level, slow-moving political and institutional environments, plagued by vested interests that resist change, limited absorption capacities and insufficient means to steer and coordinate PFM/DRM processes, often including poor inter-ministerial coordination, have hindered the reform process. Weak political support for decentralisation has also constituted an obstacle to the roll-out of reforms in the areas of policy-based budgeting, procurement and public investment management. Moreover, the COVID-19 crisis followed by the war in Ukraine and its repercussions on international markets have strongly affected the financial situations of partner countries, making it difficult to fully implement budget reforms.

# Recommendations

**Figure 5. Priorisation of recommendations**



| | | Strengthening the EU's global strategic approach in the areas of DRM, PFM and debt management: |
|---|---|---|
| Framework | R1 | Promoting the CMSB approach as a comprehensive framework for EU support to public finance, emphasising its importance in implementing the Global Gateway. |
| | R2 | Prioritising EU support in CMSB areas where the EU has a comparative advantage and specific interests, while keeping open a logic of opportunity to support areas of the PFM/DRM reform plans where leverage effects can be activated. |

| | | Consolidating the EU's approach at the international level and at the country level: |
|---|---|---|
| Policy | R3 | Continuing the efforts made in developing a joint approach to supporting public finance at the international level and in helping to rationalise the use of diagnostic tools and trust funds, while ensuring that more space is given to developing countries, and that all efforts contribute to the EU's long-term objectives. |
| | R4 | At the country level, ensuring a more coherent and comprehensive vision of EU support to public finance across the various aid modalities used, as well as implementing adequate monitoring and evaluation mechanisms. |

| | | Improving the implementation of EU support under the CMSB umbrella: |
|---|---|---|
| Implementation | R5 | Making better use of the instruments and aid modalities available, especially to strengthen the incentive effects of Budget Support programmes, the related strategic policy dialogue and the complementarities between EU instruments. |
| | R6 | Reinforcing multi-dimensional approaches for strengthening transparency and accountability, making stronger use of Sector Reform Contracts to address PFM issues. Moreover put more emphasis on change management. |
| | R7 | Continuing to promote coordination and complementarities between different donor interventions at the country level by reinforcing national leadership to steer and coordinate PFM/DRM reforms plans, including coordination of related external support. |

| | | Enhancing EU technical capacities and expertise in public finance to support the EU's ambitious approach, and improving EU visibility: |
|---|---|---|
| Staff & Visibility | R8 | Designing and implementing an internal capacity-building strategy for CMSB support to strengthen internal staff skills and improve sustainable access to external expertise, while at the same time reinforcing partner countries' understanding and ownership of EU CMSB support. |
| | R9 | Make EU support to public finance at the international and country level more visible. |

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