



Good Governance, Aid Modalities and Poverty Reduction: Linkages to the Millennium Development Goals and Implications for Irish Aid

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Working Paper 6

Building Blocks or Stumbling Blocks? The Effectiveness of New Approaches to Aid Delivery at the Sector Level

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List of acronyms

ABIA	Advisory Board for Irish Aid
ADB	Asian Development Bank
AIDS	Acquired Immunodeficiency Syndrome
BADEA	Arab Bank for Economic Development in Africa
BEDC	Basic Education Development Committee (Tanzania)
BEST	Basic Education Statistics in Tanzania
CBO	Community-based Organisation
CCS	Sector Coordination Committee (Mozambique)
CDG	Capacity Development Grant
CF	Common Fund
CSO	Civil Society Organisation
Danida	Danish International Development Agency
DBS	Direct Budget Support
DFID	UK Department for International Development
EC	European Commission
EDF	European Development Fund
EMIS	Education Management Information System
ESDP	Education Sector Development Programme (Tanzania)
ESR	Education Sector Review (Tanzania)
ESRF	Economic and Social Research Foundation (Tanzania)
EU	European Union
G8	Group of 8
GBS	General Budget Support
GCF	General Common Fund (Mozambique)
GER	Gross Enrolment Ratio
GNP	Gross National Product
GPI	Gender Parity Index
HIPC	Heavily Indebted Poor Country
HIV	Human Immunodeficiency Virus
IFMIS	Integrated Financial Management Information System
JAST	Joint Assistance Strategy for Tanzania
JPF	Joint Partnership Fund (Uganda)
JR	Joint Review
LGA	Local Government Authority
KfW	German Development Bank
MCF	Medicines Common Fund (Mozambique)
MFPEP	Ministry of Finance, Planning and Economic Development (Uganda)
MKUKUTA	National Strategy for Growth and Reduction of Poverty (Tanzania)
MP	Member of Parliament
MTEF	Medium-term Expenditure Framework
NGO	Non-governmental Organisation
NWSC	National Water and Sewerage Corporation (Uganda)
ODI	Overseas Development Institute
PAP	Programme Aid Partner
PARPA	Strategy for the Reduction of Absolute Poverty (Mozambique)
PCF	Provincial Common Fund (Mozambique)
PDH	Provincial Directorate of Health (Mozambique)
PEAP	Poverty Eradication Action Plan (Uganda)
PEDP	Primary Education Development Programme (Tanzania)
PEFA	Public Expenditure and Financial Accountability
PEFR	Public Expenditure and Financial Review
PEMFAR	Public Expenditure Management and Financial Accountability Review

PEPFAR	US President's Emergency Plan for AIDS Relief
PER	Public Expenditure Review
PES	Economic and Social Plan (Mozambique)
PESS	Health Sector Strategic Plan (Mozambique)
PFM	Public Financial Management
PFP	Pooled Fund Partners
PIP	Programme Investment Plan
PlanRep	Planning and Reporting Database for local authorities (Tanzania)
PMO	Prime Minister's Office
PMO-RALG	PMO – Regional Administration and Local Government (Tanzania)
POA	Annual Operation Plan (Mozambique)
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSLE	Primary School Leaving Examination
PSI	Policy Support Instrument
SBS	Sector Budget Support
SDC	Swiss Agency for Development Cooperation
SEDP	Secondary Education Development Programme (Tanzania)
SPA	Strategic Partnership with Africa
STEP	Support to Education in Primary School (Tanzania)
SWAP	Sector-wide Approach to Programming
SWG	Sector Working Group
TA	Technical Assistance
TSC	Teachers Service Commission (Tanzania)
TSU	Technical Support Unit
UK	United Kingdom
UN	United Nations
UNICEF	UN Children's Fund
UPE	Universal Primary Education
URT	United Republic of Tanzania
US	United States
WG	Working Group

Executive summary

Introduction

In the continuing search for ways to provide more effective aid, donors have committed themselves to making greater use of government systems and harmonising the way aid is delivered. Donors who agreed to the Paris Declaration on Aid Effectiveness in 2005 are free to choose their own modality, as long as they progressively shift towards those that use government systems in full.

Programme-based approaches have been developed with these principles in mind. While such approaches accommodate all modalities, direct budget support and debt relief provided to recipient governments are those best suited to the use of government systems. Yet, donors are hesitating to move decisively towards these modalities, even in contexts where programme-based approaches have been well established by the adoption of sector-wide approaches (SWAPs) and national poverty reduction strategies (PRs). Instead, they continue to use either project arrangements or intermediate modalities, such as common, pooled or basket funds. The justification usually offered is that recipient country systems are too weak for a shift to sector or general budget support (GBS). Common funds (CFs) are presented as 'transitional' aid modalities by means of which donors can help strengthen country policies and systems while ensuring that aid funds are well spent.

This working paper analyses the effectiveness of different aid modalities and the coordination mechanisms associated with programme-based approaches at the sector level. It draws from three case studies, covering the education sector in Tanzania, the water and sanitation sector in Uganda and the health sector in Mozambique, and also from the broader literature. The research was led by the Overseas Development Institute (ODI) in collaboration with the Economic and Social Research Foundation (ESRF) of Tanzania, for the Advisory Board for Irish Aid (ABIA).

Changes in aid delivery at the sector level

The paradigm shift

The interest in aid modalities that use country systems, and sit more comfortably with national and sector plans, grew in response to extensive reports of the perceived ineffectiveness of the typical forms of project support. Uncoordinated projects delivered in parallel with government systems duplicate activities, attract valuable skilled staff from the public sector, and create a mismatch between needs and resources by perpetuating geographical or thematic inequities. Where donor commitments have a short time horizon, they can also create contingent liabilities for governments, making it difficult to sustain expenditure to particular areas when donors withdraw their funding. By bypassing weak government systems, project aid undermines the ability of government organisations to perform their core functions, setting in motion continuing cycles of weak governance and aid ineffectiveness.

In contrast, direct budget support delivers financial aid directly to the government. It is usually associated with mechanisms to help donors coordinate among themselves better and with the government, including monitoring arrangements and technical assistance (TA). These inputs are meant to give recipient governments greater discretion to allocate resources towards their policy priorities, while providing opportunities for dialogue on overall systems and policies. New approaches to conditionality, which link policy dialogue to domestically owned policies and strategies, are typically part of the package.

Proponents of direct budget support argue that shifting the focus of aid to country systems and policy processes gives domestic actors a greater incentive to engage with them. This empowers

the authorities to improve their policies and budgets and strengthen service delivery systems. In addition, it reduces the tendency for external demands to skew accountability away from domestic constituents towards donors. By making use of government budgets and focusing on government priorities, programme modalities place the spotlight on domestic accountability systems. In these respects, budget support has substantial advantages over conventional project aid.

Recent evaluations of GBS have found evidence of some of these benefits in practice. However, they also note that the continued use of project modalities undermines the potential benefits that can be derived from budget support. Put another way, there has not been a significant enough shift towards budget support for the shift in incentives and other benefits to be realised.

Changes in aid modalities and the nature of sector funding

Evidence on aid flows is notoriously unreliable. However, available data point to discrepancies between the public commitments made by donors and how aid is actually delivered. Despite apparent enthusiasm for programme modalities, the proportion of aid going to recipient countries through budget support remains low. A survey undertaken by the Strategic Partnership with Africa (SPA) indicates that GBS is in aggregate only 20-25% of total aid for a sample of committed GBS donors in Africa. Other data suggest that the share of non-traditional aid modalities in the total aid for low-income countries is small. The biggest increase seems to come from sector programme aid, which includes projects, CFs and sector budget support aligned with sector programmes.

Mapping of aid flows at the sector level in individual countries also suggests that the bulk of aid spending is being channelled through donor-run projects to central government agencies, local government or NGOs. The three sectors studied here were chosen because of the countries' use of new modalities in service delivery sectors. In Tanzania and Mozambique, we observed an increase in the importance of government budget funding, fuelled in part by GBS. But more striking was the scale of the use of CFs. In the Mozambique health sector, CFs made up approximately half of sector aid and one-third of sector funding. In Tanzania, a CF dominated aid to primary education. A CF has also been established in the Ugandan urban water sector. Donors are using these CFs to support very different sets of activities. The rural water sub-sector in Uganda was the only case where a decisive shift from projects to notionally earmarked and sector budget support was observed early on, alongside debt relief and GBS.

What effects have these changes had on the nature of sector funding? In the three sectors, aid had helped fuel very large increases in funding for service delivery; in all three countries, budget support had contributed to this, but so had increases in project aid. A greater share of resources is appearing on government budgets. However, this is not always discretionary, owing to the prevalence of earmarked project aid and the kind of targeting demanded by CFs. Only in the Ugandan rural water sub-sector did government provision of services move from being dominated by project aid funding to being fully funded via domestic budgetary and delivery systems. Meanwhile, the use of projects in the urban sub-sector undermined discretion. It is unclear whether the predictability of aid is increasing. In addition, fragmentation of government budgets is still a problem, owing to the continued prevalence of project funding and the use of parallel systems by CFs.

Coordination mechanisms and changes in donor behaviour

Clear progress has been made on the establishment of donor coordination mechanisms with the aim of improving policy and systems alignment with recipient governments, and harmonising the delivery of aid across donors. In all three case studies, donor-to-donor coordination groups existed, and so did forums for government–donor exchanges that are usually open to non-governmental actors. These mechanisms were usually established in the context of a SWAP, although joint donor–government committees also exist for the management of CFs at the level of the sub-sector. In Mozambique, Uganda and, since 2006, Tanzania, joint annual reviews of the sector have

become important focal points for reviewing overall sector performance and agreeing follow-up action. These are usually linked to national dialogue over GBS and dialogue on the national budget. Experiences are mixed in terms of capturing local government issues in the dialogue.

What effects have these mechanisms had on donor behaviour? Despite original intentions of a strategic policy focus, the case studies point to the reality that donor coordination mechanisms in any sector gravitate towards the dominant aid modality, and in particular CFs. This means that dialogue remains stuck in operational issues around CFs in particular, but also around project aid. Despite this, through the establishment of joint sector reviews, Mozambique and Uganda have made real progress towards sector-wide monitoring and review. Conversely, in Tanzania, until 2006 monitoring was focused on sub-sector performance disaggregated across funding modalities and institutions. Central-level coordination mechanisms around the PRS, GBS and the budget process also exert influence at the sector level, reinforcing sector-level dialogue, especially in Uganda and Mozambique, although sector-level donors can undermine the budget process.

In Uganda and Mozambique, stakeholders interviews stated that real partnerships had emerged between the government and donors, although high transaction costs and a loss of policy focus linked to the focus on funding modalities had undermined the positive effects observed, especially in Mozambique. In the Tanzanian education sector, dialogue has largely been of poor quality and often confrontational. In all three countries, the behaviour of donors in the dialogue does not always encourage government leadership and a focus on policies and systems, although the new aid paradigm demands this. A strong government counterpart leading the SWAP process is a key factor behind the success and quality of dialogue. In Uganda, despite such strong government leadership, it was felt that donors tried to retain the upper hand in negotiations.

Effects on sector policies, systems and institutions

This section examines the effects of the observed changes in aid delivery on policies and reform processes, budgeting and resource allocation, institutions and service delivery, and domestic accountability.

Policies and reform processes

There is evidence that efforts to build stronger policy frameworks and reform processes have paid off in Mozambique and Uganda, but were not fruitful early on in Tanzania. The level of country ownership at the outset is an important factor, but it is evident that multi-stakeholder coordination mechanisms and sector review processes can prove important for building and broadening ownership over time. The involvement of stakeholders from within and outside the public sector in policy-making and review increases this likelihood. The absence of domestic drivers meant that there was no domestically owned and comprehensive education strategy in Tanzania. This meant that no review process emerged and the monitoring of the implementation of plans and programmes has been fragmented, with much focus being put on primary education.

This leads us on to the influence of aid modalities. The use of earmarked funding, below the sector, usually encourages a silo mentality. This silo mentality detracts attention away from monitoring the overall performance of the sector. In particular, CFs draw a particular focus towards the area supported and the funding modality itself. The exception has been in rural water and sanitation in Uganda, where donor funding is predominantly via general and sector budget support, and dialogue has been able to focus on what was intended: overall performance against policy, and the performance of government systems as opposed to the details of funding modalities.

There is a danger that donors will dominate the dialogue around the policy process as well as skewing the agenda towards their modalities. More important, however, is the capacity for donor representatives to engage in and add value to policy debate, and the strength of the partner

government to reciprocate. If the fora for dialogue in which donors are engaged are responsible for bad policy choices, then donors are equally to blame for undermining public sector outcomes. Sector coordination mechanisms have, however, had a net positive effect on policy processes in Mozambique and Uganda. In addition, when sector issues are covered in the PRS and GBS dialogue, this can complement and enhance sector-level policy processes, raising their profile. Without sector-level policy processes, there is a danger that central GBS dialogue can be marginalised from policy debates. However, dialogue structures are vulnerable to being overridden by political decisions, which remain outside SWAP processes.

Budgeting and resource allocation

Even when there is a clear policy or planning framework to guide resource allocation, the link to resource allocation may be weak. Sector medium-term expenditure frameworks (MTEFs) are considered in the literature on programme-based approaches to be central to strengthening this link, yet they are not always employed. When they have been developed, they are not well linked to the annual budget. Annual budgets are often fragmented, and this is exacerbated by the continued fragmented nature of project aid and the fact that CFs use parallel systems. Furthermore, CFs and projects can limit the flexibility of resource allocation, the efficiency and effectiveness of overall sector resource allocation, and its alignment to policies and plans.

The increase in domestic budgetary resources that has been observed in all three countries has increased the incentives that spending agencies have to engage in the budget process, and this helps legitimise those processes. However, the effectiveness of this process depends on the strength of the challenge function in the budget process from ministries of finance, cabinets and parliaments, which is often weak. In addition, as long as donors continue to fund projects, sectors will continue to have an incentive to bypass ministries of finance to secure funds directly from donors and actually resist integrating such funds into the budget.

Institutions and systems for service delivery

Progress in the strengthening of the institutions and systems for service delivery has been patchy at best. Many of the weaknesses that prevailed at the beginning of reform processes still remain.

Central institutional capacity to manage reform processes and monitor implementation of programmes is still weak in Mozambique and Tanzania, and reliant on external support. Why? Firstly, core human capacity issues have not been addressed. Projects continue to draw limited capacity away from core mainstream functions. When dialogue processes become dominated by operational issues around projects and CFs, this has further detrimental effects on institutional capacity, which is drawn away from its core functions. Leadership of central institutions and political support to reform is key to the strength of those institutions as well as the success of reform processes, but it is fragile where it exists, and not always present. Such leadership and support for the Ministry of Water, Lands and Environment in Uganda was instrumental in its strengthening of the ability of the ministry to undertake its core roles.

There is a similarly mixed picture in terms of the capacity of service delivery systems and institutions at the local level. While there has been some success in building capacity in Tanzanian primary schools, local government capacity is weak. There is a chronic shortage of trained health personnel in provinces and districts in Mozambique. Yet, in Uganda there has been some success in building institutional capacity to deliver rural water services in local governments (less so for urban services).

It is very difficult to talk about service delivery systems without talking about funding modalities. Where CFs have been established, they have often replaced projects as the dominant system for delivering operational inputs to service providers and capital investments. Because domestic sources of financing for these inputs are negligible in comparison with CFs, they *de facto* become

the system. Domestic systems remain weak and insignificant in comparison. As a result, the latter get little attention. Any strengthening which takes place is of donor financing systems, with little real strengthening of government systems beyond the management of human resources (which itself is not tackled effectively), where domestic budgets remained dominated by salary costs – for example in Mozambique and Tanzania. It can be argued that there has been little success in addressing human resource issues in either case. A key justification for the use of CFs is that domestic systems are weak, but it is evident that the creation of a CF, and the systems around it, will confront these very same challenges and capacity constraints. The rural water case in Uganda was different because notionally earmarked budget support supported domestic systems from the outset, and this allowed domestic capacity and systems to be built from a very weak base.

Off-budget funding modalities, including support to non-governmental organisations (NGOs), and cross-sectoral programmes also have the potential to weaken sector systems and capacity, especially at the local level, by distracting already overburdened sector capacity with discrete different demands. Finally, it is important to highlight factors outside the sector, such as public service conditions, which impact on the ability of institutions to attract, build and retain capacity.

Domestic accountability

Domestic accountability relationships underpin the functioning of the public sector, yet they are particularly weak in aid-dependent countries. The typical aid environment undermines accountability further. External demands for reporting skew accountability outwards towards donors and away from domestic constituents, and these effects are stronger when donors directly fund sectors. The direct link between donors and sector ministries establishes extra-government lines of funding and accountability that are sometimes stronger than the links within government. Have changes in aid delivery at the sector level actually served to strengthen domestic accountability processes and reduce the skew towards domestic actors?

Within the sectors studied in Uganda and Mozambique it appears that, to varying degrees, domestic accountability against policy has improved. Although initially formed through external initiatives, joint review processes and the associated sector-wide monitoring processes have emerged as important domestic consultative forums. This is undoubtedly positive for domestic accountability. However, the government is not always responsive to dialogue deliberations, and donors often dominate, limiting the space for domestic constituents' voices to be heard.

The increased amount of sector funding making use of domestic systems in all three countries has increased the scope of formal budgeting and accountability systems to cover more sector funding. This subjects donor funding to formal government accountability systems, which was not the case before, and shifts the spotlight to these systems. This has important incentive effects. Sector institutions, as well as cabinets and parliaments, now have a greater incentive to engage in domestic budgetary processes, and this reinforces domestic incentives. Yet, aid and donor behaviour still shifts accountability away from domestic constituents. Donors still undermine domestic accountability systems by setting up parallel procedures to address their own fiduciary concerns through projects and CFs. CFs in particular tend to concentrate attention and accountability demands on the funding modality and not on delivery against policy objectives. The effect is worse than for projects because multiple donors are concentrated on similar issues. Yet, overall, the shifts in aid instruments observed and increasing attention paid to formal domestic processes are beginning to bear fruit and redress this imbalance.

At the local level, the accountability picture is mixed. In Tanzania and Uganda, there have been clear improvements in accountability at the levels of service provision. However, owing to the close earmarking of funds, decision-making processes at the local government level are largely bypassed in the health and education sectors in Mozambique and Tanzania. This undermines local accountability. In Uganda, the fact that district-level service delivery is funded through the government grant system and not through donor-specific grants has helped improve local political

accountability, and local politicians have absorbed the policies of the centre. Put in layman's terms, the public view is that water points are now provided by 'the district' and not by individual donors such as UNICEF or Danida.

The interaction of aid instruments and corruption was explicitly discussed with stakeholders only in the Uganda case study, but a key observation is that all aid modalities are subject to corruption, and the defining factor is the general governance environment and whether this environment condones or confronts corruption. More broadly, the strength of domestic accountability mechanisms and the institutions involved ultimately depends on whether the prevailing political environment allows them to function effectively. The Uganda case shows that strong sector-level policy processes, institutions and delivery systems can help buttress a sector against negative changes in the broader governance environment.

Key findings, implications and conclusions

An indecisive shift in aid delivery towards the new aid paradigm has meant that the effects of such changes are mixed. We conclude by drawing together the key findings and the implications of these findings for improving aid effectiveness.

The vicious circle of ineffectiveness is not broken, yet

The deployment of uncoordinated project aid in many sectors has contributed and continues to contribute towards a vicious circle, compounding poor sector governance. 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.

In none of the sectors studied has there been a decisive and comprehensive break from the past. There are six main reasons for this:

- The mix of aid modalities has not changed decisively towards budget support. Even in countries with the most decisive shifts in aid modalities, standalone projects remain the dominant aid modality. Aid is being better aligned with sector policies and programmes but, if our case studies are representative, this appears to have been achieved through reforms to conventional projects and an increase in CFs.
- Aid continues to be delivered through traditional practices. These continue to have negative effects on sector policies, systems and institutions. This is the case in project aid and in CFs - to the extent that they retain many of the features of the traditional project approach.
- CFs can serve to undermine sector service delivery systems more than traditional projects and distract coordination mechanisms away from core policies and systems, owing to their scale and the involvement of multiple donors. Once created, they overshadow domestic delivery systems and are difficult to take apart. Inputs provided under CFs interact with government systems in very different ways from budget support modalities. Attention is diverted away from vital strategic sector policy issues and mainstream domestic systems. As sector budget support uses government systems, the opposite is the case – the dialogue will be focused on government systems and encourage their strengthening. The establishment of CFs for priority sub-sectors can be particularly damaging. A 'silo mentality' can emerge and undermine the benefits from an overall increase in sector resources by reducing governments' discretionary capacity to allocate resources to sector priorities overall. CFs can easily undermine the working of domestic accountability systems, drawing attention to the accountability demands of the funding modality itself and undermining the needed focus on the delivery of policy objectives overall. For all these reasons, the vision of CFs as 'transition mechanisms' towards more effective aid to service delivery appears destined to fail. In certain circumstances, they may do more harm than traditional projects.

- Dialogue on government policies and systems has not been done well. Where structures have been established in the context of SWAPs, the resulting dialogue is often poorly focused and bogged down in operational issues relating to aid funding mechanisms. This means that the modality dominates the agenda before the concepts for domestic delivery systems emerge. The quality of dialogue relating to service delivery systems and institutions to implement these policies subsequently suffers most. An underlying problem is that the skills sets that donors used in the past were not necessarily suited to policy dialogue, or providing support in the development of domestic delivery systems. Nor were sector line ministries well suited to policy dialogue and systems development. Instead, they implemented donor projects. High turnover of donor and, to a lesser degree, government staff adversely affects the capacity of dialogue and the partnership that emerges.
- Donor and recipient incentives are not consistent with delivering the new paradigm effectively. Within recipient governments, project modalities with parallel funding and management mechanisms generate multiple material and non-material benefits for the ministers and civil servants in whose sectors they are located, including salary top-ups, allowances, vehicles, training and travel opportunities and prestige. Ministers, parliamentarians and local authorities are interested in the political credit they obtain for attracting a standalone project to a specific sector or area. The resource flows from a freestanding project are visible, reliable and relatively simple to control. The government officials in the sector or local government prefer to avoid the unpredictability, rigidities and reporting requirements associated with funding through the national budget and the reduced control this implies. In addition, dealing with a single donor is simpler than dealing with several through a pooled funding or budget support arrangement, where donors tend to ‘gang up’ on the ministry in way that reduces its discretion. Donor agencies, on the other hand, benefit from the visibility associated with separately managed and ‘branded’ projects. They assist in defending the aid budget to their own parliamentary committees and audit authorities, and in defending the departmental budget within the agencies. In some agencies, it is still the case that staff promotion prospects are enhanced when a particular large project can be presented as the work of an individual or small team. In contrast, where more programmatic and multi-donor ventures are introduced, visibility is lost. The attribution of development results to a particular donor’s support becomes problematic. This concern is especially pronounced when donor agencies are heavily concentrated in a particular field or when a donor is small relative to others in a field. Donor risk aversion also favours freestanding projects. A standard assumption, which is not always borne out in practice, is that projects can be tightly managed, whereas using government systems to manage projects or programme calls for a ‘leap of faith’.
- Factors beyond the aid environment, both internal and external to the sector, have served to dampen the effects of the changes in aid and donor behaviour that have been observed. The aid environment has little effect on the underlying environment of political governance in a country. The most important factors internal to the sector are political and technical leadership. Yet, the political environment and quality sector leadership are also very difficult to influence through donor behaviour and aid modalities.

Creating a virtuous circle of improving aid effectiveness

The principles of country ownership, alignment with country policies and systems and improved coordination embodied in the new aid paradigm are largely well conceived, and have the potential to deliver a break from the vicious circle of aid ineffectiveness. However, to date, traditional behaviour in aid delivery remains prevalent. So what should be done?

- **A balance of sector-based aid and general budget support:** Sector budget support and aid earmarked to sectors can have a positive influence in supporting sector-level policy and systems development, drawing attention to areas not covered by central processes. This can help improve both the effectiveness of aid earmarked to sector and general budgetary resources. GBS positively influences central processes such as budgeting and PFM, and it is important that their importance increases over time. Therefore, the question regards an appropriate balance between GBS and sector-focused aid, fostering the strengthening of

both central and sector processes. Over time the transition should be towards more budget support.

- **Delivering better aid and better dialogue at the sector level:** It is crucial to move decisively away from traditional practices in delivering aid at the sector level, and to deliver aid in an improved manner. This involves working on two main dimensions:
 - Ensure that alignment of aid, in whichever way it is delivered, moves beyond policy alignment towards the use of government systems for delivering inputs and services.
 - Establish and/or improve the quality of sector policy dialogue and policy processes, ensuring the scope moves beyond broad policies and strategies and focuses on strengthening budgeting, domestic systems and institutions too. Donors must improve their capacity to dialogue on domestic systems rather than projects; improve their institutional memory; be disciplined over the dialogue agenda; and be prepared to lose the type of visibility that comes with separate funding modalities.

- **Avoid using projects and common funds in support of service delivery wherever possible** Given the perverse incentives intrinsic to project aid and CFs, the paradigm appears most likely to succeed if there is a decisive shift at the sector level to sector or notionally earmarked budget support in support of service delivery as, by definition, these use government systems, in particular where aid is supporting service delivery. This means, wherever possible, avoiding modalities that drive the development of parallel service delivery systems such as CFs. Project aid and CFs still have a role to play, however, but are more suited to be used for the provision of TA, capacity development, and support to large-scale infrastructure.

- **Address the incentives within donor agencies and recipients** It is clear that better aid and better dialogue can only be achieved by directly confronting the incentives within aid agencies and recipient governments that perpetuate traditional aid delivery:
 - On the government side, a shift to GBS and increasing tax revenues can help improve the legitimacy of the budget and other domestic processes. This will increase the interest with which sector institutions engage in such processes, and reduce the attractiveness of project aid. In addition, the thorny issue of civil service reform, including pay, is key to ensuring the attractiveness of the mainstream civil service.
 - On the donor side, it needs to become in staff and country office interests to shift aid modalities towards general, sector and earmarked budget support and to engage effectively in policy and systems dialogue at the sector level. Visibility and donor-specific results should no longer be rewarded, which means head offices and parliaments should no longer be encouraging this. This requires a change in the culture within organisations and those who hold them to account.

The governance environment and the state of policies and systems within a sector and outside the sector should be used as arguments regarding the level of aid, and whether or not to give financial aid to a sector. However, they should not be used as an argument over the choice of modalities. A litmus test for increasing aid to a sector could be the ability of the sector, with the support of donors, to develop an acceptable policy and systems framework.

Conclusion

Changes in aid and donor behaviour have delivered some improvements in domestic policies and systems, however, this has failed to deliver a decisive shift from past ineffectiveness, and the vicious circle of aid ineffectiveness is likely to continue. In this paper, we have asserted that the aid paradigm has the potential to deliver this decisive break. A key finding is that CFs can act as stumbling blocks rather than building blocks in strengthening service delivery. A more decisive shift

in aid modalities towards budget support, plus a change in donor behaviour, is required to break out of this circle.

However, a key constraint is the incentives within recipient and donor agencies which perpetuate the circle of aid ineffectiveness. Recipient incentives can be addressed by a shift in aid modalities towards Direct Budget Support. This increases the importance of changing the incentive structures within donor agencies to deliver against the new aid paradigm.

Ultimately, the likelihood of reform at the sector level relies on political support and technical leadership within government. This is very difficult for the donor community to influence.

1. Introduction

1.1 Objectives

Over the past 15 years, there have been well documented efforts to improve aid effectiveness, through new approaches to delivering aid that: (i) are better aligned with domestic policies, (ii) make more use of countries' systems, and (iii) are harmonised across aid providers. This includes the provision of direct budget support and of aid in the context of programme based-approaches. The literature on aid effectiveness suggests that associated changes in the mix of aid modalities used by donor agencies and efforts to improve coordination¹ could have a positive impact on the legitimacy and effectiveness of domestic policy and budgetary and accountability processes, particularly in highly aid-dependent countries. Recent evaluations of general budget support (GBS) (IDD and Associates, 2006; Lawson et al., 2006; Killick and Lawson, 2007) have shown the potential for budget support to reinforce domestic systems and processes, especially at the centre.

The effects of changes in delivering aid at a sectoral level, in the context of programme-based approaches such as sector-wide approaches (SWAPs), have not been examined in such depth as have the effects of GBS, yet this too is likely to have a significant effect on the public sector. The key aim of this paper is to analyse the extent and nature of use of new aid modalities and coordination mechanisms associated with programme-based approaches at the sectoral level, and to assess the effects of these changes. In doing so, it aims to understand whether different aid modalities and coordination mechanisms can help foster improved policies and budgeting and strengthened institutions and service delivery systems at the sector level, and overcome some of the negative implications of traditional aid delivery. In developing this understanding, the paper also aims to provide some practical suggestions regarding how to move aid and donor behaviour towards reinforcing domestic policies, institutions and systems.

A review of the overall literature on trends in aid modalities, coordination mechanisms and evaluations of sector support and GBS is combined with evidence from country case studies. The country studies focus on one sector each: education in Tanzania, water and sanitation in Uganda and health in Mozambique, with an additional focus on the sub-national level in Uganda. The three cases (countries/sectors) were selected for their significant levels of aid dependency, use of new aid modalities and advanced donor coordination mechanisms. They are also Irish Aid programme countries. In all three, programme-based approaches have been employed and donors have changed their use of aid modalities. The case studies involved a series of interviews with stakeholders in-country and a review of sector literature. Lessons were also drawn from recent GBS evaluations in each country.

1.2 Analytical framework and report structure

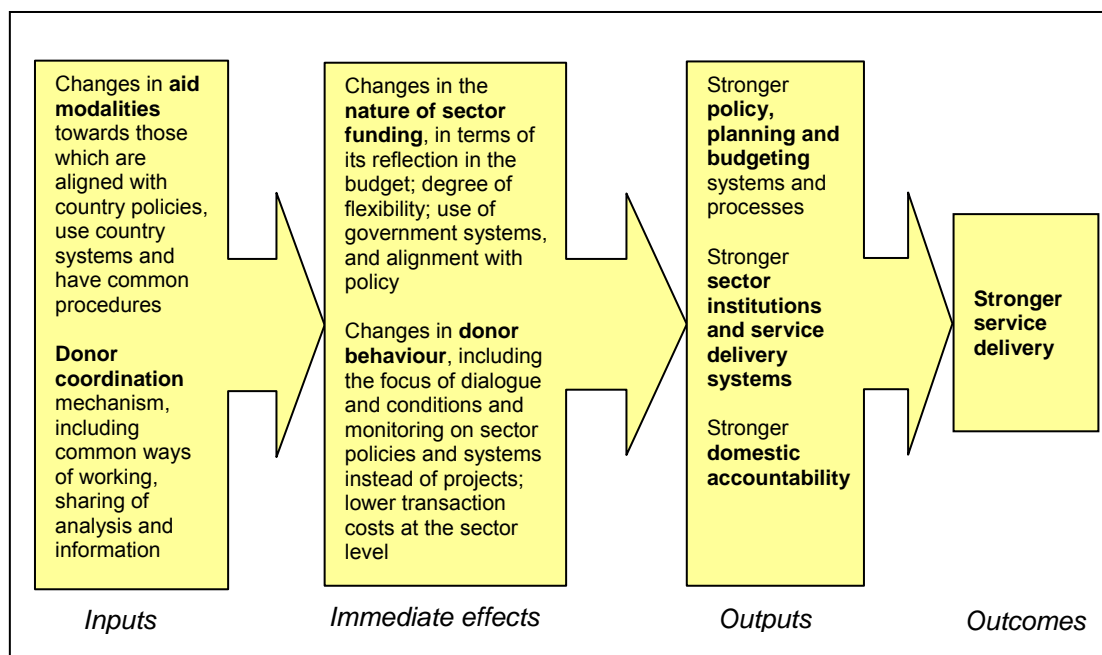
The analytical framework (see Figure 1) focuses on the effects of aid instruments and coordination mechanisms at the sector level. It is loosely based on the GBS evaluation frameworks (IDD and Associates, 2006; Lawson and Booth, 2004), but with a narrower focus on the sector level.

The framework first involves breaking down development assistance into inputs, focusing on the mix of financial aid modalities and use of coordination mechanisms, and examining the immediate effects of these on: (i) the nature of sector funding in terms of its reflection in the budget, use of government systems and alignment with policy; and (ii) donor behaviour, particularly focusing on any changes in the way donors interact with government institutions, shifting the focus of dialogue, conditions and monitoring towards policies and systems and reducing transactions costs.

¹ Often referred to as harmonisation and alignment.

Then, the framework involves an examination of the effects of the changes of sector funding and donor behaviour on the strength of: (i) policy, planning and budgeting systems and processes, (ii) sector institutions and service delivery systems, and (iii) domestic accountability.

Figure 1: Analytical framework



This paper follows the structure of the analytical framework. Section 2 examines the rationale for the changes in the mix of aid modalities and coordination mechanisms, and examines whether this has taken place internationally and in the three case studies.² Chapter 3 looks at effects of these changes on government policies, budgets, institutions and systems. Chapter 4 concludes, examining the implications of the findings for the choice of aid modalities and coordination mechanisms, with a view to understanding whether and how these can reinforce domestic systems and sustainable results.

The three case studies are set out in the annexes to this report.

² While the assessment of these effects has not been conducted as rigorously as in a formal evaluation, given the resources available, this paper does examine and discuss the likely direction of the effects of the mix of aid modalities and coordination mechanisms.

2. Changes in aid delivery

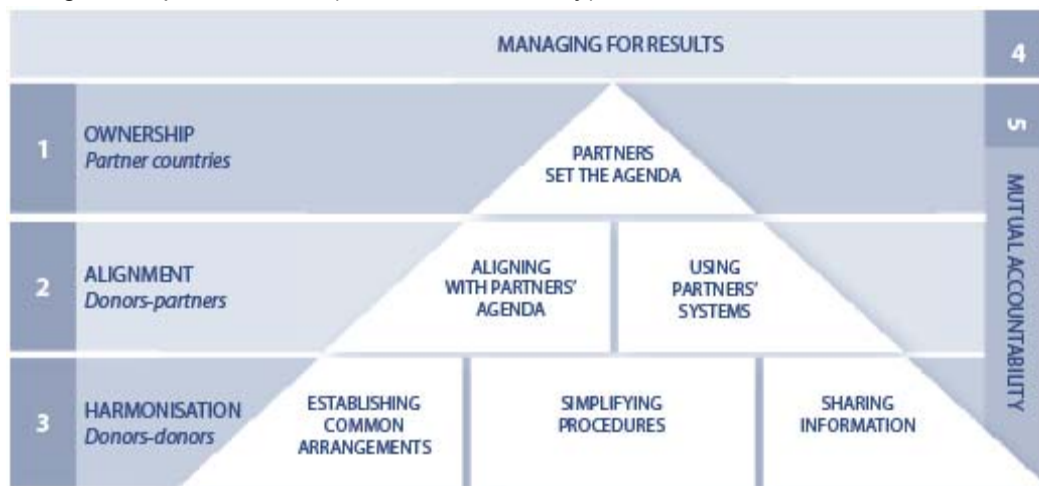
2.1 The paradigm shift

The aid paradigm has been continuously evolving since the mid-1990s. Donors, together with recipient countries, have promised to meet a series of targets related to donor harmonisation, alignment with government policies and systems and mutual accountability, best captured in the 2005 Paris Declaration on Aid Effectiveness (see Box 1). This paradigm is now evolving in the context of commitments to scaling up aid by G8 countries, prompted by the UK Commission for Africa (2005) and the United Nations (UN) Millennium Project (2005).

Box 1: Foundations of the Paris Declaration on Aid Effectiveness

The Paris Declaration rests on five common-sense tenets, that aid is more likely to promote development when:

- Developing countries exercise leadership over their development policies and plans (*ownership*);
- Donors base their support on countries' development strategies and systems (*harmonisation*);
- Developing countries and donors orient their activities to achieve the desired results (*managing for results*); and
- Donors and developing countries are accountable to each other for progress in managing aid better and in achieving development results (*mutual accountability*).



Source: OECD-DAC (2007).

Long before these commitments were made, two related themes had emerged in the quest to improve aid effectiveness. The first centres on the strengthening of country ownership, partnership and accountability; the second deals with the need to improve the efficiency of the way donors interact with recipient governments and deliver financial aid.

This respect for recipient ownership emerged because past failures of aid were being blamed on a lack of domestic commitment to the programmes and policies aid was trying to deliver. In addition, external demands were skewing accountability away from domestic constituents and towards donors. This gave rise to two overlapping approaches to aid relationships. The first is based on the concept of 'selectivity', whereby donors focus their energies on identifying and supporting countries that already show signs of strong commitment to good institutions and policies. The other is the so-called 'partnership' approach, based on dialogue and commitment to shared objectives between donors and governments. In both, donors support recipient governments in the delivery of their policies, **aligning** their aid towards the recipients' policy goals and use of country systems, while simultaneously trying to expand policy space by opening policy doors to other stakeholders, including civil society.

Box 1: Arguments against conventional projects

The literature on the weaknesses of project support is extensive (see Dollar and Pritchett, 1998; Lawson and Booth, 2004). Resources provided through conventional project aid are fragmented, incur high transaction costs, use different and often conflicting systems, are often not well aligned to domestic policies and are narrow in focus. Individual, erratic, uncoordinated projects delivered in parallel with government systems duplicate activities, attract precious skilled staff from the public sector and create a mismatch between needs and resources by perpetuating geographical or thematic inequities. Projects, micromanaged by donors with their narrow focus, do not strengthen government systems, instead eating up government time and resources in dealing with each individually. Vertical funding arrangements suffer from a narrow focus, because users tend to deal with specific issues rather than taking the opportunity to deliver all relevant aspects of delivery systems. Where donor commitments are of short time horizons, such aid can create **contingent** liabilities for governments (Foster, 2005).

Meanwhile, the principle of **fungibility** means that, provided that projects fund activities the government was likely to carry out anyway, governments can use the resources freed up for other purposes. This limits the value of earmarking resources to specific activities.

The inefficiency of aid in general, including the fragmentation and projectisation of aid and the high transaction costs incurred by the recipient government in the management of aid (see Box 1) has a knock-on effect on the strength of recipient government institutions, policies, systems and accountability. This has led to initiatives to improve donor coordination and to **harmonise** the delivery of aid across donors.

Intrinsic to this agenda of harmonisation and alignment has been the promotion of a shift in **financial aid modalities** towards those more easily aligned with recipient countries' policies and systems, whether at national or sector level. There is an emphasis on improving **coordination** and increased use of common funding arrangements, which is also motivated by the desire to improve the efficiency of aid in terms of delivering results. The harmonisation and alignment agenda cuts across the shift in aid modalities and emphasis on coordination. Another element relates to conditionality. The perceived failure of conditionality focused on externally driven structural adjustment policies (used mainly by multilateral agencies) has resulted in a shift in approach towards the application of conditions linked to domestically owned policies and strategies. This related topic is the subject of Working Paper 8 in the Good Governance and Aid Modalities series, but is also intrinsic to this analysis.

Two packages of responses to these agendas at the sector and national levels have emerged, now referred to as programme-based approaches. Firstly, at the sector level, came SWAPs (see Box 2 below) in the 1990s, with country-owned sector policies and strategies guiding the aid relationship. Secondly, at the national level, was the introduction from 2000 of poverty reduction strategy papers (PRSPs), linked initially to the provision of HIPC (heavily indebted poor country) debt relief but later as a framework for guiding the provision of GBS and aid overall.

Uganda, Tanzania and Mozambique and their three sector case studies all represent examples of efforts being made to deliver against the new aid paradigm. All three countries have PRSPs, and all three sectors have attempted to establish SWAPs along the lines of the definition provided. This section identifies whether the paradigm shift rhetoric has resulted in actual changes in the nature of funding and donor behaviour globally, in the three countries, and sectorally.

Box 2: Definition of a SWAP

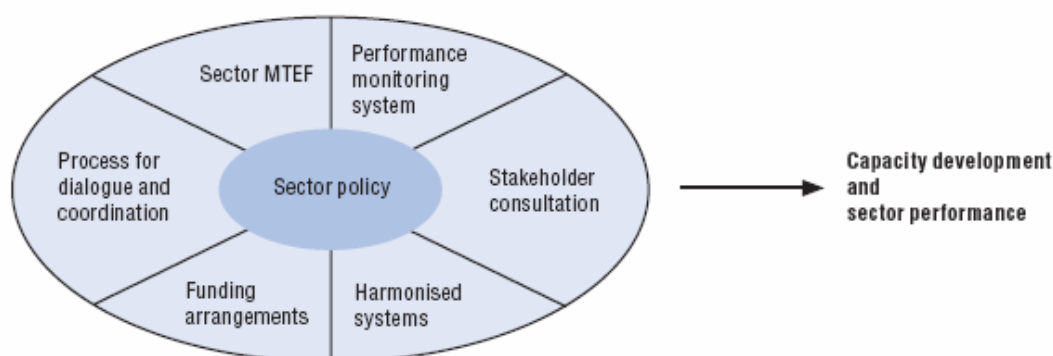
Programme-based approaches

Programme-based approaches are a way of engaging in development cooperation based on the principles of coordinated 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:

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

Sector-wide approach

A sector-wide approach is a programme-based approach operating at the level of an entire sector.



'A SWAP is a process in which funding for the sector – whether internal or from donors – supports a single policy and expenditure programme, under government leadership, and adopting common approaches across the sector. It is generally accompanied by efforts to strengthen government procedures for disbursement and accountability. A SWAP should ideally involve broad stakeholder consultation in the design of a coherent sector programme at micro, meso and macro levels, and strong coordination among donors and between donors and government' (ODI, 2001).

Source: OECD-DAC (2006); ODI (2001).

2.2 Mix of aid modalities and the nature of sector funding

2.2.1 Aid modalities in the context of programme-based approaches

Traditionally, aid delivered to recipient countries could be classified into two main types of aid modality: project aid given in support of specific activities accounted for separately, and programme aid provided to national treasuries. To deliver on the new aid agenda of programme-based approaches, at an aggregate level, donors have promoted a move away from project support towards the use of programme aid modalities. This particularly means direct budget support, which uses country systems and sits more comfortably with sector plans and national poverty reduction strategies (PRSs). Where recipient country systems are perceived to be too weak for a complete shift to programme aid, donors have also promoted a change in the way project aid is delivered. This has involved increasing the degree to which it is aligned with government policies, uses government systems and is delivered using common funding modalities.

Project support itself can be provided in three main, generic ways (Foster and Leavy, 2001):

- To the recipient government, using parallel systems where the donor takes control of the design, appraisal and quantity of inputs of the project and uses its own disbursement and accountability procedures. Such projects exist on their own outside sector budgets.
- Using non-governmental or private providers.
- To the recipient government, using government systems in support of government policies and programmes but with specific earmarking of expenditures to a discrete set of activities for which a set of inputs, outputs and objectives can be defined and accounted for discretely.

Traditionally, projects were provided for in either of the first two ways, usually involving the funding of discrete packages of interventions implemented through government or non-governmental organisations (NGOs), often location-specific and using parallel donor systems. The third way is associated with programme-based approaches, whereby efforts are made to align aid with government policies and programmes and to use government systems.

As a response to the harmonisation agenda, donors are increasingly coming together to fund sectors jointly via **common funds** (CFs), also often called **pooled** or **basket funds**. As a form of project aid, CF resources are kept separate from other (government) resources intended for the same purpose, and can be provided in any of the generic three ways of delivering project aid described above. Nevertheless, the motivation of CFs is usually the reduction of transactions costs through the harmonisation of project aid delivery and the promotion of alignment by ensuring CFs are supporting a national policy or plan. In practice, the degree of alignment of CFs with government policies and use of government systems varies significantly, as does the scope of CFs. They may be used: to fund activities in a sector as a whole or sub-sector; on different sets of activities – from technical assistance (TA) to service delivery; or on funding government or non-governmental providers.

Project aid, including CFs, can also be provided through **vertical fund arrangements**, increasingly common in the health sector. Financial allocations are based on a set of objective criteria often independent of sector policy processes, and are not necessarily responsive to sector strategies and plans. The extent to which these vertical funds exist outside sector processes depends to a large extent on how they are managed. Vertical funds can be earmarked and delivered vertically to particular sub-sectors or themes, but can still be integrated in the overall sector programme of work (Brown, 2001).

Several types of aid modalities are disbursed as programme aid directly to the government central bank, and usually onwards to the national treasury. This includes balance-of-payments support and debt relief. However, most relevant in the context of programme-based approaches, is budget support. Three types of budget support can be identified:

- **General budget support** is unearmarked aid disbursed through recipient governments' financial management systems. In recent years, it has become associated with a package of inputs. These include financial assistance but also dialogue, TA and harmonised and aligned donor interventions (IDD and Associates, 2006).
- **Sector budget support** is unearmarked donor aid delivered through recipient governments' financial management systems, as with GBS, but it is linked with dialogue and TA at the sector level. Sector budget support is provided normally with sector conditions, requiring agreement and execution of an agreed policy and expenditure plan through a SWAP supported by government and major donors.
- **Earmarked budget support** is donor aid similarly delivered through recipient governments' financial management systems, but earmarked as additional resources for the budgets of government spending agencies in the sector as a whole, or specific programmes within the sector. Again, this is usually in the context of a SWAP. Whilst expenditures funded from earmarked budget support may be separately identifiable, **notionally earmarked budget**

support is aid which is blended with national resources, and supports expenditures which are not separately distinguishable as donor funded in government budgets and accounts.

General and sector budget support are often referred to as direct budget support (DBS); this is most closely associated with the new aid paradigm. It is usually provided explicitly in support of PRSs and/or sector strategies. These modalities are expected to embody the partnership approach, use government systems in full and be harmonised and fully aligned with government policies, although this depends on the degree to which dialogue between donors and domestic recipients and conditions associated with aid are aligned with policies.

‘Sector programme aid’ is a term often used to encompass both project aid and sector and earmarked budget support in support of a programme-based approach at the sector level – it therefore combines budget support and project aid.³ Sector and earmarked budget support is therefore a subset of sector programme aid, which also includes CFs and standalone projects that are aligned to government policies.

While budget support is most closely associated with the new paradigm, the Paris Declaration provides for flexibility in the use of aid modalities – including the reform of project aid and use of CFs. From early on, however, the use of earmarked aid – whether traditional projects, basket funds or earmarked budget support – has been considered a transition mechanism in the context of a SWAP, as described in Box 3 below.

Box 3: Justifications for using earmarked aid

‘The sector approach attempts to reach agreement on the policies and plans for the sector. Complete agreement on spending priorities may not always be achieved. Even where agreement is achieved in principle, sector managers may come under pressure to approve investments for political or corrupt reasons, they may face pay pressures which risk eating up the non-salary recurrent budget, they may lack the management systems to encourage decentralised budget centres to respect sectoral priorities. For any or all of these reasons, donors may choose to earmark their funding to critical expenditures within the sector, because of fears that government may otherwise fail to ensure that those categories of spending receive adequate priority.

Earmarking within a sector approach in this way should be seen as a transitional stage. It may need conditions to support the baseline level of government spending and ensure additionality. It will also need to be supported by sector dialogue and institutional reform to ensure that the benefits can be sustained in the longer term without being dependent on donor finance or conditionality. Earmarking to projects may also be a necessary interim stage towards sector [budget] support, especially in situations where government in the short term simply lacks the institutional capacity to deliver the strategy, for example in post-conflict countries such as Mozambique.

Sector programmes will themselves include projects, and those projects will require technical and management support. However, this need not imply earmarked project aid. It may be more effective and sustainable to provide the finance and the technical support as a fully integrated part of the sector programme, without specific earmarking of donor funding.’

Source: Foster and Leavy (2001).

³ OECD-DAC (2006a) defines sector programmes as follows: ‘Sector programme aid comprises contributions to carry out wide-ranging development plans in a defined sector such as agriculture, education, transportation, etc. Assistance is made available “in cash” or “in kind”, with or without restriction on the specific use of the funds, but on the condition that the recipient executes a development plan in favour of the sector concerned.’

2.2.2 A changing mix?

Has the new agenda of programme-based approaches been translated into actual changes in the way aid is delivered globally or at a country level?

Table 1: Non-traditional aid modalities as a % of aid to low-income countries

	2001	2002	2003	2004
Sector programme aid	0	1	2	8
General budget support	5	6	4	5
Debt relief	4	6	15	8
Total	9	13	21	21

Source: CRS Online.

Evidence on aid flows is unreliable. Even though donors are making it clear in policy pronouncements that they intend to scale up GBS, at present budget support remains 4-6% of total aid to low-income countries (see Table 1 above). The survey undertaken for 2006 by the Strategic Partnership with Africa (SPA, 2007) indicates that GBS is in aggregate only 20-5% of total aid for a sample of committed GBS donors in Africa. Other data (see Table 1) suggest that the share of non-traditional aid modalities in the total aid going to low-income countries is small. The biggest increase has come in sector programme aid, but this encompasses non-traditional project aid as well as sector budget support, and it is likely that a large share of the increase has come through increases in CFs. A large portion of aid is still delivered through off-budget modalities. However, the evidence suggests that the share of budget support is rising.⁴ There is some evidence that not only is there **additional** aid being provided through programme modalities but also that there is limited **substitution** between budget support and project aid.⁵ In this context, some donors have made dramatic shifts in their aid portfolios in some countries, which have seen a significant but not quite so dramatic shift in the mix of aid they are receiving.

Tanzania, Mozambique and Uganda have been among the countries that have seen a more significant shift towards GBS than other developing countries, as shown in Figure 2 below. By the mid-1990s, all three countries had begun consolidating donor resources, motivated by the detrimental effects of a large number of the type of bilateral and multilateral projects symptomatic of highly aid-dependent countries. In Mozambique and Tanzania, consolidation was carried out early on via CFs. In Uganda, there was an early shift towards sector budget support, facilitated by the formation of the Poverty Action Fund. This channelled debt relief and sector budget support as additional domestic budgetary resources for priority sectors and guaranteed full budget disbursements during the financial year, thus expanding and enhancing the predictability of domestic budget allocations for priority programmes simultaneously. This consolidation was further strengthened by aid management strategies adopted at the centre, which explicitly favour modalities that are aligned with government systems. For instance, the Ugandan and Tanzanian aid strategies⁶ makes government preference for GBS explicit. More recently, Mozambique has also expressed such a preference (in its second PRSP).

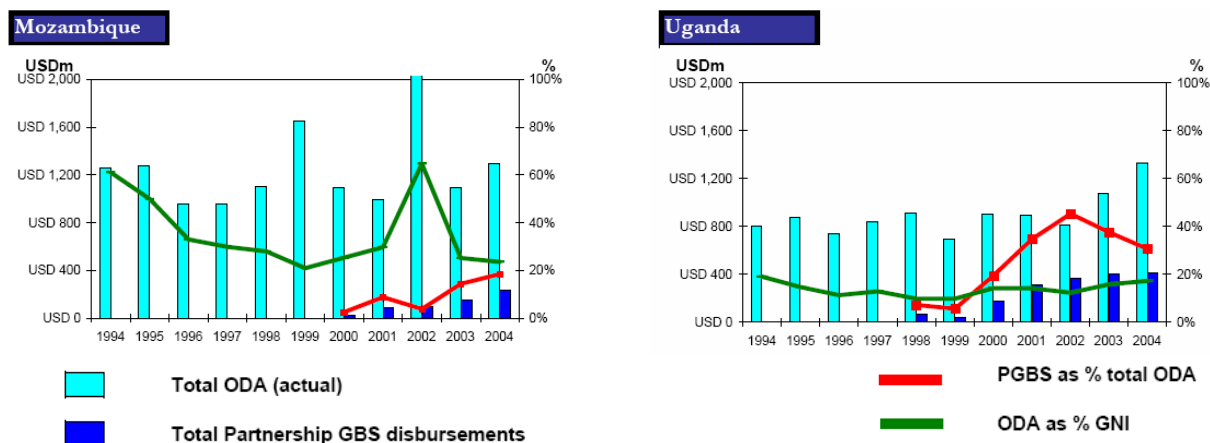
⁴ The SPA survey of GBS, which has been conducted annually since 2004, has found a consistent rise in the percentage of budget support going to the countries surveyed (SPA, 2007). For bilateral agencies like DFID and some aid-dependent countries like Uganda, Tanzania and Mozambique, it already accounts for between 20% and 40% of total aid flows (de Renzio, 2006; IDD and Associates, 2006). An evaluation of Dutch bilateral aid found that the percentage of GBS provided rose from 3% in 2000 to 18% in 2004 (MFA, 2006).

⁵ Mavrotas (2003) for Uganda (1980-99) and Mavrotas and Ouattara (2006) for Côte d'Ivoire (1975-99) find evidence of this substitution. In Uganda, project aid is decreased for every increase in programme aid, with similar effects found in Côte d'Ivoire. However, evidence of this substitution between project and programme aid remains limited and it is unlikely that this change will be any easier to detect if the anticipated scaling-up of aid happens.

⁶ In Uganda, the Partnership Principles (2001) and the Tanzanian Joint Assistance Strategy (2006).

However, in all three countries, the various types of project aid have remained consistently high, at over 40% of aid appearing in national budgets. In Uganda, project support has been growing more rapidly than budget support aid in recent years.

Figure 2: Mix of aid modalities in Mozambique and Uganda



Source: IDD and Associates, 2006

In all the three sectors reviewed, CFs have been employed: in the health sector in Mozambique, (three CFs); the education sector in Tanzania (the Primary Education Development Programme – PEDP); and the urban water sub-sector in Uganda (the Joint Partnership Fund – JPF). The most familiar justification of the use of CFs and not sector budget support in all three countries has been the weakness of government systems and the fiduciary risk associated with using those systems.

These CFs support very different sets of activities. For example, the Provincial Common Fund (PCF) in Mozambique and the PEDP in Tanzania support country-wide service delivery by sub-national governments. The JPF in Uganda uses a centralised project approach for delivering water supply systems in small towns. The General Common Fund (GCF) in Mozambique supports national-level activities of the Ministry of Health. The CFs vary in the degree to which they use government systems. Although they are aligned with government strategies, all but one of the CFs studied have been managed as large projects, using parallel systems and accountability processes. The exception is the GCF in Mozambique, which uses government budgeting, financial management and procurement systems.

Only in one case has there been a decisive shift to budget support – the rural sub-sector in the Uganda water and sanitation sector. The Ugandan government allocated a large proportion of the second round of debt relief to the sector in 2000, via the Poverty Action Fund, which led to the expansion of domestic budget allocations in rural water and sanitation. This far outstripped other aid allocations, which took the form of projects. A key commitment under the Poverty Action Fund was to make budgeted resources available during the financial year; subsequently, donors followed the government’s lead by providing sector budget support. If the government had not provided such a lead and the assurances under the Poverty Action Fund, it is likely that donors may have instead moved far more cautiously to CFs, as local government systems were considered to be very weak at the time, as was the case in the other countries.⁷

⁷ A key concern in Mozambique was that the Ministry of Finance’s cash management was so weak that it would not be able to deliver reliable funding to the sector if sector budget support was used.

Box 4: Common funds are big projects

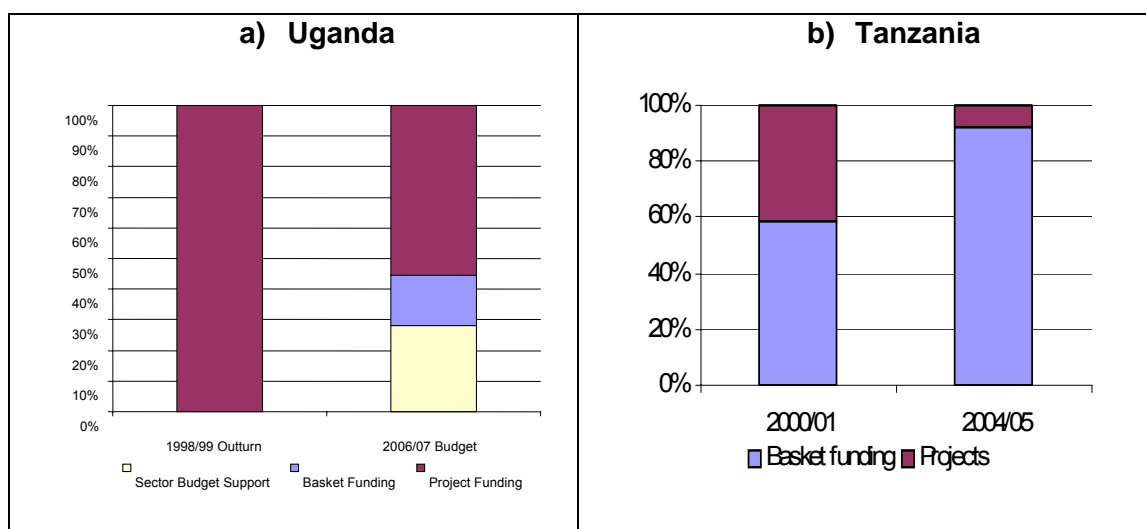
In Tanzania, the PEDP was borne out of the Education Sector Development Programme (ESDP) (an attempt to embed a SWAP) but quickly grew out of its framework and operated much like a large project. This is especially evident in the way donor pooled funds were released, monitored and audited. Also, the World Bank support to PEDP has often been defined as sector budget support, and although it used the government treasury, it was clearly earmarked to a sub-sector within education.

In Uganda, the JPF helped to arrest further fragmentation of funding in the urban sub-sector and was more aligned with the urban department structure than previous projects, but it operated basically like a large project and did not use government systems beyond appearing in the budget and in the ministry contracts committee.

In Mozambique, the CFs were thought to be a way towards better alignment of external financing to sector strategies and national procedures. However, in practice, CFs have been criticised for developing new structures and for following procedures and mechanisms that potentially undermine national efforts to reduce transaction costs, and a more integrated approach to health development in terms of execution, monitoring and auditing of funds.

Although CFs have been established in all three countries, only in Tanzania is there evidence of a shift from these to programme aid (the dismantling of the PEDP has begun). As will be seen, this has not been because of a gradual strengthening of sector systems but instead owes to a number of problems encountered in managing the CF itself. It is apparent from the three case studies that the route from giving aid through projects to giving aid through CFs is shorter and easier for donors to take than moving from CFs to sector budget support.

Figure 3: Mix of aid instruments in Uganda and Tanzania cases

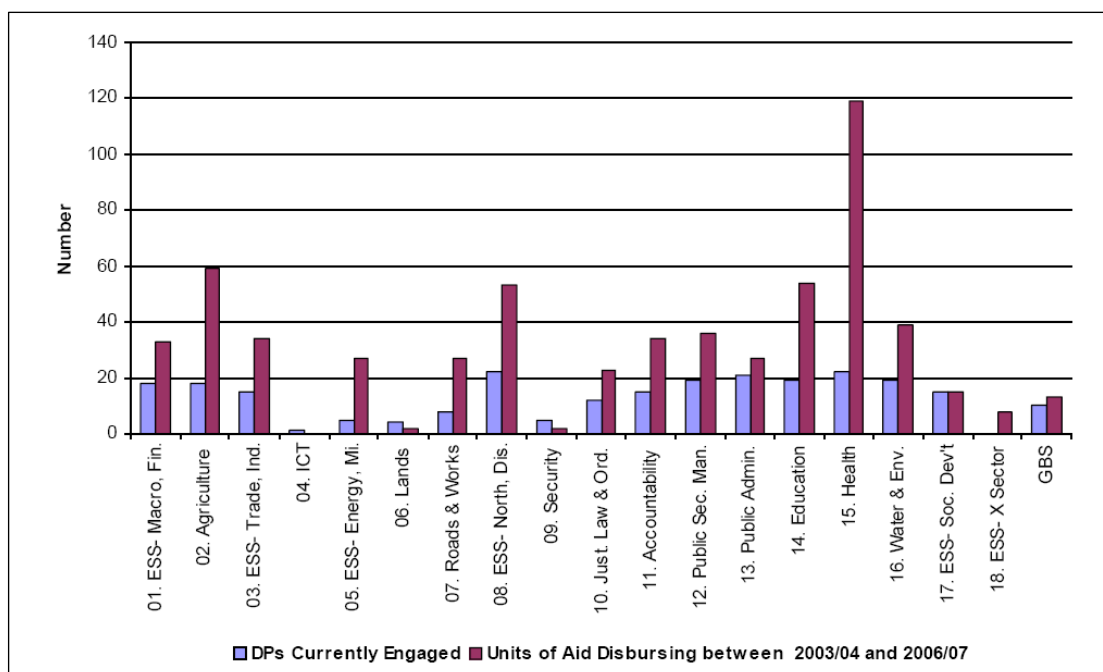


Source: Aid Flows Database, Ministry of Finance, Tanzania and ODI (2007).

In all three case studies, conventional projects remain predominant in varying orders of magnitude. In Uganda, project support remains over half of the aid earmarked to the sector. In Mozambique, project support has outstripped CFs every year (except 20030. Only in the Tanzanian education sector and the Ugandan rural water and sanitation sub-sector has project funding shifted to become the minority aid instrument.

The number of donors engaged in a sector is an important factor in the structure of aid financing. Figure 4 below shows that there is a strong correlation in Uganda between the number of donors engaged in a sector and the number of individual aid projects of programmes disbursing. The rural and urban water sectors have 16 donors engaged and 20 separate aid instruments, the majority of which are projects. The health sector has 22 donors engaged and over 100 separate aid instruments. The Mozambique health sector is similarly congested, with the highest number in all the case studies of donors engaged (23), and also suffers from a proliferation of individual projects. There are 18 donors engaged in the Tanzanian education sector.

Figure 4: Number of donors and number of aid instruments by sector in Uganda



Source: ODI (2007).

Therefore, although there have been major shifts in the mix of aid modalities in the three study countries and sector case studies, the reality is that in none of them have these been clear-cut. Rather, the shift to budget support has been less dramatic than might have been expected, and there has been a clearer shift towards the use of CFs. In two of the three case studies examined, traditional project support outstrips CFs and sector budget support. Meanwhile, CFs continue to be managed like large projects. As pointed out, the only real exception, which comes at the sub-sector level, is in rural water and sanitation in Uganda, where there has been a decisive shift from project to sector budget support.

2.2.3 The nature of sector funding

What have been the immediate effects of the shifts in aid modalities observed in the three sectors on the nature of overall funding channelled to the sector? In the context of programme-based approaches, it is intended that sector funding should be used to operationalise sector policies and use government systems, and should be delivered in a more efficient coordinated manner. In particular, if aid is to be aligned more easily with government policies and systems, it needs to be reflected in the government's plans and budgets and be flexible and predictable. If past inefficiencies are to be overcome, aid needs to be less fragmented and more harmonised across different instruments.

In our three case studies, national budgets have been expanding rapidly, both because of expanding domestic resources in absolute and relative terms and because more and more aid is being channelled to the public sector. In Mozambique, Tanzania and Uganda, increasing debt relief and budget support helped to increase discretionary resources for the public sector and the sector concerned. In Tanzania, this allowed government to double per capita spending on priority sectors including education between 1999 and 2003. In Uganda, the government chose to allocate a significant share of increased discretionary resources to priority sectors through the Poverty Action Fund, with nearly two-thirds of the budgeted increases to the water and sanitation sector since 2000 being channelled directly to local governments for rural water and sanitation. While sector budget support underpinned some of the increases early on, the Ministry of Finance, Planning and Economic Development in Uganda no longer guarantees the additionality of sector budget support, owing to macroeconomic concerns and a desire to maintain ownership of overall sector allocations.

In all three case studies, there is enough evidence to substantiate the observation that a greater volume and share of sector resources are appearing on sector budgets and using government systems. For example, in Mozambique, public expenditures for health more than doubled between 2001 and 2004, owing in part to the increase in the volume of CFs and more modest increases in domestic expenditure. CFs are increasingly using domestic accounting and reporting systems as well as appearing on-budget. In Tanzania, the domestic budget for education rose by 77.7% between 2001/2 and 2005/6. In Uganda, domestic budget allocations to the water and sanitation sector grew tenfold between 1997/8 and 2003/4. But there is a sharp contrast between the rural and urban sub-sectors: in the rural sub-sector there has been an almost complete shift to the use of domestic budget and systems; in the urban sector project, funding to the national water utility does not appear on-budget and the JPF uses government systems only partially. Not all project aid to government that should appear on government budgets does. One major information gap is aid routed to NGOs, which by definition should not appear in the budget. However, NGOs are often major actors in social sectors, especially at the local level, and should be reflected in sector plans and aid databases. In all three cases, official databases never fully capture project information.⁸

Discretionary resources to all three sectors have increased through the expansion of domestic budgetary funding, and in Mozambique through the discretion available in the GCF. However, the potential for the increases in sector budgets to add to discretionary funding to the sector is undermined in two ways. Firstly, CFs are usually earmarked to specific policy interventions or inputs, for example the PEDP on primary education, the MCF (Medicines Common Fund) for medical supplies and the JPF on small towns water supply and sanitation. Moreover, there is some tension evident between the use of CFs and decentralisation processes. For instance, in Tanzania, the straight-jacketing of PEDP funds into various categories squeezes local authority flexibility, and the systems bypass district decision-making.⁹ Secondly, sector discretion is undermined by continuing use of projects to disburse aid. The effect of project aid can be accentuated when counterpart funding is required. For example, in Mozambique, close to one-third of total health expenditure is still provided through earmarked project funding arrangements; this is increasing, owing to the onset of global vertical funds, despite the repeated request of the Ministry of Health to provide untied aid to the health sector. The level of earmarked project funding and the common funding in the urban water sector in Uganda likewise can be seen to undermine the degree of flexibility in sector funding, despite increased flexibility in the rural sub-sector.

How predictable has aid been in the three case studies? In the literature, a number of concerns have been expressed about the predictability of budget support. Even though budget support is meant to create the opportunity for governments to plan ahead, experience suggests that donors

⁸ In Tanzania, the aid flows database at the Ministry of Finance shows a decrease in the proportion of project funding (nominal/real increase?) but the mapping exercise conducted at the back of the Joint Assistance Strategy suggests that the database does not capture all donor projects exhaustively.

⁹ In 2006/7 for example, local authorities were required to disburse capitation grants by spending 40% on books and teaching supplies; 20% on rehabilitation (maintenance); 20% on stationery; 10% on exam supplies; and 10% on administration.

are often trigger-happy in withdrawing funding when processes start to unravel (Unwin, 2004). However, some progress is evident. The Mozambique GBS evaluation found that both intra- and inter-annual predictability of disbursement rates for GBS had improved substantially over time (Batley et al., 2006). Similar patterns of improved predictability can be seen in Uganda and Tanzania. Domestic budgets, on the other hand, are still characterised by unpredictable cashflow. However, in the Ugandan case, budget disbursements for programmes under the Poverty Action Fund are protected. This includes those for water and sanitation.

The picture for CFs is also mixed. In Mozambique, CFs have nearly 100% disbursement rates, which is a huge improvement over the lower rates of disbursement associated with large volumes of project funds to the health sector, although funds are often distributed late into the Mozambican financial year.¹⁰ In Tanzania, sector budget support and pooled funding associated with the PEDP suffered from unpredictability related to the elaborate parallel reporting and auditing requirements, which the education ministries and district education authorities could not always fulfil. Requirements have since been relaxed. The case studies note that resource predictability at local levels is worse than at central levels. In Tanzania, local levels complain about severe unpredictability in resources, aggravated by multiple sources of funding. Districts in Uganda complain about the unreliability of grant funding to local governments for the water (and other) sectors; however, this has much to do with in-year cash management at the district level, as overall levels of disbursements over the year appear reliable (Williamson, 2006). There has therefore not been a decisive improvement in the predictability of sector funding as a result of the shifts in modalities, yet neither has there been deterioration.

Box 5: Fragmentation at the local level

In Tanzania, an interview with the municipal education officer in *Kinondoni* Municipal Council indicated that the district was receiving substantial aid through project funding, including through the Support to Education in Primary School (STEP) Project funded by the Aga Khan Foundation; Plan Tanzania; CARE International; the Euro-African Bank; and the South Korean Embassy. None of this aid was captured by the mapping exercise mentioned above. Support to a particular sector is additionally complicated by the presence of multi-sector programmes at local levels.

In the rural water sector in Uganda, there are a number of multi-sector donor programmes. This suggests that the level of funding fragmentation at local level is significantly greater than at central level, compounded by other sectoral and local projects that additionally undermine local-level planning and budgeting capacity.

The story in terms of the reduction in fragmentation is mixed. Despite the existence of the JPF and sector budget support, the number of projects and programmes has not fallen in Uganda. In Mozambique, significant funding to the health sector continues to be channelled directly to NGOs and UN agencies by bilateral donors, and at least 30% of these funds are totally off-budget.¹¹ Since 2000, the number of global funds supporting the health sector, particularly for HIV/AIDS, has increased substantially. In the Tanzanian education sector, projects still remain, although the quantity has fallen. Although hard to quantify, it is easy to sense that the level of funding fragmentation at local levels is significantly greater than at central level, as Box 5 illustrates.

¹⁰ Some development partners would attribute late disbursements to low sectoral absorption of resources and low budget execution levels (which is 60-80% for the sector as a whole).

¹¹ It is estimated that 30% of donor aid was off-plan in 2004 (Cabral et al., 2005) and if we consider off-treasury financing the level of funding which is not executed through government systems would be even larger.

2.3 Coordination mechanisms and donor harmonisation

2.3.1 Coordination mechanisms

Donor coordination mechanisms have been established, with the aim of improving policy and systems alignment with recipient governments and harmonising the delivery of aid across donors. Some coordination mechanisms relate to donors themselves, and others have been established in the context of broader policy processes associated with SWAPs, involving a spectrum of stakeholders from civil society as well as the public sector. We here first describe the types of coordination instruments and processes in place, focusing on the interface with sectors, before investigating their immediate effects.

Box 6: Dialogue structures in the three case studies

In **Mozambique**, there is a development partners SWAP Group, chaired by a bilateral donor and co-chaired by a multilateral organisation. There are three forums in place, in which collective dialogue takes place. The highest level is the Sector Coordination Committee (CCS), which meets twice a year and is chaired by the health minister and comprises his/her cabinet, all provincial health directors and the representatives from development partners active in health. The role of the CCS is to endorse key reports and recommendations (such as those emerging from joint reviews (JRs)) and to inform development partners of significant issues or decisions relating to health sector policy, including the Ministry of Health Annual Operational Plan (POA) for the following year. The second level is the SWAP forum, which is also the custodian of JRs of the sector. The third level of dialogue includes the working groups (WGs). There are 11 of these, providing an opportunity for partners and the ministry to jointly review or oversee specific areas of health policy where more in-depth analysis is required prior to their adoption or consideration by the broader SWAP forum.

In **Uganda**, a fairly well structured coordination dialogue structure has emerged and evolved in the sector, starting from the enactment of the Water Statute in 1995. The lead coordination committee in the sector as institutionalised in the Statute is an 11-member multi-sectoral Water Policy Committee, which acts as the principal advisory organ to the minister responsible for water affairs. This committee should put the government in the driving seat, as neither donors nor civil society are represented. In Uganda, sector working groups (SWGs), introduced as part of the budget process, were instrumental in kick-starting donor coordination and the development of the SWAP and the Donor Group. The SWG is now the focal point of stakeholder dialogue, through annual JRs and the budget process. Other *ad hoc* working groups exist below the SWG, dealing with specific issues. A management committee oversees the implementation of the JPF.

The aid management system in **Tanzania** has a reputation for being quite advanced and sophisticated in comparison with those in other aid-dependent countries. In the education sector, as at the national level, committees and taskforces responsible for sector management are open to donor participation. These include the ESDP Advisory Committee, which informs the work of the ESDP Inter-ministerial Committee, tasked with overseeing the implementation of national policies on education. Donors participate in other committees specific to different levels of education. Their participation is most visible in the Basic Education Development Committee (BEDC), which has been responsible for managing the PEDP process. Moreover, donors are part of five taskforces, such as the one responsible for resource allocation, cost effectiveness and funding, whose work feeds into proposals developed by other committees. The latest addition to these structures is the Education Sector Review (ESR), the first of its kind (begun in 2006). It is envisaged that the ESR will become an annual event to be followed in four weeks by a high-level meeting where actions arising in the ESR will be discussed.

In the three case studies, the coordination fora and instruments around SWAPs have evolved in different ways. However, all three are based on some kind of donor-to-donor forum and a series of donor-to-government exchanges. The latter are usually part of the broader consultative processes steering the overall SWAP, and include high-level steering committees and technical working

groups, which are intended to deal with the spectrum of government policies and systems. Civil society organisations (CSOs) and representatives from the broader public sector, including sub-national governments, are typically involved in these fora as well. Box 6 describes the processes for the different countries. While the SWGs in Uganda and Mozambique have remained active, in Tanzania, it is the sub-sector working groups that have been most active; recently, meetings involving senior government officials and donors have been less regular.

In Uganda and Mozambique, key events in the consultation process are the annual JRs of sector performance. These are multi-stakeholder events, including civil society and sub-national and central government stakeholders as well as donors. At JRs, stakeholders agree collectively on undertakings to improve sector performance and review this against previous agreements. The intention is that donors communicate a joint position through the lead donor on the sector, which chairs the donor coordination group. A successful JR is a condition for disbursing both general and sector budget support in Uganda and Mozambique. A subset of the health sector indicators in Mozambique is contained in the Performance Assessment Framework, upon which progress for GBS is measured. In 2006, the Tanzanian education sector held its first ESR, which was an attempt to kick-start sector-wide coordination mechanisms. There is also discussion of creating a sector-level performance assessment framework.

These opportunities for dialogue and discussion between donors and government are linked to national-level processes. In all three countries, consultative processes have emerged around the development and monitoring of PRSP implementation.¹² There are joint dialogue mechanisms around GBS, and conditionality based on joint performance assessment frameworks, which are monitored collectively. Sector issues are covered in both the PRS and GBS dialogue to varying degrees. National donor coordination groups, such as the Local Development Partners Group in Uganda, are in place and are intended to manage the overall direction of development assistance in the country and delivery against the aid effectiveness agenda.

Coordination mechanisms around the national budget process also influence the quality and usefulness of discussions held between donors and government at sector level. For example, joint dialogue on the budget process in Uganda is managed through the Public Expenditure Working Group, and there is a Public Expenditure Review Working Group in Tanzania on which donors are represented. In Uganda, the budget process provided the initial impetus for the development of a SWAP. SWGs made up of government, civil society and donor representatives were required to prepare and agree sector budget strategies. The SWG is now the focal point for dialogue around the SWAP, and its scope of responsibility has broadened to include reviewing sector policy and performance assessment through a joint sector review process. Government and donors jointly chair the SWG. In Tanzania, sector public expenditure reviews (PERs) take place annually. In Mozambique, sector coordination committees formally engage in the budget process in the health sector, and efforts have been made to improve the coherence of resource allocation.

The degree to which local concerns are captured in sector coordination mechanisms is mixed. In Tanzania, PMO-RALG (Prime Minister's Office – Regional Administration and Local Government) represents local government interests, although its perspectives are very much those of central government – and even that role has been characterised by its absence. In Mozambique and Uganda, representatives of sub-national governments take part in sector committees and joint reviews. In Uganda, coordination committees have also been conceived at the district level to coordinate the various actors from government and civil society. However, district water offices have found it difficult to get these operational, as other local government and NGO actors have little incentive to engage and coordinate.

¹² In Tanzania, donors are represented on cluster working groups which have been established as part of the PRS Monitoring System. The newly initiated Annual PEAP Implementation Review also involves engagement from donors.

2.3.2 Changed donor behaviour?

Our hypothesis is that, if donors work collectively, through a formal consultative structure covering the whole sector, this will allow a shift in the focus of: (i) dialogue towards overall sector policies and systems for service delivery, as opposed to the mechanisms for individual projects or programmes, and alignment of financial aid modalities with those policies and systems; and (ii) donor monitoring activity and government reporting towards the implementation of policies and services overall, rather than progress on individual projects and programmes.

Despite original intentions of a strategic policy focus, the case studies point to the reality that donor coordination mechanisms in any sector gravitate towards the dominant aid modality. In Mozambique, the SWAP committees in principle are supposed to discuss strategic issues, but in practice are often bogged down discussing financing and administrative issues with respect to CFs and projects. An excessive donor focus on 'micro management issues' is also characteristic of donor-government relations in the education sector in Tanzania, resulting in more senior level strategic interaction being squeezed out of the dialogue process. In contrast, the dialogue in the Ugandan water sector has managed to remain more strategic, owing in part to the use of sector budget support in the rural sub-sector. This means that the dialogue has been focused on strengthening government policies and systems. The JPF in Uganda involves only a minority of donors engaged in the sector and so does not dominate the overall sectoral discussions, as CFs have done in Tanzania and Uganda. Also, the formal role the SWG has in the overall budget process is important in maintaining a sector-wide focus.

For the most part, in the Uganda and Mozambique cases, there has been real progress towards adopting systems of sector-wide monitoring, and JR processes have been important in maintaining a sector-wide policy focus in this (discussed in later sections). In Uganda, a sector-wide performance measurement framework has been developed; this is used as the basis of sector monitoring. Conversely, in Tanzania, monitoring has usually been focused on sub-sector performance disaggregated across funding modalities and institutions. Donor dominance in this area has been both a cause and consequence of weak monitoring systems in the sector, and the absence of JRs until 2006 has contributed towards this.

Central-level coordination mechanisms around the PRS, GBS and budget process also exert influence at the sector level. In Uganda, SWGs and JR processes are reinforced by the fact that they are part of central budgetary and GBS processes. The link between the health sector performance indicators and the GBS Performance Assessment Framework in Mozambique means that sector monitoring is aligned with the government's planning cycle and consequently with the JR of the programme aid partners. In Tanzania, changes to resource allocation processes have affected sector-level dialogue on these issues. The education 'sector' is somewhat in limbo with respect to central processes, as the shift of the new PRS has been towards cross-sectoral cluster processes. This means that initiatives such as sector PERs are not strongly rooted and have limited influence in central processes.

In all countries, however, donor dynamics result in conflicting behaviour within donor institutions at central and sector levels. This manifests itself during the budget process in particular. For example, donor representatives engaged in sectors often argue that their sector deserves additional funding; representatives from the same institutions dealing with the central dialogue on GBS and the budget process may be arguing for increased efficiency in existing sector spending, and not additional resources. In addition, sector donor representatives may defend sector performance against challenges from the finance ministry and/or donor economists, as they feel partly responsible for such performance. This sends conflicting signals to the partner government, especially at the sector level, and can undermine the sovereignty of central policy and budgetary processes, and ultimately incentives for sector agents to perform.

A key element of the new aid paradigm is the concept of a partnership between the donor and recipient. In Uganda and Mozambique, there is a feeling that donors have really changed the nature of engagement in the water and health sectors. This has had a number of positive effects. It is evident that, with the development of donor coordination mechanisms, donors now conduct more work collectively and act more coherently in terms of dialogue with government. In Uganda, many in the sector feel that a real partnership has emerged, with a substantial degree of trust. In Mozambique, this is arguably also the case, although high transaction costs and a loss of policy focus linked to the focus on funding modalities has undermined the positive effects observed. However, in the Tanzanian education sector, dialogue has largely been of poor quality, and dialogue processes have been unravelling for some time. All stakeholders in the process have expressed growing dissatisfaction: donors feel excluded from important stages of the dialogue process; civil society feels overshadowed by donors; and education officials see the presence of donors as intrusive and as a channel for introducing unnecessary conditions.

The change in donor behaviour demanded by the new aid paradigm comes with substantial transaction costs, associated with the dialogue structures that have been established. The demands of SWAPs where CFs are the main drivers imply a substantial increase in the number of meetings held between sector ministries and donor representatives. In Mozambique, the number of meetings is proving untenable for many in the group and has contributed to a loss of policy focus. The sheer number of donors engaged in the sector and trying to coordinate is a part of this. In Tanzania, not only are time and resources absorbed by the large number of meetings held between the sector and its stakeholders, but also the sub-sector coordination focus means that an overall sector policy focus has been lost as well.

There is no guarantee of quality or helpfulness of increased dialogue, even when this is policy- or systems-focused. Rather, this depends on capacity on all sides of the dialogue, and a willingness to stay focused. In all three country cases, there is evidence that the quality of dialogue, and the behaviour of donors within it, does not always encourage government leadership and a focus on policies and systems. Individual donor representatives face pressure from their own institutions to influence the dialogue in particular directions. In Uganda, bilateral interventions continue to take place; some in government felt donors still retained the upper hand in negotiations and sometimes made insistent and unreasonable demands during dialogue processes. However, other factors characterising the dialogue process make the water sector more capable of handling these problems.

Meanwhile, the importance of a strong government counterpart leading the SWAP process is a key factor behind the success and quality of the dialogue. Strong leadership in Uganda early on in the SWAP process helped maintain a strategic focus linked to the reforms the government wished to push through. In Tanzania, the absence of a domestic driver within the Ministry of Education and Vocational Training led to a situation in which coherent dialogue became difficult and all that remained was 'a process of second guessing what the other participants in the dialogue want you to say' (Dyer, 2005). Political leadership in dialogue processes is important. Where this is absent, as the education sector in Tanzania shows, any decisions arising from the dialogue process are then vulnerable to being overridden by political decisions, which remain outside the process. Meanwhile, a recent change of political leadership has had the effect of weakening donor government relations, at least in the health sector in Mozambique.

2.4 Summing up

This section has illustrated that there have been significant efforts at the country and sector level to implement the aid effectiveness agenda, but that this has not been simple or straightforward in any of the countries studied. In the case studies, a clearer shift towards the use of CFs relative to budget support is evident, and significant project flows remain. Coordination mechanisms and dialogue structures have been established at the sector level; however, these tend to be drawn towards the predominant funding modality as opposed to government systems and performance.

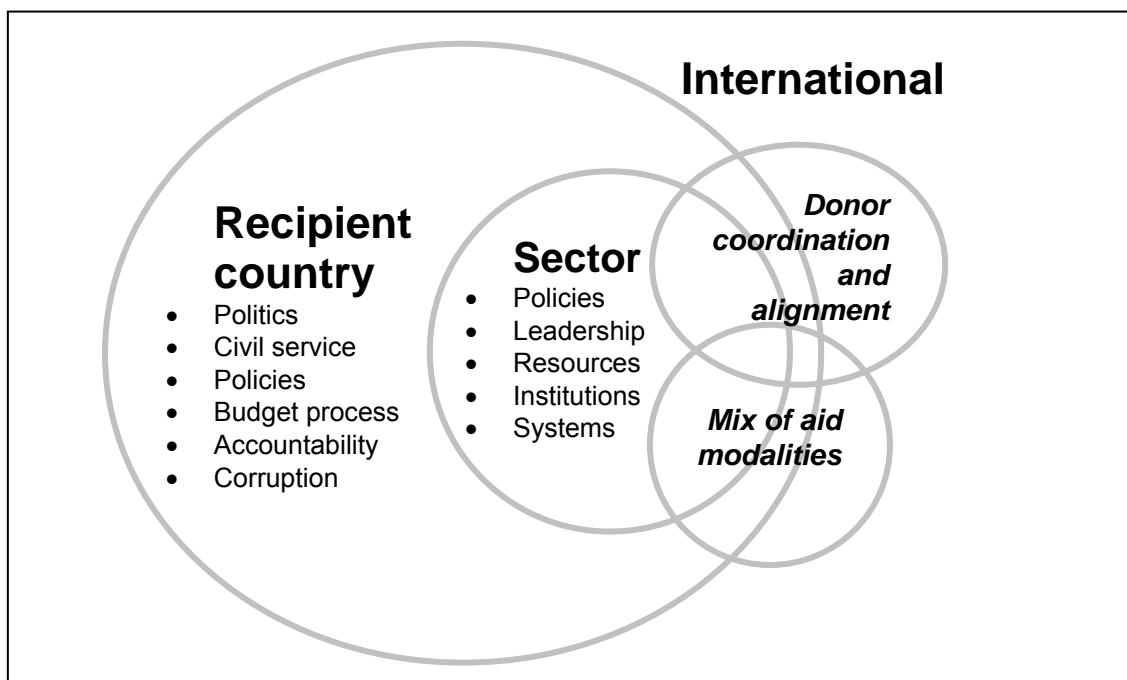
Shifts towards CFs and an increased use of budget support have changed the nature of sector funding, with more funding on-budget, which is potentially more flexible. Donors are behaving in a more coordinated manner, and some of the dialogue processes established around SWAPs are delivering a more comprehensive and sector-wide policy and systems focus. In addition, links with national processes are reinforcing a more coherent and cross-sectoral environment, although these links also highlight perverse behaviour within donor institutions and across the donor community. However, much of the dialogue remains focused on donor funding modalities, especially where CFs have been established.

3. Effects on sector policies, systems and institutions

3.1 Introduction

In this section, we examine the effects of the changes to the aid environment observed in Section 2 along four dimensions: (i) sector policy processes, (ii) budgetary systems, (iii) sector institutions and service delivery systems; and finally (iv) domestic accountability.

Figure 5: Spheres of influence on the sector



In carrying out this analysis, it is also important to see the changes in the aid environment as two spheres of influence on the recipient country and sector (Figure 5). The aid and donor environment influences country systems overall, and sector systems directly and indirectly. The sector itself is subject to country-specific influences, some of which are affected by the broader aid environment, some of which are specific to the country itself. In this complex environment, this section attempts to identify the effects of aid and donor behaviour.

3.2 Policies and reform processes

The new aid paradigm puts a great deal of emphasis on government leadership of the reform agenda. Promotion of domestic ownership is rightly seen as key, if policies and plans that emerge are to be implemented. A strong, domestically owned set of policies and strategies at the sector level is at the apex of an effective SWAP. A core element of a SWAP is the strengthening of sector policies and development of sector strategic plans early on in the process. The three case studies concurred with this. Although the cross-country similarity of policies and plans emerging in many sectors would suggest external influence to reform, it is the degree to which there were domestic drivers behind these processes which has had the largest influence.

Brown et al. (2000) identify three ownership scenarios in the context of SWAPs, of which the case studies provide good examples:

- **Strong government leadership:** The Ugandan water and sanitation sector falls into this category, as there was strong leadership of the reform process from within the Ministry of Water, Lands and Environment which was able to overcome opponents to reform.
- **Government change agents allied to donors:** The Mozambique case falls here, with broader ownership evolving in the Ministry of Health and the sector over time.
- **Donor leadership:** The Tanzanian case shows that strong commitment to reform cannot be created externally – there have to be some internal drivers. There was insufficient commitment from within government to address vested interest in the sector, and ownership of sector-wide initiatives fell away early on, as Box 8 describes.

Box 7: Ownership in the development of the ESDP in Tanzania

Tanzania education illustrates some of the difficulties in assessing 'ownership'; it is only with hindsight that the fragility of support becomes evident. A four-year process was strongly led by expatriate technical assistants, working with local counterparts, although the then-Secretary in the Ministry of Education and Vocational Training also appeared to be supportive. During 1996 and 1997, government and donors drew up and adopted a common work programme. This was followed by a pre-appraisal in early 1998, and by donors signing up to the SWAP. However, from the time hard decisions had to be made, the SWAP started to disintegrate. There was intermittent commitment from government and limited engagement from donors. Vested interest in government recognised the impact of reform, and gained the upper hand over reformers. Maybe most crucially, hard budget decisions on teaching service rationalisation, secondary education financing and standard-setting and regulations were avoided (Ratcliffe, 1999).

In any case, the design of the ESDP did not facilitate allocation decisions. It only covered the development budget ... was clearly inconsistent with the MTEF (medium-term expenditure framework), and was rejected by donors and criticised in Parliament. There is still no sector programme in place, nor much progress towards one.

Source: Brown et al. (2000).

Central policy and planning processes can confuse as well as reinforce ownership. In Mozambique, the Ministry of Health has tended to see sectoral and central planning instruments as competing rather than complementary, considering its own sector policy as the primary policy document in the sector. It can be argued that in Tanzania the PRSP has overridden sector policies and plans. In contrast, a key strength of the Ugandan process is the relative coherence of the planning process, where the PRSP has a role as an overall guide for national policy and resource allocation across sectors, and sector policies and plans are the guide for resource allocation within sectors themselves. There is relatively strong ownership at both levels.

Multi-stakeholder coordination mechanisms and sector review processes, such as those that have been established in Mozambique and Uganda (see Box 9) are important for broadening and deepening ownership over time. In both countries, they have provided an important focal point for discussing performance against sector policy and, owing to the involvement of stakeholders from within and outside the public sector, policy-making and review are now more consultative. The absence of a clearly owned and comprehensive education strategy in Tanzania and an associated review process has meant that monitoring of the implementation of plans and programmes has been fragmented, with much focus being put on the PEDP instead.

Box 9: Review processes in the Ugandan water sector

In Uganda, monitoring of the water sector, which culminates in the annual JR, is becoming increasingly sophisticated and comprehensive. An annual sector performance report, which is a key product of the sector performance measurement framework, is discussed at this sector review documenting progress on all sectors. In order to strengthen the strategic focus of the debate, 10 'golden indicators' have been identified.

This leads us on to the influence of aid modalities. The use of earmarked funding below the sector usually encourages a silo mentality. In particular, CFs draw particular focus towards the programme supported but also towards the funding modality itself. This was most evident with the PEDP in Tanzania, where dialogue has been concentrated not only on primary education, but also on the activities and mechanisms of the CF itself. This silo mentality has detracted attention away from monitoring the overall performance of the sector. Only with the dismantling of the PEDP has a sector-wide focus re-emerged, with the 2006 ESR representing a first effort to try and review performance of the sector as a whole.

In Mozambique, where two-thirds of sector funding is obtained through CFs and projects rather than the national budget, the dialogue can break down into specific individual concerns around funding mechanisms rather than focusing on more long-term strategic policy thinking. Similarly, much of the dialogue in the urban sector in Uganda is focused on the operation of the CF and not policy issues relevant to the sub-sector. In contrast, dialogue in the rural sub-sector, where donor funding comes predominantly via sector support and GBS, has been able to focus on what was intended – overall performance against policy, as opposed to the details of funding modalities.

Box 10: Breaking the circle: Planning, budgeting and aid systems in Tanzania

Owing to weak government systems at the start of the PEDP, the Pooled Fund Partners (PFP) set up parallel processes, which were excessive and beyond the sector's capacity, leading to delays in funding releases and bitterness between donors and government. Requirements by the PFP for additional reporting, monitoring and auditing information further prevented sector systems from improving their performance by utilising precious time and resources. These requirements also squeezed domestic accountability processes by putting external demands at the top of the agenda. Acrimonious dialogue in the sector, together with commitments by donors at national level to more GBS and better division of labour among themselves, has meant that education donors have moved away from basket funding. Both the 'push' and 'pull' factors have meant that more aid is being provided to the education sector through the budget, offering the best chance to strengthen for sector systems. There are signs that a broader sector-wide focus is developing. The PMO has taken a lead in this process. The first ESR was held in February 2006, with the aim of assessing the overall performance of the sector in the context of national priorities. Studies presented in the review and follow-up actions suggested on public expenditure, sector performance assessment and dialogue all are steps in the right direction. However, progress in implementing these remains slow. Indeed, ministry attention has been distracted in recent months in costing a new proposal. This provides a useful reminder that, without a strategic focus, ministries will remain vulnerable to new initiatives that come along with promises of more funding, instead of delivering on existing pledges to improve sector performance.

There is also a danger that donors will dominate the dialogue around policy process, as well as skewing the agenda. More important, however, is the capacity for donor representatives to engage in and add value to policy debate, and the strength of partner governments to reciprocate. If the fora for dialogue in which donors are engaged are responsible for bad policy choices, then donors are equally to blame for undermining public sector outcomes. Despite this skewing of the dialogue, sector coordination mechanisms have had a net positive effect on policy processes in Mozambique and Uganda. Donor support, engagement and respect for the sovereignty of these policy processes are important. Donor-to-donor coordination mechanisms appear to be secondary but significant: they limit transactions costs and increase the space for other domestic stakeholders to participate.

In addition, when sector issues are covered in the PRS and GBS dialogue, this can complement and enhance sector-level coordination mechanisms, especially by providing a process through which broader cross-sectoral issues can be addressed (IDD and Associates, 2006). For example, in Uganda, additional weight is added to the JR process, as successful achievements of review undertakings are a prior action for the disbursement of GBS. However, Unwin (2004) argues that budget support can lead to a 'hollowing-out' of the aid spectrum, with line ministries marginalised

from policy debates. If strong sector-wide processes have been established, as in Mozambique, Uganda and Tanzania (now emerging), this gap can be filled.

3.3 Budgeting and resource allocation

Even when there is a clear policy or planning framework to guide resource allocation, the link to resource allocation may be weak. Annual budgets, for example in Mozambique and Uganda, are prepared on an institution and input basis, making the link to policies more difficult.

Box 11: The problems of fragmented budgets

In Tanzania, the education sector has multiple budgets. There is institutional fragmentation in the sector, with three ministries, six central institutions and local governments all responsible for delivering education services. Each ministry and each institution has its own budget. The budget for the same level of education is also divided between these institutions' budgets. Resources for primary education, for instance, are budgeted under both the Ministry of Education and Vocational Training and the PMO-RALG. Local authority expenditure on education is further disaggregated. Local authorities receive funding, which can be allocated to education, through formula-based sectoral grants or other intergovernmental fiscal transfers, such as the General Purpose Grant, the Local Government Capital Development Grant, and additional recurrent resources as transfers from ministerial budgets, such as to implement the PEDP. In addition, donor-funded projects appear separately within these institutions budgets.

In Mozambique, there are systemic weaknesses in the budget process: incremental input-based budgeting; disconnection between recurrent and investment spending; and weak linkages between approved budgets and actual expenditure. These disaggregated budgets are difficult to integrate into cross-sectoral provincial and district plans. Fragmented sector budgets make the effects of project funding on resource allocation worse. Rigidities in funding caused by off-budget funding modalities such as projects weaken links between resource allocation and policy objectives.

A sector MTEF is seen as a mechanism for linking policies to annual budgets in the new paradigm. In Tanzania, there are separate MTEF submissions by individual institutions in the sector, but there is no forum at the sector level for discussing resource allocation together. Although sector-wide PERs have taken place regularly in Tanzania, this has not had a strong link to the budget, which remains institution-based. Conversely, MTEF submissions are made in Uganda on a sectoral basis. They are prepared by a SWG made up of all the institutions in the sector, within a sector budget ceiling provided by the Ministry of Finance, Planning and Economic Development. This collective decision-making has encouraged greater coherence and ownership.

The shifts to budget support and the use of CFs have increased the share of funding appearing in government budgets. However, the multiplicity of funding sources continues to contribute to the fragmentation of budgets and operational plans in all three cases. As noted earlier, project support remains significant. Although CFs reduce fragmentation, they are still usually guilty of standing distinct from the mainstream budget and public financial management (PFM) systems. Furthermore, CFs and project support, when earmarked to a specific sub-sector or activity, even if aligned to a sub-sector policy, can limit the flexibility of resource allocations, and the efficiency and effectiveness of overall sector resource allocation. Box 12 illustrates this for Uganda. This makes it more difficult to align sector funding with sector-wide policies.

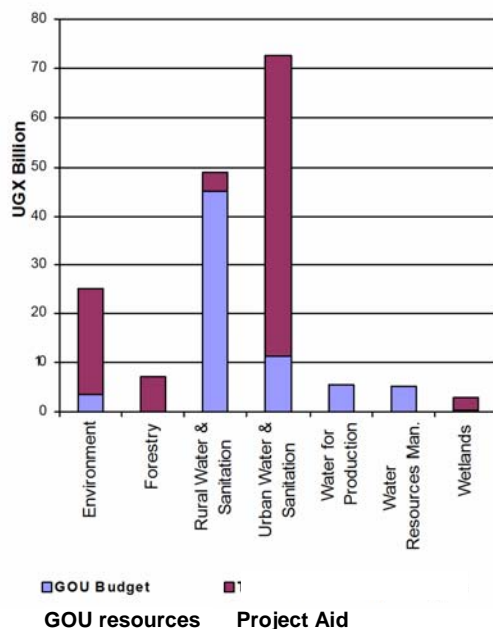
Box 12: Projects, CFs, inflexibility and inefficiency in Uganda

How can inflexibility affect the efficiency with which services are delivered?

In Uganda, in the rural sector – where budget support is the dominant aid modality – per capita investment costs are nearly four times lower than that of the urban sector, even though only 10% of Ugandans live in urban areas. This is even in the context of rising unit costs in the rural sub-sector, which are attributed by the

Ministry of Water, Lands and Environment to the exhaustion of low-cost technology options. The administrative overhead in the rural sector for administering service delivery also appears far less than in urban areas.

At recent sector reviews, a resolution was made to increase rural funding and improve overall sector efficiency. Given that no resources were available from the Ministry of Finance, Planning and Economic Development, the implication is that funding would need to be reallocated from the urban sub-sector to improve efficiency. However, as urban funding remains dominated by projects and a CF, the sector could not reallocate funding to the rural sub-sector. Project and common funding entrenches inefficiency in the sector.



Source: ODI (2007).

All three cases have seen an increase in domestic budgetary resources, fuelled in part by increases in budget support. The GBS evaluations posit that this has the effect of increasing the incentives for spending agencies to engage in domestic budgetary processes.¹³ The strongest positive effects on planning and budgeting processes can be observed in Uganda, where the decisive shift towards the allocation of funds to domestic budgetary systems, and away from domestic projects, has facilitated almost full alignment with sector policies and systems over a short time horizon in rural water. However, it is evident that the degree to which this has a positive effect on the efficiency of resource allocation depends on the challenge function in the budget process itself. In Mozambique and Tanzania, this is particularly weak.

Yet, as long as donors continue to fund projects, sectors will continue to have an incentive to bypass ministries of finance in order to secure funds directly from donors and actually resist integrating such funds into the budget. Meanwhile, sectors fear that a shift towards budget support means that they will suffer a loss of funding as well as TA associated with other forms of aid modalities (Akroyd, 2004). This further undermines incentives to shift towards budget support.

3.4 Institutions and systems for service delivery

Strengthening domestic institutions and service delivery systems is a key element of sustainable improvements to service delivery. The use of government systems is a key pillar of the Paris Declaration. Before the reforms to aid in the three case studies, sector institutions and service delivery systems were dysfunctional and characterised by weak capacity. However, progress in

¹³ The 10-country GBS evaluation notes that this aid modality has strengthened country budgeting processes by requiring 'sector ministries to engage directly with the national budget process' (IDD and Associates, 2006).

strengthening them has been patchy at best, and many institutional weaknesses remain. Here, we first examine the effects of this on central ministries, and then the systems and institutions for service delivery.

In response to the processes associated with SWAPs, sector ministries have needed to develop the capacity to carry out their core functions of national policy formulation and performance monitoring. Most importantly, the sector has benefited from strong technical leadership and political support early on, which has helped keep a strategic focus in the dialogue. The Ministry of Health in Mozambique lacks qualified staff, and has historically depended heavily on short-term TA. However, in recent years, the number of short-term technical assistants working in the ministry has decreased significantly, and they have not been replaced. In Tanzania, the Ministry of Education and Vocational Training has changed little. In Uganda, the Ministry of Water, Lands and Environment has developed capacity in these respects, albeit with TA to support the civil servants managing the process. However, there are differences between sub-sectors. In the rural sub-sector, the structures and capacity to support local governments in service delivery have been developed through the establishment of regional technical support units (TSUs). In the urban sub-sector, the ministry is still not well geared towards supporting local service delivery, and focuses much of its time on managing donor investment projects.

When dialogue processes, which are strategically intended to be policy- and performance-focused, become dominated by operational issues, such as is often the case in the health sector in Mozambique around CFs, this has a detrimental effect in that institutional capacity is drawn away from its core function. Meanwhile, the absence of sector-wide policy processes, and the silo mentality resulting from the focus on sub-sector funding modalities like the PEDP, has meant that such capacity has not been developed in the education sector in Tanzania (Box 13).

Box 13: The effect of the PEDP on institutional capacity

In Tanzania, project aid and the basket funding arrangements within the education sector have not contributed to any visible strengthening of sector institutions at the central level, and in fact have undermined the development of cohesive institutions within the sector by adding to fragmentation, as discussed above. There is also little sector-wide ownership of policies created at the project or sub-sector level. The history of the development of the PEDP points towards heavy donor involvement (one of the main reasons for its development was the debt relief funds available for education), which crowded out sector ownership of the policy. More generally, policies at the sub-sector level (funded by donors, e.g. the PEDP and the Secondary Education Development Programme (SEDP)) have been run and managed as enclaves within the sector and their ownership has not transcended these borders. The PEDP review of 2004, for instance, notes that line directors in the education ministry were excluded from engagement with the PEDP. The inability of the sector to mainstream these policy enclaves has been a result of both donor behaviour and lack of government leadership, especially at the political level, within the sector.

At the local level, there has been strong criticism of the way in which the PEDP undermines decentralisation, as pooled funds are allocated to the education ministry for disbursement to schools through the councils, on approval of work plans and budgets. This is in direct contradiction with decentralisation policy and weakens institution-building and ownership of policies at the district level.

However, the availability of funds at the local level through the PEDP has meant that communities have started to take local ownership seriously, and a 'demand culture' seems to be growing. School committees, given responsibility for developing good financial record-keeping skills, are now demanding improvements in financial flows to schools, greater transparency in the provision of funding and more voice in decisions over resource allocation and use at the ministry and council level. School communities have also started to comment on their role in planning when funding at local levels remains unpredictable owing to excessive requirements by PFPs. School communities can be further strengthened if they are given more control of less unpredictable funds (URT, 2004).

The continued use of projects contributes further towards weaknesses in ministries. Projects often attract the best staff, as government officials closely interacting with or responsible for projects derive authority, status and a number of other monetary and non-monetary benefits from them. This is particularly evident in the Tanzanian case because of the sub-sector culture prevalent in the sector.

Leadership of central institutions and political support for reform are key to the strength of such institutions as well as the success of reform process. As described earlier, this leadership is fragile where it exists, and is not always present. Technical leadership combined with early political support for the Ministry of Water, Lands and Environment in Uganda was instrumental in its strengthening, although political attention has now moved on somewhat. A recent change in leadership in the Ministry of Health in Mozambique appears to have disrupted some of the progress made in strengthening capacity. In Tanzania, an absence of strong political leadership at the Ministry of Education and Vocational Training has contributed towards the weakness of the institution.

We now turn to the impacts of the changes in aid delivery on service delivery systems and institutions at the local level. In Tanzania, capacity of primary schools appears to be improving, as increased inputs are being delivered directly to that level. However, there has not been significant development of capacity at the district level, despite its role in managing and monitoring service delivery. In Mozambique, the health sector is still facing a human resource crisis arising from a lack of skilled technicians at the provincial and district levels; institutional capacity is therefore very weak. In Uganda, with the increase in resources availed through the grants system, local governments have been able to recruit staff and build institutional capacity at the local level. However, in the urban sector, the capacity to implement urban schemes at the local level has not been developed.

It is very difficult to talk about service delivery systems without talking about funding modalities, because the funding modality is a core element of systems for service delivery. At the time that reform processes were embarked on in all three countries, domestic service delivery systems and mechanisms for their financing were broken. Fragmented donor projects were often the major source of funding for operational inputs and investments. The role of the government was predominantly to pay salaries.

A key justification for the use of CFs is that domestic systems are weak and unable to provide the type of information and assurance donors are seeking. However, the case studies reveal that CFs may actually become a barrier to the strengthening of domestic systems. Nevertheless, where CFs have been established, they have often become the dominant system for delivering inputs to service providers. In Uganda, the JPF and donor projects are the only funding channels for urban water sector investments. In Tanzania, the PEDP was the mechanism for providing operational funding directly to schools. In Mozambique, the system for distributing medicines is the CF. Meanwhile, the domestic budget remains dominated by salary costs. Because domestic sources of financing for operational and capital dimensions of service delivery are negligible in comparison with CFs, they *de facto* become the system; domestic systems remain weak and insignificant. In such an environment, any strengthening taking place is of donor financing systems. It is difficult to see any strengthening of government systems beyond the management of human resources. This remains a major challenge in Mozambique and Tanzania. It is evident that the creation of a CF, and the systems around it, will confront the very same challenges and capacity constraints. Problems are exacerbated when donors impose unrealistic monitoring requirements (given the environment). In Tanzania, predictability was only improved once donors reduced reporting requirements from every quarter to twice a year. Donor desire to retain tight control over funding and a greater degree of operational involvement can actually be counterproductive in building capacity from a very low level.

The rural water and sanitation sector in Uganda remains the exception, because the funding channel used from the outset was the government grants system, supported by debt relief and

budget support. The use of government systems has led to both a strengthening of those systems and institutional capacity at the local level over time.

Box 14: The district water conditional grant in Uganda

In the late 1990s, the rural water sector was having severe problems delivering water and sanitation services. The projects working with local governments at the time faced severe capacity constraints at the local level, and no government systems existed. In 2000, a decision was made to establish the district water grant to support local governments. Yet, the mechanism for channelling grants to local governments only existed on paper in the sector (although other sectors were using grants to fund local government service delivery). The government allocated additional resources from debt relief, and subsequently general and sector budget support through the newly formed grant conditional grants to local governments where donors had been struggling to establish capacity, simultaneously developing systems around the grant.

The conditional grant not only supported service delivery, but also explicitly supported the establishment of offices and recruitment of qualified staff, and this was instrumental in building capacity at the local level. The fact that funds were transferred for delivery while building capacity meant that there were stronger incentives to attract and retain qualified personnel.

In addition, the focus of the Ministry of Water, Lands and Environment has turned to supporting local governments and not implementing projects. The establishment by the ministry of regional TSUs built the capacity of district water offices to play their role effectively and understand national policies.

This contrasts with Tanzania, where the PEDP has undoubtedly had a strong positive effect on capacity at the school level, but has failed to build strong district capacity to manage the education process at the district level – mainly because the system built around the CF has largely bypassed districts. Mozambique has involved local governments in SWAP processes, and efforts have been made to decentralise planning and budgeting, but real change has been limited. Human resources remain the key constraint, and this is compounded by the fact that districts still have very limited discretionary power over planning and expenditure decisions.

At the local level, off-budget funding modalities, including support to NGOs, and cross-sectoral programmes also have the potential to weaken sector systems and capacity further, by distracting already overburdened sector capacity with discrete and varying demands. These NGO activities are usually not well aligned with government policies and systems, and the degree of compliance with sector policies and processes largely depends on the managers implementing these parallel interventions. It may be additionally difficult for local governments of sector ministries to track all NGO activity related to the sector if NGOs are dealt with collectively by another government agency.¹⁴ In most cases, the donors providing harmonised funding at central levels are simultaneously contributing to greater fragmentation at district and urban levels.

Finally, it is important to highlight factors outside the sector, which have an effect on the strength of sector systems and institutions – and the ability to make progress in building sectoral capacity. Often, public sector conditions of service are such that central ministries are not able to retain quality staff, as is the case in Mozambique. The reliance this creates on short-term TA in the past has further weakened sector capacity. In Uganda, the Ministry of Public Service led a district restructuring exercise, which resulted in staffing cuts in the district water offices – whose capacity the sector had spent a great deal of time and money developing. Other factors are often linked to the broader governance environment, which is discussed in the next section on the context of accountability.

¹⁴ In Tanzania, for example, NGOs are currently required to register with the Ministry of Community Development, Women's Affairs and Children and education officials have complained of the difficulties in accessing this information from there.

3.5 Domestic accountability

Accountability in its simplest terms is defined as the responsibility of someone to deliver a task to someone else. Wilhelm and Krause (2007) posit that ownership, capacity and incentives all underpin strong accountability, and give the following examples of accountability:

- Parliament holding the executive accountable for implementing the budget as approved;
- Donors holding the government accountable in using aid resources in according with PRS priorities;
- Citizens holding politicians in parliament accountable for delivering on electoral promises; and
- Ministries of finance holding sector ministries accountable for funds spent and results achieved.

Ultimately, such accountability relationships underpin the functioning of the public sector, yet domestic accountability relationships are particularly weak in aid-dependent countries. Typically, the executive dominates, and parliaments are not a strong check on this, as they are often dominated by the ruling party. Accountability of public service delivery to citizens tends to be poorly developed. In the context of neopatrimonial states, government resources are used to consolidate the position of those in power. Box 15 describes the situation in the three case study countries.

Box 15: Domestic accountability in Tanzania, Uganda and Mozambique

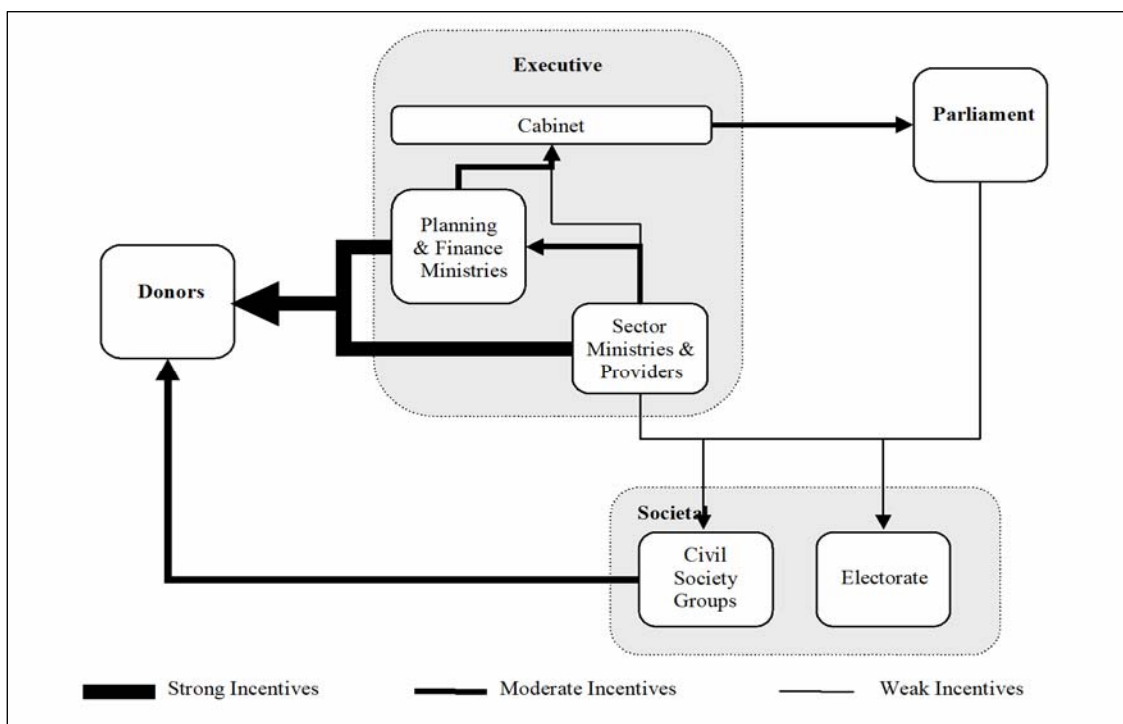
Although the executive is dominant in all three countries, the cabinets are not strong drivers for accountability against policy. In Tanzania, it appears preoccupied with approving new policies, and is not structured in a way that is likely to deliver demand for performance against existing policies. In Uganda, ministers were more likely to demand specific sector interventions than demand for performance against policy. Through PRS monitoring processes in both these countries, efforts are underway to improve cabinet engagement in monitoring. This means that, from within the executive, the main demand for accountability from sector institutions comes from the central finance and planning ministries. In all three countries, these institutions exert some pressure for efficiency, but they have yet to provide a serious challenge function to the sector. More promising are improvements in financial accountability, which come from a strengthening of the accounting function. In Tanzania, accounting has become increasingly rules-based, supported by a strong accountant-general and the implementation of the Integrated Financial Management Information System (IFMIS). In Uganda, an action-oriented accountant-general has helped deal decisively with problems with financial management in the Ministry of Water, Lands and Environment.

In all three countries, improvements to the external audit function have been made, supported by the GBS dialogue. In Tanzania, the auditor-general has started to provide separate reports for individual spending agencies. The timeliness of the audit has improved in Uganda. Yet, it is parliament that is the main domestic source of demand for accountability outside the executive. In Tanzania and Uganda, most members of parliament (MPs) have little incentive to be critical, as the ruling party dominates. Parliamentary committees also lack the capacity to critically assess reports presented to them, although the Parliamentary Budget Office in Uganda supports committees in their scrutiny. With the introduction of multiparty democracy in Uganda, the Parliamentary Accounts Committee is increasingly serious in its work, which consequently means that line ministries also take their submissions to the committee seriously. Efforts are being made to reduce the backlog of audit reports that the committee has dealt with. In Mozambique, the opposition has yet to pose a meaningful challenge in Parliament. In Uganda, there was a feeling among central-level respondents that national politicians can undermine adherence to sector policies and, in some cases, political pronouncements can work against ministry directives. In Tanzania, MPs regularly demand more projects in their constituencies to improve their chances of re-election.

In this context, the typical aid environment of a developing country further undermines accountability. External demands for reporting skew accountability towards donors and away from domestic constituents (see Figure 6). This ability of external demands to subdue domestic

accountability patterns is stronger in the case of donors directly funding sectors. The direct link between donors and sector ministries establishes extra-government lines of funding and accountability, which are sometimes stronger than links within government. Over time, this phenomenon fosters an uncooperative culture within government and weakens institutional links between central and sector ministries, which are gravely important, as discussed above (Berke, 2002).

Figure 6: Incentives to report biased to donors



Source: Wilhelm and Krause (2007).

Here, we need to ask whether changes in aid delivery at the sector level have actually served to strengthen domestic accountability processes and reduce the skew towards domestic actors. Although the evidence in the case studies was not particularly strong, some observations can be made.

Within the sectors studied in Uganda and Mozambique, it appears that, to varying degrees, domestic accountability against policy has improved. Although they were initially formed through external initiatives, JR processes and the associated sector-wide monitoring processes have emerged as important domestic fora for reviewing performance against government policies. This is undoubtedly positive for domestic accountability. They open up engagement of domestic stakeholders from within and outside government. However, governments are not always responsive to dialogue deliberations. For example, recommendations in the Mozambique joint health sector reviews are not always acted upon. The government has been similarly unresponsive in Tanzania, and the Ministry of Education and Vocational Training even went as far as banning the leading education sector NGO from the dialogue (although it was later reinstated), which raised issues relating to its unresponsiveness to policy recommendations. Also, donors have the habit of dominating the dialogue with government, which often crowds out the voice of domestic constituents. This is a strong concern in both Mozambique and Uganda. Furthermore, perverse incentives from donors, as noted earlier, where donors defend sector positions, can protect sector institutions from domestic accountability demands.

The increased amount of sector funding making use of domestic systems in all three countries has increased the scope of formal budgeting and accountability systems to cover more sector funding. This subjects donor funding to formal government accountability systems, which was not the case before, and shifts the spotlight to these systems. This has important effects for incentives. Sector institutions, as well as cabinets and parliaments, now have a greater incentive to engage with domestic budgetary processes, and this reinforces domestic incentives. In parallel, increased attention has been given to domestic accounting and audit systems in all three countries, which has contributed to the progress that has been observed in improving their effectiveness. Evaluations of budget support in the three countries (IDD and Associates, 2006; Lawson et al., 2006) support this finding. In Mozambique, government attention to accountability processes shifting from development partners to parliament has been documented (Batley et al., 2006).¹⁵ However, even if budget support contributes to reductions in the volume of off-budget planned flows, the same donors still continue to undermine the process by continuing with untransparent project aid.

Increasing levels of budget support have meant that donors themselves have focused on government accountability processes, supporting their strengthening instead of that of government systems, at the central level. Yet, aid and donor behaviour still shifts accountability away from domestic constituents. Donors still undermine domestic accountability systems by setting up parallel procedures to address their own fiduciary concerns, and this can crowd out accountability demanded by civil society and, in some cases, can work to counter executive demands for greater efficiency. CFs tend to concentrate attention and accountability demands on the funding modality, and not on accountability for delivery against policy objectives. The effect is worse than for projects, because multiple donors are concentrated on similar issues. This distracts attention and capacity from broader policy issues. However, the shifts in aid instruments and increasing attention to formal domestic processes are beginning to bear fruit and redress this imbalance.

At local level, the accountability picture is mixed for sector service delivery. In Tanzania, the empowerment of committees at school level has definitely improved the accountability of schools to the public and the engagement of the public in the running of schools. However, the fact that district governments are largely bypassed in the decision-making process means that local political accountability has not been tapped into. In Uganda, district-level service delivery is funded through the government grants system and not donor-specific grants; this has helped improve local political accountability and local politicians have absorbed the policies of the centre. Put in layman's terms, the public view is that water points are now provided by 'the district' and not the UN Children's Fund (UNICEF) or the Danish International Development Agency (Danida). In one district, it was claimed that local politicians now check with district water offices whether investments are provided for in the budget before making pledges to communities. However, interviews also pointed to the susceptibility of local offices to the institutionalisation of corruption from the centre, from audit and inspections to accessing releases. There are similar concerns in Tanzania.

Thus far, this paper has touched upon governance issues related to formal government systems and processes, but not the dimension of corruption, which is often synonymous with observations of weak accountability. The interaction of aid instruments and corruption was only discussed explicitly with stakeholders in the Uganda case study, but a key observation might be that all aid modalities are subject to corruption; the defining factor is the general governance environment, and whether this environment condones or confronts corruption.

¹⁵ In Mozambique, for instance, although domestic accountability remains weak, there are examples of it becoming stronger as more funds are brought on-budget. For example, the scope for parliamentary accountability has increased to the extent that the state budget has grown, as a proportion of development partner funds have been brought under the state budget framework. Bringing development partner funds on-budget has increasingly become a policy issue of the health sector SWAP and particularly of CF development partners. While instruments of domestic accountability are weak, examples of them becoming stronger have been documented, as accountability has been shifted from government to development partners, and now to government and to parliament (Batley et al., 2006).

Box 16: Aid instruments and corruption in Uganda

In Uganda, explicit discussions were held on the susceptibility of aid instruments and corruption. The failure of the government to address corruption, which is perceived to be increasing, is emerging as a key issue of concern for donors. Among Ugandan respondents, the message was clear that it was the underlying governance environment, and not the aid modality, which was the key determinant of the degree of corruption to which aid was exposed.

The conventional argument is that, because government systems are weak, they are more susceptible to corruption, and hence budget support is most susceptible to corruption because it uses those systems. However, it was evident that, despite the use of parallel donors systems, project support was vulnerable to corruption in similar ways – especially through procurement and false accountability. For example, significant pressure was allegedly put on managers of donor-funded projects to extract rents prior to elections. Large-scale projects appear especially susceptible to corruption, as they face similar vulnerability to the government budget. A recent high profile corruption case caused the Global Fund to suspend disbursements.

There were also allegations of corruption in the NGO sector and the private sector – which indicates that the broader governance environment does not just affect the public sector.

Although aid and donor behaviour play their part, the strength of domestic accountability mechanisms and the institutions involved ultimately depends on whether the prevailing political environment allows them to function effectively. In most developing countries, and especially those that display neopatrimonial tendencies, this means change is likely to be slow, and not always in a positive direction. The Ugandan case shows that strong sector-level policy processes, institutions and delivery systems can help buttress a sector against negative changes in the broader governance environment.

3.6 Summing up

The effects of the changes in aid delivery have been mixed. This is in part because there has not been a decisive shift towards the new aid paradigm, and in part because the underlying government systems, accountability processes, capacity of institutions and political environment within which the sectors operate are different and difficult.

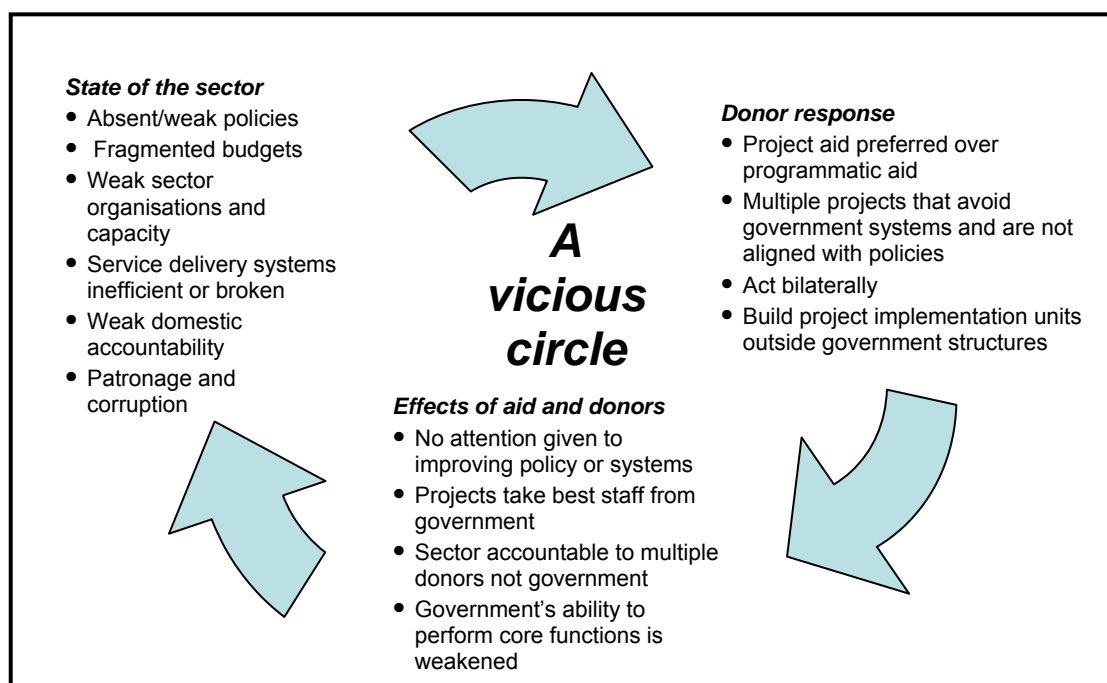
However, it is apparent that working towards coordinated and comprehensive policy processes in which donors are engaged, and shifting towards budget support aid, have net positive effects on sector policies, institutions, systems and accountability. The value of CFs as transition mechanisms in the new paradigm, however, is questionable. While there are some benefits to harmonisation in moving from projects to CFs, there are significant costs to the domestic sector service delivery systems they support, and they often prove very difficult to dismantle. They also skew policy processes towards them. Finally, it is important to emphasise that, as long as project support remains in significant volume, then the negative effects on sector institutions and accountability will remain.

4. Key findings, implications and conclusions

4.1 The vicious circle of ineffectiveness is not broken, yet

The title of this paper is a question. How do different aid modalities and coordination mechanisms affect institutional incentives and domestic accountability? The deployment of uncoordinated project aid in many sectors has contributed and continues to contribute towards a vicious circle (see Figure 7), which compounds poor sector governance. 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.

Figure 7: The vicious circle of aid ineffectiveness



This was the situation in the three country case studies, prior to the introduction of SWAP reforms in the sector, and is applicable to many of the sectors in which donors are traditionally engaged in aid-dependent countries. The new aid paradigm described in Section 2 was intended to break this circle by improving coordination and changing modalities. This has been partially implemented in the cases studied. With the shifts in aid modalities and changes in donor interaction with government, to what extent has the circle been broken?

The literature and country case studies point to positive effects arising from the changes in aid and donor behaviour on sector governance (documented in Section 3). In short, the partial shift towards programme aid in the form of DBS and debt relief has improved the legitimacy of domestic budgetary processes and the scope of domestic accountability systems across government. Coordinated policy-focused dialogue and TA has supported stronger and more comprehensive policy frameworks at the sector level in Uganda and Mozambique, and consultative JR processes have facilitated ownership and stronger domestic accountability in those sectors. In Tanzania, concentrated support to service providers has strengthened local accountability.

However, in none of the sectors studied has there been a decisive and comprehensive break from the past. There are six main reasons for this:

- The mix of aid modalities has not changed decisively towards budget support;
- Traditional practices in the delivery of aid remain, which continues to have negative effects on sector policies, systems and institutions. In particular, alignment of projects and CFs with government systems is done poorly;
- CFs in support of service delivery, if poorly conceived and designed, can serve to undermine sector governance more than traditional projects, and can distract coordination mechanisms away from core policies and systems;
- Dialogue on government policies and systems has not been done well, and is often bogged down in operational issues relating to funding instruments;
- Donor and recipient incentives are not consistent in delivering the new paradigm effectively; and
- Factors beyond the aid environment, both internal and external to the sector, have served to dampen the effects of the changes observed in aid and donor behaviour.

In one sub-sector, rural water and sanitation in Uganda, it could be argued that there has been a decisive shift: the circle has been broken. This is the one case where there was an almost complete shift from project to programme aid in the form of debt relief and DBS in support of service delivery.

4.1.1 The mix of aid modalities has not changed decisively

At the aggregate level and the country level, the mix of aid modalities has yet to change decisively. Even in countries with the most decisive shifts in aid modalities, standalone projects remain dominant. There has been a clear shift towards sector programme aid. However, this does not necessarily mean a shift in aid modalities. It just implies that more aid is being aligned with sector policies and programmes and, if the case studies are representative, this appears to have been achieved through reforms to conventional projects and an increase in CFs. There has not been a decisive shift to budget support, even though the spirit of the new aid paradigm implies such a shift.

The three case studies represent examples where the move towards sector programme aid and GBS has been more decisive than average. However, even in these cases, the shift has not been comprehensively decisive: standalone projects dominate in two of the three sectors. The shift to CFs has been significant in all three cases.

4.1.2 Continuing traditional practices in the delivery of aid

Although the mix of aid has not changed decisively, there is still significant scope for improving the way existing aid modalities are delivered – through harmonisation, policy alignment and increasing use of government systems (the Paris Declaration explicitly encourages this).

Yet, a key finding from the case studies is that continued substantial project funding still has a negative impact on sector institutions, systems and service delivery. There is evidence of improved policy alignment and greater harmonisation, but the problem of parallel systems, whether for standalone projects or common funds, continues. Projects also continue to draw capacity from core government functions. It also appears from the analysis that CFs perpetuate many of the problems of standalone projects. This is because CFs, in effect, behave as large traditional projects.

4.1.3 The perverse effects of CFs

The analysis suggests that CFs in support of service delivery, if poorly conceived and designed, can serve to undermine domestic delivery systems, institutional incentives and accountability more strongly than traditional projects. CFs, when they support service delivery nationally, do so on a scale that can almost completely replace pre-existing domestic systems, as the PEDP has done in Tanzania. This defeats the objective of CFs being a transition mechanism, by making it more difficult to transit towards government system and dismantle systems created by the CF.

A fallacy of CF in support of service delivery is the motive for their creation. The common justification is the weakness of government systems and processes and the lack of fiduciary assurance they provide. Yet, to develop systems around a CF, which is intended to support service delivery nationally, requires similar effort to developing and strengthening domestic systems. The same capacity constraints are faced in either case. It is also unlikely that CFs will provide greater fiduciary assurance than the budget itself, because a CF on a national scale confronts the same capacity constraints as does the government. As the Ugandan case in rural water demonstrates, the use of notionally earmarked budget support provides all the potential benefits of a best-case scenario CF without the operational distraction of such a mechanism. Domestic systems can be developed, and donors can play a role in doing so while providing financial support in the form of sector support or GBS. One justified residual concern may be predictability of budgetary funding through the treasury system. In Uganda, this has been overcome, as the government protects the cashflow to priority programmes: this is an important assurance provided to donors.

Furthermore, CFs focus multiple donors' and the lead sector institution's time and effort on dialogue over the management of the specific aid modality, and away from policy issues and overall sector performance. This undermines efforts to build stronger policy processes, and concentrates accountability on the CF itself and not on the sector. The fact that CFs involve multiple donors and focus on a single modality actually makes the situation worse.

The implications of these observations are twofold. Firstly, more consideration needs to be given to the use of earmarked, sector or general budget support as a modality to fund service delivery, if predictability concerns can be addressed. Secondly, more careful attention needs to be paid to the design of CFs, and in particular their alignment with government systems, as described in the previous section. The negative implications of a badly designed common fund are greater than that of a badly designed standalone project supporting service delivery. They are also far more difficult to dismantle than standalone projects.

This should not be read as a universal critique of CFs. For example, negative effects are not applicable to those CFs that support capacity development and TA. Although dialogue may still get bogged down in operational issues, the joint provision of such support may lead to more coherent support to strategies for the building of institutions and systems. There are also gains to be had from the joint working which CFs demand.

4.1.4 Policy dialogue and coordination done badly

Central to improving the effectiveness of aid is the quality of domestic policy processes and their ownership. If those processes result in badly conceived policies and systems, the effectiveness of the paradigm is undermined; if reforms fail to address human resource and institutional capacity issues, policies are likely not to be delivered; and if insufficient attention is paid to generating broad ownership of policies through consultation, implementation will be uncertain. If aid modalities – whether budget support CFs or projects – are aligned to poor policies and systems, then they are more likely to create duplication and poor results.

Although budget support improves the chances for more dialogue on policies and systems, this is only going to be effective at a sector level if strong policy processes emerge at that level. Where

dialogue structures have been established at sector or sub-sector level, the resulting dialogue is often poorly focused and bogged down in operational issues relating to aid-funding mechanisms. Although dialogue on broad policies and strategies has improved in the context of JR processes and the associated coordination mechanisms, the quality of dialogue relating to service delivery systems and institutions to implement these policies has not. As observed, the funding modality often drives the reform process, rather than the policy and systems reform driving the design of the funding modality. This means that the modality dominates the agenda before the concepts for domestic delivery systems emerge. In Uganda, the systems thinking was done before the development of the SWAP; in Mozambique and Tanzania, the policy reforms were carried out simultaneously with the move towards common funding, with little *ex-ante* thinking relating to systems and institutional development.

An underlying problem is that the skills sets that donors used in the past were not necessarily suited to policy dialogue, or providing support to the development of domestic delivery systems. Nor were the sector line ministries with which they were to engage well suited to policy dialogue and systems development – instead, they implemented donor projects. Thus, it is unsurprising that quality of the dialogue has not been guaranteed. High turnover of donor and to a lesser degree government staff adversely affects the capacity of dialogue and the partnership that emerges.

4.1.5 Donor and recipient incentives are not consistent with the paradigm

An important feature of the vicious circle of traditional aid, and predominance of projectised aid, is that it is underpinned and perpetuated by strong incentives. Such incentives are to be found within both donor agencies and recipient governments.

Donor agencies benefit from the visibility associated with separately managed and ‘branded’ projects. They assist in defending the aid budget to parliamentary committees and audit authorities, and in defending the departmental budget within the agencies. In some agencies, it is still the case that staff promotion prospects are enhanced where a particular large project can be presented as the work of an individual or a small team. In contrast, where more programmatic multi-donor ventures are introduced, visibility is lost and the attribution of development results to the particular donor’s support becomes problematic. Given the continued desire for donors to remain visible, project aid has continued, alongside the shift towards CFs. When donors engage in CFs or budget support, the desire to be visible manifests itself in different ways: for instance, individual donors are often under pressure to influence the dialogue in particular ways. This concern is especially pronounced when donor agencies are heavily concentrated in a particular field, or when a donor is small relative to others in a field.

Donor risk aversion also favours freestanding projects and CFs. A standard assumption, which is not always borne out in practice, is that projects can be tightly managed whereas using government systems to manage projects or programme calls for a ‘leap of faith’, given the weaknesses in sector systems. At an aggregate national level, it is easier to argue for a shift towards general budget support on the basis of broad systemic improvements to PFM. However, if one is risk-averse, the weakness of systems at a sector level makes it more difficult to argue for a shift towards earmarked or sector budget support from that level. It is perceived ‘safer’ to use projects of CFs instead.

Even when progress is made in the new paradigm, the incentives faced by individual staff in donor offices distort both central and sector processes. As domestic processes become more important, sector staff has an interest in defending their sector’s performance and lobbying for funds in the budget process, rather than trying to improve the effectiveness of sector implementation. This may reduce the incentives for sectors to perform, especially when the challenge function from the finance ministry is weak, which is the case in the three country studies. Although donor staff engaged in the central dialogue on GBS and the budget may be interested in this, the behaviour of sector staff undermines the legitimacy of such a dialogue.

Incentives to perpetuate the use of traditional projects also exist within recipient governments. Project modalities with parallel funding and management mechanisms generate multiple material and non-material benefits for the ministers and civil servants in whose sectors they are located, including salary top-ups, allowances, vehicles, training and travel opportunities and prestige. Ministers, parliamentarians and local authorities are interested in the political credit they get for attracting a standalone project to a specific sector or area. The resource flows from a freestanding project are comparatively reliable and relatively simple to control. The government officials in the sector or local government prefer to avoid the unpredictability, rigidities and reporting requirements associated with funding through the national budget, and the reduced control this implies. In addition, dealing with a single donor is simpler than dealing with several through a pooled funding or budget support arrangement, where donors tend to 'gang up' on the ministry in ways that reduce its discretion.

Given these incentives, the likelihood that many donors will be able to deliver a decisive shift towards DBS and to focus effectively on government policies and systems at the sector level is crucially undermined.

4.1.6 The domestic context is not always favourable

Furthermore, the domestic context, within the sector and within the broader systems and governance context as a whole, is not always in favour of a decisive break with the past.

Outside the sector, central government policy, planning, budgeting and accountability processes and the broader political governance and accountability environment are important influences. Evidence shows that moves towards budget support positively influence broader government systems, and increase their legitimacy across governments. However, this still leaves the underlying environment of political governance, on which the aid environment has little effect. This political environment can serve to facilitate or hinder the development of sector-level policy processes, systems and underlying accountability. However, broadly, the environment in low-income countries does not favour strong domestic accountability and incentives for the public sector to deliver against policy.

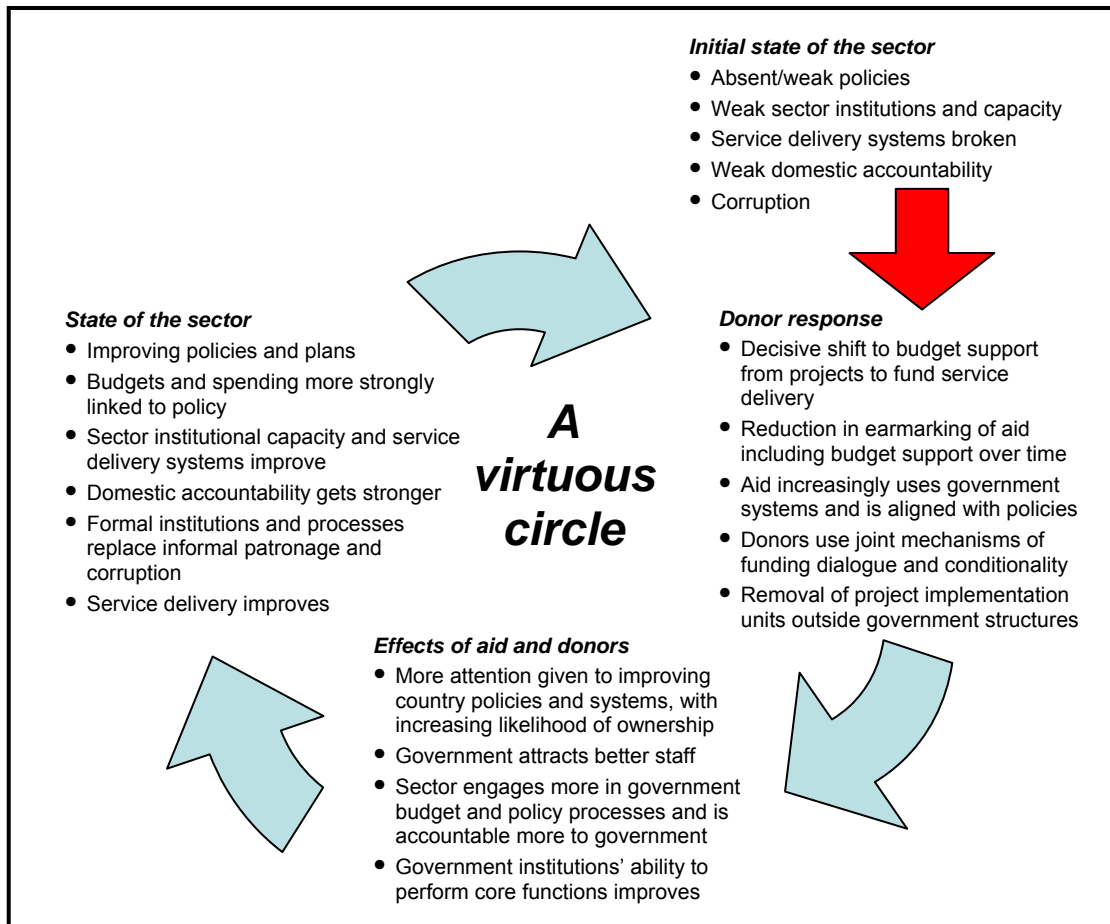
Meanwhile, the most important factors internal to the sector are political and technical leadership. Institutions still rely on individuals to function well. It is often these leaders and individuals who are important in managing processes that foster domestic ownership. Yet, the political environment and quality sector leadership are also very difficult to influence through donor behaviour and aid modalities. When this is combined with vested interests within the sector, which are likely to be in favour of continued project support and direct relationships with individual donors, it is therefore often difficult to find entry points for reform.

In the Ugandan rural water case, where it is argued that there has been a decisive shift, it appears that sector-level policy and review processes serve to buttress the sector from a less favourable external governance or donor environment. It becomes more difficult to dismantle policies and systems when there are domestic review processes where constituents demand accountability.

4.2 Creating a virtuous circle of improving effectiveness

The new aid paradigm is largely well conceived, and has the potential to improve sector governance significantly and deliver a break from the vicious circle of conventional aid and donor behaviour keeping sector institutions and accountability weak. However, if the aid paradigm is to be implemented effectively, the issues outlined in Section 4.1 need to be addressed. The environment needs to be conducive for it to succeed. Figure 8 outlines how an appropriate donor response could result in a shift from a vicious to a virtuous circle of increasing aid effectiveness

Figure 8: A virtuous circle of improving aid effectiveness



4.2.1 Sector-based aid or GBS?

Sector-specific aid is a reality, and one which needs to be done better, but it is still a desirable objective. The arguments that GBS focuses attention on central processes such as budgeting and PFM are valid. In doing so, it influences these processes positively. It is important that, over time, the importance of domestic budgetary processes increases; GBS can help bolster domestic revenues and help towards this end. However, sector budget support and aid earmarked to sectors can have a positive influence in supporting sector-level policy and systems development, drawing attention to areas not covered by central processes. This can help improve both the effectiveness of aid earmarked to sector and general budgetary resources. Therefore, the question regards an appropriate balance between GBS and sector-focused aid, fostering the strengthening of both central and sector processes.

4.2.2 Delivering better aid and better dialogue at the sector level

The main implication of the analysis is the need to move away from traditional practices in delivering aid at the sector level, and to deliver aid in an improved manner. This involves working on two main dimensions:

- Ensure that aid, in whichever way it is delivered, moves beyond current progress in using joint funding mechanisms and alignment with broad policies towards the use of government systems for delivering inputs and services; and

- Establish and/or improve the quality of sector policy dialogue and policy processes, ensuring the scope moves beyond broad policies and strategies and focuses on strengthening budgeting, domestic systems and institutions too. This involves discipline in the dialogue, so that it is focused on domestic policies and systems and not distracted by bilateral agendas. It also implies that individual donors need to be prepared to lose visibility further when conducting dialogue. This involves donors developing skills to support sectors to develop domestic systems for delivery, and not project-based systems. They also need to improve their institutional memory of such dialogue.

4.2.3 Avoid using projects and common funds in support of service delivery wherever possible

Given the perverse incentives intrinsic to project aid and CFs, the paradigm appears most likely to succeed if there is a decisive shift at the sector level to sector or earmarked budget support in support of service delivery as, by definition, these use government systems, in particular where aid is supporting service delivery. This means, wherever possible, avoiding modalities that drive the development of parallel service delivery systems such as CFs.

Project aid and CFs still have a role to play, however, such as the provision of TA, capacity development, and support to large-scale infrastructure¹⁶.

4.2.4 Addressing the incentives within donor agencies and recipients

Donor agencies have thus far made clear their intentions to deliver more effective aid. However, it is clear that better aid and better dialogue can only be achieved by directly confronting the incentives within aid agencies and recipient governments that perpetuate traditional aid delivery:

- On the government side, a shift to GBS and increasing tax revenues can help improve the legitimacy of the budget and other domestic processes. This will increase the interest with which sector institutions engage in such processes, and reduce the attractiveness of project aid. In addition, the thorny issue of civil service reform, including pay, is key to ensuring the attractiveness of the mainstream civil service.
- On the donor side, it needs to become in staff and country office interests to shift aid modalities towards general, sector and earmarked budget support and to engage effectively in policy and systems dialogue at the sector level. Visibility and donor-specific results should no longer be rewarded, which means head offices and parliaments should no longer be encouraging this. This requires a change in the culture within organisations and those who hold them to account.

4.2.5 A conducive environment

As discussed, the domestic environment may not be conducive for progress at the sector level. The governance environment within a sector and the broader environment outside the sector should be used as arguments regarding the level of aid, and whether or not to give financial aid to a sector. However, they should not be used as an argument over the choice of modalities.

A litmus test for increasing aid to a sector could be the ability of the sector, with the support of donors, to develop an acceptable policy and systems framework. The design of a programme for donor funding on offer should not drive the process.

¹⁶ They also may be applicable in the providing support to service delivery in immediate post conflict environments, where state institutions have yet to be established.

As suggested, the environment within a sector relies on individuals – political leaders and managers. A strong counterpart in the recipient government at any level cannot be guaranteed; without a driver from within government, ownership and incentives that are likely to deliver strong domestic systems and results are difficult to build. There is no easy solution to this, but the new aid paradigm, with the qualifications made here, provides the best chance of success.

4.3 Conclusions

Changes in aid and donor behaviour have delivered some improvements in government policies, systems and, to a lesser degree, accountability, at both the national and sector levels. However, this has failed to deliver a decisive shift from past ineffectiveness, and the vicious circle of aid ineffectiveness is likely to continue. In this paper, we have asserted that the aid paradigm has the potential to deliver this decisive break. A key finding is that CFs appear to be stumbling blocks rather than building blocks in strengthening service delivery. A more decisive shift in aid modalities towards budget support, plus a change in donor behaviour, is required to break out of this circle. Dialogue needs to be more disciplined and focused on core policies, systems and institutions.

However, a key constraint is the incentives within recipient and donor agencies which perpetuate the circle of aid ineffectiveness. Recipient incentives can be addressed by a shift in aid modalities towards GBS. This increases the importance of changing the incentive structures within donor agencies to deliver against the new aid paradigm.

The broader environment in which the sector lies is also important to whether the paradigm can deliver, and this is central to the difficulty in making progress. The narrower sector environment can be influenced positively through sector policy dialogue. However, the difficulty is often in finding an entry point for such a dialogue. Ultimately, the likelihood of reform at the sector level relies on political and technical leadership within government, which is very difficult for the donor community to influence.

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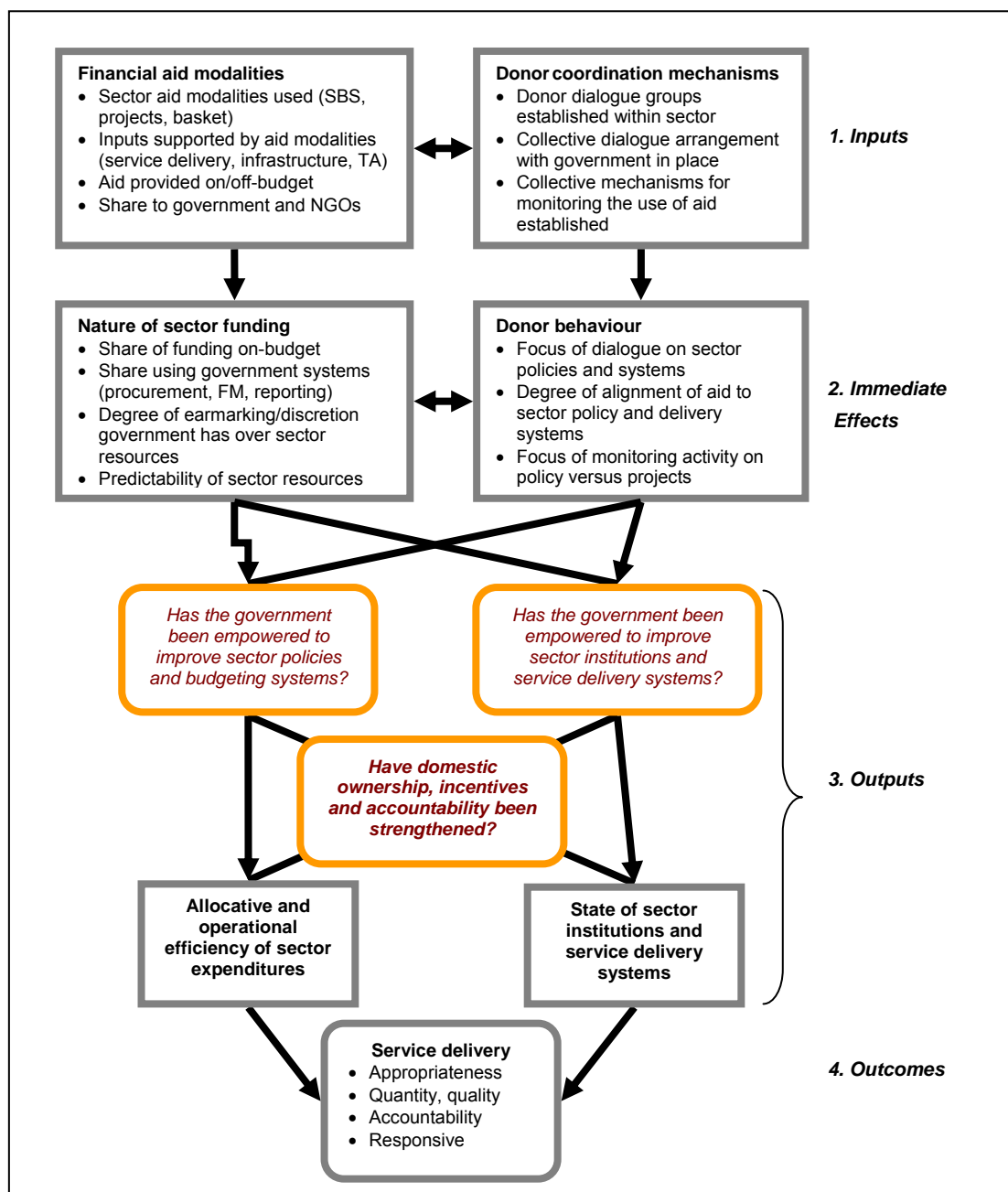
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Annex 1: Analytical framework for country case studies

The analytical framework combines a set of hypotheses based on the first three levels of the evaluation frameworks of budget support (IDD and Associates, 2006; ODI 2003), but with a narrower focus at the sector level on: (i) the effects on sector planning, budgeting and resource allocation, (ii) policy and delivery mechanisms, and (iii) government incentives and accountability.

Analytical framework



This first involves breaking down the development assistance into **inputs** (Level 1), focusing on the mix of financial aid modalities and use of coordination mechanisms; then examining the **immediate** (Level 2) effects of these on: (i) the nature of sector funding in terms of its reflection in the budget, use of government systems, inputs and institutions supported; and (ii) donor behaviour, in particular focusing on any changes in the way donors interact with government institutions.

Finally, the likely and, where possible, actual **outputs** and **outcomes** (Levels 3 and 4) of these changes will be examined, focusing on: (i) policy, planning and budgeting systems and processes, (ii) sector institutions and service delivery systems, and (iii) the strength of domestic accountability.

Annex 2: The Mozambique health sector

A2.1 Introduction, country and sector context

This case study investigates the use of different aid modalities and donor coordination mechanisms in the Mozambique health sector. It is one of three case studies, each of which is looking at a different sector in Tanzania, Uganda and Mozambique. The aim of the overall exercise is to compare and contrast how reforms to the use of aid modalities and donor coordination mechanisms in each of the three countries have affected incentives at central, sub-national and sector levels. In doing so, the study aims to develop a better understanding of how different aid modalities and the mechanisms through which they are coordinated can help strengthen ownership, domestic accountability and policy and budgeting processes at sector level, and therefore improve service delivery.

Mozambique's civil war ended in 1992, having devastated the social and economic structure of the country. Mozambique then found itself in the unenviable position of being the poorest country in the world; soon, it would also be the most aid-dependent. The Mozambican health system was inherited from the Portuguese at independence. It was a highly fragmented system, biased towards urban and curative services, and this situation was exasperated by the 15 years of brutal civil war. Donor aid to the health sector increased substantially in the 1990s, and it was mostly provided in the form of project aid. Donors working in all sectors moved to increase their management of outcomes by taking control of whole districts and even of whole provinces (Martínez, 2006). In effect, they would projectise the country.

This behaviour contributed to system fragmentation, low levels of ownership of health policy, weak delivery of health services, and accountability of government to development partners rather than to Parliament and to Mozambique's citizens. These factors, combined with a shifting aid agenda, contributed to a context where development partners and the government were committed to the development of a sector-wide approach (SWAP) to programming in the health sector and a movement towards increasing the volume and proportion of programme aid to the sector. The underlying principle of SWAPs in Mozambique is to promote country leadership and increase the use of local systems for programme design, implementation, financial management, and monitoring and evaluation. This process was being rolled out at the same time as the development and adoption of the first Mozambican poverty reduction strategy paper (PRSP), the Strategy for the Reduction of Absolute Poverty (PARPA). The health SWAP, initiated in 2000, is broad in its approach but is aimed at strengthening dialogue and coordination between the Ministry of Health and development partners on policies within the context of the PRSP (PARPA I and II) and of the country's socioeconomic development (MoH, 2007). In addition, development partners in the health sector were keen to harmonise their sectoral aid by committing to an increasing share of sector aid through the use of common systems of funding. The main institutional arrangements in the health sector area set out in the box below.

In the aftermath of independence, a wide range of pro-poor policies were introduced to extend social services to remote rural areas: primary health care, primary health care-oriented health professionals, and pro-poor pharmaceutical policy, which comprises an essential drug programme to guarantee a continued availability of drugs at peripheral health units and at the same time to protect them from shortages.

Institutional arrangements in the health sector

The central **Ministry of Health** manages the National Health Service, which has the responsibility for allocating resources to provinces, establishing norms, and fixing targets and goals and inspection. The ministry fixes global ceilings for the provincial level.

The **provincial authorities**, namely, the Provincial Directorate of Health (PDH), replicate the central structure and are responsible for allocating resources to their province. The principal role of the PDH is sectoral planning. The PDHs run planning exercises through the provincial government planning processes, known as the Integrated Planning Exercise. Provinces undertake operational decisions by programming activities and distributing funds within the fixed budget headings. Provinces have a limited discretionary power to reallocate funds.

Districts are responsible for service delivery. Districts have a limited discretionary power to reallocate funds.

Although progress since the mid-1990s (see table below) has been achieved, the Mozambican health sector still faces serious challenges. Today, it is estimated that only half of the entire population has access to basic health services. The last available figures show that 15% of all children die before reaching five years of age, although infant mortality rates at birth decreased from 147 per 1000 births in 1997 to 124 in 2003. However, HIV/AIDS rates have doubled over the same period, reaching 14.9% in 2004. A large number of people are also unable to gain access to health services owing to the fact that one often has to pay for services or medicines. Even though the number of staff has increased over the past years, the number of health professionals per inhabitant is along the lowest in the world, and Mozambique is one of the countries facing a critical shortage of human resources for health care. Although progress has been made in harmonising and aligning development partner aid, the situation for at least half of the Mozambican population remains dire.

Selected indicators of health service delivery 1993-2004

	1993-6		1997-2000		2001-4	
	Cumulative growth	Annual average growth	Cumulative growth	Annual average growth	Cumulative growth	Annual average growth
Output						
Total service units	21.4%	6.7%	21.2%	7.0%	8.9%	3.7%
Available infrastructure						
Total health facilities	20.4%	6.4%	12.7%	3.8%	7.3%	1.5%
Total hospital beds	9.2%	3.0%	9.3%	2.3%		0.9%
Total health personnel	12.8%	4.1%	8.8%	3.1%		7.0%

Notes: The indicator of service units is the following weighted sum: \sum (inpatient days x 9) + (hospital deliveries x 12) + (vaccination doses x 0.5) + (outpatient consultations x 1) + (Maputo Central Hospital consultations x 1). For hospital beds, figures are available only up to 2003, for personnel up to 2002.

Sources: Ministry of Health statistical information (1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001 and 2002 issues); Ministry of Health (2005).

This case study examines whether or not the introduction of coordination mechanisms around the SWAP and the shift of aid modalities in the health sector have generated institutional incentives and supported domestic accountability processes likely to strengthen service delivery and repair damages incurred in the past through uncoordinated project support. It is based on a review of the literature and key informant interviews conducted during a country visit in February 2007.

A2.2 Levels 1 and 2: The aid environment in the sector and its immediate effects

This section describes the two main, interrelated changes to the aid environment in Mozambique's health sector, and their immediate effects: firstly, the move by donors from individual projects to the use of common funding arrangements and the direct effect of this on the nature of sector funding;

and, secondly, the SWAP and its effect on improving donor coordination and coherence in supporting the government of Mozambique.

Use of aid modalities and effects on the nature of external funding to the sector

Development partners were keen to harmonise sectoral aid by committing to an increasing share through common systems of funding. In fact, the provision of the first earmarked budget support for recurrent health expenditures took place as early as 1993 under Swiss cooperation. Arguably, it was this process that spearheaded the adoption of common funds (CFs) in the health sector.

Today, there are three CFs in the health sector: the General Common Fund (GCF), the Provincial Common Fund (PCF) and the Medicines Common Fund (MCF). As of 2005/6, all of the CFs are on-budget. However, only the GCF currently uses government treasury, accounting and audit systems in full. The systems for execution, monitoring and audit remain cumbersome. Initially, the goal of the PCF and GCF was to fill gaps in recurrent funding and some investment expenditure to increase the level of service delivery in the health sector. The GCF and the MCF also now support a variety of technical assistance (TA) at the central level; the PCF supports TA and capacity building at the provincial and district level. The intention is eventually to merge the three CFs.

CFs were thought to be a way forwards towards better alignment of external financing to sector strategies and national procedures. However, in practice, moving fully towards the use of government systems in a transparent way, and merging the three CFs into one programme aid modality, appears to be at least as difficult as it was in the case of traditional projects. Moreover, concerns about protection of essential funding for medicines and the weak financial management systems in Mozambique mean that disincentives to merge the funds still loom large in the debate. There is also concern about the Ministry of Health's capacity to absorb the three CFs, as execution of the funds, although improving, still remains low.

In addition to the CFs, significant funds are still channelled directly to non-governmental organisations (NGOs) and United Nations (UN) agencies by bilateral donors. At least 30% of these funds are totally off-budget.¹⁷ Since 2000, the number of global funds supporting the health sector, particularly for HIV/AIDS, has also increased substantially. The box provides an overview of the main financing modalities in the health sector in Mozambique.

Overview of financing mechanisms in the health sector

The **PCF** aims at financing the current costs of the health sector in the provinces. The funds are transferred to an account held by the Ministry of Health and then disbursed to provincial directorates of finance. The fund is subject to its own audit and monitoring arrangements. There is no legal basis for this financial transfer mechanism in Mozambique but it is justified by frequent liquidity crises, which threaten the flow of essential health funding to the provinces.

The **MCF** provides finance for the Ministry of Health to procure and supply drugs centrally. The fund was originally managed by the Swiss Agency for Development Cooperation (SDC) and had its own Swiss TA managing the fund. The management of the fund has since been transferred to the ministry. As of 2005, the fund is on-plan, in that it is recorded in the state budget, but funds are transferred to a bank account managed by the ministry. The fund is subject to its own audit and monitoring arrangements as required by development partners.

The **GCF** provides untied and unearmarked funds to support ministry plans and priorities. As of 2006, the GCF is recorded in the budget and the funds are transferred to an account in the treasury. At present, only around one-fifth of the investment proportion of the GCF is recorded in the national Programme Investment

¹⁷ It is estimated that 30% of donor aid was off-plan in 2004 (Cabral et al., 2005). If we consider off-treasury financing, the level of funding not executed through government systems would be even larger.

Plan (PIP). However, the fund is also subject to separate own audit and monitoring arrangements. The GCF is the closest of the CFs to a sector budget support programme (earmarked and unearmarked funding).

A number of **global funds** work in Mozambique, including PEMFAR (Public Expenditure Management and Financial Accountability Review), the Clinton Foundation and the Global Fund to fight AIDS, TB and Malaria. These special-purpose funds have developed new structures and follow their own procedures and mechanisms. Predictability and transparency tend to be less consistent than for CFs. Positively, the Global Fund is now executed through the GCF and is on-budget. Mozambique is a test case for the Global Fund.

Multilateral and bilateral agencies provide funding for a plethora of **projects** to Mozambique, particularly at sub-national level. These are generally managed by NGOs. The Ministry of Health estimated that there were over 120 projects and over 100 TA activities/projects being implemented in 2005. Each of these operated using its own financing, reporting and monitoring systems. Only a small portion of these had been included in the state budget, and even fewer in the provincial investment plans. These projects are generally not planned, implemented, executed, audited or monitored in a harmonised or coordinated manner.

Inter- and intra-annual predictability of external funding to the health sector has long been a weakness of aid flows in Mozambique, but this has been partially solved by the advent of CFs. At an aggregate level, the huge volume of project funds, which have their own disbursement channels and tend to have lower rates of disbursement, remains problematic. CFs, on the other hand, disbursed almost 100% of their funding in 2004, according to a ministry assessment in 2005. Importantly, a number of CF donors have multiyear financing agreements, which contributes to government capacity to undertake longer-term planning horizons. However, CF disbursements are not always timely within the year. Late disbursement can be as much a problem as low rates of disbursement associated with project aid. Some development partners have attributed late disbursement to a low sectoral absorption problem and indeed to low budget execution levels for the sector overall (typically between 60% and 80%). They would argue that it is simply not possible to disburse new funds until the existing funds have been spent. In any case, intra-annual unpredictability of CF funding is likely to be short term and, over time, these funds can become more predictable. This was the case for general budget support (GBS) funds, which experienced similar intra-annual predictability weaknesses in the earlier stages (Batley, et al. 2006).

The degree of discretion that the government has over all sector resources, in terms of the degree of earmarking in the health sector, should have been increased in line with the move towards programme aid. In a short period, development partners have changed their health financing mechanisms substantially. As the table below shows, public expenditure for health indeed more than doubled between 2001 and 2004, thanks to the increase in the volume of CFs and to the more modest increases in government expenditure. However, as the table below also shows, close to one-third of total health expenditure is still provided through earmarked project funding arrangements. Project funding, rather than decreasing, as the Ministry of Health has repeatedly requested, has begun to increase again in the past couple of years, largely as a result of increased availability of project funding for HIV/AIDS through programmes such as the US President's Emergency Plan for AIDS Relief (PEPFAR). In addition, an estimated 30% of additional project funding is not recorded in the state budget (Cabral et al., 2005). As such, the amount of project aid flowing to the sector is substantially larger than that which is recorded in the table below.

On-budget health sector expenditure 2001-5 (US\$m)

	2001	2002	2003	2004	2005
Total expenditure	165	178	209	252	356
Government expenditure	70	82	96	105	112
Common funds	17	20	96	105	113
Project funding	75	75	75	85	130

Source: Ministry of Finance Mozambique.

In summary, the sector financing framework that forms part of the health strategic plan and the code of conduct signed by the SWAP development partners in principle mean that more funds will be planned, executed and distributed using government systems. CFs have partially achieved this objective, in that they have increased the level but not the share of funding using joint mechanisms. Yet, this shift has come at a cost. CFs have been criticised for developing new structures, and for following procedures and mechanisms that potentially undermine national efforts to reduce transaction costs and a more integrated approach to health development in terms of the execution, monitoring and auditing of these funds.

In addition, development partner CF and SWAP commitments are further undermined by the fact that the same partners that provide funding to the CFs also provide funding to projects and to the global funds. Moreover, as this section has noted, there is still significant health financing not captured in the budget, such as considerable funds channelled by certain partners directly to NGOs. There is also earmarking by certain partners within the CFs to ensure a response to their priorities rather than those of government. As a result, the government still experiences problems in allocating resources to some of its own priorities. Overall, the degree of commitment to the CF and the SWAP values as outlined in the code of conduct appear to vary greatly among partners.

Evolution of donor coordination mechanisms and effects on donor behaviour

The SWAP, initiated in 2000, was conceived as an incremental but coordinated method for interested donors to work within a common forum (framework), which accepts a variety of aid financing modalities including CFs, project support and global funds. The SWAP aims to be an open and inclusive group; with 23 development partners and counting, it operates as a mixed consortium linked by agreed common principles upon which cooperation between partners and the Ministry of Health is based. The health SWAP includes a partner code of conduct, the linking of health external funding to the health sector strategy (in the absence of a costed strategy), and harmonised coordination, review and monitoring mechanisms.

The SWAP is currently chaired by a bilateral donor and co-chaired by a multilateral organisation.¹⁸ The entire SWAP group is in principle supposed to meet once a month within the partners-only forum. The SWAP also features coordinated partner–ministry dialogue. There are three forums in place upon which collective dialogue takes place:

- Level 1: The highest level is at the Sector Coordination Committee (CCS). This was formally established in 1998 and meets twice a year. It is chaired by the health minister and comprises his/her cabinet, all provincial health directors and representatives from partners active in health. The role of the CCS is to endorse key reports and recommendations (such as those emerging from Joint Reviews (JRs)) and to inform partners of significant issues or decisions relating to health sector policy, including the focus and composition of the Ministry of Health Annual Operational Plan (POA) for the following year.
- Level 2: The mid-level dialogue forum is the SWAP forum. This has replaced the former SWAP Ministry of Health/partners.
- Level 3: The third level of dialogue forum is the working groups (WGs). There are 11 WGs, providing an opportunity for partners and the ministry to jointly review or oversee specific areas of health policy where more in-depth analysis is required prior to their adoption or consideration by the broader SWAP forum. Each WG has a terms of reference approved, but WGs are not decision-making bodies. The WGs are supposed to be led by a senior ministry official, with co-leadership by a development partner.

¹⁸ The group is considering moving towards a troika structure, as in the GBS group, although it is not yet clear how the group will divide status, e.g. into project and programme partners or to have a troika plus one structure, which gives a chair role to a bilateral DP and co-chair roles to multilateral, project and global fund donors.

Monitoring of the CFs is undertaken through alignment of CFs to the health sector strategic plan, which includes a set of indicators to evaluate policy implementation and health sector progress. A subset of these indicators is then contained in the Performance Assessment Framework upon which progress for GBS is evaluated. Progress is then monitored on an annual basis under the performance assessment of the sector, which is a joint exercise between ministry and the partners. This is then also aligned with the government's planning cycle and, consequently, with the JR of the Programme Aid Partners (PAPs) – the GBS development partners. In addition, annual audits of the CFs are jointly prepared and conducted in a transparent and regular way.

Nominally, the alignment of sector policy and delivery systems in line with adoption of CF modalities in the health sector has improved. Monitoring in practice has also become more coordinated. However, the extent to which CFs have been able to use these coordinated modalities and harmonised monitoring to reduce transaction costs associated with aid delivery and to move government into the driving seat is less clear. For example, some transaction costs have actually increased, including those linked to review processes and to the SWAP forum and its working groups. The demands of the SWAP, of which the CFs are the drivers, have implied that the number of meetings between partners has increased substantially. This includes participation in WGs, which often take place without ministry participation. Moreover, the number of meetings that only concern the development partners is proving untenable for many in the group. Quantity also does not appear to translate into quality, or at least policy focus. The group is supposed to discuss issues such as health policy, structural bottlenecks (such as the growing human resource crisis in the ministry), and the monitoring of health policy implementation and policy outputs and outcomes. However, in practice, the group is often bogged down discussing financing and administrative issues related to the findings of the annual audit, individual partner objectives, and how to reduce the volume of ever-growing meetings. Several bilateral donors also continue to field separate missions for each of the sectors, which further increase transaction costs. This behaviour seriously undermines the capacity of the Ministry of Health to devote sufficient time and energy to its core activities of definition and implementation of policies and systems (Martínez, 2006).

A2.3 Effects on sector budgeting, policies, service delivery, institutions and accountability (Levels 3-5)

This section describes the effect of CFs on the health sector: i) policy, planning and budgeting systems and processes and resource allocation, ii) service delivery systems, and finally iii) institutions, incentives and accountability.

Policy, planning and budgeting systems and processes and resource allocation

The policy, planning and budgeting environment for the health sector remains fragmented. At the national level, there is a Five-year Programme and the PARPA. In the context of the health SWAP, the health strategic plan, known as the PESS 2001-2005-2010, was drafted and endorsed by all partners in the SWAP and approved by the Mozambican Council of Ministers in April 2001. The PESS became the basic policy and strategy document for government and external partners to work towards a common vision. It contains a comprehensive set of indicators for annual review.

Meanwhile, Mozambique's planning and budgeting systems are beginning to change and to be internalised throughout the government system. In 2003, the POA was developed as an instrument to support the resource allocation process at the central level. In 2005, the POA broadened the scope of its analyses in an attempt to provide a more comprehensive view of sector financing, filling the existing gap in the sectoral planning systems at central level.

Since the 1990s, there has been a participatory planning process known as the Integrated Planning Exercise. This was introduced alongside the CFs as a means of strengthening provincial and district planning and managing capacities. It also aimed to increase coordination among

provincial and district health authorities and with donors and NGOs. Resources are allocated at central level and the provinces undertake operational decisions by programming activities and distributing funds within the fixed budget headings. Provinces and districts also have a limited discretionary power to reallocate funds.

Arguably, planning coordination between the Ministry of Planning and Development and the Ministry of health has increased and coordination is taking place more regularly and more effectively. The links are nonetheless weak, as de Renzio (2007) argues:

The Ministry has tended to view sectoral and central planning instruments (i.e. PESS and POA on one side, and PARPA and PES [Economic and Social Plan] on the other) as partly competing documents, rather than complementary and part of the same national planning system, and serving different purposes. Because it obtains most of its funding through the PESS-SWAP arrangement rather than through the PARPA-funded national budget, the Ministry has tended to see the PESS, rather than the PARPA, as its main policy document. For the same reasons, the POA (which mainly covers donor-funded activities), is more important than the PES as the main annual document linking available resources with programmed activities and outputs.

However, positive changes are emerging. Budgetary processes are being adjusted to support a more coordinated and directive government strategy. Officials in sector ministries perceive a change in the nature of inter-ministerial dialogue. The 2005 mid-term review recommended the Ministry of Health focus on fewer strategic priorities. The review concluded that there are still too many 'health plans' coexisting in various parts of the ministry, and that these should be streamlined, simplified and merged into a single annual plan and budget.

Importantly, CFs have enabled the Ministry of Health to cover their resource allocation gaps on the basis of priorities that are now better reflected in POAs and budgets. Development partners and the ministry share a concern about the speed of the transition from a situation where they had some control of donor funding (since it was formerly allocated directly to the sector or to sector projects) to one where funds are increasingly being channelled through the national treasury.

At the same time, despite the progress noted, the national health budget as contained in the state budget also suffers from systemic weaknesses: input-based budgets cannot be related to plans; the state budget that covers most recurrent costs is disconnected from investment funding that is covered by donors operating at sector and provincial level; and there are weak linkages between approved budgets and actual expenditure. As in many sectors, the health strategy has not been costed. The ministry has not been able to respond in an adequate way to the request to provide an expenditure forecast, which is in line with Ministry of Finance targets. Ceilings for goods and services are still determined incrementally from the previous year's allocation in many cases. 'Investment' is still often misinterpreted as 'capital' and regarded as donor-driven. According to a number of commentators, a central government focus, donor-driven and managed projects and even the CFs have directly led to inefficient budget allocations. Indeed, many reports have argued that this centralism is a direct result of sector-based support to central ministries (World Bank 2003; Fozzard, 2002; Harding and Gerster, 2004).

Meanwhile, the CFs have established their own parallel structures in the absence of national systems. It is the case that disaggregated budgets are difficult to integrate into cross-sectoral provincial and district plans.¹⁹ This fragmentation makes it difficult to establish comprehensive and coherent monitoring and reporting systems. From both a social and economic efficiency perspective, value for money in health is low; health sector budget allocations in Mozambique are territorially inequitable and distribution of budgets is erratic. There are frequent liquidity crises. Even for essential funding lines, the further removed the recipient agency is from the source, i.e.

¹⁹ The provincial governor's office, the provincial directorate and the district administrator's office each have their own budget lines within the state budget.

the treasury, the more significant the problem (Batley et. al., 2006). In summary, coherent national systems for channelling sector funding for service delivery have not been established.

Government institutions and service delivery

Despite some progress, institutions in the health sector remain weak. As noted, the SWAP dialogue and the Performance Assessment Framework are harmonised, whereas the CFs use nationally agreed indicators, targets, monitoring arrangements and reporting system. This should create ever-increasing levels of control, authority and ownership by the government over external resources. However, in practice, there is still progress to be made. Critically, the health sector is facing a human resource crisis from lack of skilled technicians at the national sector level down to the provincial and district levels. In the absence of qualified staff, the ministry has depended heavily on short-term TA. However, in recent years the number of short-term technical assistants has decreased significantly. This is a key concern for the health SWAP, which is being tackled within the Human Resources WG. Importantly, bringing the PCF fully on-budget has brought to attention human capacity weaknesses in the ministry to attract and retain good staff. Yet, sector managers are still required to spend a disproportionate amount of time engaged in development partner dialogue, or managing administrative details related to external aid flows. As a result, they have limited time to cover the huge workload set for valuable staff. The persisting plethora of aid modalities in the health sector appears to be continuing to hamper the work of entities responsible for planning, budgeting, executing, monitoring and controlling the use of state resources.

It is also clear that the CFs were designed without a detailed analysis of the human resource capacity needed to effectively plan, execute and absorb this extra funding in an extremely weak sector. Positively, as noted, there is a health sector WG concerned with issues of TA and capacity building within the ministry. However, it is unclear how much of a mandate partners have in this area. A recent change in ministry leadership appears to have disrupted some of the progress made by the ministry and the PDH in this area and diluted CF concerns for effective management of state funds by the more general SWAP forum.

Ownership, incentives and accountability

A 2004 study found that the SWAP forum was failing to ensure that the ministry incorporate recommendations made in a number of reports, including sector reviews. This was often attributed to lack of leadership, combined with unclear decision-making, implementation channels and procedures within the ministry. There is evidence of inaction or slow pace shown by the ministry to act on certain agreements reached within the SWAP (Martínez, 2004).

In terms of increasing domestic accountability, this has arguably occurred through the development of the health CFs, as there is some evidence of at least spreading accountability from line ministries to the Ministry of Finance and the Ministry of Planning Development and to Parliament. For example, the scope for parliamentary accountability has increased to the extent that the state budget has grown as a proportion of partner funds have been brought under the state budget framework. Bringing partner funds on-budget has increasingly become a policy issue of the health sector SWAP and particularly of CF partners. Instruments of domestic accountability are weak, but examples have been documented of them becoming stronger as accountability is being shifted from government to partners and now to government to parliament (Batley et al., 2006).

And yet, given that the only CF that is fully on-budget is the GCF, it remains the case that, while the drugs and provincial funds pools have protected critical funding for these areas, they have also involved the setting-up of parallel planning and administration systems that undermine government planning, budgeting and monitoring for the sector. At the same time, even if CFs contribute to the reduction in the volume of off-budget planned flows, the same partners still undermine the process by continuing with untransparent project aid. Although some large development partner projects in health are subject to parliamentary scrutiny or national audit procedures, this is on a piecemeal

basis rather than as part of the review of budgetary allocations. Most partners will subject their financing to external audit, but this is according to their requirements rather than those of government and parliament. On the other hand, there are not yet many indications that accountability of the elected government has related to CSOs and the Mozambican population.

A2.4 Main lessons and conclusions

Mozambique's health SWAP has often been cited in international circles as demonstrating the advantages of harmonisation and coordination of partners at a sector level in a heavily aid-dependent country. It is said to have achieved enhanced government leadership, improved sector policy and strategic focus, more effective use of aid to the health sector and lower transaction costs (Martínez, 2006). The impact of the CFs, the leading SWAP instruments in increasing institutional incentives and in shifting accountability away from partners and towards the Ministries of Finance and of Planning and Development and Parliament has been less studied and analysed. There does appear to be evidence of domestic accountability spreading towards domestic institutions. The Ministry of Health is still accountable to partners but is increasingly also accountable to the Ministry of Planning and Development for the planning of national resources, to the Ministry of Finance, which controls a greater share of the funds, and to Parliament. Nevertheless, health CFs in Mozambique have not fully addressed past failures of aid. Moreover, the complicated and increasingly institutionalised nature of CFs means that there is a danger that they will become financing institutions in their own right, making the move towards sector budget support more difficult and costly. Finally, putting government in the driver's seat should relate to government as a whole, not just to a sector. The practice of partners offering earmarked funds to their preferred sectors may actually weaken overall governance and the role of Parliament. This is because it reduces or removes the need for a sector ministry to argue its case with the ministries of planning and finance and in high-level government meetings (Batley et. al., 2006).

Nevertheless, significant progress has been made since the days of traditional project aid; the health SWAP and the CFs have contributed to alignment in health financing and in harmonising donor practices. However, full integration of these CFs into Mozambique's national systems and the merging of these funds into one programme aid modality (e.g. sector project support) appears to be at least as difficult as it was in the case of traditional projects. Moreover, over the past five years, on-budget project aid, rather than decreasing, as the government would wish and has repeatedly asked for, has in fact begun to increase again. At the same time, partner alignment in the health sector has been an alignment to weak institutional partners (Ministry of Health and PDH) and to a weak domestic system for service delivery. CFs are therefore an important move forwards from project support, but they have not been as successful at generating the hoped-for institutional incentives to strengthen the functioning of public health institutions.

Bringing the CFs on-budget has raised the profile of human capacity weaknesses in the ministry, in particular its ability to attract and retain good staff and to carry out its objectives. Yet, this has not translated into effective action to address this, which hampers effective government planning, budgeting, execution and monitoring. In effect, the partners may be trying to generate institutional incentives upon which the ministry can base its development, but systems, ownership and human resource capacity are themselves too weak to respond effectively to these incentives. This issue requires greater attention, focus and action from partners and the ministry within the SWAP forum. Importantly, a move towards the full integration of the three CFs into one health sector budget support modality may have the effect of decreasing the noise in the sector and increasing the focus on the core policy and development issues to which the SWAP is committed.

Annex 3: The Tanzania education sector

A3.1 Introduction and sector context

This case study investigates the use of different aid modalities and donor coordination mechanisms in the Tanzanian education sector. It is one of three case studies, each of which is looking at a different sector in Tanzania, Uganda and Mozambique. The aim of the overall exercise is to compare and contrast how reforms to the use of aid modalities and donor coordination mechanisms in each of the three countries have affected incentives at central, sub-national and sector levels. In doing so, the study aims to develop a better understanding of how different aid modalities and the mechanisms through which they are coordinated can help strengthen ownership, domestic accountability and policy and budgeting processes at sector level, and therefore improve service delivery.

Education in Tanzania has always enjoyed a privileged status in national plans and policies. Since independence, plans for the provision of primary education were ambitious, with free universal primary education provided in 1977. However, these national ambitions soon outpaced government resources. The quality of education suffered as a result, and was characterised by high national illiteracy rates, low and declining school enrolments, inequity in access, a limited number of qualified teachers, shortage of teaching material and low retention rates, especially for girls. Fees were reintroduced in the 1990s. Since 2001, however, the education sector has rebounded. Free universal primary education (UPE) has been re-established. Enrolment rates have climbed up in primary education from 78% in 2000 to 113% in 2006; improvements have been seen in the school leaving examinations and near gender parity has been maintained.²⁰ However, as access has improved, there are signs once again of deterioration in quality in primary education and a large proportion of secondary school-age children are out of school.

The institutional, policy planning, budgeting and monitoring framework of the education sector is extremely disaggregated and lacks strategic focus. This is a consequence of both the large number of education policies in existence and the various ministries and institutions involved in the sector, each of which is not entirely consistent with the others. Strong internal leadership, which could act as a proxy for a strong vision for the sector, is also missing. An attempt was made to provide a sector-wide focus to various education policies through the Education Sector Development Programme (2000). However, the ESDP has been weak in providing a definitive policy framework or strategic direction for policy formulation. As a result, each new policy intervention distracts ministerial attention away from the implementation of existing programmes and prevents the development of a holistic approach to sector systems. It also makes the prioritisation of activities very difficult.

These problems are exacerbated at the local authority level. Local authorities are responsible for the management and administration of the primary education sub-sector (secondary and tertiary sub-sectors continue to be managed by the centre). The space for local authorities to reflect local priorities and needs in their medium-term plans is constrained by continued sanction of their action plans by central ministries and the presence of multiple planning processes at local levels, initiated by the centre or donors, to strengthen local capacity in the long term but which absorb scarce capacity in the short term. The fragmentation in the sector is reflected in the presence of multiple budgets (medium-term expenditure frameworks – MTEFs) and monitoring mechanisms (education management information system – EMIS) in the sector. There are also factors external to the sector affecting the effectiveness of its systems, e.g. the speed at which other government-wide reforms are implemented.

²⁰ Gross enrolment rates in excess of a 100 indicate a situation of either underage and/or overage enrolment.

Division of responsibilities in the education sector

Tasks	Central government	Councils	Wards/ villages	Committees/citizens
Overall planning	Strong, coordinative role; sets targets and policy objectives			School Committees complete school plan. Play a role in O & OD programme.
Management of teachers	Sets targets	Strong role	No role	No role
School administration	Guidance	Strong role		
School construction	Overall guidance		Moderate role: provides planning inputs	Active role; provides inputs and supervision
School materials, equipment and management	Guidance	Role in supervision and major priorities	Limited role	Role in priorities and operations
School books	Sets targets and provides funding, monitors and supervises	Some role through coordination and monitoring		Can purchase under local procurement
Inspection	Strong role: overall responsibility for inspection	Role in support of inspection	Limited role	Role in day-to-day operations
Overall policy planning and funding of the sector	Consultative group through sector working groups	Represented in discussions	Weak role	Some representation for NGOs/CBOs
General funding of primary education	Major source: consultative group grants	Contribute (limited from own source revenues)	Co-finance (small amount) part of school construction through PEDP/CDG	
Overall planning of primary education in the district	Ministry approves work plans of grants and controls grant guidelines	Elaborate detailed work plans and budgets, transfer of funds	Involved in the planning of part of the funds for school construction under PEDP/CDG	Submit school plans
Management of teachers (number and sets the location)	Sets overall guidelines and controls via size of salary grant; recruits and places teachers	Role in assigning teachers within councils	No	Limited role
Hiring and firing	Active role	Limited; advisory to TSC		

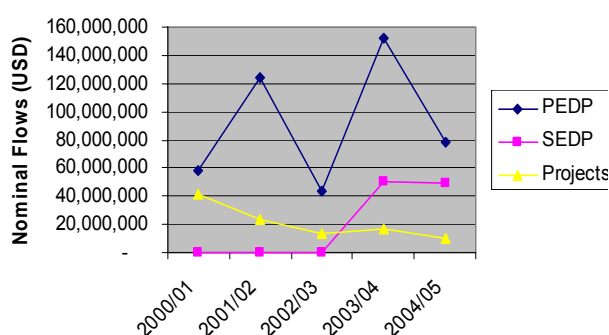
Source: Dege Consult et al. (2007).

A3.2 Levels 1 & 2: The aid environment in the sector and its immediate effects

Sector aid environment and its immediate effects on the nature of external funding

Donor assistance to Tanzania has nearly doubled in real value since the early 1990s, growing as a proportion of total public expenditure from 25% in 1998 to 40% in 2004. Despite inconsistencies in magnitude, all different sources of aid data in Tanzania suggest a trend of growing programme aid in absolute terms since 1998/9 and in relative terms since 1999/2000. According to the aid flows database in the Ministry of Finance, general budget support (GBS) has grown from 30% to 42% of total aid, whereas project aid declined from 54% to 42% between 2002/3 and 2006/7. This trend seems to be in line with government policy. The recently completed Joint Assistance Strategy clearly articulates 'GBS as the Government's preferred aid modality' (URT, 2006a).

Aid flows to education captured by the budget



Source: Aid Flows Database, Ministry of Finance Tanzania.

Similar trends can be noted in the education sector, which began an active policy of mainstreaming projects into the government system following the development of the ESDP with its sector-wide focus. This policy was to some extent successful, especially in dismantling large projects such as the District-based Support to Primary Education and the Human Resources Development Programme. The aid flows database notes this success, as the proportion of aid delivered to the education sector through projects went down from 42% in 2001/2 to 7% in 2005/6. However, other sources reveal that projects continue to play a significant role. A mapping exercise conducted on the back of the Joint Assistance Strategy gives some indication of the level of off-budget project funding to the sector not captured by the aid flows database. Similarly, interviews with district officials indicate that a significant number of projects have not been captured by either database. The number of schools supported by non-governmental organisations (NGOs) doubled between 2002 and 2006, rising from 134 to 260 (Basic Education Statistics in Tanzania – BEST – 2002-6).²¹ The lack of detailed information on project funding makes it difficult to analyse whether the nature of projects has changed away from funding activities delivered through government systems to ones that are aimed at strengthening demand-side accountability or piloting new approaches etc., which support rather than undermine government sector systems.

The most visible involvement of donors in the education sector has been within the Primary Education Development Programme (PEDP). The main objective of the PEDP has been to ensure that all children have equitable access to good quality primary education. One of the main strategies has been the disbursement of capitation grants, managed by school communities.²² Donors were heavily involved in the initial design and conceptualisation the PEDP, especially the

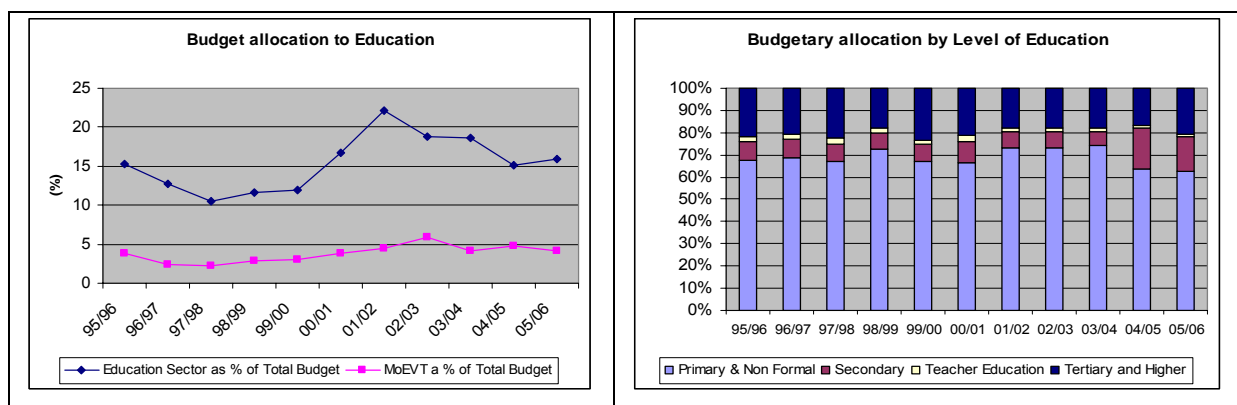
²¹ See <http://www.nbs.go.tz>.

²² These capitation grants are intended to be US\$10 per pupil but year on year have fallen short of this target.

World Bank, which funded it through a soft loan till 2004.²³ In addition to the World Bank sector budget support, several development partners used pooled funding mechanisms to support the education sector between 2001/2 and 2005/6. These included: Belgium, Canada, the European Union (EU), Finland, France, Norway, Sweden and Ireland. Although the PEDP came out of the ESDP, it quickly grew out of that framework and operated much like a large project. This is especially evident in the way donor funds were released, monitored and audited. Owing to the perception that government systems were weak at the start of PEDP, the Pooled Fund Partners (PFP) set up parallel processes, which were excessive and beyond the sector's capacity to administer, leading to delays in funding releases and bitterness between donors and government. These 'push' factors, together with 'pull' factors in terms of commitments by donors within the government aid management strategy to more GBS and better division of labour, have meant that donors have moved away from the PEDP basket fund. Some, like the EC (European Commission), have now providing sector budget support since 2005 (although they are moving away from the sector under their 10th European Development Fund – EDF). Other donors, like Norway, have rolled their funds into more GBS. The World Bank since 2004 has been providing a soft loan for the Secondary Education Development Programme (SEDP), which makes up approximately 10.5% of total required funding.

Resource allocations within the sector seem to mirror this trend in aid flows. The education sector has benefited from its prioritised status in generations of poverty reduction strategy papers (PRSPs), enjoying a rise of 77.5% in its budget between 2001/2 and 2005/6. This upward trend has been helped by budget support. The evaluation of GBS completed in 2004 noted that more budget support significantly increased discretionary resources, which allowed government to double per capita spending on priority sectors including education between 1999 and 2003. This is evident from the figure below. The allocation of central government to local government as a percentage of total expenditure has remained fairly stagnant (around 19%), although resources have been increasing in nominal and real terms. This rise in resources was biased towards primary education between 1995/6 and 2003/4, with secondary education growing fast between 2003/4 and 2005/6.

Budget allocations to the education sector and levels of education



Source: URT (2006a).

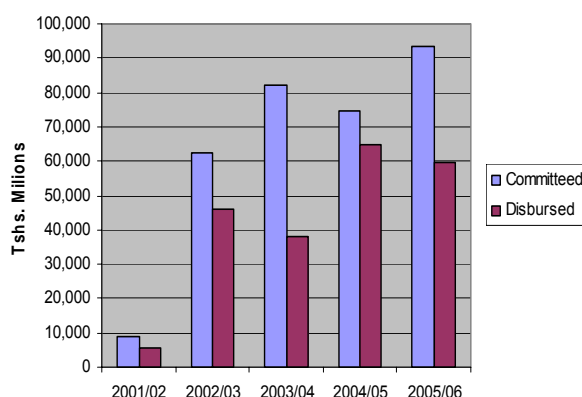
How has the transition in aid modalities affected funding in the sector? The disaggregated and inconsistent nature of budgeting and reporting on actual expenditures in the system makes this difficult to answer. The public expenditure review (PER) of the education sector last completed in 2005 shows that actual expenditure in the sector, both recurrent and development, has been rising as a result of enrolment expansion. In this, the sector is heavily dependent on donor contributions towards development expenditure. Data on actual expenditure at local government level are also notoriously difficult to access, but systems are improving. Education enjoys the largest share of

²³ The World Bank also administered a grant provided by the Netherlands to the PEDP during the same time period.

local government recurrent expenditure, and increased from 55.8% to 57.4% between 2002/3 and 2005/6.²⁴ In 2005/6, 43% of the Local Government Capital Development Grant, a share of the development budget, was spent on education; 19% of total development funds were spent on education. Since most donors in the education sector adopted different aid modalities in 2005/6, the effects on sector funding are still not evident. However, if funding to local governments is used as a proxy for such information, then there are as yet no drastic effects yet on PEDP funding for service delivery.

Have discretionary resources for the sector increased? An upwards trend is noted in expenditure on personal emoluments (which in the short term effectively constitute non-discretionary expenditure) but, at 67.6%, expenditure on teacher salaries is not yet biting into other discretionary expenditure. However, salary pressures may be stronger within certain sub-sectors, such as secondary education. The number of institutions involved, the need for counterpart funding in projects and PEDP monitoring requirements further reduce the discretion of education sector funding. The latter especially undermines the discretionary benefits enjoyed by school communities responsible for managing capitation funds. For example, in 2006/7, local authorities were required to disburse the capitation grant by spending 40% on books and teaching supplies, 20% on rehabilitation (maintenance), 20% on stationery, 10% on example supplies and 10% on administration. Multiple funding channels at the local level, together with such detailed instructions on how to spend the funds from the top, reduce local authorities' discretion over resources and add to the unpredictability of resources.

Unpredictability in PEDP funding



Source: URT (2006).

In Tanzania, although revenues and expenditures are fairly predictable overall, fluctuations at vote and sub-vote level are far greater, equalling 20% to 25% of the budget.²⁵ In the education sector, funding reallocations have been required to accommodate increases in salaries and arrears in housing allowances, and because of unplanned activities. Funding unpredictability at local levels is far greater and occurs for a number of reasons, including changes in block ceiling grants after the budget is approved by councils and the provision of additional funds by line ministries. Delays in donor disbursements are responsible for deviations between approved and actual expenditure. Unpredictability of both the pooled funding arrangement and World Bank support in recent years has been caused by delays in approval of work plans, delays in releasing funds because of poor quality of audit reports and excessive reporting requirements. Interviews with government officials alluded to 'delaying tactics' on the part of donors till their committed funds were available.²⁶

²⁴ If figures are taken from local government authority (LGA) finance statistics which reflect actual local spending as reported by LGAs, the proportion of LGA funds spent on education in 2005/6 stands at 60.9%.

²⁵ The PEFA assessment of 2005 gave a score of A on overall predictability of revenues and expenditures and a score of D because of variations between and within votes.

²⁶ Note that these figures are inconsistent with actual donor support reported in the aid flows database. However, the level of unpredictability in both the pooled fund and the PEDP has been noted in other analysis. See, for example, Dyer (2005); URT (2004).

Evolution of donor coordination mechanisms and effects on donor behaviour

The aid management system in Tanzania has a reputation for being quite advanced and sophisticated in comparison with other aid-dependent countries. At the national level, the government's new aid management strategy (the Joint Assistance Strategy for Tanzania – JAST) lists several avenues for donor government interaction, including at the Development Cooperation Forum and meetings around the policy support instrument (PSI), JAST and GBS (annual review and working group meetings). In Tanzania, doors to dialogue on national policies and budget processes are left open for donors and therefore there is intensive government and donor interaction within MKUKUTA (or the National Strategy for Growth and Reduction of Poverty) and the PER process. With the adoption of MKUKUTA, the PER structure has changed from a structure based on sector working groups and sector reviews in which sector spending results and future plans are reviewed and discussed, to one based around cluster themes. Several donor representatives have expressed dissatisfaction with the way in which the PER process is being run at the moment, characterised by poor attendance and sparse discussion: there is little incentive for individual sectors or donors interested in particular sectors to participate. These elaborate structures of donor government dialogue are mirrored at the sector level. In the education sector, donors are part of a number of committees (e.g. ESDP Advisory Committee, the Basic Education Development Committee – BEDC) and the taskforces, which support their work (e.g. the Taskforce on Resource Allocation, Cost Effectiveness and Funding). The latest addition to these structures is the Education Sector Review (ESR), the first of its kind (begun in 2006). It is envisaged that the ESRs will become an annual event to be followed in four weeks by a high-level meeting.

Despite these detailed structures, which were an improvement on the temporary mechanisms of earlier years, dialogue processes between donors and government have been unravelling for some time. A study of the dialogue between various stakeholders completed in 2005 noted the following dissatisfaction of various stakeholders with the dialogue process. Donors felt excluded from important stages of the dialogue and expressed dissatisfaction on the scope and size of performance information provided. The Ministry of Education and Vocational Training saw the role of donors in the dialogue process as intrusive and a channel to introduce unnecessary conditions. Civil society felt that it was crowded out by the presence of a large number of development partners and had limited access to information (Lawson, 2005). Discussions conducted for this case study suggested that this dissatisfaction with the dialogue process continues, and in some ways has become worse. In 2005, several meetings were regularly taking place, but in February 2007 several stakeholders reported that meetings were not taking place and usually followed a ritualised process of delays and cancellations, the notifications for which were being sent out on the day of the meeting. Sector-level dialogue issues have become compounded by dialogue problems at the national level, as fresh relationships are manufactured under the new government and the transition from the first PRSP to MKUKUTA takes place. Donors and the education ministry itself noted the lack of involvement of the PMO-RALG (Prime Minister's Office – Regional Administration and Local Government), even though it is one of the co-chairs of the BEDC.

There are several reasons for this poor quality of dialogue in the sector. Firstly, the history of poor dialogue is rooted in the way the PEDP was developed and managed. Dyer (2005) notes the heavy donor involvement in the development of the PEDP undermined national ownership of the policy and led to a situation in which sustaining coherent dialogue became difficult and all that remained was 'a process of second guessing what the other participants in the dialogue want you to say'. Poor financial reporting and monitoring systems at the time the PEDP was set up prompted the tight requirements of the PFPs for reporting and auditing, which then led to delayed disbursements. This extensive 'micro management' of the sector may in part have been responsible for squeezing out more senior-level strategic interaction from the dialogue process, in turn reinforcing donor tendencies to micromanage the process. Dyer (2005) also notes some infighting between donors themselves, especially the World Bank and the PFPs. Government on its side did not attempt to develop its own reporting systems so that it could eventually replace

additional donor requirements, seeing such reports as ends in themselves rather than as useful checks on the system. The institutional setup of the sector, divided across several sub-sectors within ministries and across ministries, prevents the development of a clear and shared vision on the dialogue process and what it is trying to achieve. This lack of strategic leadership means that, even though intensive dialogue may take place between donors and government at a technical level, it is susceptible to political decisions from the top which take place independently. Most stakeholders interviewed for this case study felt that the sector review had been a positive development. The final impact of the review on the dialogue process will depend on the extent to which the review process is institutionalised within the sector.

A3.3 Effects on sector budgeting, policies, service delivery, institutions and accountability (Levels 3-5)

Policies, planning, budgeting systems and monitoring systems

How have different aid modalities affected policy, planning and budgeting systems in the sector? It is well established that project aid delivered through parallel systems, and unaligned with government policies, undermines the development of a comprehensive approach to the sector. In the Tanzanian education sector, the potential negative effects of project aid are so much greater because of the disaggregated planning environment. Projects add to disharmony in the dialogue process; they distract government attention further and, in themselves, can fail to be successful because the wider policy reforms needed for them to work are missing. This is especially damaging at the local level. Why, then, do projects still continue to play a role in the sector? Within any sector or country context, there are often clear individual incentives for more projects. Government officials closely interacting with or responsible for projects derive authority, status and a number of other monetary and non-monetary benefits from project support. These incentives are stronger in the Tanzanian environment because of a strong sub-sector culture, which means that off-budget modalities are preferred so that sub sectors can directly control resources instead of competing with other sub-sectors for resources coming through the budget. The lack of this kind of resource allocation environment means that resources do not flow smoothly throughout the system, creating resource pressures in some areas, which deepen demand for more funding through project modalities. There are also incentives for donors, especially smaller ones, to give project support to maintain their visibility and exert certain leverage in the dialogue process. This is especially true in Tanzania, where a large number of donors participate.

The problems with the PEDP pooled funding mechanism have been discussed in some detail. Basket or pooled funds are often seen as a progression from project funding and an intermediate step towards the use of budget support to deliver aid to the sector. The Tanzanian example showed that, in effect, the PEDP basket fund operated much like a large project. In fact, because of the scale of funds involved (far more than a single project) and it being institutionally situated within the ministry, together with existing fragmentation in the sector, the PEDP generated stronger incentives within the education ministry for the mechanism to be sustained. Its impact on sector planning, budgeting and monitoring systems was equally detrimental. The PEDP and the donor coordination mechanisms that grew around it zoomed in on the primary education sub-sector. The prioritisation of primary education over other sub-sectors would not have been a problem if the PEDP operated within a well defined sector context where policy priorities were the result of a well thought-out strategy. Weaknesses in sector systems in the first instance led to the PEDP's management as a project. However, as donors reacted to these flaws by demanding more monitoring, more reporting and more auditing, they in turn weakened the system by diverting capacity and attention away from sector development.

At the other extreme, GBS creates the strongest incentives for the education sector to move towards a sector-wide approach (SWAP), to dismantle compartmentalisation of budgets and plans and integrate planning and budgeting systems better, in order to compete with other sectors for

national resources.²⁷ Concurrent with the move to more budget support, a renewed effort to instil a greater sector-wide focus within education institutions has been noted. The PMO, which coordinates the ESDP, is taking a greater lead in developing a SWAP. The first ESR review was held in February 2006 with the aim of assessing the overall performance of the sector in the context of national priorities. The right sorts of actions were proposed at the ESR to address some of the constraints and challenges inherent in the system. There is also further talk of revisiting the ESDP and, currently, technical assistance (TA) is being sought to operationalise some of the review recommendations. The implementation of these actions will be a clear sign that, in part, the shift towards budget support modalities has prompted more cohesion within the sector, which can potentially lead to better integrated budgeting, planning and monitoring mechanisms. However, whether these outweigh the negative effects generated by current sector structures such that follow-up actions from the review are implemented is yet to be seen. There was limited tangible evidence till February 2007 that proposals made in the education sector review were being followed up within the Ministry of Education and Vocational Training. Indeed, the attention of the ministry has been distracted in recent months, costing a 10-year education plan under a new funding initiative. This reiterates that, when strategic leadership is absent, the ministry can become susceptible to dragging its feet on existing pledges when new initiatives, along with promises of more funding, are constantly appearing. It is also important to highlight that budget support on its own cannot improve sector performance. The maturity of national budgeting and planning systems becomes important, as does the quality of domestic accountability mechanisms.

Institutions and sector service delivery systems

The effects of different aid modalities on the strengthening of sector institutions mirror closely the effects of these aid modalities on sector systems as discussed in the section above. Project aid and the basket funding arrangements within the education sector have not contributed to any visible strengthening of sector institutions at the central level, and in fact have undermined the development of cohesive institutions within the sector by adding to its fragmentation, as discussed above. There is also little sector-wide ownership of policies created at the project or sub-sector level. The history of the development of the PEDP points towards heavy donor involvement (one of the main reasons for its development was debt relief funds available for education), which crowded out sector ownership of the policy. More generally, policies at the sub-sector level (funded by donors, e.g. the PEDP and SEDP) have been run and managed as enclaves within the sector and their ownership has not transcended these borders. The PEDP review of 2004, for instance, notes that line directors in the education ministry were excluded from engagement with the PEDP. The inability of the sector to mainstream these policy enclaves has been a result of both donor behaviour and lack of government leadership, especially at the political level, within the sector. At the local level, there has been strong criticism of the way in which the PEDP undermines decentralisation, as pooled funds are allocated to the education ministry for disbursement to schools through the councils on approval of work plans and budgets. This is in direct contradiction with decentralisation policy and weakens institution-building and ownership of policies at local levels. However, the availability of funds at the local level through the PEDP has meant that communities have started to take local ownership seriously and a 'demand culture' seems to be growing. School committees, given responsibilities of developing good financial record-keeping skills, are now demanding improvements in financial flows to schools, greater transparency in the provision of funding and more voice in decisions over resource allocation and use at the ministry and council level. School communities have also started to comment on their role in planning when funding at local levels remains unpredictable owing to excessive requirements by PFPs. School communities can be further strengthened if they are given more control of less unpredictable funds (URT, 2004).

²⁷ The sector budget support given by the EC to the education sector was too recent for its effects to have been evaluated at the point at which this case study was completed.

The education sector seems to have made significant progress in service delivery during the past five years, particularly in delivering primary education. During PEDP implementation, additional educational inputs were injected into the primary education system. The total number of government schools increased from 12,152 in 2002 to 14,440 in 2006, an increase of 19% over five years (URT, 2006b). In addition, over the same time period, 36,540 classrooms were constructed, 43,370 teachers were recruited, 460,000 more desks were supplied to schools and 12,590 teachers' houses were constructed. This expansion in supply together with removal of demand constraints in terms of school fees led to a significant improvement in enrolment. In these enrolment increases, the sector managed to maintain gender parity with the gender parity index (GPI) currently at 0.99.

Primary education enrolment ratios, 2000-6

	2000	2001	2002	2003	2004	2005	2006
Gross enrolment ratio (GER)	78	84	98.6	105.3	106.3	109.9	112.7
Net enrolment ratio	59	66	80.7	88.5	90.5	94.8	96.1

Source: BEST (2000-4; 2002-6), see <http://www.nbs.go.tz>.

Improvements in the primary school leaving examinations (PSLE) which cover language, general knowledge and mathematics (used as an indicator to measure improvements in quality in the absence of a performance assessment system) have been registered, although there is some doubts as to whether increases in pass rates may have owed to a lowering of assessment standards (Dege Consul et al., 2007). Male PSLE pass rates are more than 10% higher than female pass rates. Increases in inputs have also not kept up with increases in enrolment. As a result, deterioration in provision of primary education has been noted, similar to the experience of other sub-Saharan African country experiences after the introduction of universal primary education (UPE). This is especially visible in the increase in pupil to teacher ratio from 1:53 in 2002 to 1:58 in 2004, after which it fell to 1:52, still well above the target of 1:45 by 2009. The improvements in access to primary education have not been mirrored at other levels of education. A large proportion of secondary school-age children are out of school. The GER in secondary education from Forms 1 to 6 in 2006 was only 14.8%, although this was an increase from a 7.1 GER in 2002. With the recent focus on secondary education, learning achievements in the sub-sector seem to be improving, with failure rates in Form 4 examinations decreasing from 25.1% in 1996 to 10.7% in 2005 and from 9.7% in Form 6 to 3.7% during the same period. It is not entirely clear whether the level of assessment standards has remained the same over this time period.

Ownership, incentives and accountability

The extent to which incentives generated by budget support improve sector performance by strengthening planning and budgeting systems and sector institutions depends to a great degree on the level of accountability demanded of the sector by its various stakeholders. Without the strengthening of domestic accountability processes, the incentives created by a large move away from sector specific funding to the education sector will quickly become eroded. Domestic accountability processes in Tanzania are weak. Horizontal accountability is characterised by a technocratic dominance of budget processes and a focus of power in the Executive, with constricted space for the Parliament to operate. Collectively, both central ministries at a technical level and Parliament and Cabinet at a political level provide a weak 'challenge function' to sector budgets and performance. The significant level of off-budget funding in the past may have crowded out domestic accountability systems by diverting sector ministries' attention through external demands. Donors giving into basket funding also demanded accountability of a sub-sector rather than the sector as a whole. Increasing levels of GBS, however, have meant that, in some instances, donor accountability requirements have strengthened domestic processes. These technical improvements have to be matched by incentives, which stimulate stronger political demand for performance. Interviews alluded to the fact that this lack of political participation is not

just a capacity issue but reflects a deeper lack of willingness on the part of members of parliament (MPs). At the local level, horizontal accountability seems to work better, although the dominant accountability mechanism is electoral accountability (which bodes well for better service delivery). However, declining local revenue bases may weaken these processes, as well as generating incentives for off-budget modalities reintroducing more external presence at these levels. Societal accountability remains superficial in Tanzania, with civil society presence overshadowed by donor numbers. Civil society influence is eroded by a lack of information, its own weak capacity and unwillingness on the part of government to respond to its queries. The media is the strongest civil society actor, probably because of its impact on electoral accountability. The banning of the education NGO Hakielimu and its reinstatement after it went public through the media is a useful example showing the relative influence of each set of actors.

A3.4 Main lessons and conclusions

The experience of the education sector in managing different forms of aid offers a number of useful lessons. In the particular context of the education sector in Tanzania, it is important that sector officials do not lose the momentum created by the ESR. Sector officials need to concentrate on institutionalising some of the ESR's recommendations, especially those pertaining to revitalising the ESDP, reducing budget fragmentation and identifying sector priorities through a performance assessment framework mechanism.

The move from basket funding to budget support has already altered the incentive structures faced by stakeholders in the sector, increasing the probability that actions will be taken to strengthen sector-wide systems. However, the impact incentives created by budget support have on sector performance are dependent on continuing reforms to national planning and budgeting systems, and strengthening of domestic accountability systems. If domestic accountability remains weak (central planning and finance ministries and parliamentary sector committees continue to perform a weak 'challenge function') and more funds (domestic and donor) are put through government systems then, although better sector budgeting and monitoring systems may emerge, there will be limited impact on sector performance in terms of service delivery. Current and future developments, including better reporting through IFMIS (the Integrated Financial Management Information System) and PlanRep (Planning and Reporting Database for local authorities), monitoring plans for MKUKUTA, and the merging of GBS and PER processes could be important mechanisms through which more accountability for sector performance can be demanded. It is also important that significant off-budget or non-programme modalities are not maintained. Until existing 'silos' in the ministry are dismantled, resource allocation processes become strategic, and decentralisation has matured to the extent that resources are flowing smoothly to local levels, there will always be demand for off-budget aid. Such pressures have to be resisted. Stronger sector leadership from within the sector and better dialogue with the Ministry of Finance can help in preventing more projects and basket funding. Donor agencies that are concerned with the need for visibility can continue to play a strong visible role in the sector without resorting to the disbursement of off-budget modalities. As the education sector redefines itself, there is a clear need for specialist technical advice which can guide the reshaping and strengthening of sector systems. Even without the disbursement of aid targeted to the sector, donors can help in giving this technical advice and be instrumental in strengthening sector institutions.

The Tanzanian case study also offers a number of lessons relevant to aid management strategies. Firstly, the Tanzanian case confirms the emerging thinking around aid delivery that the impact of any aid modality depends on the way in which it is managed. No modality *per se* can deliver improvements in service delivery; its overall impact depends on the context in which it operates. The experience with the PEDP shows that, although donors came together to provide aid through a harmonised mechanism, the programme itself grew to operate like a large project. The distinction between various aid modalities, especially in the way in which they are managed and the incentives they generate, is not as clear-cut as is assumed.

The way donor coordination mechanisms develop also shows that the way an aid modality is defined may be separate from how it operates in practice. Dialogue between donors and sector officials is centred on the dominant aid modality. Dialogue processes between donors and sector officials, predominantly from central sector ministries, are unlikely to capture local-level concerns. The quality of dialogue is affected by how donor coordination mechanisms at the sector level feed into national aid management systems and by the quality of leadership within government leadership. Absence of political actors in the process erodes the legitimacy of the dialogue, especially when political-level decisions run contrary to agreements between technocrats in the sector and donors.

The effects of different aid modalities on sector systems are conditioned by the maturity of sector systems before large amounts of aid are disbursed and on the quality of central planning and budgeting processes. The negative effects of a particular way of delivering aid on incentives, ownership and accountability are significantly accentuated if the modality is interacting with weak and fragmented sector planning and budgeting systems. This fragmentation can be the result of a proliferation of weakly aligned policies and weak top-down leadership. The level of fragmentation is worse at local levels, compounded by multiple bottom-up planning processes and tight top-down guidelines. When donors try and substitute for weak sector systems by setting up parallel procedures it further undermines the development of a stronger sector system. This sets in motion negative cyclical effects. The quality of sector systems is dependent also on the quality and speed of reforms being implemented to improve national budgeting and planning systems.

Despite the generation of these negative effects, off-budget funding modalities are sustained because there are often clear incentives at individual and sector levels for them to be continued. Absence of strong leadership in the sector, weaknesses in sector resource allocation processes and blockages to the flow of resources throughout the education sector which create resource pressures can together provide incentives for government officials at individual or sub-sector level to develop and maintain individual funding 'silos' that can be controlled. Although basket or pooled funds are considered an improvement on project funding and an intermediate step towards disbursement of budget support, they can create 'super structures', which are harder to dismantle because of strong incentives for both sector officials and donors operating in the sector to maintain them as long as possible.

Budget support generates the strongest incentives to dismantle compartmentalisation of sector budgets and plans and integrate planning and budgeting systems. In the Tanzanian case, the donor movement away from project and basket funding towards budget support has broken a cycle of off-budget funding provided because of weak sector systems, which in turn further weakened sector systems. However, a maturing of education sector systems did not prompt this move. Instead, it was caused by a series of push (unravelling of government–donor dialogue) and pull (government aid management strategy) factors. This move towards more budget support has the potential to support the development and maintenance of a sector-wide focus and a strengthening of sector planning, budgeting and monitoring systems. There are some signs that this is already happening. But the benefits to be gained from budget support in terms of better sector performance are regulated by a broader governance environment, quality of domestic accountability processes and the sector's capacity to respond to the incentives generated by this aid modality.

Annex 4: The Uganda water and sanitation sector

A4.1 Introduction and sector context

This case study investigates the use of different aid modalities and donor coordination mechanisms in the Ugandan water and sanitation sector. It is one of three case studies, each of which is looking at a different sector in Tanzania, Uganda and Mozambique. The aim of the overall exercise is to compare and contrast how reforms to the use of aid modalities and donor coordination mechanisms in each of the three countries have affected incentives at central, sub-national and sector levels. In doing so, the study aims to develop a better understanding of how different aid modalities and the mechanisms through which they are coordinated can help strengthen ownership, domestic accountability and policy and budgeting processes at sector level, and therefore improve service delivery.

The Ugandan water and sanitation sector provides an interesting and relatively successful case of government-led reforms, linked from the late 1990s to an innovative shift in the use of aid instruments and coordination mechanisms in the form of a sector-wide approach (SWAP). There are interesting contrasts within the sector between the rural and urban sub-sectors, where aid strategies have differed, within the context of the overall sector reforms and coordination mechanisms. The Uganda case also poses a test for the success of a new aid approach in the context of an increasingly challenging governance environment.

From the mid-1990s, efforts were made to reform the water and sanitation sector, integrating principles of demand-responsive approaches and private sector involvement with the new policy of decentralisation. The government has put in place a comprehensive policy and legal framework for the management of the water sector,²⁸ starting with the Water Statute in 1995. Following the adoption of the Water Policy in 1999, a series of reform studies was undertaken, starting with the rural and then the urban sub-sector, also forming the basis for sub-sector investment plans. These reform processes were conducted in a relatively consultative manner, involving different stakeholders such as donors, government technocrats, private sector and civil society.

While the policy framework was becoming clearer, the institutional environment was mixed prior to the shift in aid modalities and the introduction of a SWAP. There was strong leadership within the Ministry of Water, Lands and Environment and the Ministry of Finance, Planning and Economic Development (MFPED), which had a clear understanding of the direction they wanted reform to go. However, there was very little institutional capacity in the districts for delivery of rural or small-scale water, and the major donor-financed project were finding it difficult to build this. Meanwhile, the National Water and Sewerage Corporation (NWSC) was inefficient and saddled with debt, and there were early tensions between it and the water ministry, especially on sector reforms in the urban sub-sector. The supportive environment for reforming aid (Uganda and internationally) assisted the sector and the Ministry of Finance in taking the lead in coordination.

Although progress had been made in other sectors (most particularly education), in the late 1990s aid to the water and sanitation sector in Uganda was still characterised by a large number of fragmented donor projects with very little domestic budget government spending. The rural water sub-sector had two major projects, funded by UNICEF (United Nations Children's Fund) and Danida (the Danish International Development Agency), which together covered the entire country. The urban water sub-sector also had a large number of bilateral projects and programmes. These projects were managed individually under the umbrella of the Ministry of Water, Lands and Environment, but with little coordination. The water sector was also supported through donor area-

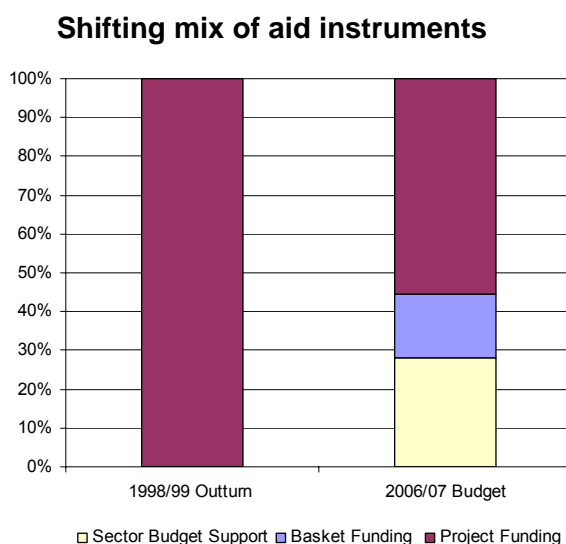
²⁸ The framework comprises a set of policies and laws, the most notable of which include: the National Water Policy (1999); the Water Statute (1995); the NWSC Statute (1995); and the Local Government Act (1997).

based programmes, linked to specific districts or groups of districts as well as directly to non-governmental organisations (NGOs).

A4.2 Levels 1 & 2: The aid environment in the sector and its immediate effects

Evolution of aid modalities and effects on sector funding

Aid to the water sector has shifted, from being solely conventional project aid in 1998 to more than 40% of aid being provided in the form of budget support or basket funding.

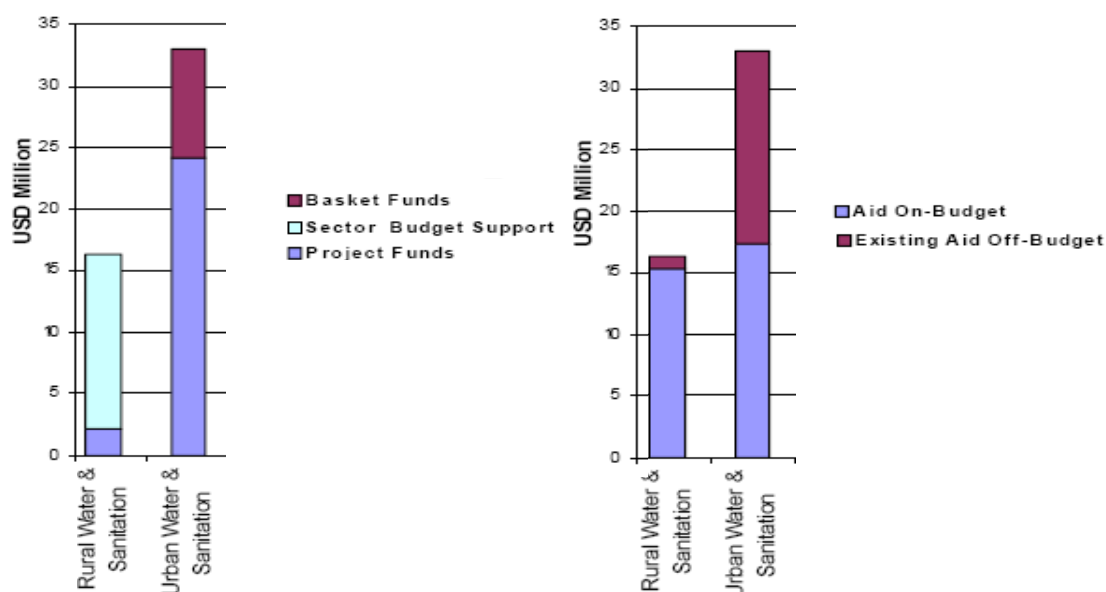


Source: ODI (2007).

The overall financing situation began to change, with the receipt of debt relief in 1998 and the subsequent formation of the Poverty Action Fund, where water and sanitation was identified as a key priority for funding. This in effect facilitated the expansion of domestic budget allocations to the sector, in the form of increased allocations to central government projects for both rural and urban projects. However, it was the allocation of a large share of the second round of debt relief in 2000 to the rural sector which enabled the government to be able to carry out the recommendations of the sector reforms. This prompted the major shift in sector-specific aid modalities. Instead of increasing funding to ongoing rural water projects, the government decided to channel funds through its own intergovernmental finance system in the form of a conditional grant to local governments – at the time, the system only existed on paper. These allocations far outstripped donor project allocations, and this prompted bilateral donors supporting the rural sub-sector to switch to sector budget support and support government’s own financing systems for the sub-sector – despite the perceived risks and weaknesses of local government systems early on. This means that sector budget support soon represented the vast majority of aid earmarked to rural water and sanitation.

In addition, water-specific NGOs received less and less funding for delivery from donors. However, there remain major multi-sector donor projects and many NGOs that also support the water sector and do not use government systems. These are usually not well aligned with government policies, and the degree of compliance with water sector policies and processes depends largely on the managers implementing these parallel interventions.

Mix of aid modalities and on-off-budget aid within the water sector



Source: ODI (2007).

Under the urban water sub-sector, there has been also a shift in the use of aid modalities, although less dramatic. With the emergence of the Urban Sector Reform Strategy, some bilateral donors (UK, Austria and Danida) decided to embark on a common basket fund – the Joint Partnership Fund (JPF) – under Ministry of Water, Lands and Environment. However, two major projects support smaller towns (funded by the Arab Bank for Economic Development in Africa – BADEA – and the Asian Development Bank – ADB) outside the common basket fund arrangement. These are directly managed by the ministry, with some involvement of local governments. In addition, there is substantial project support to the main urban water utility, the NWSC, which provides services to large urban centres. This tends to be managed in parallel to the support to small towns. This support, which represents about half the aid to the urban sub-sector, does not appear on the government budget and the medium-term expenditure framework (MTEF), which does not include aid to parastatals.

Even with the move towards budget support in the sector, there is still substantial technical assistance (TA) provided by donors. However, it is evident that this is increasingly oriented towards strengthening government policies and systems and less to the operation of specific projects.

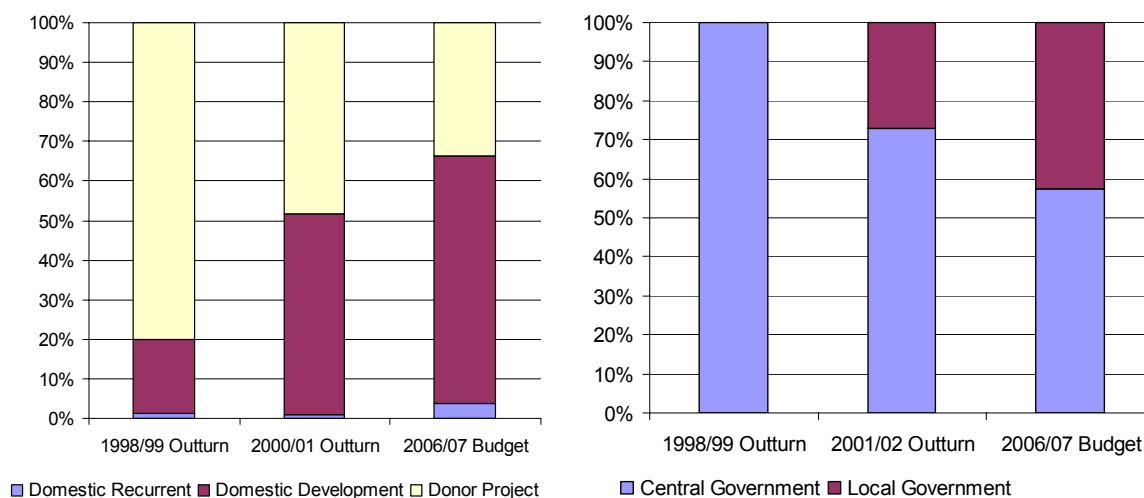
Government's prioritisation of the sector, as reflected by the use of debt relief savings combined with the move towards general and sector and budget support, has meant that the domestic development budget has increased in relative and absolute terms and now is the largest component of on-budget funding. This means that the share of sector funding using government systems has increased significantly. Although the vast majority of rural water and sanitation financing is on-budget and channelled via government systems, even taking into account government expenditures, donor project funding remains dominant in the urban sub-sector.

It is also important to highlight that direct transfers to local governments using the grant system in the late 1990s went up from zero (although some was channelled via projects) to over 40% of sector budget allocations by 2006/7. Despite this greater coherence, at the local level, the existence of both governmental and non-governmental actors external to the mainstream sector still contributes to fragmentation of funding and systems. For example, NGOs and other government projects are active at the district level.²⁹ (One district estimated that NGOs undertook 40% of activities; another reported 5%.) This poses a difficulty in getting an aggregate picture of funding to the sector at both the local and national levels. At the local level, districts complain about

²⁹ E.g. the Northern Uganda Social Action Fund and the Local Government Development Programme.

the reliability of conditional grant funding to local governments for the water and other sectors. However, the complaint seems to be caused by inefficiencies in cash management at the district. Overall, levels of disbursement to the districts over the year appear reliable.

Composition of on-budget expenditures in the water and sanitation sector



Source: ODI (2007).

The use of the JPF is an attempt to arrest further fragmentation in funding of the urban sub-sector, but the sector still has projects (e.g. ADB, BADEA – not interested in JPF, and the NWSC) and the JPF remains a ‘large project’ and does not use government systems beyond appearing in the budget and using the ministry contracts committee. For example, the JPF uses different accounts codes to the government Chart of Accounts. Despite the challenges associated with the JPF, discussions at the centre suggest that it has contributed towards greater budget predictability. However, continued off-budget support to the NWSC distorts the picture of resource allocation between urban and rural water sub-sectors.

Evolution of coordination mechanisms and their effects on donor behaviour

A fairly well structured coordination dialogue structure has emerged and evolved in the sector, from the fragmentation and duplication that prevailed in the 1990s in the sector, when financing was characterised by standalone projects and programmes. The initial seeds of coordination emerged in the rural water sub-sector in the form of the Inter-ministerial Steering Committee for Rural Water and Sanitation, which was established to bring government actors together and the two major projects funded by UNICEF and Danida. Meanwhile, the Ministry of Finance introduced sector working groups (SWGs) across government as part of the budget process to improve strategic resource allocation. The SWG included representatives of donors and civil society, as well as the Directorate of Water Development.

Although donor-to-donor dialogue started informally, the need for a donor representative in the SWG and MFPED guidelines for the budget process required a degree of coordination and information-sharing with donors that had not been there before. With the Ministry of Water, Lands and Environment keen to move towards a SWAP along the lines of other sectors, and engage in dialogue with donors as a whole, a donor group was formalised. The SWG was put at the centre of policy as well as budgetary dialogue in the sector. Now, the donor group communicates to government through the chair of the group, which rotates. The chair consolidates comments and prepares joint statements on behalf of the group (e.g. on the budget framework paper, sector performance report, etc.) All donors active in the sector are active in the group, but there are different degrees of engagement because different donors have different abilities to engage in such processes. Meanwhile, the ministry and the Donor Group jointly chair the SWG.

Alongside structured dialogue with donors a formal review process was initiated. The joint sector review is held annually and attended by sector ministries, civil and political leaders, local government staff and representatives of donors. During the review, an increasingly sophisticated and comprehensive review of the performance of the sector is carried out, shortcomings discussed, and undertakings for addressing priority issues during the following year agreed upon. These agreements form the conditions relating to general and sector and budget support. As part of the performance monitoring process, mid-term joint technical reviews are also carried out, to assess the technical and financial performance of the sector. More detailed field visits are carried out during the technical review. These are also used as opportunities for the SWG to discuss and agree on the sector budget framework paper. The sector review process has provided a forum for conducting joint diagnostics, such as value for money studies and fiduciary assessments. Most important has been the development of the performance measurement framework.

The JPF provides a coordination mechanism between the urban water department and the donors involved. Donors play a very operational role, attending monthly meetings and being party to implementation decisions. Quarterly progress reports are prepared, discussed, and approved.

Meanwhile, at local government level, district water and sanitation committees were conceived to coordinate the various actors – both governmental and non-governmental. District water offices have found it difficult to get these committees operational because of the suspicion with which the administrations are held by NGOs, and the fact that NGOs do not see how they are likely to benefit from engaging with them.

There was a feeling among stakeholders within and outside government that donors had changed the nature of engagement in the sector. Using the donor coordination mechanisms, donors conduct more work collectively and act more coherently in terms of dialogue with government. The scope of the dialogue is more comprehensive, focusing on the sector as a whole, and has contributed to a reduction in transactions costs. For example, Danida had five component reviews each year initially. These were replaced by the joint reviews (JRs). Nevertheless, elements of traditional fragmentation and project interests remain, especially in the urban water sub-sector. Some bilateral consultations with government still take place. For example, KfW (the German Development Bank), a major financier of the urban water sector and the NWSC, has annual consultations with government. BADEA and ADB have similar arrangements.

There was initial fear from some actors, within the urban water sub-sector in particular, that if donors got organised they would gang up on the government. Yet, the vast majority of sector stakeholders interviewed felt that a 'real' partnership had emerged, with a substantial degree of trust. The closer working between donors and government has led to greater understanding. However, some in the government felt that donors often overstepped the mark in this partnership. SWAPs were acknowledged to have an element of negotiation about them, but it was felt that donors had an upper hand in these negotiations, and sometimes were over-insistent, made unreasonable demands, and did not listen to the views of civil servants. This was felt to be especially frustrating when donors lacked technical expertise or local knowledge. In short, some still hold a donor mentality – 'we have the money, you have to do what we want'. There was also concern that the continued existence of multiple donors, each with their own water sector representative, meant that there were too many ideas from development partners clouding the policy debate, and made it difficult to focus on performance against existing policy.

In the rural sub-sector, the move to budget support has meant that donors have a far less operational role in the sector than previously, and this leaves ministry and local government institutions to play their mainstream roles. The management of the JPF is far more aligned than conventional projects with the ministry structure. However, donors still play a very operational role, participating in monthly management meetings. The JPF is the exception and the remaining projects in the sub-sector have separate project implementation units, which are managed by ministry staff.

Although they would prefer that funding be aligned with government policies and systems, civil servants also felt that it was still difficult to resist project funding, even if proposals represented poor alignment or value for money. Projects were political, and donors were still able to force them through, owing to their political nature. This meant that some projects are implemented (often political), which have not been discussed or approved by the SWG.

A4.3 Effects on sector budgeting, policies, service delivery, institutions and accountability (Levels 3-5)

Policy, planning and budgeting systems and processes and resource allocation

The Water Statute, Water Policy and sector reform processes in the sector all predate the shifts in aid instruments and donor behaviour, as do the reforms to the budget process and the formation of SWGs by the MFPED. However, they essentially laid the ground for a more coherent and coordinated aid environment, and the donor coordination mechanisms and the SWAP. This in turn has facilitated a strengthening of policy and budgeting processes

Resource allocation

Resource allocation is more coherent and better linked to sector objectives than in the past. There are two factors behind this. Firstly, the consultative budget process, which was initially driven by MFPED, has helped open up space to consultation across institutions within government, civil society and donors within the SWG. It is the SWG that is collectively responsible for preparing the sector budget framework paper. This has contributed to ownership of resource allocation in the budget process. Sector-wide budgeting (and dialogue) has also reduced the possibility of duplication of activities within the sector. More coordinated donor engagement through the SWG via the chair of the Donor Group has definitely helped. Secondly, the top-down ceilings provided by MFPED have meant that resource allocation within such ceilings is delegated to the institutions in the sector via the SWG. Although, naturally, the water sector complains about inadequate resources and the arbitrary nature of ceilings, in recent years this has meant that the debate is within control of the sector. In fact, the sector has been allocated more money than projected in its own sector investment plan.

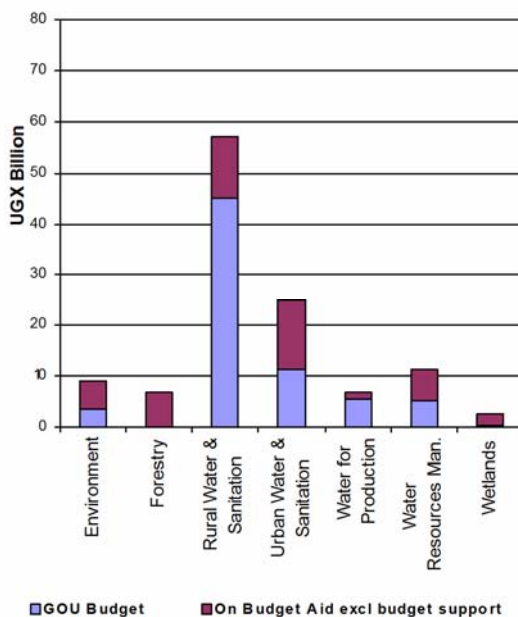
At local government level, the district water conditional grant ensured that local governments and specifically the district water offices became major players in the sector at local level, countrywide. Local governments are becoming more successful at coordinating other government funding sources such as the Local Government Development Programme and the Northern Uganda Social Action Fund. However, coordination with NGOs remains a major problem. In fact, local governments complain about the lack of transparency of NGOs, especially regarding finance. NGOs often do not even reveal information related to the activities they want to undertake. This perpetuates the suspicion held between the public and NGO sectors.

It is important also to consider the effect of different aid modalities on resource allocation and the budget process, especially the link between resource allocation and policy objectives. The figure below shows allocations in the budget to sub-sectors compared with overall aid to the sector. It is evident that, if resource allocation is to reflect policy priorities, it needs to be made on the basis of comprehensive information of aid provided – whether to government, parastatals or NGOs. The existence of top-down ceilings also provides incentives for donors not to declare project aid, or fund aid to parastatals outside the ceilings. In this context, a key observation by MFPED was the fact that the sector rarely relates projects and investment decisions back to the sector investment plan. The political nature of some projects is also a factor (discussed later).

Top-down ceilings have also meant that additional sector budget support from donors has not affected the overall sector ceiling. Obviously, the ministry (and the donor providing the aid) wants the additionality of sector budget support on sector budget allocations, and this contributes to a

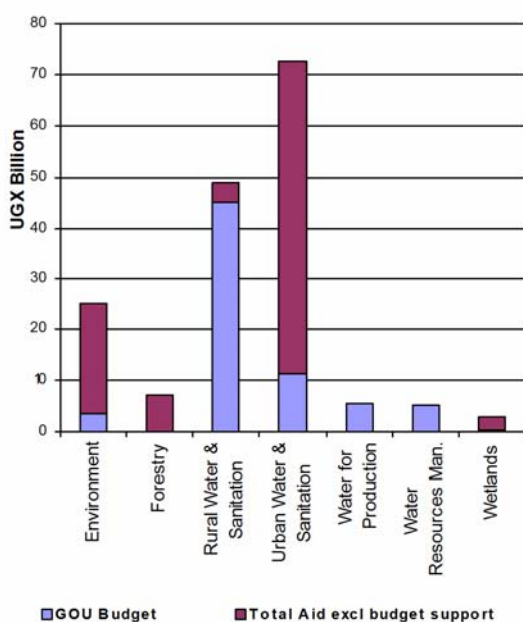
sense that the sector loses out if money is channelled as sector budget support. Yet, this also reinforces the importance of dialogue with MFPED. In principle, integrated sector ceilings mean that the sector can shift from project aid to mainstream project funding without losing funds, but fear of budget cuts has also contributed towards reluctance from some within the urban water sub-sector to support a shift towards budget support. Furthermore, proponents of this view also recommended that project funding of government corporations such as the NWSC should continue not to be reflected in general budgets, because this would create an impression of sufficient funding to the sub-sector. It is actually likely that the greatest risk would come from within the sector itself, as there is resolve to increase rural sector allocations. However, this cannot be done without a shift away from urban projects.

Allocations including on-budget aid earmarked to sector



Source: ODI (2007).

Allocations including total aid earmarked to sector



Source: ODI (2007).

Policy processes

The joint sector reviews and the SWG are now the main fora at which the details of sector policies are discussed and agreed, and progress reviewed. The Water Policy Committee is ultimately responsible for advising the ministry on policy. However, in the current context, it could be argued that the role of the Water Policy Committee has been usurped by the SWAP process. However, the consultation in the SWG could equally be said to inform the Water Policy Committee. Respondents from the ministry genuinely felt more in control of the policy process for the sector. This was in part attributed to the legacy of strong leadership that dates back to when the SWAPs were introduced. Further, it was revealed that the SWAP had helped ensure that politicians were more disciplined in the implementation of policies.

A key shift in attention in the sector review process has been from policy and budget formulation to review of policy implementation. A comprehensive sector performance measurement framework has been developed. The key output is the Annual Sector Performance Report. The report sets out sector performance with respect to policy targets and objectives, focusing on 10 Golden Indicators for the sector, and provides in-depth assessments of progress around these areas for each sub-sector. This report, and the process which leads up to it, is a key strength of the Ugandan policy process. It can be argued that the sector-wide budget framework paper and performance reports are more coherent documents than the individual sector policies and investment plans they are putting into operation. Efforts are now underway to develop a comprehensive sector strategy. There are gaps, however. Although there is analysis of value for money, overall linking of resources to expenditures is not carried out systematically. NGOs are still major players in the sector, but information about their activities is not comprehensively captured in these reports.

The key question is the extent to which performance information contained in this report is actually used in decision-making to improve resource allocation and service delivery. This is intrinsically linked to the question of incentives discussed later. The question is difficult to answer; evidence on reducing value for money has certainly resulted in debate, but initiatives have yet to yield results.

Value for money in the sector

Urban versus rural: A key area of concern has been over value for money in sector allocations. Firstly, the overall efficiency of the urban-rural allocations is brought into question by the fact that the per capita investment cost in the urban sub-sector is nearly four times higher than that of the rural sector, even though only 10% of the Ugandan population lives in urban areas. Secondly, the administrative overhead in the rural sector for administering service delivery appears far less in the rural sector – at 33% of investment costs, compared with 66% for urban.

Increasing rural unit costs: On a general note, there appears to have been widespread consensus that the rural water sector grant has been more efficient at delivering services, whereas the urban sector has remained relatively costly, with little efficiency. However, rising unit costs in the rural sector have emerged as a major issue in recent years. There are sound technical reasons for this, as low-cost technology options such as springs are exhausted. However, legitimate concerns have also been raised centrally, over sector governance, and in particular corruption in delivery at the local level and inefficiency of the private sector. Meanwhile, local government stakeholders also pointed to the institutionalisation of corruption from the centre, which affects service delivery.

Civil society actors engaging in the sector review meetings and in the SWGs feel that they are not able to influence policy debates and directions much, despite the fact that space for engagement exists. This may owe as much to the fact that public policy engagement is a relatively new dimension for NGOs in Uganda; there may be a lack of capacity rather than a lack of space.

Institutions and service delivery

At the central level, the introduction of policy processes around the SWAP and the budget process has meant that the Ministry of Water, Lands and Environment has needed build capacity to develop and monitor implementation of policies and to manage policy and budget processes. The sector policy and quality assurance department within the ministry has played this role, as it has evolved into a mainstream, high-profile function.

Meanwhile, it is very clear that the shift in resource allocation in the rural sub-sector to on-budget modalities has helped build stronger local institutions for service delivery. Before the allocation of debt relief, the conditional grant existed only on paper; systems and capacity in local governments were either weak or non-existent. At the outset, the conditional grant supported the establishment of offices and the recruitment of qualified staff, and this was instrumental in building capacity at the local level. The fact that funds were transferred for delivery while building capacity meant that there were stronger incentives to attract and retain qualified personnel. In addition, the ministry focus turned to supporting local governments and not implementing projects. The establishment by the ministry of regional technical support units (TSUs) helped in providing an enabling environment for district water offices through capacity building. This has enabled district water offices to play their role effectively. TSUs provide specialised skills relevant and specific to the offices, although some respondents felt that actually some offices were sharper and brighter than TSU staff. There is now capacity in the district water offices to perform their designated functions and deliver services to the public.

In contrast, the urban water sector has up to now not built local institutions properly and effectively as implementers of urban water schemes. Only recently has a decision been made to use TSUs to support the implementation of urban water projects. The JPF is more aligned with the institutional structure of the Ministry of Water, Lands and Environment, but it is still management-intensive at the centre, as are the other standalone projects. Ministry staff acknowledged that this was still having a debilitating effect on the coordination and sustainability of the sector.

External factors have undermined the building of strong local institutions. Firstly, the recent public service restructuring at district level reduced the staffing in district water offices, seeing the laying-off or transfer of trained and skilled manpower. This reflects a lack of coordination among different government agencies. Secondly, over the past five years, many districts have been split up. The creation of new districts has spread existing capacity thinly (see Working Paper 2 in this series). Meanwhile, it is evident that other donor-funded projects, such as the Northern Uganda Social Action Fund, have not contributed to strengthening public sector institutions at the local level, instead using parallel structures such as community project committees. Such structures are not likely to last after projects wind up, while local governments invariably will remain. Nevertheless, civil servants and politicians explicitly preferred direct project modality to budget support, but this was largely because it was perceived as additional money.

Ownership, incentives and accountability processes

In order to understand the progress in the sector and the role of the changing aid environment, it is crucial to understand the changing nature of institutions, incentives and accountability.

Increased ownership

Ownership of policies, budgets and service delivery processes have evolved over time and strengthened. In the late 1990s, there was resistance to change within the Directorate of Water Development, especially in terms of decentralisation of service delivery to local governments. The Ministry of Water, Lands and Environment was comfortable with managing donor projects and bilateral relations with donors. The consultative environment in which sub-sector reform processes were initiated helped foster debate, and ultimately made it easier for stakeholders to agree and accept change. Meanwhile, the sector review process and the budget process helped emphasise

sector policy priorities. Ultimately, there is substantial ownership of sub-sector policies and strategies, although there is often disagreement when prioritising across sub-sectors. The role of the sector review and the budget process, with their sector-wide scope, helped in arriving at consensus within the sector, although different perspectives in the rural and urban sectors remain.

Ownership is apparent among civil servants and donors, but national politicians often are not as well versed in sector policies or as interested in adhering to them. In some cases, ministers undermine policies, for example discouraging people from paying water user fees. Often, politicians issue direct requests for interventions in their areas. Civil servants feel that they are able to deflect demands for direct implementation, but this is less easy when ministers or the president are involved. In such cases, national or local government work plans are changed. Such interventions are infrequent (although increasing in number), so rules can still be enforced. Importantly, it can also be argued that the existence of stronger and more widely understood policies in the sector actually constrains the ability to bypass such policies.

At local level, there is a major difference in understanding and ownership of policies and systems (see box below). This has led to increased ownership of outputs by councillors and communities, as against project funding – where outputs were marked by flags of the supporting donor and always referred to by the name of the donor e.g. Irish borehole, Danida school, etc.

Contrasting ownership at the local level

There is strong ownership of rural sector policies at local level. Staff at the district level as well as those at TSUs and the ministry emphasise the importance of the 'critical conditions' for new water points, which have greatly improved water coverage and functionality rates. Even local councillors acknowledge the importance of these critical conditions. The conditions include community cash contributions, involvement of women, operation and maintenance plans, hygiene and sanitation, specialised skills transfer and quality assurance.

However, it was evident from discussions with district water offices and the urban scheme visited that the policies for service delivery were far less well understood in urban areas. The ministry does involve the district and users in the construction of urban schemes, but these appear to be administered in a traditionally top-down way, with actors at the local level often not understanding why they are asked to do various things – such as forming a board and appointing a private service provider.

However, fragmentation remains, and other actors in the sector do not necessarily follow government policies and conditions. Different government projects and NGOs have different approaches, which makes it difficult to enforce policy guidelines. Some donors and NGOs also come with their own conditions and work approaches.

Changed incentives

Overcoming the resistance to change in the sector was possible also because of the shifting of incentives that occurred from the late 1990s. It is possible to identify key factors, both internal to the sector and outside, which have led to a clear shift in incentives towards delivering sector policies and strategies.

The first was the acknowledgement within the sector, and especially from the leadership within the Ministry of Water, Lands and Environment, but also among donors, that there was a need to change from the *status quo*. Service delivery had collapsed and donor interventions were not sustainable. This meant that there was an institutional desire within the sector to change, and the sub-sector reform processes were a manifestation of this.

This was backed up by an increasing political prioritisation of water and sanitation from the mid-1990s as the desire to address poverty emerged. This came to a head with the allocation of debt relief and the decision to channel it to the rural sector, which was exogenous. However, given the existence of reform proposals developed by the sector, a decision was made to channel the

resources through local government systems, in line with the proposed rural sector reforms. This in turn made local governments, not donors, the main game in town for rural service delivery, and prompted the shift from a top-down projectised approach to service delivery to a bottom-up one, using government systems and building institutions. Donors had only one option – to help government make this a success. Service delivery is now driven by districts and increasingly by beneficiary demand. Because of this shift, local government stakeholders, especially politicians, feel that the achievements are theirs. Such a decisive shift had not been present in the urban sector, which has meant that change has been much slower and more measured.

The third set of incentives relates to the reforms made to the budget process in the 1990s, and the introduction of SWGs and top-down budget ceilings. This put the responsibility for resource allocation, and therefore performance, firmly within the control of sector stakeholders. Linked to this, the final set of changes in incentives has come as a result of the sector review process. Initially, a major thrust behind the establishment of the joint review process was from donors, although there were those within the sector who also supported it (it was modelled on similar processes that had been established in the health and education sectors). Undoubtedly, the link between dialogue and conditions relating to budget support to the review process acted as a strong incentive for the ministry to take the process seriously. However, the drivers of incentives are now not merely donors. The involvement of a broad spectrum of sector stakeholders has helped broaden ownership of sector policies and processes. The incentives to perform appear to result largely from a combination of mutual accountability and collective ownership backed up by donor conditionality, rather than from any vertical demands from MFPED, Cabinet or Parliament. Again, such incentives are weaker in the urban sub-sector, where there remains intense involvement of donors at an operational level still, which has probably served to isolate the urban sector from more intense demand on performance from other sector stakeholders, especially domestic ones.

But broader governance issues restrict progress

These largely positive ownership and incentives effects can result in improved accountability, but the extent of this is restricted by a number of broader governance concerns, exogenous to the sector, but often pervasive across the public and private sector.

- The Executive is increasingly concerned with policy issues not relating to the original core poverty goals, including water and sanitation, and also, in the context of multiparty politics, with the consolidation of power. This not only is manifested in political activity but also impacts on the civil service. A process of creeping recentralisation appears to be occurring, with central appointment of the top civil servant in the district combined with the politically motivated creation of districts.
- A perceived increase in corruption is said to be becoming increasingly institutionalised at the local as well as the central government level. The seeking of rents across government becomes pervasive and value for money declines. A failure of the state to take action against high-level corruption cases gives the impression of a culture of impunity. Some claimed that project support allowed a modicum of additional control, but most stakeholders acknowledged that corruption was a pervasive problem, whether funded through the budget, government projects or even NGOs.
- Civil servants face weak and often perverse incentives. They receive low pay and often need to supplement this. Even if they are no longer employed via projects, there are a multiple avenues for supplementing income through workshops and training which detract staff from carrying out core functions for which they are not similarly rewarded.

As a response to these concerns, the sector has initiated a governance working group and has undertaken public financial management diagnostics. However, given that that the sector exists within this broader governance environment, it appears unlikely that substantial progress can be made at a sector level.

A resulting mixed pattern of accountability

Within the civil service at the centre, there seems to be a moderate degree of accountability in the context of weak overall public service incentives. Staff in the ministry were asked about the demands for accountability they faced. They cited MFPED and the Prime Minister's Office (PMO) as the main demanders of accountability from within the Executive. However, the extent to which these institutions actually demand accountability beyond formal reporting and compliance is questionable. MFPED does exert some pressure for efficiency, but there are concerns that the challenge function in the budget process is diminishing (Lister et al., 2006). There are efforts by the PMO through the National Integrated Monitoring and Evaluation System and the Annual Poverty Eradication Action Plan (PEAP) Implementation Review Process to review overall public sector performance. However, this has yet to act as a forum for domestic accountability in the way sector review processes do.

The Ugandan political reality is of a dominant Executive, and the ruling party has an overwhelming majority in parliament. Although there is little political incentive for the government to criticise itself strongly, parliament was cited as the main source of political demand for accountability. Yet, parliamentary committees lack the capacity to assess the quality of reports presented to them by the sector. Parliamentary demand for accountability does not link money to performance as such. Crucially, there appears to be little demand for accountability from the water minister or the Cabinet. The water sector only approaches the Cabinet for political support for new initiatives. As mentioned earlier, national politicians from the Cabinet and the Parliament instead are more interested in requesting interventions in their area than achievements against national policy objectives.

Meanwhile, formal accountability systems are not as strong as they could be, although substantial strides have been made in formal accountability within local government. Accountability organs, such as the inspector-general and the auditor-general, have helped in promoting accountability, since they have a presence at the district level. However, it was mentioned that these organs 'do not bite' and do not follow up on accountability culprits. Allegations of institutionalised corruption within those very accountability institutions are not uncommon.

This leaves the sector review process as a key sphere of accountability in itself. There is certainly a degree of mutual accountability within this. However, outside this sphere, because of collective responsibility under the SWAP, donors often support the ministry and the sector as a whole during accountability processes, especially against challenges by MFPED during the budget process.

Meanwhile, the urban water sub-sector has numerous projects. Reporting is thus project-based and fragmented, and this presents a huge challenge to overall reporting for the sub-sector.

Local accountability mechanisms are weak, although there are positive signs of emerging political accountability in the water sector. For example, in Soroti, politicians sometimes consult the district water office on what is planned before making pledges to ensure that they will be able to deliver. Politicians are also beginning to support adherence to sector policies, as mentioned earlier. The water sector is particularly active in promoting community engagement through water user committees which, it was claimed, were increasingly functional. Similar structures are in place for urban water schemes. Although districts themselves are often not actively transparent, civil society can still play an active role in monitoring. Some of the progress specific to the water sector has been attributed to district advocacy and sensitisation work by the TSUs, but there is also a sense that local politicians need to be seen to be delivering. However, there are major concerns around corruption in local procurement and value for money at the local level, which temper the signs of improvement.

A4.4 Conclusion

The reforms to the Ugandan water sector are rightly cited as a success story by international practitioners in the water and sanitation sector, when compared with other countries in sub-Saharan Africa. However, it is important to note that a combination of factors, exogenous and endogenous to the sector, have helped both reinforce progress and restrict it. Within the sector, strong leadership and a will to undertake necessary reforms were key to success. Outside the sector, water and sanitation emerged as a strong political priority in Uganda and there was a well managed consultative budget process. The change in aid modalities and donor behaviour were only two spheres of influence on the sector.

In this context, decisive shifts in aid modalities in the rural sub-sector especially, and more measured improvements in donor coordination, policy and systems alignment, have had positive effects on planning and budgeting systems, sector policy processes and institutions for service delivery.

Intrinsic to this have been positive effects on ownership and incentives, and subsequent slight improvements in accountability.

It is apparent that decisive shifts in budget modalities, if backed up by a clear idea of what government systems should be like, can fundamentally change power relationships and therefore incentives in a sector. Such changes are more likely to come from the outside than the inside, as the contrasts between the rural and urban sectors show. While there are noticeable positive effects of a basket funding mechanism in the form of the JPF, the pace of change there has been slower. As both the sectors have been subject to similar high-level coordination through the budget and sector review process, this would intimate that the returns from a shift in modality outweigh those from efforts to improve coordination – although there are significant benefits from both.

The building of ownership is a slower process, and the sector review processes, which are also a central part of donor coordination, have been instrumental to this at the national level. However there are again contrasts at the local level between rural and urban – which would indicate that ownership comes with responsibility for delivering services: the centralisation of urban service delivery has hindered the building of local ownership.

Now the sector is better organised, but external factors are threatening to undermine progress. However, the sector policy review processes that are in place may help isolate the water and sanitation sector from such threats.