

# Sector Budget Support in Practice

## Synthesis Report

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## List of Acronyms

ADB	African Development Bank
AFD	Agence Française de Développement
AWP	Annual Work Plan
CB	Capacity Building
CIDA	Canadian International Development Agency
CRS	Creditor Reporting System
CSR	Civil Service Reform
DAC	Development Assistance Committee (OECD)
DFID	Department for International Development (UK)
EC	European Commission
ESSP	Education Sector Strategic Plan (Rwanda)
CFA	African Financial Community
FDS	Fiscal Decentralisation Strategy (Uganda)
FTI	Fast Track Initiative
GBS	General Budget Support
GDP	Gross Domestic Product
GOMz	Government of Mozambique
GOMI	Government of Mali
GOR	Government of Rwanda
GOT	Government of Tanzania
GOU	Government of Uganda
GPN	Good Practice Note
GRZ	Government of the Republic of Zambia
HR	Human Resources
IDD	International Development Department
IMF	International Monetary Fund
JRES	Joint Review of the Education Sector
LG	Local Government
LGCDG	Local Government Capital Development Grant (Tanzania)
LGDP	Local Government Development Programme (Uganda)
LTSFF	Long Term Strategy And Financing Framework
M&E	Monitoring and Evaluation
MDA	Ministry, Department or Agency
MOF	Ministry Of Finance
MOH	Ministry Of Health
MOU	Memorandum Of Understanding
MTEF	Medium Term Expenditure Framework
NER	Net Enrolment Rate
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation of Economic Cooperation and Development
PAF	Performance Assessment Framework
PBA	Programme Based Approaches
PESS	Health Strategic Plan (Mozambique)
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PISE	Education Sector Investment Plan (3yr, Mali)
PROAGRI	Agriculture Programme (Mozambique)
PRODEC	Education Policy/Strategy (10 yr, Mali)
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PTR	Pupil-Teacher Ratio

ROADSIP	Road Sector Investment Plan (Zambia)
SBS	Sector Budget Support
SBSiP	Sector Budget Support In Practice
SPA	Strategic Partnership with Africa
SPSP	Sector Programme Support
SQ	Study Question
SWAp	Sector Wide Approach
TA	Technical Assistance
TOR	Terms Of Reference
UK	United Kingdom
UNICEF	United Nations Children’s Fund
UPE	Universal Primary Education (Uganda)
US	United States
USAID	United States Agency for International Development
USE	Universal Secondary Education (Uganda)
WB	World Bank

## Executive summary

This is the synthesis report for a study on Sector Budget Support (SBS) in Practice for the Strategic Partnership with Africa (SPA).

Programme-Based Approaches (PBAs) to aid delivery are a central pillar of the drive to improve aid effectiveness. PBAs involve the provision of coordinated development assistance in support of locally owned policies and strategies. General Budget Support (GBS) is used as a modality for supporting poverty reduction strategies at the national level, and has received substantial attention. However, in Sub-Saharan Africa aid in support of sector programmes has overtaken GBS as the most significant family of aid modalities supporting PBAs. Sector PBAs are commonly referred to as Sector Wide Approaches (SWAs). SBS, alongside Common Basket Funds, are the two main modalities associated with support to SWAs<sup>1</sup>.

SBS is therefore an aid modality which donor agencies are increasingly using to support African countries to achieve their policy objectives at the sector level. The purpose of this study is to draw on the experience from the provision of SBS in ten sectors in five different countries to guide future improvements in the use of SBS by partner countries and donors.

### ***What is Sector Budget Support in practice?***

SBS funds are channelled via the recipient government's treasury, and use government budget execution systems. Other inputs associated with SBS relate to the sector being supported. This includes dialogue, conditionality, technical assistance and capacity building. This makes them distinct from GBS where dialogue and conditions cut across sectors and from project support which fund discrete sets of activities with discrete objectives.

In practice there is a large spectrum of aid instruments which are considered as SBS. The first set of features of SBS relate to the funding arrangements, and there are two main distinctions:

- *Earmarking* - This involves the justification of the provision of SBS against certain public expenditures. The SBS instruments studied universally used some degree of earmarking. Earmarking can be broad or narrow. Broad earmarking typically involves justification of SBS against overall sector expenditures, or the development budget for that sector. Specific earmarking involves the justification of SBS against specific budget lines such as text book procurement or grants for classroom construction.
- *Traceability* - SBS funds are traceable when they are separately identifiable in the expenditure classification of the recipient government budgets. Approximately 2/3 of the SBS instruments studied were traceable, and 1/3 were not. Overall traceable SBS instruments are more commonly associated with specific earmarking, than non-traceable SBS. Traceable SBS is also more commonly associated with further derogations from government financial management procedures such as the use of parallel cash management, reporting and audit processes.

The second set of features of SBS instruments relate to the non-financial inputs associated with SBS. There are three main elements to these:

- Dialogue is typically carried out in the context of the structures created for SWAs, which typically involve a cycle of sector planning, budgeting and reviews of performance. SBS either uses the associated SWAp dialogue structures in full, or sometimes involves additional meetings.

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<sup>1</sup> See the Glossary of Key Terms for more information.



- SBS conditions are usually related to satisfactory performance as assessed at sector reviews, although some SBS instruments have separate conditionality frameworks. There is a trend towards more structured performance assessment frameworks at the sector level.
- SBS supports technical assistance and capacity building either through funding such activities directly, or through the provision of parallel technical assistance (TA) and capacity building activities using project modalities. Not all SBS instruments have significant TA or capacity building components.

Overall SBS involves dialogue and conditions which are more oriented towards overall government policies and systems than traditional projects. However, traceable SBS instruments typically involve substantial dialogue time being spent on programme specific operational issues. The more specific the earmarking employed, the more likely the dialogue is to be biased towards the area of funding to which SBS is earmarked, and away from overall sector policies and systems.

SBS is coordinated with other aid instruments in the context of the SWAp to varying degrees. However it is notable that links between SBS instruments and GBS tend to be weak and conditionality frameworks are usually inconsistent with each other, and sometimes contradictory.

### ***What are the main Achievements of SBS?***

The broad trend in service delivery outcomes in all but one of the sectors studied is similar. There has been a significant expansion in the quantity of services being delivered, however there has been far more limited progress in improving the quality and equity of those services.

The study's methodology involved assessing the effects of SBS in the context of the other major influences on sector systems and service delivery. Taking these influences into account, three main observations can be made about the effects of SBS on service delivery outcomes.

Firstly, SBS has generally helped support the expansion of service delivery, through financing a major share of service delivery inputs:

- SBS has facilitated and contributed to the rapid increases in sector public expenditure in all but one of the case study countries, typically financing between 10% and 40% of sector budgets, but sometimes more.
- SBS has also contributed towards an expansion and reorientation of sector resource towards service delivery in many cases, through dialogue and the use of earmarking.

Secondly, it is also clear that SBS has not effectively addressed the quality of service delivery. This represents the major failing of SBS in practice:

- SBS has not addressed the “missing middle” in service delivery – the process for management of frontline service providers, the actual delivery of services, human resources management, and the accountability for service provision. This is because non-financial SBS inputs in the context of SWAps have focused more on upstream policy and monitoring processes.
- On a positive note, the contribution that SBS has made to service delivery inputs has certainly ensured that the quality and equity of services is higher than it otherwise would have been in cases where free basic services have been introduced.

Thirdly, SBS has supported greater efficiency in the use of public resources, through facilitating improvements in planning, the budgeting cycle, financial management and accountability, though progress has been uneven:

- SBS has contributed positively to improvements in the policy, planning, budgeting and reporting cycle in two general ways: SBS has either supported the establishment, or made use of existing SWAp structures. In doing so, conditionality has helped ensure that key policy and planning documents are in place, and that sector reviews are held regularly. Dialogue and technical assistance has supported the quality of such processes in some,

but not all cases. Strategic resource allocation remains weak, as plans and budgets are fragmented, whilst routine reporting on service delivery is typically inadequate.

- SBS has clearly contributed to improvements in financial management, especially when associated with multiple donors, in two ways: the first is a reduction of transactions costs associated with the move away from multiple sets of financial management systems to using government systems. The simple fact that spending agencies use government systems more as a result of SBS helps strengthen them. These effects have been enhanced by improvements in PFM systems overall, which have been supported by GBS.
- SBS funds have helped facilitate policy implementation, which has reinforced ownership of policies. The relative predictability of SBS funding has helped further. SBS has also helped strengthen government accountability, through supporting the establishment of stronger sector policy and review processes. Over time there is evidence that recipient governments are taking a greater lead in policy making. Financial accountability is also stronger as a result of SBS, but SBS has failed to strengthen accountability for service delivery.

### ***Why has SBS evolved the way it has?***

Given these achievements and shortcomings, it is important to understand why SBS has evolved the way it has. On the face of it, the design and implementation of SBS in practice seems peculiar in three main respects:

Firstly, derogations from country systems persist, in particular the use of traceability requirements, despite having negative effects on the efficiency of sector expenditures through distorting effects on budget allocations, additional transaction costs, and bypassing of domestic systems. However, it is important to remember SBS instruments are a product of the relationship between donors and recipient institutions and the incentives they face:

- On the donor side, there is a desire within country offices to be able to demonstrate where their funding is going, and traceability provides the most visibility. Once SBS is traceable donors, who are risk averse, play it safe by requiring additional financial reporting and audit requirements. The combination of traceability and additional financial management requirements makes it easier to respond to headquarter accountability concerns. Meanwhile, when non-traceable SBS is employed donors, understandably, feel that they at least need to demonstrate that funding has had an effect, and influenced sector resource allocation. This manifests itself in a combination of earmarking and additionality requirements.
- On the recipient side there are conflicting incentives. It is clearly in the interests of the finance ministry for SBS funds not to be traceable or earmarked. This is not necessarily the case for line ministries. Line ministries may perceive that traceable SBS funding is likely to be more reliable than normal budgetary funding. Large, SBS funded ministry projects are likely to generate perks for line ministry staff – including vehicles and training opportunities - in a very similar way to donor funded projects.

Secondly, there has been a failure to focus on the “missing middle” of service delivery processes and results despite their obvious importance: this is because dialogue and, as a consequence, other non-financial SBS inputs tend to be situated within a comfort-zone for those involved on both the recipient and donor side:

- Line ministry policy and planning departments tend to take the lead on the dialogue. They tend to be made up of individuals with finance and economics backgrounds who have limited interaction with frontline service providers. They are therefore more comfortable discussing plans and budgets than specific issues relating to service delivery.
- Donor staff involved in the dialogue tend to have a relatively shallow knowledge of the country situation. The high turnover of donor staff at the country level and a lack of sector-specific expertise undermine the ability of donors to engage in dialogue on downstream service delivery.

Thirdly, there is a weak link of SBS with GBS and crosscutting reforms despite clear opportunities and benefits for them to complement each other. This can result in unclear incentives for partner governments, and the pursuit of conflicting reform agendas which undermine each other. Sector specialists are more comfortable working with their respective line ministries, and economists with the Ministry of Finance. Therefore these relationships become typically strongest, and alliances of interests are built at these levels. The prevailing incentives are for donors and recipients to stay working in their silos. Aid instruments, including SBS are the product of these relationships and incentives, reflecting the interests of those involved in these relationships. Furthermore, donors have significant flexibility at the country level, in the design of specific SBS instruments, which contribute to the major variations in their nature across sectors (and countries).

### ***The Overall Balance Sheet of Sector Budget Support in Practice***

This study has demonstrated that SBS contributed to the expansion of service delivery, through facilitating and contributing to increases in sector public expenditure and raising the efficiency of those expenditures. The extent of gains in access to service delivery is directly related to the scale of SBS - where it represented an increase in sector resources and a major share of sector expenditures. Efficiency gains were greatest when there was a significant relative switch in aid modalities from project and/or common basket funding, and when non-traceable instead of traceable SBS was used. Furthermore, earmarking support for service delivery helped strengthen these effects in some cases, especially when it took place within dialogue on resource allocation with the Ministry of Finance. The most important factor in the expansion of service delivery is contextual, and relates to the political support lent to the expansion of service delivery – which typically meant that there was support for expanding budget allocations to service delivery.

Gaps in the effects of SBS, in particular the weak quality of and accountability for services, tend to relate to the downstream processes for managing, delivery, and accountability for services. This study has termed this the “missing middle” in service delivery. The design and delivery of SBS have not responded well to the challenge of addressing this “missing middle”. Crucially, SBS has generally failed to affect the incentives faced by front line service providers and their managers. However, it is important here to remember that no other aid modality has done so either, whether GBS or project support. The context in which SBS has been provided, and the incentives faced by domestic actors and donors have played a role in this failure. Nevertheless the gaps can be traced back to the balance of non-financial SBS inputs, which place emphasis on upstream policy issues relative to service delivery processes and human resource issues.

The broad assessment of SBS is on balance positive, but there are clearly areas where progress has been disappointing – both the positive effects and the gaps have implications for improving the effectiveness of SBS.

### ***Towards Better Practice in the Provision of Sector Budget Support***

Overall this study has shown that SBS has the potential to be an effective aid modality. It points to a clear role for SBS – to fund and support recipient governments in delivering public services. It is clear that without a clear public service delivery mandate, large scale SBS transfers are not appropriate. Therefore, a clear and locally owned policy for publicly funded service delivery is a prerequisite for effective SBS.

However, like GBS and all other forms of aid, SBS is struggling to have an impact on the quality and equity of service provision, which is necessary if the improved access is to be of significant benefit. This is not an inevitable result of the provision of SBS, but a result of the way it is delivered. SBS should not be provided in isolation, but as one of a set of aid instruments, whose design and implementation respond to the key constraints in public service delivery at the sectoral level.

SBS should therefore be seen as complementary to other aid modalities:

- GBS is also an important modality for funding public service delivery alongside SBS. Its non financial inputs have a comparative advantage in supporting public financial management, decentralisation and civil service reform, although it has been less effective at the latter two. SBS can complement GBS by making these cross-cutting reforms more responsive to the needs of sector service delivery, and also promoting deeper improvements to service delivery in individual sectors.
- SBS can be complementary to project support, including common basket funding. Where project support is geared towards systems and capacity building objectives, it can help strengthen the systems and institutions used by SBS and domestic expenditures, thereby increasing the effectiveness of SBS. This includes “non financial” SBS inputs, some of which may best be delivered through project support modalities. Meanwhile, by increasing the volume of resources using government systems, SBS increases the impact of such project support.
- It is important to emphasise that the use of project aid to fund certain sectoral inputs should not be confused with a wholesale reversion to project aid. In particular, in stable countries, project funding should not be used to finance service delivery.

This study shows that the effectiveness of SBS is not automatic, but the findings point to how it can be made more effective. Service delivery needs to be placed at the heart of the design and implementation of SBS. Hence the title of the Good Practice Note is “*Making SBS work for service delivery*”. This means directly addresses the “*Missing Middle*” of service delivery. It is not enough for SBS to be flexible. SBS needs to respond to problems in service delivery in an appropriate, yet dynamic manner. The cycle of design and implementation of SBS proposed in the Good Practice Note has three main elements:

- The first element of the approach involves the development of an inventory of the key issues and challenges in service delivery, and the main influences central government has over those issues.
- The second element involves actually taking steps to improve service delivery. This has three main dimensions. Firstly, it involves the identification and implementation of actions to improve service delivery based on the diagnosis of service delivery issues. Secondly, it involves designing and delivering SBS inputs with the aim of supporting the implementation of those actions. Thirdly, sector actors need to work actively towards complementarity between sectoral and cross cutting reforms, and between SBS and other aid inputs, in particular GBS.
- The third element is the monitoring and evaluation of service delivery. This involves monitoring service delivery expenditures, inputs, processes and results. It needs to be linked to decision making, including sectoral review processes and the national budget process.

Furthermore, there are ten core principles to the design and delivery of effective SBS inputs:

1. Place the strengthening of institutions and systems for service delivery at the heart of the design and implementation of SBS.
2. Provide SBS funds on a large enough scale to ensure an expansion in sector resources commensurate with the needs of sustainable service delivery.
3. Ensure that provision of SBS funds is accompanied by dialogue with the ministry of finance on sector resource allocation. This dialogue should be part of budget process.
4. Do not require that SBS funds are separately identifiable in the budget. In other words, use non-traceable SBS.
5. Insist that SBS packages include elements to address the underlying causes of risk, and do not involve unnecessary derogations..
6. Ensure that SBS funding will support financing systems which are aligned with institutional mandates for service delivery.

7. Focus SBS inputs on alleviating the critical constraints to service delivery.
8. Gear dialogue and conditionality to strengthening incentives for domestic actors to improve service delivery. This can be done at the centre (i.e. sector ministry headquarters and the ministry of finance), but must also be done at the level of service delivery.
9. Make sure SBS delivers reliable funding for service delivery.
10. Insist that sector donors and government actors work together to make links to civil-service, decentralisation and public financial management reforms.

There is a definite need for improved guidance from within donor agencies for the design and implementation of SBS at a country level. However, the most important opportunity in improving the practice of the delivery of SBS is at the country level. The establishment of clear principles for the provision of SBS at the country level – with the role of recipient institutions, the Ministry of Finance, and donors all clearly laid out and agreed would help in improving practice in the delivery of SBS. There is latitude to do this in a way which responds to the specific context of the recipient country.

A more fundamental challenge in ensuring the effectiveness of SBS and the effectiveness of aid at the sector level more generally, is the need to re-engineer the internal incentives within aid agencies and recipient organisations.

- For donors, this means a change of organisational culture and systems so as to align staff incentives at headquarters and country level with a genuine results orientation – which moves beyond performance targets to focus on strengthening systems and processes for service delivery and encouraging joint working across disciplines. This also demands a more sophisticated approach to managing risk, addressing its causes rather than attempting to bypass it with unnecessary or counter-productive derogations from country systems.
- For recipient governments, it means demonstrating a commitment to address the quality and equity of service delivery as well as access. It also requires efforts to increase the legitimacy of national systems, and improve dialogue within government across sectoral and cross-sectoral reform processes.

In conclusion, this study has demonstrated SBS is an important and potentially effective modality for supporting improved service delivery in developing countries. The accompanying good practice note is a starting point for the establishment of better practice in the design and implementation of SBS programmes.

## Introduction

1. This is the synthesis report for the second phase of a study on SBS in Practice (SBSiP) for the Strategic Partnership with Africa (SPA)<sup>2</sup>. SBS is a modality for providing Official Development Assistance (ODA) which donor agencies are increasingly using to support African countries to achieve their policy objectives. The purpose of the Study is to draw on the experience of SBS in different countries and sectors to guide future improvements in policy and practice by partner countries and donors.

2. While there has been a systematic and comprehensive evaluation of GBS, together with the adoption of a broad consensus as to its definition, many different sector approaches in use at country level have emerged over a number of years with little comparative review and analysis. There is also a lack of definitional clarity, with markedly different approaches often labelled as SBS. Also in marked contrast to the situation with regard to GBS, there lacks a systematic set of 'good practice' guidelines for country SBS practitioners, in particular.<sup>3</sup> An equally pressing imperative is the need to examine the effectiveness of SWAps as a means of delivering sustainable results in recipient countries. At a time when there is an increasingly diverse array of aid instruments available to donors, it is important to understand better the links between sector approach inputs, one of which may be SBS, and sector level outcomes - including the different variables that augment and diminish its efficacy. Given the increasing aid volumes being channelled in this way, there was a clear need for a systematic cross-country cross-donor review of practical experience of SBS both at country and donor headquarters levels. This Study therefore provides such a systematic comparative review of SBS in practice.

3. Through reviewing the existing literature and specific cases of the provision of SBS, this study identifies the variety of different forms in which SBS is provided, and analyses the effects of SBS on sectoral systems and service delivery. In doing so, it examines the provision of SBS from the perspective of donor agencies and recipient governments, and the incentives they face. This provides the solid basis for the provision of guidance on the role of SBS as an aid modality and good practice in its design and implementation.

4. Box 1 summarises the different components of the study. This report synthesises the findings of the main components of the study: a review of the literature on SBS; ten sector case studies (comprising both full, in-depth sector case studies and desk-based case studies); and a study on donor headquarters accountability expectations. This synthesis report is accompanied by a Good Practice Note.

5. The Study Methodology sets out the approach used in depth. The literature review examines approaches to aid delivery and aid modalities at the sector level. It also draws lessons from the first phase of the SBS in Practice Study (van der Linde 2008) which focused on francophone African countries as well as other literature on SBS including impact evaluation and experience from non-African Countries.

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<sup>2</sup> See van der Linde (2008). The first phase study involved sector case studies in four francophone African countries – Benin Education, Burkina Faso Education, Cameroon Environment and Forestry, and Senegal Education.

<sup>3</sup> As the SPA Note on SBS (SPA, 2005) makes clear, Volume 2 of the OECD – DAC Guidelines on Harmonising Donor Practices for Effective Aid Delivery does not explicitly address SBS guidelines, focusing more on GBS and SWAps.

**Box 1: Summary of Main Study Outputs**

- **Methodology for Assessing Sector Budget Support in Practice**
- **Sector Case Studies:**

<i>Full Sector Case Studies:</i> <ul style="list-style-type: none"> <li>○ Zambia – Roads Sector</li> <li>○ Zambia – Health Sector</li> <li>○ Mozambique – Health Sector</li> <li>○ Rwanda – Education Sector</li> <li>○ Uganda – Education Sector</li> <li>○ Mali – Education Sector</li> </ul>	<i>Desk-based Sector Case Studies:</i> <ul style="list-style-type: none"> <li>○ Tanzania – Health Sector</li> <li>○ Uganda – Local Government</li> <li>○ Tanzania – Local Government</li> <li>○ Mozambique – Agriculture Sector</li> </ul>
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- **Report on Donor Headquarters Accountability Requirements**
- **Literature Review on ‘SBS in Practice’**
- **Synthesis Report**
- **Good Practice Note (GPN)**

6. The ten case studies represent the core of this project. They systematically apply the methodology, assessing the nature and effects of SBS in practice. Table 1 gives a brief description of the various case studies. It demonstrates that, across the ten case studies, there are similarities and significant variations in terms of the context, maturity, scale and design of SBS. The sector case studies have been complemented by a study on donor headquarters accountability requirements which provides an up-stream donor perspective of SBS. This component explicitly analysed donor country fiduciary and political accountability issues with a view to better targeting the study’s overall policy and operational recommendations between partner governments, donor country offices and donor headquarters.

7. This synthesis report has two parts:

- Part I provides an overview of the nature of SBSiP, the main achievements of SBS, and the effects of SBS. It also explains SBS from the perspective of donors and recipients, and the key factors which make SBS effective. It then concludes by assessing the potential role of SBS and provides broad recommendations on the how the application of SBS can be improved in practice.
- Part II provides an in-depth synthesis of the findings from the case studies, systematically setting out those findings against the methodological framework. This therefore sets out evidence on the nature, effects and achievements of SBS in detail, and provides the supporting evidence for the key findings and recommendations laid out in Part I.

8. Part I therefore draws together general findings, and does not present individual case studies in-depth, which is the purpose of Part II.

9. Both Parts I and II also form the basis for the Good Practice Note, which will accompany this report. The Good Practice Note aims to help donors to provide SBS, and partner governments to use it, in ways which will result in the sustainable provision of equitable, accessible and quality public services.

**Table 1: The Ten SBS Case Studies in Context**

Rwanda Education	SBS has been provided since 2000, and this has evolved alongside the maturing of a SWAp. Since 2006 there have been significant increases in SBS. Some SBS funding is earmarked to the sector as a whole, some to specific budget lines, and although sector wide, there is a tendency of dialogue and conditions to focus on primary education. SBS fully uses government systems, with minimal derogations from national systems.
Mali Education	SBS was introduced in 2006, in the context of a mature SWAp. The scale of SBS is significant, and involved a switch from project support. Funding is earmarked to the development budget and associated activities. Conditions and dialogue were nominally focused on the sector as a whole, however there is a focus on primary education. There are significant derogations from national systems.
Uganda Education	SBS has been provided since 1998 and has evolved in the context of a relatively successful SWAp. The degree of earmarking depends on the donor – some donors provide support to the education sector as a whole, others to specific grants. SBS started on a large scale, but from 2002, SBS donors shifted away from SBS to GBS. The derogations from national systems are minimal.
Uganda Local Government	SBS was introduced 2000 before the development of a fully fledged SWAp, although SBS supported its development later on. Funds were earmarked to a new investment grant and used government systems, although some new procedures were introduced in the context of the grant. These included explicit incentives and funding for institutional development. Dialogue and conditions were initially focused on the specific grant system, but more lately have broadened to cover the sector as a whole. The level of funding was initially significant, but has declined since 2006/07. Government has taken over funding the majority of the grant, maintaining nominal allocations.
Tanzania Local Government	SBS has been provided since 2004, using a similar model of SBS to the Ugandan Local Government case, the main difference being that it received more substantial funding from the beginning and that Government and donors sought integration of sector funding into the system rather early. Derogations from country systems are more significant than in the Ugandan case and a renewed larger local government reform SWAp is still to be effectively put into operation, although designed in principle.
Tanzania Health	SBS has been provided since 1999 and has evolved in the context of a relatively successful SWAp. Funding levels have remained significant, although growth has been outstripped by vertical funding. SBS is separately identifiable and earmarked to the development budget, although it has largely funded recurrent activities. A major share of funding is earmarked to local government service delivery. There were initially significant derogations, although these have reduced.
Mozambique Health	SBS is a particularly recent phenomenon and only started in 2008. There is a mature SWAp, and Common Basket Funds have been provided to the sector since 2001. SBS funds are discretionary, although they are, <i>de facto</i> , earmarked to the development budget. Whilst in principle the dialogue is sector wide, it has gravitated towards issues related with procedures and funding modalities.
Zambia Health	SBS started in 2006, and was introduced in the context of a SWAp, where donors had been providing Common Basket Funding as well as vertical financing. SBS was earmarked to specific areas in the sector and has been small relative to other donor funding. Dialogue and conditions associated with SBS have focused on specific areas, but in the context of a sector-wide dialogue framework.
Zambia Roads	SBS started in 2005, and was introduced in the context of some elements of a SWAP. Whilst the level of SBS has been significant, project funding remains significant in the roads sector. SBS was earmarked to specific roads, and special contracting arrangements piloted on those roads. Dialogue and conditions are mixture of sector wide and operational.
Mozambique Agriculture	Pooled Funding which meets the study definition of SBS have been provided since 1999 in the context of a SWAp, although it has only been labelled SBS since 2007. Funding is earmarked to the development budget, and represents a switch from fragmented project support.



## **PART I – KEY FINDINGS AND LESSONS FROM SECTOR BUDGET SUPPORT IN PRACTICE**

# 1. What is Sector Budget Support in Theory and Practice?

## 1.1 Introduction

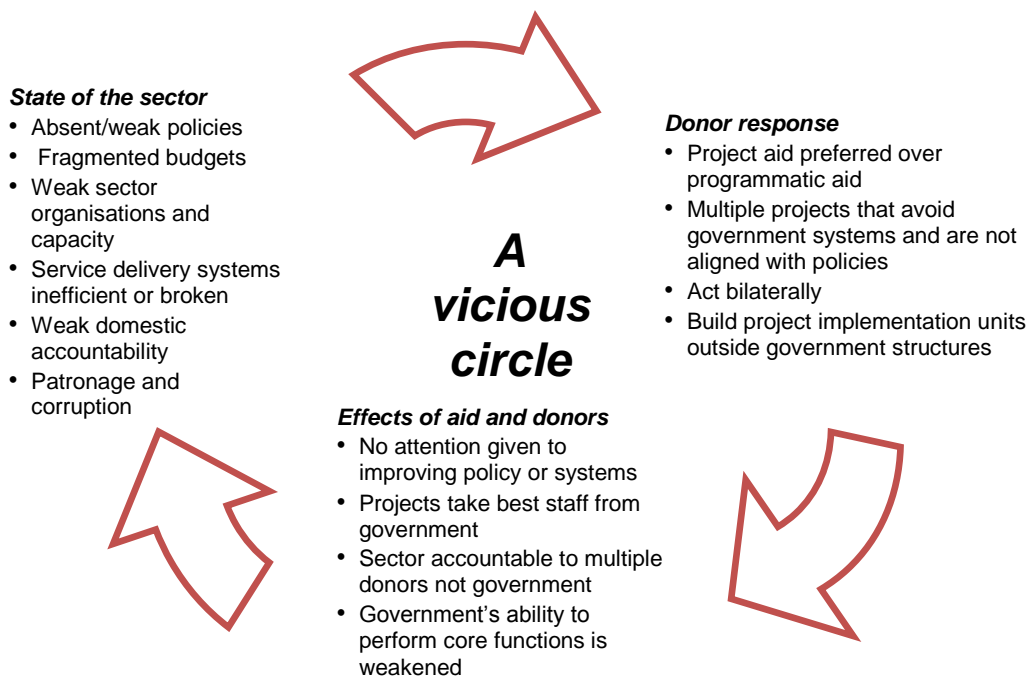
10. Part I starts by examining the theoretical basis for the provision of Sector Budget Support (SBS) and the actual design and implementation of SBS in practice. The section puts SBS in the context of the drive to improve aid effectiveness and approaches to aid delivery at the sector level. It then sets out the study definition of SBS and describes the diverse spectrum of aid instruments covered by the case studies<sup>4</sup>.

## 1.2 The challenge of aid effectiveness and the response at the sector level

11. The current aid effectiveness agenda, embodied in the Paris Declaration on Aid Effectiveness (OECD-DAC 2005) and the Accra Agenda for Action (OECD-DAC 2008), has its roots in concerns about the shortcomings of project aid which emerged in the mid 1990s. Donor behaviour results in ‘vicious circle’ where the provision of uncoordinated project aid by donor agencies compounds poor sector performance, as shown in Figure 1 below:

**Figure 1: Role of Donor Behaviour in Reinforcing Poor Performance at the Sector Level**

*“Weak sector policies, institutions and service delivery systems have resulted in donors employing projects with their own systems and behaving bilaterally, in an uncoordinated manner. This behaviour actively undermines sector policies, institutions and service delivery systems, which in turn reinforces the original donor response to the situation.”*



Source: Williamson and Kizilbash (2008)

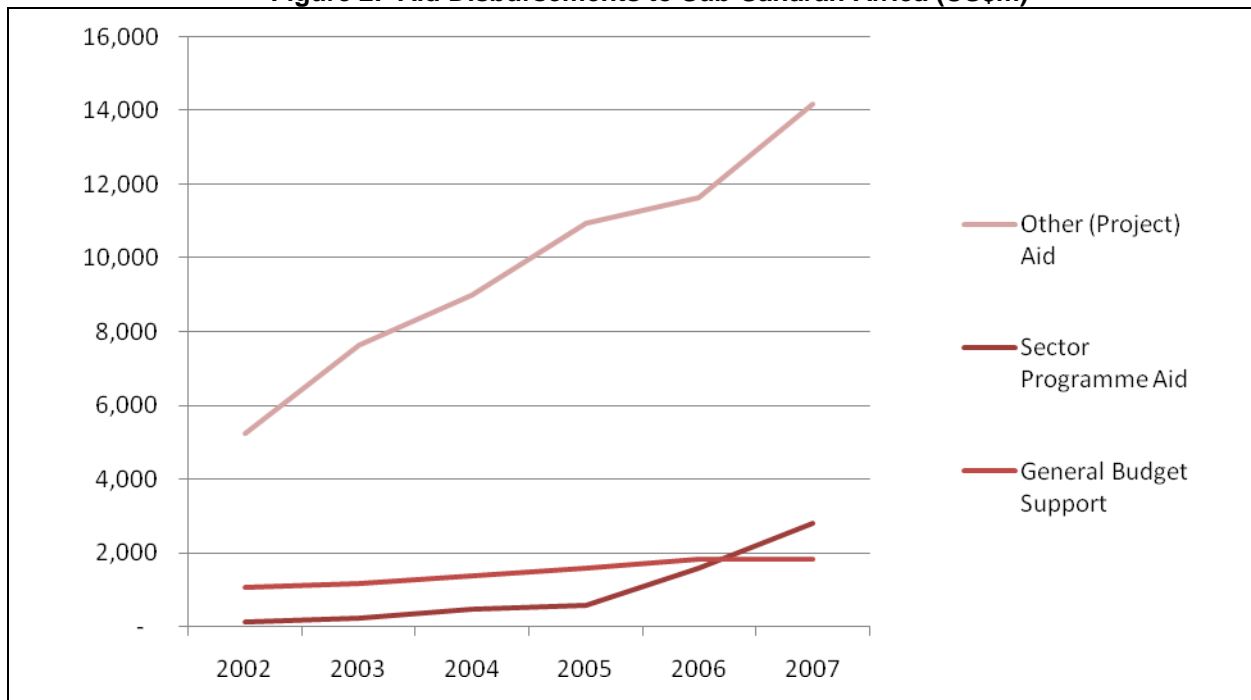
12. As a means to break out of this vicious circle, the aid effectiveness agenda emphasises country ownership of the development agenda; alignment of external assistance with country policies and systems; harmonisation of aid procedures across donors, and mutual accountability between donors and recipient countries. In the drive to deliver against this agenda, Programme-

<sup>4</sup> This section draws together from Part II the analysis of the theory of aid approaches and modalities (Part II Section 2) and the nature of SBS instruments in the cases studies (Part II Section 5), which provide more in-depth analysis.

Based Approaches (PBAs) have been given increasing prominence. Lavergne (2003) defines a Programme-Based Approach as “A way of engaging in development cooperation based on the principle of coordinated support for a locally owned programme of development, such as a national poverty reduction strategy, a sector programme, a thematic programme or a programme of a specific organisation.” PBAs at a sector level are usually referred to as Sector Wide Approaches (SWAs)<sup>5</sup>.

13. It is important to distinguish between PBAs, which represent a process of change at a national or sectoral level, and aid modalities, which represent the broad mechanisms by which aid is delivered. Although all types of aid modality can support PBAs, three types of aid modality are commonly associated with them. The first type, General Budget Support (GBS), is un-earmarked funding provided to the national treasury, typically provided in support of poverty reduction strategies at the national level. A shift towards one of the other two modalities (or both), SBS and Common Basket Funds, is typically associated with SWAs. These three aid modalities are seen as vehicles for harmonising donor procedures through pooling of funds and increased use of government systems.

**Figure 2: Aid Disbursements to Sub-Saharan Africa (US\$m)**



Source: OECD/DAC CRS Online; excludes debt relief, humanitarian and commodity assistance

14. Of the three, the modality which has arguably been given most attention is GBS. Yet, donors are making increasing use of non-GBS modalities in support of PBAs. Figure 2 shows that, since 2005, aid in support of sector programmes has increased far more rapidly than GBS in Sub-Saharan Africa and had overtaken GBS by 2007. Although disaggregated data is unavailable, much of the aid in support of sector programmes is provided in the form of SBS and Common Basket Funds.

<sup>5</sup>See Glossary of Key Terms.

### 1.3 SBS represents a Spectrum of Aid Instruments

15. The SPA, when commissioning this study, acknowledged the diversity of instruments labelled as SBS in different sectors and countries. The established OECD-DAC definition of SBS does not. It defines SBS as un-earmarked funding to the national treasury where dialogue focuses on sector rather than overall budgetary issues (OECD-DAC 2006). A challenge at the outset for this study was to arrive at a definition of SBS, which reflected the diversity of instruments found in practice, but also remained distinct from project support. In this study, SBS is defined as those aid programmes where:

- *Aid uses the normal channel used for government's own-funded expenditures. Aid is disbursed to the government's finance ministry (or "treasury"), from where it goes, via regular government procedures, to the ministries, departments or agencies (MDAs) responsible for budget execution.*
- *The dialogue and conditions associated with the aid should be predominately focused on a single sector.*

16. Within these two broad parameters, as well as the funding channel and the focus of associated dialogue and conditions, there lies a spectrum of aid instruments with different characteristics. We now turn to the various characteristics of the aid instruments which meet this definition.

### 1.4 SBS Funds and Financial Management Inputs

17. The study identifies three main features that define the broad types of SBS funding. These are earmarking, traceability and additionality. The important and new distinction this study proposes is between earmarking and traceability:

- *Earmarking.* This variable concerns the way provision of the SBS is justified against certain public expenditures in the country's budget. Earmarking can be broad or narrow. Broad earmarking involves justification of the SBS against overall sector expenditures, or the development budget for the sector. Specific earmarking involves justification against specific budget lines, such as textbook procurement or grants for classroom construction.
- *Traceability.* SBS funds are traceable when they are separately identifiable in the expenditure classification of the country's budget. Traceable SBS instruments tend to be associated with specific earmarking. Traceable SBS is also more commonly associated with further derogations – or approved departures – from standard recipient-government financial management procedures, such as the use of parallel cash-management, reporting and audit arrangements. An SBS instrument which is earmarked need not be traceable.

Whilst these two features of aid instrument design are regularly conflated, the case studies clearly show that they have very different effects.

18. Given the three main features and the three main types of SBS funding, which of them prevail in practice?

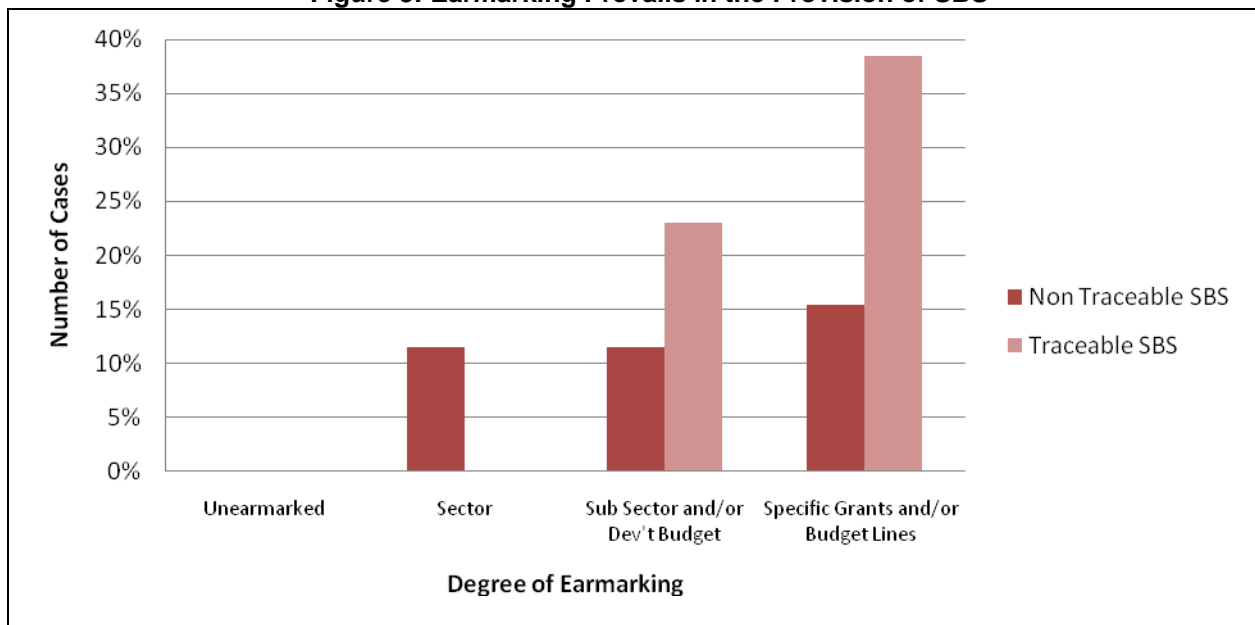
- Firstly earmarking is a universal feature of SBS. SBS is universally provided in support of the sector budget in question and is therefore, *de facto*, earmarked. The OECD/DAC definition of SBS only applies to un-earmarked SBS, which was not present in any of the twenty five instances of SBS studied in the two phases. Approximately half of SBS instruments involve broad earmarking, the majority to a sub-sector or the sector's development budget, and the minority to the sector overall. The other half involved more specific earmarking to specific grants or budget lines. Many of the instruments which involve specific earmarking – whether traceable or not – earmark those funds to sub-national governments and local service delivery.
- Secondly traceability is very common. Nearly two thirds of SBS instruments reviewed involved traceable SBS and only one third involved non-traceable SBS. This dimension appears central to the extent of effects of SBS on sector systems. Traceable SBS appears

in the development budget. Sometimes it is categorised as donor funding in the budget classification, sometimes as domestic funding.

19. Figure 3 shows the distribution of earmarking and traceability in the case studies. For non-traceable SBS, the degree of earmarking is evenly spread – sometimes broad, sometimes to sub-sectors such as primary education, and sometimes to specific budget lines in the development budget. Earmarking tends to be more specific with traceable SBS. Why? Firstly recipient governments universally place separately identifiable donor funds in the development budget. This means that SBS typically funds a single large or series of large development “projects”, and that SBS cannot fund mainstream recurrent expenditures such as the salaries of permanently appointed teachers. This also means that traceable SBS is, *de facto*, earmarked to a subset of sector expenditures. Earmarking of SBS to specific budget lines is far more common when SBS is traceable than when it is not. It is common for different degrees of earmarking to coexist in one sector, and different donors may earmark their funds to different budget lines in the same sector.

20. As it is not separately identifiable in the budget, non-traceable earmarking is typically associated with explicit requirements for SBS to result in additional budget allocations to the expenditures to which they are earmarked. This is because donors, nonetheless, wish to be able to show the effect and focus of their programme. Meanwhile, for the very reason that they are separately identifiable and therefore visible, traceable SBS agreements tend not to have explicit additionality requirements (although sometimes they do).

**Figure 3: Earmarking Prevails in the Provision of SBS**



21. Another important distinction is the way SBS funds are disbursed during budget execution. For most cases of traceable SBS, funds are treated as a separate revenue. The amount received from donors by the Ministry of Finance is the amount disbursed to sector spending agencies. With non-traceable earmarked SBS and a minority of cases of traceable SBS, SBS is pooled with and treated like any other domestic revenue. Disbursements to SBS-funded budget lines are made on the basis of the overall cash position of the government, regardless of whether SBS funds have been received or not.

22. Beyond these major design features, there are often more specific financial management arrangements, including requirements for unspent balances to be rolled over to following years and additional reporting and audit requirements. Typically non-traceable SBS instruments use

government budget execution and audit arrangements in full, whilst traceable SBS is more likely to be associated with additional financial management requirements.

### 1.5 Non Financial SBS Inputs – Dialogue, Conditionality, Technical Assistance and Capacity Building

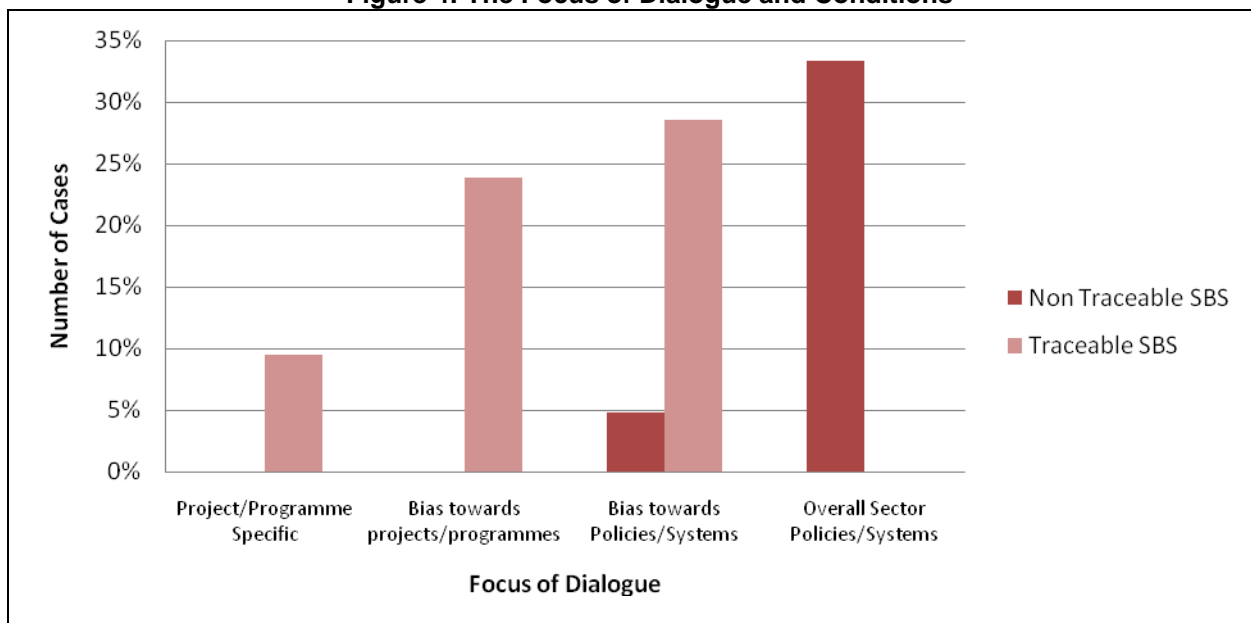
23. SBS dialogue is carried out in the context of SWAp arrangements for sector dialogue and monitoring of sector performance. These typically involve: annual or twice yearly sector reviews at which sector performance is reported on and assessed; a dialogue structure made up of steering committees and working groups; and a donor coordination group.

24. Where SBS was established alongside a SWAp, then it tends to use the SWAp arrangements in full. Conditions for disbursement of SBS funds are usually related to satisfactory performance as assessed in sector reviews. This tends not to be clearly defined. Where SBS was established later, then some separate meetings and conditionality frameworks tend to be developed. Overall there appears to be a move towards more structured performance assessment frameworks, which include more objective performance criteria, as the basis for assessing performance and disbursing SBS funding.

25. Beyond the structure of dialogue it is important to understand its substance. A motivation of PBAs is to move dialogue away from individual projects and programmes to overall policies and systems. Figure 4 shows that the majority, approximately two thirds of SBS instruments, are associated with dialogue that is at least biased towards sector policies and systems. However, it is important to note that, whilst non-traceable SBS is almost exclusively associated with dialogue on overall policies and systems, traceable SBS always involves a significant element of dialogue and conditionality on project/programme specific issues. Another observation is that the more specific the earmarking employed, the more likely the dialogue is to be biased towards specific projects and programmes, and away from overall sector policies and systems.

26. SBS supports technical assistance (TA) and capacity building activities in a variety of ways. In four out of ten case studies SBS funding supports capacity building activities directly, whilst in four more parallel project support was used to provide TA and capacity building support. In only two of the ten case studies were there very limited TA and capacity building activities explicitly linked to SBS, although capacity building activities were underway in the context of the SWAp.

**Figure 4: The Focus of Dialogue and Conditions**



27. Typically the provision of SBS involves multiple donors providing support using a harmonized set of procedures, which is usually (but not always) formalised in some kind of memorandum of understanding. There may be some variations within this – for example differing earmarking or tranche disbursements. However, largely SBS is associated with harmonised procedures.

28. At a sectoral level, SBS is coordinated with other aid instruments in the context of the SWAp. However often complementarities with other aid instruments are not maximised. Surprisingly, coordination of dialogue and conditions with GBS is weak at best. It is more common than not for GBS conditionality frameworks to use different indicators and targets to SBS.

## 1.6 What does SBS look like?

29. Thus far we have outlined the key design features of SBS separately. How do these fit together in the provision of SBS instruments? In short what do SBS instruments look like?

30. The objectives of SBS provided to service delivery sectors (e.g. Health, Education, Roads, Agriculture) universally relate to supporting the implementation of the sector policies and plans established in the context of the SWAp, and in some cases they focus on specific elements of those plans.

31. However the traceable and non-traceable SBS instruments vary:

- Traceable SBS tends to be highly visible, taking the form of large “projects” in the development budget of a sector institution, typically the lead line ministry. These projects support multiple sector strategy objectives, and fund activities for multiple departments within the sector institution and often also involve transfers to other institutions.
- Non-traceable SBS funding is notable for its absence of visibility, as it uses established budget channels, institutional structures, and management procedures. SBS is therefore recognised in terms of the SWAp dialogue, the associated conditionality framework and any TA and capacity building associated with it.

32. The local government cases of SBS reviewed in this study form the third distinct family of SBS instruments. They had more downstream objectives, which included testing of decentralised systems and building local institutional capacity. They involved the design and implementation of systems for delivering local investments and capacity building which were funded by SBS. Incentives for performance were built into the design. The local government cases were also notable for the substantive systems design that was involved, where other forms of SBS have not involved such detailed *ex ante* design, even when government delivery systems should have been identified as weak or opaque.

## 2. What are the main Achievements of SBS and What Makes SBS Effective?

### 2.1 Introduction

33. The broad trend in service delivery outcomes in all but one of the sectors studied is similar. There has been a significant expansion in the quantity of services being delivered, however there has been far more limited progress in improving the quality and equity of those services. Yet, it is apparent that improving the equity of access and the actual quality of services will be necessary if the expansion of service delivery is to impact on final sector outcomes, such as maternal mortality and completion of primary and secondary education.

34. The study's methodology involved assessing the effects of SBS in the context of the other major influences on sector systems and service delivery. Taking these influences into account, the evidence demonstrates that SBS has affected service delivery outcomes in three main ways:

- SBS has, in all but one case, helped support the expansion of service delivery, through financing a major share of service delivery inputs.
- The quality of services is better than would have been the case without SBS funding as a result of the funding of service delivery inputs, but quality is still poor. It is clear that SBS has not helped address the issues underlying poor quality of services. This represents the major failing of SBS in practice<sup>6</sup>.
- Finally, SBS has supported improvements in the efficiency of the use of public resources arising from improvements in central sector processes and accountability, through facilitating improvements in planning, budgeting, financial management and reporting.

35. Underlying the broad trends in service delivery has been an explicit or implicit policy choice by the partner governments to prioritise quantity over quality in most cases. Most SBS instruments, and donors providing SBS, have acquiesced to this prioritisation. In the mature cases of SBS – for example the Ugandan Education sector – both partner government and donors have begun to experience the negative consequences of failing to address quality early on.

36. Whilst it is possible to make these broad assertions from the case studies, it is important to mention up front two challenges faced by this study. Firstly, there is a paucity of information on routine service delivery and secondly, sector budgets and associated reporting are fragmented and poorly linked to sector performance. This made it difficult for this study to piece together a complete picture of service delivery outcomes, and therefore to provide clear and quantitative assertions on the influence of SBS on service delivery outcomes.

37. This section next turns to the three areas of influence identified above, to discuss the nature of the achievements and failings of SBS, and understand how they have materialised. It then tries to understand what makes SBS effective. This section draws together the main findings of the case studies on the effects of SBS set out in Part II, sections 6 and 7.

## 2.2 SBS and the expansion of service delivery

### *The Context*

38. The political priority to expand service delivery was achieved, in part, through an increased supply of service delivery inputs. This includes the construction of service delivery infrastructure such as roads, health centres and schools; the supply of operational inputs such as textbooks and medicines; and to a lesser degree the maintenance of existing infrastructure, such as roads. Yet the introduction of free basic services – a key policy decision made in many countries - such as primary education in Rwanda, Uganda and Mali and free basic healthcare in Zambia has had the biggest impact, by stimulating the demand for and consequently uptake of those services. Figure 5 illustrates the expansion in enrolment in primary education in Uganda and Rwanda following the provision of SBS. The only exception to this general story of expanding service delivery, was Mozambique Agriculture, where there was no attempt to undertake such an expansion of service delivery, as there was no clear and agreed policy to do so.

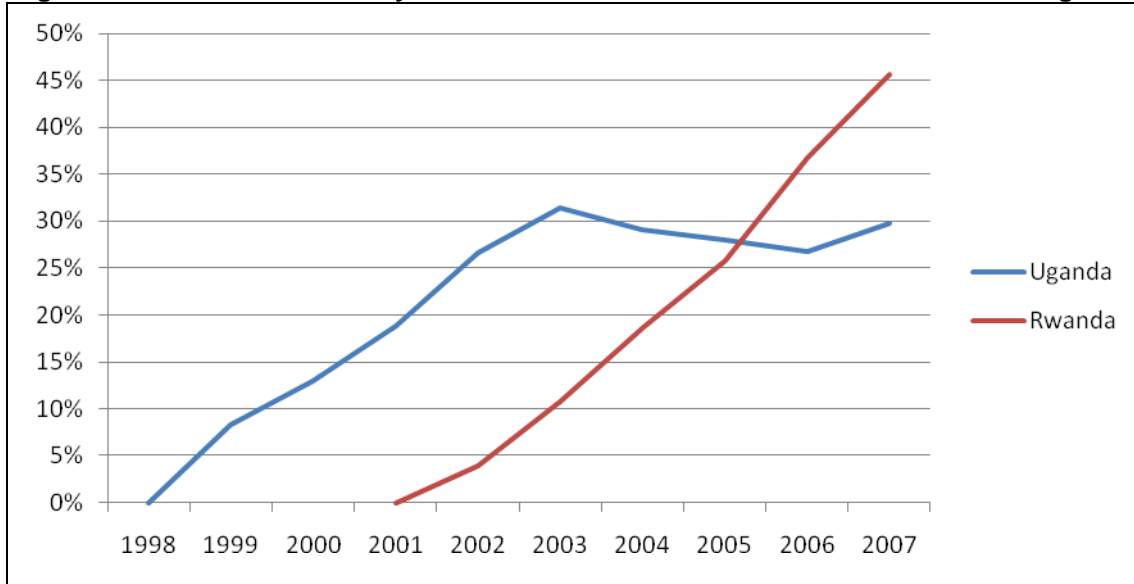
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<sup>6</sup> Whilst the logical framework used by the study emphasised the quantity, quality and equity of service delivery, these may not have been explicit objectives of SBS instruments. Therefore, the general failure to address quality should not be seen as a failure of individual SBS instruments to meet their objectives, but an observation of the overall effects of SBS across case studies.



39. Underlying the increased availability of service delivery inputs have been major increases in sector public expenditure in all the case studies. These increases have been underpinned by buoyant domestic and external resources in all case study countries. Furthermore, in several of the cases studies there has also been a reorientation of sector resource allocation towards priority sub-sectors and service delivery. The political priority lent to expanding service delivery is a major factor underlying both these trends.

**Figure 5: % Increase in Primary Enrolment since the Start of SBS in Rwanda and Uganda**



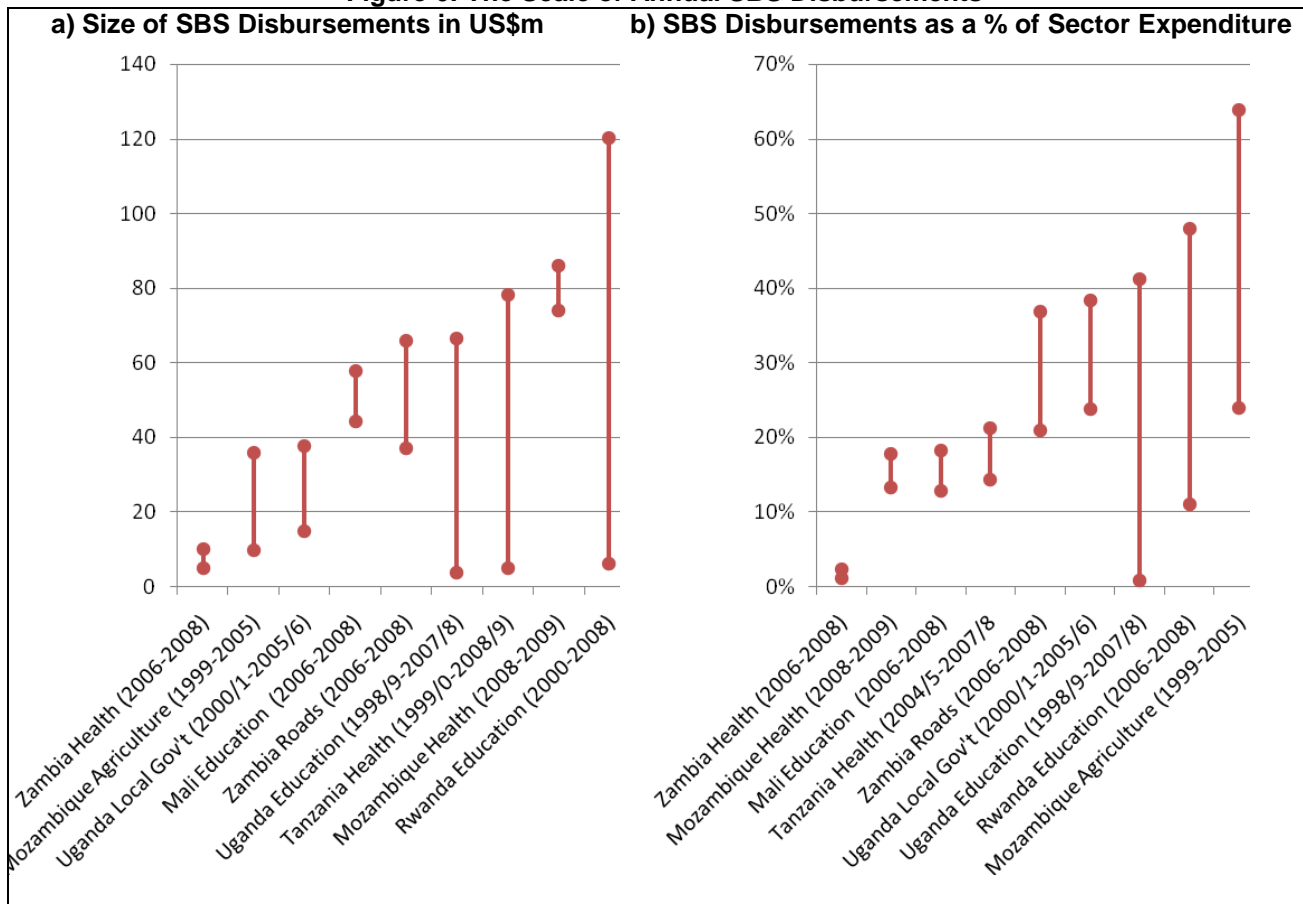
40. Given this broad context, what has been the influence of SBS?

#### ***Sector Budget Support and Overall Public Expenditure***

41. Even in the context of buoyant revenues and the fungibility of external resources, it is still clear that SBS has facilitated and contributed to the rapid increases in sector public expenditure in all but one of the case study countries. Nevertheless, in the health case studies, vertical funds emanating from global health initiatives have been the most significant driver of increased sector resources. In only one case did domestic budget allocations reduce after large-scale transfers of SBS – Mozambique Agriculture.

42. Figure 6 shows that SBS involved substantial funding flows. The majority of annual SBS disbursements were between \$20 and \$60 million per annum. This amounted to a contribution of between 10% and 40% of sector public expenditure - sometimes significantly more, or less. Those cases of SBS which contributed to the greatest increases in the size of external resources, overall and relative to sector resources, had the greatest impact on the scale of sector expenditures.

43. Additionality requirements in the context of notionally earmarked SBS, and (arguably more importantly) the associated dialogue on the levels of sector budget allocations have helped underpin the influence of SBS on the size of sector budgets. Whilst additionality requirements are less common with traceable SBS, similar patterns of increases were seen in all such cases, with the aforementioned exception of Mozambique Agriculture. The visibility of traceable SBS in sector expenditure plans makes it more difficult for the recipient government to reduce domestic budget allocations as a result of the provision of SBS. However, this is not the main reason why SBS was additional in these cases. It is clear that political support for expanding service delivery was crucial in ensuring aid resulted in increasing sector resource allocations across the board. Additionality requirements would have been unlikely to have had a positive effect in the Mozambique Agriculture sector, where there was a lack of political support for the then prevailing sector policy.

**Figure 6: The Scale of Annual SBS Disbursements**

44. It is important to note that limits do exist to the extent of earmarking and additionality a government will agree to. In Uganda the finance ministry explicitly removed commitments to future additionality of both project and SBS following a significant reorientation of the budget towards basic service delivery in several sectors.

### **Sector Budget Support and Funding Service Delivery**

45. By increasing the availability of sector resources, SBS has contributed towards an expansion of funding for service delivery. In the Uganda Local Government cases over twenty thousand service delivery infrastructure projects were delivered; similar results have been realised in the Tanzania local government case study; also in Tanzania, health sector funds for decentralised service delivery were increased as a result of SBS

46. Furthermore SBS has supported a reorientation of sector resource allocation towards service delivery in many cases. For example in Rwanda SBS contributed towards a reorientation of sector allocations towards basic education, expanding funding for service delivery inputs such as instructional materials, classrooms and contract teachers<sup>7</sup>. SBS in the Uganda education sector had a similar influence early on.

47. These effects are more clear-cut in some instances of SBS than others. Again, it is important to emphasise that political support for the expansion of service delivery was a key factor behind this reorientation, but SBS has played an important role.

<sup>7</sup> See Box 31 for further examples.

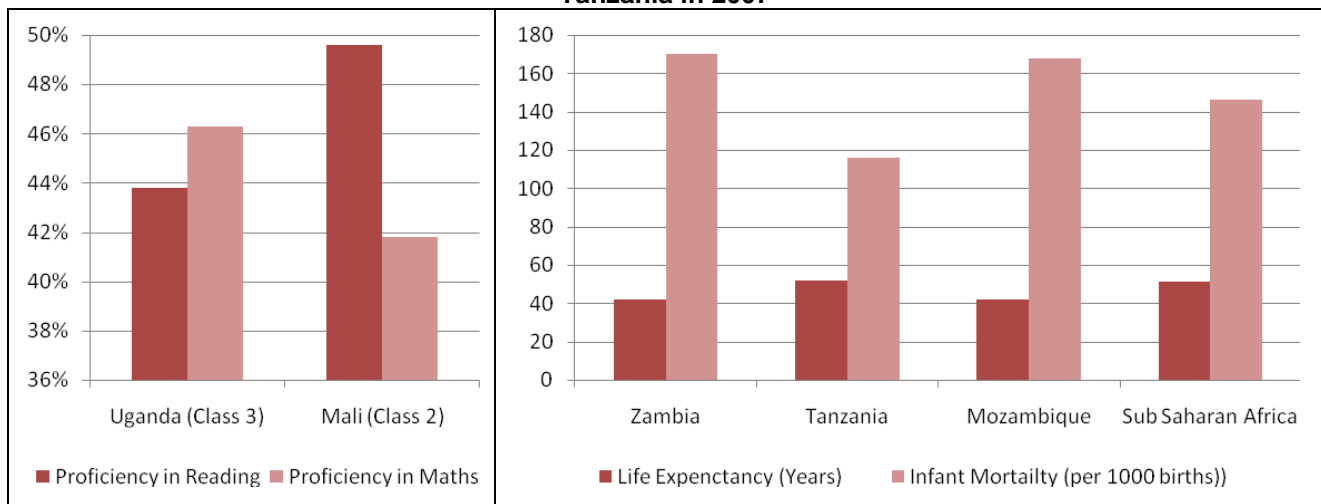
48. The effect of SBS on reorientation of sector resources has been most decisive in the cases where earmarking has been applied early on to sub-sectors dealing with basic service delivery, grants to sub-national governments responsible for service delivery, or budget lines for key service delivery budget lines. Importantly, this has been most successful when it has been negotiated as part of the budget process and subsequently supported by conditions on sector resource allocation. This helps overcome the incentives which often prevail for incremental budgeting. Where SBS is classified as domestic resources and this dialogue has involved the Ministry of Finance it has increased ownership and helped with the long term sustainability of those reoriented allocations.

## 2.3 SBS and the poor quality and inequity of service delivery

### *The Context*

49. Poor quality and inequity in service delivery manifest themselves in several ways. Regional and urban-rural disparities in access to and quality of services were common. In particular the quality of service delivery is undermined by inadequate numbers of staff and their poor motivation and skills. Existing infrastructure and equipment are not well maintained, and there is often inadequate availability of operational inputs at the point of delivery – whether in schools or health-centres.

**Figure 7: Poor Education Quality in Mali and Uganda and Health Outcomes Zambia, Mozambique and Tanzania in 2007**



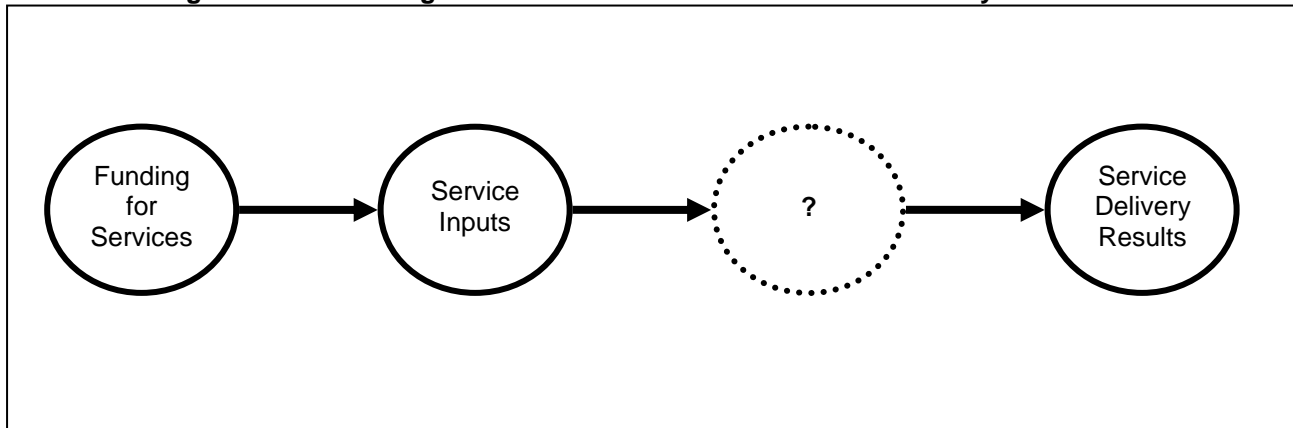
50. The prioritisation of quantity over quality has definitely contributed to this pattern. Put simply, funding the establishment of new clinics, classrooms and roads has been favoured over the running of existing ones. Meanwhile regions of political importance have gain more than others in terms of service delivery inputs. However, the problem of poor service delivery quality is more complex, and cannot be fully explained by these imbalances.

51. The core reason is that there has been little action on improving the downstream processes and substance of service delivery, and on addressing human resources issues critical at this level. Put simply what happens in the classroom or clinic, how an extension worker behaves, how a contractor is monitored is given comparatively little attention. This lack of attention also extends to the direct management of service providers and the relationship between service providers and the end user, which are central to improving quality.

52. As mentioned above, there are gaps in information on the levels and quality of service delivery which make it difficult to identify the specific inequities and quality issues systematically. Fragmentation of sector resource allocation, to which aid continues to contribute in the majority of cases, makes it very difficult to identify where the imbalances in sector resource allocation that

undermine service quality lie. For example it may be difficult to obtain geographical breakdowns of expenditure, or comprehensive data on expenditures on operational inputs or service delivery processes. These shortcomings make the diagnosis and treatment of quality more challenging.

**Figure 8: The Missing Middle of SBS in Practice - Service Delivery Processes**



53. All these shortcomings are interrelated, and contribute to a “missing middle” in the sectoral approaches to improving service delivery. Whilst sectors in several case studies addressed one or two gaps in the chain of delivery, there have been no consistent and concerted efforts to strengthen service delivery processes as a whole. This all combines to mean that frontline service providers and their managers continue to have weak capacity and incentive to perform.

54. Given these failures, what role has SBS played?

#### ***SBS funding and the quality of service delivery***

55. It is important to start on a positive note. That is, the contribution that SBS funding has made to increased supply of service delivery inputs has ensured that the quality of services is higher than it otherwise would have been, especially in the cases where a policy of free basic health and education services were introduced. SBS has supported expansion in the provision of operational inputs especially in the cases of non-traceable earmarked SBS. Traceable SBS cases also fund operational inputs, but to a lesser degree. The Zambia Roads case was earmarked to road maintenance, rather than construction. SBS has also funded service infrastructure and equipment in most instances. It can legitimately be argued that the availability of these inputs resulted in the quality of service delivery to be better than it would have otherwise been. This could have been achieved through project aid modalities, but it would have been less efficient<sup>8</sup>.

56. However, the effects of SBS felt well short of maximising the benefits of increased availability of inputs on the quality of services. A key reason why SBS has failed to address service quality relates to the incentives created by traceable SBS funding, which represents the majority of cases. Traceable SBS, because it is reflected in development budgets which tend to be dominated by donor funded projects, is biased towards funding the types of expenditure typically funded by these projects. For example, infrastructure, equipment and training. This therefore reinforces the bias towards expanding service delivery inputs, rather than addressing quality through strengthening systems and incentives for service delivery.

57. Despite human resource issues being typically a key constraint, SBS is also rarely earmarked to increasing the remuneration and/or number of mainstream service delivery staff, even in the cases of non-traceably earmarked SBS which can support the recurrent budget. It is apparent that

<sup>8</sup> See arguments on efficiency in Section 2.4.

recipient countries remain reluctant to use donor funding to do so, in part because of the fact that medium and long term predictability of SBS allocations are poor, and donor commitments short term.

58. In many cases the geographical and social distribution of funding and service delivery inputs remains far from being either transparent or objective, even after the provision of SBS. Inequities in service delivery are perpetuated. In a minority of cases, most notably the local government case studies, and some of the case studies which involve earmarking to local governments, objective criteria have been used to allocate resources to local governments for service delivery. In such cases SBS has contributed to improving the equity of service provision, with dialogue and conditions supporting this.

59. Finally, it is important to note that sectors rarely invest adequately or appropriately in the “*missing middle*” - the processes for service delivery and in particular the direct management and supervision of frontline service providers.

60. Overall, SBS funding has therefore not systematically addressed imbalances and inefficiencies in resource allocation, which has contributed to the poor quality and inequity of service delivery.

### ***SBS and the missing middle in the processes of service delivery***

61. In turn, the failure of SBS to address the missing middle of service delivery processes is a result of the focus and substance of non-financial SBS inputs in the context of SWApS. A key problem is that the dialogue is often dominated by upstream policy issues and public financial management issues as a result of donor fiduciary concerns. It is certainly not dominated by issues relating to service delivery.

62. Where there is dialogue on the quality of services, it has typically been overly simplistic and not reflected the complexities of service delivery. Often the dialogue on quality has been limited to the discussion of inputs. The assumption being that more infrastructure and equipment plus more operational inputs plus more teachers and health workers would automatically deliver quality services. Furthermore approaches to capacity building have and often been limited to ad hoc TA and training. Efforts to support the development of frontline service delivery systems and staff have been sporadic at best. The management of service delivery, in particular decentralised levels, was rarely given attention; and human resource issues were generally avoided. There has been little or no effort to understand and address the incentives faced by frontline service providers and their managers. Although efforts to improve transparency have been made, local accountability for service delivery has also rarely been addressed in a meaningful way. The missing middle primarily relates to government systems for service delivery and internal incentives. Ultimately SBS has generally had little positive effect on these, yet they are key to addressing problems of service delivery quality.

63. There are cases which show that these issues can, potentially, be addressed. Firstly, EC SBS to the Zambia Health sector has specifically focused funds through non-traceable earmarking, dialogue and conditions on human resource retention issues – a key constraint at the point of delivery. The case is constrained by low levels of funding to date, and the initiative is very recent.

64. The Local Government case studies were the only cases to address incentives successfully. An annual assessment of institutional performance of local governments was linked to the provision of local investment funds. This provided a strong incentive for local governments to improve their performance. Meanwhile local governments were provided with capacity building funds to address weaknesses in capacity identified during the assessment. Combining financial incentives with flexible funds for capacity building in such a way has had a strong positive effect on institutional capacity. The focus of these cases was related to generic institutional functions of local governments and systems for delivery of infrastructure, and not services such as healthcare,

and education. However, they do show that downstream incentives to improve performance can be built and are effective. This model could potentially be applied to conventional service delivery sectors.

## 2.4 SBS and improved efficiency in service delivery

### *The Context*

65. Generally, there appears to be a general trend of improvement to sector policy processes, public financial management and domestic accountability:

- Firstly, there have been significant improvements to the policy, planning, budgeting and reporting cycle in the sector case studies. There are both clearer structures to manage the cycle typically initiated in the context of a SWAp, and the quality of policy planning and budgeting documents have generally improved. However, as mentioned earlier, there remain weak links between and fragmentation of policies, plans and budgets which undermines strategic resource allocation.
- Secondly, sector public financial management (PFM) has improved in the context of broader reforms to improve PFM, which have been supported by GBS in particular.
- Thirdly, stronger domestic accountability systems are emerging, and recipient governments are taking a greater lead in policy making. Most progress has been made at the national level, with accountability for service delivery remaining weak, a feature of the lack of focus on delivery mentioned above.

66. Progress in these areas is uneven, yet it is significant. Although, very difficult to quantify, it is reasonable to assume that this progress has contributed towards improved efficiency in the use of sector resources and consequently service delivery. Despite this, there is also scope for significant further improvement in both allocative efficiency (i.e. strategic resource - the overall link to policy objectives and priorities) and operational efficiency of service delivery (i.e. value for money). For example strategic resource allocation is constrained by fragmented budgets and continued significant volumes of project aid. Gains in operational efficiency would have been far more significant, if appropriate investments in service delivery processes had been made.

67. What has been the role of SBS in each of the three areas above?

### ***SBS and the Policy, Planning, Budgeting and Reporting Cycle***

68. SBS has contributed positively to improvements in the policy, planning and budget reporting cycle in two general ways:

- SBS has either supported the establishment, or made use of existing SWAp structures. In doing so, conditionality has helped ensure that key policy and planning documents are in place, and that sector reviews are held regularly. Dialogue, and TA has supported the quality of such processes in some, but not all cases.
- SBS funding has both underpinned the dialogue and conditions which supported these improvements, and also increased the credibility of the cycle itself by increasing the scale and flexibility of funding available to implement the resulting policies, plans and budgets.

69. Beyond this there are significant variations in effects.

70. SBS has added most value in helping elaborate the details of sector policies and plans, and not had significant influence on overall policy direction. Sector strategies and plans are an area of significant improvement as a result of dialogue and TA, with costing exercises helping improve their realism. However, their value has been most significant when they have been promoted as a broad guide to resource allocation rather than considered a blueprint which must be followed.

71. As implied earlier, in the majority of case studies it is difficult to obtain a clear and comprehensive picture of sector resource allocation, let alone verify the alignment of those resources to sector policies due to the fragmentation of budgets. The Uganda and Rwandan

Education case studies are exceptions to this, as the MTEFs are relatively comprehensive, and SBS uses the existing budget structure. These cases use non-traceable SBS, and involved the most complete shift away from project modalities. More generally, non-traceable SBS has helped to align external funding with the domestic budget process, as it requires negotiations with the Ministry of Finance as well as line ministries. Earmarking and additionality have generally played a positive role in these negotiations, as a means of giving priority to key budget lines important for policy implementation.

72. In the cases of traceable SBS instruments, there remains little (incentive for) engagement of the Ministry of Finance in the process of allocating SBS or indeed project funding – which often represents a significant share of sector resources. Traceable SBS has had a further, negative impact on the structure of sector budgets. It does so first by fragmenting budgets and reflecting expenditures which are operational in nature in the development budget. Secondly, as they are typically reflected as big projects in the development budget, it is typically difficult to demonstrate the alignment of overall sector expenditure allocations to policy priorities in budget documents using the existing budget classification. Traceability also skews the sector dialogue on resource towards SBS funding and away from the overall allocation of sector resources.

73. A clear area where SBS has contributed positively, is improving sector reporting, monitoring and evaluation processes as a result of the demands of the dialogue and conditions as well as TA. Sector review meetings are a key positive feature, and associated reporting have helped shift the focus of dialogue to overall sector performance. However, as mentioned earlier, SBS has failed to address gaps in routine reporting on service delivery, and the links between reporting on budget execution and performance information are weak.

74. Follow up on agreed actions to address performance issues identified during the review cycle, is typically mixed. The incentives resulting from dialogue and conditions associated with SBS are typically unclear. It is too early to assess whether the use of more objective performance assessment frameworks will result in clearer incentives. However the quality of partnership and contextual factors such as domestic leadership and ownership of sector review process and resulting agreements appear more important in explaining the degree of follow up.

### **SBS and PFM**

75. SBS has clearly contributed to improvements in financial management, especially when associated with multiple donors in two ways:

- Firstly there is a reduction of transactions costs associated with the move away from multiple sets of financial management systems to using government systems.
- Secondly is the systemic effect of the use of those systems. The simple fact that spending agencies use government systems more as a result of SBS helps in their strengthening<sup>9</sup>.

76. SBS has had a mixed impact on the predictability of sector budget execution. In the short term, the transfer of SBS funds via special accounts, which is associated with traceability requirements, may help ensure greater predictability of sector funding than domestic budget allocations, however they have been maintained long after the reliability of domestic budgets have improved to acceptable levels. The most sustained positive effects on the predictability of funding have been through non-traceable SBS where the Ministry of Finance has committed to ensuring budget predictability in key budget lines or sub-sectors. Bypassing of government cash management processes by traceable SBS also makes overall cash management by the Ministry of Finance more challenging. However it is important to note that administrative delays in disbursement of SBS funding by donors are still common. When SBS is non-traceable this can put the

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<sup>9</sup> These positive effects are similar to those seen in GBS (IDD and Associates, 2006), although derogations associated with traceable SBS undermine them somewhat.



government's cash position under stress, which may therefore represent a disincentive for the Ministry of Finance.

77. Using SBS conditions relating to statutory procurement, financial reporting and audit requirements can help raise their profile and improve their timeliness, although there is a danger of externalising these accountability instruments. In most countries the use of domestic budget execution and financial management systems has helped in the identification of weaknesses, and diagnostic studies have also deepened understanding of those systems. Additional audit requirements beyond the statutory audit, however, have typically proved a distraction, and have lacked ownership. Consistent with earlier statements, the degree of follow up typically depends on both the quality of the partnership, and the leadership within sector institutions and broader environment. The clarity of incentives provided by SBS conditions, and the time taken in the dialogue on PFM issues appeared to be of secondary importance.

78. In addressing weaknesses in PFM SBS has had more value in addressing sector specific gaps or weaknesses – such as financial management at the school level in Uganda and Rwanda - than attempts to address generic PFM problems at the sector level. The latter tended to encroach on Ministry of Finance driven reforms and led to the creation of parallel systems. The Mozambique Health and Agriculture case studies represent examples of this.

### ***SBS and Ownership, Incentives and Accountability***

79. SBS funds have helped facilitate policy implementation, which reinforced ownership of policies. The relative predictability of SBS funding helped reinforce that. Furthermore, over time there is evidence that recipient governments are taking a greater lead in policy making and this can in part be attributed to the capacity that SBS has helped build, even if this does occur outside SWAp arrangements and donors do not respond favourably to them (which is often, but not always the case).

80. SBS has also helped strengthen government accountability, through supporting the establishment of stronger sector policy and review processes. The fact that SBS funds, dialogue and conditions make use of these processes also helps reinforce them. However when SBS derogates from established sector review processes, as is the case in Mali Education, this does not help reinforce domestic accountability. Fostering ownership of sector processes is important if they are to become vehicles for domestic accountability. If they become dominated by donors, they can be seen as external, as is the case in the Mozambique Agriculture sector, and parallel processes can emerge. There are, however, clear gaps in sector accountability which have not been addressed. In particular, accountability for service delivery has not improved, and this is not helped by the paucity of information on routine service delivery highlighted earlier, as well as the continuation of large off budget flows, especially in the health sector.

81. Financial accountability has improved as a result of the integration of SBS into formal government financial management systems. This has strengthened the position of the Ministry of Finance, in particular. However derogations associated with traceable SBS, undermine these gains. They also highlight expenditures as donor funded and confuse incentives in budget formulation, bypassing the role of the Ministry of Finance. Conversely, the use of non-traceable earmarking and additionality helps reinforce conventional accountability relationships, and engages the Ministry of Finance. This helps ensure ownership of budget allocations. Additional financial management arrangements imposed by SBS donors, in particular audits, tend not to add value to domestic accountability requirements.

82. Overall, SBS has tended to focus on up-stream accountability at the national level arenas. SBS has typically reinforced vertical accountability relationships between sub-national governments and service providers with the centre at the expense of decentralised accountability. The lack of focus on accountability for routine service delivery is symptomatic of this. The local

government cases are the exception to this, where emphasis was placed on creating the incentives for building decentralised accountability processes.

## **2.5 What makes SBS effective?**

83. On balance, it is clear that the positive achievements of SBS in improving the quantity and efficiency of service delivery far outweigh the negative implications of the failure to address quality of services. Furthermore, it is important to note that the failure to address quality is not a feature exclusive to SBS. Neither GBS nor project support has addressed the conundrum either. It is more symptomatic of the overall focus of SWAps and the provision of aid at the sector level. Importantly, the case studies provide pointers for how the issue of quality might be addressed.

84. Contextual factors are invariably crucial. Typically recipient government ownership of and commitment to policies for service delivery is particularly important. However, the case studies also show that many of the achievements and failures of SBS are contingent on the nature of the design and its implementation.

85. This section concludes by asking: what features of SBS have made it more effective in improving service delivery outcomes? What features might make it more effective? What are the conditions for success? We start by returning to the two main dimensions of SBS design, and then look at the effectiveness in different sectors such as health and education, before concluding with a cross-sectoral perspective.

### ***The Nature of Funding and Financial Management Arrangements***

86. Scale matters. If SBS is to contribute to increased quantity and quality of service delivery, the scale of funding needs to be commensurate with the issues that need to be addressed. The cases which provided large and sustained flows of SBS, such as in the education and local government case studies, appear to have the greatest effect on service delivery. Additionality requirements help to reinforce these effects in the context of non-traceable SBS.

87. SBS appears to have a greater effect on service delivery outcomes if it is earmarked to service delivery and the management of service providers early on, as this helps accelerate the alignment of resource allocation towards policy priorities. Furthermore earmarking and additionality is most effective, and has more sustainable effects on resource allocation, if earmarking is negotiated with the Ministry of Finance and SBS is classified as domestic resources. It also needs to promote alignment of funding with institutional mandates for service delivery, not just service delivery objectives.

88. Non-traceable SBS tends to be more efficient than traceable SBS. It can fund recurrent aspects of service delivery; minimises distortion to the budget process and structure; helps draw dialogue towards government policies and systems; and helps minimise derogations. It also facilitates strategic resource allocation. However it is important that the Ministry of Finance makes commitments to the predictability of sector funding.

89. Efficiency gains are maximised where SBS is accompanied by a switch in modalities away from project support, and that it does not just result in an increase in aid. In the same vein, SBS has fewer efficiency gains if provided alongside significant project funding. This is especially true when project funding is also supporting service delivery as this results in parallel delivery mechanisms. The health case studies, which have received massive vertical project funding in recent years from global initiatives, are examples of this. Such global initiatives need not result in parallel delivery mechanisms, as highlighted by the successful use of non-traceable earmarked SBS by the Fast Track Initiative (FTI) in the Rwanda education sector.

90. Furthermore, the evidence implies that, as government budget formulation and execution systems get stronger, partners should work towards the provision of un-earmarked, non traceable SBS. This implies moving towards the established OECD/DAC definition of SBS, which can be considered an ideal.

### ***Non-Financial SBS Inputs***

91. The use of established SWAp structures by SBS enhances its effectiveness and the effectiveness of SWAps, however the creation of additions to established SWAp structures typically does not.

92. Non financial SBS inputs have tended to support improvements in upstream policy formulation, planning, financial management and monitoring of high level outcomes. The establishment of a clear policy, planning and monitoring cycle is significant, but not sufficient for SBS to be effective.

93. If SBS is to generate improvements in service delivery, the focus of SBS needs to move downstream on the processes for policy implementation and delivery. A shift in focus towards five areas would make SBS more effective:

- the level of funding for service delivery in the annual budget, its predictability during budget execution and the financing systems for service delivery;
- the processes and institutions for service delivery including the direct management of frontline service staff and the actual processes for frontline delivery;
- human resources involved in service delivery;
- incentives and accountability for service delivery; and
- routine reporting and accountability for service provision.

94. This is where the potential comparative advantage of non-financial SBS inputs lies, although typically this has not been their focus in the past.

### ***Complementarity of SBS Inputs, and Synergy with Broader Processes***

95. In maximising the potential benefits of SBS, the design and implementation of SBS needs to ensure complementarity of SBS funds; the non-financial inputs linked to the provision of SBS; and also other donor support provided in the context of the SWAp.

96. When SBS funding and dialogue, conditions, TA and capacity building support complement and mutually reinforce each other, this improves the effectiveness of SBS. This can be built into the design and implementation of SBS at two levels:

- At an upstream level, combining negotiations on budget allocations, earmarking of funds, dialogue, conditionality, on a specific issue considered crucial for improving service delivery - such as human resource retention in the Zambia health sector – can increase the likelihood of the issue being addressed.
- At a more downstream level, SBS can be used to build incentives for sub-national governments and frontline service providers to improve performance, as in the local government case studies. This can be achieved by linking the availability of funding to performance and using TA and capacity building inputs to help build the capacity required to strengthen performance.

97. Exploiting this complementarity, especially downstream, requires more investment in understanding the systems that SBS instruments support and in the detailed design of those instruments than is typically the case at present. Whilst SBS is undoubtedly flexible, if it is to respond to the constraints to service delivery sector, it needs to be built on an understanding of these constraints and designed to address them.

98. Casting the net wider, SBS has clearly benefited from improvements in PFM. The same cannot be said for civil service and decentralisation reforms. Civil service and decentralisation reform programmes need to be more responsive to the perspectives and needs of service delivery sectors. Meanwhile sector actors need to engage more with, rather than try to ignore or bypass, civil service and decentralisation reforms.

99. Linking the dialogue and conditionality associated with SBS and that associated with GBS, so that they are mutually reinforcing, clearly has the potential to create such synergies between crosscutting reforms and sector reforms. Yet, in no case study was there a strong link. In fact it is more common for dialogue and conditions to be inconsistent, even though the same donors may be involved in the dialogue for GBS and SBS. This, at best, means that the incentives created by conditionality frameworks are unclear. At worst, and typically frequently, reform agendas are conflicting, especially in public sector and decentralisation reform, and aid instruments are typically not used to help address this. This undermines the impact of both cross-cutting and sector reforms on service delivery.

### ***Effectiveness in Different Sectors and Countries***

100. An important question is whether SBS is more effective in some sectors than in others. There is no inherent reason why this should be the case, but it is possible to draw lessons from the experience of SBS in different sectors.

101. In the health and agriculture sectors the effectiveness of SBS was undermined by contextual factors which are typical for those sectors:

- In the one agriculture case there was no clear and agreed policy for public service provision for SBS to support, and this critically undermined its effectiveness. If there had been an agreed policy – on extension services, for example - then SBS may well have been an appropriate and effective instrument with which to support the expansion of service delivery. In sectors such as agriculture where consensus on the role of the public sector in service provision is not automatic, such prior agreement is critical before large-scale SBS transfers commence.
- In the three health sector studies, there were large increases in vertical funding which were not well aligned with government systems and this reduced the effectiveness of SBS. However, even in this environment, SBS can play an important role by channelling funds through the government's healthcare system, counterbalancing the effects of vertical funds.

102. The education and local government cases studies were generally most successful in supporting service delivery, but again for very different reasons:

- The education sector cases were more effective because of large-scale funding was accompanied with a wholesale shift from project support, which was not seen in the health case studies. In one case where there was funding from a global initiative - the Fast Track Initiative (FTI) – in Rwanda, funding was provided as SBS with minimal derogations. This proved an effective way of supporting basic education goals without creating parallel mechanisms, which is in stark contrast with the health vertical funds. However this is not automatic, as the FTI was not part of SBS arrangements in Mali, and used parallel procedures.
- Whilst the local government cases did involve a significant shift in aid instruments, the effectiveness of SBS was maximised through its innovative design which focused on developing a service delivery system with strong incentives for performance, by combining SBS funds and non-financial inputs.

103. The one roads sector case (Zambia) points to the potential of SBS in an infrastructure sectors. Traceable SBS was sensibly earmarked to maintenance which lends itself to systems

development, whilst road construction lends itself to projects. The rural water sub-sector in Uganda is also another documented case where SBS has been successful in an infrastructure sector (Williamson and Kizilbash 2009), in this case using non-traceable SBS. The local government cases were also focused on infrastructure provision.

104. The effectiveness across countries also varies. Whilst the context in which SBS is provided does matter, it was broadly similar in most cases: strengthened policy ownership; political stability; positive trajectories in PFM reform; and buoyant domestic revenues. These helped provide an underlying environment conducive for the provision of SBS. However, the local situation did tend to influence the nature of the design of SBS instruments, which in turn influenced its effectiveness:

- The Uganda and Rwanda case studies showed generally strong effects. Here SBS involved fewer derogations. The engagement and relative strength of the Ministry of Finance is an important explanatory variable in these two countries.
- The Tanzania cases had a strong impact on service delivery despite derogations and a lack of involvement of the finance ministry. This was largely because of the earmarking of funds to local governments for service delivery. Once funds reached local levels the derogations were fewer and they used local systems.
- The Zambia cases show potential, due to their focus on strengthening service delivery but they have thus far been relatively small in scale.
- The cases where the influence of SBS has been/is likely to be least positive are in Mozambique. Here the nature of the design of SBS was a major influence. However both the Mozambique cases also suffer from an unclear policy framework for service delivery, which clearly undermined the effectiveness of SBS.

### **3. Why has SBS evolved the way it has?**

#### **3.1 Introduction**

105. Thus far the nature of SBS, its achievements and its shortcomings have been assessed. Given these achievements and shortcomings, it is important to understand why SBS has evolved the way it has. There are three areas in which, on the face of it, the nature of SBS seems peculiar:

- The persistence of derogations, in particular the use of traceability requirements, despite their negative effects and the context of the aid effectiveness agenda which emphasises their removal;
- The failure to focus on service delivery processes and results despite their obvious importance; and
- The weak link of SBS with other aid instruments despite clear opportunities and benefits for them to complement each other.

106. A key conclusion from the donor headquarters study was that their influence on the design of SBS instruments was in general limited – in practice the choice to use SBS and the specific nature of the design varies and is made at the country level. For example, the decision to use traceability, earmarking and additionality is made by donor country offices in most cases. Therefore SBS instruments provided by the same donor look very different in different countries.

107. In this section we examine the underlying factors which combine to generate these perverse outcomes in the design and implementation of SBS at the country level.

#### **3.2 Why do derogations occur?**

108. The case studies point to the negative consequences of many of the common derogations used in the design and implementation of SBS. In summary:

- Traceability of SBS fragments budget allocations, distorts the structure of the budget, undermines overall strategic resource allocation. It skews dialogue towards the areas

which SBS is funding and away from the overall budget, and encourages further derogations from country systems. Traceable SBS results in a major share of the dialogue being devoted to the operation of the SBS instrument, at the expense of broader policy and systems issues.

- Additional financial management, audit and reporting requirements are weakly owned, create transactions costs and undermine efforts to improve domestic processes.
- Bypassing normal processes and institutions for service delivery (including service providers and decentralised managers) prevents the strengthening of those systems.
- Derogations from established SWAp processes, and the conditionality frameworks which they embody, adds to transaction costs for the recipient and clouds incentives.

109. The only derogations which appear to have had positive effects relate to earmarking and additionality requirements. However these are most effective when they are negotiated as part of the annual budget process with the Ministry of Finance. Ironically this is one type of derogation donors have sought to reduce, as a mechanism to enhance policy alignment. Another important point to note is that while donors have made a transition from basket funding to traceable SBS, the shift from traceable SBS to non-traceable SBS has not occurred in any of the case studies. The starkest illustration of the donor preference for derogation is in the Mozambique Health sector. When faced with a choice as to whether their SBS should be traceable as external funding, 10 out of 15 donors said yes.

110. Why, then do derogations occur? Derogations play to both donors and recipient institution's basic instincts:

- On the donor side, there is a desire within country offices to be able to demonstrate where their funding is going, and traceability provides the most visibility. Once SBS is traceable, donors, who are risk averse, play it safe by requiring additional financial reporting and audit requirements. The combination of traceability and associated additional financial management arrangements makes it easier to demonstrate that they are responding to headquarter accountability concerns. Meanwhile, when non-traceable SBS is employed donors, understandably, feel that they at least need to demonstrate that funding has had an effect, and influenced sector resource allocation. This manifests itself in a combination of earmarking and additionality requirements. The added visibility of traceable SBS means that earmarking becomes less important, and therefore donors providing traceable SBS have found it relatively painless to move from specific to broad earmarking in some cases.
- On the recipient side there are conflicting incentives. It is clearly in the interests of the finance ministry for SBS funds not to be traceable or earmarked – as it increases their influence and control over budget formulation and execution. This is not necessarily the case for line ministries. There may be a perception that traceability of SBS funding will ensure that funding is more reliable than normal budgetary funding provided by the finance ministry through the budget. Large, SBS funded ministry projects are likely to generate perks for staff – including vehicles and training opportunities - in a very similar way to projects.

111. Sector specialists in donor agencies tend to interact more with line ministry staff than finance ministry staff. Given the preferences of these individuals in donor agencies, and those of line ministries, it is unsurprising that the traceability option is commonly used. It is important to note, however, that once they have benefited from significant flows of non-traceable SBS, when combined with predictable budgetary resources, this is popular amongst line ministries.

112. Furthermore, donors commonly provide project support alongside SBS. In the absence of strong leadership from within the sectors donor group, donors are still prone to approach sector ministries individually with specific agendas they wish to promote, and offer project support for the same. Sector ministries themselves may well encourage this, to maintain perks that stand alone projects provide, whilst benefiting from SBS as well.

113. It should not be forgotten that the choice a donor makes to provide SBS is, in fact, a derogation in itself, as donors could provide GBS instead. For non traditional budget support donors, the choice of using SBS is clearly an effort to deliver improved aid effectiveness. The motivation for established GBS donors is less obvious. There is a feeling in some donor agencies that GBS is increasingly politically vulnerable to cuts as a result of broad governance concerns, and the provision of SBS was less so. Certainly in no case was SBS cut as a result of such concerns. Furthermore in cases such as Rwanda, the choice of DFID to use SBS helped trigger other donors to follow suit. However, the motivation may also be down to simple visibility, which raises the profile of a donor within dialogue at a country level, and enables the donor to respond to broad headquarter accountability concerns.

### 3.3 Why no focus on service delivery?

114. As highlighted earlier, non-financial SBS inputs have tended to focus more on upstream policy issues than it has on downstream service delivery issues. At the outset of the development of SWAps, when policies may have been unclear, this was a logical step. But following improvements to policies and plans, non financial SBS inputs have not moved far downstream towards service delivery. Dialogue is dominated either by discussion of sector policies and plans or the operation of funding modalities, or both. When there is discussion on service delivery, it is limited to the delivery of inputs and high level outcomes, not the processes and direct outputs of service delivery.

115. On the face of it, this appears strange, as a clear rationale for most sector engagement is to improve service delivery. However dialogue is situated within a comfort-zone for those involved in the dialogue on both the recipient and donor side:

- Line ministry policy and planning departments tend to take the lead on the dialogue. These staff will tend to have limited interaction with frontline service providers. They also tend to be staffed by individuals with backgrounds in finance and economics, and not sector specialists, such as doctors, teachers and engineers. They are therefore more comfortable discussing plans and budgets than specific issues relating to service delivery.
- Donor staff involved in the dialogue tend to have a relatively shallow knowledge of the country situation. They too have limited interaction with frontline service providers (and limited time to do so), and the high turnover of donor staff is a major constraint to maintaining knowledge. Also donor groups tend to have a lack of sector-specific expertise (or even policy and budgeting expertise), as many donor agencies appear to rely on generalists to represent them in the dialogue.

116. Yet, addressing the missing middle in service delivery demands a more in depth understanding on the processes of service delivery on the side of both donors and line ministries and a more sophisticated dialogue between the two. These are inherently complex, and more challenging to address, which may be a further implicit reason as to why they are avoided on both sides.

### 3.4 Why the weak link with GBS and broader reform processes?

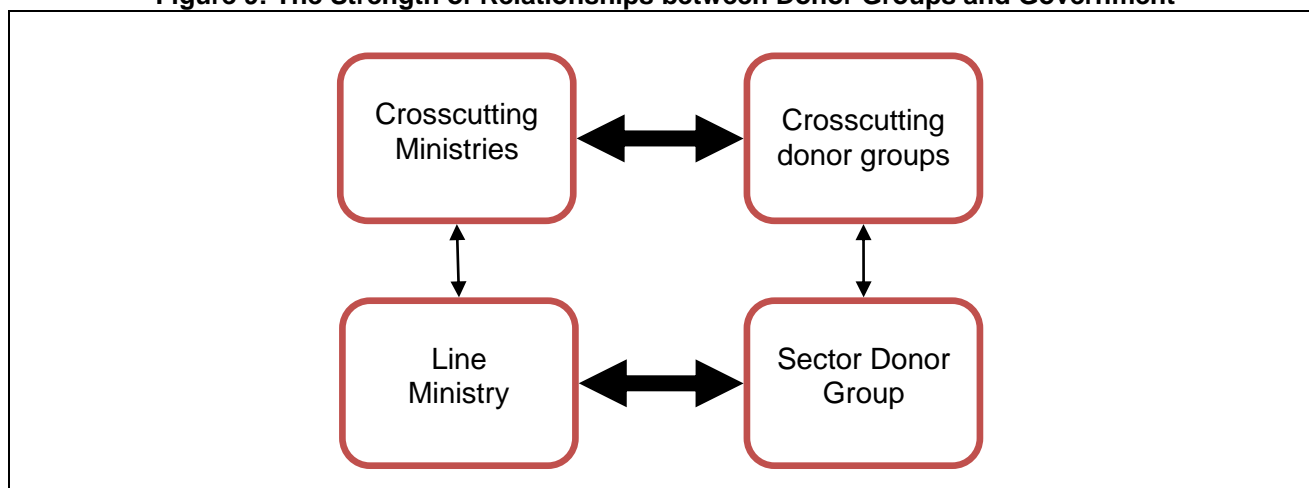
The final and similarly surprising feature of SBS has been the weak link with GBS. Similarly sector reforms often appear to be initiated in isolation from broader public decentralisation, civil service and (to a lesser degree) PFM reforms. This is illustrated by inconsistencies in approaches between the local government and education and health sectors in Uganda and Tanzania, even when the same donors were involved in those sectors and GBS. As mentioned earlier this can result in unclear incentives for partner governments, and the pursuit of conflicting reform agendas which undermine each other. This ultimately undermines the effectiveness of these reforms and of both SBS and GBS in supporting service delivery.

117. It is clear that aligning conditions between GBS and SBS, the frameworks for assessing performance, as well as disbursement schedules would improve the effectiveness and complementarity of both modalities. More fundamentally building strong links between the reforms led by the finance, civil service and local government ministries would mutually strengthen crosscutting and sectoral reforms.

118. Figure 9 explains why this typically does not happen, by illustrating the relative strength of the relationships between and amongst government and donor stakeholders:

- Whilst sector representatives in donor agencies have improved coordination through donor groups, there is little coordination across donor groups, especially between donor groups working on service delivery, and decentralisation, public service reforms and public financial management reforms.
- The dialogue between line ministries and crosscutting ministries tends to be weak and unsystematic, and interaction typically only occurs when one institution needs something from another. Although efforts have been made to include crosscutting government institutions in SWAp dialogue, reforms tend to be conceived and driven in isolation from each other.
- Sector specialists are more comfortable working with their respective line ministries, and economists with the Ministry of Finance. Therefore these relationships become typically strongest, and alliances of interests are built at these levels.

**Figure 9: The Strength of Relationships between Donor Groups and Government**



119. Aid instruments, including SBS are the product of these relationships and incentives, reflecting the interests of those involved in these relationships. This is not just reflected in the use of derogations explained above, but also in the relative absence of dialogue on crosscutting public service and decentralisation issues in the sector dialogue and vice versa. The links to PFM reform tend to be slightly stronger because of the use of government systems, and in the cases of non-traceable SBS, the involvement of the Ministry of Finance in the dialogue on resource allocation.

120. The GBS dialogue is a potential entry point for joining sectoral and crosscutting reforms. However it is evident that there is no effective coordination between those leading the dialogue on the donor side for GBS (typically donor economists) and SBS (typically sector specialists). Furthermore there is little coordination across sectors where SBS is provided. The prevailing incentives are for donors and recipients to stay working in their silos.

### **3.5 There is need to address the incentives faced by donors and recipients**

121. The incentives faced by donors and recipients clearly explain much of the current behaviour in design and implementation of SBS specifically, and donor government interactions in the context



of SWAps more generally. In conclusion therefore, it is evident that to improve the effectiveness of SBS and its complementarity with other aid instruments there is need to address these incentives.

## 4. Conclusions

### 4.1 Introduction

122. Aid in support of sector programmes has overtaken GBS as the largest family of aid instruments in support of Programme Based Approaches, which are central to the delivery of the aid effectiveness agenda. SBS forms a major share of this. This study has reviewed the practice of the provision of SBS in ten case studies in depth, and also reviewed the record of SBS in the broader literature.

123. Part I concludes by asking whether, on balance SBS has been an effective aid modality; sets out the role of SBS in improving service delivery outcomes; and proposes broad principles for improved practice in the design and implementation of SBS which form the basis of the Good Practice Note.

### 4.2 The Overall Balance Sheet of Sector Budget Support in Practice

124. This section starts with an assessment of the degree to which SBS has proved an effective aid instrument in supporting sectors improve service delivery outcomes. Here the logical framework, which forms the basis of the methodology applied in Part II and the country case studies, is best placed to be used as the basis for this judgement. The logical framework enabled an assessment of the effects of SBS on the environment for external assistance to the sector; sector processes; the delivery of services and the achievement of government objectives. Ultimately, SBS must be judged on the latter – and in particular its contribution to policy and service delivery outcomes. Box 2 sets out the six areas in which the logical framework envisaged effects<sup>10</sup>.

#### Box 2: Envisaged Outcomes of SBS from the Logical Framework

- Increased Quantity of Services
- Better Quality Services
- Services more appropriate and responsive to the needs of beneficiaries
- Greater demand from beneficiaries for services
- More accountable provision of services to beneficiaries
- Stronger political accountability for the delivery of sector policy objectives

125. The effects of SBS on the quantity and quality of service delivery represent the biggest achievement and the biggest hiatus:

- SBS has contributed towards an increase in the quantity of services delivered, typically providing between 10% and 40% of sector expenditure, and sometimes more. It has supported the expansion of primary education in Uganda, Rwanda and Mali. It has supported the expansion of basic healthcare in Tanzania, is likely to do so in Mozambique in future, and has supported the introduction of free basic healthcare in Zambia. It financed major investments in local service delivery infrastructure in Tanzania and Uganda, and the maintenance and rehabilitation of roads in Zambia.

<sup>10</sup> These six areas may not have been explicit objectives of individual SBS programmes and therefore it is unfair to judge individual programmes against them. However they do represent set of outcomes which it is reasonable to expect SBS programmes in general to have influenced.

- The record of the contribution of SBS towards improving the quality of service delivery has been weak and somewhat disappointing. Overall the quality of healthcare, education attainment and roads remain poor in the context of the provision of SBS.

126. There have been mixed effects of SBS in the other four areas, which have reinforced the two headline outcomes:

- The broad policy agenda which SBS has supported has emphasised basic service delivery, which in the broadest sense, is responsive to the needs of beneficiaries. However beyond this there are substantial rigidities and inequities in service provision, as a result of the centralising tendencies of many sectoral reform processes. The local government case studies are notable exceptions to this, where service delivery infrastructure has been supported in a way responsive to local demand.
- In several circumstances, this policy agenda, which SBS has supported, has involved the introduction of free access to basic services – in the Zambia Health and the Education case studies for example. These policies, in turn, have stimulated greater demand for services from beneficiaries. However, indirect effects on demand, stimulated through improved quality and responsiveness of services have been weak.
- Related to the poor quality to service delivery, the accountability of service provision has generally not been strengthened – either indirectly via the executive and parliament, or directly to the beneficiaries of those services.
- In terms of political accountability, slight improvements have manifested themselves in terms of greater ownership of policies and greater control of the policy agenda by recipient governments. This has been facilitated through the improved capacity of sector institutions, and increased availability of funds the recipient government has to be able to deliver against policies.

127. This study has demonstrated that SBS contributed to the expansion of service delivery, through facilitating and contributing to increases in sector public expenditure and increasing the operational efficiency of those expenditures. The extent of gains in access to service delivery is directly related to the scale of SBS - whether it represented an increase in sector resources or a major share of sector expenditures. Efficiency gains were greatest when there was a significant relative switch in aid modalities from project and/or common basket funding, and when non-traceable instead of traceable SBS was used. Furthermore, earmarking to service delivery helped strengthen these effects in some cases, especially when it was located in the context of an overall dialogue on resource allocation with the Ministry of Finance. The most important factor in the expansion of service delivery is contextual, and relates to the political support lent to the expansion of service delivery – which typically meant that there was support for expanding budget allocations to service delivery.

128. The gaps in effects of SBS, in particular the weak quality and accountability for services, tend to relate to the downstream processes for managing, delivery, and accountability for service delivery – this study has termed this the “missing middle” in service delivery. Crucially, SBS has generally failed to effect the incentives faced by front line service providers and their managers. The design and delivery of SBS have not responded well to this challenge, although it is important here to remember that no other aid modality has done so either, whether GBS or project support. The context in which SBS has been provided, and the incentives faced by domestic actors and donors have played a role in this failure. Nevertheless the gaps can be traced back to the balance of non-financial SBS inputs, which place emphasis on upstream policy issues relative to service delivery processes and human resource issues. More fundamentally these gaps reflect the domestic political emphasis on expanding services over improving quality.

129. Of the ten case studies, there was only one case where SBS on balance was not positive. This was the Mozambique Agriculture, where there was no agreed policy for service delivery for SBS to support. Subsequently, substantial flows of SBS funding were channelled to central and

provincial governments to strengthen their capacity, in the absence of a clear service delivery mandate. SBS had little or no effect on sector service delivery.

130. The broad assessment of SBS against the logical framework is therefore on balance positive, but there are clearly areas where progress has been disappointing – both the positive effects and the gaps have implications for improving the effectiveness of SBS.

### 4.3 The experience of design and management SBS Instruments

131. Next, it is important to understand the practicalities of the choice, design and implementation of SBS, as an instrument for delivering external assistance. Firstly, what was the general perception about donor and recipients' experience of SBS?

- For donors, SBS represented a workable option between project support and GBS. It is especially important for those donors that cannot provide GBS or that need a balanced portfolio of modalities. For example, in Tanzania the continued use of traceable SBS was justified on the basis that it was an adaptable and viable mechanism for supporting strengthened service delivery and promoting reform. In Rwanda, it was felt that SBS would be less vulnerable to cuts than GBS as a result of governance concerns. In implementation, there was often some dissatisfaction on the donor side with the recipient government's behaviour and performance in the dialogue. This dissatisfaction varied from the degree of influence recipient governments lent donors in the policy dialogue, to the timeliness with which partner institutions provided documents required for the dialogue.
- Overall SBS funding was appreciated by recipient governments, and generally preferred to project support, although some governments had an explicit preference for GBS. However the perceptions of ministries of finance and recipient line ministries vary. Despite being less efficient, project support remains popular amongst line ministries. Recipient ministries that received traceable SBS tended to perceive it as a large project, and appreciated its flexibility in particular. Whilst line ministries which experience a shift from Common Basket Funding to non-traceable earmarked SBS or GBS did not appreciate the move, those ministries that received non-traceable earmarked SBS from the outset appreciated its role in supporting increased and reoriented budget allocations to the sector. Ministries of finance tend to prefer non-traceable earmarked SBS, over which they have more control, and it results in greater ownership of budgets from that side.

132. In the early provision of SBS there is often some frustration on both the donor and government side. This was most apparent in the cases of Mali Education and Zambia Health. In the case of Mali Education, the government felt that donors often added unnecessary strings to the provision of SBS. In the Zambia Health case there were misunderstandings and poor communications between the central bank, finance ministry and health ministry early on. However these teething problems can typically be addressed. Nevertheless, this does reflect shortcomings in the design process of SBS instruments, which tends to result in donor and recipient institutions having different perceptions of how SBS will work. Consequently the implementation of SBS in practice ends up being different to the spirit of the design.

133. A major objective of SBS is to reduce transactions costs. Where SBS has involved multiple donors, there was a sense that SBS has led to a relative reduction transactions costs. If the same aid had been provided through separate projects, transaction costs would have been higher. The relative gains in transaction costs were drowned out when SBS was accompanied by large project flows, which was especially common in the health case studies. The location of those costs in donor agencies and recipients has also moved – from project based TA to sector representatives in donor agencies and from project implementers to policy and planning departments in line ministries. Whilst recipient governments appreciated efforts of joint working especially when this was accompanied by strong leadership on the donor side, this was tempered by the high level of turnover of donors staff in several cases. In several cases, there was dissatisfaction on both sides

about the degree to which dialogue was taken up with operational issues, when compared to substantive policy and systems. A concern is that the dialogue on the donor side is increasingly being led by generalists rather than individuals with sector specialisations. Meanwhile the frameworks for conditionality left recipients facing unclear incentives. Mechanisms for dialogue and conditionality are far from perfect.

134. Overall, the perception of success varied from country to country. In the Rwandan Education sector there was satisfaction with the degree of progress in achieving sector objectives. In Uganda, there was domestic and external concern over the failure to address quality. In Mozambique Agriculture there was a sense of failure on both the government and donor side. In Mali there was some frustration at the pace of policy implementation. The local government cases set objectives relating to infrastructure delivery and institutional performance. On both dimensions, they can be judged to have been successful, although the success has been limited by a lack of progress in cross-sectoral coordination.

#### 4.4 Towards Good Practice in the delivery of SBS

135. Overall this study has shown that SBS has the potential to be an **effective** instrument in supporting sector service delivery and help recipient governments deliver against policy objectives. However, like GBS and all other forms of aid, SBS is struggling to have an impact on the quality and equity of service provision, which is necessary if the improved access is to be of significant benefit. This is not an inevitable result of the provision of SBS, but a result of the way it is delivered. It is vital that approaches to the implementation of SBS address the challenges of service delivery appropriately.

136. We conclude by drawing out the key lessons that this study presents in terms of the role of SBS, and how practice can be improved in delivering SBS. This forms the basis of the Good Practice Note which accompanies this report.

##### ***The Role of SBS and Ensuring Complementarity of Aid Modalities at the Sector Level***

137. The study points to a clear role for SBS – to support recipient governments in their delivery of public services in accordance with their own policy priorities. SBS does so by providing flexible resources to recipient governments to enable them to finance the implementation of their policies to expand access to public services, and crucially, to improve the equity and quality of those services. The Mozambique Agriculture case illustrates that without a clear public service delivery mandate, large scale SBS transfers are not appropriate. Therefore, a clear and locally owned policy for publicly funded service delivery is a prerequisite for effective SBS.

138. Furthermore, due to its use of government systems and institutions, SBS has the potential to be more effective than project funding in support of service delivery, including common basket funds. GBS has similar benefits. **SBS and GBS should therefore be used as the preferred modalities for aid in support of public service delivery.** It is similarly clear that without a clear public service delivery mandate, large scale SBS transfers are not appropriate.

139. SBS should be seen as an important tool in donors' support to government at the sector level. Nevertheless, different aid modalities can and should complement each other in support of a partner government's efforts to implement its service delivery objectives as follows:

- GBS is also an important modality for funding public service delivery alongside SBS. Its non financial inputs have a comparative advantage in supporting public financial management, decentralisation and civil service reform, although in practice it has been less effective at the latter two. SBS can complement GBS by making these cross-cutting reforms more responsive to the needs of sector service delivery, and also promoting deeper improvements to service delivery in individual sectors.

- SBS can be complementary to project support, including common basket funding. Where project support is geared towards systems and capacity building objectives, it can help strengthen the systems and institutions used by SBS and domestic expenditures, thereby increasing the effectiveness of SBS. This includes “non financial” SBS inputs, some of which may best be delivered through project support modalities. Meanwhile, by increasing the volume of resources using government systems, SBS funding increases the impact of such project support.
- The use of project aid to fund certain sectoral inputs should not be confused with a wholesale reversion to project aid. The health case studies, most notably, suggest that (in stable countries) project funding should not be used to finance service delivery.

140. What is required both within and outside the sector is an appropriate set of aid instruments, whose design and implementation respond to the key constraints in public service delivery at the sectoral level. In this context, SBS has the potential for being both a catalyst for reorienting sector resource allocation towards service delivery, and for strengthening the systems and process for service delivery. It can do so, provided the attention of recipient governments, donors and other stakeholders is focused on the processes of service delivery.

### ***The Elements of an Approach of Improving Sector Budget Support in Practice***

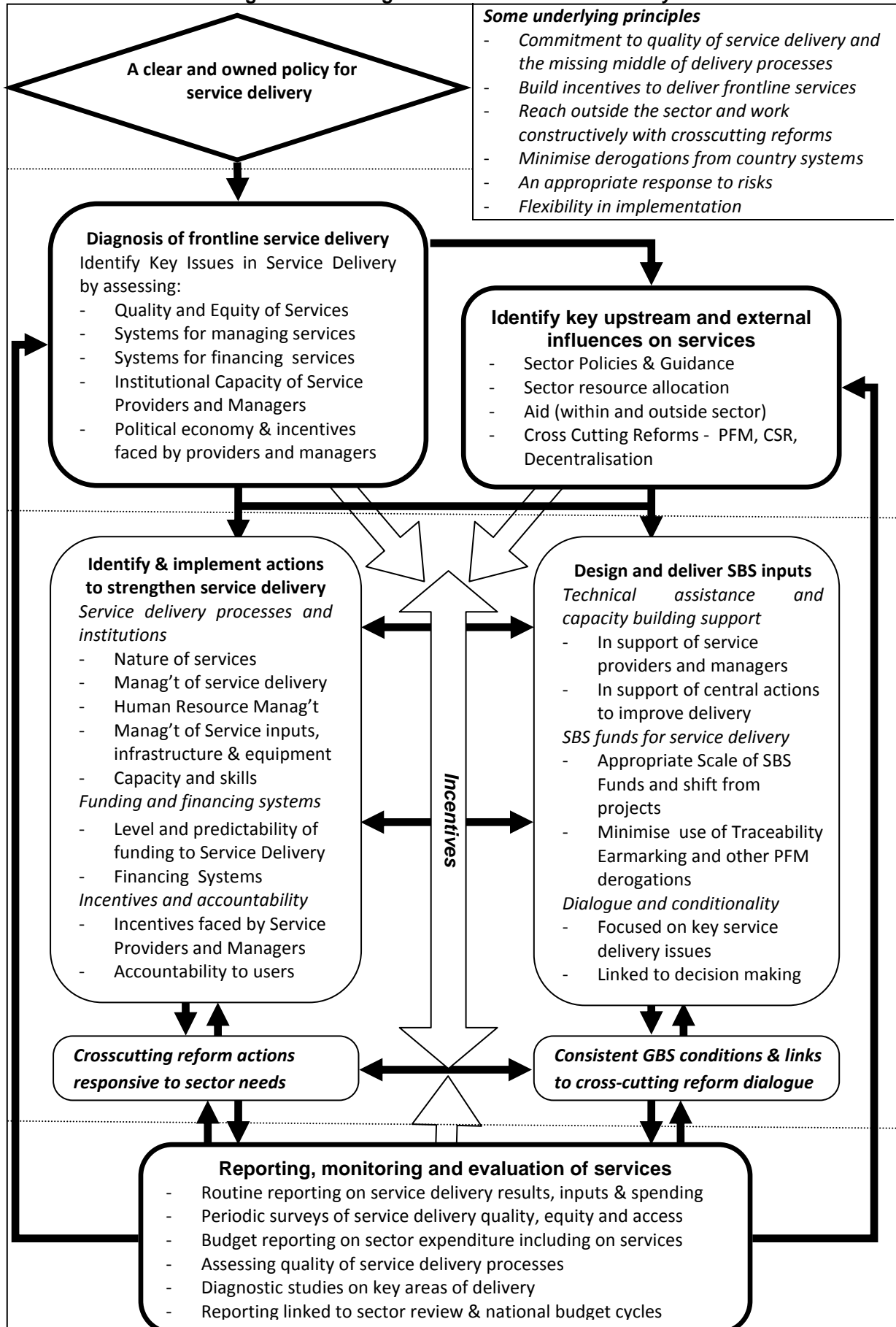
141. Whilst the role of SBS is clear and the need to focus on service delivery is essential, the case studies show that its effectiveness is by no means automatic. Service delivery needs to be placed at the heart of the design and implementation of SBS. Hence the title of the Good Practice Note is “*Making SBS work for service delivery*”. SBS needs to address the “*Missing Middle*” of service delivery directly. It is not enough for SBS to be flexible. SBS must respond to problems in service delivery in an appropriate, yet dynamic manner. Crucially SBS programmes must address the incentives faced by those with influence over and directly involved in the delivery of frontline services.

142. The main elements of the approach for “*Making SBS work for service Delivery*” are highlighted in Figure 10. The only prerequisite for effective SBS is a clear and owned policy for publicly funded service delivery, which was mentioned above. If this is met, the cycle of design and implementation of SBS has three main elements:

- The first element of the approach involves the development of an inventory of the key issues and challenges in service delivery, and the main influences central government has over those issues. The processes of service delivery are inherently complex. They involve multiple institutions and actors. Therefore a deeper understanding, on both the recipient and donor side, is required if SBS is to respond to them.
- The second element involves actually taking steps to improve service delivery. This has three main dimensions. Firstly, it involves the identification and implementation of actions to improve service delivery based on the diagnosis of service delivery issues. Secondly, it involves designing and delivering SBS inputs with the aim of supporting the implementation of those actions. Thirdly, sector actors need to work actively towards complementarity between sectoral and cross cutting reforms, and between SBS and other aid inputs, in particular GBS.
- The third element is the monitoring and evaluation of service delivery. This involves monitoring service delivery expenditures, inputs, processes and results. It needs to be linked to decision making, including sectoral review processes and the national budget process.

143. It is important that this process is not seen as a blueprint. It is meant to be a flexible cycle which should allow innovation and learning with a sustained focus on improving service delivery. This approach does not advocate for more plans and studies in the sector, but mechanisms for focusing attention on what really matters in the sector, and how SBS can be oriented towards these issues in existing plans and studies.

**Figure 10: Making SBS work for service delivery**



### **Ten Principles for Better Practice in the design and delivery of SBS Inputs**

144. Section 2 concluded with an assessment of the conditions for effective design and delivery of SBS inputs. The implications of this are relatively clear. They suggest ten core principles to the design and delivery of effective SBS inputs:

1. **Place the strengthening of institutions and systems for service delivery at the heart of the design and implementation of SBS.** This involves giving adequate attention to *both* a) upstream issues affecting the strength of service delivery and the ability of government to take action to address them; *and* b) downstream and front-line issues: establishing systemic and incentive-based solutions to the human-resource and other challenges involved in the quality and equity of service delivery.
2. **Provide SBS funds on a large enough scale to ensure an expansion in sector resources commensurate with the needs of sustainable service delivery.** The scale of SBS matters not just in absolute terms, but also relative to overall sector resources and relative to other funding. Shifting incentives towards strengthening of domestic systems calls for a decisive shift away from paying for service delivery with project aid and/or Common Basket funding. On the other hand, it is important that SBS supports affordable levels of service delivery which can be sustained over the medium and long term.
3. **Ensure that provision of SBS funds is accompanied by dialogue with the ministry of finance on sector resource allocation.** This dialogue should be part of the recipient's budget process and any agreement to change budget allocations can be supported by the conditionality framework associated with SBS. When the budget process is unlikely to yield the required reorientation of resource allocations on its own, earmarking of SBS funds towards service delivery can prove useful. Earmarking must be negotiated with and not imposed on the recipient government. It should be confined to areas which are of key policy importance, be based on an agreed assessment of funding gaps in the sector, and be temporary. Earmarking and related additionality requirements are most effective when used in the context of 'non-traceable' SBS, as the ownership of resulting budget allocations tends to be stronger.
4. **Do not require that SBS funds are separately identifiable in the budget.** In other words, use non-traceable SBS. This ensures domestic systems are used. As a result it helps reinforce domestic accountability, incentives and ownership in the context of the budget cycle, and minimises distortions. In the context of unreliable budget execution, commitments to protect budget disbursements for key sector budget lines can be agreed with the ministry of finance and do not require traceability. Only when recipient government budgets are so unreliable that a moderate degree of predictability cannot be assured, should donors consider the use of traceable SBS.
5. **Insist that SBS packages include elements to address the underlying causes of risk, and do not involve unnecessary derogations.** The design phase of an SBS instrument should include a systematic assessment of risks (such as unreliable budget execution), and consideration of how their root causes can be addressed. Priority should be given to implementing actions to address weaknesses in country systems, as opposed to imposing derogations – agreed exceptions to the use of systems -- which have the effect of bypassing them (including traceability). Whenever a derogation is imposed, a timetable for phasing it out should be identified and enforced.
6. **Ensure that SBS funding will support financing systems which are aligned with institutional mandates for service delivery.** Prior to the provision of SBS, thought should be given to how domestic financing systems can be strengthened and aligned with the institutional responsibilities for service delivery. Such systems may be misaligned, or non-

existent. For example, funds for operational inputs may need to be allocated to local governments responsible for service delivery, instead of to central ministries.

7. **Focus SBS inputs on alleviating the critical constraints to service delivery.** This means identifying how funding, dialogue, conditionality and technical assistance/capacity building can support the strengthening of downstream processes, including the direct management of front-line service staff and delivery processes; human resources for service delivery, and incentives and accountability for service delivery.
8. **Gear dialogue and conditionality to strengthening incentives for domestic actors to improve service delivery.** This can be done at the centre (i.e. sector ministry headquarters and the ministry of finance), but must also be done at the level of service delivery. At the centre, the influence of conditionality and dialogue is indirect. This influence can be maximised by identifying a limited number of critical service-delivery issues which the centre can influence and then focusing dialogue and conditionality on those issues. At the delivery level, specific conditionality frameworks need to be developed which provide incentives for the strengthening of institutional capacity and systems. Conditionality frameworks, whether upstream or downstream, should focus on issues and actions over which the institutions involved have control. Service delivery targets are typically not appropriate as conditions because service delivery processes are complex and individual institutions typically do not have full control over such results.
9. **Make sure SBS delivers reliable funding for service delivery.** This means that funding levels should remain predictable throughout budget formulation and execution cycle. Conditionality must be applied and SBS commitments made before the start of the budget formulation process, on the basis of last financial year's performance. Donors should never cut disbursements within a financial year. Providing medium- and long-term commitments to SBS flows helps cement predictability. Donors should be held to account, within a mutual accountability framework, for both the timing and level of SBS commitments and disbursement, relative to what was planned.
10. **Insist that sector donors and government actors work together to make links to civil-service, decentralisation and public financial management reforms.** Greater mutual reinforcement between cross-cutting and sector reforms can be achieved through more joint working; ensuring consistent rather than conflicting donor dialogue; and establishing consistent and mutually supportive conditionality frameworks for GBS and SBS.

### ***Improving Policy and Guidance for the design and implementation of SBS***

145. The donor headquarters study made two important observations: that there was a lack of guidance from donor headquarters on the design and implementation of SBS instrument; and the variability of SBS instruments employed by SBS donors in different countries implied flexibility at the country level in the design of SBS instruments.

146. There is a definite need for improved guidance from within donor agencies for the design and implementation of SBS at a country level. It is important that this is not at the expense of recipient countries being able to define the nature of SBS within country. Headquarter requirements should not become inflexible blueprints which prevents the harmonisation of approaches across donors at the country level.<sup>11</sup>

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<sup>11</sup> There is a danger that this happens. This is most visible in the case of the European Commission, where a standard framework for conditionality and disbursement is implemented, regardless of the prevailing SWAp arrangements and the practice of other donors.



147. The most important opportunity in improving the practice of the delivery of SBS is at the country level. The establishment of clear principles for the provision of SBS at the country level – with the role of recipient institutions, the Ministry of Finance and other ministries leading important crosscutting reforms, and donors all clearly laid out and agreed would help in improving practice in the delivery of SBS. There is latitude to do this in a way which responds to the specific context of the recipient country alongside other aid modalities in support to the sector, crosscutting reforms and the budget overall.

#### **4.5 Towards a Virtuous Circle of More Effective Aid at the Sector Level**

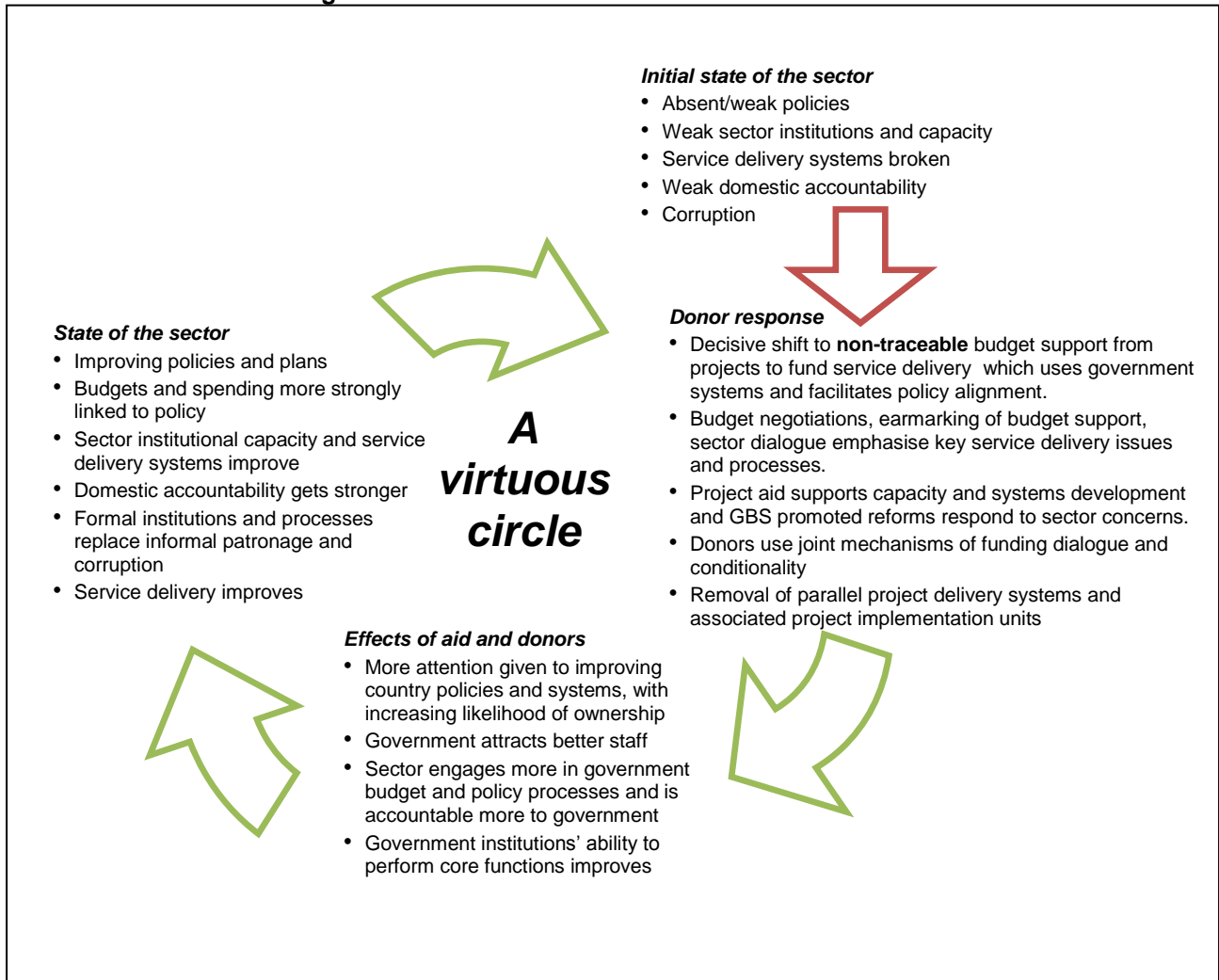
148. Chapter 1 set out the broad challenge of improving aid effectiveness at the sector level. Well designed and implemented SBS programmes, when provided alongside complementary aid instruments, are potentially important for breaking out of the ‘vicious’ circle and creating a more ‘virtuous’ circle of improving aid effectiveness in the sector, as shown in Figure 11.

149. In several cases the donor response has gone a long way towards creating such a virtuous circle, where the effects of donor behaviour reinforces improvements to sector policies and service delivery. However, a key challenge in ensuring the effectiveness of SBS and the effectiveness of aid at the sector level more generally is the need to re-engineer the internal incentives within aid agencies and recipient organisations.

- For donors, this means a change of organisational culture and systems so as to align staff incentives at headquarters and country level with a genuine result orientation – which moves beyond performance targets to a focus on strengthening of systems and processes for service delivery and encouraging collaborative working across disciplines. This also demands a more sophisticated approach to managing risk, addressing its causes rather than attempting to bypass it with unnecessary or counter-productive derogations from country systems.
- For recipient governments, it means demonstrating a commitment to address the quality and equity of service delivery as well as access. It also requires efforts to increase the legitimacy of national systems, and improve dialogue within government across sectoral and cross-sectoral reform processes.

150. In conclusion, this study has demonstrated SBS as an important and potentially effective modality for supporting improved service delivery in developing countries. The accompanying Good Practice Note is a starting point for the establishment of better practice in the design and implementation of SBS programmes.

Figure 11: The Virtuous Circle for More Effective Aid



Updated from Williamson and Kizilbash (2008) on the basis of study findings

## **PART II – ASSESSMENT OF SECTOR BUDGET SUPPORT IN PRACTICE USING THE STUDY METHODOLOGY**

## 1. Introduction

151. Part II of the Synthesis Report provides an in depth assessment of Sector Budget Support (SBS), describing the study methodology, and then synthesising the findings according to the four steps in applying that methodology. It therefore provides the evidence base for the key findings set out in Part I and the Good Practice Note. The ten case sector studies and donor headquarters study, which are also available as stand-alone reports, provide in depth information on SBS in practice.

152. Part II is structured as follows:

- Section 2 provides a brief background of approaches to aid delivery, aid modalities and SBS;
- Section 3 summarises of the methodology employed in the study;
- Section 4 describes context in which SBS has been provided;
- Section 5 sets out the nature of SBS inputs provided, the different approaches to SBS employed and the effects SBS has had on the quality of partnership in the sector;
- Section 6 identifies the effects SBS has had on partner governments' in four areas:
  - Policy, Planning, Budgeting, Monitoring and Evaluation Processes and Sector Expenditure
  - Procurement, Expenditure Control, Accounting and Audit Processes
  - Capacity of Sector Institutions and Systems for Service Delivery
  - Domestic Ownership, Incentives and Accountability
- Section 7 then draws together the main outputs of SBS, and the influence this has had on service delivery outcomes in the sector.

## 2. Approaches, Aid Modalities and Sector Budget Support

153. In order to assess SBS it is first important to understand broader donor approaches to supporting sectors and different types of aid modality employed by donors in this regard. There is much ambiguity and confusion in how terms are used in the literature and in practice. In this section we explain common concepts and clarify common confusions. This section concludes by attempting to clarify the definition of SBS as an aid modality, and the potential role of the SBS instruments in the context of approaches to improve aid effectiveness. This section is supported by more in depth analysis in the SBSiP literature review (Handley, 2009a).

### 2.1 Approaches, Aid Modalities and the Aid Effectiveness Agenda

154. From the outset, it is important to make a broad distinction between aid delivery *approaches* and *aid modalities*. Approaches usually involve a set of guiding principles, some or all of which will be implemented in practice, and include Programme-Based Approaches (PBAs) and Sector Wide Approaches (SWAs).

155. The term 'aid modality' refers to the type of mechanism by which aid is delivered such as Projects, Common Basket Funds, SBS and General Budget Support (GBS). Approaches such as PBAs and SWAs can therefore be supported by a wide variety of aid modalities but they are not aid modalities themselves (a common mistake in the literature). Approaches typically emphasise a process of change in the nature of partnership between donors/creditors and recipient governments and building of recipient ownership. In contrast different aid modalities have specific features which distinguish them from each other. Finally, an 'aid instrument' is a specific instance of an aid modality, and represents the whole package of inputs associated with the delivery of that aid.

156. Underpinning approaches to external assistance and reforms to aid modalities, is the Aid Effectiveness agenda. The Paris Declaration was an important milestone which built on emerging thinking and practice in terms of both *approaches* to external assistance, and aid *modalities*.

### **Programme-Based and Sector-Wide Approaches**

157. PBA are now as central to successful development assistance (see Lavergne and Alba (2003) for a discussion), and were adopted as an important component of the Paris Declaration. PBAs stress comprehensive planning and coordinated donor assistance in support of a PRS or sector strategy. They are intended to support domestically owned development ‘programmes’, which should be that of a developing country government or institution, which one or more donors have agreed to support. The components of a PBA are set out in Box 3 below.

#### **Box 3: Programme-Based Approaches**

Programme-Based Approaches (PBA) are a way of engaging in development co-operation based on the principles of co-ordinated support for a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organisation. Programme-Based Approaches share the following features:

- (i) Leadership by the host country or organisation;
- (ii) A single comprehensive programme and budget framework;
- (iii) A formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement, and;
- (iv) Efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation.

Donors can support and implement Programme-Based Approaches in different ways and across a range of aid modalities including budget support, SBS, project support, pooled arrangements and trust funds.

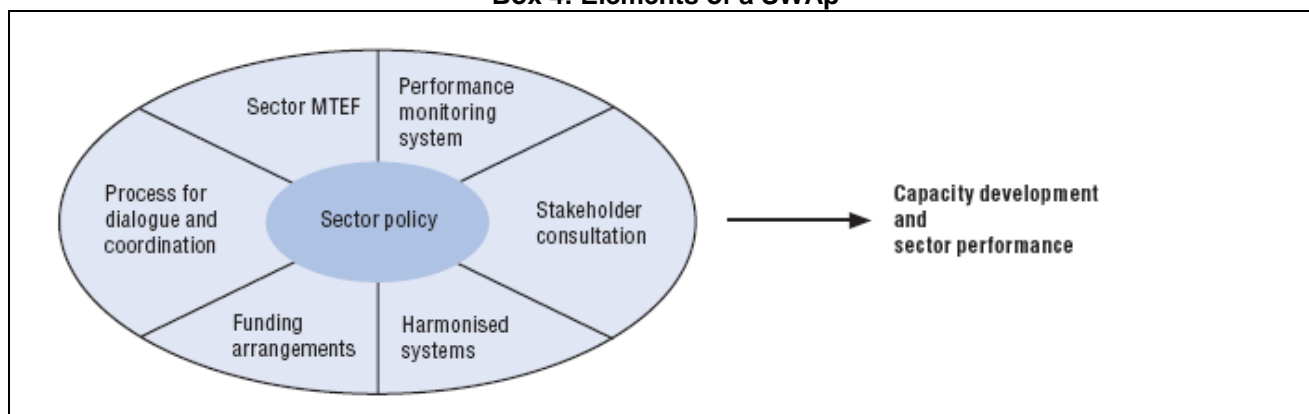
Source: OECD/DAC (2008; p. 37).

158. SBS is typically provided in support of a SWAp, which is a form of PBA focused at the sector level. A “sector” represents a set of activities commonly grouped together for the purpose of public action such as health, education, agriculture or roads. SWAps became increasingly widespread in the 1990s in response to the failings identified with a strongly project focused approach to aid delivery which prevailed prior to their development. There was a realisation that, to address sector concerns, engagement in structural and institutional reforms and capacity building was needed.

159. As with PBAs, SWAps are defined according to a set of common elements or principles, with an emphasis on the trajectory of change. The classic definition of a SWAp is that “*all significant funding for the sector supports a single sector policy and expenditure programme, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all funds*” (Foster, 2000; p. 9). Definitions of SWAps should be read in conjunction with the widely held view that “*...a SWAp should not be seen as a blueprint, but rather as a framework setting a direction of change – towards better coordinated and more effective aid management*” (ODI, 2008; p. 5).

160. Box 4 below shows the elements of a SWAp as provided in OECD/DAC guidelines. There is a strong emphasis on the SWAp primarily as a set of tools (e.g. sector MTEF) and processes (e.g. dialogue and coordination). This has some drawbacks. As Boesen and Dietvorst (2007) argue, the emphasis on technocratic process and tools confuses means with ends at the expense of development results. Furthermore, when operating in a country with weak ‘governance’ or otherwise, public sector interventions are inherently political. Effecting change depends upon identifying, mobilising and sustaining coalitions for reform both within and without the bureaucracy, as well as introducing tools and processes.

Box 4: Elements of a SWAp



Source: OECD-DAC (2006);

161. An explicit component of the SWAp definition is the transition towards an increasing reliance on government procedures to account for and disburse all sector funding, including aid. In theory at least, most SWApS are in the midst of a transition. Over time, the intention is: to capture all sources of funding to the sector; to make the coverage of actors and activities in the sector comprehensive; to bring ongoing projects into line with sector policies and plans; and to develop and to apply common procedures for external funding which increasingly reliance on government. Importantly there are no particular aid modalities that act as necessary preconditions for the existence of a SWAp – there is no requirement for a sector level common basket fund for example. However it does imply a shift in aid modalities over time.

#### **Aid Modalities, Funding Channels and Pooled Funding**

162. Traditionally there are two broad types of aid modality in support of government expenditure – budget support<sup>12</sup> and project aid. As regards the official definitions of (direct) budget support, there is a relatively clear consensus around the OECD/DAC definition of budget support as:

*“...a method of financing a partner country’s budget through a transfer of resources from an external financing agency to the partner government’s national treasury. The funds thus transferred are managed in accordance with the recipient’s budgetary procedures. Funds transferred to the national treasury for financing programmes or projects managed according to different budgetary procedures from those of the partner country, with the intention of earmarking the resources for specific uses, are therefore excluded from this definition of budget support” (OECD/DAC, 2006; p.26).*

163. Interestingly there are few clear definitions of project aid. However generally project aid can be seen as external funding supporting a specific and separately identifiable set of inputs and activities.

164. In making the distinction between project funding and budget support, the funding channel is important. A recent study on Using Country Budget Systems for aid delivery identified three distinct funding channels for aid (Mokoro 2008):

- *“Channel 1 is the normal channel used for government’s own-funded expenditures. Aid is disbursed to the government’s finance ministry (or “treasury”), from where it goes, via regular government procedures, to the ministries, departments or agencies (MDAs) responsible for budget execution. Note that Channel 1 funds may or may not be earmarked for specific expenditures.*

<sup>12</sup> Budget Support is a subset of Programme Aid (which is distinct from PBA), which includes Balance of Payments Support (Import Support, Debt Relief) and Food Programme Aid.

- *In Channel 2, external funds are provided directly to a particular MDA – most often a sector ministry, and managed through special accounts outside of the regular government system. Thus, Channel 2 funds, although held by a government body, do not follow the normal government procedures.*
- *In Channel 3, expenditure is undertaken by the donor agency itself or by non government agents on its behalf. Assets or services are delivered to the Government in kind, but government does not handle the funds itself.”*

165. Budget Support can be distinguished by the fact that it universally uses Channel 1, whilst typically project support will use either Channel 2 or Channel 3.

166. A further important dimension of aid modalities, in the context of PBAs and the aid effectiveness agenda, has been the pooling of funds from different donors, with a view to reducing the fragmentation of support, and improving coordination. This can be done for aid using Channels 1, 2 or 3. Pooling should be, *de facto*, automatic in the context of budget support once it reaches the recipient countries’ treasury. Therefore, pooled funding is typically associated with project support, and referred to as Common, or Basket Funding, or as used in this study Common Basket Funding. The OECD/DAC GBS Evaluation (IDD and Associates, 2005) defines Common Basket Funds as:

*“... arrangements where donors provide funding to a common basket, to be spent by specific agencies of government on agreed programmes. Funds do not pass through the Treasury account following normal budget procedures but are held in separate bank accounts from which funds are transferred directly to concerned agencies, alongside separate reporting procedures.”*

167. The stylised typology of aid modalities described here, and the association of basket funding with project aid should also be treated with caution: as we shall see, in practice aid instruments do not conform to neat definitional boxes – least of all SBS.

### ***The Dimensions of Aid Instrument Design***

168. As will become apparent in this report, the design of an aid instrument goes far beyond the choice of modality and broad approach to external assistance within which the aid instrument fits. Before discussing SBS specifically, it is important to set out some of the other dimensions of aid instrument design.

169. Firstly, the degree of **earmarking** of funds is important. Earmarking is a requirement that all or a portion of external funding is devoted to a certain area of public expenditure. This can be very specific – to discrete sets of activities or projects, or broad – to an overall sector or set of sectors. It is important to note that earmarking can relate to either budget support or project support. Whilst project support always contains a degree of earmarking, budget support can be completely un-earmarked.

170. **Additionality** typically applies to aid to government, and refers to requirements from the donor that the provision of external funding earmarked to a set of expenditures leads to an increase in total expenditure allocations to those expenditures. Additionality attempts to address the problem of fungibility, which arises because government resources can be substituted for aid resources. If aid finances any activity that the recipient would otherwise have financed itself, the resources that the recipient would have spent on that activity become available to finance something else.

171. A third dimension of funding arrangements is its **traceability**. If an aid instrument is traceable, this means that expenditures funded by that instrument are separately identifiable from those funded by other revenue sources. If it is not traceable, expenditures are not separately identifiable. Whilst all external funding using Channels 2 and 3, is by definition traceable, funds

using Channel 1 may be traceable or not. Traceability is an important concern for the design of budget support instruments, and is described in Box 5 below:

### Box 5: Traceability of Budget Support

**Traceability** involves the way in which donor funds are attributed to a particular use. Funds are either traceable, or not:

- (i) **Traceable**, whereby allocation, disbursement and spending of funds is via specified and separately identifiable budget lines. This bypasses the normal procedure by which revenue is pooled with all other revenue in a general fund and then allocated among various government spending programmes. *De facto*, a traceable aid instrument must involve a degree of earmarking, although this may be very broad - this is often referred to as *real earmarking*.
- (ii) **Non traceable**, whereby external funding is not identifiable by separate budget lines. If earmarked, the allocation of funds is justified against budget allocations to pre-agreed institutions or budget lines, and is pooled with other government revenues in the general fund. When non traceable SBS is accompanied by earmarking - this is often referred to as *notional earmarking*.

Source: SBSiP Literature Review

172. A further important dimension is the **use of national systems**. The above discussion of the three disbursement 'channels' (government, MDA and external) is central here. However, it is also important to capture variability *within* disbursement channels. Aid within both Channel 1 and Channel 2 may use national systems to differing degrees. Table 2 below shows the main dimensions of how aid can use government's financial management systems.

**Table 2: Dimensions of Aid's use of Government PFM Systems**

Term	Definition
On plan	Programme and project aid spending integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions.
On budget	External financing, including programme and project financing, and its intended use reported in the budget documentation.
On parliament (or "through budget")	External financing included in the revenue and appropriations approved by parliament.
On treasury	External financing disbursed into the main revenue funds of government and managed through government's systems.
On accounting	External financing recorded and accounted for in government's accounting system, in line with government's classification system.
On audit	External financing audited by government's auditing system.
On report	External financing included in ex post reports by government.

Source: Mokoro (2008)

173. There may be important variations in degree to which aid uses government systems and institutions. There may be **derogations** from stages of national public financial management (PFM), and monitoring and evaluation (M&E) systems (e.g. separate M&E matrices, use of own procurement procedures etc.). Aid may support government institutions and service delivery systems, may bypass them or create parallel systems. **Additional requirements** over and above the procedures required by national systems, such as additional reporting requirements and external audits may be required.



174. Other elements of instrument design include the type and terms of finance; procurement conditions; dialogue; conditions; and the degree to which national systems are used. These are summarised in Box 6 below:

**Box 6: Dimensions of Aid Instrument Design**

- **Type and terms of finance.** Aid may be provided as a grant or as a loan, and loans may be given on concessionary terms and differing repayment periods.
- **Procurement conditions.** Aid may be purely financial or ‘in-kind’. Aid may be tied to particular sources of supply or not, and particular procurement procedures may be imposed to substitute for or in addition to existing ones.
- **Dialogue** may be government-wide or specific to particular sectors, sub-sectors, programmes or projects.
- **Conditions** comprise three broad categories (Dom, 2005; p. 10):
  - Conditions of ‘due process’, which justify external trust in governments’ policy-making and PFM systems and in their commitment to a partnership approach;
  - Conditions related to expected/desired policy/institutional changes (or actions indicating milestones towards these changes) – a key issue here for SBS is the use of conditionality regarding the additionality of donor funds and;
  - Conditions related to results (expected from these policy/institutional changes) against (output/outcome) indicators (e.g. of service delivery).

*Source: Literature Review*

175. A final dimension of design, of particular relevance to budget support, is the approach to technical assistance (TA) and capacity building. This may be linked to the administration of specific projects, or to supporting the strengthening of national systems and institutions. In the context of budget support, technical support and capacity building may be delivered through budget support funding itself, or through parallel project support linked in some way to the budget support funding.

176. These dimensions of aid instrument design are crucial in determining the nature of the aid instrument. This means that, within each modality there is a spectrum of aid instruments.

## 2.2 Sector Budget Support as a Spectrum of Aid Instruments

177. The definition of SBS was an important challenge for this study, from the outset. The OECD/DAC distinguishes GBS from SBS as follows:

*“...An additional distinction might be made between general budget support and sector budget support. In the case of general budget support, the dialogue between donors and partner governments focuses on overall policy and budget priorities, whereas for sector budget support the focus is on sector-specific concerns.” (OECD 2006)*

178. The OECD/DAC definition can be considered a ‘pure’ or ‘strict’ definition of SBS. In this regard the TOR for this study observe that:

*“In reality, there is a spectrum of different kinds of support which is labelled as SBS by donors and the Study Consultant will also examine cases which depart from this “purer” form of SBS. These “hybrid” forms may involve channelling funds through national budget processes but also incorporate various forms of “earmarking” to specific budget items, special reporting requirements, and separate accounting and procurement arrangements. Others may channel funds directly to the sector.”*

179. Given this observation, the spectrum of SBS approaches may vary from types of earmarked pooled funding on the one hand to GBS on the other. In 2004 the Strategic Partnership with Africa (SPA) developed a ‘proposed working definition’ for SBS as an aid modality whereby:

*“The primary purpose of SBS is to accelerate progress towards the government’s sectoral goals. In SBS, donor funds are taken fully into account in the recipient government’s planning and budget process, and are transferred into recipient government accounts and blended with domestic resources to be spent according to national procedures. The main (but not necessarily exclusive) focus of monitoring, conditionality and dialogue in SBS is around sector-specific issues.”* (SPA, 2004; p. 2).

180. For the purposes of this study, it was important that boundaries were placed on the spectrum of support to be considered as SBS from the outset. The first dimension was the funding channel. A boundary was set between SBS on the one hand and both Common Basket Funds and conventional projects on the other. The second was the scope of the dialogue and conditions associated with SBS. Sector SBS was defined as those aid programmes where:

- *“Aid uses the normal channel used for government’s own-funded expenditures. Aid is disbursed to the government’s finance ministry (or “treasury”), from where it goes, via regular government procedures, to the ministries, departments or agencies (MDAs) responsible for budget execution.*
- *The dialogue and conditions and other inputs associated with the aid should be predominately focused on a single sector.”* (SBSiP Inception report: p7)

181. Within these two broad parameters, there lies a spectrum of aid modalities. Aid using this channel can still be earmarked to specific sub-sectors, programmes or expenditures in the budget as observed in the TOR, or it can be fully un-earmarked. Similarly, SBS can be traceable, or not traceable through government systems. This means that there are, in theory, three main categories of SBS funding:

**Table 3: Three Main Categories of SBS Funding**

	<b>Earmarked</b>	<b>Un-earmarked</b>
<b>Non-Traceable</b>	Non-traceable Earmarked SBS	Un-earmarked SBS
<b>Traceable</b>	Traceable Earmarked SBS	

182. Furthermore, whilst monitoring, dialogue and conditions may cover the entire sector, they may instead be focused on a specific sub-sector or programme within a sector. This draws a distinction with GBS where there may be dialogue across multiple service delivery sectors.

183. Whilst the level of earmarking, its traceability and the focus of dialogue and conditions define the broad spectrum of SBS, it is important to note that SBS has other inputs associated with it which vary significantly<sup>13</sup>. This includes links to the provision of TA and capacity building and specific coordination arrangements.

184. Finally, it is important to note that SBS as a modality fits comfortably within the concept of a SWAp due to its use of government’s funding channels, and potential for use of government systems and joint funding. Nevertheless, within the spectrum of SBS instruments there is scope for significant derogations from government systems.

<sup>13</sup> The OECD-DAC evaluation framework for GBS (IDD and Associates, 2006; Lawson and Booth, 2004) provides for the following inputs: funds, dialogue, conditionality, technical assistance, capacity building, harmonisation and alignment.

185. In fact, as we shall describe in Section 5.1, SBS was provided in the context where at least some, but typically all the elements of SWAP had been established in all the case studies. Before doing so, we now turn to the methodology by which SBS was assessed.

### 3. Methodology for Assessing Sector Budget Support in Practice

#### 3.1 The Framework for Assessing Sector Budget Support in Practice

186. The primary study question from the Terms of Reference is:

*How far has SBS met the objectives of partner countries and donors and what are the good practice lessons that can be used to improve effectiveness in future?*

187. The methodology for sector case studies developed was geared towards answering this question by using a solid assessment framework which provided a rigorous and systematic approach. The assessment framework focuses on the sector level and identifying the contribution of SBS to sector results. The framework was applied in such a way that the contribution of SBS was put into context – in terms of the broader sectoral, aid and country environment.

188. A logical framework approach was taken, with four levels similar to those in the OECD/DAC evaluation framework for GBS. The framework links SBS inputs (Level 1), the immediate effects (Level 2), outputs (Level 3) and outcomes (Level 4), helping to improve our understanding of the link between SBS and results:

- Level 1 breaks down SBS into inputs, both financial and non financial inputs such as dialogue, conditionality and associated TA and capacity.
- Level 2 sets out the immediate effects of SBS inputs on the overall nature of external assistance to the sector.
- Level 3 covers the outputs of SBS in terms of its influence on sector policy, budgeting, institutional and service delivery systems and processes.
- Level 4 examines the likely influence of SBS on outcomes in the sector, in terms of the achievement of sector policy objectives and improvements in service delivery.

189. The framework also recognises the importance of external factors on the effects of SBS, as well as the importance of the context within which SBS is provided. It also recognises that SBS is a continuing process, in which successive rounds of support are influenced by feedback from earlier rounds.

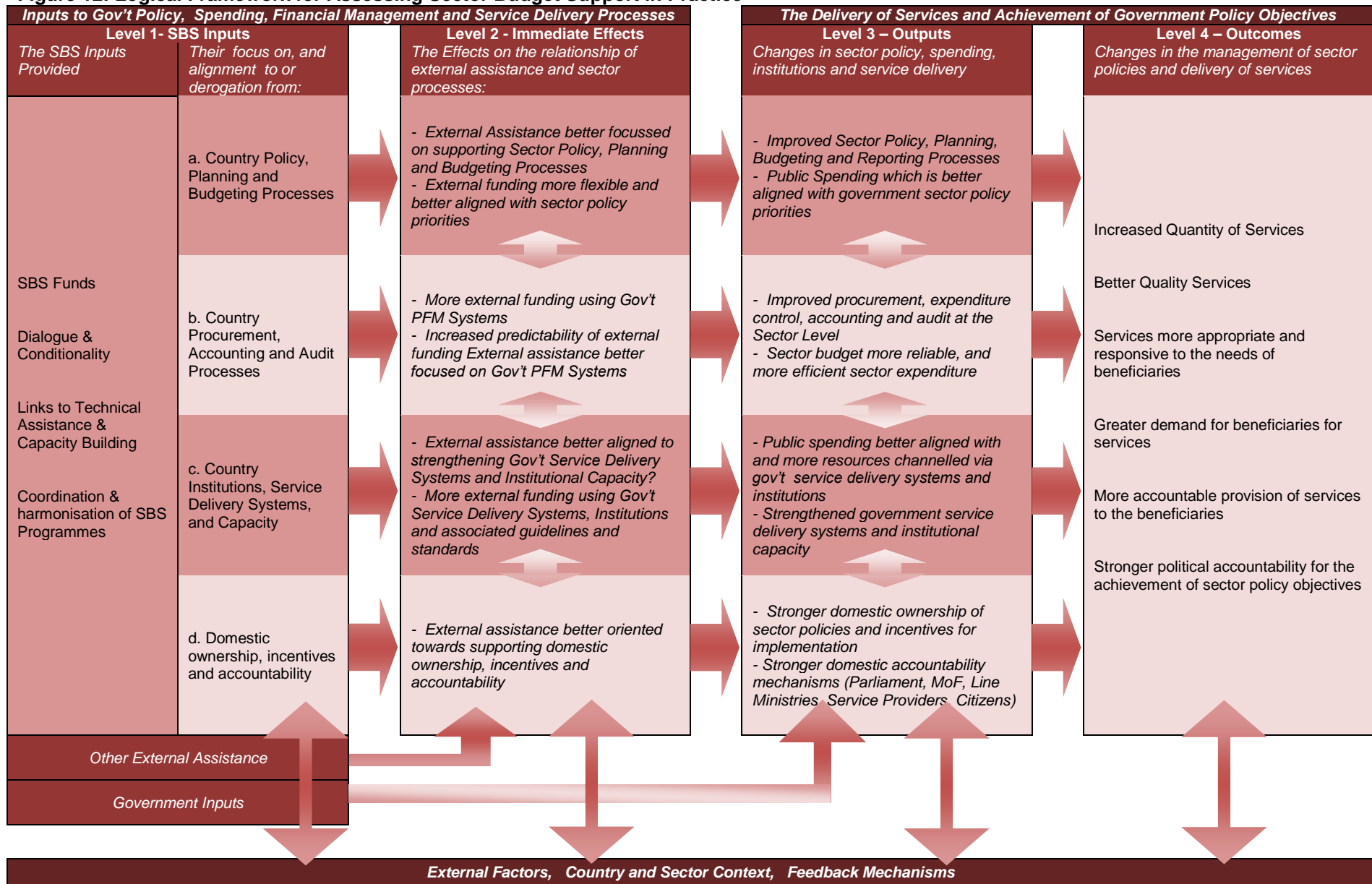
190. Although the assessment framework covers outcomes (level 4), this study is focusing on SBS in practice. It therefore focuses mainly on the inputs and outputs of budget support (Levels 1 to 3). The framework was used as the basis for the identification of good practice. For the purpose of this study, good practice is defined as:

*Instances where SBS inputs (level 1), and their influence on the overall nature of external assistance to the sector (level 2), have helped strengthen sector processes (level 3) in areas which have improved, or will plausibly improve, service delivery outcomes (level 4).*

191. This definition includes cases where an appropriate balance between alignment with sector processes and legitimate derogations from those processes is reached in the sector, taking into account any implications/effects of these derogations beyond the sector. In such circumstances the counterfactual was also investigated: i.e. what would have happened to the effects of SBS in the absence of these derogations?

192. The assessment focused on the last ten years or the period over which SBS has been provided, whichever was shorter. In some countries contextual factors were examined over a longer time horizon, but collection of hard data on SBS and its effects focused on the 10 year period.

**Figure 12: Logical Framework for Assessing Sector Budget Support in Practice**



### 3.2 A Four Step Approach

193. The assessment framework sets out an hypothetical intervention logic of SBS through the four levels. However, following the sequence implied by the four levels of the assessment framework, carries the danger of over-emphasising the contribution of SBS towards sectoral results, relative to other contextual factors. In order to avoid these dangers, the assessment was carried out in four steps (see Box 7).

#### Box 7: Summary of the ‘Four Steps’ to the Assessment of SBS in Practice

The four steps through which the assessment framework will be applied are as follows (explained in more detail in the text below):

1. Overview of country, sector, and aid context, including evolution of sector outputs;
2. Collation of information on the exact SBS inputs provided to the sector;
3. Assessment of the effects of SBS from inputs to outputs (i.e. across Levels 1 to 3), and;
4. Assessment of contribution of outputs to improvements in sector outcomes (level 4).

These steps draw from the ‘three-step’ approach set out in Caputo et al (2008), where the suggested steps are as follows: (i) the evaluation of inputs to outputs (analogous to step 3 here); (ii) an evaluation of outputs to impact (analogous to step 1 here, but in the case of this study there is no effort to assess impact), and; (iii) combining and comparing the results of the first and second steps, i.e. asking whether the outputs influenced by budget support in step 1 are consistent with the outcomes and impact of the outputs identified in step two (analogous to step 4 here).

The additional stage adopted in this study is step two, which sets out SBS inputs in more detail through the establishment of an inventory. A second key difference is that the overview of sector outputs *precedes* the assessment of effects from inputs to outputs since the latter can only be fully understood in the light of the former<sup>14</sup>.

194. **Firstly** the country, sector<sup>15</sup>, and aid context was established. It is important to understand the environment in which SBS is provided, and the major factors behind any improvements in sector outputs and outcomes.

195. The **second** step was to collect information on the SBS provided to the sector, including any broad types of SBS. In doing so, an inventory of different SBS-type instruments was established. This step was crucial, to establish the exact SBS inputs that were provided, and how they have evolved over time. This step also involved an examination of the effects of SBS, in general terms, on the quality of the partnership between donors, the recipient government and other domestic stakeholders in the sector.

196. The **third** step was an assessment of the effects of SBS up the first three levels of the assessment framework along four interrelated aspects of sector processes:

- (i) Policy, planning and budgeting processes and M&E systems and sector expenditure;
- (ii) Sector procurement, expenditure control, accounting and audit processes;
- (iii) Sector institutions, their capacity and service delivery systems;
- (iv) Domestic, ownership, incentives and accountability.

197. This step is the core of the assessment of SBS in practice. For each of these four aspects, the inputs and immediate effects of SBS was assessed, as well as the sector outputs influenced by SBS. In the context of the theme, any examples of better or worse practice were identified. Whilst the focus was on the operational aspects of SBS, the levels of the logical framework were used to assess the results influenced by SBS, and therefore the basis of identification of better practices.

<sup>14</sup> This methodology is often referred to as contribution analysis (Mayne 2001).

<sup>15</sup> In some cases the sector may not be clearly defined, and this will need to be explained.

The **fourth** step examined whether any of the improvements in sector outputs that were identified as having been influenced by SBS in step three are likely to have contributed (or to contribute in future) to improvements in sector outcomes. At this stage, the studies attempted to provide a judgement of the relevance of the outputs influenced by SBS to the improvement of sector outcomes, using available information.

### 3.3 Study Questions

198. In order to ensure a systematic assessment of SBS along the levels of the framework and the four steps above, a set of standard Main Study Questions (SQs) were developed. They are shown in Box 8 below.

#### Box 8: Main Study Questions

<p><b>Step 1: Setting the Country, Sector and Aid Context</b></p> <p>SQ1.1: What have been the main national trends in poverty, economic performance, governance, and public sector delivery prior to and during the provision of SBS?</p> <p>SQ1.2: How have sector processes, institutions, accountability and service delivery outcomes evolved prior to and during the provision of SBS?</p> <p>SQ1.3: What has been the environment for external assistance at the national and sector level?</p> <p><b>Step 2: The Key Features of SBS Provided and its Effects on the Quality of Partnership</b></p> <p>SQ2.1: What are the key features of the SBS that has been provided?</p> <p>SQ2.2: To what extent have SBS inputs derogated from country policies, systems and processes, and are these a result of country specific concerns and/or headquarter requirements?</p> <p>SQ2.3: Has SBS contributed positively to the quality of partnership and reduction in transaction costs between development partners, the recipient government and civil society?</p> <p><b>Step 3: The Influence of SBS in Practice on the Sector and Lessons Learned</b></p> <p>SQ 3.1: What has been the influence of SBS on sector policy, planning, budgeting, M&amp;E processes and expenditure, and what are the constraints faced and lessons learned in practice?</p> <p>SQ3.2: What has been the influence of SBS on procurement, expenditure control, accounting and audit systems at the sector level, and what are the constraints faced and lessons learned in practice?</p> <p>SQ3.3: What has been the influence of SBS on sector Institutions, their capacity and systems for service delivery, and what are the constraints faced and lessons learned in practice?</p> <p>SQ3.4: What has been the Influence of SBS on domestic ownership, Incentives and accountability in the sector, and what are the constraints faced and lessons learned in practice?</p> <p><b>Step 4: The Effectiveness of SBS, and the Conditions for Success</b></p> <p>SQ4.1: What are the main contributions that SBS has made to the improvement of sector policy processes, PFM, sector institutions, service delivery systems and accountability, and what were the conditions for success?</p> <p>SQ4.2: Have the improvements in sector systems and processes to which SBS has contributed, had a positive influence on sector service delivery outcomes, and are they likely to do so in future?</p>
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199. The main SQs are broad. To ensure they were approached consistently across countries, a number of more detailed sub-questions and assessment criteria were also developed under each main SQ. These drew from the questions in the TOR and the various evaluation frameworks of budget support<sup>16</sup>. In addition, suggestions of external factors, feedback loops, and contextual issues which are likely to influence the degree of influence of SBS were also made. As the available information in each case country study varied, the sub-questions and assessment criteria served primarily as a guide for investigation. In this spirit, the case study reports focus on the identification and documentation of good (and bad) practice in the context of each main SQ, and use the sub-questions and more detailed assessment criteria to ensure that the good practice is justified. To facilitate the answering of the SQs relating to Step 2, a standard inventory of SBS was developed.

<sup>16</sup> Annex 2 maps the questions from the TOR onto the relevant study questions.

200. The study on donor Headquarters Accountability Requirements, which provides an up-stream perspective of SBS, also drew from the assessment framework as Box 9 below describes.

**Box 9: Approach to Donor Headquarters Study**

The first element of the Headquarters study was therefore carried out as part of the full country case studies. The country case study methodology includes the following sub-question on Headquarters practices, which case study authors focused on:

*2.2b: How have donor headquarter concerns and requirements influenced the choice, design and implementation of SBS programmes, including any associated derogations from country systems and processes?*

Secondly the following were reviewed:

- Specific donor guidance to country offices on the provision of SBS, as well as GBS and Common Basket Funding provided by SPA task team members; and
- Literature on donor fiduciary and political accountability concerns, and associated incentives.

Thirdly, the Headquarters study author will hold a limited number of telephone interviews with donor Headquarters following the completion of the majority country visits. The answers to the study questions from case study authors informed the structure of these interviews.

*Source: SBSiP Inception Report*

201. This report now turns to the findings of the case studies, starting with an examination of the varying context in which SBS has been provided.



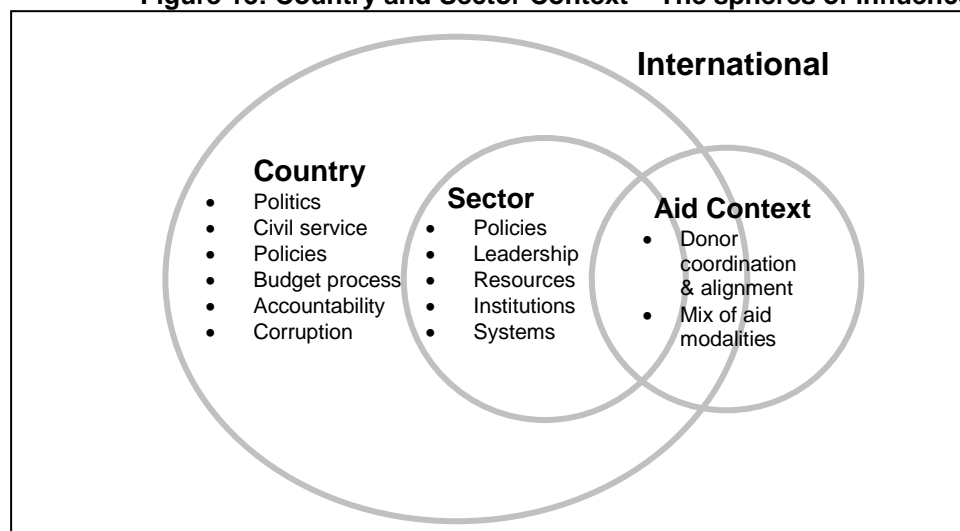
## 4. The Context in which Sector Budget Support is Provided

### 4.1 The importance of context

202. This section outlines the context in which SBS is provided, drawing primarily from the case studies<sup>17</sup>. In the case studies the contexts were analysed as three inter-related “spheres of influence”, as illustrated in Figure 13 below:

- The country context that is, how the political, policy, budgeting and broader economic situation in the country evolved before and during the implementation of SBS.
- The sector context before and during the provision of SBS, in terms of both: (i) the state and evolution of sector policy processes, budgeting, financial management, institutions and service delivery (level 3 outputs), and; (ii) the quantity and quality of service delivery in light of the sector policy objectives (level 4 outcomes)<sup>18</sup>.
- The aid context, that is, the state of and changes in the aid environment (i) in the country and (ii) in the sector, before and during the implementation of the SBS programmes.

**Figure 13: Country and Sector Context – The spheres of influence**



Source: Adapted from Williamson and Kizilbash (2007).

203. Studying these contextual “spheres of influence” was the first step in the case studies. The first reason is to identify any factors which might have influenced the choice of SBS as a modality and the design of SBS programmes which are discussed in Section 5. The second is to provide an overview of the sector results and of the context within which these results were obtained, *before* assessing the effects of SBS. This helps ensure that these effects are understood in the context of the other factors influencing sector results, and are not over stated. Documenting the different contexts in which SBS is provided also helps in understanding the strength of effects of SBS in practice discussed in Sections 6 and 7<sup>19</sup>. This section highlights the main similarities and contrasts across the case studies.

<sup>17</sup> The context analyses of the ten case studies are summarised in the Annexes.

<sup>18</sup> The study did not attempt to assess the impact of outputs on outcomes, but any existing assessments of the impact of sector outputs on outcomes was drawn from where available.

<sup>19</sup> The realist evaluation theory underpinning the study methodology uses the expression “context-mechanisms-outcomes configuration” (Pawson, 1997) to emphasise that outcomes (here SBS effects and sector outcomes) will always depend on the particular context in which an intervention (relying on specific and explicitly outlined mechanisms) is taking place.

## 4.2 Country Context

**SQ1.1: What have been the main national trends in poverty, economic performance, governance, and public sector delivery prior to and during the provision of SBS?**

### ***Economic Growth and Poverty Reduction***

204. In all case studies, at the time of the study the government was implementing its second or third medium term Poverty Reduction Strategy (PRS). Generally, over the generations, Poverty Reduction Strategy Papers (PRSPs) have shifted from a pure poverty reduction focus, to emphasising economic growth and development as well. Except in the case of education in Uganda<sup>20</sup>, this shift in policy priorities had not yet been reflected in significant changes in governments' budget priorities – at least with regard to the sectors studied.

205. All case studies present stories of quite good economic growth over the past decade. In several cases this was largely post-conflict recovery (e.g. in post-1992 Mozambique and post-1994 Rwanda). In Uganda, where conflict was earlier, robust economic growth has been maintained beyond this phase. In Uganda and Mozambique the end of conflict also ushered a transition to market-led economies. In Tanzania, Mali and Zambia, which did not suffer conflict, a similar move took place from the early 1990s.

206. Even though economic growth had been good overall, progress with income poverty reduction has been more mixed. There has been slow reduction of poverty and rising inequality in Rwanda and in Tanzania. Income poverty has decreased in rural areas in Mali and Zambia. In Mozambique the trend was more positive, with a significant decrease in poverty between 1996/7 and 2002/3, but this hid large regional variations as poverty actually increased in one of the already poorest provinces (Adams 2008). In Uganda income poverty fell dramatically early on, but since 2000 progress has slowed. The literature review found similarly weak or mixed track records with regard to income poverty reduction in other countries in which SBS was provided. There does not seem to be a direct link between the mixed trends in poverty reduction, and the rise of SBS as an aid instrument.

### ***Political Governance***

207. Thus in the case studies, SBS was developed and implemented in all cases in contexts of growing and liberalising economies, and in “democratising” political contexts. National elections were regularly held and even if they were not flawless, they represented a significant change after the decades of conflict and/or single-party rule which had hitherto prevailed. The literature review suggests nothing different for other cases of SBS programmes. More generally, there do not seem to be cases of SBS programmes in acutely fragile environments – in contrast with GBS which has been used in Sierra Leone, for example.

208. All the case study countries now feature political competition, regular multi-party elections and independent legislative, executive and judiciary branches of government. Yet in most cases, Parliament is still struggling to hold a more powerful and better capacitated executive to account. In several cases the weakness of Parliament arises from a lack of effective pluralism. Indeed in Uganda, Tanzania, Rwanda, Mozambique, even though political opposition is allowed, it is weak against the power of the “ruling party”. In these countries the ruling party was either initially legitimated by its role in the conflict from which the country emerged (Uganda, Rwanda, Mozambique) or was the heir of the previous one-party era (Tanzania). In Zambia and Mali the transition to multi-partyism in the early 1990s meant a rupture with the hegemony of the post-

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<sup>20</sup> In Uganda the share of the education sector fell quite significantly over the past few years as the government invests more in the productive sectors.

independence ruling party. But this did nothing to strengthen the independence of Parliament from the executive.

209. In Rwanda and to some extent Uganda the trend is changing, and Parliament is gradually becoming better able to play its role of check on the executive. However on the whole, SBS programmes were developed in contexts in which formal accountability of the executive to the legislature was weak. This does not mean that there was no “electoral pressure”. Indeed some of the measures that SBS programmes happened to be confronted with or to support arose from a form of less institutionalised, but nonetheless powerful, “accountability” of the country’s leadership to the people (e.g. Universal Primary Education in Uganda; abolition of local taxes in Uganda and Tanzania). However, this suggests that the “formal” domestic accountability processes that SBS programmes would aim to strengthen were not the only ones that mattered.

### **Public Sector Reform**

210. In all case studies some form of process of decentralisation or deconcentration is under way. However, there has been large variation in the form and scope of decentralisation achieved<sup>21</sup>, the pace of the reform, and the (apparent) level of political commitment. Box 10 summarises this.

**Box 10: Decentralisation in the SBSiP case studies**

<b>Rwanda</b> Educ. (2000)	Administrative decentralisation process was launched in 2000. In 2006: Enactment of political decentralisation (elected district councils), (limited) fiscal decentralisation (mostly earmarked transfers to districts), and administrative decentralisation, following a history of administrative deconcentration
<b>Mali</b> Educ. (2006)	Political decentralisation in 1999; administrative and (limited) fiscal decentralisation started in 2000; administrative and fiscal deconcentration started in 2006/7 in the education sector.
<b>Uganda</b> Educ. (1998) LG (2000)	Political, fiscal and administrative decentralisation (LG Act 1997). In practice, fiscal decentralisation is limited: sectors implement national policies through tight policy prescriptions and earmarked funding (conditional grants). Local discretion is further limited by central decisions reducing the local tax basis. However, district local governments have managed to build some capacity and are a presence in people’s life.
<b>Tanzania</b> LG (2004), Health (1999)	Political, fiscal and administrative decentralisation (policy introduced in 1998). Slow progress (e.g. little progress in developing legal framework). In practice, fiscal decentralisation is limited and service delivery is still mostly deconcentrated. Local discretion is further constrained by decisions curtailing the local tax basis thus reducing own source revenues.
<b>Zambia</b> Health (2006), Roads (2005)	Previous attempts at decentralisation (1980 and 1999) became highly politicised. A new policy is in place since 2004, and elected Councils are in place too. However, most service delivery is still deconcentrated.
<b>Mozambique</b> Health (2001), Agric (1999)	Long-standing lack of commitment as political decentralisation might have shifted the opposition/ruling party balance. In the 2000s, greater (de-concentrated) responsibilities to provincial and district levels. New government (2004) more committed, introduction of political and fiscal decentralisation is ongoing.

211. More specifically in relation to service delivery, the case studies differed in the extent to which management was deconcentrated or decentralised. In some cases there appeared to be scope for greater clarity in the decentralisation policy (e.g. Mozambique, Zambia, Mali); in others, while the policy was clearer in practice decentralisation was tempered by centralising tendencies emanating from sector institutions and reform processes (Tanzania, Uganda). In its current form decentralisation is at a very early stage in Rwanda. In all cases accountability of sub-national governments to their constituency was relatively weak. However, trajectories differed too: in Tanzania and Rwanda there is evidence of strengthening accountability; in Uganda, where decentralisation is strongest among the case studies, centralising trends have hampered further

<sup>21</sup> Devolution (transfer of decision-making power to local levels) differs from de-concentration (transfer of administrative functions) (form). Decentralisation can be administrative (transfer of operational responsibilities), fiscal (transfer of fiscal and spending responsibilities) and political (transfer of power to locally elected councils) (scope). It can progress at different paces in these domains. However, they are also inter-linked (e.g. political decentralisation is constrained by limited fiscal decentralisation as in e.g. Tanzania). The (form and scope) mix varies from country to country, and it evolves over time in any one country.

development in this respect; in the other cases the intentions behind the decentralisation policy were less clear anyway.

212. In all case studies there was a consistent pattern of relatively steady progress in strengthening PFM systems, however the period of reform varies – for example Uganda’s PFM reforms started in the early 1990s; whilst in Zambia, substantive engagement with and commitment to PFM reforms emerged only in the early 2000s. In a number of cases there was also a more recent move towards the development of comprehensive PFM reform programmes, usually with a view to ensuring more systematic coordination/sequencing of the reforms and of donor support (e.g. Mali, Rwanda, Zambia, Tanzania). Beyond these similarities, trajectories were fairly specific to each country in terms of where the focus was put first and how this evolved over time. In some countries reforms initially focused on budget formulation/MTEF (e.g. in Uganda and Rwanda); in others (Mali, Tanzania, Mozambique) the focus was initially stronger on budget execution and control functions.

213. In contrast with the overall upward trend in PFM systems, all countries studied showed less progress in the reform of the civil service – even though this was identified as a priority in all cases (e.g. the weakness of the civil service is said to be one of three biggest obstacles to development in Mozambique, Adams 2008). The oldest programmes (Uganda, Tanzania, Zambia) had some initial success in the case of Uganda (downsizing and first pay reform steps); but this was less clear in Tanzania and Zambia, and in Uganda the momentum faded away in the early 2000s. In a number of cases the civil service reform (CSR) directly and negatively affected service delivery. For example, restrictions on the government wage bill curtailed teacher recruitment and remuneration in Rwanda; there has been a lack of progress in pay reform in Tanzania; and a restriction on sector wage bill in health in Zambia and Mozambique.

214. Different elements of public sector reform have influenced the development of SBS programmes more than others. The trend towards more robust PFM systems appears to have facilitated the development of SBS programmes and/or a shift from projects and Common Basket Funds towards SBS. There was no sign of a PFM system/capacity threshold of any kind. Typically traceable and earmarked forms of SBS prevailed early on, with efforts to reduce these derogations over time. It is noteworthy that SBS was introduced before Common Basket Funding and with broad non-traceable earmarking in Uganda and Rwanda, where there had been a stronger focus and greater success earlier on in linking sector policies, plans and budgets, although less progress in other aspects of PFM. In Uganda SBS preceded a major shift towards GBS, whilst SBS was provided alongside GBS in Rwanda. In both cases frameworks for dialogue on sectoral resource allocation in the national budget process were established early. Neither the nature of decentralisation nor the negative trends seem to have affected donor decisions to engage in SBS programmes. However, as shall be described in section 6, the nature of decentralisation, PFM systems and CSR does influence the nature and extent of the influence of SBS.

### 4.3 Sector Context

**SQ1.2: How have sector processes, institutions, accountability and service delivery outcomes evolved prior to and during the provision of SBS?**

215. The case studies tell a similar story with regard to sector service delivery outcomes. That is, the past one or two decades saw a significant expansion of public service provision and as a result, greater access to services, however generally quality remained weak, and progress in service delivery outcomes was mixed, at best. In the case of agriculture in Mozambique even access to services did not improve over the period studied. One difference emerges among the case studies, between those in which SBS started to be provided early on where SBS accompanied the service delivery changes documented in the case studies (e.g. Uganda), and those in which SBS started to be provided more recently (e.g. Zambia Roads and Health, Mozambique Health) where SBS followed a period of expanding services. In Zambia in the health

sector, and in Mali in education, SBS was provided explicitly as an element of the response to the lack of progress in service delivery outcomes, but in other late cases this was not the case. In contrast a shift back to projects in the Ugandan education sector is at least in part motivated by a perception that SBS has been ineffective in addressing quality issues.

216. Whilst access increased (in certain cases very significantly) overall, in all cases there remained significant disparities: there were large geographical disparities in sector outcomes Uganda, Tanzania, Mali, Mozambique, Zambia; major urban-rural disparities in the Mali and Rwanda Education sector and roads in Zambia; and socio-economic disparities in Rwanda. Disparities in terms of gender were usually more squarely addressed, with some success in terms of access to primary education in Rwanda and Uganda – but less so in Mali. In the health sector there was no progress in reducing the maternal mortality rate in Tanzania, whereas there was some progress in post-conflict Mozambique. Generally it seemed that access to services would have to become significantly more equitable and of better quality to contribute to improved poverty reduction outcomes.

217. The story in terms of outcomes is not surprising when it is analysed against policies. In education, whereas sector policy frameworks were paying attention to both quality and access on paper, in practice priority was given to access over quality. For example, Universal Secondary Education followed Universal Primary Education in Uganda before quality was established in primary education; similarly, fee free education was rapidly extended from six-year primary to nine-year basic education in Rwanda. In the health sector there is a perennial tension between vertical programmes and integrated “basic health package” approaches. The 1990s saw a growing emphasis on integration and decentralised health service management, and SBS tended to support this in the cases studied. However, the 2000s saw a tremendous increase in a new generation of vertical global programmes and associated funding, focusing on HIV & AIDS and the associated disease burden, immunisation, and malaria. Policy implementation in the countries studied for this review reflects this tension. A tension between expanding access to health care and cost recovery is also reflected in the case studies: cost recovery for basic health care, established in the early 1990s, is still in place in Mozambique and Tanzania whereas the Zambian government recently decided to eliminate this.

218. In general, sector budget envelopes were on the increase in all case studies. However, there were many nuances. In particular, the link between budgets and policy priorities was uneven across cases. In all three health cases sector funding was heavily dependent on aid flows. International vertical funds have driven considerable increases in sector resources over the past five years. De facto, available funding has driven priorities rather than policy in the health sector case studies. In Uganda and Tanzania SBS in support of local governments was provided in contexts in which the total volume of transfers to local governments significantly increased but most transfers were tightly earmarked to direct local governments’ implementation of sectoral policies, whereas funding for locally decided priorities was being reduced by decisions such as the elimination of local taxes. In Uganda and Rwanda SBS accompanied significantly higher recurrent resources to the education sector to support the fee free primary education policies. Yet in Uganda, the trend in intra-sector resource allocation to education is now reversing. In Mali the education budget increased very significantly in volume but not in terms of share of the government budget. In the education sector there was a significant reorientation of within-sector spending towards primary education in Uganda and Rwanda, though this is now changing with the increased focus on secondary education in Uganda. Spending reorientation was less significant in the education sector in Mali. Trends in health were not very clear, and changing due to the influence of the vertical funding as noted above.

Table 4: Snapshots of sector contexts and SBS

	Sector policy	Sector results	Budget for sector	Factors behind sector results
<b>Rwanda education</b> (SBS - 2002)	Post-1994 recovery; Fee free primary education (2003); Expanded to 9 year basic ed. (2006). Education sector policy in 2003; rolling 5-year education strategic plan starting in 2003; 10-year strategy and financing framework 2006-2015	NER primary education significantly up; deterioration in proxy quality indicators (Pupil - Teacher Ratio, Pupil-Classroom Ratio); high/constant drop-out & repetition rates. Gender parity achieved in terms of access to primary.	Rapid increase since 2000 in volume and share (from 11 to 20% recurrent share). Significant within-sector reorientation to primary education. Strong increase in education sector budget share spent at local level (schools) since 2004	Insufficient number of qualified teachers (and uncertain teacher motivation).
<b>Mali education</b> (SBS - 2006)	Sector-wide development programme (PRODEC) 2000; with Second implementation plan (2006) focusing (in theory) on quality and decentralised mgt	Strong expansion in access to primary (started before PRODEC). Quality suffered and this has not yet changed. Significant regional, urban/rural and gender disparities remain.	2001/2-2005/6: Increase in volume and in total share but mainly investment (large aid flows focused on “development”, including SBS).	Provision of inputs (trained teachers, classrooms) lagged behind even with PRODEC is in place.
<b>Uganda education</b> (SBS - 1998)	Post-1986 recovery White paper/policy 1992/3 UPE 1996 (presidential decision) USE 2006 (presidential decision)	Massive expansion in primary (1996/7), now starting in secondary (2006). Early trend of deteriorating proxy quality indicators in primary was stopped. Average primary education achievement remained low.	Three phases: 1) Post-UPE: Very rapid expansion and reorientation on primary; 2) Sector and primary education envelopes flattening in real terms; 3) Past 2/3 years (post-USE): Inflation and priority to secondary eroding primary funding.	Clear prioritisation of access. Budget increase eroded by inflation, insufficient to ensure both, continued priority to access, and quality improvement measures.
<b>Uganda LG</b> (SBS - 1999)	Local Government Act 1997 Fiscal Decentralisation Strategy (FDS) 2002	Legal and policy framework in place; Implementation more mixed (e.g. weak implementation of FDS, erosion of local tax basis); yet LGs are important in people's life.	Large increase in transfers to LGs (+56% from 2001/2 to 2008/9) for sector service delivery; But decreasing local fiscal discretion (including decreasing own source revenues).	Sector resistance and politically-motivated decisions straining LG (human, financial) capacity (district split, erosion of local tax base).
<b>Tanzania LG</b> (SBS - 2004)	Policy and ambitious reform agenda 1998, Local Government Reform Programme 2000 – 2008 Phase I, Phase II 2008-2013 has been designed.	Mixed implementation track record: Unclear legal framework; Limited fiscal discretion; LGs not empowered with respect to human resource management.	Since 2000: Transfers increased in volume and recently in share of GOT budget, but this is mostly earmarked. Own source revenue decreased. In practice Tanzania and Uganda have similar levels of decentralisation today.	Sector resistance and unclear high level commitment (e.g. absence of progress with respect to legal framework).
<b>Tanzania health</b> (SBS - 1999)	First sector plan 1999, including priority to (decentralised) basic health care; Policy 2007; Rising importance of global vertical programmes.	Poor outcomes in 1990s. Since early 2000s some progress in coverage and in some outcome indicators (e.g. under-5 mortality rate), but mixed (no progress in maternal mortality).	Fragmented funding, no accurate overview. Increasing trend (e.g. doubling of per capita spending from 2000 to 2005) but still low. Massive increase in vertical funding.	HIV & AIDS is a major issue. HR crisis; deteriorating trained health staff/population ratios.
<b>Mozambique health</b> (SBS - 2008)	Post-war reconstruction (including focus on staff deployment) (1992); First sector plan (2001); Rising importance of global vertical programmes.	Post-war coverage expansion and significant gains in outcomes though from low basis. Significant challenge to maintain early gains, increased disease burden with AIDS.	Large increase though largely tied to HIV & AIDS and other relevant diseases thus small increase in recurrent funding. Large structural imbalances in health funding per capita across geog. areas.	Weak management capacity hence poor efficiency and effectiveness; Acute HR crisis in the sector; “De facto” urban and curative bias.
<b>Zambia health</b> (SBS - 2006)	Reform from 1992: focus on decentralised basic health care. Mixed implementation. Rising importance of global vertical programmes.	Mixed results. Improvements in coverage of some basic services, but results uneven among provinces. Improvements due to vertical funds & increased funding to districts from Common Basket Funds.	Common Basket Funding (largely donor funded) significantly increased resources for health at local level; Large increase in volume though from 2004/5 onwards much is earmarked vertical funding.	Low capacity, acute HR issues (40% staff shortfall, brain drain etc.).
<b>Zambia roads</b> (SBS - 2005)	Institutional reform & sector planning since 1993: focus on private sector operations. Road Fund (1993), policy and Agencies (2002).	1990s: Quality of roads improved 2000s: sector management remained fragmented; private sector capacity increased.	No comprehensive overview of sector funding. Long-term sector plan unrealistic and as it is not regularly updated, increasingly disconnected from actual plans and budgets.	Mixed track record in consistency in policy reforms; lack of capacity at local levels (including LGs)
<b>Mozambique agriculture</b> (SBS – 1999)	PROAGRI (1999) focused on (reduced) ‘core functions’ for government. Operational focus on institutional Capacity Building. Post-2004 PROAGRI became disconnected from actual GOMz (more interventionist) policy.	Perennial decline in smallholder agriculture productivity and output; Reversed but not even back to pre-independence level. PROAGRI did not change this. Coverage of extension services hardly expanded: from 10 to 13% between 1999 & 2005.	Public spending (1999-2005) stable but low. Compensation between domestic and donor funding, the latter focused on “development activities”.	Lack of attention to actual service delivery, underpinned by (veiled first, revealed after 2005) lack of agreement on policy and in particular, role of government in the sector.

219. In conclusion, whilst increases in sector funding generally contributed towards expanded access to services, other dimensions of sector outcomes did not improve commensurately. Quality and equity in access to services remained poor. Weaknesses in “upstream links” between policies, plans and budgets represent one set of factors explaining this. An inappropriate balance between recurrent and development spending is another related factor. At the service delivery level the most frequently noted obstacle was the weak human resource capacity, in terms of management especially at the local level, but also, in particular, in terms of staff at the frontline provider level. Table 4 supports the points made in this section.

#### 4.4 Context for External Assistance

##### **SQ1.3: What has been the environment for external assistance at the national and sector level?**

###### ***Overall aid environment***

220. The case studies and the literature indicate that SBS was generally provided in highly aid-dependent countries (Vietnam is an exception). In the study countries, ODA represented 50% of public spending for a period of several years in Rwanda, Mozambique and Uganda; it increased from 25 to 40% in Tanzania from 1998 to 2006/7; it was generally above 10% of GDP. Country trajectories vary but overall total ODA has been on an upward trend since the early 2000s in all countries. This followed a period in which the trend was flat in Uganda and increasing only slowly in Tanzania, whereas ODA had actually decreased in Rwanda, Mozambique and Zambia. The trajectories suggest that the post-2000 increase was facilitated by the introduction of “new aid modalities”, although political economy factors also intervened<sup>22</sup>.

221. At some point over the past decade in all countries included in the SBSiP review budget support (general and/or sector) became an important modality in terms of volume and proportion of the total ODA provided. In Rwanda, Tanzania, Uganda, Zambia and Mali the government explicitly expressed a preference for budget support as a modality, in the first three countries as an element of a formalised general policy and/or strategy for aid management.

222. However, countries’ trajectories were quite different. In Uganda and Tanzania, where budget support started being provided earliest, after an initial surge in the volume and proportion of budget support, trends flattened or even decreased<sup>23</sup>. In contrast in Mali and Zambia budget support was introduced more recently (2005) and is still rising in volume and as share of ODA<sup>24</sup>. In Rwanda and Mozambique budget support started flowing in 2000 and increased rapidly, representing 38% and 31% of ODA in 2008 respectively<sup>25</sup>. Overall, by 2008 budget support had not gone beyond 40% of the total ODA provided in any of the case study countries except in Uganda in 2002 and in Tanzania in 2006/7; and projects had nowhere fallen under a third of the total ODA provided<sup>26</sup>.

<sup>22</sup> For instance in Rwanda there was an initial upsurge in (mainly humanitarian) aid following 1994, after which ODA decreased; it rose again after the 2003 elections. In Mozambique, ODA decreased after a surge following the transition to market economy in 1986 (Adam 2008), started increasing again in the second half of the 1990s, flattened around 2000, and increased again after the inception of the new government in 2004.

<sup>23</sup> In Uganda budget support as a share of total ODA declined from 45% to 31% between 2002 and 2004; and project funding is increasing in volume since 2004. See IDD and Associates (2006).

<sup>24</sup> e.g. in Mali, from 20% of total ODA in 2004 to 31% in 2006. In Mali budget support is said to have been introduced “from outside”, in the sense that it arose from a concern of implementing the Paris Declaration. In fact budget support was provided by some donors before 2005 but not explicitly in support to Mali’s PRS and there was no coordination forum/process.

<sup>25</sup> This includes general and sector budget support in Rwanda but only GBS in Mozambique.

<sup>26</sup> Comparisons across countries are not easy because of differences in the ways ODA flows are categorised. E.g. in Rwanda budget support data includes general and sector budget support and ODA is basically divided between budget support and projects. In contrast in Mozambique sector support used to be

223. Across the study countries the number of donors involved in budget support was variable, as well as the types of budget support in which donors engaged (i.e. whether they provided GBS only, SBS only, or both<sup>27</sup>). For instance in Rwanda, although only 6 donors provide GBS, an increasing number of donors have provided SBS in a growing number of sectors since 2006/7. Whilst in Mozambique the group of donors providing GBS is very large (19 donors in 2008), and many (if not all) of them are also involved in sector support (including Common Basket Funding or SBS). Other countries fall in between these two extremes.

224. There were also differences with regard to the sequencing of changes in the overall mix of aid instruments. In particular the sequencing of the introduction of SBS and GBS varied:

- In Uganda non-traceable earmarked SBS was the first form of budget support introduced in 1998<sup>28</sup>, and this was in the education sector (reviewed in this study); GBS rapidly followed, then both forms coexisted throughout, with SBS provided in several other sectors.
- In Tanzania too, a form of SBS preceded GBS although it displayed many features of Common Basket Funds, being both traceable and earmarked; SBS continued to be provided in several sectors and to support cross-cutting reforms (including health and local government sectors) in parallel to GBS.
- Mozambique exhibits a similar trajectory, with Common Basket Funding-like SBS preceding GBS in the Agriculture sector, but there is a recent shift from Common Basket Funding to more aligned sector support/SBS in several sectors (including health).
- In Mali traceable SBS was introduced one year after the formalisation of coordinated GBS, as part of the same “externally prompted” move towards better aligned aid modalities, and in two sectors initially (education, reviewed in this study, and health); SBS is a significant proportion of the total budget support provided.
- In Zambia Common Basket Funding was in place for a long time (in e.g. health) before budget support was introduced; today there are only two sectors in which SBS is provided, roads and health (both reviewed in this study), both sectors in which the EC is a significant donor.
- In Rwanda GBS started first, with one donor (DFID) having an education window in its budget support programme. SBS as a specific modality was developed afterwards, formally starting in education (reviewed in this study) in 2006, with several sectors following the move. A major motivation was to address concerns related to GBS, such as its potential volatility as a result of political conditionality, and the lack of visibility for donors.

225. In all case study countries there is an elaborate structure of dialogue between the government, donors and other stakeholders. Generally the joint dialogue around and review of GBS programmes are important elements in the overall dialogue, albeit with variation from country to country. In Tanzania and Mozambique, the overall dialogue is very much organised around GBS, which has a high profile relative to sectoral dialogue. In Rwanda and Uganda sector dialogue processes have a relatively higher profile. In these cases the GBS dialogue was established after strong sector processes were established. The links between sectoral dialogue and GBS dialogue tend to be weak in the majority of cases.

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counted separately as it was provided through basket funding, thus it made more sense to distinguish (general) budget support, sector support (through baskets) and project support. It is not clear how ODA will be recorded if more sectors shift from basket funding to SBS. Furthermore SBS may be recorded differently at country level to cross country databases, most notably the OECD Creditor Reporting System.

<sup>27</sup> Donors have different policies and ranges of instruments. For instance, the WB does not have an SBS instrument. The EC has guidelines for both, GBS and SBS and sees them as complementary. DFID has generic PRBS guidelines, and in several countries tended to shift away from sector support to GBS – though not in all, as the case of Rwanda (support to education sector) illustrates.

<sup>28</sup> Although un-earmarked programme aid had been provided prior to this.



226. In all case study countries the overall partnership around the country's PRS and/or the partnership around GBS is based on regular assessments of performance of the government, usually formalised in the form of a Performance Assessment Framework (e.g. in Mozambique, Rwanda, Tanzania and Zambia). In Mozambique and Rwanda there is also a formalised assessment of donor performance against a set of indicators, recorded in a "donor Performance Assessment Framework". In Zambia, Uganda, Tanzania and Rwanda an overall aid policy or set of principles provides the "rules of the game" for donors, although the degree of enforcement varies.

### **Sector aid environment**

227. As sectors are varied and, as showed above, country level aid environments are also fairly different. One general fact emerging from the case studies and from the literature review is that SBS seems to be associated with a SWAp or the development of some elements of a SWAp framework over time<sup>29</sup>. But the form of this association varies. Table 5 shows that SBS, in its various forms, was introduced at different stages of the development of SWAp arrangements. Some SBS was introduced in the early stages of SWAp development (e.g. Uganda education, Rwanda education, Tanzania health), and some much later (e.g. in the roads and health sectors in Zambia and in the education sector in Mali). This has implications with regard to the effects of SBS on the sector aid environment, which are unpacked in Section 5.3 below.

228. Beyond the similarity of all featuring elements of SWAps, the case studies show a large variety in the trajectory of change in the SWAps, and the sector aid modalities employed over time:

- In the education sector in Rwanda the transition from project aid to budget support was almost completed in 2008 (however, this concerned only 7 out of 15 donors, and small-scale projects were still consuming time and energy of government officials).
- In contrast in the three health sector cases<sup>30</sup>, after a period of growing system alignment (in terms of increasing volume and sector aid share channelled through common basket funding/SBS and of the number of donors involved in these modalities<sup>31</sup>), over the past few years the aid mix was shifting again toward greater project aid volumes and proportions, due to large increases in vertical global funding.
- In the roads sector in Zambia project aid was the only modality until one donor decided to shift to SBS; projects remained important.
- After an almost complete and sustained shift to SBS and GBS in the Ugandan Education Sector, projects were gaining in importance since 2003. An increasing number of education donors decided to shift to project aid for part of their portfolios, to address quality issues or to support secondary education.
- In the Mali Education, Mozambique Health and Agriculture, and Zambia Health case studies SBS was introduced as a shift from Project and/or Common Basket Funding. The shift was a lot more decisive in Mali and Mozambique with large numbers of donors shifting their support, compared to Zambia Roads and Health.
- The aid mix changed significantly in both cases of support to local government investment and capacity building in Uganda and Tanzania, away from fragmented projects and area-based programmes toward the "local government SBS" introduced in 1999 and 2004 respectively.

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<sup>29</sup> In the roads sector in Zambia, the word SWAp is not used but there is a sector policy, a long-term financial framework with which donors have committed to align, and a joint dialogue process including regular joint review and a joint framework for monitoring progress in the sector.

<sup>30</sup> Health sectors appear to be most heavily aid dependent in the case studies.

<sup>31</sup> In Tanzania ten donors were providing SBS in 2008/9; in Mozambique 15 donors provided basket funding and were shifting to SBS in 2008, out of 26 donors active in the sector; in Zambia 13 health donors were providing basket funding in 1999; two of them moved to SBS in 2006.

**Table 5: Sector aid environment in the case studies**

Case study	SWAp characteristics	Sector aid mix (including selected SBS characteristics)
<b>Rwanda education</b> (SBS 2000)	Inclusive and structured dialogue, improving link with budget process; 1 <sup>st</sup> joint review in 2003; Focus on priority actions, and sector and budget performance indicators; MOU in place (10 out of 15 donors in 2006). Strong lead donor role in streamlining process of dialogue with GoR	Transition to budget support almost completed in 2008 (BS = 90% sector aid on budget). In 2008, SBS provided by 7 donors out of 15 (shift from projects to SBS for non-GBS donors); SBS dialogue is same as SWAp dialogue.
<b>Mali education</b> (SBS 2006)	Programme approach since 2001; 16 donors in 2008; focus on “development”; two reviews/year; joint matrix of performance indicators; but donors can (and do) organise separate project reviews.	In 2008 SBS was given by 6 donors out of 16; Shift from projects funding though several SBS donors continue to use other modalities in parallel; SBS dialogue somewhat distinct from SWAp in practice.
<b>Uganda education</b> (SBS 1998)	SWAp, 1 <sup>st</sup> sector strategic framework and SBS developed simultaneously (1997/8); inclusive and structured dialogue, strong link with budget process; Focus on undertakings; Donor policy inputs through technical notes.	Post-1996 rapid shift from projects to SBS then SBS and GBS; From 2003 project aid increased again in volume and share (support to “quality” and secondary education). By 2001/02, SBS was given by 7 donors. Although SBS tailed off from 2003, donors remained influential in sector dialogue. SBS dialogue is the same as SWAp dialogue.
<b>Uganda LG</b> (LGDP 1999)	SWAp developed recently (1 <sup>st</sup> review 2004); Formalisation of increasingly joint work of donors in support to decentralisation, including around LGDP; Weak link with sector processes.	Pre-1999: projects and area-based programmes for LG investment and CB. Gradual shift from these to LGDP, but sector investments (incl aid flows) at LG level continue to be separate from LGDP. SBS dialogue remained SBS-specific though linked to SWAp. Initially funded by WB, between 2003 and 2007, 5 donors provided LG SBS via LGDP.
<b>Tanzania LG</b> (LGCDG 2004)	Common Basket Funding developed around policy reform and capacity building for LGs in 2000. Joint dialogue less abstract with start of LGCDG.	Pre-1999: projects and ABPs were the predominant sources for LG investment and CB. LGCDG substituted to much of the project/ABP aid flows to LGs.
<b>Tanzania health (SBS 1999)</b>	SWAp, SBS (common basket fund) and 1 <sup>st</sup> sector plan developed simultaneously; MOU in place and regularly updated; Extensive experience of reviews; However, focus on “common basket fund management” over substantive policy dialogue.	Common Basket Fund/SBS since 1999 (focus on “development”), and projects on- and off-budget. SBS used by ten donors in 2008/9. Significant increase in volume (2008/9 was more than 8 times 1999 level). Recent large increase in vertical global funds thus share of Common Basket Fund/SBS decreased from 22% in 2004/5 to 14% in 2007/8.
<b>Mozambique health</b> (2001/8)	SWAp, Common Basket Fund and 1 <sup>st</sup> sector plan developed simultaneously (2001). Code of conduct (2000, regularly revised); Joint annual review and sector monitoring through sector PAF and sector indicators; Joint working groups, though with recently less clear role as MoH decision making turns inward; 2 <sup>nd</sup> plan developed with less donor inputs.	Large number of projects + Common Basket Funding since 2001 (focus on “development”). In 2008 shift to SBS (unearmarked in principle). Basket/now SBS provided by 15 donors out of 26. Many (incl SBS donors) use several modalities. Heavily aid dependent (aid is 70% public spending). Recent large increase in vertical global funding, driven by substantial funding for AIDS.
<b>Zambia health</b> (SBS 2006)	SWAp, Common Basket Fund and 1 <sup>st</sup> sector plan developed simultaneously (1993/4); SWAp went through ups and downs; MOU (1999 then 2006); 1999 MOU marked a shift to greater focus on service delivery; Elaborate dialogue structure and process, linked to MTEF/budget process.	Sector highly aid dependent (ODA 60% sector funding). Common Basket Funding in place since 1993. Recent large increase in vertical global funding → Proportion of sector aid on budget fell from 84% to 59% between 2000 and 2004. SBS provided by two then one donor (dialogue integrated with SWAp dialogue); Small size, uncertain future though also raising question with respect to Common Basket Funding.
<b>Zambia roads</b> (SBS 2005)	Dialogue fora (policy and operational levels) and sector reviews around long-term investment plan (ROADSIP); Joint monitoring ofROADSIP indicators Not all key donors are involved (e.g. Chinese government); No clear champion on GRZ side.	SBS provided by one donor, EC, since 2005. Strongly ingrained project and donor earmarked funding tradition. Project funding smaller in volume and proportion of GRZ Road Fund but more stable year-on-year. SBS dialogue and conditions aligned with overall sector dialogue and monitoring though some additional requirements
<b>Mozambique agriculture</b> (1999/2007)	SWAp, Common Basket Fund, 1 <sup>st</sup> sector plan & 1 <sup>st</sup> MOU developed alongside (1999); structured dialogue, increasingly aligned with GBS, yet unable to prevent disconnect sector donors/actual GOMz priorities; Sector PAF developed with shift to SBS (2007), but disconnected from GOMz policy.	Common Basket Funding (1999) enabling significant shift away from fragmented project aid (7 donors in 1999 then 8 in 2001 provided Common Basket Funding). SBS introduced in 2007 as a further step towards better system alignment but misalignment with policy. In 2005/6, 2 major donors exited Common Basket Fund/SBS arrangements.

229. In all case studies there was joint dialogue involving the government and donors. The extent to which the sector dialogue was linked to the budget process and ministries of finance involved, differed, as we shall describe later the link was usually less strong where most donor aid, (including Common Basket Funding and most commonly traceable forms of SBS) focused on the development side of the budget (in all three health sector cases and in the education sector in Mali). In almost all cases the dialogue also reached out to non-government stakeholders (in the education SWAp in Uganda, Rwanda and Mali and the health SWAp in Tanzania, Zambia and Mozambique). However, in the case of the agriculture sector in Mozambique the SWAp dialogue totally failed to reach out to non-government stakeholders and in particular, private sector operators, even though one of the basic principles of the partnership was to establish an enabling environment for the private sector. In the roads sector in Zambia important donors appeared not to be involved in the SWAp dialogue (e.g. China).

230. The form and substance of the dialogue, including how actually “connected” it was with policymaking in the sector, varied quite widely across the case studies. In certain cases the dialogue tended to be dominated by operational concerns linked to the management of aid to the sector – for example in Tanzania and in Mozambique. In the education SWAp in Rwanda and Uganda this did not seem to be the case. In Uganda donors provided policy inputs through technical notes submitted to the Ministry of Education; in Rwanda the system was less formalised but effective nonetheless; in contrast, joint thematic working groups in health in Mozambique did not seem to have a clear role in the policy dialogue. The case of the agriculture sector in Mozambique shows that even a well-structured dialogue process is not sufficient to prevent the sector dialogue getting disconnected from actual policymaking in the sector.

231. As we shall describe in later sections SBS was both shaped by the differing contexts in which it was provided, and also effected the context for external assistance at the sector level, and effected the systems and processes with which it engaged. The focus now turns to the nature of SBS and its effects.

## 5. The Key Features of SBS Provided and its Effects on the Quality of Partnership

### 5.1 The Key Features of SBS Provided

#### SQ2.1: What are the key features of the SBS that has been provided?

232. This section describes the nature of SBS provided in the case studies. It starts by describing the objectives of SBS programmes. It then sets out the spectrum SBS instruments provided in the case studies, and in doing so attempts to draw out common patterns and types of SBS, whilst also highlighting variations. Having done so, the nature of SBS inputs is described: funding levels; financial management arrangements; conditionality and dialogue; technical assistance and capacity building, and links to other aid modalities.

233. Table 6 below provides a headline description of SBS in the case studies:

**Table 6: Headline Description of SBS in the Case Studies**

<b>Rwanda education</b> (SBS - 2000)	SBS started alongside the SWAP and sector reforms in 2000. Initially SBS was non-traceable and broadly earmarked to the sector, being provided as an Education Window for GBS. Since 2006 the level of SBS funding has increased significantly, with common modalities for SBS developed, and 6 donors providing funds in this context. SBS is not traceable, and there is a mix of earmarking from the overall sector, to sub-sectors and specific areas. In addition UNICEF, DFID and CIDA are providing funding to an capacity building pooled fund. SBS uses SWAP dialogue and conditions, which are nominally focused on the sector as a whole, although there is a focus on basic education.
<b>Mali education</b> (SBS - 2006)	SBS was introduced in the context of a mature SWAP. The scale of SBS is significant. Funding is traceable and earmarked to the development budget and associated activities. Although intended to be fully discretionary, it was traceable and earmarked. SBS dialogue uses SWAP structures although there are additional SBS meetings and separate conditions. No TA or capacity building was built into the design, but a capacity building pooled fund was under development.
<b>Uganda education</b> (SBS - 1998)	SBS started alongside the SWAp in 1998. SBS has been a mixture of non-traceable earmarking to the sector, primary education or specific primary education expenditures. Funding was initially additional aid to the sector which fed through to additional budget allocations. SBS uses SWAp dialogue and conditions, which were sector wide, but with a bias towards primary education. Some ad hoc TA has been provided in the context of the sector dialogue, but overall TA and capacity building has been absent.
<b>Uganda LG</b> (SBS - 1999)	SBS was introduced in 2000 in the context of the Local Government Development programme which was a hybrid of SBS and project support. It preceded the development of SWAp arrangements, but following decentralisation reforms. SBS supported a new local government development grant and capacity building grant, with an incentive framework linked to an assessment of local government performance. Funding was additional and earmarked to this grant. Although classified as domestic funding SBS is traceable in the budget. Dialogue was largely project focused, although LGDP II supported the establishment of SWAP arrangements. TA and capacity building represented a major element of the design.
<b>Tanzania LG</b> (SBS - 2004)	SBS was introduced in 2004 following local government reforms. It was based on the Uganda LGDP model (above). The major differences from LGDP relate to the classification of funding to the Local Government Capacity Building Grant as external funding, and the fact that SWAp type arrangements have not been established.
<b>Tanzania health</b> (SBS - 1999)	SBS was introduced in 1999 as Common Basket Funding, in tandem with the development of a SWAP. Funding has steadily increased over time, however this has been outstripped by vertical health funding. SBS is traceable, being separately identifiable to the development budget of the MoH, Regional Votes and the local government ministry. A minimum share is earmarked and transferred to local governments. Although dialogue is in the context of the SWAp, much time is taken on process issues. SBS funds some capacity building, but the majority of TA and capacity building is provided in the context of the SWAp.
<b>Mozambique health</b> (SBS - 2008)	SBS was introduced in the context of a mature SWAp, and was the successor to a series of Common Basket Funds. The level of funding is high in absolute terms, although significant vertical funding remains. Funding is, de facto, traceable earmarking to the sector, although the donor can choose to have their funds categorised as domestic or external funding. There are no specific additionality requirements. SBS uses pre-existing dialogue structures, although a new indicator framework has been established. Progress is reviewed annually and disbursement decisions are made after the annual sector review. There is no TA or capacity building built into SBS, with the majority of such support provided through vertical or bilateral mechanisms although there are discussions on pooling TA in future.

<b>Zambia health</b> (SBS - 2006)	SBS was introduced in the context of a mature SWAp by the EC and DFID, who switched from Common Basket Funding. The level of funding is low in absolute terms and relative to other aid to the sector. Each donor earmarked their SBS to specific areas – DFID to compensate for user fee elimination, and the EC for HR retention, although there were no specific additional requirements. DFID requirements for evidence of funds transfer to the MoH led to some confusion between the MoH and MoF. SBS used SWAp dialogue structure, although the EC introduced additional conditions, and DFID linked support to GBS. There was no TA or capacity building in SBS, although the EC runs a parallel TA project.
<b>Zambia roads</b> (SBS - 2005)	SBS was introduced in the context of established coordination structures, albeit no formal SWAp exists in the sector. Funding levels are moderate in absolute terms and relative to other aid in the sector. Originally conceived as a project by EC, it was changed to SBS. Nevertheless it involved traceable earmarking to the sector. It therefore represented a switch from project support. SBS uses existing dialogue structures and indicators, although there is a separate tranche release mechanism. TA is built into the SBS agreement and delivered using project modalities, although this was not well coordinated with other TA provided through projects.
<b>Mozambique agriculture</b> (SBS – 1999)	SBS was introduced in parallel to the development of a SWAp in 1999, although the SWAp only covered SBS. The level of funding has been consistently high, and represented a switch from parallel project aid. SBS involved traceable earmarking to expenditures at the Ministry of Agriculture and provincial governments, although there was significant flexibility. The major share of SBS funding was spent on institutional development activities at each level. Dialogue and conditions focused on the implementation and monitoring of the sector strategy and used SWAp structures.

### **Common Objectives of SBS**

234. Before describing the nature of SBS, and assessing its effects it is important to understand the objectives of SBS provided. The original intent of SBS programmes is an important yardstick by which to assess their effectiveness.

235. As stated in the previous section, with the exception of the two local government case studies, SBS has been provided in the context of some kind of SWAp. In this context, it is no surprise that almost universally a stated objective of SBS programmes is to support the implementation of the associated sector programme, strategy or investment plan. For example, in Rwanda the overarching objective of SBS to “Operationalise the Education Sector Strategic Plan”, although each donor programme has more detailed objectives.

236. Some programmes are more specific than this in their objectives. The two health sector SBS instruments in Zambia highlight different aspects of service delivery that they intend to focus on – improving human resource retention, and supporting the abolition of user fees. The Zambia Roads SBS, which also involved one donor, concentrated its funding on maintaining specific roads. In these cases, where donors were providing SBS individually (in the absence of joint funding arrangements), donors felt the need to focus on specific areas.

237. Reference to the achievement of relevant MDGs, or poverty more generally in SBS objectives may often exist. Often a sub-objective is to improve the effectiveness of funding in the sector. This is the case for SBS in the Rwanda and Uganda Education sectors, for example.

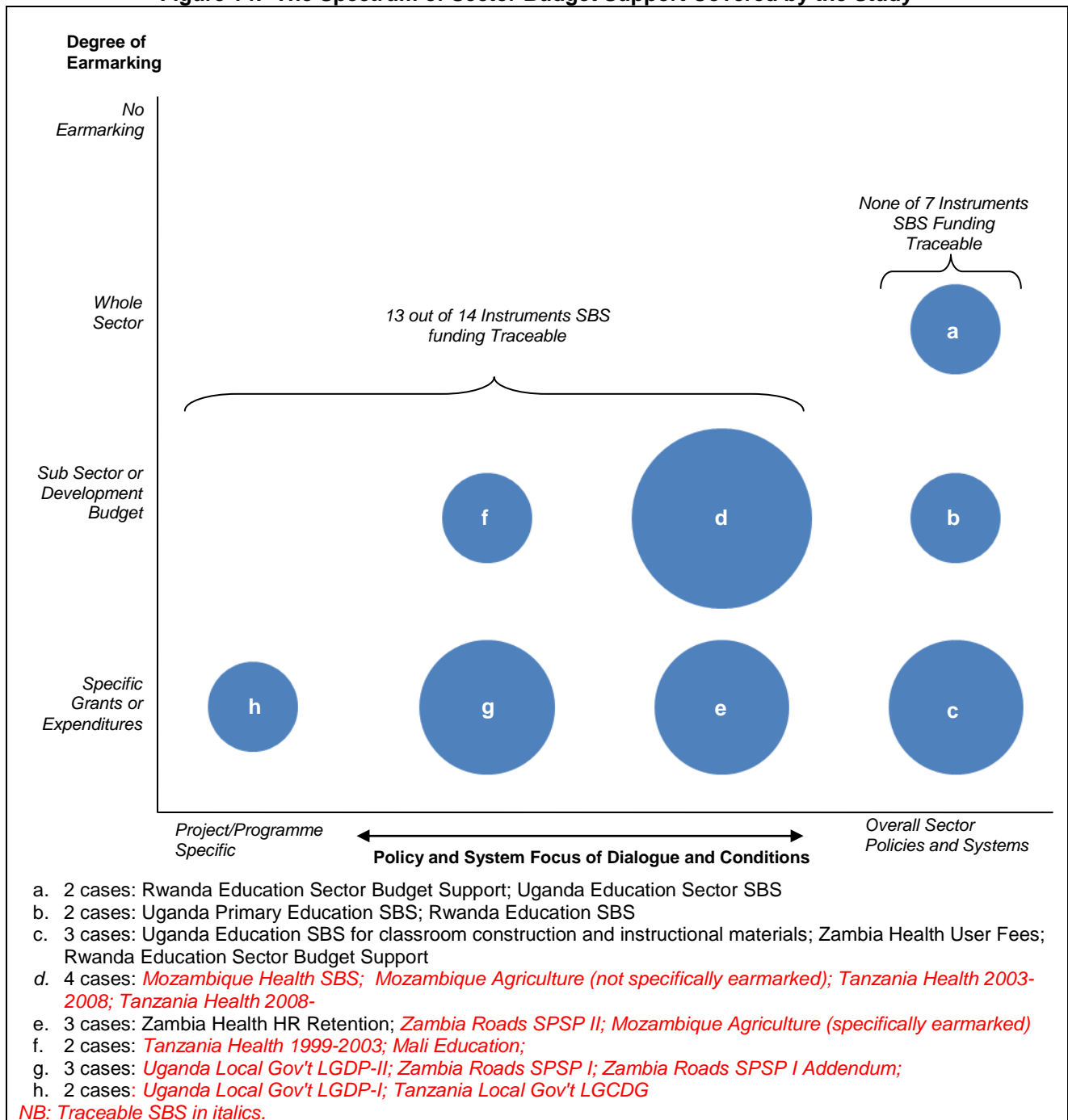
238. Unsurprisingly the two exceptions to this type of objectives are the two very similar local government case studies, as they were designed in the absence of sector plans. Although policy reforms were well underway in Uganda the successive objectives of LGDP were first to “*Test the feasibility of implementing constitutional and legal mandates with respect to decentralized service provision and devolution of the development budget through the provision of investments funds to the Local Governments (LGs).*” And secondly to “*improve the local governments’ institutional performance for sustainable and decentralised service delivery*”. These objectives are deliberately focused on systems and institutions, in contrast to the overall plan or strategy objectives of SBS in more conventional line sectors.

### **The Broad Spectrum of SBS Provided**

239. Whilst there is evidently consistency in the nature of the objectives of SBS instruments, the nature of SBS instruments varies significantly.

240. The definition of SBS implies two central dimensions of SBS design – the degree of earmarking of SBS funding, and the focus of SBS dialogue and conditions. Figure 14 attempts to locate all the SBS instruments covered by the case studies along these two dimensions.

**Figure 14: The Spectrum of Sector Budget Support Covered by the Study**



241. The first point to note is that there is no instance of the pure version of fully un-earmarked SBS, consistent with the OECD/DAC definition. This is also borne out by the case studies in the

literature review and the study of SBS in francophone Africa<sup>32</sup>, where pure SBS was also uncommon. There is typically some degree of earmarking with SBS – whether broad or specific. Furthermore the cases where dialogue is predominantly focused on overall sector policies and systems is rare. The instruments in the Uganda and Rwanda Education sectors, and SBS earmarked to the elimination of user fees in Zambia appear to be the only examples of this.

242. At the other extreme there are two cases to note (h) where funds and dialogue were focused on specific programmes. These are the two initial SBS instruments supporting local governments in Tanzania and Uganda. They both were focused on the creation of transfer systems for delivering local investments and strengthening institutional capacity in local governments, and were not intended to be platforms for dialogue on overall sector reforms.

243. Just over half the SBS instruments involve earmarking funds to expenditures within the sector combined with dialogue which is a mixture of project and programme specific dialogue and dialogue on sector policies and systems (d to g). This appears to be the most common focus of SBS Instruments in operation.

244. The other key design parameter is whether or not SBS funding from donors is traceable through government systems. Two thirds of SBS instruments (14 out of 21) are traceable, and only one third are not. The trend is similar for the study of SBSiP in francophone Africa, where 3 out of five SBS instruments involved traceability<sup>33</sup>. Several SBS instruments which involve traceable earmarking are actually considered Common Basket Funds and not SBS in the countries where they operate – these cases includes Mozambique Agriculture, Tanzania Health, and Tanzania Local Government. The distinguishing feature between these baskets and conventional baskets is that the funds are channelled via treasury systems (Channel 1 instead of Channel 2).

245. Traceability is not always intentional. Mali Education SBS ended up being traceable, as a practical response from the Ministry of Finance to donor requests that unspent funds be rolled over to future financial years. This, de facto, required SBS be made traceable. Furthermore there was an intention of some donors in the Mozambique health sector to move to non-traceable un-earmarked SBS. However, de facto, SBS funded expenditures remain traceable – as they separately identifiable in the development budget, albeit as local funds.

246. There appears a strong correlation between SBS traceability and focus of the dialogue on programme specific issues. This is no coincidence – as we shall argue, traceability of SBS funds tends to skew the dialogue towards discussion of the mechanics of funding modalities, away from overall policy and systems issues.

247. Two final and important observations relate to the evolution of SBS instruments. Over time the case studies point to a gradual shift from specific to broad earmarking and dialogue towards overall sector policies and systems. However, equally importantly, in practice, there is no example of a shift from traceable SBS to non-traceable SBS within the case studies.

### ***The Scale of SBS Provided***

248. The logical framework on which the assessment of SBS is based, posits that the scale of SBS funding is likely to be a key determinant in the effectiveness of SBS. There are three main

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<sup>32</sup> See van der Linde 2008. There were no cases of pure SBS in the four case studies. Two cases involved earmarking to specific activities (Cameroon Environment and Forestry, Benin Primary Education), whilst two involved broader earmarking (Senegal Environment and Burkina Faso Primary Education).

<sup>33</sup> See van der Linde 2008. SBS to the Senegal Environment Sector, and EC SBS to Education in Burkina Faso was not traceable; all other SBS to the Burkina Faso Education; Cameroon Environment and Forestry; and Benin Education was traceable.

dimensions where scale might be important. Firstly the absolute size of SBS transfers. Secondly, whether SBS has contributed in an overall increase in external resources to the sector. Thirdly the degree to which SBS has resulted in a relative shift towards external resources using treasury systems, from project and Common Basket Funding.

249. In absolute terms, all the case studies, excluding Zambia health, involved significant resource transfers, of at least \$30m per annum for at least two years. In five case studies annual disbursements have reached double this level (the three Education case studies and Tanzania and Mozambique health). However levels of SBS resources were only sustained above \$30m for five years or more in three case studies – Uganda Education, Mozambique Agriculture and Tanzania Health, whilst in the remaining cases SBS has been in operation less than five years. In most cases SBS has involved an upward trajectory, in terms of absolute size, as more donors move to providing SBS. In Uganda Education and Uganda Local Government, where SBS started early (in 1998 and 2000 respectively), levels of SBS funding tailed off after five or six years. In education the decline represented a switch to GBS in response to a strong preference from the Ministry of Finance, whilst donors have returned to project support in recent years in both sectors.

250. In seven of the ten cases it is apparent that SBS contributed to significant increases in external sector resources (Rwanda and Uganda Education; Tanzania and Uganda Local Government, Tanzania Health, Mozambique Agriculture and Mali Education). In all these cases SBS also represented a switch in modalities from fragmented project funding. In two of the remaining case studies where SBS did not contribute to significant increases in aid (Zambia and Mozambique Health) SBS represented a switch from previous Common Basket Funds, which themselves had contributed to a scaling up of aid. Zambia Roads represented a switch from project support, and also did not contribute to a significant increase in external resources.

251. Also in six out of ten case studies SBS funding has been significant in relative terms to other aid instruments. The most significant shifts have been in the three education, two Local Government and Mozambique agriculture case studies. There are however recent signs of a resurgence of projects in the Uganda Education and Mozambique Agriculture sectors. In all three health studies, the switch to SBS has been undermined by the increase in vertical funding through global health initiatives.

### ***Approaches to Funding and Financial Management Arrangements***

252. The funding and financial management arrangements are important for the design of any aid instrument, including SBS. The two main families of SBS – traceable and non-traceable earmarked SBS have contrasting approaches.

253. The first distinguishing factor is the way in which SBS funded expenditures are presented in budget documents:

- With traceable earmarked SBS, SBS funded expenditures are separately identifiable in the budget coding system, and the detailed budget books prepared in support of the Annual Budget. In all cases SBS appears in the development budget, even if, as typically is the case, SBS is providing operational as well as capital funding. Typically SBS appears as a separate project or grant. In the cases where SBS is labelled a Common Basket Fund, it usually means that they are identified as external or donor revenues (Mozambique Agriculture, Tanzania Health and Local Government). Domestic resources may also be budgeted for against the SBS funded projects or grants. In the Mali education case, SBS expenditures were separately identified in the development budget as “SBS for Investment” and “SBS for Operating Costs”. In the case of Tanzania Health and Mozambique Agriculture, a new (and parallel) mechanism for transferring operational funding to local governments was created.
- With non-traceable earmarked SBS, SBS funded expenditures are not separately identifiable in the expenditure budget. They are classified as domestic expenditure, and therefore merged with domestically funded expenditures. In some cases (e.g. Rwanda



Education and Uganda Education) no new entries in the budget classification are created to accommodate SBS. In other cases, a separate government project or grant may have been created alongside the introduction of SBS. For example a grant called “Local Government Development Programme” was created as a vehicle for channelling new grants to local government in the Uganda SBS case. However this project acted like any other domestically financed development project. In the provision of SBS to the Zambia Health sector, the EC required that the Government of Zambia to create a budget line for human resource (HR) retention.

254. A second distinguishing factor is how SBS funds are allocated during the budget process. For traceable SBS the answer is simple. An amount equivalent to the value of SBS is budgeted for against the separate projects or budget lines created in the budget. This often means that SBS appears like a very large donor funded project (or series of projects) in the budget.

255. For non-traceable earmarked SBS, the relation between funding and budget allocations is not so mechanical, but typically there is some kind of negotiation and associated conditions about the level of budget allocations for the expenditures to which SBS funds are earmarked. Donor SBS agreements sometimes therefore involve a requirement that SBS should result in additional budget allocations. This is more common with non-traceable earmarked SBS. The Rwandan Joint Education Sector Support Memorandum of Understanding is particularly explicit: “*Education SBS resources are provided by development partners on the understanding that... the total resource envelope budgeted for education will be increased to reflect the promised additional resources*”. It also recognises that “*the increase will not separately identified as “SBS” resources but simply as a larger GOR resource envelope for the sector combining domestic revenues, general and sector budget support*”.<sup>34</sup> Whilst this is simple to do in the first years of provision of SBS, additionality is difficult to establish. Early on Ugandan SBS was provided on a similar understanding about the influence on budget allocations, at whatever level it was target – sector, sub-sector, or grant. The Uganda Poverty Action Fund represents the only example where a finance ministry attempted to demonstrate additionality of both SBS and debt relief on government expenditures, as shown in Box 11 below. However, even in Uganda additionality was no longer guaranteed after 2003.

#### **Box 11: The Uganda Poverty Action Fund**

The Poverty Action Fund was formed in Uganda in 1998 as a mechanism to demonstrate to donors and the wider public that the government was allocating debt relief funds and budget support as additional funding to poverty reduction priorities in the budget. This was done through the Poverty Action Fund Table which was included in budget documents. The Table had two parts – the first set out the Poverty Action Fund resources – which were made up of debt relief, non-traceable earmarked budget support and later on other government resources. The second part of the Table showed Poverty Action Fund expenditures, which were a subset of the overall budget, and included expenditures on basic healthcare, primary education, and water and sanitation. The government committed to ensuring Poverty Action Fund Resources resulted in additional allocations to Poverty Action Fund expenditures. Through the Poverty Action Fund table, it demonstrated this by showing that Poverty Action Fund expenditures were above 1997 expenditure levels by value of Poverty Action Fund resources.

This provided reassurance to donors that SBS funding was having an effect on budget allocations. Other provisions of the Poverty Action Fund provided further reassurance to donors providing SBS and other types of budget support to the Poverty Action Fund. The finance ministry committed to disbursing budgeted expenditures in the Poverty Action Fund in full during the financial year; and set aside funds for strengthening monitoring and accountability.

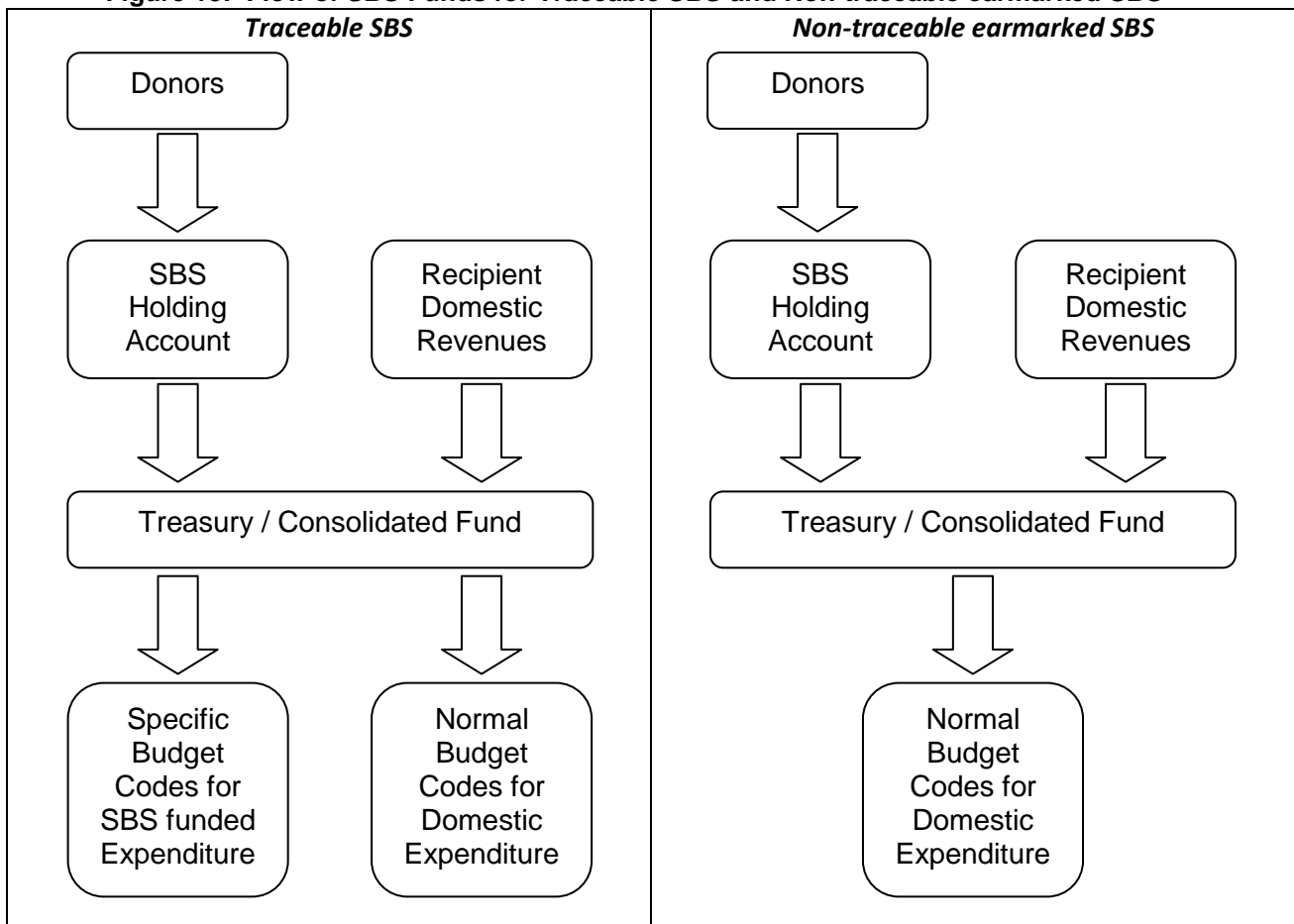
*Source: Uganda Case Study*

<sup>34</sup> Rwanda JESS agreement

The other example of non-traceable earmarked SBS to HR retention in the Zambia health sector involved no explicit requirements for additionality, despite the requirement of the creation of an HR budget line. In the case of DFID Zambia SBS to Health, there was no requirement for allocating SBS funds as additional funding in support of user fee elimination, although DFID did require evidence that funding was transferred to the Ministry of Health. The exact modality for doing so was not properly worked out beforehand which led to confusion, when it came to budget execution

256. This brings us onto the next distinguishing factor - the way in which SBS funds are channelled from donors via the treasury to spending units. There is a clear distinction between traceable and non-traceable earmarked SBS. Figure 15 shows the basic plumbing of the two approaches.

**Figure 15: Flow of SBS Funds for Traceable SBS and Non-traceable earmarked SBS<sup>35</sup>**



257. In most of the cases of SBS, funds were transferred by donors into some kind of foreign exchange holding account, usually held in the central bank. From there funds are converted into local currency and transferred into the main Treasury account – this may be called the Single Treasury Account, Consolidated Fund, or Exchequer Account.

258. In the case of non-traceable earmarked SBS, the finance ministry disburses funds against the sector budget from the beginning of the financial year as it does with any other sector's budget. The value of disbursements are based on the governments overall cash position, regardless of

<sup>35</sup> The disbursements against separate budget codes may also involve separate bank accounts either for SBS funded expenditure alone, or for both SBS and domestic funded expenditures.

whether SBS funding has been received or not. Once SBS funds reach the treasury account, they are treated like any other domestic revenue.

259. In most cases of traceable SBS, only the value of SBS funds which are received in the treasury account are actually transferred by the treasury to the specific expenditure accounts (identified as SBS in the budget) of spending units. There may also be budgeted contributions from domestic revenues which are transferred alongside this. In three of the first phase SBSiP case studies of Benin, Burkina Faso and Cameroon funds were channelled through a dedicated Treasury account (known by its French acronym as CAST). The only exception to this was Mali where, in line with normal budget execution procedures spending agencies were given a line of credit and allowed to spend against the entire annual budget provision, regardless as to whether SBS funds had been received or not. In the case of traceable SBS instruments, sometimes some funds were transferred from the holding into a foreign exchange account to fund international procurement (e.g. Mozambique health and agriculture). These elements of SBS instruments essentially do not qualify as SBS.

260. A major donor concern in the provision of non-traceable earmarked SBS is the reliability of the government's budget execution. As mentioned in Box 11, the finance ministry in Uganda made a commitment to disbursing budgeted expenditures in full during the financial year for priority poverty reducing expenditures, which included primary education. This gave confidence to donors in the reliability in the budget.

261. Once transferred from the treasury, normal government procedures for expenditure control and accounting were almost universally applied, and in most cases government procurement procedures are also used. One exception was Zambia Roads, where new contracting procedures were applied to SBS funded roads. Another was the requirement in Mali Education SBS and the majority of Mozambique SBS, that SBS funds not spent by the close of the financial year be carried forward into the next.

262. In many cases there were additional financial reporting and audit requirements over and above normal government systems. For example in Rwanda the FTI and African Development Bank (ADB) required separate reporting on expenditures; the EC required financial reporting on SBS funded roads as part the Zambian government's tranche release requests. In some cases, SBS involved the creation of a new transfer to local authorities (e.g. Tanzania Health, and the two local government case studies), and in such circumstances new reporting processes needed to be established as reporting systems were absent.

263. Additional audit requirements were common, over and above the statutory audit. For example the Tanzanian Health and Mali Education cases involved audits carried out by private audit firms. In the Zambian Roads case procurement and technical audits were required for all SBS funded roads. Value for money audits were carried out in the local government case studies.

### ***Approaches to Monitoring, Dialogue and Conditionality***

264. The next important dimension of SBS instruments is the framework for monitoring, dialogue and conditionality. Dialogue and monitoring processes associated with SBS took place in the context of SWAp structures<sup>36</sup>. These structures were either developed alongside SBS (e.g. Uganda and Rwanda education, Tanzania Health and Mozambique Agriculture) or had been established prior to the introduction of SBS (Zambia and Mozambique Health, Zambia Roads and Mali Education). Only in the two local government case studies were full SWAp structures not in place, although there were donor coordination groups in place. Structures typically involve:

- Annual or twice yearly review meetings, at which sector performance was assessed;

<sup>36</sup> In the Zambia Roads case coordination structures existed, although it was not a formal SWAp.

- A coordination structure of steering committees and working groups in which donors were represented; and
- A donor coordination group, often with a lead donor or focal point responsible for leading the donor interaction with government.

### Box 12: Examples of Conditionality Frameworks

#### Rwanda Education

##### *Pre-requisites (each year):*

- an agreed version of the Education Sector Strategic Plan (ESSP) with costings consistent with the long term financing framework
- an agreed MTEF aligned and consistent with the ESSP including both recurrent and development budget
- an annual operational work plan to operationalise the ESSP
- an annual capacity building plan

##### *SBS triggers:*

	<b>ESSP Performance</b>	<b>Financial Management</b>
Q1 disbursement (decision taken in Q3 of previous year)	Satisfactory progress against key indicators in the ESSP M&E framework reported at the education sector budget/PRS workshop in September/October	Education sector budget prepared, consistent with: ESSP; ESSP annual operational plan and the MTEF reflecting SBS additionality prepared. Overall satisfactory cumulative expenditure Q1-Q2 of prior year on education sector.
Q3 disbursement (decision taken in Q2, but not withheld in year)	Satisfactory progress against key indicators in ESSP M&E framework reported at the Joint Review of the Education Sector (JRES) in April/May	Budget execution report for previous year issued and satisfactory with regard to education sector. Overall satisfactory cumulative expenditure in Q3-Q4 of prior year on education sector.

#### Mozambique Health

For determination of their annual financial commitments for the following year (n+1), the CPs will assess in year n the results of the GoM's performance in the health sector for year n-1, as demonstrated through the outcome of the *Joint Annual Review* of the health sector's performance, in particular measured through the Health Sector Performance Assessment Framework indicators and targets (see Annex 2), including the ones related to financial management and the results of available audit reports and Public Financial Management Assessments. Considering agreed targets, the progress in year n-1 (and in terms of financial audits, n-2) will affect commitment levels for year n+1.

#### Mali Education

##### *Pre-requisites:*

- **Macroeconomic Conditions** : IMF on track status; Positive review of Poverty Reduction Strategy Paper (PRSP); Positive review of Action Plan for PFM reform
- **Sector Specific Conditions**: Share of education recurrent budget in total recurrent budget; Budget conforms to MTEF and proves additionality of SBS; Intrasectoral budget allocation conforms to MTEF; PER PISE II for N-1 validated including availability of indicators and statistical book; AWP [Annual Workplan] N+1 validated; Favourable audit of PISE II N-1 and implementation of recommendations of audit N-2

##### *Sector Indicators for Second Tranche Release*

- **Resource Indicators**: % of recurrent budget executed in N-1 relative to total executed recurrent budget; % of recurrent resources transferred to deconcentrated level in N-1 executed budget; % of recurrent resources transferred to LG in N-1 executed budget
- **Service Delivery Outputs & Outcomes**: Access rate basic 1 by sex and region; Completion rate in 6<sup>th</sup> year for N by sex and region; Transition rate from basic 1 to basic 2; % repeats in basic 1; School book/pupil in basic 2; % teachers having received initial 6 months training; No. trained (vocational training); % of 2<sup>nd</sup> and 5<sup>th</sup> year (basic 1) pupils having obtained pass on reading and maths skills

Source: *Rwanda Education, Mali Education and Mozambique Health Case Studies*

265. In the context of the SWAp review meetings, some kind of reporting on sector performance is carried out, and actions are agreed to improve sector performance. Over time efforts have been made to strengthen sector reporting in the context of SWAps.

266. For those sectors where SBS was established alongside SWAp structures and process, “satisfactory performance”, as assessed in the annual sector review, has been a central condition for disbursement of SBS funding. In all these cases, “satisfactory performance” was not clearly defined, although it usually referred to monitoring the implementation of actions agreed at the Joint Reviews. Dissatisfaction emerged over the degree to which agreed actions were implemented over time. In many cases this has led to the development of performance benchmarks and or indicators to monitor performance, as is the case in Rwanda and Uganda Education, and Mozambique Agriculture and Health.

267. In the context of multiple donors providing SBS, the conditionality frameworks are usually explicitly laid out in joint Memoranda of Understanding or joint programme documents. Examples of the conditionality framework for SBS in Rwanda and Mali Education and Mozambique health are shown in Box 12.

268. Typically there are two generic areas of conditionality. Conditions relating to performance against and implementation of sector policies; and conditions related to financial management.

269. Dialogue and assessment of conditions does not always fully take place in the context of established SWAp structures. In the Mali Education Sector, the SBS conditions set out above are different from those in the overall SWAp, and performance against these conditions separately assessed in additional meetings for SBS donors. In Tanzania health there is an SBS steering committee which has parallel meetings, and SBS donors also sign an additional side agreement, setting out actions that they wish to see implemented over the coming year.

270. EC procedures, which demand a two tranche approach, are often not fulfilled by normal SWAp processes. In the Zambia Roads and Health Sectors, separate reporting was required on a set of performance indicators as part of their tranche release request process, as the existing SWAp processes did not meet EC procedural requirements. Parallel provisions were provided to accommodate the EC in the Mozambique Health Sector.

271. In the case of the two Local Government case studies, the dialogue and conditionality framework was markedly different. Both were predominantly focused on programme specific issues, and not strongly linked to the broader sector dialogue. This was even the case in the second generation of support in Uganda, which helped establish more formal SWAp structures.

### ***Approaches to TA and Capacity Building linked to SBS***

272. The way TA and capacity building support is built into or linked to SBS instruments varies significantly.

273. In many cases SBS directly funds capacity building activities in the context of the overall sector strategy. In the case of Mozambique Agriculture, the largest share (nearly 40%) of SBS funded expenditure was on institutional development activities. Strengthening capacity at national and provincial levels was a core underlying objective of the Mozambique Agriculture support. In the two local government cases, SBS supported the provision of earmarked capacity building grants to local governments, alongside discretionary investment grants. Significant capacity building activities were also funded in the Tanzania Health and the Education Mali cases and are likely in future in the Mozambique health sector.

274. In four cases TA and capacity building using project modalities were integral to the SBS instruments. In Rwanda, the SBS programme document included provision for a capacity building pooled fund. The two local government case studies and the Zambia roads case involved project style TA and capacity building in the instruments – effectively the instruments were hybrids combining SBS and project aid modalities. The local government cases involved the establishment of parallel project management units, which were deemed necessary to establish the performance based grants systems SBS programmes were supporting, and to manage the project elements of the instrument. Efforts have been subsequently made to mainstream this functions in the respective local government ministries. The TA in the Zambia Roads sector had twin objectives of supporting the management of SBS funded road maintenance contracts and overall sector wide institutional development.

275. In the Uganda Education and Zambia health cases there was very little explicit consideration of TA and Capacity Building activities, although donors did provide ad-hoc technical assistance in the context of the dialogue associated with SBS.

276. In many of the sectors parallel technical assistance and capacity building projects and activities were taking place, and the SWAp dialogue structures were used as a mechanism for coordinating donor support to TA and capacity building.

### ***Coordination and Links to Other Aid Instruments***

277. As is the case with TA, more generally, the SWAp dialogue structures are the main vehicles for linking the provision of SBS with other aid instruments. In all but the Mozambique Agriculture case do SWAps attempt to coordinate different aid modalities in the sector.

278. More surprising is the weak link between SBS and GBS in many cases, despite the fact that many donors are giving both. There may be no explicit link, as in Mali Education and Tanzania Health. The sets of performance indicators which are monitored and used as the basis for disbursement may be different (e.g. Mali and Rwanda Education) or have different targets (e.g. Zambia Roads). There are links in some cases. For example in Uganda Education, a satisfactory Education Sector Review was a prior action for both SBS and GBS. More recently efforts have been made to develop a common Joint Assistance Framework which will include indicators to be used for both SBS and GBS across different sectors. In the Mozambique Agriculture and Health sectors efforts have been made to ensure the consistency of indicators, although the set monitored at the sector level are more elaborate.

### ***Institutions and systems for delivery***

279. In concluding the section on the nature of SBS, it is important to describe how the different SBS designs relate to the institutional structure of delivery in the sectors being supported. In short, what does SBS look like?

280. Traceable SBS tends to manifest itself in very large “projects” in the development budget of the lead ministry in the sector. This is the case in the agriculture and health ministries in Mozambique, the Ministry of Health in Tanzania, and the Ministry of Education in Mali. The distinguishing features of these projects are that they support multiple objectives, cut across the internal department structure of the concerned ministry; and use government systems. They typically fund operational as well as capital expenditures. In some cases they also transfer funds to institutions outside the ministry. Yet commonly these major “projects” are not designed in much detail (when compared to a conventional donor funded project), relying instead on the overall sector strategy (which tend only to set out broad sets of interventions) and the annual work-planning and budgeting process. The bulk of donor dialogue and effort is spent on agreeing joint financing procedures, not on discussing the substance of what is being funded.

281. In contrast in the non-traceable earmarked SBS case studies such as Zambia Health, Uganda and Rwanda Education, SBS funding was able to support the expansion of allocations to

existing budgetary lines and grants to service providers, using the established institutional structure, and budget classification. Importantly this involved funding either the recurrent or development budget or both.

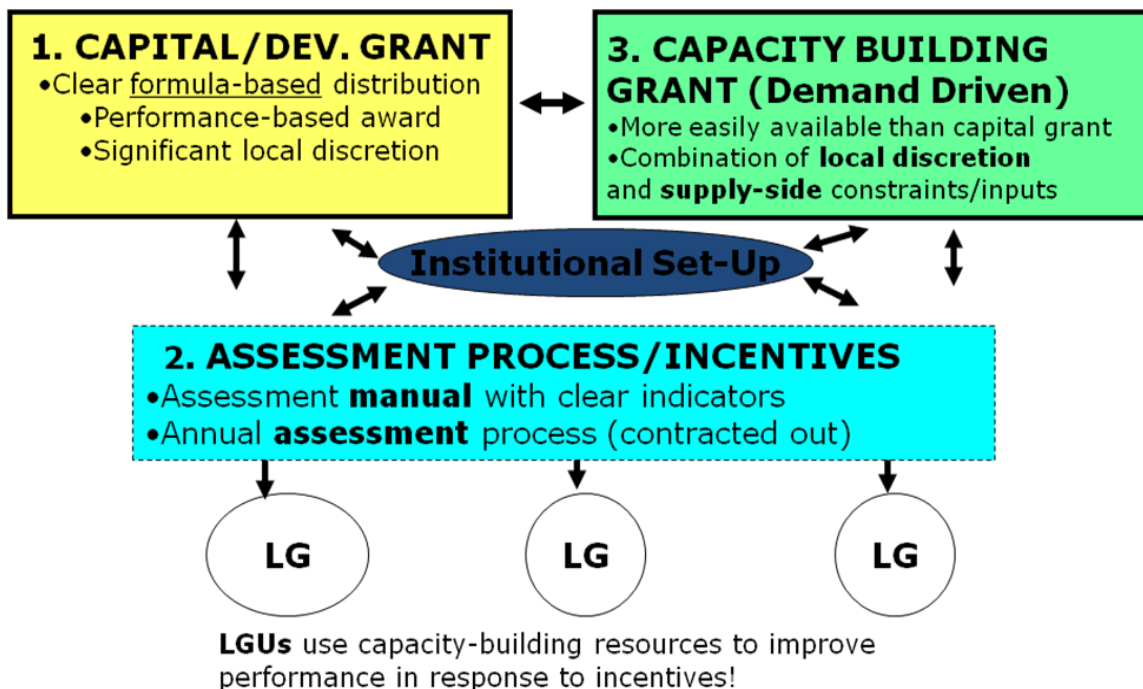
282. A large number of SBS instruments target funding to sub-national governments, and local service delivery in particular. It is important to distinguish the local government from the delivery sector case studies. In the Uganda and Rwanda examples of non-traceable earmarked SBS to the education sector, SBS supported the expansion of the government's intergovernmental transfer system. This included the government's capitation grants for primary schools in both cases.

283. In contrast traceable SBS cannot use existing transfers to fund sub-national governments, as it cannot be mingled with domestic resources. Traceable SBS requires the introduction of parallel transfers, where government ones already exist. As we shall discuss in section 6, this fragments funding. For example in the Tanzania Health sector a parallel grant was created in the local government ministry development budget, when there was already a recurrent mechanism for funding the health sector transferred via regional authorities. Similar patterns can be observed in the Mozambique Health and Agriculture Sectors. In Mali Education and the Local Government case studies the case is slightly different as transfer systems to local governments did not exist before hand. Furthermore in Mali, a decision was made to derogate from the new decentralised structures for delivery for classroom construction – and an agency for community infrastructure was used instead.

284. Box 13 The two local government case studies are very different to the other cases. Both programmes were intended to establish a performance based grant system, as set out in Box 13.

#### Box 13: Performance Based Grants Systems established under the LG Case Studies

The Uganda and Tanzania Local Government case studies had the objective of establishing a performance based grant system. The system had three, mutually reinforcing components, which were intended to provide strong incentives for local governments to improve their institutional performance:



The largest components of the programmes were Local Development Grants, which was a discretionary grant for local service delivery infrastructure and other development activities. Eligibility for, and the amount of local development grant a local government received was based on the results of an Annual Assessment of its institutional performance, the second component of the system. The third component was a Capacity Building Grant which local governments all were eligible for, even if they did not receive the development

grants. This was intended to help the local governments address capacity gaps identified in the annual assessment, and enable the local government to qualify for the Local Development Grant in future.

Source: *Uganda Local Government Case Study*

285. They were introduced to develop a system for service delivery by local governments, which was linked to specific incentives for improving institutional capacity. However in neither case was this a derogation, as no such system yet existed, and the explicit objective was to help implement established decentralisation policies. Importantly, the development of the systems which were embodied in the local government case studies involved a lot of detailed substantive design of those systems for delivery, and associated institutional (ironically project) support to deliver those systems. Significant, but relatively little time was spent on the overall coordination and joint financing arrangements.

286. This does not appear to be a characteristic of other SBS instruments. The majority of other SBS instruments were remarkably vague about the delivery systems that SBS programmes would be supporting, beyond the broad objectives of the stated sector plans and strategies. As we shall see, this has important implications in how SBS works in practice.

## 5.2 Derogations from Country Policies, Systems and Processes

**SQ2.2: To what extent have SBS inputs derogated from country policies, systems and processes, and are these a result of country specific concerns and/or headquarter requirements?**

287. The previous section described how derogations from country systems and processes are a key feature of the design of SBS instruments – in every case there were derogations in place. Whilst the extent of derogations vary from instrument to instrument, and sector to sector, it is clear they exist and are significant. There are three main areas where derogations exist: firstly funding and financial management arrangements; secondly from established SWAp procedures; and thirdly from established service delivery systems and structures.

288. It is important to understand the reasons why derogations from country systems observed in the case studies have occurred. In doing so this section draws first from the study on headquarter accountability requirements (Bartholomew 2008b), and secondly from the sector case studies themselves.

### ***The Limits to Headquarter Influence in the design of SBS***

289. A key conclusion from the donor headquarters study was that donor head office influence on the design of SBS instruments was in general, limited. This was the case for bilateral donors, in particular:

*“For most of the bilaterals surveyed in the case-studies there was considerable flexibility given at country-level regarding both the choice to use SBS and the design. For example, traceability, earmarking and additionality requirements were used in some of the sector case-studies but not in others. Often the same donor would use a different design in different countries. This tends to indicate that the decision on how to earmark or use additionality was undertaken on a sector and country basis rather than due to an overall Headquarters policy, as the same donor used earmarked and additionality requirements in different ways in different countries. Conditionality tended to be similarly designed in all cases, but often different derogations were included which most commonly related to audits or additional assessments which donors reserved the right to undertake if necessary.”*

290. Therefore the most significant design decisions are made at the country level. The major exceptions appear to be the EC, a major SBS donor, and bilaterals which do not traditionally use SBS:

- The EC has elaborated procedures for SBS. These include the use of performance indicators and a two tranche disbursement system. Headquarters insists these procedures



are applied, even if this means derogating from existing SWAp or SBS procedures used by the recipient government and other donors. The EC is less prescriptive on other areas of SBS design.

- Non traditional SBS donors, such as the AFD, Belgium and the ADB most commonly request additional financial management, accounting and audit requirements. The nature of these derogations varies from country to country, and they are not always required.

291. The major hurdle to the use of SBS appears to be the decision for a donor agency to employ SBS or not. Those donors that have been given an explicit mandate to provide SBS, unsurprisingly provide it more frequently. These donors also tend to have guidelines in place which outline Headquarters policy on budget support, pre-conditions and provide general principles for design and implementation. They are, however, far from prescriptive.

292. Political accountability concerns tend to be those that prevent donors such as USAID from providing SBS. Nevertheless donors without a specific mandate appear able to participate in providing SBS, and this appears to be a result of peer pressure – it becomes difficult for a donor to stay outside the framework. A more general political pressure is the need to demonstrate results, which is manifested in the EC framework. Beyond this there doesn't appear to be any specific influence on the nature of SBS design.

293. The donor accountability study concludes:

*“.....that broad concerns regarding accountability to Headquarters, result in different solutions at country level by the same donors. These are not necessarily the most appropriate solutions and are probably a result of a lack of guidance on how to design SBS well. This would suggest that more detailed guidance on design aspects of SBS that relate to additionality, earmarking and financial management arrangements would be appropriate in order to ensure that unnecessary or inappropriate derogations are not used to address accountability concerns.”*

#### **Understanding why derogations appear at the country level**

294. The implication of the donor headquarters study is that most SBS derogation from country systems appears to originate at the country level. This, on the face of it, appears counter intuitive. To understand, one must unpack the incentives facing donor agencies and line ministries within the recipient countries themselves<sup>37</sup>.

295. The starkest illustration of the donor preference for derogation is in Mozambique Health sector. When faced with a choice as to whether their SBS should be traceable as external funding, 10 out of 15 donors said they wanted it traced. This included donors that provide non-traceable SBS in other countries – the Netherlands, Ireland, Canada and Denmark. This evidently reflects a desire within country offices to be able to demonstrate where their funding is going, as this provided visibility. When non-traceable earmarked SBS is employed donors, understandably, feel that they need to demonstrate that funding has had an effect, and influenced sector resource allocation. This manifests itself in a combination of earmarking and additionality requirements. There is evidently also a sense that donors are risk averse on the fiduciary side, and play it safe by requiring additional financial reporting and audit requirements.

296. On the recipient side there are conflicting incentives. Whilst it is clearly in the interests of the finance ministry for SBS funds not to be traceable or earmarked – as it increases their influence and control over budget formulation and execution; this is not necessarily the case for line ministries. There may be a perception that traceability of SBS funding will ensure funding is more reliable than normal budgetary funding provided by the finance ministry through the budget. Large, SBS funded ministry projects are likely to generate perks for staff – including vehicles and

<sup>37</sup> See Williamson and Kizilbash (2008) for a further discussion of these incentives.

training opportunities - in a very similar way to projects. One illustration of this was the application of donor per-diem rates to SBS funded activities in Mali, instead of government ones. Another is the Tanzania Health case:

*Buse and Booth (2008) in their study of the political dimensions of health sector reform in Tanzania quote an informant as suggesting “the Ministry of Health prefers the basket to GBS but likes projects even more”. Attracting projects and baskets provides guaranteed funding to the Health Sector and quite often opportunities for individuals to benefit via training and workshops.*

297. Sector specialists in donor agencies tend to interact more with line ministry staff than finance ministry staff. Given the preferences of these individuals in donor agencies, and those of line ministries, it is unsurprising that the traceability option is commonly used.

298. That is not to say that non-traceable SBS has been universally unpopular amongst line ministries. The Ministries of Education in Rwanda and Uganda, whose sectors received non-traceable SBS early on, alongside the establishment of SWAps, did support it and appreciate it – due to the flexibility of funding and the associated reductions in transaction costs of managing those funds.

### 5.3 SBS and its Influence on the Quality of Partnership and Transaction Costs

**SQ2.3: Has SBS contributed positively to the quality of partnership and reduction in transaction costs between development partners, the recipient government and civil society?**

299. A key element of the aid effectiveness agenda is building partnership between donors, recipient governments, and civil society in recipient countries. Before discussing the effects of SBS on overall sector systems and processes, this section discusses how the provision of SBS has affected the quality of partnership and the transaction costs associated with external assistance.

#### ***Effects of SBS on the Quality of Partnership***

##### Effects of Non Financial Inputs on the Partnership

300. The dialogue structures associated with SWAps form an important element of SBS, whether or not SBS preceded their establishment. The case studies show that clear dialogue structures have had a positive effect on the transparency and quality of dialogue. This in turn has helped strengthen partnerships between donors and recipient line ministries in particular, and build greater trust and understanding within and across different groups of stakeholders.

301. There was some dissatisfaction with the recipient government on the donor side in several cases. For example in Tanzania and Mozambique health sectors donors felt that the government was often slow to provide documents required in the dialogue, and they spent a lot of time chasing these documents. More generally, and particularly (but not exclusively) in the case of traceable SBS instruments, there was a feeling that the dialogue was taken up too much with operational and process issues and not enough with substantive policy and delivery issues. Another explanatory variable appeared to be the number of donors involved in the provision of SBS – the more donors involved, the longer time spent on process issues in the dialogue.

302. The existence of donor coordination groups was important in improving the coherence of the partnership. The use of a lead donor or focal point in the Rwanda, Uganda and Mozambique cases was appreciated. However the quality of the interaction with the recipient government depended on the strength of the focal point. In the Uganda Education case, SWAp processes have been established for a decade. There was a feeling that that the dialogue had become less useful over time. Whilst the lead donor had been strong early on in the SWAp process, subsequent leadership of the donor group had been less strong, and the dialogue had suffered.

In the absence of strong leadership within the donor group, donors often found it difficult to arrive at a common position. Individual donors subsequently their own agendas. This varies from sector to sector. For example in agriculture opinions were often divided in Mozambique. In education, consensus on major policy priorities (i.e. basic education) is more straightforward to obtain. In Mali Education, there was resentment from within the donor group by non-SBS donors, who were concerned that SBS donors had privileged access to senior officials in the education ministry. The existence of parallel SBS meetings contributed to this perception.

303. High turnover of donor staff also leads to problems in sustaining a consistent dialogue. There was also a sense that donor offices were being staffed, increasingly, by generalists, and less by sector specialists. This further undermines the quality and depth of dialogue.

304. A very real problem in some of the partnership has emerged as the recipient government has become stronger and more confident, and started to take control of the policy agenda. In all the Uganda, Mozambique and Rwanda case studies, policy proposals have emerged from internal discussions within the government, and not from SWAp structures. As will be discussed further in sections 6.1 and 6.4, donors have often felt they have been inadequately consulted, and find it difficult to respond. This is despite the fact that government taking control of the policy agenda is clearly a desirable outcome, from the perspective of the Paris Principles.

#### Effects of SBS Funding

305. SBS funding affects the partnership by changing the incentives that different partners face. The flexibility of SBS funding in the context of traceable SBS was appreciated by the recipient spending institutions. However, this appreciation should be considered in the light of the analysis in the previous section, of the benefits which accrue to individuals within those institutions. Whilst this helps strengthen donor – government relationships at the sector level, this bypasses central ministries. As will be discussed in Section 6.4 the partnership is strengthened in a way which is not well aligned with domestic budgetary and accountability processes, nor with incentives to deliver results.

306. Non-traceable earmarked SBS provides greater incentive for the Ministry of Finance to be engaged in the partnership with sectors. In the context of non-traceable earmarked SBS, the Ministry of Finance in Uganda was a pro-active member of the partnership from the outset. The importance of engaging the Ministry of Finance was realised by those involved in Rwanda. Although its involvement in the sector reviews was felt unsatisfactory, the Ministry of Finance took an active role in dialogue on sector resource allocations and ensuring conditions were met. Nevertheless, the education ministries in Rwanda and Uganda appreciated the role of non-traceable earmarked SBS in supporting the expansion of sector budgets. This was not the case in the Zambia health sector, who felt that SBS had resulted in a decline in sector funding. This however was not the case – although the size of Common Basket Funding had gone down. An implication of the switch to non-traceable earmarked SBS, was that it forced a dialogue between the health ministry and the finance ministry. Again the finance ministry became a player in the partnership.

307. One factor which undermined the partnership, was a perception, from the recipient side, that donors were not able to deliver resources reliably – both in terms of timing and in terms of quantity. In the context of traceable SBS, this is typically effects the recipient institution, and not the Ministry of Finance. In the context of non-traceable earmarked SBS, this affects the Ministry of Finance as it must cover the shortfall from other budgetary funds.

#### ***Effects of SBS on Transaction Costs***

308. In the vast majority of cases, SBS was considered to have a positive role in reducing transactions costs on the recipient government.

309. SWAp dialogue structures were considered to have resulted in a reduction in transactions costs. As mentioned above, the use of lead donors was appreciated, and felt to be positive. Beyond the creation of donor groups, joint ways of working such as delegated cooperation and silent partnerships were used (for example in Rwanda), and considered effective at reducing transactions costs. Where SBS involved multiple donors, this reduced the burden on the recipient when compared to the costs of donors providing parallel projects.

310. Commonly, alongside the reduction, a shift in the focus of transaction costs from (disparate) project managers towards the ministry planning departments and senior ministry staff was observed. Furthermore SWAp dialogue structures, including Joint Sector Reviews, and reporting requirements associated with them, involved substantial staff time and resources from recipient governments. Whilst the majority of dialogue structures were appreciated, in some circumstances, such as Mozambique Health, there was concern that the structures were over elaborate, and some working groups were not functioning efficiently.

311. Where SBS involved derogations from established SWAp arrangements, this put a burden on the recipient governments. The additional meetings to discuss SBS disbursements in Mali, and EC tranche request requirements are examples of this. Furthermore there were costs associated with all the derogations associated with SBS on the financial management side – whether additional reporting and audit requirements. An important element of this study is to identify whether any of these derogations actually were of value. This will be examined in Chapter 6.

312. Often the relatively low transactions costs associated with SBS were undermined by the use of parallel projects, which often took up a disproportionate share of time in the dialogue and also used different financial management and reporting systems. The transaction benefits in the health cases, in particular, were arguably outweighed by the existence of large, global health initiatives. Zambia health, where two donors broke away from a large Common Basket Funding mechanism, the health ministry felt this was unnecessary fragmentation of support, which added to transaction costs. Similarly, the Zambia Roads case arguably did not contribute to a reduction in transaction costs, although there were benefits.

313. Whilst the trend on transaction costs is positive overall, it is apparent from the case studies, that developing joint funding modalities associated with SBS involves major transactions costs. Amongst the donor community arriving at common procedures is a tortuous and time consuming process – and it is evident that this takes up a large amount of the dialogue time available with government too. The situation is far from ideal, and detracts from substantive policy and systems dialogue.

## 6. Sector Budget Support and its Effects in Practice

### 6.1 SBS and its effects on Sector Policy, Planning, Budgeting, Monitoring and Evaluation Processes and Sector Expenditure

**SQ 3.1: What has been the influence of SBS on Sector Policy, Planning, Budgeting, Monitoring and Evaluation Processes, and what are the constraints faced and lessons learned in practice?**

314. This section sets out the effects of SBS on sector policy, planning, budgeting, monitoring and evaluation processes and sector expenditure. The assessment framework posits:

- If SBS is captured in the recipient government's budget; is aligned with government policies; is reported on using government systems; and the focus of dialogue, conditions and TA and capacity building associated with SBS are focused on sector policy, planning, budgeting, monitoring and evaluation; then this would
- increase the flexibility of external funding overall, a greater proportion of which would be on budget and better aligned with sector policies overall; and help orient the focus over overall dialogue, TA and capacity building on the sector policy, planning and budgeting cycle. This in turn would
- improve the alignment of public spending overall to sector policies, and strengthen sector policy, planning, budgeting and reporting systems and processes.

315. The frameworks within which SBS operate have a lot in common. As described in section 4.3, classic elements of the SWAp template including a sector policy and associated sector strategy; an MTEF; a performance monitoring system, and processes for dialogue and coordination are all present to some degree in nine out of ten case studies. SBS has used and either explicitly or implicitly supported, the development of these elements.

316. Despite this commonality, the case studies tell vastly different stories of the actual effects of SBS on the budget cycle, and sector expenditures which are set out in this section. We start with the effects of SBS on policies and conclude with the effects on resource allocation. In each area we first examine the effects of SBS funding and financial management arrangements, and conclude with exploring the further effects of non financial SBS inputs such as dialogue, TA and capacity building.

#### 6.1.1 Findings on the Effects of SBS on Policy Making and Strategic Planning

##### ***The Effects of SBS Funding and Financial Management Arrangements***

317. Unsurprisingly, the nexus of the influence of SBS funding arrangements on the policy, planning and budgeting cycle is its interface with and influence with the budget. SBS funding and financial management arrangements do not have a direct effect on the processes of policy making and strategic planning. The effects have been indirect through its links with non financial SBS inputs, and in particular conditionality. The prospect of large-scale SBS flexible funding to a sector has certainly provided a fillip for improved policy making and strategic planning. As will be described further, in Section 6.4, SBS funding also helps reinforce ownership of policies and plans as it facilitates their implementation.

##### ***The Effects of Non Financial SBS Inputs***

318. In all cases SBS supported the development and/or implementation of sector policies, strategies and plans. A clear feature of all the case studies is that some degree of greater clarity on policy was achieved prior to the move to SBS or during the early phases of SBS. In all but the local government cases, a sector strategy or investment plan was also an important component, and in many cases a pre-requisite for the shift to SBS. The nature of the strategies and plans supported vary from broad statements of policy and priorities (e.g. PROSAUDE in Mozambique health) to bankable costed strategies (e.g. the ROADSIP in Zambia and PISEII). Often costing

exercises followed the development of strategies, in response to concerns over their broad nature. The nature and quality of policies and strategies developed in the context of SWApS did not appear to vary whether they predated or were developed alongside SBS. This is not surprising as the nature of inputs – dialogue and TA support did not vary significantly whether provided in the context of project or SBS funding.

319. The SWAp dialogue structures were the entry point for policy dialogue – both at the level of steering committees and more technical working groups. These structures had mandates which covered the overall policy planning and budgeting cycle, however the degree to which the development of policies and plans were overseen by them varied in practice. In general, the dialogue structures had less time to devote to substantive policy issues in the Basket SBS cases, where a lot of time was spent discussing modalities and operational issues.

320. The Mozambique Agriculture case illustrates the fact that SBS, and large scale aid flows to a sector, may not be appropriate in every policy environment. Much of the policy dialogue associated with SBS early on involved discussions on what the state should not be doing in service delivery, whilst considerable resource transfers were being made under SBS. This resulted in an estimated \$80 million (38% of SBS) being spent on institutional development between 1999 and 2007. This was clearly excessive.

321. A key point of contention in many of the case studies relates to the degree to which donors and recipient governments feel SWAp structures should originate policy ideas and initiate changes in policy. In many cases the structures had a lot of influence in early policy and strategy development. However the *de facto* role of these structures changed as the capacity of line ministries and governments became stronger. Their influence in new policy developments diminished. This was often accompanied by unrealistic expectations on the part of donors over the degree of influence that they would have over policy decisions. In the Mozambique, Uganda and Rwanda case studies major policy decisions were taken outside the context of the dialogue. Box 14 below contrasts the responses to external decisions in the Uganda Education and Mozambique Agriculture Sectors.

#### Box 14: Donor Responses to Policy Decisions made Outside the Dialogue

- **Uganda Education:** The policies of free Universal Primary Education in 1996 and then free Universal Secondary Education (USE) a decade later were initiated by the President, outside the sector dialogue structures. In the first instance, this announcement was in line with donor preference, and so they were happy to support its implementation, inter alia, through SBS funding and the dialogue. However many donors felt the announcement of USE was premature and it would be impossible to address poor quality in primary education alongside USE. The dialogue suffered. Whilst several donors continue to be reluctant to support the government in implementing USE, they are now donors are being more constructive on addressing primary education quality, and some donors have now responded to governments request for support in secondary education.
- **Mozambique Agriculture:** After disillusionment of the lack of impact of PROAGRI the agricultural plan supported by SBS, the government made its own policy decisions outside the SWAp framework which involved a major state role in service delivery, and the allocation of significant government funds to this. Donors have become disillusioned, and have not aligned their support to these new policy developments. So now there are two rival agricultural policies, one donor supported and one with domestic political backing.

Source: *Uganda Education and Mozambique Agriculture Case Studies*

There is a tendency for donors to get despondent or complain about these external decisions, rather than enter into a constructive dialogue on how they can be implemented or improved. It is clear from the Uganda Education case, that following a period of introspection, constructive engagement on both addressing the quality of primary education, and the introduction of Universal Secondary Education, may actually yield results. Rather than exert influence on high level, ultimately political, policy decisions, it is evident that there is scope for the dialogue to exert influence on the more tedious detail of the strategies elaborating how high level policies are to be

implemented – the two education case studies illustrate this most clearly, as donors have supported the elaboration of plans to implement free primary education. It is clear from the case studies that this does not always happen.

## 6.1.2 Findings on the Effects of SBS on Sector Budgeting

### *The Effects of SBS Funding and Financial Management Arrangements*

322. As mentioned above, the nexus of the influence of SBS funding is on the budget process. SBS funds influence the budget process in two ways – firstly through changing the incentives which actors in the budget process face, and secondly structurally, through how SBS is reflected in budget documents.

323. The first area of influence, therefore, relates to incentives. Expenditures funded by traceable SBS are separately identifiable in the recipient government's budget<sup>38</sup>, those funded by non-traceable SBS are not. Whether the associated earmarking is broad or specific, traceable SBS tends to draw the focus of dialogue towards the areas of the budget it is funding. Subsequently donors attempt to influence the allocation of SBS funding through the dialogue. For example annual workplans are a major focus of the dialogue in Mali. However, these workplans cover the development budget only, the vast majority of which is funded by SBS. *De facto*, this means that donors exert a significant degree of influence over "their" resources. This means the attention of dialogue on resource allocation is drawn away from a comprehensive debate on the allocation of overall resources towards the achievement of sector objectives. Even if SBS is well aligned to sector objectives, the overall budget may not be.

324. As mentioned in section 5.2, Traceable SBS also creates incentives more typically associated with projects. Of particular importance here is the lack of incentive for the line Ministry to involve the Ministry of Finance in the dialogue on resource allocation, or incentive for the Ministry of Finance to get involved in the dialogue on the use of SBS – this appeared the case in the Tanzania and Mozambique cases. The Ministry of Finance's role is reduced to that of a postman in the management of SBS. Where Common Basket Funds are situated in a ministry, the incentive may also be for the ministry to keep funds for itself, even if the intention is to fund service delivery. The natural incentive for a spending institution is to look after its own financial needs first, before thinking about others – even if that is at the expense of service provision.

325. As non-traceable SBS is not separately identifiable in the budget, it does not automatically generate the perverse incentives in the budget process that traceable SBS does, as donors cannot directly identify "their" funding. However earmarking and additionality requirements associated with non-traceable earmarked SBS do represent derogations from existing budget allocation processes, which have implications on those processes that have tended to result in positive outcomes in resource allocation. Whilst non-traceable earmarking also draws the attention of the dialogue towards the area to which funds are earmarked. If the areas to which SBS are earmarked, are under-funded or areas of policy priority – which was true of the case studies – this then draws the dialogue towards those areas. Importantly, the dialogue is then centred on government systems, and not parallel SBS funded systems as was the case with traceable SBS. In a context where changes in annual budgets tend to be incremental, this can help encourage a significant shift in resource allocation towards sector objectives and service delivery. Furthermore notional earmarking can draw attention to the recurrent as well the development budget. However, it is important to note that non traceable earmarking should not be a substitute for overall dialogue on sector resource allocation.

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<sup>38</sup> The one exception was DFID support to health, however this arrangement was not workable and DFID dropped traceability requirement.

326. Importantly, dialogue on earmarking and additionality in the context of non-traceable earmarked SBS requires the involvement of the Ministry of Finance. Non-traceable earmarking and additionality is something that must be negotiated with the Ministry of Finance, as part of the annual budget process. Collective dialogue between the sector institutions, donors and the Ministry of Finance becomes important. In Rwanda and in particular Uganda, the Ministry of Finance is more active in the sector dialogue than in Zambia. However, the importance of involving the Ministry of Finance soon became clear, after misunderstandings emerged with the Ministry of Health. The health ministry was expecting additional resources over and above its budget, whilst an absence of additionality requirements meant that the Ministry of Finance had not allocated SBS resources as additional. To a recipient spending institution, it is clear that non-traceable earmarking of SBS is not in their interest unless it delivers the sector additional resources. Nevertheless, the Zambia health studies showed that limited amounts of non-traceable SBS funding have the potential to exert influence on intra-sectoral resource allocation effectively, through the use of earmarking. This fosters ownership of sector resource allocation in the finance ministry as well as line ministries.

327. The use of earmarking in the context of traceable SBS can also help overcome the incentives for incremental budgeting, as demonstrated by the earmarking of resources to local governments in the Tanzania Health and Mali Education Sectors. However, this does not generate the same degree of ownership of sector resource allocations in the finance ministry, as the case of non-traceable earmarked SBS. More generally, traceable SBS tends not to have specific additionality requirements. This maybe because SBS is kept separate and visible in the budget, yet traceable SBS tends not to encourage a holistic dialogue and monitoring of sector resource allocation as well.

328. The second area in which SBS affects the budget process is the structure of sector budgets. Whilst non-Traceable SBS uses the existing budget structure, traceability tends to distort it and this makes the link between resource allocation and policies more difficult. Firstly, by definition, Traceable SBS fragments sector budgets, as it results in a separately identifiable set of expenditures in the budget.

329. Universally traceable SBS appears in the development budget, even if it supports operational activities. In some cases SBS was classified as external funding (Tanzania, Mozambique Agriculture and part of Mozambique Health), others as domestic funding (Uganda Local Government). As described in section 5.1, traceable SBS funds are usually allocated to the sector ministry as project in its development budget, the main difference with other projects in the development budget being the scale of the project. In Mali SBS was divided into two in the development budget – “SBS for Investment” and “SBS for Operational Funding”. In most cases traceable SBS has been provided flexibly on paper (although some earmarking does occur), and this is intended to facilitate the alignment of sector funding to sector objectives. This means that expenditures which are operational in nature are being funded from the development budget. This perpetuates a common problem with conventional project support. This contrasts with non-traceable earmarked SBS, which can support expenditures in the recurrent budget – which was the case in Rwanda and Uganda Education Sectors and the Zambian Health Sector. For example, non-traceable SBS earmarked to textbook procurement in Uganda was budgeted for under the Primary Education Department recurrent budget in the Ministry of Education, and managed by that department – the “normal” place for doing so. In contrast, textbook procurement is budgeted for under the Ministry of Education Investment Budget in Mali. In Rwanda the shift from projects to SBS has allowed a more appropriate classification of expenditures, with the development budget decreasing relative to the recurrent budget as a result.

330. With the exceptions of Tanzania Local Government and Zambia Roads, traceable SBS funded “projects” in the development budget are intended to fund multiple policy objectives implemented by different departments within a ministry, and often also other sector institutions, including sub-national governments. Typically, the Ministry of Finance’s budget structure has not



been designed to accommodate this, and project budgets are only prepared on a line item basis (e.g. Mozambique), irrespective of their size. This makes it difficult to see any link between resource allocation and policy objectives in budget documents, even though SBS allocations may well be aligned to policy. In all the cases of traceable SBS, the scale of funding was substantial - \$30m or more per annum. In the case of Mozambique health, the size of the traceable earmarked SBS is significantly larger than the health ministry's own recurrent budget. In both the Mozambique case studies, this has prompted the need to develop parallel budgeting tools to help align funding with policy<sup>39</sup>. Whilst these address the needs of the sector, such a sophisticated solution may not have been necessary if SBS had been supporting the normal budget structure. An exception is the Tanzania Health case where SBS was allocated as basket funding across different project codes in the Ministry of Health's development budget, and transfers to local authorities funded by SBS appeared in the local government ministry's development budget. This, in theory should make the link of resource allocation to policy easier, however other weaknesses undermine this. Meanwhile the perverse effects of traceability are limited in the Zambia roads case, because the focus of SBS funding is narrow, and it is funding a set of activities (road rehabilitation and maintenance) which lends itself to being a standalone project in the development budget.

331. Albeit within the constraints of the prevailing budget classification, the link to sector policies and strategies becomes more straightforward with non-traceable earmarked SBS, as they follow the existing administrative structure of the budget, and typically do not involve large opaque projects funding multiple institutions and objectives.

#### ***The Effects of Non Financial SBS Inputs***

332. The record of SBS non-financial inputs in supporting the annual budget cycle has been mixed. Again SBS non financial inputs can be characterised by support to the development of budgeting instruments; and dialogue in the budget process. Some kind of MTEF was in operation in all the case studies. Annual operational planning was a common area of focus of TA in several of the case studies, and significant improvements have been registered. For example, donors supported the development of budgeting tools in Mozambique Agriculture

333. A key problem area has been the link between sector strategies, MTEFs and annual operational plans to annual budget allocations. Mali represents a typical case, as described in Box 15.

334. A benefit of SBS funds using government systems is that it does result in the problems in those systems being identified, and discussed. For example, the fragmentation of planning and budgeting instruments is now firmly on the dialogue agenda in Mali. However, overall, progress has been disappointing in this area.

335. Long term sector strategies were most useful in the budget process when they were used as a guide to resource allocation – this was the case in the Rwanda and Uganda Education case studies. Costing of these plans helps in this. However, there were problems when efforts were made to create a hard link between costed plans and the budget. The Zambia roads sector is a case in point: "As an articulation of policy objectives, trade-offs and priorities ROADSIP II is an important framework with continued relevance. As a tool for setting the sector resource envelope the ROADSIP is secondary to the MTEF and the budget. It is also somewhat inflexible in that changing conditions in the sector make its projections and targets increasingly inaccurate over time. It is therefore of limited relevance to annual roads sector planning and budgeting. Therefore, the content of roads AWP's has grown increasingly removed from the targets set in the ROADSIP II

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<sup>39</sup> This was also the case in the Burkina Faso Education - see first phase study of SBSiP, van de Linde (2008)

document. However, CPs continue to press the sector to retain a strict link between ROADSIP II resource projections and targets and AWP, essentially treating it as a large project document. As a result, much dialogue centres around progress against rigid adherence to ROADSIP II despite subsequent changes in sector conditions and the growing gap between ROADSIP II projections and actual implementation in recent years.” Political priorities change over the implementation period of a sector strategy. Donors, in the dialogue, need to take a flexible approach to the implementation of sector strategies – in some cases this is a necessity as sector strategies are often not clearly prioritised.

#### Box 15: Fragmentation in Planning and Budgeting in Mali

There are three main instruments used in the budget formulation process – the MTEF, Annual Workplans and the Annual Budget. The sector’s financial programming situation is, however complex, and there is a weak link between the different documents and PISE:

- a. the sector MTEF elaborated for 2001-05 and updated for 2006-08 provides the general framework for the financing of the sector; it includes total public expenditure (including donor commitments) estimated to be required to implement the education policy at all education levels and by all executing levels. The MTEF reflects the priorities established in the PISE but is not a direct translation of it: it is presented as 6 programmes as opposed to the PISE’s 4 components, the links between components and programmes remaining unidentified.
- b. the Annual Workplans (AWP) are the detailed activity based operational plans for different sector institutions. Each executing agency’s AWP is an annual translation of activities required to implement the PISE; its cost is thus the investment effort required to implement the education sector strategy, including hard core investment and operational costs of these investments, and does not include recurrent costs such as staff salaries or normal operating costs. Although logically the AWP cost should thus fall within the MTEF’s financial ceiling for investment costs, in practice (see 2007) this is not often the case as the AWP is the result of an aggregation of different levels’ AWP which have been elaborated at a time when yearly budget ceilings are not necessarily yet available or passed down to the lower levels. The AWP, likewise to the MTEF, includes items for which donor financing has been identified but is not guaranteed. The 2008 AWP for the first time made an attempt at clarifying the link between the MTEF, the budget and the AWP.
- c. Finally, the annual budget (submitted to the Ministry of Finance and the Parliament), is the legal basis for budget implementation. The annual budget bears no obvious relationship with either the MTEF or the AWP. It includes the recurrent budget (salaries and normal operating costs) and only part of the AWP since it only includes identified and secured investment funding (investment financed on national resources and on existing donor financing).

Major discrepancies in financial figures between the MTEF, the AWP and the Budget thus appear: to illustrate, figures for 2008 showed the voted budget at CFA Francs 186 billion, the AWP at 94.4 billion, amounting, after addition of recurrent budget, to CFA Francs 221 billion and the MTEF (dated September 2007) at CFA Francs 211 billion.

Source: Mali Education Case Study

336. A common problem, which SBS inputs have not always addressed, has been the absence of a clear picture of resource allocation in the sector overall. This was made difficult in the cases of Zambia Roads and Tanzania Health because of institutional fragmentation and the fact that the MTEF and budget was prepared on an institution by institution basis only. The Tanzania health study concludes: *“The dialogue and other inputs associated with SBS have failed to produce a comprehensive overview of health sector expenditures over time, which has undermined strategic resource allocation. This has undoubtedly been made more difficult by the structure of the GoT budget, the nature of the budget process and the huge and fragmented external resources associated with the sector. Without such strategic oversight the discretionary nature of resources, combined with the nature of the MTEF process has led to inefficient spending.”* Off budget aid was another problem, particularly in the health sector. This made it difficult for the sector to allocate resources comprehensively to the achievement of sector objectives. This is made worse, in the case of traceable SBS, due to its effect on the structure of the budget. This contrasts with the Ugandan MTEF where different institutions’ budgets are presented alongside each other in a combined MTEF document and table. This simple innovation makes the link to sector policy objectives more straight forward.

337. The failure to address fragmentation also reflects the locus of the dialogue. This can be traced back to the traceability of SBS. Fragmentation was less of an issue in the non-traceable SBS case studies, and in particular Rwanda and Uganda Education. This is not just because of the structural issues mentioned earlier, but because of the involvement of the Ministry of Finance in the dialogue. The focus of government-donor dialogue on resource allocation in Rwanda was at

the Joint Budget Support Reviews, hosted by the Ministry of Finance, at which sectors present their MTEF proposals and budget execution. In Uganda the Ministry of Finance runs a consultative budget process, which includes Sector Working Groups which are chaired by line ministries and have active Ministry of Finance and donor involvement. A further point to note is that in the non-traceable SBS examples, the subject of debate is the documentation required for the national budget process – and in particular MTEF documents. However, in the Uganda case, where donors have an open door to participate in the budget process, this is not fully taken advantage of. It was evident that prior to the 2009 meeting on the education MTEF<sup>40</sup> in Uganda many donors had not read the draft document. As mentioned earlier, the use of non-traceable earmarked SBS in Zambia has, at least, prompted dialogue between the finance and health ministries, however vertical and Common Basket Funding is still dominant in the sector.

338. It is apparent that spending ministries and donors are more comfortable discussing the details, and this is most apparent in the traceable SBS case studies. In Mali a lot of time is spent discussing Annual Workplans. Annual operational plans are a focus of discussion in the Mozambique case studies, too. The focus tends to be on the development budget, which is dominated by donor funding in general and SBS in Mali Education and Mozambique Agriculture. A counter example here is the Tanzania health sector, where there are efforts to discuss the health sector MTEF, in which Common Basket Funding is integrated. However, donors often do not get an opportunity to comment on the document before it is submitted to the finance ministry, despite this being a condition of the SBS-Basket. Yet, a common distinction of all these discussions is that they do not involve the Ministry of Finance. Interestingly, project donors in Rwanda recognised the value that non-traceable SBS played in broadening the dialogue to policy and systems issues.

339. In several case studies attention has been paid to operational planning at the sub-national level for service delivery sectors. In Mali, this included the aforementioned focus on discussing Annual Workplans. In the Mozambique Agriculture Sector, the planning and budgeting tool mentioned above, facilitated bottom up planning by the provinces. One of the most concerted efforts to improve planning and reporting was made in Tanzania, where local authorities were supported to develop comprehensive health plans: *“Common Basket Funding requires local governments to draft a Comprehensive Council Health Plans (CCHPs). CCHPs still represent some of the most advanced planning at the local government level in Tanzania. local governments are required to submit quarterly narrative and financial reports as a prerequisite for the release of funds (biannual). Compliance has been reported as very good in this area and systems are in place to appraise the quality of reports, although it is noted that the reports are largely narrative and are insufficient to make a verdict on past results. Whilst Tanzania took a comprehensive approach, in Uganda, support was confined to the preparation of workplans for conditional grants transferred from central government, and associated reporting processes. This only gives a partial picture of activities at the sector at the local level. However, both cases point to how a simple incentive – no plan or report, no release of funds, can help provide incentives for the production of routine data.*

340. The Local Government case studies supported the strengthening of the overall planning and budgeting process in local governments across sectors through the development of manuals and guidelines and incentives through the performance based grants. Conditions associated with planning and budgeting in the annual assessment process has helped ensure a modicum of consultative budgeting at the local level, and improved the timeliness of the planning and budgeting processes as well.

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<sup>40</sup> The study mission took place at the same time as this meeting and donor interviews were held before and after. Although the draft MTEF was only circulated a couple of days before the meeting, through the SWG donors had access to earlier drafts.

341. However, both the local government case studies point to the problems of integrating planning and budgeting across sectors at the local government level. In Uganda, as was described for Education, most service delivery sectors focus on supporting work-planning and reporting for specific sector grants from central government. Whilst SBS supporting the Local Government sector supported integrated planning, in reality the budget process is dominated by grants for sectors such as health, water and education, and the relationship between district departments in these sectors and their parent ministries.

### **6.1.3 Findings on the Effects of SBS on Sector Reporting and Monitoring and Evaluation**

#### ***The Effects of SBS Funding and Financial Management Arrangements***

342. SBS funding affects reporting in a similar way to policies and planning – that is, indirectly through providing incentives for sector institutions to improve reporting against policy. Traceability requirements, also draw attention towards the reporting on the use of SBS funds, as opposed to the sector overall. As traceable SBS is typically earmarked to the development budget, this often means that the focus of monitoring and reporting does not focus on routine service delivery. Traceability requirements also fragment reporting, and make it difficult to link expenditures to reporting on performance due to their structural effects on the budget. Non-traceable earmarked SBS does not exert such an influence, as it is not separately identifiable.

#### ***The Effects of Non Financial SBS Inputs***

343. When SBS funds have been combined with dialogue and conditionality associated with sector monitoring, evaluation and reporting, progress has been made. Sector review meetings have become a key event in the calendar of recipient governments and donors in the vast majority of case studies, and are an important SBS “input”. They have become the main forum for discussing sector performance, and agreeing actions to improve sector performance. Overall, they have been a significant and positive development. They have facilitated a shift in the focus of dialogue from the performance of individual donor projects and programmes to the sector that would not have been possible otherwise. In the case studies where formal reviews are not in place (Zambia Roads and Tanzania Local Government), regular steering committee meetings perform a similar function. As described in Section 5.1 typically, “satisfactory performance” as assessed in the Annual Review is a condition for disbursement of SBS funds. SBS arrangements which occurred in an established SWAP tended to result in derogations, and requirements for additional reporting. EC arrangements in particular, provided an additional burden on top of sector reviews.

344. Sector reviews all involve some kind of reporting on sector performance. This may be done through Aides-Memoire as in Mali, or annual sector performance reports, as in Tanzania Health, and Uganda Education. A common feature of reporting on sector performance is that it improves and evolves over time. However reporting is often faced with common problems:

- Firstly sectors often lack routine data on service delivery, and activities implemented by sector institutions.
- Related to this, there is typically a lack of results orientation in reporting, which often relates only to processes and actions but not service delivery results.
- Finally, there is often a weak link to expenditures in the sector.

345. Surveys and Diagnostic studies, such as Public Expenditure Reviews, Public Expenditure Tracking Surveys, Value for Money and Service Delivery Surveys, are also a common inputs into reviews. They provide a focus to discussions on specific areas performance, and also help address some of the gaps in routine reporting observed above.

346. At Annual Reviews actions tend to be agreed to improve sector performance, and the implementation of the previous year’s agreed actions reported on. A common problem has been a lack of follow up on actions agreed at sector reviews. This is the case in the Mozambique health

sector, where there are a very large number of these actions agreed each year. In Rwanda, which has a relatively good track record on implementing agreed actions, a concerted effort has been made to reduce and focus the number of actions agreed to a more manageable number.

347. However many of the problems underlying weak monitoring, reporting and follow up relate to incentives. For example implementing agencies or sub-national governments have little incentive to provide delivery information (below). Whilst peer pressure at sector reviews does at least put some pressure on sector institutions to agreed actions, this is not always enough. The consequences of not implementing agreed actions at a sector review in terms of SBS tend to be unclear, as “Satisfactory Performance” is not well defined. There are few examples where donors have actually threatened to assess performance as unsatisfactory, which adds to the sense that it doesn’t matter if actions are not implemented. Furthermore, it is actually in donor staff interests to present performance as satisfactory within their organisations. However, the threat to cut budget support can result in government action as early experience related to the Uganda Education in Box 16 below shows. However such examples are conspicuous by their absence, including in Uganda.

#### **Box 16: “Unsatisfactory Performance” in the Uganda Education Sector**

In 1999 MoFPED [*The Ministry of Finance, Planning and Economic Development*] introduced a simple monthly financial statement, which districts and municipalities were required to submit to MoFPED and MoLG [*Ministry of Local Government*]. Local governments reacted angrily to this requirement, saying that they were not accountable to central government but to their local councils, and had no obligation to report to the centre. This issue came to a head at the Education Sector Review in early 2000, where donors demanded that accountability be produced for UPE and threatened to withdraw budget support. The President intervened and directed local governments to submit accountability reports to the centre. They reluctantly obliged.

*Source: Williamson 2009*

348. A recent response to shortcomings has been the introduction of Performance Assessment Frameworks at the sector level, which include a mixture of performance outcome and output indicators and actions to improve performance. Their use is in their infancy. They do have the potential of improving the results orientation of performance reporting, and at least making the framework for assessing performance more transparent. However, at best, this only partially addresses the incentive problem described above. Meanwhile, the lack of linkage between sectoral and GBS performance assessment frameworks, observed earlier, weakens their potential to strengthen incentives further. Often GBS conditions are not considered by sector stakeholders (whether donors or line ministries) as elements of sectoral performance monitoring frameworks, and they compete with rather than complement each other.

### **6.1.4 Findings on the Effects of SBS on Sector Resource Allocation**

#### The Effects of SBS Funding and Financial Management Arrangements

349. Given the effects of SBS on planning, budgeting, monitoring and evaluation, what has been the effect on SBS funding on resource allocation? This can be broken down into two levels. Firstly, the effects of SBS on overall sector resources, and secondly on intra-sectoral resource allocation.

350. In general in the cases where SBS has contributed to an increase in external funding to the sector, this in turn has resulted in an increase in overall sector funding. This is the case for both non-traceable earmarked SBS, which is typically associated with additionality requirements, and traceable SBS which is not.

351. Two factors influence the extent of the effect of SBS on **overall sector resource allocation** – the absolute size of SBS, and whether it represents a switch in resources from project or Common Basket Funding. Six out of ten cases - Uganda Education and Local Government,

Tanzania Health and Local Government, and Rwanda and Mali Education - combined a direct switch from project aid with large-scale transfers which contributed to major increases in the scale of external assistance. In all these cases SBS contributed to significant increases in budget allocations as a result. Additionality requirements underpinned all the non-traceable earmarked SBS cases here (although this was later withdrawn in Uganda), but were not applied in the traceable case studies. As described earlier, in Uganda the mechanism for demonstrating additionality was the Poverty Action Fund Table, and in Rwanda it was through the MTEF.

352. Whilst the Mozambique Health case represents high levels of funding, this has involved a switch from a pre-existing basket, and has not increased overall aid to the sector. Therefore the change in the funding landscape has been smaller, and consequently the effects of the shift to SBS. The same can be said for Zambia roads. In both the Zambia case studies there was little effect of SBS on the level of sector resources overall, as the level of funding was small and it represented a switch from Common Basket Funding. There was also no requirement for additionality of SBS funding on sector budget allocations in either Zambia case.

353. In all the case studies, SBS has been provided in the context of buoyant domestic revenues, and the provision of GBS. This, alongside SBS, undoubtedly contributed to the increases in sector resources available in the non-traceable earmarked SBS case studies. In the Tanzania Health and Mali Education sectors, domestic funding has been increasing rapidly alongside (traceable) SBS. In the health sector case studies vertical programmes were often the biggest driver behind increases in sector resource allocation.

354. Despite buoyant revenues, increases in domestic funding allocations in the Mozambique case study sectors have been slower. Although SBS did contribute to increases in agriculture sector expenditure overall, it actually substituted domestic funding which actually fell in absolute terms in 2000 and 2004. At this time, however, the sector was receiving significant resource transfers, without a clear service delivery mandate agreed – the government's response was therefore understandable. Whilst SBS in the Mozambique health sector is more recent, one can see that increases in domestic funding have been slow, when compared to increases in the basket and vertical funds which preceded it. Again, given the huge increases in vertical funding, this stance is also understandable, although a matter for concern amongst donors.

355. In both the Uganda cases there has been a decline from high levels of SBS, due to a shift in aid modalities towards GBS in education, and shifting agendas in the local government sector. In the Local Government case, allocations to the Local Development Grant have been maintained at the same levels in nominal terms ever since, even though the grant was created by SBS. Similarly expenditure levels were maintained in education after a decline in SBS from 2003<sup>41</sup>. It is important to contrast this with an episode when DFID switched from Health basket SBS to GBS in Tanzania – the health budget was reduced by a corresponding amount. The contrast between this case and the Uganda case studies do point towards greater sustainability of SBS classified as domestic resources on resource allocation than those classified as external resources.

356. The second dimension of resource allocation **is intra-sectoral**. Has SBS resulted in the reorientation of sector funding towards the implementation of sector policies, and service delivery? Given the tendency for incremental budgeting, and incentives for spending agencies and the individuals within them to maximise their budget, it is evident that a degree of earmarking had a beneficial effect on intra-sectoral resource allocation in the majority of cases.

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<sup>41</sup> There has been some erosion of the real value of allocations however. In the case of education there was a switch of some allocations away from primary with the launch of universal secondary education but this is not a result of the withdrawal of SBS.

- The Uganda and Rwanda Education Studies involve a mix of non-traceable earmarking to the sector, primary education and specific areas of expenditure within primary education. The examples of textbooks and classroom construction in the Uganda education sector were mentioned above. Allocations to the capitation grant in Rwanda have accelerated as a result of non-traceable earmarking of FTI funding. The Zambia health case involves two examples of non-traceable earmarking to specific areas of health expenditure – human resource retention, and user fee elimination. Limited amounts of funding can exert influence on resource allocation effectively, through non-traceable earmarking. Non-traceable earmarking tends to be a one shot game – when (additional) SBS funds are first provided they have a chance of influencing overall and intra-sector resource allocation, after which SBS only underwrites the changes it supported in the first year. In all three case studies these differing levels of earmarking co-exist quite comfortably, and often can complement each other.
- The Tanzania health and two local government cases, are all examples of traceable SBS, show that requiring all or a significant share of funding to be transferred to local authorities can help ensure a share of funding reaches local authorities and/or service providers.

357. Similarly capping expenditures on items where excessive spending may be deemed inefficient – such as per diems in Mali and Tanzania, helped discourage wasteful expenditure allocations. However, it is important to note that a lot of these problems which need to be dealt with appear as a result of the traceability requirements. The Tanzania and Uganda local government case studies involved negative lists of expenditures.

358. Beyond the instances where it was earmarked to sub-national governments and/or service delivery, it is difficult to assess how traceable SBS has contributed to the alignment of sector funding to sector policies. This is due to its effect on the structure of the budget described earlier in this section. However there are some anecdotal examples of effects traceable SBS funding has had on intra sectoral resource allocation. It is apparent that traceable earmarked SBS funding tends to be influenced by what spending ministries are used to spending donor money on. Some of this may be core to implementing sector policies, such as the 40% of SBS funds are spent on school construction in Mali, for example. However in the same case donor per diem rates were applied, which are three times higher than government rates. Expenditure on workshops in the Tanzania Health sector is described as being “too high”. In the once case where the sector has developed a system to demonstrate the link between sector spending and sector strategy components, Mozambique Agriculture, 40% of funding was spent on institutional development, and very little was spent on service delivery (as discussed below, this is also related to the absence of a clear and agreed policy on government service delivery).

359. There is a mixed story, in terms of the amount of traceable SBS which is allocated to sub-national governments, where they have a role in managing or delivering services. In Tanzania minimum per capita levels of transfers to local authorities were agreed with donors in the health sector. In the local government case all the funding was allocated to local authorities. In the case of the Mozambique health sector, there is no such requirement and funding to provinces has not increased since the shift to SBS. Furthermore the share of investment funding allocated to provinces (dominated by SBS) is reported as far lower than the share of the recurrent budget allocated. In the agriculture case, significant funding was transferred to the provinces, however a major share was evidently not spent on service delivery. Earmarking and associated additionality clearly helps direct resources towards sub-national government and service delivery.

360. The local government case studies add another dimension to resource allocation, as both cases involved the provision of substantial levels of discretionary funding for local investments<sup>42</sup>. This contrasts with the other sector case studies, where funding for service delivery to sub-national governments tends to be earmarked for specific purposes. In both cases local governments chose to allocate their funds to PRSP priorities such as schools, water points, roads and clinics. These choices were the product of the local government planning and budgeting system. The incentive framework to which the grant funding was linked (Box 13) also provided incentives to strengthen local planning, budgeting and reporting. Recurrent financing for operating and maintaining local investments was not guaranteed, given the small revenue basis of districts beyond transfers tightly earmarked by the sector.

### ***The Effects of Non Financial SBS Inputs***

361. In the non-traceable earmarked SBS case studies, the earmarking arrangements are closely associated with the dialogue, and conditions. This is because the earmarking forms part of a negotiation on overall sector resource allocation, which includes the Ministry of Finance as discussed earlier. Box 17 below shows how the influence of the dialogue, conditions, and the sector strategic plan all play a role in influencing resource allocation. The dialogue played a similar role early on in Uganda, however, once resource allocation stopped rising rapidly in 2003, it has been less effective, and has not been able to prevent an erosion in allocations to key budget lines.

#### **Box 17: The influence of dialogue, conditions and the sector strategy in Rwanda**

The policy dialogue and conditions agreed during the Joint Review of the Education Sector and Joint Budget Support Review associated with both SBS and GBS have been most influential in these reallocations. It is no coincidence that all SBS programmes specify alignment of the annual budget with the Education Sector Strategic Plan as one of the disbursement triggers. Whilst no clear criteria is defined as to what that means exactly or how it is assessed, donors – and in particular SBS donors - have frequently emphasised the need to “rebalance the education budget towards primary education” over the years.

Finance Ministry officials mention the influence of the costed Long Term Strategy and Financing Framework (LTSFF) as a guide for budget allocations to education (both to the sector and intra-sectoral). The LTSFF was used because it provided an overall financing framework linked to a clear strategy and objectives, endorsed by education donors and serving as a basis for the FTI grant (representing 8% of the total recurrent budget in 2008).

There are clear examples of where major donor concerns were taken into consideration during the finalisation of the education budget. Many government interviewees have mentioned the “protected areas” of textbooks, school construction, capitation grant and teacher salaries. In their views these are the main areas of donor interest that need to be protected both during budget preparation and during budget execution

*Source: Rwanda Education Case Study*

362. In the Zambia health case study, supporting dialogue to the non-traceable earmarking of SBS was important in helping the relatively small level of SBS funding punch its weight in terms of influencing resource allocation. A condition of the EC support was to have a budget line created for HR retention in the recurrent budget, to which funding was key. This supported a major policy priority.

363. The influence of non financial SBS inputs on resource allocation was narrower in the cases of traceable SBS. Dialogue tended to focus on the development budget – the composition of which, being dominated by donor funding, could be influenced by the parties to the dialogue (as

<sup>42</sup> Although one case involved traceable SBS, and one Non-traceable earmarked SBS, by the time these grants reached local governments, their nature is remarkably similar, as they both used local government systems in full.



Ministry of Finance was not involved). Yet, the focus of the dialogue tended to be more operational, than strategic. This is probably, in part, due to the footprint that traceable SBS leaves on the structure of sector budgets mentioned earlier, which makes a strategic link with budget allocations more difficult.

### 6.1.5 Conclusions and Lessons Learned

364. This chapter has described a mixed, but broadly positive story of the impact of SBS on policy, planning, budgeting, monitoring and resource allocation. However, traceable SBS does have some clear drawbacks. Furthermore, some of the most visible effects of SBS are seen in these areas, when one compares them to the effects observed in subsequent sections. This is unsurprising, as these are major components and focus of SWAs. In conclusion:

#### Funds and Financial Management Arrangements

- The influence of SBS funds on policy making, strategic planning, monitoring and evaluation is largely indirect. The prospect of new and/or continued flexible SBS funding, using government systems, provides an incentive for domestic institutions to improve policy making, plans, and monitoring arrangements.
- The greatest influence of SBS funding is via the budget process. The following are the main observations.
  - The role of the Ministry of Finance tends to be bypassed with the use of traceable SBS. When earmarking was used in the cases of non-traceable SBS, sector resource allocations needed to be negotiated with the Ministry of Finance. This is positive, and helps with ownership and the long term sustainability of sector resource allocations.
  - Traceable SBS tends to be reflected in development budgets and consequently earmarked to expenditures in the development budget. In contrast, non-traceable SBS can be earmarked and allocated to boost recurrent as well as development expenditures.
  - Traceable SBS distorts the structure of budget allocations, as a) it tends to be identified in the development budget despite often funding operational activities and b) it funds large “projects” whose allocations are difficult to link to sector policy priorities. When combined with large scale funding these distortions are amplified. Conversely, non-traceable SBS does not distort the structure of budget allocations, even when specific earmarking is applied.
  - Traceable SBS is often considered donor money especially when classified as external resources and there is a tendency to spend significant shares on workshops and allowances. Non-traceable SBS tends not to be considered as donor money, as it is classified as domestic resources and not separately identifiable in the budget.
- SBS tends to draw the focus of dialogue, TA and capacity building towards the areas of the budget that SBS is funding.
  - In the case of traceable SBS this draws attention to the development budget, and away from the recurrent budget. Consequently attention is also drawn away from issues linked to day-to-day service delivery and the management of those services, which are gaps highlighted later in sections 6.3 and 6.4.
  - A benefit of non-traceable earmarked SBS funds is that it can fund the recurrent budget and consequently enables the problems in overall government systems to be identified, and discussed in the dialogue.
- SBS has tended to support increases in overall sector resource allocations in the case studies. The following can be observed:

- The scale of SBS, both in absolute terms, and whether it has contributed to an increase in external funding is key to determining the effects on the scale of overall sector resources.
- In all cases where additionality requirements were in place, sector resource allocations increased more rapidly than increases in SBS. In one case where there was no additionality requirement, SBS substituted for domestic resource allocations. In another such case, domestic budget allocations increased slowly.
- In the case of non-traceable earmarked SBS it is possible to “demonstrate” additionality through comparing resource allocations before and after the provision of SBS. As it is separately identifiable in the budget, additionality is more straightforward to “show” in the cases of traceable SBS.
- SBS has also helped influence intra-sectoral resource allocation through earmarking and associated dialogue on resource allocation, as follows:
  - The absolute size, as well as the degree to which SBS represents a switch in aid instruments from Project support and Common Basket Funding is important.
  - Earmarking SBS funding to service delivery and/or sub-national governments (whether in the context of non-traceable or traceable SBS), can have positive effects on intra sector resource allocation. This can help re-orient intra-sectoral budget allocations more rapidly than would otherwise be possible towards service delivery – as the prevailing incentives are for incremental budgeting and for central ministries to maximise their budgets.
  - Earmarking can also help maximise the impact of SBS, where allocations are relatively small.
  - It important that earmarking is not imposed, but used as a tool in dialogue on overall sector budget allocations (see below). Earmarking has been successful when it reinforces the genuine policy priorities of the recipient government.
  - Non-traceable earmarking and associated additionality is a one shot game – it can initiate a change in intra-sectoral resource allocation when it is first negotiated, however subsequent influence in resource allocation needs to be exerted through the dialogue.

#### Other SBS inputs

- SBS has had a positive influence on the policy planning and budgeting cycles in recipient countries, and the quality of plans and budgets, but there remain weak links between different stages in the cycle:
  - Sector policy dialogue, and the associated structures developed in the context of SWAPs, appears most effective when supporting the implementation of policy, and not so effective at influencing overall policy direction, especially as the capacity of the partner government becomes stronger.
  - SBS is most appropriate when there is a clear and agreed policy for public service delivery, which donors are willing to support.
  - A combination of dialogue, TA and capacity building associated with SBS has been effective in improving the quality of policies, strategies and operational plans, however, note financial inputs have been less effective at supporting the links of these instruments to the budget, especially in the context of traceable SBS due to the problems highlighted above.
  - Where links have been established, sector plans and strategies are used as a guide to resource allocation, and costing of plans helps in this. However, efforts in the dialogue to try and promote a hard link between strategies and operational plans

and budgets are usually counterproductive, as often political priorities shift. Partners need to take a flexible approach to strategy implementation, and not be averse to shifts in political priority.

- A common problem is that in several sectors, there is no comprehensive picture of resource allocation in the sector, which undermines strategic resource allocation. SBS has typically failed to address this, whether through dialogue, TA or capacity building.
- Involvement of the Ministry of Finance in discussions over sector resource allocation in the context of SBS is crucial, and helps ensure earmarking and additionality requirements are negotiated and agreed, rather than imposed. This helps with the sustainability of resource allocation after SBS. Traceable SBS tends to promote dialogue within the sector between the line ministry and donors, and has a narrower influence, typically on the development budget only. It also has a less sustainable impact on long term sector resource allocation.
- Non financial SBS inputs have had a largely positive effect on sector reporting and monitoring, however gaps in routine monitoring of service delivery, weak links with budget reporting, and poor follow up often prevail:
  - Sector Review Meetings are a key positive feature of many SWAp/SBS arrangements, and help focus the dialogue on overall sector performance and away from individual projects, as was intended.
  - Sector reporting has improved in many cases as a result of conditions and supportive dialogue and TA. However these SBS inputs have been ineffective in addressing problems in routine data collection on service delivery; results orientation; and links to resource allocation. Diagnostic studies do help fill these gaps.
  - However weak follow up on agreed actions at sector review meetings remains a problem, and this is because underlying incentives are unclear, especially in terms of donors assessment of performance, which is usually unclear. Nevertheless SBS donors who try and create clear incentive frameworks, outside the overall SWAp framework, are unhelpful. Efforts to reduce the number of actions agreed in Sector Reviews, and use of Performance Assessment Frameworks represent a step forward, but they are in their infancy and it is unclear whether donors will be able to behave in such a way as to provide clear incentives.
- The local government case studies explicitly used incentives to help improve planning and budgeting, alongside more conventional capacity building. Simple requirements for comprehensive plans and associated in-year reports, as a condition for accessing funding also provided incentives for local governments to improve planning in other sector case studies.

365. The main lessons that can be drawn are as follows:

- In many cases earmarking of SBS funds to service delivery and sub-national governments is desirable, especially if it is negotiated and supported by the line ministry and Ministry of Finance. It facilitates the reorientation of the budget towards sector policy. This helps counter the incentives for incremental budgeting which may prevail when discretionary funding is provided.
- Traceability requirements have a significant and negative impact on the structure of the budget, and the possibilities of linking budgets to sector policies. The larger the scale of SBS funding the greater the distortion. They also undermine the administrative presentation of the budget which is important for institutional accountability. They also distort the focus of other SBS inputs. Non-traceable earmarking of SBS helps avoid these distorting effects.

- Sector policy dialogue is most useful in supporting the implementation of policies, not influencing their nature.
- Sector review and associated reporting processes are important for facilitating improved reporting and dialogue on sector performance, however the incentives created by related SBS conditions are unclear.

## 6.2 SBS and its effects on Sector Procurement, Expenditure Control, Accounting and Audit Processes

**SQ3.2 What has been the influence of SBS on Procurement, Expenditure Control, Accounting and Audit Systems at the Sector Level, and what are the constraints faced and lessons learned in practice?**

### 6.2.1 Findings on the Effects of Sector Budget Support

366. This section sets out the effects of SBS on sector procurement, expenditure control, accounting and audit process. The assessment framework puts forward the hypothesis that, if:

- SBS funding uses government procurement, expenditure control, accounting and audit processes, and the focus of dialogue, conditions and TA and capacity building associated with SBS are focused on these processes; then this would
- Increase the share of external funding using these systems; and help orient the focus the overall dialogue, TA and capacity building on them. This in turn would
- Improve the reliability of control that the government has over sector resources, and strengthen sector budget execution, accounting and audit.

### *The Effects of SBS funding and Financial Management Arrangements*

367. All SBS funding uses government procurement, expenditure control and accounting systems to a certain degree, and this has had broadly positive implications throughout:

- Firstly, in all the case study countries there have been improvements in PFM systems across government, and the use of these systems by SBS has meant that SBS funds have benefited from these improvements. SBS funds have tended not to influence the nature of these systems, and these reforms have been led by ministries of finance, where GBS has been more influential in supporting reform. This points to the complementarity between the effects of GBS and SBS.
- Secondly, it has put the government in greater control of budget execution. Spending agencies are responsible for managing and accounting for funds. This also puts the Ministry of Finance in a stronger position to monitor budget execution – this is even the case in examples of traceable SBS such as Mali and Mozambique. In Uganda, Rwanda, Tanzania and Mozambique, for example, much of central government funding is managed via the computerised Integrated Financial Management Systems, which also help in the efficiency of budget execution and reporting.
- The use of these systems helped highlight the weaknesses in these systems in areas such as cash management in Mali Education and Zambia Health, and procurement in Zambia Roads and Tanzania Health. This has helped focus attention of the dialogue on them, and made them likelier to be addressed. Generally, the case studies support the hypothesis that by using country systems, this helps in their strengthening.

368. In the case studies where the shift towards SBS has been greatest, then these positive effects have been strongest. The Education case studies in particular, and also the Local Government case studies are examples where there have been significant increases in the share of sector resources using government systems (e.g. in Rwanda over 95% of sector resources use government systems). In the Health and Zambia Roads case studies the effects of SBS are weaker because of the large share of vertical and project funding which does not use government systems.

369. There is a clear contrast between the effects of traceable SBS, where there are significant derogations from country systems, and non-traceable earmarked SBS where there are typically fewer derogations. Also, the case studies which channelled funds to sub-national governments had important, positive effects on local systems. These are now examined in turn.

#### Traceable SBS

370. Traceable SBS (Mali Education and Uganda Local Government excepted), tends not to be fully mingled with government resources and disbursed using overall government cash management processes. Instead the value of SBS funds disbursed by donors is the value disbursed by the treasury to spending units. This means that SBS resources bypass government cash management procedures, and therefore makes overall cash management more difficult for the Ministry of Finance. This has not, necessarily, resulted in greater predictability of funding by donors, as in several cases delays were experienced in disbursements by donors and the subsequent onward transmission to spending agencies. Although typically predictability of traceable SBS has improved over time (for example in the Tanzania case studies), this does not necessarily strengthen the overall predictability of sector resources. Mali Education and Uganda local governments were exceptions where funds were made available to local governments against budgeted SBS expenditures (as with domestic expenditures), even when the government had not received SBS funding. In Mali this helped reveal weaknesses in the system, however it was accompanied by a requirement that unspent funds be rolled over to the next financial year, instead of being returned to the treasury – this requirement created significant problems in accounting for funds at the end of the financial year, as well as budgeting for the new financial year.

371. The structure of some traceable SBS funding has influenced the nature of the budget execution systems as well. In the Mozambique case studies it has proved necessary to develop parallel financial management systems to handle the financial management of the big Common Basket Funds, as the central chart of accounts is not adequately structured to deal with them<sup>43</sup>. This could have been avoided if SBS was not separately identifiable in the budget, and were used to fund the recurrent budget.

372. Other derogations include the bypassing of government procurement systems for medicines in Mozambique Health – which means that procurement systems are unlikely to be improved in future. In the Zambia Roads case, the traceability of SBS funds, reinforced by the use of separate accounts, output contracts, and tax exemption all reinforced the distinction between SBS and domestic resources. Administrative delays in releases have not affected implementation, because of capacity constraints in implementation. Furthermore, the traceable SBS case studies typically involve some degree of private sector auditing of SBS Funding.

#### Non-traceable earmarked SBS

373. In contrast non-traceable earmarked SBS uses government cash management procedures and typically has less derogation from PFM systems associated with it. One key and legitimate concern of donors using non-traceable earmarked SBS (and indeed GBS), is the reliability of budget disbursements. In Uganda the Ministry of Finance, Planning and Economic Development guaranteed that budget disbursement to priority sector expenditures were given preference in cash management. These were typically the areas to which SBS was non-traceably earmarked. Similarly cash flow protection is provided to key budget lines in the Rwandan Education Budget,

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<sup>43</sup> The MoH alleges that this is necessary because the treasury system does not allow for management by portfolio management. This is a symptom of the majority of sector funding, including SBS, operates as large projects in the development budget, but actually fund recurrent activities. These projects do not link to the administrative structure of the recurrent budget and need to be broken down to make them manageable. It is likely that this would not be necessary if SBS and other donor funding funded the recurrent budget.

such as the capitation grant. Although a derogation at the outset, this is often a desirable outcome for both the government and donors, as it provides an explicit prioritisation of budget categories in cash management. However it does mean that un-protected areas of the budget are more exposed to in-year budget cuts. Where budgets are reliable, for example recently in Zambia, the use of cash management systems for EC health SBS was smooth, and no such disbursement protection requirements put in place.

374. Non-traceable earmarked SBS suffers similar delays in disbursement from donors to traceable SBS, however this does not have a direct effect on the timing of disbursements to sector budget lines. However, as non-traceable earmarked SBS is mixed with government resources, this puts a strain on the finance ministry's cash management processes, especially where SBS funds are received late in the financial year. Yet, on balance, this gives the finance ministry greater control over budget execution, and so can ensure funds are made available to spending agencies when they are needed and budget disbursements be protected for priority areas throughout the financial year.

375. Whilst examples of non-traceable earmarked SBS have involved derogations from domestic financial management systems, these have been minimal, and have not served to replace statutory financial management processes. This means that the non-financial SBS inputs are less distracted by derogations and more focused on government systems.

#### SBS Funds Earmarked to Sub-national Service Delivery

376. Many of the SBS case studies have tended to support transfers to sub-national governments, and in many cases were earmarked to specific transfers (e.g. for example in Uganda the local development grant for local investments in the local government case study, and the Schools Facilities Grant in the Education Case study).

377. Once it arrives at local governments, SBS typically uses local government PFM systems in similar ways, whether traceable or non-traceable earmarked SBS. In general, this has positive effects on local government PFM systems, and benefits from broader improvements in PFM at that level. In cases such as Mali Education, this helped put local PFM systems into operation, where there had been little funding to local governments before, beyond salaries. The two local government case studies involved a shift away from area base programmes which tended not to use government systems, to a transfer mechanism which did use government systems. This furthered the beneficial effects on local governments.

378. However, in the Mali case, it was decided to bypass local authorities for classroom construction expenditures, and use an agency for delivering community based capital investments. The opportunity to strengthen local government capacity for using and strengthening procurement and contract management procedures for capital works at the local level was lost.

379. The traceable SBS cases result in the creation of new grants to sub-national governments. This becomes an issue when there are pre-existing transfer mechanisms. In the Tanzania Health case, recurrent local government transfers were particularly unreliable, so it was considered necessary to create a new funding mechanism for SBS funded activities and use traceable SBS. However since then recurrent local transfers (as well as central budgets) have become increasingly reliable, and by 2006 were more reliable than traceable SBS, yet traceable SBS has been maintained. In Uganda, the Ministry of Finance committed to disburse budgets for local government grants in full at the outset. This provided assurance to donors, and helped avoid the creation of parallel funding mechanisms.

380. It is important to note that once an SBS-supported grant reaches a local government it faces the same PFM issues whether traceable or not, and so the main role of traceability is to ensure that the value of donor funds disbursed reach local governments – this is only beneficial if donor funding is more reliable than local transfers. In the Tanzania cases mainstream transfers to

local government transfers were initially very unreliable, but their reliability has improved over time. They have now become more reliable than traceable SBS funded transfers, but this has not prompted a shift towards non-traceable SBS in the two cases.

### ***The Effect of Non Financial SBS Inputs***

381. Donor fiduciary concerns mean that there is typically some degree of focus of SBS conditions and dialogue on budget execution and audit processes, although this varies. Traceable SBS case studies tend to involve a greater degree of focus on the processes related to donor concerns about following “their” money rather than, and to the detriment of, overall sector systems. This was the case in Tanzania Health, Mozambique Agriculture and Zambia roads for example, particularly early on. The cases of non-traceable earmarked SBS, such as the Uganda and Rwanda Education case studies appear to have focused more on systemic PFM issues. The Zambia Health case study dealt least explicitly with sector PFM issues. Here the effects of these non financial SBS inputs on financial management are assessed.

382. TA has been provided for the development of sector specific PFM systems, which were de facto derogations from existing country systems. In the Zambia Roads case, the EC insisted on the application of an output based contracting technique, as opposed to using and improving conventional contracting methods already in use. This was arguable a step too far, and did not deliver significant improvements in value for money. As mentioned earlier, the Mozambique case studies SBS donors supported the establishment of parallel financial management systems in Agriculture in 1999 prior to Ministry of Finance PFM reforms, and in Health after them. In Agriculture, the accounting software, allowed the generation of financial data by sector strategy component, however there were difficulties in its implementation. The Ministry of Health system has yet to become functional. In Mozambique Agriculture sector, a procurement unit was set up in the Ministry of Agriculture which initially led to improvements in procurement, however its capacity has been eroded over time. The development of these systems has involved a substantial time and effort by partner governments and donors, which arguably could have been better spent strengthening mainstream government systems, if non-traceable earmarked SBS had been used.

383. In the Uganda and Rwanda education case studies activities relating to PFM filled gaps in sector systems, rather than derogating from those systems. This included supporting the development of guidelines for the use of service delivery funding such as capitation grants by schools, and associated training and on financial management at the school level. This did not involve changing the underlying accounting systems. This kind of support has a more positive and sustained effect on strengthening sector systems and institutional capacity. Similarly the local government case studies, either directly or through parallel TA projects, supported improvements to regulations and guidelines at the local government level.

384. Typically SBS involved conditions relating to the due process requirements relating to domestic budget execution - such as the preparation of procurement plans, and regular execution reporting (mentioned in the previous section), and the statutory audit report. These documents were required to be presented and discussed in the sector consultative forums. This type of requirement helped improve the timeliness of budget execution. Similarly, requiring local governments to report before funds are released provides simple incentives for them to account in a timely manner. However, in Tanzania, there have been problems in accessing audit documents and procurement plans despite being part of the conditionality framework, which contributed to frustration in the dialogue. Only World Bank threats to switch to alternative modalities away from Common Basket Funding have resulted in improved compliance.

385. Non-traceable earmarked SBS typically relies on the statutory audit, supplemented by diagnostic studies (see below) and in such cases there was often some dialogue on the annual audit report. Some of the traceable SBS case studies required additional independent financial audits over and above the statutory audit – Mozambique Agriculture; Tanzania Health; Zambia Roads are all cases in point. The record of these additional audits was mixed. In Mozambique

Agriculture, where the statutory audit was weak early on, external audit provided reliable information and fiduciary assurance to donors (and government). In Mali, donors were involved in preparing the TORs of the audit, however its scope was unclear. The Supreme Audit Institution did not want to sign off on the audit, because it had not been involved in it. In Tanzania Health as well as Mali Education the ownership of the findings of these audit reports within the recipient government was weak. This undermined the value added of these additional audits, as well as resulting in tension with donors. Over time there has been a shift to reliance on the statutory audit in traceable SBS instruments which is a positive development, and this has helped improve the quality and comprehensiveness of these audits, and also raised their profile.

386. Various types of diagnostic studies have been introduced in both the traceable and non-traceable SBS case studies, and these are often conditions in SBS programmes. The Uganda Education case study involved one sector specific diagnostic study a year on financial management, whether a Public Expenditure Tracking Survey or a value for money survey. The Rwanda Education case study similarly involved various diagnostic studies. In the design of the Mozambique SBS a provision for an annual financial management assessment of the health sector is provided for, and the first was carried out. In the Zambia Roads case study procurement and technical audits were introduced first for SBS funded and then subsequently all roads contracts. In the local government case studies the annual assessment of local government performance included and an assessment of PFM issues, and value for money audits were carried out in the context of SBS programmes.

387. Audits, diagnostic studies, as well as the act of SBS funds using government systems highlighted in the previous section, all helped to highlight gaps and weaknesses in the systems which needed to be addressed, and these issues were typically discussed in the dialogue. Whilst an important development in themselves, which help donors and recipients understand the fiduciary risks in the sector, these weaknesses needed to be addressed.

388. The cases of Rwanda Education and Zambia Roads demonstrated the most consistent follow up on procurement and financial management issues raised. Early on there were significant and consistent follow up in the Uganda Education sector, although this appeared to tail off later on. It appears that a combination of competent leadership, plus a genuine appreciation of the need to address the issues raised underpinned these findings.

389. Follow up has not been consistent, however. In many cases a disproportionate amount of dialogue time was spent following up on PFM issues, both relative to the improvements realised, and when compared to other policy implementation and service delivery issues. For example, the progress which has been made in audit follow up and procurement in the Tanzania health sector seems small relative to the time spent discussing them. The Mozambique Health case is similar. Furthermore, those people involved in the sector dialogue on financial management tend not to be financial management specialists. This undermines the quality of the dialogue, calling into question the value of intense dialogue on PFM. In the relatively successful Rwanda case, this was highlighted as a constraint to deepening the dialogue on PFM issues at the sector level, but dialogue was lighter. Underlying this is the problem of incentives, highlighted in the previous section in relation to the overall conditionality framework. Where the domestic incentives for strengthening sector financial management is weak (which is more common than not), the incentives provided by SBS are also unclear. At sector reviews actions to improve financial management were often agreed – however they were either multiple (e.g. Mozambique Health) or vaguely defined (e.g. Uganda Education). Furthermore the consequences of non-compliance in terms of SBS are unclear. The potential of clear incentives are demonstrated in the local government case study. The incentives created by the performance assessment process, which is tied to accessing (SBS funded) local development grants, has contributed to significant improvements in local government financial management, which delivered results as described in Box 18 below. Here the implications of non-compliance were clear.



**Box 18: Improvements to Financial Management in the Ugandan Local Government Case Study**

- Prior to the LGDP support to training and capacity building on PFM there were no professionally qualified accountants in local governments and only three qualified accounts technicians. By December 2007, there were 41 professional qualified accountants and 391 qualified accounts technicians in local governments.
- Before the LGDP started only 10 local governments were able to produce final accounts whereas in 2007 more than 95 % of the local governments were able to do this in a timely manner.
- Prior to LGDP bookkeeping in local governments was particularly weak, but by 2007 83% of districts had earned a top score in accountability procedures in the annual assessment. Similar improvements were realised in procurement.

Source: *Uganda Local Government Case Study*

390. This not only helped improve the efficiency of the use of local development grants the associated SBS funded, but all local government expenditures including those funded by SBS to other sectors. Furthermore, the local government case studies, through value for money studies, demonstrated the quality and efficiency of expenditures on local investments. Community oversight in lower level local governments in Tanzania was also shown to be strong, even though formal PFM systems were weak.

**6.2.2 Conclusions and Lessons Learned**

391. Overall, SBS has had a positive influence on budget execution, accounting and audit systems at the sector level. Most notably this has been achieved through SBS funds using those systems, however non financial SBS inputs have played a supportive role. In conclusion, the key findings are as follows:

Funds and Financial Management Arrangements

- The use of SBS ensures that external assistance benefits from broader improvements to public financial management processes, and complements improvements resulting from the effects of GBS. This puts the government in greater control of budget execution processes and, by using government systems, helps highlight their weaknesses.
- In the cases where the shift towards SBS and/or GBS from projects in absolute and relative terms has been significant, these positive effects have been greatest.
- Traceable SBS typically bypasses government cash management procedures, and this only improves the predictability of sector resources if donor disbursements are more reliable than the government budget. This is not always the case, however it does undermine overall cash management by the Treasury.
- Non-traceable SBS, which is disbursed via normal cash management procedures, can contribute to improved predictability of sector budgets, through protection of budget disbursements to priority sector budget lines by the Ministry of Finance. Whilst this situation is preferable to bypassing cash management processes, delays to non-traceable SBS disbursements can put a strain on overall cash management.
- SBS earmarked to sub-national government service delivery helps strengthen local PFM systems through using them, and also benefits from broader improvements at that level.
- Whilst derogations to normal financial management processes associated with the use of non-traceable SBS are minimal, they are far more common in the context of traceable SBS.

Non Financial SBS Inputs

- The degree to which SBS dialogue, TA and capacity building focus on PFM varies in SBS instruments, however more dialogue and conditions does not necessarily deliver greater improvements. Furthermore there appears to be little PFM specific capacity on the side of sector donors to engage effectively in dialogue on sector PFM.

- Using conditions relating to statutory procurement, financial reporting and audit requirements help improve their profile and the timeliness of compliance.
- Diagnostic studies, such as PETS, Value for Money Studies, and Procurement Audits appear to be useful tools which help identify weaknesses in government systems, which are a useful supplement to statutory financial management and audit requirements. It is important that ministries of finance are involved in these exercises, which is not always the case.
- Meanwhile the use of external audits in addition to government audits, whilst useful in identifying fiduciary concerns when statutory audits are weak are not useful as the basis of securing government follow up. Ownership of findings tends to be low, as they are perceived as external and duplicate statutory country processes.
- The degree of follow up on addressing PFM weaknesses appears to depend on the environment within and outside the sector, and not the intensity of the dialogue on PFM in the sector. However unclear conditions relating to follow up and consequences of failure to comply means that SBS does not provide a strong incentive to sector institutions.
- In contrast, linking assessment of PFM to accessing of funds has created strong incentives to improve PFM in local governments. In these cases the consequences of non-compliance are clear. Similarly, simple rules of no reporting, no release of funds, can encourage basic financial reporting, and improve the timeliness of bookkeeping.
- SBS support to improvements of sector financial management appears most effective where they address sector specific gaps in PFM, such as school financial management, rather than attempting to replace or duplicate or improve treasury systems at the sector level.
- Donors engaged in the dialogue at the sector level are not particularly well equipped to deal with financial management issues.

392. In conclusion it is evident that SBS improves sector PFM by using government systems, and is made more effective by improvements resulting from broader PFM reform (which is typically supported via GBS), however it appears less effective at driving sector specific improvements. Furthermore, the positive effects of broader PFM reform are watered down by the derogations associated with traceable SBS, in particular.

393. In this context three main conclusions and lessons for the design and implementation of SBS programmes are as follows:

- Non-traceable SBS, when combined with treasury commitment to protect budgetary disbursements is the most effective way of improving the reliability of sector resource allocation. Furthermore, non-traceable earmarking helps avoid the creation of unnecessary derogations from domestic PFM systems.
- SBS conditions are effective in supporting statutory PFM requirements. To be effective, conditions related to improving sector specific PFM need to be more limited in scope and specific, than is typically the case. This should be accompanied by clearer consequences for failure to address follow up issues, as well as technical support to facilitate doing so.
- The incentive based model in the local government case studies is effective in strengthening overall financial management at the local level. This can therefore be complementary to sector specific SBS in sectors such as health and education.

## 6.3 SBS and its Influence on the Capacity of Sector Institutions and Systems for Service Delivery

**SQ3.3: What has been the influence of SBS on Sector Institutions, their Capacity and Systems for Service Delivery, and what are the constraints faced and lessons learned in practice?**

394. This section sets out the effects of SBS on sector institutions, their capacity and systems for service delivery. The assessment framework puts forward the hypothesis that, if:

- SBS funding uses mainstream government funding mechanisms and service delivery institutions, and the focus of dialogue, conditions and TA and capacity building associated with SBS are on strengthening these processes; then this would
- Increase the share of external funding using these systems; and help orient the focus over overall dialogue, TA and Capacity Building on them. This in turn would
- contribute towards increased total funds flowing through government funding mechanisms and stronger service delivery systems and institutions.

### 6.3.1 Findings on the Effects of Sector Budget Support

#### *The Effects of SBS funding and Financial Management Arrangements*

395. In all cases except Agriculture in Mozambique, SBS either facilitated in the cases of non-traceable earmarked SBS (e.g. Education in Rwanda) or directly contributed towards, in the cases of traceable SBS (e.g. Tanzania Health) increased volumes of funds reaching service delivery units or the management of service delivery activities. These effects were clearest, in cases where there was some earmarking of SBS to service delivery (e.g. Tanzania Health and the Education case studies). This meant increased funding for schools in Rwanda and local government health facilities, and their management in Tanzania. SBS funding was generally aligned with government service delivery systems. Non-traceable earmarked SBS funds used mainstream government channels and systems to transfer funds. Meanwhile, traceable SBS used parallel mechanisms to transfer funds, but these mechanisms typically channelled funds to government service systems. Thus SBS targeted service delivery providers and managers (schools, health centres and district managers) who perform these functions with government funds.

396. There were cases in which the flexibility of SBS funding increased over time as government systems improved and/or confidence in them increased. But it is important to note that the provision of more flexible SBS funds to national governments does not necessarily translate into reduced earmarking at service delivery/decentralised levels. For instance, donors reduced the degree of earmarking of SBS in Uganda, with many donors shifting to GBS, however grants to local government remained highly earmarked. Moreover, it was not always that government system improvements were rewarded by greater alignment. In the health sector in Tanzania, SBS funds for local governments were channelled separately from government transfers at the outset of the health SBS, as it was considered that the poor predictability of government transfers was a serious impediment to reliable service delivery. This has not changed even though government transfers have become much more predictable.

397. In several cases, as is shown in Box 19 below, SBS helped to establish a new channel to provide funding to a service delivery or decentralised management level in line with a new policy, or with provisions in the existing policy/legal framework which had not been previously put into operation. The development and institutionalisation of the new funding channels, together with accompanying capacity building measures facilitated by other SBS inputs (see below), had significant positive effects on service delivery systems and on service delivery.

**Box 19: New funding channels earmarked to service delivery**

- SBS funding supported the introduction of school capitation grants in Uganda and Rwanda following the implementation of the fee free education policy. School capacities were strengthened, and the funding allowed them to cope better with the massive service delivery challenge than would have been the case otherwise.
- In the two Local Government SBS case studies (Uganda LGDP and Tanzania LGCDG), the programmes introduced grants providing investment/development finance to local governments, in line with local governments' mandate, and conditional to them meeting well-defined and regularly assessed performance benchmarks. The grants were developed alongside existing systems of transfers to local governments, with distinct provisions with regard to the use of the funds by local governments and the triggers for central government to release them. The programmes were effective in raising local government capacities and enabled local governments to finance investments contributing to better coverage of services.

398. In contrast in Mali, donors considered that local authorities, which were given the responsibility of managing primary school construction at the same time as implementation of the SBS programme began, had insufficient financial management capacity to handle SBS funding. It was decided to channel SBS funds to a third party agency which manages these funds on behalf of the local authorities. The idea was that this would be temporary and would change once local governments' capacity had improved, but plans for building local governments' capacity were lagging behind.

399. In the case of the education SBS in Uganda, most of the SBS funding provided to the central government was not strictly earmarked and it was well aligned, notably with the government system channelling funds for education services (supposed to be) managed by the districts. However, this system, which earmarks funds strictly through a number of different, purpose-specific conditional grants (capitation grants to schools, teachers' salaries, school construction, and more recently inspection), amounted, in effect, to by-passing districts' management role in education. It also left district education administrations with no residual funding as districts' own revenue sources have dwindled over time. Thus, whilst SBS is aligned with GOU funding channels, this somewhat contravenes the districts' mandate with regard to education (as per the Local Government Act).

400. As with PFM, through its use of government systems, SBS funding helped build systemic capacity in a number of cases, or at least helped in identifying gaps to be acted upon (e.g. Mali education). However, these effects were limited in various ways in relation to service delivery systems:

- In the traceable SBS cases, funding appeared in the development budget<sup>44</sup>, which meant that there could be no systemic improvement in recurrent delivery systems. The clearest example is Agriculture in Mozambique, especially because of the large volume of SBS funds that was spent on capacity building<sup>45</sup>. In other cases development spending involved operational funding for inputs such as medicines and recurrent activities such as teacher training – these were *de facto* being supported through parallel systems. Furthermore, in these cases there was still a sense that too much funding was allocated to capacity building activities.

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<sup>44</sup> In some cases expenditures on such activities were capped after it was found that too much was spent on these types of activities. But it would not include school/health centre operational and maintenance spending, salaries etc.

<sup>45</sup> Capacity building was an eligible activity in the development plans of the sector institutions. It was found that 38% of the PROAGRI I spending between 2001 and 2005 was earmarked to "institutional development" (i.e. functional analysis and organisational restructuring and improvement of working conditions in the ministry, training, capacity building on planning and financial management and at local levels).

- The fact that traceable SBS appears in the development budget, also meant that SBS could not fund salaries to increase staff numbers or remuneration even though this was a major obstacle to improved service delivery in many cases. Even in the Non-traceable earmarked SBS of Rwanda, increases in funds could only be used for contract teacher recruitment, because of limits to civil service numbers.
- In a number of cases – in particular Rwanda and Uganda education - there was a “missing middle” in terms of funding local government management capacity, as funding channelled for service delivery levels (in these cases schools) would in fact simply “pass through” district administrations.
- Beyond the effects of SBS funds on capacity for handling financial resources highlighted in the previous section, there have been few systemic effects of SBS funds on improving teaching/learning in schools or health care in the health centres.
- Systemic capacity effects resulting from using government systems, were weakened by continued off-budget project funding, especially in the health SBS cases where rapidly rising volumes of global funding were a major challenge. In other cases this was a challenge too: e.g. in the roads sector in Zambia projects continued to dominate; in the education sector in Uganda there was a move back to projects though they presumably had a greater chance to be on-budget, but not necessarily on-treasury, on-accounting etc.<sup>46</sup>; in the health sector in Mozambique most SBS donors also continued to have projects. It is only in Rwanda that the shift to budget support modalities to support education was almost complete in 2008.
- Finally, weak links between plans and budgets meant that even plans addressing service delivery issues “on paper” might not be effective in reality. For example, district health plans prepared in Tanzania, were not well linked to budgets, meaning they were not realistic.

### ***The Effect of Non Financial SBS Inputs***

401. In comparison with the relatively good alignment of SBS funding with service delivery systems, there were just two cases in which non financial SBS inputs strongly focused on the capacity of sector institutions and service delivery systems - the two local government case studies in Uganda and Tanzania (all SBS inputs) - with strong effects on local government capacity in Uganda and emerging effects in Tanzania. Meanwhile the EC SBS programme in the Zambia health sector was unusual for its focus on human resources through non-traceable earmarked funds and focusing policy dialogue and conditionality on these issues. However, most notably, the majority of SBS programmes were far from systematic in addressing institutional capacity service delivery issues. This section first examines these typical sector case studies, before, contrasting the experience with the two local government case studies.

### **Approaches to Capacity Building**

402. In the majority of SBS programmes capacity building appeared to be conceived in terms of ad hoc activities, and tended to be equated with TA and training. Capacity building activities tended not to be embedded in a holistic approach with jointly agreed objectives, which one might expect in a SWAp. They tended not to be coordinated with capacity building initiatives beyond the sector. Furthermore they tended not to take into consideration domestic incentives (see section 6.4), to compliment SBS flow-of-funds effects (which may not be sufficient on their own) highlighted above. This is illustrated in Box 20 below.

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<sup>46</sup> Good practice suggests the following dimensions against which aid delivery systems may be aligned: on-plan, on-budget, on-Parliament, on-treasury, on-accounting, on-audit and on-report (Mokoro 2008).

**Box 20: Uncertain approach to Capacity Building**

- There was evidence that TA could undermine sustainable capacity building (e.g. key plans developed and studies conducted externally in the roads sector in Zambia), and that this was felt to be detrimental to domestic ownership too (e.g. in Tanzania an offer for TA was rejected by the Ministry of Health as this would have been mere “substitution”; in Mozambique too the Ministry of Health recently ended TA substitution positions). Generally the pressure for calling on TA arose from a donor attitude of privileging “product over process”.
- In a number of cases where capacity building activities could be included in the sector institutions’ “development plans” financed by SBS (e.g. health in Tanzania, education in Mali), there was a tendency for activities to focus on workshops, training programmes etc. linked to the provision of per diems. This led to such activities being declared ineligible for SBS funding in the health programme in Tanzania. In Mali this is addressed through SBS donors screening each and every annual workplan of sector institutions, with negative implications in terms of domestic ownership (this is taken up in section 6.4 below).
- The policy dialogue was said to bring opportunities for “informal Capacity Building” in Rwanda and Uganda (education), linked to the climate of collaboration and trust between partners which prevailed in these SWAps (most of the time). In the education SWAp in Uganda this is formalised through the donor group submitting technical notes to the ministry. However, in Uganda at least, where there was otherwise relatively little TA, there is a sense that this left line departments bereft of assistance which might have been useful, including to tackle the more difficult issues to do with education quality as raised above.
- In other cases the SBS dialogue appears to have focused on the SBS “mechanics” (e.g. Tanzania health throughout the period, Mozambique health during the recent shift from Common Basket Funding to SBS), at the detriment of attention to policy and away from decision making that would have been necessary to address service delivery issues. In Mali the SBS dialogue is ensconced in the operational details of the sector institutions’ annual work plans, which distracts attention from higher level policy issues.

403. When there were institutional development efforts they were often partial. For example, in the case of SBS for the roads sector in Zambia, where significant TA was built into the design, conditionality and TA focused on one institution - the Road Agency. It did not address the fragmentation in institutional set-up of the sector. Often efforts were countered by re-organisations decided by the political authorities outside of the sector dialogue framework. For example, again in Zambia, districts were established as Local Roads Authorities “ahead of time”; in Mozambique responsibilities for agriculture and rural development were split between two ministries when the new government came in, undermining the model that first phase of SBS had supported through policy dialogue, TA and capacity building. These factors tended to limit the institutional/organisational development effects of SBS. Political decisions on reorganisations may be seen as “contextual”, but they point to the lack of influence SBS has on high level policy decisions highlighted in section 6.1.

404. In some cases, a realisation of the need to address capacity building more holistically and in a more coordinated manner has emerged. In a number of cases joint approaches are in place or are being talked about (Rwanda “capacity building pooled fund” established alongside and linked to the education SBS; plans for a programmatic approach to capacity building in Mali education sector, for a “capacity building pooled fund” in health in Tanzania, for a “TA pooled fund” in health Mozambique). In other cases this did not seem to be on the agenda (e.g. no such plan exists in roads in Zambia, where informal “labour division” arrangements among donors prevail in terms of geographic deployment of TA). In Rwanda an early review of the effectiveness of the capacity building pooled fund found that although it had enabled the ministry to implement useful activities (e.g. the school/district level training programmes mentioned above) there was need for greater clarity on what the fund could/should be used for and greater ownership by the ministry, as well as explicit coordination with the government broader Capacity Building programme. This suggests that capacity building pooled funding may be useful. However, a pre-condition to make greater coordination effective is the development of a shared understanding of how capacity building might take place which must be compatible with domestic incentives.

### Management of Service Delivery

405. In the majority of cases the “missing middle” of funding the management of service delivery, was mirrored in the focus of SBS non-financial inputs. Attention was usually directed “at the top” (e.g. ministry), sometimes “at the bottom” (e.g. school), and rarely at the middle management level (often decentralised). This leaves a gap between policy-making and overall sector management, and frontline service delivery. Usually attention to service delivery levels was also limited. These trends are illustrated in Box 21 below.

#### **Box 21: “Missing middle” in SBS attention to service delivery**

- SBS focus on the “top layer” of sector institutions and/or sector management “upstream functions” (planning, budgeting and to some extent reporting hence in several cases there was support to developing management information systems) mirrored and strengthened SBS flow-of-fund systemic effects. See for instance, PROAGRI in Mozambique (SBS funding + TA; focus on ministry and provincial levels), or SBS in health in Tanzania (SBS funding + TA/CB + conditionality; focus on district plans, budgets and reports, not on other capacities), or the roads SBS in Zambia (conditionality + TA; focus on agencies and their deconcentrated branches).
- When attention was given to enhancing the capacity of frontline service providers this was not always linked to improved service delivery (e.g. raising qualifications of agriculture extension agents in Mozambique [SBS funding + TA] was not linked to, and did not bring improved services).
- In Rwanda, more positively, guidelines were developed (policy dialogue) and training (CD) on school management provided to school and district staff alongside the introduction of the school capitation grant.
- This was the case too in Uganda, though the strict limits that the guidelines put on school discretion in the use of funds is a substitute to genuine school level capacity.
- In Mali, where SBS was introduced as a vehicle for the decentralisation of education management, there was surprisingly little attention (e.g. no TA/CB) to the challenge that this would represent given that a raft of new demands would be made on local capacity.
- The lack of attention to the “middle level” is particularly noticeable in the case of SBS in education in Uganda. As noted above funding channels for SBS, while aligned, by-passes districts’ management role. Both reflecting and contributing to continuing to justify this approach, there was practically no attention given to district management capacity in the dialogue, undertakings, and TA associated to SBS. On the contrary there was a tendency to establish parallel deconcentrated mechanisms to address issues of low school/district performance. As a result, whatever capacity there might have been at the district level for education management dwindled as it was hardly used. A decade after the introduction of SBS, central funding for district inspection started, but there is no evidence to suggest that SBS inputs contributed to this decision. Moreover, in so far as district education offices did not get any additional resources it is not clear where the capacity to act upon the district inspection findings will come from.

406. The focus of SBS non-funding inputs tended to be aligned with the flow of funds. Therefore, when SBS funding was earmarked to development activities this meant that both funding and non-funding inputs overlooked the “day-to-day” management and delivery of services, with little or no influence of SBS on service delivery systems. The Mali education case study was a case in point. Whilst the local government SBS programmes were focused on development activities, they represent exceptions in that: (i) the investment flow of funds was accompanied by a dedicated flow of capacity building funds; (ii) the programmes had the improvement of the institutional performance of local governments as an explicit objective, and inputs were focused accordingly.

### Human Resources

407. Flowing from the lack of attention to and hence influence on actual service delivery systems, there was a striking lack of focus on human resource issues, even though these were known to be at the core of poor service delivery. This was not limited to traceable SBS, but extended to cases of non-traceable earmarked SBS, such as Rwanda and Uganda education as shown in Box 22 below. In most cases the binding constraints were said to arise from macro-fiscal caps on governments’ wage bills and/or other aspects of civil service reform programmes, limiting what sectors could do to address issues of low salaries and motivation, lack of professionalism,

and high turnover. Again, these may be considered as “contextual factors”. In contrast with examples of engagement of SBS programmes with PFM reform programmes (e.g. Rwanda education, LGDP in Uganda), none of the SBS programmes studied appears to have engaged with the ongoing CSRs. There was also evidence of a lack of integration between HR development plans, where they existed, and the “mainstream” sector strategic development plans.

**Box 22: SBS limited focus on HR issues**

- Human resource issues were serious in education in Uganda (teacher absenteeism) and in Rwanda (low motivation of teachers), yet they were addressed incompletely (stronger inspection but unclear link to teacher support in Uganda) or through unsustainable measures (bonus taken out of the school capitation grant in Rwanda).
- In Mali the SBS programme, focusing on development activities exclusively (including in the dialogue), would not be capable of apprehending HR management issues holistically as it is not concerned with teacher recruitment, deployment, career management, pay, working conditions etc. This applied to other “development” SBS programmes too.
- Thus, whereas in the three cases of health SBSs the main impediment to better health care was said to be the “human resource crisis” affecting the sector, in Tanzania no visible action was taken within the sector. SBS appeared not to be engaged with the CSR. The latter, a protracted initiative started in the mid-1990s, has had little success in tackling issues such as civil service motivation and professionalism (Nord, R. et al 2009).
- In Mozambique, at the time of the study SBS donors had not stepped in to support a HR development plan recently submitted by the Ministry of Health. The HR plan stood somewhat separate from the mainstream health strategic plan, suggesting a possible lack of integration.
- The Zambian health SBS programme focusing on HR retention (a priority identified in the SWAp dialogue and prioritised by the government as critically important to improve service delivery) stands out as an exception. However, it is not clear how the strategy fits in relation to the overall CSR in Zambia, which raises questions about its sustainability. Moreover, it seemed to be coincidental that the HR retention plan started being implemented at the same time as the policy of elimination of user fees (and could thus support the latter through providing incentives to health staff facing higher workloads) which suggests again a lack of integration between HR policy and other policies.

Understanding and Addressing Quality

408. The failure to address management and human resource issues, reflect a broader problem, which is that SBS programmes have not responded well in addressing the quality of services. This is most visible in the oldest SBS programmes. In their concern with service delivery SBS programmes, at least initially, mainly focused on service coverage and access to services, with progress measured against related national targets. Issues such as lack of progress with educational achievements and the link with poor quality of services, and persisting inequality of access for marginalised groups and geographically remote areas were identified at a later stage in the policy dialogue, often alongside better availability of data in-country<sup>47</sup> and reflecting international trends towards more sophisticated ways of assessing sector performance<sup>48</sup>. However even when they were better recognised such issues appear to have been very difficult to tackle, and the SBS programmes studied do not seem to have been able to “make a difference” in this respect. These trends, recognised by the stakeholders themselves, are particularly visible in the education SBSs. Box 23 takes the example of Uganda.

<sup>47</sup> E.g. there was a marked increase in the number of developing countries carrying out national education achievement assessments between 2000 and 2007, though Sub-Saharan Africa tended to lag behind in this respect (Benavot A. and Tanner E. 2007).

<sup>48</sup> In particular, “increased aid flows, and a growing focus on the effectiveness of aid, have led to heightened interest in evaluating impact” (Jones 2009). The quality of services became a concern because it became clearer that poor quality services had a lesser impact (defined as a programme’s contribution to people’s wellbeing, Riddell 2008 cited in Jones 2009).



**Box 23: The Failure to address education quality in Uganda**

- From December 1996 to January 1997 the number of primary school pupils doubled (UPE).
- Education Strategic Investment Plan and the first SBS programmes focused on how to cope with this: how to provide funds to schools (to replace fees), how to accelerate the pace of classroom construction and teacher training and deployment, and how to provide a quantum of textbooks. Attention focused on pupil: teacher/classroom/textbook ratios).
- After a few years, undertakings in the SWAp/SBS dialogue and conditionality framework included more sophisticated indicators such as completion rates; a few more years later, literacy/numeracy attainment after three and six years of schooling. Yet, little progress was made with “quality”.
- Lately, some SBS donors decided to revert to projects (for a part of their portfolio) to support a new “Quality of Education Initiative”, a move suggesting that such issues were in their view not amenable to being resolved under the regular SBS framework.
- A recent study, known to both government and SBS donors, showed that close supervision of and support to teachers by district management was a critical driver of education quality. As seen above district management is by-passed by the SBS-supported systems. At the time of the study, this had not been picked up in the SBS dialogue.

409. Reflecting on this example, it is important to remember that SBS programmes cannot support policies that are not in place. The initial focus on access/coverage may therefore have been inevitable considering that it was usually the first priority for the political leadership (see e.g. IDD et al 2006), and, while it is reasonable to wonder whether SBS programmes might not have identified earlier than they did the need to bring their influence to bear to help develop “quality-oriented” policies, one should not under-estimate the difficulties. There are issues of trade-off in terms of financial, but also human and organisational capacity. Moreover, issues of “quality” are intrinsically difficult to tackle, in part because they are rooted in behaviours which always take time to change. For instance, the lack of respect educated health workers give to rural patients is an issue in many countries; regional inequity goes far beyond access to health services in Mozambique [Adams 2008].

410. The lack of influence of SBS on quality is symptomatic of a lack of attention to service delivery processes when compared to the monitoring of inputs<sup>49</sup> and results, typically defined in terms of outcomes<sup>50</sup>. All traceable SBS programmes, where funding was earmarked to the development budget, de facto paid little attention to processes of service delivery as the other SBS inputs tended to focus where the funds were earmarked. Furthermore, there is a remarkable paucity of routine service delivery data amongst the case studies and the processes which deliver those services. It is relatively easy to get administrative information on inputs, and there has been progress in measuring outcomes via surveys in many countries (as noted above). However, routine service delivery data is weak, whilst processes are less easily amenable to “measurement”<sup>51</sup>. This results in an information gap in reporting in the SWAp/SBS dialogue.

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<sup>49</sup> Attention on financial inputs took the form of earmarking SBS funding or conditions/undertakings/policy dialogue on budget shares or volumes. Attention to other inputs was through focus on indicators such as PTR (as noted above), ratio of health staff to population and of extension agents to farmers in conditionality/policy dialogue (undertakings in Uganda, priority actions in Rwanda, sector PAFs now in Mozambique).

<sup>50</sup> For instance, measuring PTRs (inputs) on one side and educational achievements (outcomes) on the other tells us nothing on things such as teacher actual presence in schools and pupils’ attendance, that are likely to be critical to explain why achievements may differ for equal inputs (PTR and others).

<sup>51</sup> There are two issues here. First (and to pursue with the education examples given here), whilst it is relatively easy to get administrative data on PTRs and enrolment and as noted above, many countries now carry out educational achievement assessment (and one can otherwise use proxies such as exam results), it is actually hard to get information on whether teachers are actually in schools (or, whether the actual time that pupils spend at school is the time specified on official school calendars and timetables). Second, even though there was a proliferation of impact evaluation types of studies, in education at least, there is no

411. There was some attention to service delivery processes in some sectors, such as in the education sector in Rwanda, but this was limited and diluted in a large number of priority actions<sup>52</sup>. The recent decision of strengthening the district inspection in Uganda suggests that there may be greater attention to processes in schools, but as noted above there is no evidence that this was prompted by SBS (although SBS supports it through funding).

412. Indeed, tackling quality issues requires a good understanding of the constraints to achieving quality outcomes. This, typically, involves understanding of what was particularly important in the process of using inputs to deliver services and achieve outcomes. Thus in turn, quality issues cannot be diagnosed through the monitoring of inputs and outcomes, which is typically the focus of the dialogue at the centre. Tackling quality and enhancing outcomes requires close management and supervision of service delivery at lower levels - something that suitably capacitated decentralised levels should be best place to do<sup>53</sup>. SBS programmes have typically not invested in this.

413. However, this then would require that SBS donors would have (or could call on) relevant skills to inform the policy dialogue accordingly, with adequate specialisation so as to be able to identify and address the gaps and constraints. The case studies found that this was often not present. The shift to budget support approaches had often meant that generalists<sup>54</sup> would represent donor agencies in the sector dialogue (this is documented elsewhere too, e.g. Woods forthcoming). Moreover in a number of cases (Rwanda education, Mozambique health, Uganda education), donor expertise was further reduced by division of labour exercises (leading to donors exiting the sector) and arrangements such as silent partnerships and delegated cooperation.

#### The Local Government Case Studies

414. The Local Government SBS cases are remarkable in that by design, the objective of strengthening the capacity Local Governments in core functions was as important as, and not dissociable from the objective of improving service delivery infrastructure at the local level. This was the very essence of their design.

415. The capacity building objective was supported by a comparatively significant volume of funding, also provided as SBS through a capacity building grant, alongside the local government investment grant (roughly 25% of the total). The approach to capacity building was comprehensive (covering organisational, system, and human resource development, and a range of PFM and good governance functions necessary to ensure sound management of the investment funding and more generally at the core of local governments' mandates), systematic (through benchmarking facilitating needs identification), and largely demand-driven, relying on the incentive for local governments to improve their performance in order to get access to investment funds. This was strongly supported by the dialogue and conditions associated to the SBS funding, and accompanied with support at the centre to develop and implement the system. In both programmes

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general consensus on what process aspects matter most – and an emerging consensus that this is probably context-specific.

<sup>52</sup> E.g. there was one priority action focusing on the development of a performance appraisal system for teachers among over 50 actions in 2005. Even if the number of priority actions was reduced over time, the numbers of those focusing on processes in schools remained very small.

<sup>53</sup> E.g. one of the reasons for the limited results of a massive agriculture extension programme implemented by the Government of Ethiopia in the context of its Food Security Strategy is the lack of flexibility in the solutions proposed to farmers in the form of “packages”. Even though different packages, tailored to different livelihood zones and choices, are supposed to be “on offer”, the system of targets fixed by the hierarchy and that extension agents have to meet pushes them to privilege less time-consuming one-size-fit-all measures.

<sup>54</sup> Or in some cases hybrid advisors – e.g. covering health and education

local government capacity had markedly improved in the targeted areas, thus providing a strong foundation for better service delivery, through better decentralised management.

416. However, the local government SBS effects were also constrained by various contextual factors. Sector-driven investments continued to be uncoordinated with LG-SBS funded investments, despite harmonisation objectives. In Uganda the incentive-based approach to capacity building was not picked up at all by service delivery sectors, whilst in Tanzania a few sectors had joined in but this was not yet generalised – which meant that local governments continued to be submitted to two very different approaches to capacity building (and incentives, see section 6.4 below). In both cases broader political economy factors played out to further limit the effects of the programmes on service delivery systems<sup>55</sup>. In both countries, the contrasted approaches of the local government SBS and sector SBS programmes generated tensions. The fact that these were left outstanding suggest a divided commitment to decentralised management of service delivery on both, governments’ and donors’ sides. Arguably this lack of clarity on the management framework makes it difficult to squarely address service delivery constraints.

### 6.3.2 Conclusions and Lessons Learned

417. The analysis indicates that the influence of SBS on the capacity of sector institutions and service delivery systems has been moderate at best, and arguably, not commensurate with the volume of funding especially for the oldest and largest SBS programmes. In conclusion:

#### Funds and Financial Management Arrangements

- SBS has the potential to increase the volume of resources available for service delivery and for the management of frontline service providers, and typically but not always does.
- When funds are earmarked to “development activities”, which is typically the case for traceable SBS, SBS bypasses service delivery systems, and cannot and does not address the basic staffing issues (numbers, remuneration) that affect many service delivery systems.
- When SBS funding uses service delivery systems this can have systemic capacity effects at service delivery level, though usually it is necessary to augment these effects by complimentary capacity building actions, which typically has not taken place.
- The observed SBS systemic capacity effects of SBS funds did not extend beyond planning, budgeting, and the management of financial resources. Such capacities are necessary but not sufficient for effective service delivery.
- When government funding channels used by SBS by-pass decentralised levels there can be no systemic capacity building effects at those levels.

#### Other SBS inputs

- In most cases non-financial inputs of SBS were un-systematically focused on strengthening the capacity of sector institutions and service delivery systems, and thus had moderate effects at best on the capacities required for effective service delivery.

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<sup>55</sup> Central government made decisions which reduced district tax bases in both cases; split up districts in Uganda; and disempowered local government staff management in Tanzania.

- Institutional/organisational development efforts (through TA/capacity building and policy dialogue/conditionality) were incomplete or at cross-purpose with high level government reorganisation decisions, and therefore had limited effects.
- There was a lack of holistic approaches for capacity building, with capacity building activities often limited to TA and training. TA effects were not wholly positive. Joint funding mechanisms for capacity building were still rare. The case in which one such mechanism is in place suggests that it is important to develop a shared understanding of and agreed approach to capacity building, as a pre-requisite.
- There was some focus on the frontline service delivery level (schools) in some cases, but (in sector SBS) generally little focus on decentralised service management. This did not allow capacities to be built at this level, even less in cases where funding arrangements by-passed these levels.
- When SBS funding is earmarked to development activities, other SBS inputs usually are focused in the same way, thus actually overlooking service delivery systems – compounding the effect of not being able to address staffing issues.
- There was a general lack of focus on human resources issues in most cases<sup>56</sup>, arising from an inability or unwillingness to engage with civil service reform processes.
- SBS programmes had little effect on the capacity to tackle issues of quality of services, hence a perceived lack of effectiveness in improving sector outcomes. The reasons for this are many and complex and have to do with SBS policy alignment.
- Linked to this point, there was little attention of dialogue, conditionality and TA on service delivery processes (from inputs to outcomes), and thus no influence of SBS on these.
- Improving service delivery outcomes through greater quality requires an understanding of the processes at play at the level of the frontline service providers. Capable decentralised management levels are more likely to be able to address process weaknesses than the centre.
- With the shift to budget support modalities the skill set in donor agencies moved in favour of generalists. This limits the feasibility of refocusing SBS policy dialogue on service delivery processes, all would require specialist expertise.
- The incentive-based approach to capacity building and systems strengthening of local governments in the local government SBS emerges as a case of good practice, with significant measurable effects on the capacity of local governments in core functions, as a foundation for better service delivery through better management.

418. Constraints to SBS influence on capacity of sector institutions and service delivery systems often emerged from the action of “contextual factors”. However, in reality some of these factors were the result of weaknesses elsewhere in the SBS programmes. Cases in point are agriculture in Mozambique, roads in Zambia, and local government SBS in Uganda, in which “contextual factors” arose from an inability to secure a consensus on policies underpinning institutional models. Whereas it might not have been possible to ensure policy consensus in all cases, the fact that these constraints were not always anticipated point to a lack of feedback mechanisms and/or a

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<sup>56</sup> This lack of attention extended to SBS programmes where funding could be used for recurrent spending.

weakness in their use. In contrast, the lack of engagement with civil service management policies appears to have arisen from a form of self-censorship on the SBS donor side.

419. The following lessons may be learned in relation to the influence of SBS on the capacity of sector institutions and service delivery systems:

- Demand-driven capacity building approaches relying on incentive systems linking funding to performance in core capacities appear to have a lot of potential.
- Human Resource issues are at the core of service delivery performance and cannot be addressed without engaging with broader civil service policies. Yet it is noteworthy that civil service reforms have also rarely engaged with sectors, and have often not been responsive to service delivery objectives.
- It is hard to strengthen service delivery systems without investing in the management of frontline service providers and in particular, the role of decentralised levels in doing so.
- For SBS to remain relevant there is a need to design programmes that are able to focus on the quality of services, the processes of service delivery, and “proximity” management of service providers. This may require a different approach to capacity building, in which sector institutions would be given incentives to learn from experience and to adapt policies to the actual (local) context in which services are provided.

## 6.4 SBS and its Influence on Domestic Ownership, Incentives and Accountability in the Sector

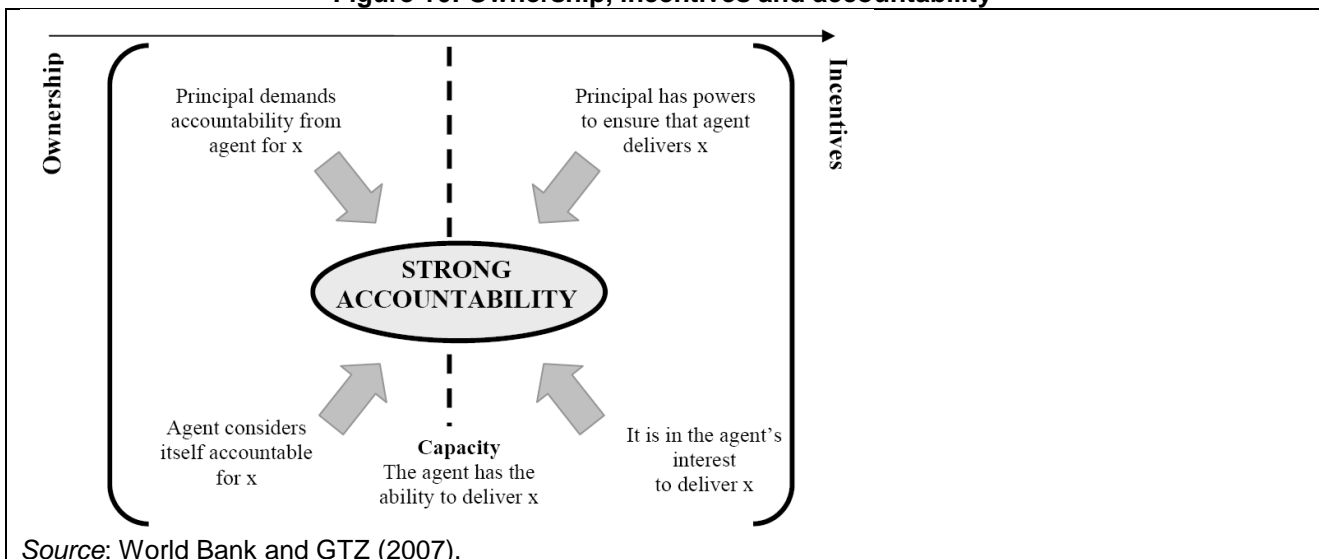
**SQ3.4: What has been the Influence of SBS on Domestic Ownership, Incentives and Accountability in the Sector, and what are the constraints faced and lessons learned in practice?**

420. This section sets out the effects of SBS on domestic ownership, Incentives and accountability in the sector. The assessment framework puts forward that, if:

- SBS funding uses mainstream government funding mechanisms and systems for delivery; and dialogue, conditions and TA and capacity building associated with SBS are consistent with strengthening domestic ownership, incentives and accountability, then this would
- Increase the share of external funding using these systems; and help align overall external assistance with strengthening domestic ownership, incentives and accountability. This in turn would
- Contribute towards increased total funds flowing through government systems, and stronger domestic accountability for those funds and results, alongside stronger domestic ownership of policies and incentives to deliver policies and services.

421. Domestic ownership, incentives and accountability are closely inter-related and are related to capacity, as shown in the Figure 16 below.

**Figure 16: Ownership, incentives and accountability**



422. In this synthesis the definition of ownership in Box 24 below is used as a guide.

### Box 24: Definition of ownership

Ownership is the leadership, energy and responsibility which are put into an action. At the policy level it [may be] measured by four criteria:

- Locus of initiative for programme formulation and implementation (i.e. to what extent the initiative was on the recipient or the donor's side);
- Level of intellectual conviction among key policy makers (i.e. to what extent there was a commitment in favour of reform among key players in the government);
- Expression of political will by top leadership (i.e. which concrete actions were taken as the expression of this commitment);
- Efforts toward consensus-building among various constituencies (i.e. the extent of civil society participation)

(Johnson and Wasty 1993)

423. And as explained in the Inception Report (ODI and Mokoro 2008), in the study the focus in relation to accountability has been on:

- Parliament and Cabinet holding line ministries accountable for the implementation of sector policies and services.
- The Ministry of Finance holding sector spending institutions accountable for the funds they have spent and results from that spending in the context of the budget process.
- Line ministries holding local councils and service providers to account for their performance
- Local councils holding their local administrations accountable for service provision.
- Citizens holding service providers accountable for the delivery of services.

#### **6.4.1 Findings on the Effects of Sector Budget Support**

424. Analysing the influence of SBS on domestic accountability (and incentives) is a challenging undertaking both because it is difficult to assess the extent to which SBS contributed to existing trends or whether it accelerated or changed them, and because domestic accountability systems are intrinsically complex, patterned by formal and informal influences. Important “contextual” factors interplay with SBS influence and this may take different directions. Such factors include the strength of the commitment to enhance domestic accountability at the top of the government, but also the form given to domestic accountability mechanisms and the overall trends in the relationship between government and citizens in a country.

425. Exploring these issues represented a very broad agenda, which it was difficult to cover comprehensively in the time allowed for the case studies. Case study teams therefore focused on issues that emerged as being most salient in their country and sector. It also proved difficult to address these issues in relation to the local levels given the limited time allowed for field visits and the relative paucity of documentary evidence.

#### ***The Effects of SBS funding and Financial Management Arrangements***

##### The Volume and Predictability of Funding for Policy Implementation

426. First, in many cases the greater availability of sector resources linked to SBS was important in facilitating policy implementation. This boosted ownership of policies themselves and consequently ownership of and incentives for policy implementation. In short, domestic actors liked to be associated with policies that were being successfully implemented. This is explicitly mentioned in the cases of the education SBS in Rwanda<sup>57</sup> and the health SBS in Tanzania and in Mozambique<sup>58</sup>. It was also the case for the Local Government SBS case studies in Uganda and Tanzania, where SBS investment funding was practically the only discretionary funding available at local government level. In Uganda in particular, it reportedly gave a strong boost to local government ownership of the policies to which the locally decided investments contributed<sup>59</sup>. Alongside the effects of the increased scale of resources available to sector institutions, where SBS contributed to improved predictability of resources (see section 6.2), these reinforced these positive effects.

427. In principle, the fact that increased, more discretionary, and predictable resources reached sector institutions should have strengthened the basis for accountability against policy implementation. However, in general, the relatively weak link between plans, budgets and results

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<sup>57</sup> Also see OECD/DAC GBS evaluation (IDD and Associates, 2006)

<sup>58</sup> In the Mozambique case, this influence was already felt with the pre-SBS earmarked basket funding, and was expected to further increase with the shift to unearmarked SBS.

<sup>59</sup> The combination of strong incentives to improve performance and larger discretion in the use of funds was appreciated by technical staff and politicians alike.

(see section 6.1) meant that this influence of SBS funding was weaker than might have been the case in most cases (e.g. Tanzania health SBS). This point is also taken up below. Nevertheless, the fact that SBS used government financial management systems helped improve financial accountability in all cases (See section 6.2).

#### Alignment with Country Budgeting and Financial Management Systems

428. The degree of alignment of SBS funding with government financial management systems matters a lot.

429. Firstly traceable SBS funding, typically motivated by donor accountability concerns, undermines both ownership of the budget, and the accountability relationship between the line ministry and the Ministry of Finance. It also highlights SBS as donor funded, and not normal budgetary funding. When SBS funding largely emanates from discussions between donors and the line ministry, without including the Ministry of Finance, this exacerbates the situation. The first part of Box 25 outlines further ramifications of this when a donor tried to switch from SBS to GBS in Tanzania.

#### **Box 25: Multifaceted negative effects of Traceable SBS design in the Tanzania Health Sector**

##### *Traceable earmarking and Ownership of the Budget*

A few years ago DFID decided to shift from traceable earmarked, traceable SBS funding through the Common Basket Fund, to GBS. However, this was not followed by a commensurate increase in GOT budget allocations, which was taken as a sign of weak ownership by the Ministry of Finance and meant that on the whole, the sector “lost” resources.

Indeed, the Ministry of Finance has little incentive to get involved in the SWAp/SBS processes given the earmarked nature of the health SBS funding. Weak ownership of the health sector policy and plans by the Ministry of Finance<sup>60</sup> may explain why it did not compensate with a higher allocation of GOT own resources (including GBS), when the sector “lost” SBS resources due to DFID shift.

This negative experience then reinforced the Ministry of Health in its preference for earmarked funding, which in turn, continues to distort accountability away from GOT mainstream budget process.

Other donors now “play” on these factors in unhelpful ways (threatening to move to GBS if SBS accountability requirements continue to be met late etc.).

##### *Externalising Accountability*

Over time, greater attention was given to better aligning SWAp/SBS accountability requirements with those of GOT. Thus today, the (large number of detailed) documents that various institutions in the sector are expected to produce for the SWAp/SBS process are all supposed to be required by GOT. Yet in practice, donors end up having to “drive” the demand for this “domestic” accountability and do so, rather than e.g. the Ministry of Finance, which as noted above has a negative impact on ownership, and leads to “externalisation of accountability”.

430. Note that the story is not unique. A similar incident<sup>61</sup> was observed in the health sector in Zambia. Common Basket Fund modalities had been in place since 1993 and the switch of two donors to SBS led to the health ministry feeling that their resources had declined. This revealed contrasting ownership of basket funding and domestic budgets. Relatively opaque budget processes – for example a lack of predictability in sector budget envelopes in Zambia, and

<sup>60</sup> Or the Ministry of Finance had reasons to challenge health plans, which are not known or recognized by health stakeholders.

<sup>61</sup> The talk about accountability around the budget is often “one-way” (line agencies to ministries of finance), which arguably reflects the “top-down” nature of PFM reforms. Yet there is (or should) be another side to budget accountability (resonating with the “bottom-up” approach to PFM reforms explored at the 2008 CAPE PFM conference, see <http://www.odi.org.uk/events/details.asp?id=295&title=reforming-results-can-public-finance-management-reform-improve-government-performance>) i.e. ministries of finance should be accountable to line agencies with regard to ensuring reasonable budget credibility, transparency and medium-term and within-year predictability.



misalignment between MTEF and annual budget as in Mali and Tanzania - are unhelpful. On the other hand, the continued push for traceable sector aid (whether projects, Common Basket Funding or SBS) undermines incentives for ministries of finance to squarely address these weaknesses.

431. However SBS can be aligned in a way which supports ownership and appropriate incentives in the budget process. Examples are provided by Rwanda and Uganda, where SBS additionality was negotiated and agreed in the context of a credible government MTEF with the Ministry of Finance. This practice of non-traceable earmarking, combined with respecting the role of the finance ministry in allocating resources, helped reinforce conventional accountability relations.

432. The story has many nuances as well. For instance even in Uganda there was still a strong perception among finance officials that “education donors” distort incentives in allying with the Ministry of Education to push the Ministry of Finance for higher sector envelopes whereas the macroeconomists in the same donor agencies insist on fiscal discipline, a case of misalignment provoked by misalignment within donor agencies. In the roads sector in Zambia earmarking was said to be a reasonable way of transitioning from a strongly ingrained project tradition to less donor-led modalities, thus to be a reasonable way of building ownership of donor funding. It also helped somewhat protecting this more discretionary funding against informal political pressures as to the use of sector resources.

433. In a number of cases the strong traceability requirements of SBS programmes led to the “intrusion” of SBS donors in detailed budgeting and financial management. As mentioned in section 6.1, donors review the annual work plans of dozens of education sector institutions in Mali. Even when donors push for documents required in the domestic accountability cycle, as shown in the second half of Box 26 in the Tanzania health sector, this can have the effect of “externalising” accountability.

**Box 26: SBS audit requirements and effects on ownership**

Rwanda education: All external audits are carried out by the Office of the Auditor General; the additional audit of the SBS holding account was on balance found to be a good thing as it strengthened the Ministry of Education trust (and the trust of the education donors!) in government PFM systems.

Zambia roads: Additional technical audits (procurement, civil works) for a sample of the roads maintained with (then earmarked) SBS funding were found to be useful by the sector authorities, and later on expanded to a sample of the whole network.

Mali education: The mandatory annual external audits of SBS-finance expenditures were realised by an external firm without involving the relevant government institutions (on account of their weakness and unclear mandate), yet it was expected that they would sign off the audit reports. This created tensions between SBS donors, Ministry of Finance and audit bodies. It is worth noting that in parallel, SBS requirements may have prompted one of the government bodies to include the education sector in its yearly audits. Weaknesses identified in these reports have been acknowledged and acted upon by Ministry of Finance and Ministry of Education.

Tanzania health SBS: External firms were recruited with a view to strengthening the capacity of the government audit institution to carry out the required audits but SBS funds were still subject to higher requirements than GOT funds and had to be audited separately too. Delays in receiving audit reports and repeated discussions about the follow-up of audit recommendations (or lack thereof) were a major theme in the story told above, of donors ending up to have to “drive” supposedly domestic accountability processes, straining the partnership as well as the relationship between line ministry, finance ministry and audit body.

434. The case studies show that SBS donor requirements for additional audits to the statutory audit can also be damaging for domestic ownership and incentives. Again there are better practices, where donor requirements went beyond those of governments, but did not infringe on the statutory audit. Examples include technical and procurement audits in the Zambia Roads case and the use of diagnostic studies public expenditure tracking and value for money studies. It was

possible to use these to good effect. But there are also cases where audit requirements have had strongly negative effects. This is illustrated in Box 26 as well.

435. Whilst the study on Headquarters requirements (Bartholomew, 2009) found that the majority of derogations observed were the result of concerns from in-country staff, the two cases of most common derogations emanating from Headquarters guidelines/concerns were: (i) additional reporting or auditing requirements; (ii) traceability of funds. These are precisely the derogations highlighted above as potentially having negative effects on domestic ownership and accountability.

### ***The Effect of Non Financial SBS Inputs***

#### Policy Ownership

436. The strengthening of policy ownership over time can in part be attributed to increasing capacity and confidence of recipient governments to take over the policy agenda. Where policy ownership was stronger, it was backed up by action. This is best illustrated by the fact that in all the cases where stronger ownership emerged, the recipient government expanded budget allocations more rapidly than increases in SBS.

437. A number of case studies point to an interesting paradox concerning SBS donor reactions to greater ownership of the policy process and of policies by governments. The underlying factor is that as partner governments become stronger, they are less amenable to external policy inputs, particularly at the level of the “big policy narrative”. In such cases policy is made by politicians, and SBS does not influence how the policy is made or its content. As described in Section 6.1, SBS has a greater role in supporting their translation into workable operational policies and plans at technical policy-making level. Uganda is the typical example of this: the decisions to introduce UPE then USE were taken by the President before the SWAp/SBS framework existed for the former but when it was well-established, yet outside of it, for the latter. SBS had no influence on ownership at that level, though it then supported ownership at the technical policymaking level through funding (see above), policy dialogue and conditionality. SBS has been more successful at building other aspects of domestic ownership, by facilitating greater intellectual conviction among all key players, supporting the development of concrete actions and facilitating a broad-based consensus-building around the policy, i.e. making it as workable as possible – as it did quite successfully in Uganda.

438. What is interesting is what happens when the partner government becomes more assertive in policy formulations over time. This can be due to a combination of several factors including the influence of earlier SBS (or pre-SBS) programmes on government capacity and policy assertiveness, but also “contextual factors” such a change of government. Recent developments in the agriculture and health SBS in Mozambique are clear examples of the fact that SBS donors may be uncomfortable or even “at a loss” when greater policy ownership means greater (or more visible) divergence in policy positions between them and the government in the agriculture sector, or when it means – less damagingly thus far – that they have less access to policymaking in the health sector. The Rwanda Education and Zambia Roads cases also provide interesting examples of the dilemma for donors when respecting policy ownership means accepting a lesser degree of policy influence and greater divergence of views. These are outlined in Box 27 below.

439. In conclusion, it is clear that as partner governments become stronger and more assertive in policy making, and policy ownership increases, donors providing SBS (and those engaged in the sector more broadly) must understand that their influence and role will change. For the partnership associated with SBS programmes to “survive” donors must recognise their diminishing policy influence, and orient non-SBS inputs towards supporting policy implementation and accountability.

**Box 27: Ownership and policy divergence**

- The case of the agriculture SWAp/SBS in Mozambique shows how SBS can end up being **divorced** from greater domestic ownership of policy process and policy. PROAGRI I started in 1999 with a very weak GOMz, thus ready to “appropriate” external policy inputs. However, uncertain ownership of these inputs (“basic principles”) resulted in the fact that further SWAp/SBS dialogue on policy failed to produce a consensus on the role of government in the agriculture sector (largely because it failed to focus on the issues but this may not have been totally by inadvertence). The run-up to PROAGRI II (2006/7) presents quite a contrast. Stronger GOMz capacity and policy assertiveness, and above all strong political drive by the new President to be able to show results on the ground in terms of increased agricultural production (which PROAGRI I had failed to deliver) resulted in a much lower readiness to appropriate external policy inputs. Thus PROAGRI II strategic document around which SBS is organised was never approved. Instead, the government issued policy documents which shape what is taking place on the ground. It is quite unclear what will happen to SBS in future.
- The case of the health SBS in Mozambique shows how greater domestic ownership may, oddly, make SBS more fragile. The process of moving from Common Basket Funding to SBS coincided with the period of preparation of the second health strategic plan (PESS II), to which donors were far less associated than for the first plan. Reasons for this appeared to be a combination of donor attention being focused on the “mechanics” of the shift to SBS, and the new Minister being less willing to use extensive TA and privileging internal consultation processes. Donors were reserved vis-à-vis the PESS II even though it is presumably more strongly owned than the PESS I. Similarly, they appeared to be taken aback by the initiative of the Ministry of Health with regard to the HR development plan (see section 6.3). In short, there seemed to be mixed feelings as to whether GOMz taking more of a lead in policy/planning was a good thing or not. These reactions suggest a form of disconnect between SBS inputs and support to GOMz ownership.
- In Rwanda thus far SBS has been rather good at supporting domestic ownership (with occasional tensions e.g. when SBS requirements were “ahead of time” as with the demand for budget execution reports which preceded the provision of guidelines by the Ministry of Finance), even when fee free education was extended to include junior secondary education a bit “ahead of time” too. Yet late 2008 there was a perception that the partnership could be tested by the divergent views of government and SBS donors on the use of double shift. This shows that even in cases in which donors seem to accommodate well strong domestic ownership there may be **limits**, and it is not clear-cut where these are.
- The case of roads in Zambia shows how a certain degree of policy dogmatism among donors resulted in government ownership having to express itself outside of the SWAp/SBS. Donors (including the EC as the only SBS donor) adopted a rigid approach of exclusive use of private sector contractors. Feeling that they would not be allowed to argue the case for alternatives, sector agencies recently decided to rebuild a certain amount of own labour capacity, using Chinese loaned equipment for this. Thus, the lack of flexibility of the “traditional donors” in the sector led to the fact that a better owned alternative, which may have some justification e.g. in remote areas or in the case of emergencies, is pursued anyway, outside of the sector coordination framework. This is a situation similar to that of the agriculture sector in Mozambique. It may be less damaging as it is a smaller “incident”. But the case study concludes that it is illustrative of a wider point regarding ownership in the sector that is, that care must be taken that policy dialogue is not a **one-way street**. It cannot help (domestic ownership) if it is used to oppose GRZ owned ideas that do emerge within the sector.

**Ownership and Accountability in Central Sector Reporting and Review Processes**

440. The degree to which SWAp or SBS-initiated sector review and reporting processes<sup>62</sup> became integrated with government processes is an important factor in explaining the nature of SBS influence over domestic incentives and accountability. Greater integration was usually a sign of better informed and broader ownership of the SWAp/SBS processes<sup>63</sup>, extending to ministries of planning and finance. When combined with strong ownership of policies themselves, this usually

<sup>62</sup> These include, chiefly, the joint annual reviews and performance assessment frameworks/undertakings, which in all the cases studied were established with the development of SWAps/SBS programmes and are now linked to SBS policy dialogue and conditionality inputs.

<sup>63</sup> Note that even if these have become owned, the locus for initiating them was not in government.

meant greater positive influence. This, also suggests that time matters: integration was usually progressive as donors got to know government processes and systems better and as governments got to understand new rules of the game better too. However, contextual factors are also key, as Box 28 below illustrates for Rwanda.

**Box 28: SBS and domestic accountability in Rwanda**

In Rwanda the SWAp/SBS processes and mechanisms in the education sector became part of the government processes. In particular the joint annual review, initially derogating from GOR systems, became an important internal accountability tool. This also paved the way for other sectors to emulate the annual review arrangements.

At the same time, the government showed a strong commitment to enhance domestic accountability systems and processes (Parliament, Office of the Auditor General etc.). SBS in education supported this including through funding alignment and enabling greater access to sector financing and performance information through the review reports.

In addition, in the context of the strongly GOR-led CSR the government developed strong accountability mechanisms within the executive. Among others there are performance contracts cascading from the President to, in the education sector, individual teachers. One challenge for SBS, it is said, is to better align with such mechanisms. Whilst in principle this appears desirable, it should be asked whether it might not be taken as intrusive. SBS donors should also note (and probably have done so) the potential tension between such strong and personalised accountability within the executive, and the horizontal accountability between government executive and legislative branches and accountability to citizens, especially at the local level.

Accountability to parents and communities at the school level is one dimension in which the education sector has further progress to make. Arguably, it was important to first strengthen the “supply side” (i.e. to equip school and district management with the capacity of providing accountability). However, the fact that it took time for the “demand side” to be put on the agenda also reflects a general trend in the country, one in which the leadership is cautious in the way local participation and accountability are shaped. Efforts are now being made to address this through, inter alia, the use of Parent Teacher Associations in managing school budgets. Again this is something SBS donors should be aware of (and probably are), and that they should be careful about how to handle in their desire to strengthen domestic accountability systems.

*Source: Rwanda Education Case Study*

441. The degree to which SWAp processes capture all sector resources, and the mix of aid instruments in the sector also have important implications on domestic ownership and accountability. The involvement of all SBS and non-SBS donors, line ministry and Ministry of Finance in SWAp processes is key. This would be all the more important in the health sector where, in all three cases studied, massive flows of off-budget project resources became available in the past decade through global vertical funds. Yet, country level management of the global health funds is usually only weakly integrated.

442. When SBS did not use SWAp processes in full, and imposed conditions outside the SWAP framework, this had detrimental effects on the ownership of and integration of those processes. For example, in Mali, the introduction of SBS requirements additional to both, the government and the SWAp systems/processes, led to divisions in the donor group, as SBS donors gained access to entry points in government circles that are not open to other donors. This is likely to undermine the overall sectoral process and confuse the framework of government accountability to donors.

Accountability for service delivery.

443. Whilst SBS funding had positive influence on financial reporting and accountability in many cases (see section 6.1), domestic accountability for actual service delivery results was limited in all cases by the weak link between plans, budgets and those results. Whilst use of dialogue, conditions and technical assistance can help plug these gaps in the reporting, in most cases SBS had a limited influence (see section 6.1).<sup>64</sup> Thus in general in the cases studied, there was a long

<sup>64</sup> Again, the cases of the local government SBS are analysed separately below.

way to go before data and reporting systems and capacities would be sufficient to enable the provision of “all round” accountability. There is a flip-side to this coin in terms of incentives. Indeed case studies highlighted several examples where even when robust evidence was provided, policy decisions were taken on different bases (e.g. in the roads sector in Zambia). Although this should not be surprising, it does undermine the incentives for sector institutions to collect evidence on performance.

444. This reflects the “missing middle” observed in the focus on the capacity of sector institutions and on service delivery systems. That is, with the exception of the local government SBS (analysed below) and of the education SBS in Rwanda, there seemed to be relatively little attention to (and therefore influence on) strengthening within-sector accountability for actual service delivery. This was the case, de facto, in all programmes where SBS funding was traceable and earmarked to development activities (Tanzania health, Mali education, Mozambique health pre-SBS, Mozambique agriculture). In those programmes there was little focus on accountability by frontline service providers and not much on accountability by the direct managers of service providers, beyond financial accountability.

445. The education SBS in Uganda illustrates that this “middle” was missing even when SBS was not earmarked to development activities. In the education sector in Uganda districts do report vertically towards central government; but this does not provide information on service delivery levels and quality. The recent strengthening of the district inspection function (which SBS funding supports but which seemed to have been decided without much influence from SBS through e.g. dialogue/ conditionality) means that better information on teaching/learning in schools may become available, but information flows seemed poised to be upwards too as the main accountability of district inspectors is to the central Education Standard Authority. In any event, the lack of discretionary resources of district administrations means that they would be ill-equipped to act upon the findings of the district inspection. The Education Sector in Rwanda is one exception, where Minimum Quality Standards were being introduced, district inspection was being strengthened and there were plans to strengthen the function and role of school committees.

#### Balancing local and vertical accountability

446. A broader point flowing from the previous paragraph is that SBS can contribute to strengthening vertical accountability relationships, at the expense of local accountability for service delivery. This can undermine domestic incentives and accountability for education achievements at local government level. To be more accurate, in Uganda the education SBS programme aggravated the existing misalignment between central and local ownership and incentives in the education sector. In contrast, the two local government SBS programmes had a broadly positive influence on domestic ownership, incentives and accountability at the local level, and a more mixed one at central level. This is analysed in Box 29.

447. Cross-linking the case studies on the education SBS and LGDP in Uganda and the health SBS and LGCDG in Tanzania, the emerging story in each country is one of divided ownership of the decentralisation policy within government. This has little to do with SBS. Yet in both countries, sector SBS and local government SBS programmes worked in isolation from each other (even though a number of donor agencies contributed to both) and this was unhelpful. Indeed while the programmes “lived with” the government contradictions, each supporting a particular model of decentralisation, the fact that they left the tension between models un-addressed was negative on at least two counts. First, it meant that the influence of each programme was actually undermined by the other. Second, the continuation of mixed “regimes” of ownership, incentives and accountability at local government level undermined the positive effects of those regimes on service delivery outcomes.

**Box 29: Local government SBS influence on domestic ownership, incentives and accountability**

In both cases SBS had a quite strong positive influence on domestic accountability, including downwards from local governments to their constituency. First (funding), the availability of reasonably predictable and discretionary resources fulfilled a precondition for meaningful accountability demand. This was complimented (dialogue/ conditionality) by the fact that greater participation of councillors, lower level local governments and citizens and better information on local government plans and budgets were part of the performance benchmarks conditioning access to investment funding, which prompted local governments to better adhere to these domestic accountability provisions and to strengthen their capacity of doing so (CD). In Uganda the combination of strong incentives to improve performance and greater discretion on the use of resources was appreciated by district technical staff and councillors alike. In Tanzania it was found that the system also enforced local accountability of staff to their councils, as it gave a clear benchmarking to councillors.

However in both countries, failure to reach out to sectors and harmonise data systems and reporting meant that even in Uganda a decade after the introduction of LGDP, there was still no comprehensive overview of service delivery by the local governments in terms of both, financing and actual performance. This was a strong limitation to local governments' accountability both to central government and to their constituency.

At central level local government SBS programmes strengthened domestic ownership of the decentralisation policy in the parts of the government that were already "gained" to it, but had less/much less effect elsewhere. In Tanzania the programme was successful in enlisting a number of sectors (through the "sector windows") but not the big service delivery sectors like education and health; in Uganda this did not happen at all. In Tanzania the programme led to the Ministry of Finance committing to progressively reform the intergovernmental fiscal transfer system more thoroughly, but it remained to be seen how this would happen. In Uganda there was no broader reform of the fiscal transfer system even though it was an objective of the LGDP, due to stiff resistance from the sectors.

Indeed in both countries, sectors like education and health approached the role of local governments in service delivery very differently, through a mixture of strong policy prescriptions and tight earmarking of funds which gave little incentive to local governments to develop ownership of the policies that they were meant to implement, which in turn, made it rather meaningless to ask accountability from them for this (beyond financial accountability).

Thus, mixed systems of incentives and accountability continued to co-exist, which limited the local level influence of local government SBS. Other "contextual factors" further limited this influence, including political interference in local prioritisation processes in Tanzania and erosion of the local government tax basis in both cases.

*Source: Tanzania and Uganda Case Studies*

**Overall Domestic Accountability**

448. Overall, SBS seems to have had some positive influence on domestic accountability in a number of cases (Rwanda as showed above; Uganda at the national level for the education SBS; Uganda and Tanzania local government SBS at the local level); there are also cases where this less true (Tanzania health SBS, Mozambique agriculture); and cases where the jury is out (Mozambique health, Mali education, Zambia roads). Positive cases are indeed ones in which SWAp/SBS mechanisms were strongly integrated with the government budget process, and these were more likely to be non-traceable earmarked SBS than traceable SBS. Other factors, some linked to the nature of non-financial SBS inputs, others contextual, strengthened this or undermined this influence. The case studies also show that patterns can differ from one sector to another in the same country. Perceptions of mutual trust and "joint work" seemed to matter and it is therefore important that in trying to influence domestic accountability SBS donors also enable these to develop. Box 30 draws from the case studies to illustrate these points.

**Box 30: Factors in SBS influence on domestic accountability**

**Uganda education:** SBS funding, dialogue and conditionality considerably raised the importance of the MTEF/budget process, thus strengthening domestic accountability around the sector budget at the central level (with some limitations arising among others from donor pressure for a higher sector envelope, see above). SBS dialogue and conditionality contributed to strengthen GOU monitoring and reporting systems (supply-side of accountability), which led to more and better information on resources flows and use and on education performance (through the strongly Ministry of Education-owned Education Management Information System, developed with project aid). SBS also supported better access to this information (through performance reports and sector reviews) by the general public and GOU domestic accountability bodies (demand-side of accountability), which facilitated their greater engagement with the education sector performance. However, reflecting SBS failure (noted in sections 6.1 and 6.3) to focus effectively on quality, spending efficiency and value-for-money, accountability for these remained limited. In addition the trends just highlighted do not hold at district level.

**Mozambique health:** There was progressively stronger integration of SWAp/SBS mechanisms with the budget process and this has been further strengthened (e.g. the budget calendar) with the shift to SBS, which by its unearmarked nature should further strengthen accountability around the budget. In this process, and with support from the overall GBS process to which sector aid processes were increasingly better linked, a sector PAF was recently developed based on PESS II, linked to the GBS PAF and intended to form the basis of sector reports to the Mozambican Parliament, in addition to being used as a SBS accountability tool. The PAF sector is reasonably owned by the health ministry.

**Mozambique agriculture:** The process in agriculture was similar to that outlined in health (and actually preceded it). However and in contrast with the health sector, owing to the loss of clout of SBS highlighted above the PAF is not owned by sector institutions. Thus for instance, it is not clear whether the SBS PAF or the actual GOMz action plans will be the basis of sector reports to Parliament. While the PAFs in both health and agriculture were developed with the same intention of aligning SBS accountability requirements with government ones, the different degrees of ownership mean that SBS actual influence on domestic accountability is likely to be quite different in the two sectors.

**Zambia roads and health:** In those two cases it was found that the outcome-based conditionality for the disbursement of EC SBS variable tranches (a design which follows strict Headquarters guidance) had potential and actual disruptive effects in relation to domestic ownership, incentives and accountability. In both cases the outcome indicators were selected from existing government documentation, but (i) separate achievement reports were required and (ii) there was found to be a risk that the focus on a particular sub-set of sector indicators could distort reporting and actual implementation incentives (in roads). The system also resulted in late and unpredictable disbursements which damaged confidence and undermined sector incentives in relation to planning/budgeting and policy implementation especially in health, where the local assessment of achievement was later on contradicted by the more negative, and final, assessment by Headquarters.

Source: Country Case Studies

**6.4.2 Conclusions and Lessons Learned**

449. The story of SBS influence on domestic ownership, incentives and accountability is slightly more positive than that on the capacity of sector institutions and service delivery systems. Generally it shows that indeed well-aligned funding, respectful dialogue, and “supportive conditionality”<sup>65</sup> facilitate greater domestic ownership of the policy process, the policy and policy implementation, and strengthen domestic accountability and incentive systems. The case studies reveal how complex the relationship is between SBS design, its influence on other aspects,

<sup>65</sup> This refers to the OECD/DAC evaluation of PGBS following statement: “... in areas where there is an overlap of interests, international partners and (reformers within) governments can work together towards common objectives. Agreed performance targets and conditions then serve as signals (partly to reassure remote financiers that progress is being made and their funds are doing something useful). By prioritising and setting deadlines that have consequences, such “conditionality” creates managerial, not political, pressure. It focuses on the *when* and *how*, not the *what* of reforms.” (IDD and Associates, 2006)

“contextual factors”, and SBS influence on domestic ownership, incentives and accountability. In conclusion:

#### Funds and Financial Management Arrangements

- Where SBS contributes to greater volume of sector funding, by facilitating policy implementation it reinforces ownership of policies, which establishes a basis for stronger accountability. Furthermore, where SBS funding contributes to greater predictability of funding, this further strengthens these effects.
- Derogations have the following effects:
  - Requirements for traceability resulting in separately identifiable SBS allocations in the budget - especially when they are imposed or a result of negotiations with the line ministry without involving the Ministry of Finance - undermine both ownership of the budget, and the accountability relationship between the line ministry and the Ministry of Finance. It also highlights SBS as donor funded, and confuses incentives around the sector budget (line ministries like this distinction and additionality; finance ministries resent it).
  - Negotiated earmarking and additionality in the context of non-traceable earmarked SBS, where the Ministry of Finance has a leading role in the negotiation, helps reinforce conventional accountability relationships and minimises perverse effects of donor earmarking and additionality concerns. A critical factor is whether the budget is predictable enough to (i) satisfy sector stakeholders and (ii) provide the basis for accountability.
  - Parallel or additional financial management arrangements, in particular audits, can have a negative impact on ownership when they are imposed and seen by government as not adding value.

#### Other SBS Inputs

- Policy Ownership
  - In many cases high level policy decisions are made outside the context of SWAp arrangements by politicians, as they should be, and this is positive for ownership.
  - However donors have found increased government assertiveness over policy difficult to deal with when they do not agree with the policies that emerge. This is especially true if the recipient government was weak and donors had substantial policy influence early on. In such circumstances the dialogue/conditions associated with SBS are often not constructive.
- Accountability
  - The integration of SWAp/SBS accountability arrangements into government budgetary/policy review processes can be positive for accountability.
  - However SWAps and SBS are undermined where there are large flows of aid off-budget and outside these arrangements.
  - Meanwhile derogations from SWAp arrangements in circumstances where these preceded SBS, or overlooked the implications of the introduction of SBS on the SWAp, do not help in strengthening domestic accountability.
  - Ownership of SWAp/SBS conditions and of the framework for conditionality matters for accountability. Government has to want to be held to account in this way (e.g. sector PAFs). Donor-specific conditionality approaches may be unhelpful.



- The use of (SBS) dialogue, conditions and TA to plug gaps in the reporting cycle and develop reporting systems and capacities can help provide a stronger basis for all round accountability.
- However this often does not happen, which means that there is not an adequate basis for accountability. Whilst financial aspects of accountability have improved, accountability within sectors for service delivery is weak, as is accountability for services to the public (especially for local governments).
- When SBS is earmarked on the development budget and other inputs focused accordingly, it has no influence on accountability for service delivery.
- Local government SBS programmes were the only programmes which were explicitly designed to strengthen domestic accountability processes and accountability for local investments, in an incentive compatible way, linked to the provision of SBS funding. Yet as this approach was not employed in sectors, the effects were undermined.

450. Constraints to SBS influence on domestic ownership, incentives and accountability could emerge from the influence of contextual factors. It is clear that political and societal factors are particularly important in shaping the influence of SBS here. However, in reality some of the contextual factors were the result of weaknesses elsewhere in the SBS programmes – as is highlighted above in relation to weak data systems and analysis and reporting systems and capacity. Whilst one SBS programme can influence the contextual factors for another, these factors often are not explicitly taken into account.

451. The following lessons may be learned in relation to the influence of SBS on domestic ownership, incentives and accountability systems:

- Owing to the complexity of domestic incentive/accountability patterns it will always be difficult to anticipate the influence of SBS on domestic accountability. However, an attempt should be made to do so, and must consider beyond-sector and informal influences.
- Derogations to SBS funding alignment must be very carefully weighed in terms of the trade-off between the additional comfort that they provide to SBS donors (and potential donors) and the persistent negative influence of derogations on domestic ownership, incentives and accountability around the sector budget that they often have. This has implications for the way Headquarters provide guidance/instructions to in-country offices.
- As partner governments become stronger and more assertive in policy making, and policy ownership increases, donors providing SBS (and those engaged in the sector more broadly) must accept that their policy influence may diminish and their role should change, and orient non-SBS inputs towards supporting policy implementation and accountability.
- It is important that in trying to influence domestic accountability, including through SBS accountability requirements and in particular, conditionality, SBS donors pay attention to enabling trust and a “joint work” relationship to develop between donors and government.
- In so far as decentralisation is a critically important policy because of its impact on both the way services are provided, and on the broader relationship between government and citizens (hence on the country-specific patterns of domestic ownership, incentives and accountability) tensions provoked by divided ownership of the policy between different parts of government should at least be explicitly taken into account. This requires that SBS programmes do not work in silos.

## 7. The Outputs and Sector Outcomes influenced by SBS

### 7.1 The Main Outputs of SBS

**SQ4.1: What are the main contributions that SBS has made to the improvement of sector policy processes, public financial management, public expenditure, sector institutions, service delivery systems and accountability?**

452. This section draws together the main effects of SBS observed in Section 6, looking at the overall changes in sector systems and expenditure as a result of SBS, and their relative strengths. SBS is notable for strong improvements in some areas, but also relatively little in others.

#### ***The Policy, Planning, Budgeting, Monitoring and Evaluation Cycle***

453. There have been significant improvements to the policy, planning, budgeting and reporting cycle in the sector case studies. There are both clearer structures to manage the cycle, and the quality of policy planning and budgeting documents have generally improved. SBS has clearly contributed to this in two main ways:

- Firstly, SBS has either supported the establishment, or made use of existing SWAp structures – which include mechanisms for consultative policy dialogue, review processes, and the establishment of sectoral policy, planning, budgeting and reporting instruments. Conditionality has helped ensure that key policy and planning documents are in place, and that review processes take place regularly. Dialogue, and technical assistance has supported the quality of such processes in some, but not all cases.
- Secondly, SBS funding has both underpinned the dialogue and conditions which supported improvements to the policy, planning and budgeting cycle, and also increased the credibility and relevance of the cycle itself. This has been achieved through increasing the scale and flexibility of funding available to implement the resulting policies, plans and budgets.

454. Whilst these broad observations hold for all the case studies, there are many important observations on the nature of these effects and the variability across case studies.

455. At the policy and planning level, early on in sector reform process donors had influence on high level policy direction early on in some cases. However, their influence has declined over time as partner government have become stronger. Ultimately, and rightly, policy is a domestic political decision, and donors have aligned their support with domestic policies, thereby reinforcing them. In some cases, where donors have not agreed with the policy direction, donors have been slow to do so, however only in the Mozambique Agriculture case have donors refused to align the SWAp structures and SBS funding to support a new government policy direction.

456. SBS has added more value in helping elaborate the details of sector policies and plans. Sector strategies and plans are an area of significant improvement as a result of dialogue and TA, with costing exercises helping improve their realism. However, their value has been most significant when they have been used as a broad guide to resource allocation (e.g. in Rwanda and Uganda Education Sectors), than considered a blueprint which must be followed (e.g. in the Zambia Roads Sector). This is because circumstances change, and in particular political priorities are not fixed. Whilst SBS has had a significant impact on upstream strategic planning, there has been less impact on more downstream operational (annual) planning processes. There are two exceptions - in Tanzania Health local governments were supported in the preparation of annual health plans, and provided with incentives to do so. In Mali Education there was focus on annual work-planning, however the focus was more on the content of those plans than the process, and was arguably overly intrusive and limited systemic benefits.

457. Non-traceable SBS has played an important role in helping to align external funding with the domestic budget process, as it requires negotiations with the Ministry of Finance as well as line ministries. Earmarking and additionality in the context of non-traceable SBS have generally played

a positive role in these negotiations, as a means of giving priority to key budget lines important for policy implementation – such as capitation grants and instructional materials in the Rwanda and Uganda education case studies. The effects were strongly positive in these cases as it was carried out in the context of dialogue on overall resource allocation to sectors, and reflected areas of political priority – earmarking and additionality went “with the grain”. In the cases of traceable SBS instruments, there remains little (incentive for) engagement of the Ministry of Finance in the process of allocating SBS or indeed project funding – which often represent a significant share of sector resources. Traceable SBS has had a further, negative impact on the structure of sector budgets. Firstly by fragmenting sector budgets and reflecting expenditures which are operational in nature in the development budget. Secondly, as they are typically reflected as big projects in the development budget, it is difficult to demonstrate the alignment of overall sector expenditures allocations to policy priorities in budget documents, even if SBS funding is provided more flexibly. Furthermore, this also skews the sector dialogue on resource towards SBS funding and away from the overall allocation of sector resources.

458. A clear area where SBS has contributed is improved sector reporting, monitoring and evaluation processes as a result of the demands of the dialogue and conditions as well as TA. Sector review meetings are a key positive feature, and associated reporting have helped shift the focus of dialogue to overall sector performance. However follow up on agreed actions to address performance issues identified during the review cycle, is mixed. Typically the incentives resulting from dialogue and conditions associated with SBS are unclear. More structured and focused performance assessment frameworks may help somewhat in future, however domestic leadership and ownership of sector review processes is more fundamental to securing follow up.

459. Two major problems, which SBS has failed to address, are the paucity of routine data collection on service delivery and the weak link between the budget and budget reporting to sector policies, plans and reports. Without data on service delivery it is impossible to assess how policy is being implemented and to assess sector performance adequately. Furthermore, linking budget and budget reporting to policies, plans and performance reports is critical if policies are to be implemented and monitored effectively. In the majority of case studies it is difficult to obtain a clear and comprehensive picture of sector resource allocation, let alone verify the alignment of those resources to sector policies. Traceable SBS, through its fragmentation of sector budgets complicates the task. The non-traceable earmarked SBS case studies of Ugandan and Rwandan Education are exceptions to this, as the MTEFs are relatively comprehensive, and SBS uses the existing budget structure.

### ***Resource Allocation and Expenditures***

460. Nevertheless, SBS has had a clear influence on sector resource allocation and expenditure – in terms of both the level and composition of sector expenditures.

461. SBS has been provided in the context of increasing domestic revenues and also GBS. In all the case studies SBS has been provided in the context of rapidly increasing sector expenditures overall. In every case except Mozambique health and Agriculture domestic budget allocations increased rapidly. In the health case studies the most rapid driver behind overall increases in sector resources has been vertical donor funding from global health initiatives. It is clear that SBS has helped support these rapid increases in expenditure, whether non-traceable earmarked or traceable in nature. In only one case, Mozambique Agriculture, did SBS increase more rapidly than sector expenditures, implying a degree of substitution of domestic for external resources. Otherwise SBS has therefore generally been **additional** and supported **increases** in sector expenditures. Additionality requirements underpinned these effects in the case of non-traceable SBS, but were typically not applied in the cases of traceable SBS, including in Mozambique.

462. SBS has also helped reorient sector resources towards specific sub-sectors (e.g. primary education) and service delivery. This reorientation effect has been most decisive in the cases where the SBS funds have been earmarked to service delivery:

- In the Rwanda and Uganda education sectors, SBS was non-traceably earmarked to the primary education sub-sector and in some cases specific budget lines within it, and this facilitated a re-prioritisation of education sector spending, and also an expansion of funding to service delivery.
- Despite the small levels of funding, the Zambia Health case, where SBS was earmarked to two different policy priorities, has helped begin to focus attention on the budget for human resource retention and user fee elimination.
- In the Uganda Education and Tanzania Health cases funds were earmarked to local government service delivery.
- The local government case studies involved the creation of new transfer systems to fund the provision of service delivery infrastructure. Earmarking in these case studies therefore typically involved two sets of benefits. In these cases, SBS helped put into operation systems for decentralised service delivery, more rapidly than otherwise would have been the case.

463. These examples of earmarking helped facilitate a more rapid reorientation of sector resource allocation towards sector policy priorities than would otherwise have been the case, as it helped bypass the incentives for incremental budgeting which often predominates, even in the context of new policies. Nevertheless strong political ownership of policies such as free basic education in Rwanda and Uganda Education meant that a reorientation of sector resources would have been inevitable, even in the absence of SBS. In Rwanda increased domestic funding to primary education actually preceded major increases in SBS. Earmarking is less effective – for example in Mozambique agriculture - if it is supporting policies which the government is not particularly interested in implementing.

464. Ownership was broadened in the cases of non-traceable earmarked SBS, where the Ministry of Finance was more involved in the negotiations over earmarking and resource allocation. This also appeared to result in change budget allocations which are more sustainable. Whilst budget allocations were maintained after cuts of non-traceable earmarked SBS in Uganda, in a switch away from traceable SBS in Tanzania Health did not result in a compensatory increase in domestic budget allocations.

465. It is important to note that the effects of SBS on intra-sectoral resource allocation is difficult to analyse in the cases of traceable SBS, and cases where SBS was provided alongside large-scale project funding. As described in earlier sections, traceable SBS appears in the development budget, is given in support of multiple institutions and multiple objectives, but typically is reflected as a single project in the development budget under a single institution. This was most notable in the Mozambique Health and Mali Education case studies.

466. SBS has had a mixed effect on the predictability of sector expenditures. SBS has, to some degree, contributed to improvements in the predictability of annual budget resources. Firstly, the in-year predictability of disbursements of SBS funds has tended to improve over time. Secondly, where SBS is mixed with domestic resources, and uses government cash management procedures, sector expenditures benefit from improvements in the predictability of their budgets overall and associated conditionality. A motivation for the shift to SBS in Rwanda was to avoid disruptions in resource flows due to governance concerns associated with GBS – and in none of the cases were allocations cut due to such concerns. However beyond the subsequent financial year predictability is weak, undermining the ability for governments to prepare credible medium term spending plans.

### ***Sector Public Financial Management***

467. SBS has clearly contributed to improvements in financial management in the sectors studied, especially when associated with multiple donors, in two ways. Firstly there is a reduction

of transactions costs associated with the move away from multiple sets of financial management systems to using government systems. Secondly is the use of those systems. The simple fact that spending agencies use government systems more as a result of SBS helps in their strengthening. The extent of these improvements have been accelerated, as domestic PFM systems were improving due to Ministry of Finance led reforms, typically underpinned by GBS and associated inputs.

468. In the short term, traceability requirements may help ensure greater predictability of funding than domestic budget allocations, as for example in the Tanzania Health and Local Government sectors. However, over the medium to long term as the predictability of budgets had improved to a degree that domestic transfers were more reliable than SBS, traceability requirements were no longer needed. Yet they have been maintained. The most sustained positive effects on the predictability of funding have been through non-traceable earmarked SBS, which has been combined with a commitment from the Ministry of Finance to ensuring budget predictability in key budget lines or sub-sectors (e.g. Uganda and Rwanda Education). The bypassing of government cash management processes by traceable SBS also makes overall cash management by the Ministry of Finance more challenging.

469. Using conditions relating to statutory procurement, financial reporting and audit requirements can help raise their profile and improve their timeliness, although there is a danger of externalising these accountability instruments (see below).

470. In most countries the use of domestic budget execution and financial management systems has helped in the identification of weaknesses, and diagnostic studies have also deepened understanding of those systems. However, the identification of issues does not guarantee follow up. In Rwanda Education, Zambia Roads, and Uganda Education early on clear actions were taken to address weaknesses identified, however in the other cases action either has been slow. Additional audit requirements above the statutory, however, have typically proved a distraction, and have lacked ownership. The degree of follow up typically depends on both the quality of the partnership, and the leadership within sector institutions and broader environment. The clarity of incentives provided by SBS conditions appeared of secondary importance.

471. In addressing weaknesses in PFM SBS has had more value in addressing sector specific gaps or weaknesses – such as financial management at the school level in Uganda and Rwanda – than attempts to address generic PFM problems at the sector level – for example through the implementation of sector specific financial management packages in Mozambique. The latter tended to encroach on Ministry of Finance driven reforms, and lead to the creation of parallel systems.

### ***Sector Service Delivery and Institutional Capacity***

472. The clearest impact of SBS on service delivery and institutional capacity has been an increase in sector funding channelled towards service provision which uses government systems and institutions for delivery. As described above, this is most discernable and decisive in the cases where a degree of earmarking was used towards service delivery. In some cases, such as Mali Education, it is difficult to quantify the extent of these effects as a result of traceability provisions. In the Mozambique Agriculture there was no discernable increase in funds for service delivery, as no clear service delivery mandate was agreed – instead funding was largely spent on capacity building.

473. Beyond the effects of SBS on the scale of funds, the impact of SBS on service delivery systems and institutional capacity has been disappointing in the majority of the case studies, with the notable exception of the two local government case studies.

474. The positive systemic effects of SBS funds on the strength of government systems and capacity have been largely limited to public financial management noted above, and not broader

service delivery processes, such as the quality of teaching, for example. Some of these weaknesses were caused by the nature of SBS funding itself:

- In cases of traceable SBS, which was only reflected in development budgets, this precluded the use of mainstream funding mechanisms for service delivery. It also biased expenditures towards development activities, even though SBS also funded operational aspects of service delivery via the development budget.
- Despite being a key constraint in a number of sectors, SBS funding tended not to be earmarked to increasing the remuneration and/or number of frontline service delivery staff.
- In some cases, such as Mali Education for classroom construction, decentralised levels were bypassed which precluded any systemic improvements taking place at all.

475. The weakness of the effects of SBS funds on systems for delivery was also a result of the unsystematic nature and focus of non-financial SBS inputs on these issues. Overall, capacity building efforts were incomplete, and often limited to TA or training, and did not take into account the incentives faced by domestic actors. Specifically, the following gaps in the focus of non-financial SBS inputs contributed to weaknesses in the development of capacity and systems:

- The development of frontline service delivery systems and staff was sporadic at best.
- The management of service delivery, in particularly decentralised levels, has not improved, and was rarely given attention.
- Human resource issues were generally avoided. Whilst some governments have addressed numbers of frontline delivery of staff, remuneration and management of staff has rarely been tackled.

476. Ultimately this meant that SBS has generally had little positive effect on the processes at the point of service delivery, and the management of those processes. However these are key to addressing problems of service delivery quality.

477. There are three atypical cases worth noting. Firstly, EC SBS to the Zambia Health sector has specifically focused funds through non-traceable earmarking and conditions on human resource retention issues – a key constraint at the point of delivery. Whilst this has clearly raised the profile of HR issues in the dialogue it is too early to assess the effects of this. The case is constrained by the fact that the level of funding, thus far, has been small.

478. The Local Government case studies, on the other hand, point to the potential complementarity of a systematic approach to capacity building complementing the provision of SBS funds. The annual assessment of institutional performance of local government grants, linked to the provision of local investment funds, provided a strong incentive for local governments to improve their performance. Meanwhile local governments were provided with capacity building funds, and in the Uganda case, standard training modules, to address weaknesses. This had a strong positive effect on institutional capacity of local governments.

479. However, in these case studies, the type of capacity addressed related to generic functions of local governments and delivery of infrastructure, and not services such as healthcare, and education. Furthermore such incentive based and systematic approaches to capacity building were not employed in the conventional sector case studies in health, education, agriculture or roads. The full potential for SBS flows to leverage improved institutional performance in such sectors has not been realised.

### ***Domestic Ownership, Incentives and Accountability***

480. The effects of SBS on domestic ownership, incentives, and accountability are more positive than those on service delivery systems and institutions. SBS funds have helped facilitate policy implementation, which reinforced ownership of policies. The relative predictability of SBS funding helped reinforce that further. Over time there is evidence that recipient governments are taking a greater lead in policy making and this can in part be attributed to the capacity that SBS has helped

build in budget formulation, even if this does occur outside SWAp arrangements and donors do not respond favourably to them.

481. SBS has also helped strengthen government accountability, through supporting the establishment of stronger sector policy and review processes. The fact that SBS funds, dialogue and conditions make use of these processes also helps reinforce them. However, when SBS derogates from established sector review processes, as is the case in Mali Education, for example, this does not help reinforce domestic accountability. Fostering ownership of sector processes is important if they are to become vehicles of domestic accountability. If they become dominated by donors, they can be seen as external, as is the case in the Mozambique Agriculture sector. There are, however, clear gaps in these processes which have not been addressed. In particular, accountability for service delivery has not improved, and this is not helped by the paucity of information on routine service delivery highlighted earlier, as well as the continuation of large off budget flows in the health sector especially. .

482. Financial accountability has improved as a result of the integration of SBS into formal government financial management systems. This has strengthened the position of the Ministry of Finance, in particular. However derogations associated with traceable SBS, undermine gains in financial accountability. They also highlight expenditures as donor funded and confuse incentives in budget formulation, bypassing the role of the Ministry of Finance. Conversely, the use of non-traceable earmarking and additionality helps reinforce conventional accountability relationships, and engages the Ministry of Finance. This helps ensure ownership of budget allocations. Additional financial management arrangements imposed by SBS donors, in particularly audits, tend not to add value to domestic accountability requirements.

483. Overall, SBS has tended to focus on up-stream accountability at the national level. SBS has typically reinforced vertical accountability relationships of sub-national governments and service providers with the centre, at the expense of decentralised accountability to local politicians and direct users of services. The lack of focus on accountability for routine service delivery is symptomatic of this. The local government cases are an exception to this, where emphasis was placed on creating the incentives for building decentralised accountability processes.

### ***The Balance Sheet***

484. There are significant variations in the effects of SBS on sector processes, within and across case studies. However, it is clear that the effects of SBS have been stronger in some areas than others:

- SBS has clearly had a significant and positive influence on sector policy processes, public financial management, and to a lesser degree domestic accountability, although the track record is mixed across case studies.
- SBS has mobilised additional resources for the sectors studied and helped further focus of resources on policy priorities, which in turn has increased resources available for service delivery.
- SBS has generally not been effective in strengthening the link between policies, plans and budgets, which has weakened strategic resource allocation, and the implementation of policies.
- SBS has clearly had a disappointing influence on service delivery systems and institutions. The lack of attention to service delivery processes and human resources is at the heart of the problem. Related to this are gaps in monitoring and reporting on service delivery and associated accountability for service provision. This is the key “missing middle” in the provision of SBS, elements of which only the Local Government and Zambia Health case studies have given significant attention.

485. Another broad observation can be made across outputs relating to derogations. Firstly, earmarking and additionality requirements for SBS can yield broadly positive results on sector

resource allocation, provided they are in line with the recipient government's policy priorities and negotiated with the government, not imposed. However other derogations, typically associated with traceable SBS tend to have significant and negative effects on sector processes. In particular:

- Traceability of SBS fragments budget allocations, distorts the structure of the budget, undermines overall strategic resource allocation. It skews dialogue towards the areas which SBS is funding and away from the overall budget, and encourages further derogations from country systems. Traceable SBS results in a major share of the dialogue being devoted to the operation of the SBS instrument, at the expense of broader policy and systems issues.
- Additional financial management, audit and reporting requirements are weakly owned, create transactions costs and undermine efforts to improve domestic processes.
- Bypassing normal processes and institutions for service delivery precludes the strengthening of those systems.
- Derogations from established SWAp processes, and the conditionality frameworks which they embody, adds to transaction costs for the recipient and clouds incentives which are already weak.

486. Overall, the balance sheet is positive, but as we shall see, the gaps remain fundamental to improving the qualitative aspects of service delivery outcomes.

## 7.2 The Sector Outcomes Supported by SBS

**SQ4.2: Have the improvements in sector systems and processes to which SBS has contributed, had a positive influence on sector service delivery outcomes, and are they likely to do so in future?**

487. Having identified the main outputs of SBS, the key test is the influence those outputs have had on sector outcomes in the past, and the likely influence in future. The case studies attempted to assess this, however their ability to do so was undermined by two of the key shortcomings identified in sector processes, which SBS failed to address. Firstly, there is a paucity of information on routine service delivery data; and secondly sector budgets and associated reporting is fragmented and poorly linked to sector performance. This makes it difficult to piece together a complete picture of service delivery outcomes, and trace the influence of the outputs of SBS on these outcomes

488. Nevertheless Chapter 4.3, which set out the sector context in which SBS is provided, observed that, with one exception, the case studies told a similar story of expanded public service provision, but generally weak quality of those services. The story of the effects of SBS on sector service delivery outcomes mirrors this narrative:

- Firstly, the major contribution SBS has made is to support the expansion of service delivery that was observed, and consequently expanded access to services. However
- secondly, SBS has not supported improvements in the quality of service delivery.

489. Thirdly, SBS has indirectly reinforced this by improving operational efficiency or value for money in some aspects of public service delivery.

490. SBS funding and the effects of SBS on policy processes, PFM and domestic accountability have implicitly supported the prioritisation of expansion of access over quality. The limited effects of SBS on strengthening the links between policy/plans and budgets, and its lack of attention to service delivery processes, human resources issues and incentives, has meant quality issues have not been adequately addressed.

491. The effects of SBS on quantity, quality and efficiency of sector service delivery outcomes are now discussed in turn. This is then followed by an assessment of the other influences of SBS



envisaged in the assessment framework, and an overall assessment of the balance sheet of SBS influences on sector outcomes.

### **Expansion of Service Delivery**

492. Through its effects on increasing overall sector funding, and influence on intra-sectoral resource allocation, SBS has supported the expansion of services, or is likely to in future, in all but the Mozambique Agriculture case. Box 31 below highlights the main contributions SBS has had to expanding service delivery.

#### **Box 31: Examples of the Contribution of SBS towards the Expansion of Service Delivery**

- **Rwanda Education:** Increases in enrolment resulted from a policy shift to free education, to which SBS contributed early, which in turn has contributed to gradual increases in literacy rates. From the introduction of SBS in 2000, enrolment had increased by 46% by 2007 – an additional 670 thousand pupils. Subsequently SBS facilitated this expansion through funding the provision of service delivery inputs such as classroom construction, instructional materials and paying for contract teachers. In recent times, SBS has funded a major share of these inputs, with transfers rising from 11% of sector expenditures in 2006 to 48% in 2009.
- **Uganda Education:** SBS also supported the expansion of increased enrolment in free primary education which was introduced in 1997, by providing funding for inputs such as textbooks, classrooms and capitation grants for schools. Enrolment peaked at 31% in 2003 higher than pre-SBS levels in 1999 - an additional 1.8 million pupils. Early on SBS funding contributed to a major share of these inputs, peaking at 32% of sector expenditures 2002, after which it steadily declined as donors switched to GBS.
- **Uganda Local Government:** SBS has had a direct impact on the expansion of service delivery at the local government level, through the provision of nearly 21,000 service delivery infrastructure projects. This contributed to increased access to services – for example in 2006 on average 66% of the population lived within 2km of a health centre, up from 36 % in 1999; 72% of the population lived less than a kilometre away from a water point, up from 47%. Between 2001/02 and 2005/06 SBS, through the local development grant, SBS provided 32% central funding for local government investments, after which SBS funding declined but the government maintained funding levels for the grant.
- **Tanzania Local Government:** SBS has provided substantial resources for investments at the local level, which has expanded service delivery infrastructure and development activities in a relatively equitable manner in a similar way to Uganda.
- **Tanzania Health:** SBS has had its greatest influence, via the provision of increased and discretionary resources to lower levels of government. This supported an expansion of service delivery at that level, which it is reasonable to assume has had a positive influence on health sector outcomes. At its peak SBS contributed to over a fifth of sector resources overall, however this share has declined with the expansion of global initiatives. Minimum per-capita transfers to local authorities ensured at least a half of SBS resources were channelled towards decentralised service delivery.
- **Zambia Health:** SBS supported the introduction of the policy of elimination of user fees which expanded the use of health services, through providing compensatory funding. Funds have, however, been on a small scale, amounting than less than 3% of sector resources.
- **Zambia Roads:** SBS had resulted in periodic maintenance of 79 kilometres of paved roads and periodic maintenance or light rehabilitation of 3,276 km of unpaved roads. This represented 20% of sector resources between 2006 and 2008.

493. In short, SBS has contributed to greater access to healthcare services, primary education and roads in the case study countries. Typically SBS has funded the provision of services delivery inputs to assist in the implementation of sector policies, which have facilitated the implementation of these policies. For example in the education case studies SBS has helped improve the availability of textbooks and classrooms.

494. It is important to note that it is often the policy decision which results in the expansion of service delivery – for example the introduction of free basic education in Uganda and Rwanda or

free basic healthcare in Zambia. Sometimes through the dialogue associated with SBS, donors have actively lobbied for such policy decisions – such as free basic education in Rwanda. However, these instances of “influence” have typically occurred early on in sector reform processes, and did not occur later on. More typically donors respond to major policy decisions, with SBS facilitating their implementation, such as in the Uganda Education and Zambia health cases.

### ***The Quality of Service Delivery***

495. It can be argued that the quality of healthcare and education is better than otherwise would have been the case, as a result of the service delivery inputs supported by SBS funding described Box 31. These both include operational and investment inputs. However beyond this SBS has not contributed significantly to improving the quality of service delivery.

496. The “missing middle” in relation to the lack of focus of SBS on downstream processes for service delivery and human resources has meant that SBS has failed to address the quality of service delivery adequately. Where SBS was earmarked to capacity building of human resources – such as Mali Education and Mozambique Agriculture, it failed to address the number of staff or the incentives they faced. Where the number of frontline delivery staff has increased significantly – such as Uganda education, service delivery processes and incentives have not been addressed. Even in the local government case studies which directly addressed both capacity and incentives, the focus was on generic institutional processes of local governments (planning, budgeting, engineering and accounting) not service delivery processes. The positive effects on overall service quality have been indirect and not significant, although investments funded by SBS have been of satisfactory quality. However this model does demonstrate potential to address quality issues, if it were applied to service delivery sectors directly and human resource issues were addressed alongside.

497. Continued fragmentation of sector resource allocation makes it very difficult to identify where there are gaps and imbalances in sector resource allocation which would need to be filled to address quality issues. SBS has failed to address these imbalances in resource allocation which result in poor quality and inequity in provision. A key reason relates to the incentives created by traceable SBS funding, which represents the majority of cases. Traceable SBS is reflected in development budgets and this biases expenditures towards infrastructure and other activities that donor projects typically fund such as training, although some operational inputs are supported. Despite being a key constraint, SBS is rarely earmarked to increasing the remuneration and/or number of mainstream service delivery staff, even in the cases of notionally earmarked SBS which can support the recurrent budget. It is apparent that recipient countries remain reluctant to use donor funding to do so, in part because of the fact that medium and long term predictability of SBS allocations are poor, and donor commitments short term.

### ***Efficiency in Service Delivery***

498. Whilst SBS did not address the quality of services in the case studies, SBS has had a positive influence on the efficiency by which sector outcomes have been achieved. The improvements in sector policy processes, public financial management and domestic accountability all have contributed positively to efficiency of sector expenditures. This tends to be limited to operational efficiency, or value for money, as described in Box 32 below.

499. Furthermore, the negative effects of derogations have undermined the extent of these effects in the cases which have used traceable SBS.

#### **Box 32: Examples of Improvements in the Efficiency of Sector Expenditures**

- **Rwanda Education:** SBS has contributed to improvement in the efficiency of education spending, for example through improved value for money and transparency in classroom construction.

- **Uganda Education:** SBS contributed to improved efficiency in classroom construction, when compared to the costs of previous donor funded projects.
- **Mali Education:** The efficiency of spending has improved as a result of the shift to SBS which uses decentralised systems, and has benefited from improvements in PFM.
- **Uganda Local Government:** Investments funded by SBS were implemented with better value for money than other development transfers and donor projects.
- **Tanzania Local Government:** SBS has had a clear impact on institutional capacity, including areas such as financial management, which is reasonable to assume has helped improved the efficiency of service delivery more broadly.
- **Zambia Roads:** Sector procurement improvements are likely to result in greater efficiency of resource use in roads.

500. More fundamentally, the persisting weak links between policies, plans and budgets and resulting weak allocative efficiency limited the gains in value for money. Again the situation is worse in the cases of traceable SBS.

### ***Influence on Other Sector Outcomes***

501. In addition to its influence on the quality and quantity of services, the assessment framework (Figure 12) also posited that SBS might influence sector outcomes in such a way that: services would be more responsive to the needs of beneficiaries; there would be greater demand for services, accountability for service delivery would improve; and political accountability for the delivery of sector policy objectives would be strengthened. There have been mixed effects in these areas:

- The broad policy agenda which SBS has supported has emphasised basic service delivery, which in the broadest sense, is responsive to the needs of beneficiaries. However beyond this there are substantial rigidities and inequities in service provision, as a result of the centralising tendencies of many sectoral reform processes. The local government case studies are notable exceptions to this, where service delivery infrastructure has been supported in a way responsive to demand.
- In several circumstances, this policy agenda, which SBS has supported, has involved the introduction of free access to basic services – in the Zambia Health and the Education case studies for example. These policies, in turn, have stimulated greater demand for services for beneficiaries. However, indirect effects on demand, stimulated through improved quality and responsiveness of services have been weak.
- Related to the poor quality to service delivery, the accountability of service provision has not been strengthened – either indirectly via the executive and parliament, or directly to the beneficiaries of those services.
- In terms of political accountability, slight improvements have manifested themselves in terms of greater ownership of policies and greater control of the policy agenda by recipient governments. This has been facilitated through the improved capacity of sector institutions, and increased availability of funds the recipient government has to be able to delivery against policies.

### ***The Balance Sheet***

502. The expansion of service delivery is a major positive trend which SBS has supported in all but one case study. This is a major positive achievement. The less visible improvements to efficiency in service delivery are important nonetheless. SBS responded to an implicit policy choice of favouring access over quality. However this represents a missed opportunity. If SBS had been accompanied by a greater focus on service delivery processes and human resources, then a far more balanced picture may have emerged.

503. In one case, that of Mozambique Agriculture, the balance sheet is clearly negative, as described in Box 33 below. This tells a simple lesson – large-scale SBS transfers are only appropriate in support of service delivery, and when there is an agreed policy with regard to mandates and responsibilities for it.

**Box 33: No Effect on Sector Outcomes in the Mozambique Agriculture Sector**

There is little or no evidence that service provision at field level, or the implementation of sector policies, have improved as result of the investments made in building institutional capacity of the line ministry, which has been the focus of SBS funding and associated inputs. Nor is there evidence that public sector actions and services in the agricultural sector more broadly have addressed the constraints faced by farmers, and consequently improved sector outcomes. It is reasonable, therefore, to conclude, that SBS has had little or no effect on agricultural sector outcomes to date, and in its current form, is unlikely to do so in future. This is only likely to change if a positive role for the public sector in addressing the constraints faced by farmers is both agreed and implemented, with the support of SBS.

*Source: Cabral (2009)*

504. The other individual case studies show a positive balance sheet. However clearly SBS has had greater influence in some case studies than others. Five broad observations can be made, in this regard:

- Those cases which combined large scale resource transfers, combined with a shift from project support had the greatest positive effects;
- Those cases which emphasised funding for service delivery, through budget negotiations and earmarking were more effective than those which did not;
- Those cases which used non-traceable SBS tended to show a stronger balance sheet than those which employed traceable SBS which typically included significant derogations from country systems.
- The effectiveness across sectors varies. There was more than one case study for three sectors. The Education and Local Government case studies show strong positive influences on the quantity and efficiency of service delivery. The education case studies were successful as they were accompanied by a switch in aid modalities from project support; and backed by significant political support. The local government case studies, because of a major switch in aid instruments, combined their innovative design which maximised the complementarity of SBS inputs. There is a less positive picture of the health case studies, which were undermined by the large increases in vertical funding in recent years from global health initiatives.
- The effectiveness across countries varies. Three countries had more than one case study. Of the three countries, strongest influence was seen in Uganda, followed by Tanzania, with the weakest influence on sector outcomes in Mozambique. Here the nature of the design of SBS appears to be the major influence. In Uganda, SBS typically involves fewer derogations from country systems than in Tanzania and Mozambique. Both the Mozambique cases also suffer from an unclear policy framework for service delivery.

505. The logical framework applied in Part II and the case studies has enabled an assessment of the effects of SBS on the environment for external assistance to the sector; sector decision making, delivery and accountability processes and systems; and finally sector outcomes. The overall assessment of SBS is therefore on balance positive. SBS has been an important tool in support of the expansion of service delivery in the cases study countries.

506. However this positive conclusion must be tempered by a further conclusion – that the effectiveness of SBS in improving service delivery could be greatly increased through improved design and implementation. This involves re-focusing SBS on service delivery. It also means ensuring there are stronger links and greater complementarity between SBS inputs; between SBS and other aid modalities within and outside the sector; and between SBS and cross-cutting reform initiatives.

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## Glossary of Key Terms

**Accountability:** Obligation to demonstrate and take responsibility for performance in light of expectations and/or in compliance with agreed rules and standards. Note: Accountability in development may refer to the obligations of partners to act according to clearly defined responsibilities, roles and performance expectations, often with respect to the prudent use of resources. For evaluators, it connotes the responsibility to provide accurate, fair and credible monitoring reports and performance assessments. For public sector managers and policy-makers, accountability is to taxpayers/citizens. *Source:* OECD-DAC (2002).

**Additionality:** The extent to which aid funding earmarked to a set of expenditures leads to an increase in total expenditure allocations to those expenditures. Additionality attempts to address the problem of fungibility, which arises because government resources can be substituted for aid resources. If aid finances any activity that the recipient would otherwise have financed itself, the resources that the recipient would have spent on that activity become available to finance something else.

**Aid Coordination:** Usually used to refer to donor coordination of geographic or sectoral programming, to ensure that donors complement rather than duplicate aid efforts. It may involve government participation to ensure that coordination is in the interests of partner countries, but does not generally take place under government leadership. *Source:* CIDA (2004).

**Aid Instrument:** A specific and distinguishable package of aid funds provided by a donor. An aid instrument is characterised by several features – including the aid modality; the funding channel used; the degree of earmarking of funding; conditionality arrangements; financial management procurement provisions; and approach to technical assistance and capacity building.

**Aid Modality:** The main way donor aid funds are channelled to the activities to be funded.

**Allocative Efficiency / Effectiveness (of public expenditure):** The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Source:* OECD-DAC (2002).

**Budget Classification System:** This is the coding system for public sector revenues and expenditures, and determines the manner in which budgetary data is structured and can be presented. A budget classification system provides a normative framework for both policy decision-making and accountability. Classifying expenditures and revenues correctly is important for: (1) policy formulation and performance analysis; (2) allocating resources efficiently among sectors; (3) ensuring compliance with the budgetary resources approved by the legislature; and (4) day-to-day administration of the budget. A sound budget classification scheme should also make it possible to determine the budget lines affected by poverty-reducing expenditure. *Source:* Jacobs et al (2008)

**Budget documentation:** Includes the annual budget presentation, the budget-supporting documents, including but not limited to background to policy proposals and discussion of fiscal risks, within-year budget reports for monitoring budget execution, and the final accounts. *Source:* IMF (2007).

**Budget execution:** stage of budget process where the government's expenditure programmes are implemented. *Source:* DFID (2001).

**Budget preparation:** stage of budget process involving the submission and negotiation of ministry expenditure bids. The process concludes with parliamentary review and legislative approval. *Source:* DFID (2001).

**Budget process:** is the vehicle by which the government sets its overall budget plans and within which decisions are made on the allocation of funds. *Source:* DFID (2001).



**Budget Support:** Aid Funds that are channelled directly to partner governments using their own allocation, procurement and accounting systems, and are not linked to specific project activities. All types of budget support include a lump sum transfer of foreign exchange; differences then arise on the extent of earmarking and on the levels and focus of the policy dialogue and conditionality.

**Capacity building:** A coordinated process of deliberate interventions by insiders and/or outsiders of a given society leading to (i) skill upgrading, both general and specific, (ii) procedural improvements, and (iii) organisational strengthening. Capacity building refers to investment in people, institutions, and practices that will, together, enable countries to achieve their development objective. Capacity is effectively built when these activities are sustained and enhanced with decreasing levels of donor-aid dependence accompanied by increasing levels of societal goal achievement. *Source:* World Bank.

**Channels of aid disbursement:** There are three broad disbursement channels for aid: (i) **Channel 1** is the normal channel for government's own-funded expenditures. Aid is disbursed to government's finance ministry (or "treasury"). Funds may or may not be earmarked. These funds are *not necessarily* "on budget" such as e.g. UN system projects that follow "national execution" procedures and are typically off treasury and also off system in other important dimensions. (ii) **Channel 2** involves provision of funding direct to MDAs and managed through special accounts outside of the regular government system. Funds are held by a government body but don't follow normal government procedures. (iii) **Channel 3** expenditures are undertaken by a donor agency or by an NGO on its behalf. Government receives assets or services in-kind but does not handle the funds itself. *Source:* Mokoro (2008).

**Common Basket Fund / Pooled Fund / Common Fund / Basket Fund:** refers to a situation in which a number of donors agree to contribute to a common fund or basket of funds in support of a project/program. Pooled funding usually involves the use of a holding account reserved for particular purposes identified by agreement between the government and donors participating in the pool. The boundary between SBS and Pooled/Common/Basket Funds overlaps. SBS is disbursed via the normal national procedures (channel of aid disbursement 1 as defined above) whilst basket funding typically uses special arrangements negotiated with donors (channel 2 or 3 above). Pooled/Common/Basket funding only counts as SBS where money is transferred from the basket into government treasury system and used according to normal national procedures (channel 1). *Source:* CIDA (2004) and SPA (2005).

**Conditionality:** Stipulations, or provisions, that needs to be satisfied to trigger aid disbursement. *Source:* Danida Glossary.

**Derogations (from national systems):** A deviation from or an extra requirement in addition to an aid recipient's national systems for managing public resources arising from the provision of aid. Derogations may directly relate to the financial management systems which aid uses which may derogate from national PFM systems; they also may relate to mechanisms for monitoring, dialogue and conditionality associated with the provision of aid which may rely on government policy and monitoring processes (e.g. in the context of SWAps), or have additional requirements.

**Development budget:** Typically budgets are made up of a recurrent budget and a development budget. The development budget is typically intended to fund public investments, and is typically made up of projects administered by government spending agencies. The Development budget is often prepared alongside some kind of public sector investment plan. In practice in developing countries development budgets often include both capital and operational spending and are typically dominated by externally funded projects.

**Domestic Budget Allocations/Funds/Expenditures:** These refer to funds in the recipient government's budgets which are classified as domestic expenditures, as distinct from external budget allocations. Domestic expenditures are funded from general government

revenues, which are made up of taxation and non tax revenues collected by the recipient government itself as well as programme aid funds such as budget support and debt relief. It is important to note that traceable budget support can either be classified as external or domestic expenditures.

**Earmarking:** This is a requirement that all or a portion of external funding is devoted to a certain area of public expenditure. This can be very specific – to discrete sets of activities or projects, or broad – to an overall sector or set of sectors. It is important to note that earmarking can relate to either budget support or project support. Whilst project support always contains a degree of earmarking, budget support can be completely un-earmarked.

**Effect:** Intended or unintended change due directly or indirectly to an intervention. Related terms: results, outcome. *Source:* OECD-DAC (2002).

**External (or Donor) Budget Allocations:** These are funds classified as external funding in the budget classification system and budget documents. External funds may be presented for information in budget documents or form part of the actual appropriation by the legislature, depending on the law in the recipient country. External budget allocations appear in the development budget and are typically broken down by project. All donor project funding which appears in budget documents will be classified as external funding, whilst sector budget support can be classified as external or domestic budget allocations.

**Fiduciary risk:** The risk that funds are not used for the purposes intended, not properly accounted for or do not achieve value for money. *Source:* National Audit Office (2008).

**General budget support:** Is fully un-earmarked budget support where the dialogue between donors and partner governments focuses on overall policy and budget priorities across sectors

**Grant:** Transfers made in cash, goods or services for which no repayment is required. *Source:* OECD DAC Glossary.

**Investment or Capital Expenditure:** These represent expenditures which result in the creation, acquisition or upgrading of assets for the government and typically identified as capital in the budget classification system. In doing so, investment/capital expenditures create future benefits. This will range from the purchase of vehicles, to the construction of buildings. Investment/Capital expenditure typically is restricted to the development budget. It is important to note that the development budget also will typically include non capital/investment expenditures also.

**Line (or Sector) ministries:** ministries responsible for providing policy advice on, and implementing activities, in a particular sector, such as Education or Agriculture. *Source:* DFID (2001).

**Medium Term Expenditure Framework (MTEF):** There is no single, concise definition of the term 'MTEF'. It represents a set of broad principles for sound budgeting that are implemented in different ways in different institutional settings. At its heart, the MTEF approach seeks to link expenditure allocations to government policy priorities using a medium-term (i.e. three to five year) perspective for budget planning and preparation. This typically involves some combination of: (i) a unified 'whole-of-government' approach that encompasses all sectors; (ii) a 'top-down' hard budget constraint consistent with macroeconomic sustainability; (iii) a 'top-down' set of strategic policy priorities; (iv) 'bottom-up' forward estimates of the costs of existing policies, programmes and activities over the medium-term; (v) a single nationally owned political process at the centre of government that reconciles the bottom-up and top-down components; (vi) a strong and clear link between MTEF projections and the annual budget process, so that multi-annual targets (duly updated for changes in the macroeconomic situation) set in the previous years should form the basis upon which the budget is prepared; (vii) a focus on results (i.e. outputs and outcomes). *Source:* Bird et al. (2008).

- Memorandum of Understanding (MoU):** A document describing a bilateral or multilateral agreement between parties. It expresses a convergence of will between the parties, indicating an intended common line of action. It most often is used in cases where parties either do not imply a legal commitment or in situations where the parties cannot create a legally enforcement agreement.
- Off-budget funds:** Funds held by government bodies but not included in the governmental budget. Earmarked revenues or user fees and charges often finance expenditures from such accounts. Similarly donor projects provided to government bodies may be off budget.
- Operational Efficiency (of public expenditure):** A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results. An efficient activity maximises output for a given input, or minimises the unit cost of output. *Sources:* OECD-DAC (2002) and Schiavo-Campo and Tommasi (1999).
- Operational Expenditure:** This represents the on-going cost for running a product, system, or service. Recurrent budgets are supposed to fund operational expenditure, and development budgets are supposed to fund capital expenditure. However often development budgets contain significant operational expenditure, especially in the case of donor-funded projects.
- Outcome:** The likely or achieved effects of an intervention's outputs. Related terms: result, outputs, impacts, effect. *Source:* OECD-DAC (2002).
- Outputs:** The products, capital goods and services which result from a development intervention; may also include changes resulting from the intervention which are relevant to the achievement of outcomes. *Source:* OECD-DAC (2002).
- Ownership:** Ownership is the leadership, energy and responsibility which are put into an action. At the policy level it [may be] measured by four criteria: Locus of initiative for programme formulation and implementation (i.e. to what extent the initiative was on the recipient or the donor's side); level of intellectual conviction among key policy makers (i.e. to what extent there was a commitment in favour of reform among key players in the government); expression of political will by top leadership (i.e. which concrete actions were taken as the expression of this commitment); and efforts toward consensus-building among various constituencies (i.e. the extent of civil society participation) (Johnson and Wasty 1993)
- Programme Based Approach (PBA):** is a dynamic way of engaging in development cooperation based on the principle of coordinated donor support for a locally owned programme of development, which one or more donors have agreed to support. The approach includes four key elements: leadership by the developing country government or institution; a single programme and budget framework; donor coordination and harmonization of procedures; and efforts to increase the use of local procedures over time with regard to programme design and implementation, financial management, and monitoring and evaluation. *Source:* CIDA (2004).
- Programme:** A time bound intervention involving multiple activities that may cut across sectors, themes and/or geographic areas. *Source:* Danida Glossary.
- Project:** An individual development intervention designed to achieve specific objectives within specified resources and implementation schedules, often within the framework of a broader programme. *Source:* Danida Glossary.
- Recurrent budget:** The recurrent budget is intended to fund the operational expenditures of the government. The recurrent budget does not include investment/capital expenditures, and is typically made up of expenditures on salaries, goods and services. It does not contain expenditures classified as external funding, although budget support can support recurrent expenditures.
- Sector Budget Support:** Aid which uses the normal channel used for government's own-funded expenditures. Aid is disbursed to the government's finance ministry (or "treasury"), from where it goes, via regular government procedures, to the ministries, departments or agencies

(MDAs) responsible for budget execution; and where the dialogue and conditions associated with the aid is predominately focused on a single sector.” (SBSiIP Inception report: p7)

**Sector:** A coherent set of services and/or activities relating to a specific function which can be relevantly distinguished in terms of policies, institutions and finances, and which need to be looked at together to make a meaningful assessment. *Source:* Danida Glossary.

**Sector-Wide Approach (SWAp):** The defining characteristics of a SWAp are that all significant funding for the sector supports a single sector policy and expenditure programme, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all funds. This working definition deliberately focuses on the intended direction of change rather than just the current attainment. Most programmes, even quite well established ones, are in the midst of a process for moving overtime towards broadening support to all sources of funding, making the coverage of the sector more comprehensive, bringing ongoing projects into line with the SWAp, and developing common procedures and increased reliance on Government. A SWAp is not a distinct financing modality and should therefore not be confused with pooled funds. Further, the existence of a SWAp does not imply the need for a pooled fund. *Sources:* Foster (2000) and IDD and Associates (2006).

**Service Delivery Processes** these represent the activities carried out and systems used which convert inputs into the actual delivery of services. These are processes in close proximity to service providers and range from the management of service provider staff; the behaviour of service provider staff in delivering services; the management of funds by service providers; the supply and management of service delivery inputs; and the accountability for service delivery.

**Service Delivery** this is actual execution of work by one entity (the service provider) that benefits another entity (the user or beneficiary). In the context of the public sector, this represents the actual provision of healthcare, or primary education, for example. The delivery of public services may be contracted out to the private sector – e.g. road construction and maintenance.

**Service Provider** is an entity which delivers services to other entities. A service provider may be a public sector organisation – a school, a clinic; an employee - an extension worker, for example; or a private sector firm – e.g. a roads contractor.

**Technical Assistance / Co-operation:** Includes both (a) grants to nationals of aid-recipient countries receiving education or training at home or abroad, and (b) payments to consultants, advisers, ‘technical advisors’ and similar personnel as well as teachers and administrators serving in recipient countries, (including the cost of associated equipment). Assistance of this kind provided specifically to facilitate the implementation of a capital project is included indistinguishably among bilateral project and programme expenditures, and not separately identified as technical co-operation in statistics of aggregate flows. *Source:* OECD-DAC Glossary

**Traceability** refers to whether donor funds are separately attributable to a specific use. Funds are either traceable, or not: **Traceable**, whereby allocation, disbursement and spending of funds is via specified and separately identifiable budget lines. This bypasses the normal procedure by which revenue is pooled with all other revenue in a general fund and then allocated among various government spending programmes. *De facto*, a traceable aid instrument must involve a degree of earmarking, although this may be very broad - this is often referred to as *real earmarking*. **Non traceable**, whereby external funding is not identifiable by separate budget lines. If earmarked, the allocation of funds is justified against budget allocations to pre-agreed institutions or budget lines, and is pooled with other government revenues in the general fund. When non traceable SBS is accompanied by earmarking - this is often referred to as *notional earmarking*.

**Transactions costs:** The direct and indirect costs incurred by aid providers and recipients, which are specifically associated with the management of aid and the aid partnership generally. Costs may be in terms of funds, time, use of resources, efficiency losses, etc. Often, the term is used particularly about the transaction costs on the recipient side. *Source:* Danida Glossary.