

Sector Budget Support in Practice

Literature

Review

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List of Acronyms and Abbreviations

AFD	<i>Agence Française de Développement</i> (French Development Agency)
AsDB	Asian Development Bank
CABRI	Collaborative Africa Budget Reform Initiative
CAPE	Centre for Aid and Public Expenditure, Overseas Development Institute
CAS	Country Assistance Strategy
CAST	<i>Compte d'Affectation Spéciale du Trésor</i> [Special Treasury Account]
CD	Capacity Development
CIDA	Canadian International Development Agency
COFOG	Classification of the Functions of Government
CPA	Country Procurement Assessment [World Bank]
CRG	Country Reference Group
CRS	Creditor Reporting System [OECD/DAC]
CSO	Civil Society Organisation
CV	Curriculum Vitae
DAC	Development Assistance Committee
DAIC	Design and Implementation Consultant
Danida	Danish International Development Assistance
DFID	Department for International Development
EC	European Commission
EEF	Enhanced Evaluation Framework
EFA	Education for All
EU	European Union
Forex	Foreign Exchange
GBS	General Budget Support
GoE	Government of Ethiopia
GoM	Government of Mozambique
GoN	Government of Nepal
GoV	Government of Vietnam
GPN	Good Practice Note
GTZ	<i>Deutsche Gesellschaft für technische Zusammenarbeit</i> (German Technical Cooperation)
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDD	International Development Department
IEG	Independent Evaluation Group (World Bank)
IOB	<i>Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie</i> (Policy and Operations Evaluation Department) [Netherlands].
IMF	International Monetary Fund
JPF	Joint Partnership Fund (Uganda)
LENPA	Learning Network on Programme Based Approaches
M	Million
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments and Agencies
MFA	Ministry of Foreign Affairs (Netherlands)
MoET	Ministry of Education and Training [Vietnam]
MoEYS	Ministry of Education Youth and Sport [Cambodia]
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organisation
NONIE	Network of Networks on Impact Evaluation
OA	Official Aid

ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PAD	Project Appraisal Document [World Bank]
PAF	Performance Assessment Framework
PAP	Priority Action Programme [Cambodia]
PBA	Programme-Based Approach
PD	Paris Declaration
PEM	Public Expenditure Management
PER	Public Expenditure Review
PFM	Public Financial Management
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit [World Bank]
PRSP	Poverty Reduction Strategy Paper
SBS	Sector Budget Support
SBSiP	Sector Budget Support in Practice
SC	Study Consultant
Sida	Swedish International Development Cooperation Agency
SPA	Strategic Partnership with Africa
SPSP	Sector Policy Support Programme
SR	Synthesis Report
SWAp	Sector Wide Approach
TA	Technical Assistance
TBS	Targeted Budget Support [Vietnam]
ToR	Terms of Reference
TVET	Cambodia Case Study
UK	United Kingdom
UN	United Nations
US	United States
WB	World Bank

1. Introduction

1. This literature review sets out to summarise the available published literature on the operation of Sector Budget Support (SBS) in practice, with specific reference to the proposed study questions so as to directly inform the broader study. In particular, it aims to develop a typology of SBS characterising different approaches in operation.

2. We adopt a broad view of the subject-matter, covering the range of sector support modalities from full SBS across a range of 'hybrid' sector approaches in use at country level, defined both in terms of 'derogations' from use of country systems and additional requirements imposed over and above country systems. However, we take a strict approach in describing the different varieties and limiting the term 'SBS' to a sub-set of approaches.

3. We draw a distinction between aid modalities and aid instruments. Aid modalities are defined as the broad categories of mechanisms by which donor aid funds are channelled to the activities to be funded (budget support, projects, vertical funds). While useful for general discussion, these generic aid modalities capture only one or two dimensions of aid delivery however, focusing in particular on the way funds are transferred (Lister et al., 2006). There are many more dimensions to the way in which aid is delivered in practice, and consequently also a great deal of hybridisation. We therefore follow (Lister et al., 2006) in using the term 'aid instrument' to refer to specific aid deliver methods, providing a more systematic approach to identifying their many constituent dimensions.

4. The remainder of the report is structured as follows: Section 2 discusses programme based approaches (PBAs) to aid delivery; Section 3 defines the spectrum of aid instruments that comprise 'sector budget support'; Section 4 presents and discusses evidence from selected case studies of sector budget support in practice; Section 5 discusses different methodological approaches to assessing budget support; and Section 6 concludes.

2. Programme Based Approaches

2.1 Introduction and definitions

5. In order to understand sector budget support it is first important to understand broader donor and creditor approaches to programmatic and sector support. This will involve defining a number of terms as it is important to establish these clearly at the outset: terms are often confused or conflated in the literature. Much of this ambiguity has arisen because practice often evolves at recipient country level prior to the development of formal agency-wide guidance, and is shaped by the internal procedural constraints of each donor/creditor agency. As a result, definitions, guidelines, procedures and practices vary from country to country and across different donors and creditors. Most attempts to establish multi-donor definitions and guidelines – often led or coordinated by the OECD or SPA – therefore involve retro-fitting definitions to diverse array of practices already in operation. They also involve establishing a negotiated consensus among a large number of agencies and are therefore typically broad and all encompassing, admitting a wide variety of specific approaches.

6. In establishing definitions, it is first important to understand that there is a broad distinction between aid delivery *approaches* and *aid modalities*. Approaches usually involve a set of guiding principles, some or all of which will be implemented in practice, and include Programme-Based Approaches (PBAs) and Sector Wide Approaches (SWAs), both discussed below. The term ‘aid modality’ refers to the type of mechanism by which aid is delivered such as projects, common basket funds, sector budget support and general budget support (see Box 3 below). Approaches such as PBAs and SWAs can therefore comprise a wide variety of aid modalities but they are not aid modalities themselves (a common mistake in the literature). Approaches typically place a very high emphasis on the trajectory of change rather than insisting that every element be in place from the outset, on partnership between donors/creditors and recipient governments and on ownership by the latter.

Box 1: Programme-Based Approaches

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

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

Donors can support and implement programme-based approaches in different ways and across a range of aid modalities including budget support, sector budget support, project support, pooled arrangements and trust funds.

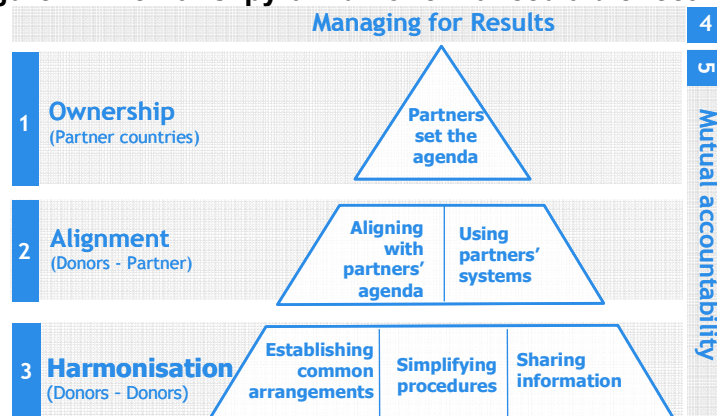
Source: OECD/DAC (2008; p. 37).

7. PBAs represent a formalisation of a set of elements that came to be seen – over a period of years – to be central to successful development assistance (see Lavergne and Alba (2003) for a discussion). The commonly agreed definition of ‘Programme Based Approaches’ (PBAs) was developed by the Learning Network on Programme-Based Approaches or LENPA and has subsequently been adopted in OECD/DAC guidelines (see Box 1). As Lavergne and Alba (2003) describe, the ‘programme’ might be a Poverty Reduction Strategy (PRS), a sector programme or a ‘thematic’ programme (e.g. HIV/AIDS or environment focused) or related to a specific organisation (either government or NGO). PBAs stress comprehensive and coordinated planning under a PRS and are intended to support domestically owned development programmes. Hence the

'programme' should be that of a developing country government or institution, which one or more donors have agreed to support.

8. Donor thinking on the elements that underpin PBAs was an important precursor to the Paris Declaration (PD) on Aid Effectiveness. The PD represents a joint undertaking on the part of the donor community and partner countries to make aid more effective by 2010. More specifically, this involves a commitment by both parties to promote: (i) recipient-country 'ownership' of the development agenda; (ii) donor alignment with both the priorities and goals set by partner countries as well as an increased reliance on national administration systems; and (iii) more coordinated, streamlined and harmonised actions among multiple donors. As well as the core building blocks of ownership, alignment and harmonisation, the PD also has two crosscutting concepts: mutual accountability and an emphasis on management-for-results (Figure 1).¹

Figure 1: The Paris 'pyramid' for enhanced aid effectiveness



Source: OECD Working Party on Aid Effectiveness.

9. PBAs have been adopted as an important component of the PD. The ninth 'Indicator of Progress' under the Declaration is to increase the use by donors and creditors of common arrangements or procedures so that 66% of aid flows are provided in the context of PBAs. Figure 2 demonstrates the proportion of aid delivered through PBAs according to the Survey on Monitoring the Paris Declaration.² It clearly illustrates the wide variation in use of PBAs (as defined by the PD) across donor agencies.

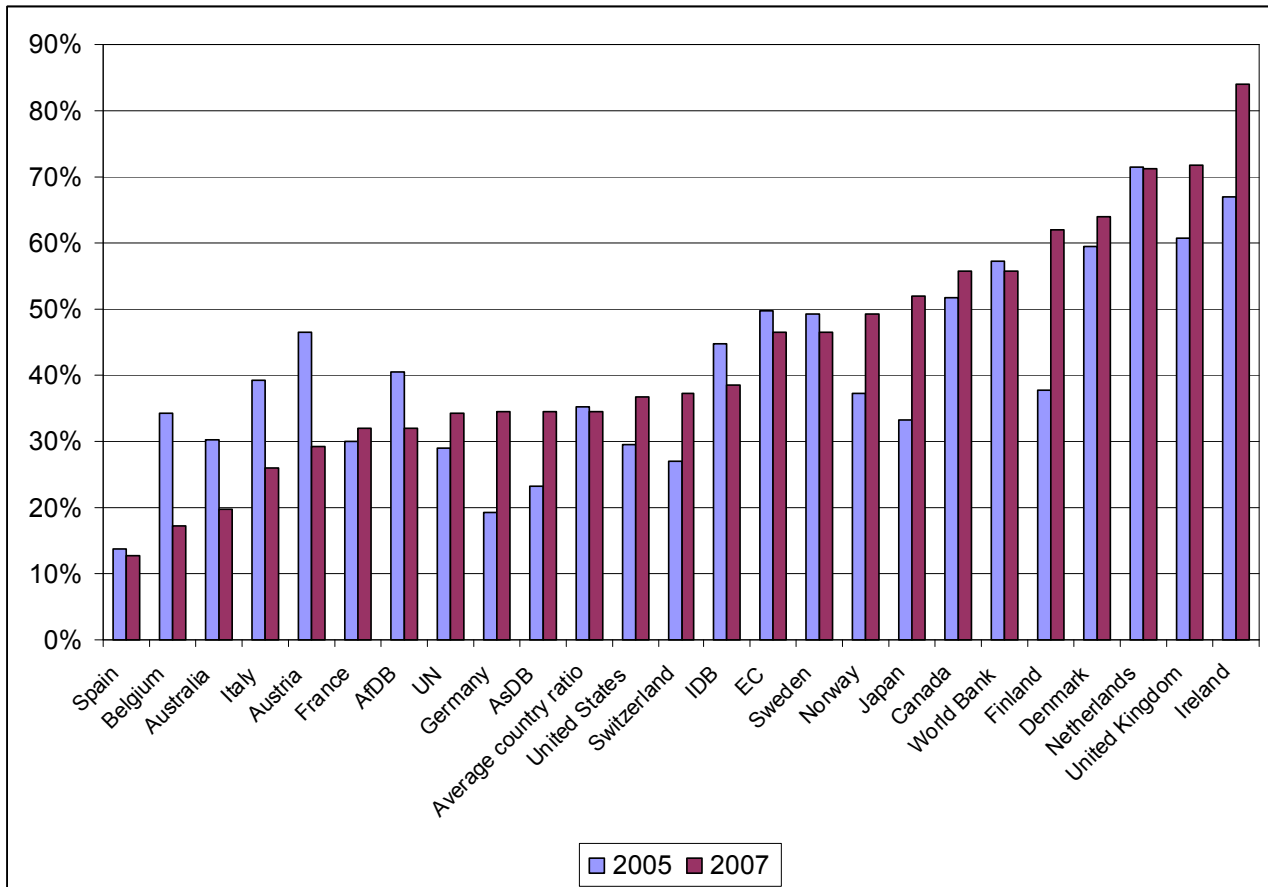
10. A central aim of PBAs is to promote increased domestic ownership of aid. It is therefore worth considering what a basic definition of ownership might be. Johnson and Wasty (1993) propose a commonly cited measure of the degree of domestic ownership of an initiative that focuses on the role of political leadership. They identify four dimensions to a definition of 'borrower ownership': i) locus of initiative (how far was the initiative authored by the government or government-centred?); ii) level of intellectual conviction among key policymakers (how far was there an observable and detailed consensus among identifiable key ministries and decision makers about the initiative?); iii) expression of political will by top leadership; iv) efforts towards consensus

¹ The commitments on management-for-results call for donors and partner countries to work together to manage resources for the achievement of development results, using information on results to improve decision making. Mutual accountability is intended to hold donors and partner governments accountable to each other for their respective actions and emphasises the need for a systematic review and monitoring of mutual commitments.

² Donor support is said to be eligible if it meets all four of the following criteria: i) The host country or organisation is exercising leadership over the programme supported by donors; ii) A single comprehensive programme and budget framework is being used; iii) A formal process for donor co-ordination and harmonisation of donor procedures for at least two of the following systems is in place: (a) reporting, (b) budgeting, (c) financial management and (d) procurement? iv) donor support to the programme uses at least two of the following local systems: (a) programme design, (b) programme implementation, (c) financial management and (d) monitoring and evaluation.

building among various constituencies (both within and beyond central government). Killick (1998) further extended this definition by adding 'institutionalization of the measures within the policy system'.

Figure 2: Proportion of Aid Delivered in Context of Programme-Based-Approaches by Selected Donors in 2005 and 2007



Note: Data for the 33 countries participating in both the 2006 and 2008 surveys on monitoring the Paris Declaration. Aid delivered through PBAs includes budget support.

Source: OECD (2008).

2.2 Sector Wide Approaches (SWAs)

11. A sector is defined as a coherent set of services and/or activities relating to a specific function which can be relevantly distinguished in terms of policies, institutions and finances, and which need to be looked at together in order to make a meaningful assessment.

12. SWAs are essentially a form of Programme Based Approach, focused at the sector level, where a sector includes activities commonly grouped together for the purpose of public action such as health, education, agriculture or roads. Indeed, the concept of a PBA developed as an extension of the earlier SWAp concept. As with PBAs, SWAs are defined according to a set of common elements or principles, with an emphasis on the trajectory of change. The classic definition of a SWAp is that "all significant funding for the sector supports a single sector policy and expenditure programme, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all funds" (Foster, 2000; p. 9). This working definition deliberately focuses on the intended *direction of change* rather than just the current attainment.

SWApS became increasingly widespread in the 1990s in response to the failings identified with a strongly project focused approach to aid delivery which prevailed prior to their development and the realisation that to address sector concerns there was a need to engage in more structural and institutional reforms and capacity building. Evaluations of project aid had concluded that it led to, amongst other distortions: (i) a high administrative burden on recipients due to multiple reporting and accounting requirements; (ii) inefficient spending dictated by donor priorities and procurement arrangements; (iii) highly unpredictable funding levels; (iv) undermining of state systems through parallel structures and staffing; (v) corrosion of democratic accountability through mechanisms to satisfy donor rather than domestic accountability; (vi) difficulties in ensuring sustainability; and (vii) openness to corruption (Lawson et al., 2002). Table 1 characterizes the principal differences between the conventional project approach and SWApS.

Table 1: What distinguishes a sector-wide approach from a conventional project approach?

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

Source: OECD/DAC (2005; p. 36).

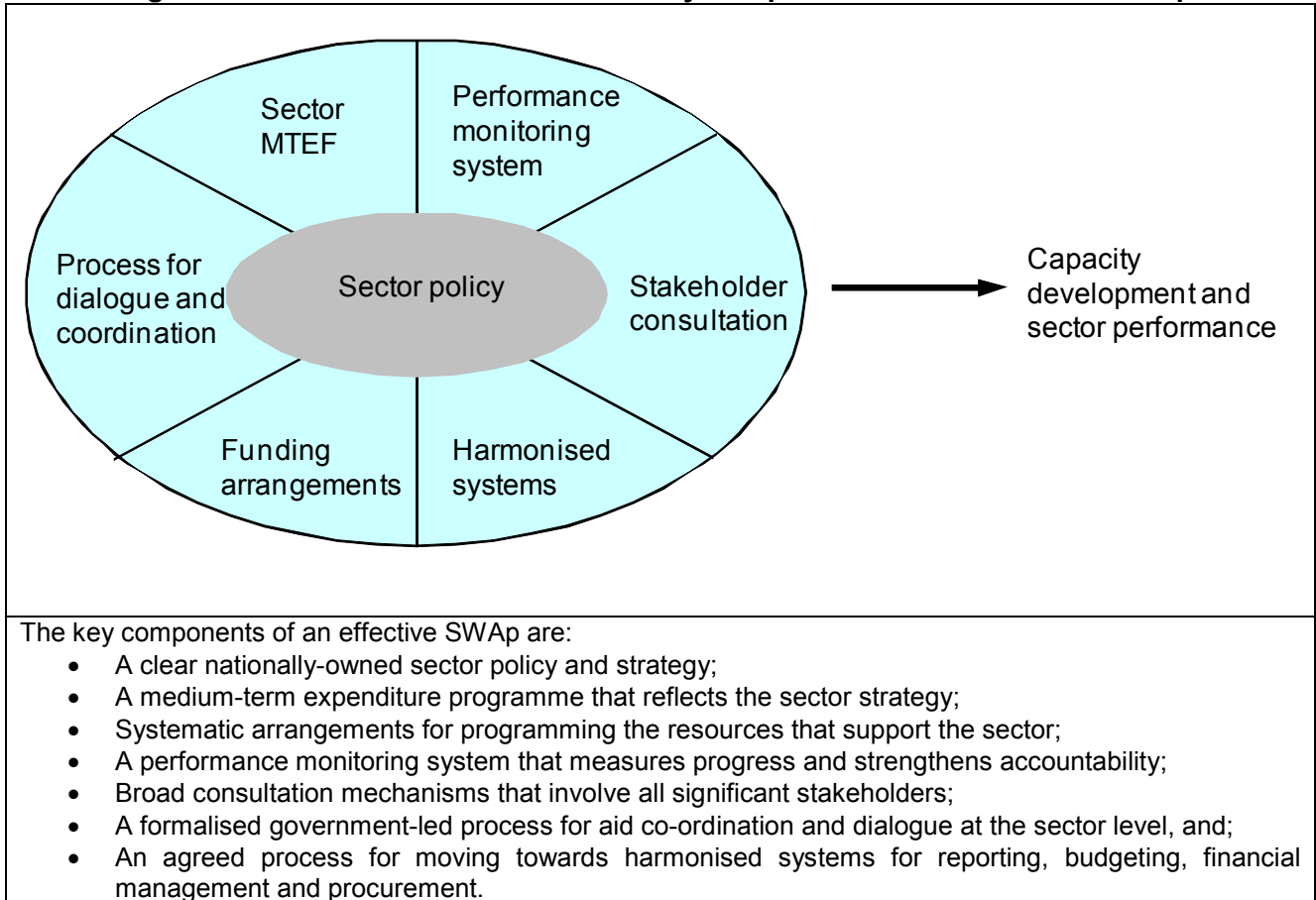
13. More recent official guidance provides a more comprehensive definition of the role of an 'effective' SWAp in terms of its component parts (see Figure 3 below). However, this definition should be read in conjunction with the widely held view that "...a SWAp should not be seen as a blueprint, but rather as a framework setting a direction of change – towards better coordinated and more effective aid management" (ODI, 2008; p. 5). In addition, Walford (2003) suggests a distinction between the 'breadth' and 'depth' of the SWAp. The components that comprise a SWAp in a given country – the breadth of the SWAp – should vary according to country context (e.g. less aid dependent countries with higher government capacity are unlikely to focus on harmonisation of donor systems). The depth of each component refers to the importance accorded to them and the efficacy of implementation.

14. There is therefore a strong emphasis on the SWAp primarily as a set of tools (e.g. sector MTEF) and processes (e.g. dialogue and coordination). This has some drawbacks. As Boesen and Dietvorst (2007) argue, the emphasis on aid delivery mechanisms risks confusing means with ends by focusing on processes, tools (such as Medium-Term Budgetary Frameworks) and aid instruments at the expense of development results. This highly technocratic process and instrument focused approach often assumes that comprehensive strategies and policies developed between donors and senior technocrats at sector ministry headquarters will drive budget allocations and implementation in multiple organisations at multiple tiers of government. Not only does this fail to identify the key organisational levers of planning, budgeting and implementation, it is also involves a highly apolitical view of government. Whether operating in a country with weak 'governance' or otherwise, public sector interventions are inherently political and effecting change depends upon identifying, mobilizing and sustaining coalitions for reform both within and without the bureaucracy.

15. As mentioned, an explicit component of the SWAp definition is the transition towards an increasing reliance on Government procedures to account for and disburse all funds. In theory at least, most programmes are in the midst of a transition, moving overtime towards broadening support to all sources of funding, making the coverage of the sector more comprehensive, bringing ongoing projects into line with the SWAp, and developing common procedures and increased

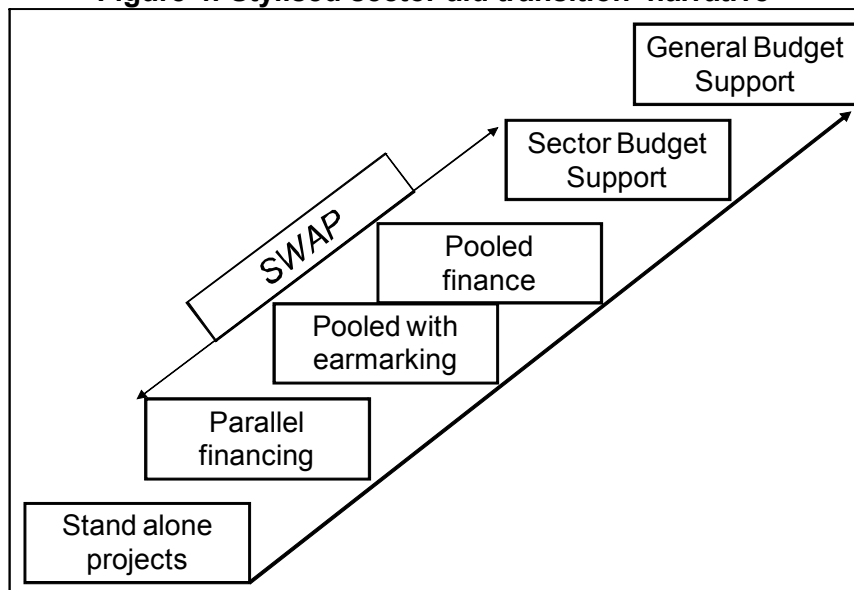
reliance on Government. An example of this underlying ‘transition narrative’ is provided in Figure 4 below. Thus there are no particular aid modalities that act as necessary preconditions for the existence of a SWAp – there is no requirement for a sector level common pool fund for example. However, where sector budget support is in place it usually connotes the pre-existence of some or all of the elements of a formal SWAp.

Figure 3: OECD/DAC Guidance on the key components of an ‘effective’ SWAp



Source: OECD/DAC (2006; p. 38).

Figure 4: Stylised sector aid transition ‘narrative’



Source: Tommasi (2007).

16. It is important to recognise that in practice transitions between aid modalities within the sector do not always work as envisaged in this simple narrative. Reality is much more complex with multiple aid instruments operating in parallel and there are incentives inherent to specific aid modalities that do not always permit smooth transitions. This is borne out by the available evidence. The Joint Evaluation of GBS findings *“do not support the idea that there is a standard evolutionary sequence, in which project aid first gives way to sector programmes (or sector basket funds) before the eventual introduction of un-earmarked budget funding. “They do support the value of moving to the use of government systems as early and as completely as is practical”* IDD and Associates (2006). The underlying reasons for this are discussed in more detail below.

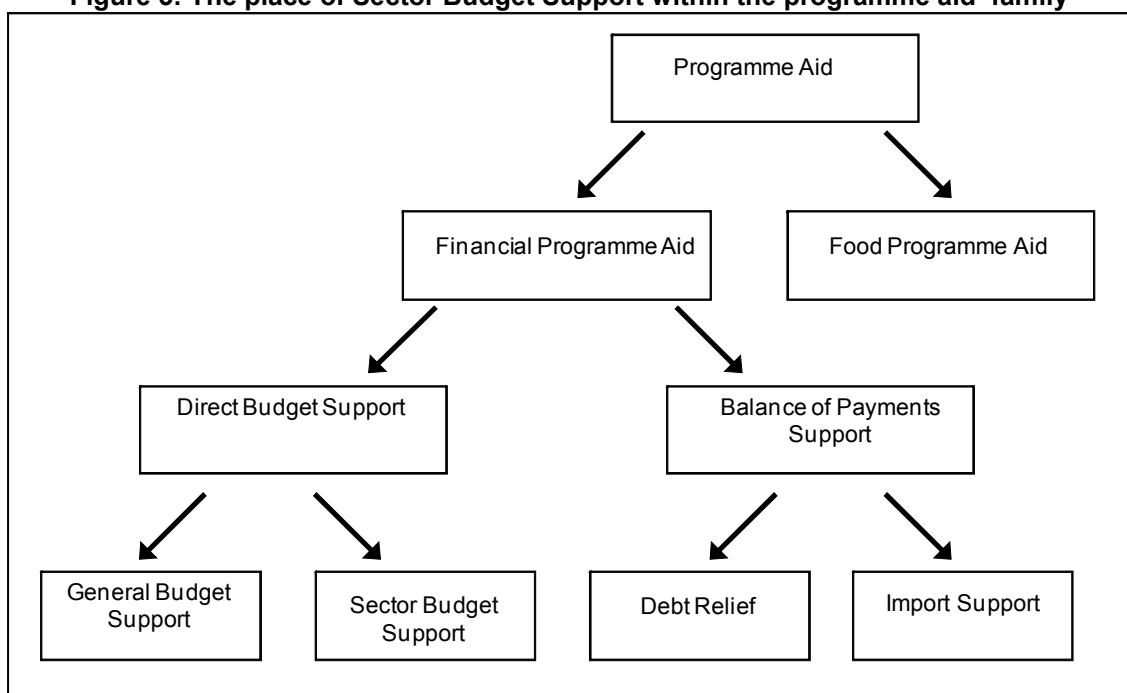
3. Aid Modalities and Sector Budget Support

3.1 Existing definitions and guidance on aid modalities

17. In order to get to grips with SBS, it is useful to review: i) the distinction between project and programme aid; ii) how SBS is situated within the family of programmatic aid modalities; and iii) to review the existing official and unofficial definitions of budget support and its constituent parts (i.e. both GBS and SBS and the differences between the two).

18. Booth and Lawson (2004) set out a hierarchy of programme aid modalities (see Figure 5). This Figure is useful in that it clearly establishes general and sector budget support as sub-categories of direct budget support while also giving an indication of the diversity of aid modalities under the 'programme aid' umbrella. It also emphasises the fact that budget support is not wholly new: un-earmarked transfers of foreign exchange such as balance of payments support have been used for many years (Lister et al., 2004). However, this stylised typology should also be treated with caution: as we shall see, in practice aid modalities do not conform to neat definitional boxes – least of all sector budget support.

Figure 5: The place of Sector Budget Support within the programme aid 'family'



Source: Booth and Lawson (2005) adapted from White (1999).

19. As regards the official definitions of (direct) budget support, there is a relatively clear consensus around the OECD/DAC definition of budget support as:

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

20. Since SBS is a sub-set of (direct) budget support, this implies that SBS also shares these characteristics. In particular, by definition, SBS is ‘on budget’. However, as noted by DFID (2008; p.5) there are no internationally agreed definitions of GBS and SBS and donors differ slightly in

how they define the boundary. The closest thing to an official definition is provided by OECD/DAC guidance, which states that:

“An additional distinction might be made between general budget support and sector budget support. In the case of general budget support, the dialogue between donors and partner governments focuses on overall policy and budget priorities, whereas for sector budget support the focus is on sector-specific concerns. While many of the good practices identified below apply to all types of budget support, the focus of this chapter is on general budget support (OECD/DAC, 2006; p.26).”

21. We therefore have a very ‘strict’ definition of Sector Budget support in common circulation that ties it very closely to GBS and only allows for differences in the nature of dialogue between GBS and SBS. That is, it does not admit earmarking or traceability (see Box 2 for a definition of these terms, which are often conflated). This strict dialogue-focused definition has also been applied through the annual SPA budget support surveys in collation of data on sector budget support in sub-Saharan Africa (see e.g. SPA, 2008).

Box 2: Earmarking, Traceability

Earmarking and Traceability are two terms which are important to distinguish. Traceability has an impact on how funds are transferred – the modality, whilst earmarking does not.

Earmarking is a requirement that all or a portion of a certain source of revenue, such as a particular donor grant or tax, be devoted to a specific public expenditure. The *extent* of earmarking can vary. It involves the *ex ante* assignment of funds to a particular purpose and can range from the very broad (e.g. to a sector or set of sectors) and general to the narrow and specific (e.g. to specific budget lines in an institution’s budget).

Traceability refers to whether donor funds are separately attributable to a specific use. Funds are either traceable, or not:

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

These two dimensions combine to form three main types of SBS funding:

	Earmarked	Un-earmarked
Non Traceable	Non-traceable Earmarked SBS	Un-earmarked SBS
Traceable	Traceable Earmarked SBS	

Source: Authors Adaptation from IDD and Associates (2006) and Lister et al. (2004).

22. A second, somewhat less strict, definition in use allows for some degree of earmarking in SBS. This was used for example in the GBS evaluability framework:

“Sector Budget Support covers financial aid earmarked to a discrete sector or sectors, with any conditionality relating to these sectors. Additional sector reporting may augment normal government accounting, although the means of disbursement is also based upon government procedures” (Booth and Lawson, 2004; p. 20).

23. The authors then go on to explain that the earmarking used should be real (i.e. traceable) rather than notional or virtual in order for aid to qualify as SBS, stating:

“Where it [Programme Aid] is provided to the budget through the Ministry of Finance, but with ‘real’ sectoral earmarking, it is called Sector Budget Support (SBS). Sectoral

earmarking in budget-support operations is often notional/virtual, in which case, the support should be properly regarded as GBS” (Booth and Lawson, 2004; p. 34).

24. This distinction was then applied in the GBS evaluation itself, where nominally sector specific aid with only notional earmarking – as used in Uganda and Nicaragua for example – was considered to be GBS for the purposes of the evaluation (IDD and Associates, 2006; p. 6).

25. Whether we take the ‘strict’ dialogue focused definition, or the broader definition that admits earmarking, there is still a clear boundary implied between GBS and SBS and between SBS and other aid modalities. In reality the boundaries are much more blurred however. The disconnect between official guidance and practice has led the Strategic Partnership with Africa (SPA) to acknowledge that:

“The sharp distinction in the DAC General Budget Support Evaluation Framework between General Budget Support (GBS) and SBS is not reflected in donor practice. It is more realistic to describe budget support as a spectrum. At one extreme is GBS with dialogue and conditions focused only on macro and cross-sectoral issues. At the other extreme is SBS focused only on sector-specific issues. In between is GBS with sector conditions and dialogue and those SBS operations which include some macro and cross-cutting conditions and dialogue” (SPA, 2004; pp. 1 – 2).

26. The SPA note goes on to seek to develop a ‘proposed working definition’ for SBS as a an aid modality whereby:

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

3.2 Viewing SBS as a spectrum of aid instruments

27. The current situation is therefore one with a relatively clear and accepted official definition of the (direct) budget support aid modality, with much less clarity regarding both the commonly accepted definition of SBS and, relatedly, the boundaries between SBS and GBS and other ‘hybrid’ sector approaches. The task of establishing greater definitional clarity is made more difficult by the sheer diversity of approaches to sector support applied by different donors in different countries and sectors. So diverse are the approaches used, with many ‘hybrid’ aid modalities in use, that it is more useful to think in terms of aid instruments than aid modalities when looking at practice (see Box 3).

28. In setting these definitional parameters, we follow ODI/Mokoro (2008) in identifying the two key parameters of the SBS ‘spectrum’ as i) the ‘funding channel’ by which aid is disbursed to recipients, and; ii) the primary focus of dialogue and conditions. As regards funding channels, a recent study on Using Country Budget Systems for aid delivery identified three distinct funding channels for aid (Mokoro 2008):

- Channel 1 is the normal channel for government’s own-funded expenditures. Aid is disbursed to government’s finance ministry (or “treasury”). Funds may or may not be earmarked. It should be noted that these funds are not necessarily fully “on budget”: UN system projects that follow Channel 1 “national execution” procedures and are typically off treasury and also off-system in other important dimensions.
- Channel 2 funds are provided direct to ministries, departments and agencies (MDAs) and managed through special accounts outside of the regular government system. These funds are therefore held by a government body but do not follow normal government procedures.

- Channel 3 expenditures are undertaken directly by a donor agency or by non-governmental organisations (NGOs) on its behalf. Government may receive assets or services in-kind but does not handle the funds itself.

Box 3: Aid Modalities and Aid Instruments – A Subtle but Useful Distinction

In categorising and examining this diverse array of approaches in detail, the use of generic aid modalities is not particularly helpful. As Foster and Leavy (2001) show, it is more useful to refer to the more multi-dimensional concept of ‘aid instruments’ in attempting to categorise and choose aid instruments, going so far as to present a ‘decision tree’ for the choice of aid instruments by donor agencies. As Lister et al. (2004; p. 3) note however, a further challenge for donor agencies “...is not simply to choose (simple) aid modalities, but to design (complex) aid instruments.” (Lister et al., 2004; p. 3). Establishing a useful working definition of SBS that is both useful in classifying existing approaches and also helps to guide those designing aid instruments therefore involves setting parameters rather than laying down a distinct, single set of characteristics. Thus, across the spectrum or continuum of aid modalities used in practice, only some approaches will fall within these parameters while other approaches may have the potential to evolve over time to be considered as SBS in future. Reviewing SBS in practice will necessarily involve a consideration of approaches on both sides of the dividing line: what can be considered SBS and what cannot.

29. ODI and Mokoro (2008) proposes that, as a first necessary condition for classification as SBS, aid instruments must use Channel 1 for disbursement, i.e. the normal channels for the recipient government’s own funded expenditures. This implies that SBS funds must be passed to the national Treasury rather than direct to the sector.

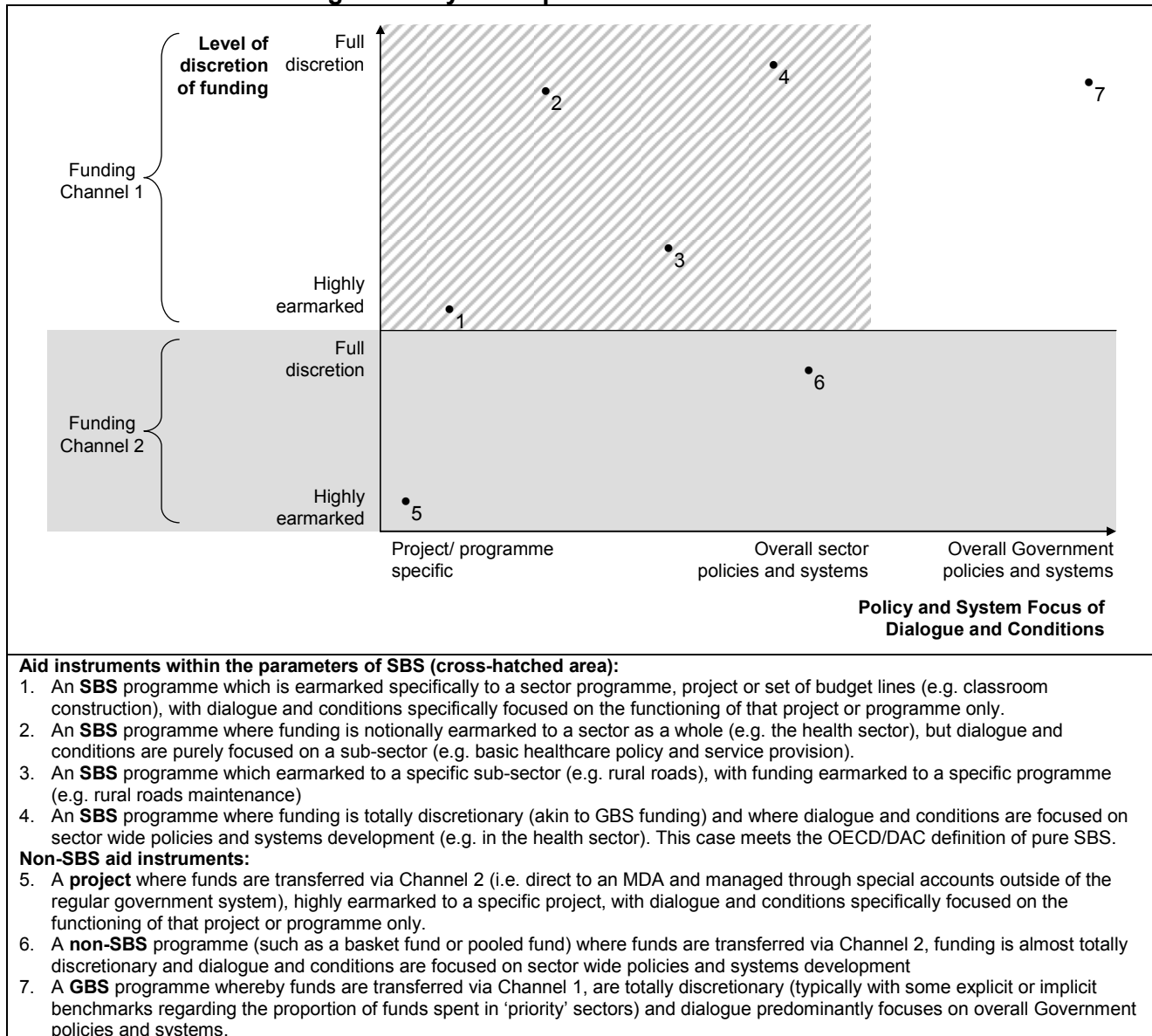
30. It is important to note that *within* the Channel 1 parameter there is significant leeway for real earmarking to specific sub-sectors, programmes or expenditures in the budget. The extent of earmarking is therefore an important variable for distinguishing between different types of SBS. As Mokoro and ODI (2008) note:

“An extreme example of earmarking might be each Sector Budget Support programme in a sector being channelled through the treasury, but funding its own grant to support service providers in a single sector, which is separately identifiable in the budget and accounted separately (but using government systems). In another example, SBS funding may be notionally earmarked where the government agrees to increase budgetary allocations to the sector by an amount equivalent to the value of the sector budget support. On the other extreme there may be no earmarking at all.” (ODI and Mokoro, 2008; p.7)

31. The second parameter for SBS used by ODI and Mokoro (2008) regards the focus of dialogue and conditions surrounding the use of SBS. Following the OECD/DAC definition cited above, as a second necessary condition for classification as SBS, dialogue and conditions associated with the aid should be predominately focused on a single sector, sub-sector or programme. It should be noted that this allows for some general dialogue and conditions relating to, for example, whole of government reforms in PFM and public sector reform. It also allows for a primary focus on a *subset* of sectoral activities such as basic education or primary health care. It explicitly rules out aid with dialogue and conditions specific to other sectors.

32. Combining these two parameters allows a consideration of the spectrum of aid modalities currently used in practice and which of these constitute SBS. It provides a more flexible and realistic analytical framework than a rigid textual definition of SBS, helping to bridge the gap between official guidance and the complexity of current practice. At the same time, it permits us to retain a degree of precision in categorisation of aid modalities. Figure 6 below presents these dimensions – the aid modalities conforming to our working definition of SBS fall in the cross-hatched area.

Figure 6: Stylised Spectrum of Aid Modalities



Source: Adapted from ODI and Mokoro (2008).

33. It is worth noting some of the implications of these parameters for SBS. In particular, it means that most common basket funds do not qualify as SBS (see Box 4: When are Common Basket Funds Considered SBS?). This corresponds with the definition of common basket funds in the OECD/DAC GBS Evaluation (IDD and Associates, 2005): “... arrangements where donors provide funding to a common basket, to be spent by specific agencies of government on agreed programmes. Funds do not pass through the Treasury account following normal budget procedures but are held in separate bank accounts from which funds are transferred directly to concerned agencies, alongside separate reporting procedures.” Therefore, pooled funding is typically associated with project support, and referred to as Common, or Basket Funding, or as used in this study Common Basket Funding.

34. Second, it means that budget support with only notional earmarking to a specific sector (case number 2 in Figure 6) or with no earmarking but with sector specific dialogue and conditions (case 4) are considered to be SBS rather than GBS. This is in contrast to the joint evaluation of GBS which included notionally earmarked sector budget support as GBS (IDD and Associates, 2006; p. 6). The distinctions identified by this two dimensional approach are of material importance, as we will discuss in more detail below.

Box 4: When are Common Basket Funds Considered SBS?

A common basket fund (also referred to as a pooled, common, or basket fund) refers to a situation in which a number of donors agree to contribute to a common basket fund in support of a project or programme. This usually involves the use of a holding account reserved for particular purposes identified by agreement between the government and donors participating in the pool. The boundary between SBS and common basket funds sometimes overlaps. SBS is, by definition, disbursed via the normal national procedures (Channel 1 as defined above) whilst common basket funds typically use special arrangements negotiated with donors, and in particular are usually channelled outside the national treasury (Channel 2 or 3). Common basket funds only count as SBS where money is transferred from the basket into the government treasury system and used according to normal national procedures (Channel 1). This definition of SBS therefore excludes many aid instruments that some donor agencies currently describe as such. For example, DFID's official definition of SBS currently allows for the transfer of funds direct to a sector specific bank account. Since this funding does not follow Channel 1 it would fall outside of the SBS parameters suggested here.

Source: CIDA (2004), SPA (2005) and (DFID, 2008; p. 5).

3.3 Other important dimensions of aid instrument design

35. While this two-dimensional approach captures sufficient information to allow us to identify the distinguishing features of different aid instruments – including SBS – and provides a visual means of comparing and contrasting, it also necessarily excludes some important generic features. While not attempting to provide an exhaustive list, the Section highlights some important additional variables that are emphasised in the literature on aid instrument design as well as identifying some of the factors both in recipient countries and donor agencies that determine choices amongst these.

36. In addition to funding channel, extent of earmarking and dialogue and conditions, we also follow Lister (2003) and Lister et al. (2004) in considering other dimensions intrinsic to aid instrument design: type and terms of finance and procurement conditions. We therefore have a set of generic features 'intrinsic' to aid instrument design, all of which may apply to SBS:

- **Earmarking** of aid funding. Aid can be justified against broad expenditure areas (e.g. a sector) or specific expenditures (e.g. certain budget lines in an institutions budget).
- **Traceability** of aid funding in the budget of the government (Box 2). Aid funds either may be separately identifiable (traceable) in the expenditure budget or not (non-traceable).
- **Type and terms of finance** may vary from 100% grant equivalence (lower burden for aid recipient) to 0% grant equivalence (higher burden for aid recipient).
- **Procurement conditions** concern the form of the transfer, which may be purely financial (lower burden for recipient) or 'in-kind' (higher burden for recipient), the extent to which the aid is tied to particular sources of supply and whether particular procurement procedures are imposed to substitute for or in addition to existing ones.
- **Dialogue** may be government-wide or specific to particular sectors, sub-sectors, programmes or projects.
- **Conditions** comprise three broad categories (Dom, 2005; p. 10):
 - Conditions of 'due process', which justify external trust in governments' policy-making and PFM systems and in their commitment to a partnership approach;
 - Conditions related to expected/ desired policy/institutional changes (or actions indicating milestones towards these changes) – a key issue here for SBS is the use of conditionality regarding the additionality of donor funds, and;
 - Conditions related to results (expected from these policy/institutional changes) against (output/outcome) indicators (e.g. of service delivery).
- **Use of national systems** is a further important dimension. The above discussion of the three disbursement 'channels' (government, MDA and external) is central here. However, it is also important to capture variability *within* disbursement channels. Aid within both Channel 1 and Channel 2 may use national systems to differing degrees. There may be important variation depending upon the use of:
 - **derogations** (exemptions) from stages of national PFM and M&E systems (e.g. separate M&E matrices, use of own procurement procedures etc.), and;

- **additional requirements** over and above the procedures required by national systems (e.g. additional reporting requirements, additional external audits etc.).

37. Further, which of these dimensions are more appropriate will depend upon the country context in which aid is used. Three key 'extrinsic' variables are highlighted by Lister (2003). First, **level of working with government** refers to the level of government at which assistance is delivered throughout the policy formulation, programme design and implementation process. Donors can choose to work with government *upstream* (i.e. advising on policy and institutional reform) or *downstream* (in support of implementation). This implies that a thorough assessment and understanding of where different functions of government reside, particularly in federal systems, is necessary for aid instrument design. Second, **the degree of harmonisation or cooperation with other donors** ranges from an agency working in isolation, to working jointly, to pooling resources, to delegated cooperation (i.e. working wholly through another aid agency). Finally, the degree of **aid dependence and government capacity of aid recipients** are strongly (negatively) correlated with one another. Together they are a key determinant of the appropriate extent of collaboration between donors.

Box 5: Definition of Additionality

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

Source: Adapted from Morrissey (2005), cited in ODI/Mokoro (2008).

38. A further set of issues in aid design that should not be overlooked relate to **donor accountability requirements**. Many donors pursuing similar objectives in identical country and sectoral contexts nonetheless use dramatically different aid instruments. Many of the dimensions of aid instrument design are determined more by what is feasible under donor agency procedures, which relate to pressures from a number of different sources: country offices, agency headquarters, national audit agencies and parliamentary oversight mechanisms. The literature on the role of these requirements is discussed in greater detail in Bartholomew (2009).

4. The Record of Aid at the Sector Level

4.1 Early Experience of Sector Wide Approaches

39. SWAps were first introduced in the 1990s primarily within social sectors of low income, aid dependent countries in Sub Saharan Africa which were the beneficiaries of the social-sector bias evident in donor aid assistance at that time. Reviews of these earlier SWAps have found that some of the envisaged benefits of sector approaches did materialise.³ These included the development of comprehensive plans and strategies; stronger links between budgets and plans; better stakeholder consultations; better donor co-ordination including the adoption of common procedures and less administrative burden on governments from keeping track of fragmented project assistance each with its own set of objectives and organisational structures to match. But these benefits were more evident in particular sector conditions: where the sector was well defined; in the presence of multiple donors which are weakly co-ordinated and where the government was the major service provider with a single sector ministry in charge.

40. However, it is difficult to estimate the benefits of SWAp approaches because only some features of the approach were implemented in reality and that too in various degrees. The scale and form of pooled funding arrangements remained small in proportion with funding delivered through projects and multi year commitment were hard to sustain. Very few sector programmes were embedded within the broader public expenditure framework. Where the sector ministry was unprepared to drive the process, inevitably donors took control, undermining the entire approach. In some cases, central finance ministries were not involved or where not willing to support the approach in which case sector ministries had no incentive to try and bring donor funds into the budget especially if there was no commitment that ministries of finance would not divert resources away from the sector. A major constraint on the performance of SWAps was the speed with which the SWAp approach was adopted especially where government and donor capacity for such processes was weak. SWAps are approaches support processes which are inherently complex in nature and take time. They are not quick fixes. This was especially complicated in the face of parallel reforms such as decentralisation, which added to the uncertainty about roles, responsibilities and accompanying incentives.

41. Donor interference in sector policies has also been noted as the main reason for government wide ownership of SWAps being limited (MFA, 2006). In such situations recipient governments may have engaged with the PRSP process to please donors but real government intent is hidden in other policy documents or in actual expenditure patterns. Donors aligning their aid disbursements to PRSPs in such situations will not be supporting plans and policies that have full government support.

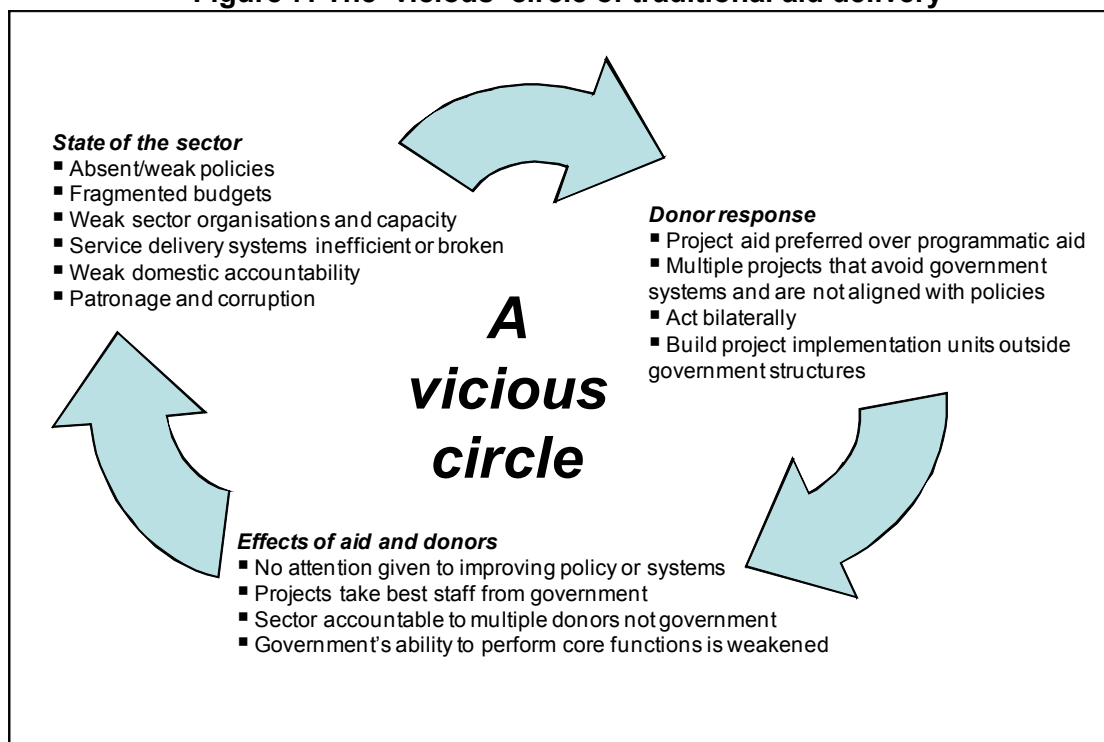
42. Sector Wide Approaches were used as a response to solve the problem of misalignment between off budget modalities and wholesome sector strategies. SWAps have helped in some sectors and some countries to match funding with sector needs and help sectors (donor and governments) to 'act micro and think macro' (SPA, 2004). However, this move to better alignment has created some ownership concerns. SWAps have been critiqued for moving decision-making authority away from sector ministries to technocrats on both government and donor sides (i.e. from political and societal ownership to technical ownership). While a small group of 'champions of change' are necessary for implementation it is important to have a wider sense of ownership (IHSD, 2001). In some cases the alignment may also have been incomplete. SWAps have been critiqued for setting up complicated financial management systems independent of government budgeting systems. There is also some tension between decentralisation objectives, which can be argued, promote wider level concerns to be reflected in service delivery with the centralizing tendencies of SWAps (IHSD, 2001).

³ Early reviews of SWAp performance include Foster, 1999; Foster 2000, Jones and Lawson, 2000, IHSD, 2001 and MFA, 2006.

4.2 Common funds for sector support: building blocks or stumbling blocks?

43. A recent review of new approaches to aid delivery in social sectors in aid dependent African countries, supported by three case studies in Mozambique (health sector), Tanzania (education sector) and Uganda (water and sanitation) provides some key insights into the effects of using common basket funds and sector budget support (Williamson et al, 2008). The study's headline finding was that there has only been a partial shift to new aid modalities at sector level, thereby undermining their potentially positive impacts. In particular, the sectors in question had not been able to break the 'vicious circle' of aid ineffectiveness (see Figure 7), with common basket funds in particular acting more as 'stumbling blocks' than the 'building blocks' to budget support envisaged in Figure 4. The authors found six main reasons for this failure.

Figure 7: The 'vicious' circle of traditional aid delivery



Source: Williamson et al (2008).

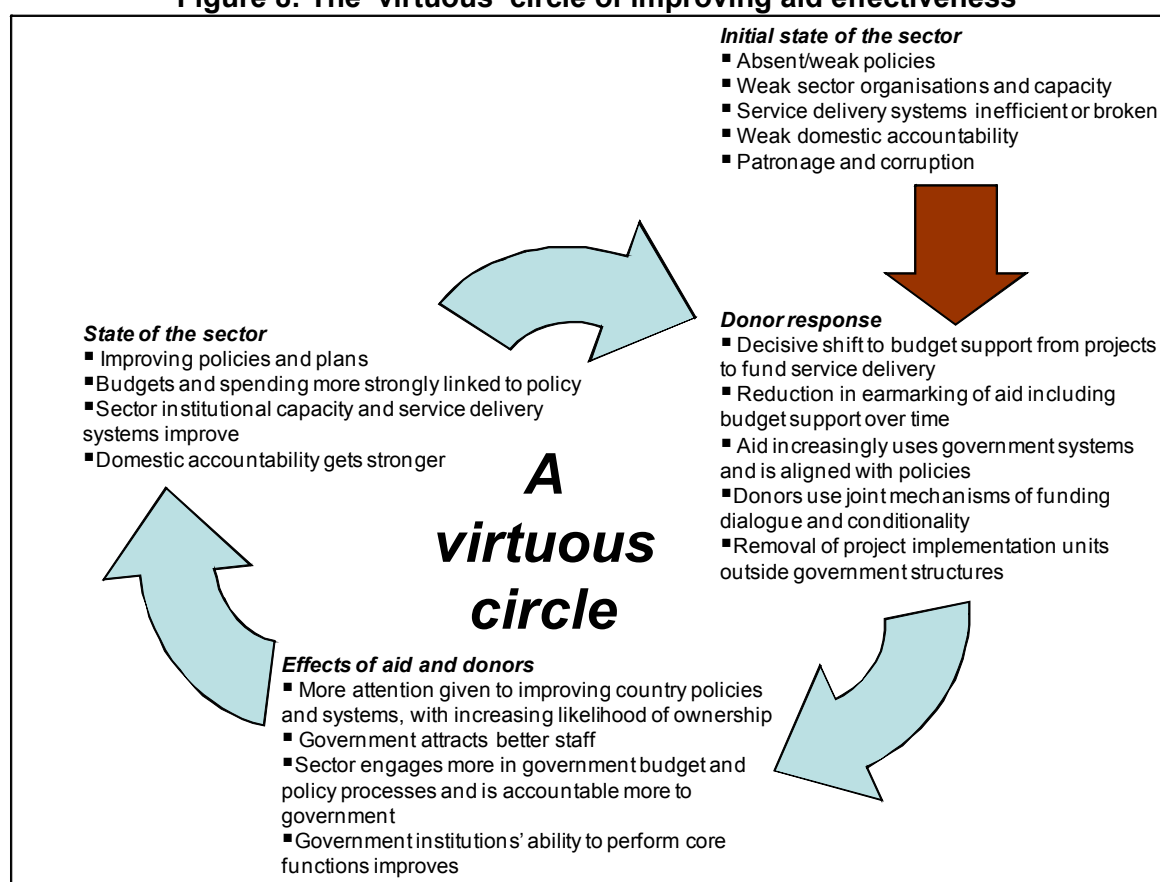
44. First, the new aid modalities have not been given a chance. The mix of aid modalities has not altered substantially towards budget support and stand alone projects remain the dominant aid modality. Where aid has been better aligned to sector policies and programmes this has been achieved through a revised use of projects coupled with use of common basket funds. Second, aid continues to be delivered through 'traditional' practices and this continues to undermine sector policies, systems and institutions. Even where donors have moved some funds from projects to common basket funds, the latter often operate as if they are 'big projects', with tight earmarking and the use of procedures parallel to national systems. Third, common basket funds can actually undermine sector service delivery systems *more* than traditional projects, as their scale and the number of donors involved can amplify their distortionary effects. Donor coordination mechanisms were found to gravitate toward the dominant aid modality (in particular, common basket funds), skewing the balance of policy planning and budgeting in the sector towards donor priorities and undermining the development of national systems.

45. A fourth key finding was that dialogue between government and sector donors on government policies and systems has not been done well. SWAs have provided formal structures within which dialogue can take place, but this has tended to focus on procedural issues around specific aid instruments such that "*the modality dominates the agenda before the concepts for domestic delivery systems emerge.*" Skill sets within both sector line ministries and donor agencies were ill-

suited to policy dialogue and systems development, while high turnover of personnel amongst both groups also hampered learning-by-doing effects from overcoming this challenge.

46. Fifth, neither sector officials nor donors faced incentives consistent with a full transition to the new paradigm. Amongst donor agencies, traditional aid delivery methods provide visible and associable benefit, are easier to justify to their own audit agencies and parliamentary committees, and in defending budgets *within* the agency. Amongst government officials, projects provide many benefits (including cars, salary top-ups, per diems and allowances) while channelling pooled funds through the national budget implies reduced control and discretion and a risk that donors might 'gang up' on the ministry in a way that is not possible when aid is managed via fragmentary bilateral projects. This is an important point. It is often argued that projects and common basket funds can be implemented in a way that is entirely consistent with the Paris Principles of aid effectiveness – i.e. on-budget and nationally owned. However, the findings from this research suggest that project and common basket funds (particularly those earmarked to a sub-sector) are *inherently* less consistent with aid effectiveness principles because of the incentives they generate. While they can in theory be implemented in ways consistent with the new aid paradigm and should in practice make full use of national systems, they are typically found to generate distortionary incentives when assessed.

Figure 8: The 'virtuous' circle of improving aid effectiveness



Source: Williamson et al (2008).

47. Finally, Williamson et al (2008) stressed that political governance both within the sector and across government as a whole is an absolutely critical factor. Where these dynamics are not conducive to coherent sector policy formulation, budgeting, planning, implementation and review, the impacts of new aid approaches and donor behaviours are limited. Further, these factors – including political and technical leadership within the sector – are exceptionally difficult to influence through aid instruments and donor behaviour. This finding is supported by the findings of a recent

study of experience of the water and sanitation sector in Bangladesh, Ethiopia and Uganda which emphasises that the national political governance environment is more important than specific sector characteristics for the implementation of the Paris Principles on aid effectiveness (Welle et al, 2008).

48. In order to break the 'vicious' cycle of ineffective aid and to begin to create a more 'virtuous' cycle of improving aid effectiveness in the sector (see Figure 8), Williamson et al (2008) suggest four key reforms. First, the mix of aid modalities needs to change decisively towards budget support, ideally with a mix of GBS and SBS to best support the sector. GBS helps to support the government wide reforms such as the strengthening of PFM systems which are essential to the functioning of the sector while aid earmarked to the sector can complement GBS, helping to draw attention to areas not covered by central processes.

49. Second, irrespective of the means of delivery, aid should not only be aligned with government policy but should also be fully aligned with government systems. In addition, the government – donor dialogue at sector level needs to improve, moving beyond policy and strategy to strengthen budgeting, domestic systems and institutions. Third, since there are distortionary incentives inherent to their use (especially by driving the creation of parallel systems), the use of projects and common basket funds to support service delivery should be avoided wherever possible. Finally, and most difficult, there needs to be a concerted effort to re-engineer the internal incentives within aid agencies and aid recipient organisations. For donors, this means a change of organisational culture and systems so as to align staff incentives at headquarter and country level with the use of budget support and the use and strengthening of national systems for service delivery (and de-linking incentives from the vices of visibility and donor-specific results). For recipient governments, it means efforts to increase the legitimacy of national systems. Possible measures include increasing the proportion of spending financed by taxation and budget support so as to strengthen the incentives for sectors to engage with the allocative disciplines of the budget process and genuine efforts to address civil service reform.

5. Case Studies of Sector Budget Support in Practice

50. This Section reviews current experience of SBS in practice, summarising the available secondary literature on African and non-African examples. The examples are selected on the following criteria: i) while attempting to be balanced and critical, we have selected examples which claim some degree of success for the sector approach undertaken; ii) diversity in terms of aid instrument design; iii) (for non-African SBS) diversity in terms of geographic distribution; iii) (for African SBS) avoidance of overlap with SBSiP case studies; iv) availability of secondary documentation to review.

5.1 Sector Budget Support in Practice in Francophone Africa

51. Evidence of how sector budget support has operated in practice in Africa is provided by the first phase of the SBSiP study (ECORYS - 2008). This study reviewed sector budget support provision in four Francophone African countries: Benin (education), Burkina Faso (education), Cameroon (environment) and Senegal (environment). The study does not refer explicitly to an evaluation framework and was *not meant to evaluate* the programmes it reviewed, and as such, there is no focus on high level 'results' such as policy outcomes and the way SBS might have contributed to this.

52. The operations reviewed are quite different in many ways. In particular, they differ regarding: i) maturity of underlying sector programme (2001 in Burkina, 2006 in Benin); ii) volume of donor support (Euro 36m committed for the year 2007 in Burkina, Euro 1.2m in Benin), and; iii) number of donors involved (one in Senegal, the only case of un-earmarked SBS; two in Benin, three in Cameroon; six in Burkina Faso⁴ plus the EC), and; iv) different 'mixes' of aid instruments in the sectors concerned. They also have commonalities though: all SBS operations were initiated recently (the oldest, in Burkina Faso, having started in 2005/6) and in all cases but one the operations concern only one sector ministry (the exception being in Cameroon, where both environment and forests were covered).

53. In all cases, the development pathway of SBS for the donors concerned followed project and programme support using parallel implementation modalities (and parallel financial management systems). The period required to get the SBS operations 'up and running' has always been longer than planned for (inter-related) reasons related to: i) the 'necessity' of developing new tools and processes (MTEFs, annual work plans, performance assessment matrices, consultation structures); ii) weak capacity in recipient sector ministries, and; iii) 'teething problems' with new procedures once the first disbursement had occurred.

54. In Burkina Faso, the evolution of aid modalities in the basic education sector began with separate projects, then subsequently some (but not all) sector donors came together in a multi-donor financed programme, implemented by a separate 'project unit'. There was then a period of uncertainty because the multi-donor separate arrangements were not judged to have performed well, but most donors did not want to provide un-earmarked SBS. In the event, earmarked SBS through a dedicated Treasury account was selected by most sector donors, including the World Bank (which also has a PRSC focusing on education and other PRSP priority sectors), with the exception of the EC which ceased supporting the sector through projects but provides un-earmarked SBS (see below).

5.1.1 Features of SBS

55. The case studies include traceable SBS (used in Benin, Burkina Faso and Cameroon) and non-traceable SBS (used in Senegal today). In the cases of traceable SBS funds were channelled through a dedicated Treasury account (known by its French acronym as CAST), from which it is

⁴ Six at the time of the study, due to become nine soon after.

disbursed for specific uses which can either cover the whole 'sector programme,' or specific activities within the programme. SBS is earmarked for specific activities, separately programmed, in Benin, whereas in Burkina and Cameroon SBS is earmarked for the whole sector. In Burkina/education, specifically earmarked SBS coexist with broadly earmarked SBS in the form of an education tranche in the EC BS programme. In Benin, while the two donors involved use one same dedicated Treasury account to deposit their funds, they use different disbursement modalities. French funding is used in a 'project' mode to reimburse spending on classroom construction executed by a semi-public agency. (This is worth mentioning as it is considered as SBS by some).

56. All four cases include additionality arrangements. The study points out the limits to additionality thought to be obtained through the mechanism of earmarking SBS on dedicated Treasury accounts.

57. The difference between earmarked SBS and pooled funding is not clear-cut in the case studies. With the former there is a tendency to derogate from the use of national PFM systems and impose additional requirements (in addition to earmarking, which is already a derogation from the use of national allocation systems).⁵ Examples of derogations and additional requirements include additional audits, replacement of national procedures for public procurement, simplified financial controls over spending procedures (both in Cameroon and Senegal, where there was a deconcentration of financial control in the sector ministry), over-utilisation of special spending procedures (e.g. 'mise à disposition des fonds'⁶ on a large scale in the Burkina case) and use of procedures to channel funds to 'communes' and parents' associations in ways which would not be feasible under the regular PFM system (Burkina). Earmarked SBS operations also feature specific operations manuals. In Cameroon, many stakeholders who were less familiar with the programme considered it to be a project rather than SBS. In this case, donor resources are not co-mingled with government revenues in the special Treasury account. In Benin the same segregation applies. In Burkina Faso, government also puts funds in the CAST, but for specific uses (operating budget of the inter-ministerial structure in charge of following up the CAST) which makes them de facto segregated from donor funds.

58. In all cases, SBS has evolved from projects or programme support which used parallel implementation mechanisms. The study does not explain if derogations in today's SBS operations originate from the preceding aid instruments. The term '*pur sang*' SBS ('SBS proper') is used to distinguish those SBS operations which contain no derogations from or additional requirements to the national PFM system (i.e. un-earmarked non-traceable SBS). Several stakeholders (sector ministry officials and donors) seem to have a preference for earmarked traceable SBS (and other specific arrangements) at least as a transitional step toward 'SBS proper', though often the duration and form of the transition is not explicit. The authors recommend that explicit 'transition strategies' should be developed in order to address this.

59. By design, **commitments** for SBS are known three or more years in advance in two cases (though it is not clear whether medium-term predictability is 'rolling', or if it corresponds to the finite timeframe of individual donor programmes), but not in Cameroon and Benin.

60. With regard to **short-term predictability**, there is an agreement of principle over the design (assessment of year N-1 performance in year N for decision over year N+1 funding). In Senegal, this agreement is explicit. However, in practice short-term predictability remains an issue and this is most often related to conditionality: information by government is insufficient to demonstrate that conditions have been met, or conditions are met late, or, 'separate activity plans' are prepared late

⁵ The use of a CAST is not derogation at least in Burkina, and is also provided for in several other French-speaking West African countries. See below for the study viewpoint on this modality though.

⁶ Which is supposed to be for 'petty cash' advances.

(in Benin) or donors add requirements that were not part of the initial agreement⁷. Even in Senegal, the practice did not follow the theory: when they are deemed to be critical, results of the review of activities in year N+1 influence the disbursement for the same year. Administrative delays on the donor side are also a factor.

61. **Disbursement conditions** varied, from detailed review of a specific set of indicators (in Senegal this involved government assessment and report on indicators followed by independent assessment advising the Netherlands regarding a decision on funding) to 'overall evaluation of the sector programme' (in Burkina Faso this involved a report by the government, a joint review and use of indicators without scoring). The case studies also vary with regard to whether or not there are explicit 'macro' conditions (macroeconomic framework and quality of PFM). The two cases in which SBS operations include macro conditions are those in which un-earmarked SBS is used (Senegal, and EC in education Burkina Faso), which seems to suggest that **"SBS proper" is closer to GBS and earmarked traceable SBS closer to pooled funding.**

62. The study points out that **integration between GBS and SBS is not optimal** (GBS is also provided in all countries except Cameroon). In Burkina where GBS is 'oldest', while there is no contradiction between sets of performance indicators for example, the respective role of each modality is not clear and GBS and SBS dialogue structures operate in parallel, even when the same donor provides both GBS and SBS in the country. The alignment of review and monitoring calendars related to sector programmes and to the PRSP "requires serious attention". However in Senegal there appears to be an awareness of the usefulness of integrating the management of the two modalities. In this case, un-earmarked SBS provided to the environment sector by the Netherlands coupled with interest amongst some donors in providing GBS (the EC and World Bank having started in 2005) lead to the establishment of a Government-led (though donor-initiated) framework for budget support (covering both GBS *and* SBS). This aimed to promote harmonisation between the two, including in terms of disbursement criteria and coordination of missions, and was signed in January 2008 by government and seven donor agencies. Start-up of another SBS approach in education, supported by two donors, soon followed. Other donors in the environment sector are undecided as to whether to join the Netherlands in providing SBS because in their view their contribution is too small and would not be 'visible' in a joint SBS programme. However, they recognise value added to the SBS provided by the Dutch in that it has strengthened the ministry's planning function and its functioning in general. The integrated framework for budget support in Senegal is too recent to have been tested though.

63. It is not at present clear from the literature *why* aligning sector-specific and overall dialogue and review processes seems to be so difficult in some countries and not in others. In addition to the ECORYS case studies this has also proved difficult in Ethiopia, where older sector programmes in health and education continue to carry out elaborate sector review processes with no links to the dialogue and review process around the Protecting Basic Services (PBS) programme, which is essentially a multi-sector decentralised budget support operation in all but name. In Senegal, Rwanda and Uganda this seems to have proved easier. One possible explanation relates to the 'virtuous' and 'vicious' circles cited by Williamson et al (2008). A virtuous cycle might see stronger finance ministries getting sectors and donors to think that they are important, thereby encouraging donors to strengthen them, including by pushing sector ministries to align their processes. Conversely, a vicious cycle might start from a weak finance ministry – as in Cambodia when the AsDB started thinking about SBS (see below). This interaction between the central agencies and line ministries clearly merits more attention.

64. **Decentralisation** was not cited as an important or relevant issue to the delivery of SBS (it was not mentioned as an issue or topic in the study), reflecting the fact that these are all countries with centralised governance traditions. However with regard to Benin, it is interesting to note that at

⁷ For example the dismantling of the parallel project unit which was managing multi-donor funding in the previous 'pooled funding' arrangement in the education sector in Burkina Faso.

least one of the two donors involved (Denmark) is at the forefront of (largely donor-driven) efforts to 'decentralise' to commune level.

65. As regards **links to technical assistance and capacity development**, in Senegal a number of measures to strengthen some parts and systems of the ministry (and of the PFM system through deconcentration of financial control) were pre-requisites to the provision of the Dutch SBS. The SBS operation is also linked to the establishment of a Fund for Institutional Strengthening of the Environment, the management of which has been outsourced to a private operator. This has never been made operational however, due to a combination of reasons including: non-establishment of the task force which was supposed to lead the ministry's institutional restructuring; lack of capacity of the managing agent; and multiplicity of un-planned/scattered activities continuing to be financed outside of the Fund. There is little reference links between SBS and technical assistance and capacity development in the other three case studies – indeed institutional strengthening is not even mentioned in the foundational SBS documents in Burkina Faso and Benin.

5.1.2 Influence on Policy, Planning and Budgeting Processes

66. The study notes that in all four cases studied, the SBS operations were developed in a **SWAp context**. However, this seems to have quite different meanings in the different cases. For example, the 'SWAp' in Senegal covers all activities in the sector, but only the Dutch are associated to the 'sector dialogue' and there is no overarching policy document. In Benin, a sector programme is in place but there is not yet an integrated financial framework. The most advanced SWAp amongst the four case studies appears to be in Burkina Faso (education). This is also the case in which a formalised government - donor dialogue is most 'continuous', with regular meetings and work by thematic groups in-between reviews. In Benin the dialogue between reviews is very weak. In Cameroon the study points out the lack of a 'champion' among the government agencies involved (two sector ministries, and very weak involvement of the central agencies). Presumably these differences must have meant varied levels of influence (of SBS) on policy, planning and budgeting processes, although since the study does not attempt to 'measure' the contribution of SBS across the four cases it is difficult to say.

67. However, while SBS contributed in all four cases to more comprehensive **sector programming** (based on sector MTEFs and annual work plans), there were variations in the robustness of the programming tools used. In Senegal the provision of SBS by the Netherlands led to the establishment of a sector MTEF and related annual programming procedures (though it is not clear whether this includes activities funded through other donor projects in the sector). Also, there is no overall MTEF so this limits the usefulness of the sector MTEF. In Burkina Faso, a sector MTEF and an overall one were already in place prior to the introduction of the SBS operations. Programming tools are much weaker in Cameroon and in Benin. In addition, in Benin there are clearly negative effects arising from the separate programming required for the specific activities that the earmarked SBS will finance.

68. Thus, "SBS strengthens sector-wide approaches, but it does take time" because a SWAp requires new working relationships between stakeholders (sector ministry, finance ministry and donors), which are not established over night. Importantly, SBS processes should not 'monopolise' the sector dialogue. The latter should remain all-inclusive.

69. **Sector M&E** also improved in all four cases, though there are differences with respect to whether M&E is jointly carried out by government and (SBS) donors or is a government exercise with close cooperation with donors (as in Burkina, Cameroon and Benin) and whether M&E of the SBS operation is integrated in the monitoring of the overall sector policy – this is the case in Burkina and Senegal, albeit with only one donor in the latter case – or not (as is the case in Benin and Cameroon). The most integrated modality, again, appears to be in Burkina: there are no separate arrangements for SBS monitoring, which is based on the results of regular, all-inclusive

sector reviews. The study does not mention whether improved M&E has led to the development of effective feedback loops into policymaking.

70. With regard to **budget level**, the study notes that earmarking does not guarantee additionality because of fungibility (substitution) and recommends instead that the dialogue should include discussions on the appropriate budget level for the sector. However, earmarking may be preferred by some (sector) stakeholders as noted above, which suggests that they may not yet trust the main budget process to give them adequate means to implement the sector policy.

5.1.3 Influence on Sector PFM

71. Relationships between sector and finance ministries are said to have improved (more exchange of information, better mutual understanding), although ministries of finance are not systematically involved in the cases in which structured sector dialogue processes have been specifically set-up for the SBS. However, in Cameroon the SBS Steering Committee is chaired by the finance ministry and in Burkina the finance ministry is leading the committee monitoring the functioning of the dedicated Treasury account for SBS. In Senegal the study emphasises that the finance ministry is highly conscious of the importance of the SBS modality: the overarching framework for budget support in Senegal suggests that the finance ministry is trying to get more donors to provide budget support, whether SBS or GBS.

72. Some positive effects on the **upstream level of PFM systems** (financial planning, programming and budgeting) have been found. However, specific arrangements in use in some cases of earmarked SBS may include separate programming (as well as executing and auditing) arrangements. This means increased transaction costs, and may also reduce the effectiveness of resource allocations.

73. Weaknesses in **budget execution procedures** appear to be common and this makes sector stakeholders fearful of the shift to national PFM procedures entailed by budget support modalities. The authors note that, *"In all cases, sector ministries complain that PFM procedures are cumbersome... [and] point at the perception that project-aid was much more efficient and flexible in terms of spending, which contributed to higher effectiveness and better motivated personnel in the ministry and at implementation level."* (ECORYS, 2008; pp. 17 - 18). However, earmarking SBS through a dedicated Treasury account may also result in disbursement delays, as was the case in Burkina and Cameroon. This is compounded by weak budget execution arising from rigid spending procedures in these two countries and also occurs in Benin, where budget execution rates have actually *worsened* since 2001.

74. The study observes that the practice of using the 'dedicated account of the Treasury' (CAST), while foreseen in the national PFM system in several French-speaking African countries, may be problematic. First, it creates a parallel circuit in terms of financial management and also undermines integrated programming and budget execution. Second, as discussed above, it opens the door to derogations from national PFM procedures which may undermine mainstream PFM reforms or weaken the incentives for developing and implementing those. Third, it undermines the *'principe d'unicité de caisse'* (integrated cash management system). Fourth, it interferes with the principle that budgets are annual since unspent monies are rolled forward into the next financial year and the corresponding 'budget credit' is not lost. In relation to the Burkina Faso case study, the study wonders *"whether it is desirable that a quarter of a ministry's budget be financed through a dedicated Treasury account and that there is large-scale use of the petty cash advance modality. If the answer is no, then one should conclude that SBS did not contribute to strengthening national PFM systems"* (ECORYS, 2008; p. 54).

75. In Senegal, the sector ministry has been selected as a pilot for a number of PFM reforms due to be expanded at a later stage, as a pre-requisite to the provision of SBS. These include: development of an MTEF, establishment of a studies, planning and monitoring unit in the ministry's

structure and deconcentration of financial control in line ministries. This is a very interesting case in that this piloting is strongly driven by the Netherlands, which is the only donor supporting the sector through SBS, but operating in close collaboration with the group of donors supporting the development of a PFM reform programme in relation to broadening the provision of GBS. Thus SBS has the potential to have a significant influence on PFM systems, by design, although it is too early to judge how this is working. On the other hand, as mentioned above, SBS in Senegal does not support a sector policy (there is no overarching policy), instead supporting the ministry's activities. Clearly, sector specific pilots must be technically sound and generalisable to the rest of government. Otherwise SBS may risk driving reforms convenient to the sector that are not appropriate for the whole of government. The lack of integration between GBS and SBS dialogues elsewhere presumably means that there are lost opportunities for SBS to lobby for specific PFM reforms or provide inputs into it.

76. Overall, the study found no influence of SBS on PFM in two cases (Cameroon and Benin), unclear evidence in one (Burkina Faso), and evidence for positive effects in Senegal, the only case of un-earmarked SBS.

5.1.4 Influence on Domestic Ownership, Capacity, Incentives and Accountability in the Sector

77. SBS compares favourably to other modalities with regard to enhancing leadership and ownership by the recipient partner. The study does not provide many details on 'whose ownership': it would seem that this means government's ownership. Senegal is given as the best example of a "dramatic increase in ownership and control by the sector ministry over its own resources" (ECORYS, 2007; p. 13), which may be partly explained by the fact that the ministry had very little by way of 'own budget' before the SBS operation. Effects on ownership are less clear in the Cameroon and Benin case studies, which are also the most recently started programmes. In addition, in Benin the SBS operations to date have been of a very small size, and sector ministry officials remain far from convinced that the move away from projects is a good one, as the national context is one of weak, very rigid PFM systems with low budget execution rates. This suggests strongly that weak PFM systems – in particular weak or rigid budget execution mechanisms – severely undermine the trust that sector stakeholders might be ready to place in SBS as a modality, which in turn, undermines the possible shift toward greater domestic ownership of SBS-financed activities. That is, there is a form of 'vicious cycle' at work which inhibits the transition to SBS.

78. On capacity development, the study deplores that it was not given sufficient attention in instrument design and recommends that any SBS operation should be accompanied with a programme for institutional strengthening.

5.2 Other Case studies of sector budget support in Africa and beyond

79. This Section reviews further experience of SBS in practice, summarising the available secondary literature on African and non-African examples. The examples are selected on the following criteria: i) while attempting to be balanced and critical, we have selected examples which claim some degree of success for the sector approach undertaken; ii) diversity in terms of aid instrument design; iii) (for non-African SBS) diversity in terms of geographic distribution; iii) (for African SBS) avoidance of overlap with SBSiP case studies; iv) availability of secondary documentation to review.

5.2.1 Cambodia education sector

80. SBS operations were initiated by two donors, the AsDB first, and the EC later on. They used very different designs. There was no GBS (last SAP disbursements around 2000-01; WB, DFID and a few others have just started a small PRSO in early 2008).

81. For AsDB, its SBS was un-earmarked, much like a WB DPO, and accompanied by an investment project for classroom construction. Funding was through one loan, with a 'policy support window' (SBS) and an 'investment window', and this was in turn (preceded, then) accompanied by several large-scale TA which helped the Ministry of Education to develop and start implementing the sector programme that the loan was supporting. This all took place as a SWAp start-up, with all major donors behind this move⁸, if not behind the move to BS modalities. Although AsDB TA was very instrumental in the SWAp and the sector programme developments, the process was led by a visionary Minister, seconded by very few, but able, senior executives. The TA had a CD role, not particularly well spelled out at the onset, but which it nonetheless endeavoured to play – in part because of a special relationship between the TA Team Leader and the Minister.

82. The EC came on board later on⁹ but 'full speed'. It developed an SBS operation which, in contrast with the AsDB, was tightly earmarked – using 'Priority Action Programme' channels recently developed as (not very well integrated parts) of the national PFM system (see Annex 4 for an analysis of the flow of funds in the sector). Basically these PAPs were ways of circumventing the main rigidities of the spending chain which meant that non-salary budgets were very poorly executed. The EC was earmarking its funding on 3 out of 8 PAPs, developed by the Ministry of Education as vehicles to implement the main reforms of the education system planned in the sector programme. The EC also had a large-scale TA operation together with its SPSP, which shared the work with the AsDB especially as the latter decided to expand its range of activities and to embrace TVET more strongly.

83. Other donors progressively aligned their projects with the priority programmes, more or less well. A capacity building strategy and programme was developed to attract funding from donors who were interested and would not be able to contribute to PAPs through SBS. This was meant to be financed through pooled funding for demand-driven capacity building activities – though it did not work very well, in part due to the difficulty for departments in the ministry to plan their own capacity building.

84. Thus, the (2000-2005) period saw intense activity of donors 'aligning' in terms of policy and to some extent also in terms of use of PFM systems. SBS supported the policy alignment but was not the main driving factor behind it. The main factor was the combination of leadership in the ministry, and 'good' TA supporting this leadership, which led to the establishment of quite strong and inclusive SWAp processes (including formalised NGO involvement through delegation, and donor delegation for senior level dialogue) – with recognition that a SWAp is a process. However, it remained very difficult to broaden the SWAp to involve 'central agencies'. As a result, while the SBS operations were important in bringing 'real life' cases of the negative effects of weak PFM systems (the PAPs never worked well, in addition of creating a distorted, dual-track budget execution system) and of CSR inertia on sector outcomes, the broader cross-cutting reforms (in PFM and in CS) promised at the onset of the SWAp did not materialise for many years. This certainly created a lot of frustration among those education officials who had embraced the 'new approach'.

85. On the whole, this was a good example of the difficulties of implementing thorough reforms in one sector if cross-cutting reforms do not bring about the necessary environment. And, as a corollary, the difficulty of using new aid modalities such as SBS, without an effective overall dialogue on, and progress made in, the cross-cutting reforms that GBS can bring (but does not necessarily). There was no spill-over effects to other sectors (i.e. no other sector in which SBS was

⁸ There was a broad recognition that further progress would be impossible through more of the same array of scattered and fairly basic interventions that had succeeded in putting the sector into some shape in the recovery period.

⁹ ADB at the end of 2001 EC 2003

provided), presumably as stakeholders in other sectors were deterred by the difficulties encountered in education.

86. The good news is that (i) capacity in education was strengthened; (ii) the PFM SWAp developed in the course of 2005 was largely influenced by lessons learned in/from education, both in terms of the processes to set up a SWAp, and in terms of the content of the PFM reforms (though this was, again, due to the influence of individuals as much as institutionalised mechanisms, such as an influential sector PER). However at a later stage, when the finance ministry eventually undertook to go beyond the 'half-cooked' reforms initiated with the PAPs, this resulted in an initial loss of flexibility in the use of the sector budgets and this was taken as a further setback¹⁰ by many sector stakeholders in education. The clear lesson from the Cambodian education sector is that broad-based PFM reform can be slow and this may also frustrate sectors which get used to 'alternative PFM systems' which, even if they did not work as well as hoped, were nonetheless better in terms of spending the sector budget.

5.2.2 Vietnam education Sector

87. In Vietnam, the first use of Targeted Budget Support (TBS) was in the education sector. Its introduction was prompted by the approval of the National Education for All (EFA) Action Plan in July 2003. The Action Plan sets out both the key challenges and the financing 'gap' that need to be addressed in order to achieve Government of Vietnam (GoV) goals for early childhood, primary, lower secondary and basic non-formal education. Donors duly endorsed the Action Plan and agreed to coordinate their support for its achievement. Subsequently, in October 2003, the government issued a regulation setting minimum quality standards, known as Fundamental School Quality Levels (FSQL), for every primary school in the country (EuropeAid, Undated).

88. An education sector TBS programme in support of the EFA Action Plan was then designed in 2004 and piloted in six provinces during 2005 with full implementation for 2006 - 2008. The TBS programme is supported by an MoU between the seven participating donor agencies (EC, World Bank, Spain, Belgium, DFID, New Zealand and Canada) and GoV, with bilateral funding agreements (which take precedence over the MoU) between each donor and GoV.¹¹ through the National Targeted Programme on Education (NTP-E), an existing GoV funding channel which was launched in 2001 (see Annex 4 for an overview of the flow of funds). NTPs have been developed by GoV in a number of sectors (including health, education, forestry and water) as separate budget lines with real earmarking for poverty-focused expenditures. The implementation of NTPs is primarily undertaken at provincial and district levels under the guidance of line ministries, within a regulatory framework set through annual Inter-Ministerial Circulars issued by MoET and MoF. Provinces and districts are unable to wire centrally provided funds out of the NTP-E (though transfer between NTP-E sub-components is possible).

89. The TBS programme primarily focuses on support to the achievement of the FSQL standards, through five of the seven NTP-E sub-components: i) Illiteracy elimination, consolidation of universal primary education and achievement of universal lower secondary education; ii) renovation of the curriculum and textbooks/teaching methods; iii) upgrading infrastructure of teacher training institutions and teacher qualifications; iv) support for the education of ethnic minorities and disadvantaged regions, and; v) infrastructure development. TBS funding at the central and provincial level is directed to primary education. As well as a budget support component, the TBS programme also includes a capacity building component (supported by DFID and CIDA) to strengthen government financial management objectives including raising procurement and audit

¹⁰ The PAP did not work well but they were somehow facilitating spending hence obtaining sector outputs. The PAP modality was dismantled for a much less 'straightforward' programme-based budgeting modality in which execution was almost completely re-centralised.

¹¹ New Zealand does not require a formal bilateral agreement, relying instead upon a Letter of Grant to the State Bank advising of its planned disbursements (Ministry of Planning and Investment, 2007).

procedures to international standards and promoting decentralized education planning and delivery mechanisms (Clarke et al., 2007).

90. According to the World Bank Project Appraisal Document (PAD), the funds are budgeted, accounted, reported and controlled in accordance with Government financial regulations and procedures using Government's financial systems. Project funds are channelled through a dedicated Foreign Exchange Account at the State Bank of Vietnam and then credited to the NTP budget accounts. Annual disbursements from Partners to GoV take place in the third quarter of the GoV financial year, conditional upon the realisation of agreed performance benchmarks for project progress. TBS Partners also use GoV procurement systems. Disbursements are made to reimburse incurred eligible expenditures and advances to cover expected expenditures for the remainder of the year (World Bank, 2005).

However, there are a number of additional requirements associated with the TBS, including i) an annual work plan submitted to Partners no later than November 30 of every year; ii) annual performance reviews of each district no later than June 30; iii) financial monitoring reports produced semi-annually and submitted no later than 45 days after the end of each semester; iv) annual financial statements and audit reports submitted no later than June 30 each year, v) annual procurement audits no later than June 30 of each year, and; vi) a joint review of the Education NTP conducted by TBS Partners (Ministry of Planning and Investment, 2007).

91. There is relatively limited independent evaluation and review material available at present. Early reports suggest that the first few years of TBS to education have been challenging, illustrating differing perspectives amongst Partners on the principal purpose of and appropriate approach to TBS. Donor consent for TBS disbursements has consistently been preceded by significant debate amongst Partners, with some emphasising the importance of conditionality and performance-based payments, and others the importance of predictability and collaborative efforts to achieve common goals (Graves, 2008). Delays in consent due to the submission of late and poor quality reports by GoV have undermined the predictability of funds (Ministry of Planning)

92. On the GoV side, there are some areas of concern due to lack leadership by the MoET, the slow start up of the programme and the limited progress with institutional strengthening and capacity building which could constrain the take up of the approved FSQL approach (Clarke et al, 2007).

93. A further challenge for TBS is presented by the highly decentralized nature of GoV. MoET only directly manages 5% of the GoV education budget. A large proportion of GoV education spending is channelled from MoF directly to Provincial Peoples' Councils (PPCs) and to other spending units. Under the State Budget Law, PPCs have full authority over how they allocate the funds they receive and may have different priorities and objectives to those established at the national level, including within the NTP-E. Neither MoET nor any other government agency has an overview of how the NTP-E funding is spent and MoET has no sanction or coordination authority over other government agencies at national or sub-national levels (Graves, 2008).

5.2.3 Nepal Health Sector

94. The Nepal Health Sector Programme (NHSP) for 2004 – 2009 was introduced with the intention of developing a sector-wide approach, with Government and donors working together to implement the national health sector strategy. DFID and the World Bank supported the NHSP by providing pooled funding through the Government budget from 2004/05 onwards. Table 2 summarises the financial contribution of pooled funds to the sector in recent years, illustrating that the pooled funds constitute around 18 – 20% of total GoN resources in the sector and were programmed to increase in 2006/07 and 2007/08, while all donor funding accounts for over half of total sector expenditure.

Table 2: Health Sector Funding, 2004/05 – 2007/08

Source of Finance	2004/05			2005/06			2006/07	2007/08
	Budget	Spent	%Spent	Budget	Spent	%Spent	Budget	Budget
Govt.	3,812	3,117	82%	4,340	3,847	89%	4,516	5,920
Pooled Fund	953	690	72%	1,630	943	58%	1,649	2,691
GON plus Pooled Fund	4,765	3,807	80%	5,970	4,790	80%	6,166	8,611
Non-Pool	1,789	5.65	44%	1,585	1,045	66%	3,064	3,488
Total	6,554	4372	70%	7,555	5,835	77%	9,230	12,099
Pool (% of Govt. and pool spending)		18.13			19.70		26.74	31.30
MOHP (% of Govt. spending)	5.87	4.57		5.95	5.20		6.40	7.16

Source: DFID/WB calculation from GoN sources, cited in Foster et al (2007; p.28).

95. The health sector has seen improvements in key outcomes in recent years. In particular, the 2006 DHS survey (MOHP et al, 2006) indicates that both maternal and under five mortality rates have declined by almost half, while adult mortality has declined by around one third. Moreover, as Foster et al (2007) argue, this is attributable to a number of specific public health interventions.

96. However, despite strong performance in reducing mortality indicators, and despite the development of a costed plan together with a strong commitment to reform, donor assistance to the NHSP-IP has been weak. It is characterised by: i) shortfalls between promised and committed funds; ii) late and short-term commitments that are of limited use for sector planning; iii) unpredictability of disbursements; iv) a significant proportion of funds off-budget and of limited alignment to the sector plan. More specifically, pooled fund donors have not kept their commitments to provide longer-term commitments which arrive in time to be properly integrated into budget preparation (Foster and Regmi, 2006 and Foster et al, 2007). This appears to be a problem that extends beyond the health sector. The recent PEFA assessment in Nepal concluded that much remains to be done if donors are to meet their aid effectiveness commitments, emphasising in particular the low quality of financial information donors provide and the low proportion – below 50% – of aid that uses national procedures (Government of Nepal, 2008).¹²

Table 3: Differing Expectations of the Sector-Wide Approach in Nepal

Government Expectations	Donor Expectations
Agree and finance a joint strategy	An opportunity to influence MOHP strategy, while retaining freedom to allocate and manage their own funding without being bound by it.
Long term predictable support for a comprehensive plan & budget	Short-term commitments, cut without notice, EDPs choose how much to provide, what for, & what to report
Balanced partnership, mutual accountability	Recommendations focus on what MOHP should do, EDPs escape any accountability for their actions.
Build Govt institutions & capacity by using them	Govt institutions are in practice weakened by adding SWAp management to an unchanged burden of donor missions, reporting, etc, and by donor poaching of MOHP staff.

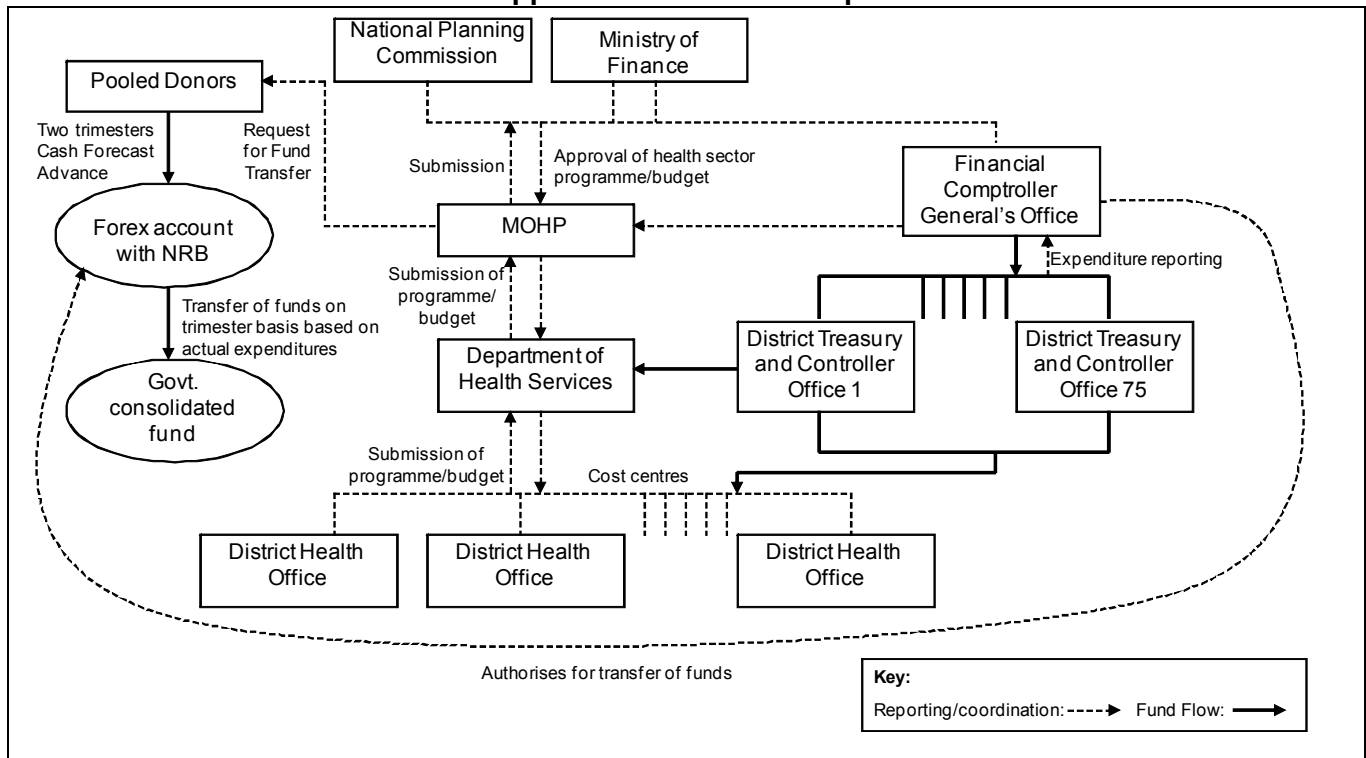
Source: Foster and Regmi (2006).

97. As was illustrated in Section 4, SWAps are quite complex and poorly defined processes. This is certainly the case in Nepal, as Table 3 illustrates. This broad characterisation of the expectations on both sides of the Nepal SWAp helps to illustrate some of the difficulties in sector dialogue. To date the SWAp has not substituted for bilateral Government – donor discussions on specific sector projects but rather has been additional to them. As Foster and Regmi (2006) observe, “*The burden of coping with donor procedures has been a significant contributor to the low disbursement that has constrained performance in several areas, notably immunisation.*”

¹² The donors were rated with the lowest ‘D’ score on all three donor-specific PEFA indicators on: i) predictability of direct budget support (including budget support to the health sector); ii) financial information provided by donors on project and programme aid, and; iii) proportion of aid managed by national procedures (Government of Nepal, 2008).

98. The pooled funding provided by DFID and the World Bank is directed through the Government budget system (i.e. Channel 1). However, concerns regarding the degree of fiduciary risk involved have led them to impose additional requirements over and above Government procedures, on procurement in particular (Foster and Regmi, 2006). The disbursement mechanism used is a relatively complex one (see Box 6).

Box 6: Disbursement of Pool Funds from Forex Account to Government Consolidated Fund in support of the NHSP in Nepal



The key stages for disbursement of pooled donor funds into the Government consolidated fund are as follows:

- Pooling donors provide indicative funding levels for the following year in the semi-annual October meeting;
- Funding commitments – taking into account sector budget and cash flow needs for programme implementation – are made during the JAR in June. Donors then decide the share of their funds in programme funding for the coming financial year;
- Pooling donors advance into the Forex account their share of expenditure for first two trimesters, basing future replenishments upon Financial Management Reports;
- The MOF/Financial Comptroller General's Office is responsible for certifying the relevant financial reports and delegates authority to MOH for submitting the request for disbursement in writing to the Pooling Donors;
- Funds transferred from Forex account to consolidated fund following certification of actual expenditures.

Note that this is somewhat simplified summary of the full process. See World Bank (2004; pp. 47 - 50) for a more detailed explanation.

Source: World Bank (2004).

99. Foster et al (2007) emphasise two elements of the pooled funding design that could be revised. First, the pooled fund donors disburse funds by reimbursement of a proportion of executed expenditures. The underlying theory is that this will provide an added incentive to the Government to strengthen budget execution. In practise however it has meant that DFID encounters unnecessary difficulties in managing its budget and that unspent money at the end of the financial year is lost to the Nepal health sector. However, as Foster et al. 2007 observe, the intended incentive effect is unlikely to exist because the Ministry of Health and Population (MoHP) is limited in the amount it can execute by the spending ceiling appropriated in the budget. This in turn encourages the Ministry of Finance (which knows the pool will only disburse in full in the unlikely

event that the MoHP disburse in full) to discount the amount of committed pool funding included in the original budget ceilings. The added complexity of managing a proportionate reimbursement procedure also creates a barrier to entry for other donors that manage their finances on a cash rather than a commitment basis and are considering joining the pool (Foster et al, 2007).

100. Second, disbursements are linked to quarterly financial monitoring reports, with the pooled fund working on an 'advance and replenish' system under which the quarterly financial monitoring reports trigger requests to the pool, "*exactly as if the MoHP budget were a large World Bank project*" (Foster et al, 2007; p. 55). The Government has found it hard to meet these reporting requirements, thereby undermining the predictability of pooled funds. Predictability could improve if donors were to break the link between specific pooled fund reporting and disbursement and instead rely on promoting MoHP's observance of existing Government financial regulations.

5.2.4 Ethiopia Education Sector¹³

101. Before discussing aid to the education sector, it is important to understand the Government of Ethiopia's federal structure as it has important implications for aid instrument design. The federal system, set out in the 1994 constitution, comprises nine regions and over six hundred districts ('woredas', most of which have devolved responsibility for budget preparation). Regions and woredas receive most of their funds as un-earmarked block grants from ('subsidies') from the level above as well as some own revenues. Regional subsidies are decided during federal budget preparation – it is therefore difficult to prepare regional budgets until after the federal budget has been prepared. Federal budgeting in turn is hampered if aid commitments are not known in advance. (Lister, 2007). The basic budget preparation sequence is summarised in Box 7, while Annex 5 provides a diagrammatic representation of the process.

102. Turning to education, the Education Sector Development Programme (ESDP) was initiated by the Government and further developed in consultation with sector donors in 1997/98. The ESDP and associated processes have strengthened over time, and the plan is now in its third generation, with the ESDP III for the period 2005/06 – 2010/11 launched in 2005 (Ministry of Education, 2005). The ESDP formulation and implementation process has established a system of sector level dialogue between Government and donors, supported by Joint Review Missions and Annual Review Meetings. To date its primary success has been in securing *policy* alignment - i.e. alignment of donors around Government policies, plans and performance. It has been far less successful in securing increased aid volumes to the sector and in ensuring that aid provided is channelled through national systems – i.e. systems alignment has been weak (Lister, 2007).

103. This weak donor support to ESDP I was due in part to the Ethiopia – Eritrea border conflict during 1998 – 2000, which led many sector donors to withhold ESDP I funding (and which disproportionately affected primary education funding, where the donors had concentrated their unfulfilled aid commitments). However, a second important causal factor relates to the structure of Ethiopian government. Education policy and strategy is the preserve of MoE and it made good sense to concentrate government - donor dialogue here for these issues. However, aid management, planning and budgeting are the preserve of the planning and finance ministries. Since Ethiopia is a federal system, sound planning and budgeting also requires engagement with central agencies at sub-national tiers of government as well as at the centre. The decision of education sector donors to focus EDSP dialogue on the federal MoE therefore neglected some of the key institutions responsible for planning, budgeting and implementation in the sector. This in turn meant that the full financial challenge in education was difficult to gauge, and in particular, "*Sector discussions were not well articulated with macroeconomic discussions of aggregate funding requirements. This was especially significant both because of the importance of recurrent cost finance for the sector and because of the central role of the federal block grant in financing recurrent and capital expenditures of basic education.*" (Lister, 2007; p. 25). Finally, there was

¹³ This Section draws extensively on Lister (2007) and Lister et al (2006).

increasing evidence that sector donors' efforts to earmark funding were proving detrimental to ESDP support, limiting disbursements and diverting focus away from the strengthening of 'Channel 1' mainstream systems of public financial management.

Box 7: The basic budgeting sequence in Ethiopia's federal system

The basic sequence [for budget allocation within Ethiopia's federal system] is as follows:

- The federal government considers resources available. After non-discretionary expenditures (e.g. debt service) are allowed for, the remaining pool of available funds is divided between federal expenditures and the federal block grant ("subsidy") to the regions.
- The resources available for federal programmes are allocated first to meet essential federal recurrent budget commitments, and then to the federal capital budget; each federal public body prepares recurrent and capital budgets within the guidelines issued by MoFED.
- The amount of the federal subsidy to the regions is based on an assessment of regional resources and expenditure requirements, and is transferred to the regions as an un-earmarked block grant.
- Regions similarly assess resources available, including the federal subsidy, and decide allocations between tiers of regional government, between agencies, and between recurrent and capital budgets. The process followed by the four major, decentralising, regions, echoes that of the federal government: they decide first on the balance between regional and woreda expenditure, and funds for woreda expenditure are provided as block grants, while the region draws up detailed recurrent and capital budgets for regional-level expenditures. The other regions do not yet have block grants for woredas, and so are responsible for detailed budgeting of all the resources they control.

Source: Lister (2007; p. 57).

104. Thus, while the Government had initially hoped to finance a significant portion of ESDP I through joint pooled funding of donor support, the eventual donor support was provided in a more piecemeal fashion, and at levels less than were originally hoped. The EDSP has now resulted in a greater understanding amongst donors of the importance of working with national systems and also a better understanding of the importance of taking the federal structure of government into account in aid design. This has been reflected in the development of pooled funding in support of teacher training through the Teacher Development Programme (TDP), which began in 2004.

105. The TDP is supported by six bilateral donors (Belgium, Finland, Ireland, the Netherlands, Sweden and the UK). These donors channel their funds to the Ministry of Finance and Economic Development (MoFED) using national procurement systems, with separate tracking and accounting procedures – i.e. TDP operates through a 'variant' of Channel 1 (Lister, 2007). Teacher education was chosen as the focus of this support not only because it represents a policy area where there is strong agreement between the Government and donors, but also because teacher training is primarily the responsibility of the federal and regional levels of Government, and does not involve the districts ('woredas') thereby simplifying the required management structures. It also allowed donors to earmark their support to specific activities whilst also providing pooled assistance through national systems. By mid-2006 total pooled support provided to the TDP totalled around Euro 40 million.

106. Coordination of the pooled fund is centred around a TDP Coordinating Committee, and earmarking is done through specification of budget allocations to MoE, regions and education faculties over a three-year period (albeit with some scope for 'fine tuning'). The TDP mid-term review provided a strong early assessment of the TDP, finding that it has led to additional funding for teacher education. As with many pooled sector funding arrangements, it was more difficult and time-consuming to reach agreement on the TDP's structure than was initially anticipated, despite the fact that the participating agencies are a relatively like-minded group of EU bilateral donors. Different donors had differing: i) degrees of aversion to fiduciary risk; ii) levels of concern about specifying project details; iii) degrees of local discretion, and; iv) headquarters requirements to

meet (Lister, 2006). However, it represents an improvement over running parallel projects and has improved sector dialogue (Lister, 2007).

107. It has however maintained a number of derogations from the full use of national PFM systems, with separate accounting budgeting and tranche release mechanisms (the benefits of which do not clearly outweigh the costs). Its design phase also had limited involvement of regional education bodies and regional and federal central agencies: MoFED is with retrospect a crucial counterpart in instrument design. Partly as a result, it the detailed project design and costing did not sufficiently take into account the Government's federal structure: despite deliberately choosing an activity that was the preserve of federal and regional bodies (and not woredas), detailed breakdown of activities and expenditures between regions was not undertaken. TDP is also not as well integrated into the mainstream ESDP management processes as it might be – a cause for concern given the fact that teacher training is only one element of the MoE activities to improve the quality of education. Revisions to the chart of accounts made subsequent to the TDP's launch now mean that disbursement and tracking would most likely be easier and less time consuming through the full use of national systems.

5.2.5 Protecting Basic Services Programme in Ethiopia

108. Following post-2005 election developments in Ethiopia all General Budget Support Programmes had been suspended, representing a massive budget shortfall for the 2005/06 financial year. Donors were concerned about the effect that this would have on the progress made in supporting service delivery, and donors started exploring alternative aid instruments that would permit continued funding of service delivery.

109. The resulting Protecting Basic Services Programme was a hybrid instrument, effectively sector budget support earmarked to service delivery under the functional mandates of subnational governments. Dom (2009) summarises the key elements of the programme:

*"In May 2006 the **Protecting Basic Services (PBS) programme** was approved by the WB Board and several other donors joined in the course of the year and the next one. The PBS channels funds to regions' and woredas' budgets alongside government domestic resources, through the fiscal transfer system of un-earmarked regional subsidies and block grants to woredas. Thus, PBS —took over from DBS, providing, in effect, decentralised budget support to co-finance government provision of basic services. Several features of the DBS process were maintained including the JBAR, through which donors also verify that the PBS conditions are met.*

Key design features of the first phase of PBS were:

- (a) The bulk of PBS funding ("Component 1") was disbursed entirely through GoE systems, but targeted as additional funding for the federal block grant. Monitoring of PBS included an additionality test to verify that there has been a commensurate increase in the fiscal transfers to regions and woredas.*
- (b) Monitoring also included a fairness review to verify that funds are disbursed to all regions and woredas in accordance with transparent fiscal rules and without discrimination on political or other grounds.*
- (c) PBS is not earmarked to one sector, but provides support to the basic services for which subnational governments are responsible, which include primary health care and water/sanitation as well as basic education.*
- (d) However, Component 2 differs from Component 1 as regards both disbursement procedures and earmarking. This component provides funding earmarked for international procurement of medical supplies. These are treated as a special case because of the greater practicality and cost savings available in specialised procurement on behalf of the regions and woredas.*
- (e) There is a strong emphasis on accountability. Component 3 provides support to government systems for financial transparency and accountability, while an innovative*

Component 4 (social accountability) aimed to strengthen the capacity of citizens and civil society organisations to engage in public budgeting processes and hold public bodies to account for the delivery of basic services.

PBS is now seen as a valuable aid modality in its own right (as opposed to a mere substitute to DBS), well aligned with the decentralised federal structure of the government. The design of a second phase has recently been completed. The WB and EC have had their new PBS programmes approved in May 2009. PBS 1 channelled USD 1.1 billion in the 2005/06-2008/09 period. Financing projections for PBS 2 indicate that the programme will channel USD 1.1 billion in three years. The conditions attached to Phase 2 of PBS have been amended, but the main features of the programme and the thrust of the conditions remain the same.”

110. Other examples of sector budget support covering more than one sector in support of decentralised service delivery include the Devolved Social Services Delivery Programmes provided by the Asian Development Bank to the four provinces of Pakistan. These involve budget support earmarked to multi-sector grants to district local governments for service delivery in sectors such as health and education. They are supported by TA programmes implemented by provincial governments.

5.2.6 Mozambique Education Sector¹⁴

111. Pooled donor support to education in Mozambique is delivered through a common fund (i.e. via Channel 2) rather than SBS. Nonetheless, it provides an instructive case study. Recent experience in the sector has been relatively positive, with both a good model of collaborative working between GoM and donors at sector level and a demonstrated track record of results. Figure 9 illustrates some of the results realised in the expansion of access to early primary education (EP1) in recent years, albeit with declining educational quality as proxied by the pupil to teacher ratio (see Dupraz et al. (2006) and World Bank (2008) for a more detailed analysis of education sector results).

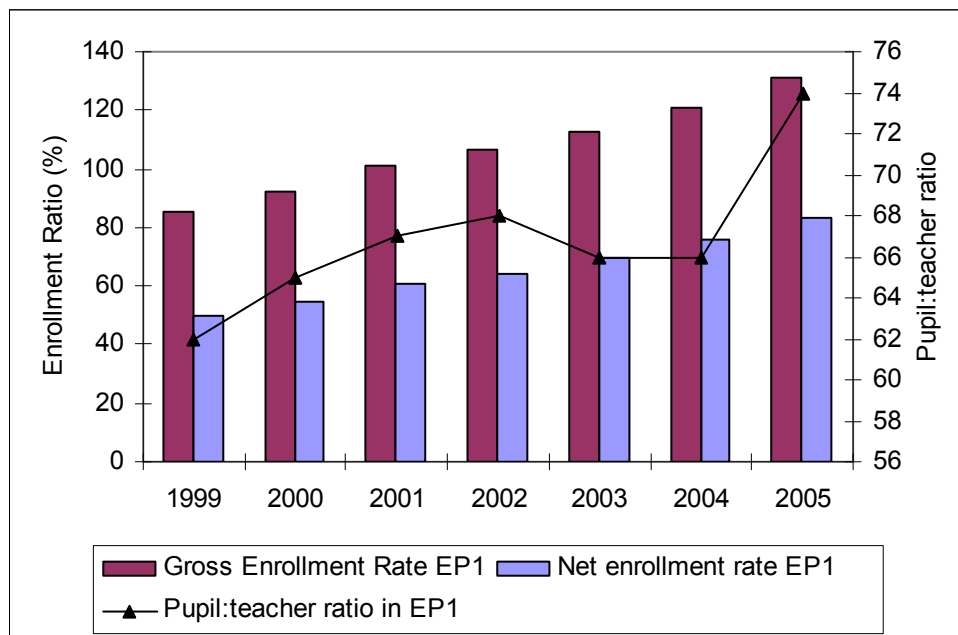
112. Unlike in many other sectors in the country, there is fairly strong consensus regarding key education policy priorities between GoM and donors which has allowed the sector to establish a clear strategic plan with buy-in from participating donors, partly borne out of a long history of GoM – donor joint working. The first Education Sector Strategic Plan covered the period 1999-2005 and the second Strategic Plan for Education and Culture (PEEC) for the period 2006 – 2010/11 was approved by the GoM in June 2006 and endorsed by donors as a sound plan for meeting the MDGs. There is good integration between the sector and national plans: all the PRS (known by its Portuguese acronym as the PARPA) Strategic Matrix indicators (including the GBS Performance Assessment Framework indicators) are integrated into the education sector PAF (E-PAF). The education sector was also amongst the first to schedule its annual sector review (RAR) so as to precede the annual GBS Joint Review, thereby allowing RARs results to feed into the government-wide exercise and reducing the time spent by officials reviewing the previous year’s performance.

113. Donors in the education sector in Mozambique have, since the development of the first sector strategic plan in 1998, been organised in a Sector Wide Approach (SWAp), which now includes all bilateral and multilateral donors operating in the sector. With the aim of better coordination of donor financial support, a sector common basket fund – known as the Education Sector Support Fund (FASE) – was created in 2002 using financial management and procurement procedures drawn extensively from the agriculture common basket fund (PROAGRI I) with a FASE FOREX account and a Ministry of Education and Culture (MEC) local currency execution account. FASE has gone from channelling around 5% of direct external funds to the sector to around 60% at present. It is the main source of financing non-salary recurrent costs as well as financing the Direct

¹⁴ This Section draws extensively on Handley (2008). For a more detailed discussion of the evolution of the education sector in Mozambique, please see Mokoro (2008; pp. 24 - 32).

Support to Schools programme (ADE), low-cost school construction, book distribution and in-service teacher training (CRESCER).

Figure 9: Quantity and Quality of Early Primary Education (EP1), 1999 - 2005¹⁵



Source: MEC database (cited in Dupraz et al., 2006).

114. FASE initially made slow progress on implementation, partly as a result of an original MoU which established parallel procedures. For example, in 2005, while the targeted 80% disbursement was achieved, the quality of what could effectively be done with these contributions was seriously affected by bad timing as most donors only disbursed at the end of the year (Chapman et al, 2006). Although the FASE remains a work in progress, things have subsequently improved. GoM and sector donors agreed a new MoU in May 2006 which has improved both in-year predictability of donor disbursements and the use of national systems. At present, eight of the ten bilaterals in Mozambique (plus UNICEF) are signatories to the FASE MoU. The World Bank was a signatory to the original MoU (though it never channelled funds through FASE), but did not initially sign the revised 2006 MoU. The 2008 Joint Review Aide Memoire concluded that '*FASE execution almost doubled [in 2007] as a result of the improvements introduced in the financial management system*' (GoM and PAPs, 2008).

115. However, it is recognised that there is still room for improvement in FASE financial management, particularly with regard to the in-year predictability of disbursements by GoM. One positive result of FASE has been to strengthen the planning function within MEC. The PEEC, SWAp and FASE have combined to empower the Directorate of Planning and Cooperation (DIPLAC) within MEC: where in the past donors had established strong bilateral relationships with individual Departments within the ministry, the ministry is now able to adopt a more strategic approach to resource allocation. They have therefore helped to strengthen and build lines of accountability within MEC. The alignment of the sector review process and sector planning instruments with the global level instruments also helps to reinforce domestic lines of accountability between the sector and the central agencies and to strengthen the collective focus on results in

¹⁵ In Mozambique's General Education System, EP1 (*Ensino Primário 1*) is officially for children aged 6 to 10 years. The Gross Enrolment Ratio (GER) is calculated as the ratio of all children enrolled in a given education level (without age restrictions) compared with all children in the age range formally corresponding to that education level and the Net Enrolment Ratio (NER) is calculated as the ratio of all children in a given education level who are of the right age for that level compared with all children in the age range formally corresponding to that education level.

comparison to the prior arrangements. It should also be noted that, in addition to FASE activities, many bilateral interventions are also captured in the sector strategic documents and are therefore being discussed and monitored as part of the SWAp agenda. This has helped to encourage many agencies to take steps to lower transactions costs associated with their support. The development and successful roll-out of a government wide financial management information system (e-SISTAFE) has also considerably improved FASE's usefulness by increasing the quality and availability of financial management information to DIPLAC. Partly as a result of e-SISTAFE's roll-out, FASE funds were moved 'on treasury' in 2007 with their integration into the (virtual) Single Treasury Account (CUT) (Warren-Rodriguez, 2007).

116. Two separate developments within the education sector illustrate points of general significance: experience with the Education for All Fast Track Initiative Catalytic Fund (FTI - CF) and findings of an evaluation of Danish support to the education sector (Mokoro, 2008). As regards the former, in May 2007 Mozambique was awarded US\$79million of FTI – CF funds in support of the PEEC, with MEC and country donors' preferred means of delivery being via FASE, in order to ensure close alignment of the funds with the PEEC, which it sought to finance. The FTI funds are administered by the World Bank under the terms of its Project Lending. This meant that channelling the FTI funds through FASE would require the Bank to sign the revised FASE MoU, and this in turn required a Financial Management and Procurement assessment of FASE. While the assessment concluded that overall FASE financial management is of a reasonable standard, the Bank could not sign up to the MoU as it committed FASE donors to use Mozambique's National Procurement Law. The Bank objected to 'domestic preference' provisions relating to domestic preference under National Competitive Bidding (NCB).¹⁶ This is despite the fact that the recently adopted Law contributed to an improved PEFA assessment of performance in 2006, including improved performance on PEFA Performance Indicator 19, 'Competition, value for money and controls in procurement' (Lawson et al., 2008).

117. In combination with political pressure to accept the FTI funding, and an existing commitment to use FASE to receive the funds, the situation was resolved through a revision of the FASE MoU such that it is now compliant with World Bank/IDA policy lending criteria. As a result, FASE funds are no longer subject to National Procurement Law and all procurements over a predetermined threshold are instead subject to prior review by the Bank and the use of international competitive bidding (ICB) procedures. This effectively meant reducing the extent to which all existing donors channelling funds via FASE used country systems in order to accommodate one new vertical fund and has required MEC to revise its procurement practices nationwide for both new and ongoing projects funded through FASE. There are two lessons here. First, in effect, when push came to shove, the World Bank sought to projectise the common basket fund procedures, rather than budgetise its support by allowing flexibility in project lending procedures. Second, with stronger national political backing for sector managers it would arguably have been possible to find a more constructive way of channelling the funds (Handley, 2008).

118. Danida support to education between 2002 and 2006 was provided through a project modality – the Danish Support to the Education Sector Strategic Plan (DSESSP). The policy alignment of the DSESSP to the PEEC was relatively strong, but there was very weak systems alignment, with the establishment of a separate financial management programme and a national project management unit (Mokoro, 2008). In 2003, a review mission for Danish support to the education sector recommended a major change of course, urging that the majority of education sector funding should be channelled through FASE. This recommendation was not followed through however, because independent auditors at the time were unable to provide an opinion on the accounts of FASE. It should also be noted that this audit opinion did not deter other donors who continued to finance FASE whilst seeking to work jointly to address teething problems. It was

¹⁶ New legislation on public procurement was approved in December 2005, through the Decreto 54/2005 – *Regulamento de Contratação de Empreitada de Obras Públicas, Fornecimento de Bens e Prestação de Serviços ao Estado*, which came into force from the beginning of July 2006 (Lawson et al. 2008).

not without irony then that in 2005 an unannounced spot check of the use of DSESSP funds in Zambézia province revealed widespread irregularities in financial management, leading to the suspension of DSESSP funding to provinces and the 'reimbursement' of US\$2.4 million from GoM to the Danish Government. Further investigation suggested that the abuses resulted from failure to follow agreed procedures and rules, including weak implementation of ex-post control measures (Mokoro, 2008). This illustrates that fiduciary risk associated with approaches that rely on parallel funding structures is not necessarily lower than approaches that use national systems. In this case the parallel structures actually *increased* exposure of sector funding to fiduciary risk.

5.2.7 Uganda Water and Sanitation Sector

119. The Ugandan water and sanitation sector, which was a case study in the review of sector aid summarised in section 4.2 (Williamson et al 2008), is an interesting and successful example of non-traceable budget support provided in the context of a SWAp. Within the sector there are interesting contrasts, too, as a common basket fund called the Joint Partnership Fund (JPF) is provided in support of the urban sub-sector, whilst sector budget support is provided in support of the rural sub-sector.

120. In 1990s the water sector was characterised by fragmented project support, ad inequitable and inefficient service delivery. From the mid 1990s efforts were made to improve the policy framework and coordination, which embraced the policies of decentralisation. Donors worked with local governments through their projects, however failed to build meaningful capacity.

121. In 2000, a decision was made to establish the district water grant to support local governments in rural water and sanitation. 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 decided to allocate significant additional resources from debt relief to the sector, far in excess of the levels of project support being provided to the government. This prompted donors to follow suit, and support the new grant by providing non-traceably earmarked sector budget support on top of debt relief already allocated to SBS. This meant that SBS was fully in support of strengthening a new domestic system for service delivery.

122. Key to the success was the explicit attention given to supporting the capacity of local governments for service delivery. The grant did not just provide funding to local governments for service delivery. The grant funded the staffing of the district water office with qualified staff. It also supported the equipping and running of that office, as well as capacity building of lower levels. Williamson et al (2009) point out that *"The fact that funds were transferred for delivery while building capacity meant that there were stronger incentives to attract and retain qualified personnel."* Furthermore, to support local governments, the Ministry of Water established Technical Support Units to support and monitor local governments and help promote adherence to and understanding of national policies. However, later on, centralised civil service restructuring which downsized the structures of the district water offices threatened to undermined the gains in capacity development.

123. The experience of the rural water sector contrasts with the JPF in support of small town water provision. Implementation has remained relatively management intensive at the centre in a similar way to conventional projects and there have been few sustainable institutional benefits at local governments for the management of the resulting water facilities. The existence of the common basket fund also reinforces inefficiencies in the sector:

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. [...]. 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. (Williamson et al 2008)

124. Relatively strong monitoring processes have emerged in the context of the SWAp. Annual sector reviews are the focal point of this. Furthermore, *“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.” (Williamson et al 2008)*

125. Political priority lent to water and sanitation, combined with strong technical leadership has been key to the successes in the sector. However the decisive shift in aid modalities towards non-traceable SBS in the rural water sector was also crucial there. Williamson et al (2008) conclude:

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.

6. Methodological Approaches to Evaluating Budget Support¹⁷

6.1 Approaches to evaluation

126. Donor agencies' approaches to evaluation are changing. As Foresti et al (2008) show in a review of evaluation policies and practices in development agencies, there is a new approach to evaluation emerging (at least among some donor agencies). The authors write:

"The picture that emerges here is a rather composite one. On the one hand, the Evaluation Units of the agencies considered by the study share a number of common features... they are all on a similar journey (although at different stages), from a relatively straightforward model of project evaluation aimed at internal management and accountability, towards more complex models of policy, country and partnership-led evaluation that require new skills, roles and organisational arrangements" (Foresti et al., 2008; p. 31).

127. The SPA's evaluation of sector budget support in practice represents an example of the latter approach, seeking to generate country case studies that are to be useful to stakeholders in the countries being studied and producing review findings to be of broader use for both the Strategic Partnership with Africa (SPA) and broad aid effectiveness policies (ODI/Mokoro, 2008).

Box 8: The 'six steps' in contribution analysis

Mayne (2001) has distilled contribution analysis into six steps:

1. **Develop the results chain or programme logic**, which should clearly set out the intended results from activity through intermediate to end outcomes, showing the logical linkages between achievements at different levels. It should also go some way to acknowledging the problem of attribution by specifying the external factors that impact each level, clients of the programme, expected results and performance measures.
2. **Assess the existing evidence on results**, defining indicators to demonstrate achievement of the desired results at each level, using multiple sources of evidence to provide more definitive information on attribution and pursuing additional evidence where gaps prevent clear assessments of the links between levels.
3. **Assess the alternative explanations**, identifying the most probable alternative explanations and, where appropriate, presenting evidence against these competing explanations and in favour of the programme as a more likely explanation of contribution to outcomes.
4. **Assemble the 'performance story'** which documents the available evidence so as to convince a sceptical reader that the activities undertaken have made a difference. A credible performance story will set out: i) programme context; ii) planned and actual accomplishments; iii) lessons learnt; iv) approach for assuring the quality of information; v) the main alternative explanations for the outcomes occurring, and; vi) why these alternatives had no or limited influence.
5. **Seek out additional evidence** where an alternative explanation cannot be discounted, or the programme cannot be shown to be a more likely contributor, the programme logic should be reviewed and/or additional data gathered and evaluated.
6. **Revise and strengthen the performance story.** Where this can't be done, further evaluation is required or the programme is not the key contributor to the outcomes.

Source: Kotvojs (2006).

128. The toolkit used by evaluators is also changing. A key literature behind the approaches to evaluation of programmatic aid interventions is that around contribution analysis, which seeks to establish links between the inputs associated with aid and wider outcomes (Kotvojs, 2006). Rather than trying to precisely quantify the range of different factors that influence outcomes, evaluators make judgements about the importance and strength of these different influences, through careful logical analysis, drawing "plausible associations" between aid inputs and wider outcomes (Riddell et al, 2008). Contribution analysis recognises the long timescale required to achieve an impact and

¹⁷ For a more detailed overview of approaches to aid evaluation, please refer to Riddell et al. (2008) and NONIE (2008).

therefore does not attempt to demonstrate impacts over the shorter time frames which evaluation cycles demand. Second, it recognises the difficulties inherent in attribution of specific outputs and outcomes to specific inputs, seeking to provide plausible evidence to reduce the uncertainty about the ‘difference’ a programme is making rather than trying to definitively ‘prove’ the contribution it has made. This approach essentially underlies many of the recent approaches to evaluating programmatic approaches such as SWApS and budget support programmes.

6.2 Evaluation frameworks for budget support¹⁸

129. As Booth and Evans (2006) stress, “*evaluation is interested in “how” and “why” as well as “what” questions, and has to concern itself with underlying theories of change*” (Booth and Evans, 2006; p. iv). Good practice in evaluation therefore requires that there should be an underlying “intervention logic” or “programme theory” – as is emphasised in contribution analysis. Often this logic is developed more ex-post by evaluators than ex-ante by programme designers, as was the case in the evaluations of general budget support (IDD and Associates, 2007) and the Paris Declaration on Aid Effectiveness (Booth and Evans, 2006). Nonetheless, there is now a widespread consensus amongst development evaluators that such an approach is necessary to underpin rigorous evaluations. This Section discusses recent developments in evaluation frameworks for budget support that provide an underlying intervention logic or programme theory in logical framework form – an approach which can trace its recent antecedents at least to White (1999).

6.2.1 The Evaluation Framework for budget support

Following the introduction the ‘new’ approach to budget support by various donors in a number of countries in the late 1990s, DFID launched an Evaluability Study of General Budget Support (GBS) in late 2001. The aim was to explore the evaluability of GBS and develop an Evaluation Framework (EF), which would subsequently be applied in a joint evaluation (Booth and Lawson, 2004). The Evaluation Framework represented “[...] *an effort to set out in a systematic way the principal claims made on behalf of General Budget Support as a modality of poverty-oriented aid, spelling out the implied causal links in Logical-Framework fashion*” (Booth and Lawson, 2004; p. 23).

130. The Evaluation Framework was deliberately developed to be relevant and applicable to all types of programme aid (including sector budget support and balance of payments support). It is therefore of a more general relevance to other programmatic aid modalities, including SBS. Budget support programmes had often been designed and implemented in an incremental and negotiated fashion, lacking any explicit intervention logic - it therefore became an exercise in ‘retro-fitting’ an underlying causal framework where none existed (at least explicitly).

131. The core of the Framework is provided by a flow diagram of the Logical Framework type which divides the results chain into five distinct ‘levels’ which track the cause and effect links and the time dimension of the effects. A simplified version of the logical framework which summarises the five level approach developed in the original Evaluation Framework is provided in Annex 1. In addition to the standard five levels, key features of the EF included, as summarised in IDD and Associates (2007; p. 11) and Caputo et al. (2008; p. 7):

- Overall conclusions drawn from a comparison of the current situation with the preceding 3–5 years – implying that evaluations should not be undertaken where budget support has been in place for less than three years.
- The identification of two main sets of effects: flow-of-funds effects and institutional effects.

¹⁸ Note that this Section draws in particular on the discussion of evaluation frameworks presented in Caputo et al. (2008).

- Provision of detailed guidelines for research questions and approaches at each level of the framework, based on assessing whether postulated effects of GBS are present and asking additional questions relating to attribution and the counterfactual.
- Reliance on extensive and varied sources of information, combining qualitative and quantitative data (primary and secondary documentation, quantitative data and interviews), 'triangulating' information sources and opinions as necessary.
- Treatment of factors outside the main hypothesised chain of effects as assumptions and risks (though these are to be explicitly considered in asking "why/why not" questions related to attribution).
- The EF is designed for country-level evaluations, though, by providing a standard methodology, it is intended to facilitate a series of comparable country case-studies.

6.2.2 The Enhanced Evaluation Framework for budget support

132. An amended version, referred to as the Enhanced Evaluation Framework (EEF), was then used as the basis for a Joint Evaluation of general budget support, convened by 17 bilateral agencies, 4 multilateral aid agencies and 7 partner governments under the auspices of the OECD/DAC (see IDD and Associates, 2007; especially p. 17).¹⁹ The EEF was amended to address some of the weaknesses identified in the original EF, along the following lines (set out in IDD and Associates (2007; p. 15)):

- A new "Level 0" is introduced so that design context and entry conditions can be systematically addressed:
- There is more recognition in Level 1 (inputs) of parallel inputs, both from donors and from government. The effects from Levels 2 through 4 (Immediate Effects/Activities, Outputs, Outcomes) are conceived as three streams, not just two (funds, institutions, and also policies). It is stressed that these are not seen as separate compartments: as depicted in the diagram, there are systematic interactions between funds, policies and institutions.
- The different poverty dimensions at Level 5 (impact) are unpacked. This recognizes that different causal chains may influence some of the different dimensions. Notably, public expenditures may have a direct impact on education, health and other dimensions where government services can play a direct role, while income poverty is less susceptible to such direct effects.
- Feedback loops (from Level 5 and intervening levels) are depicted. This is consistent with the earlier observation that GBS programmes are characteristically iterative.

133. Figure 10 provides a simplified overview of the Enhanced Evaluation Framework, which is now often referred to in the literature simply as the OECD/DAC Evaluation Framework.

6.2.3 Further extensions to the Framework and applications

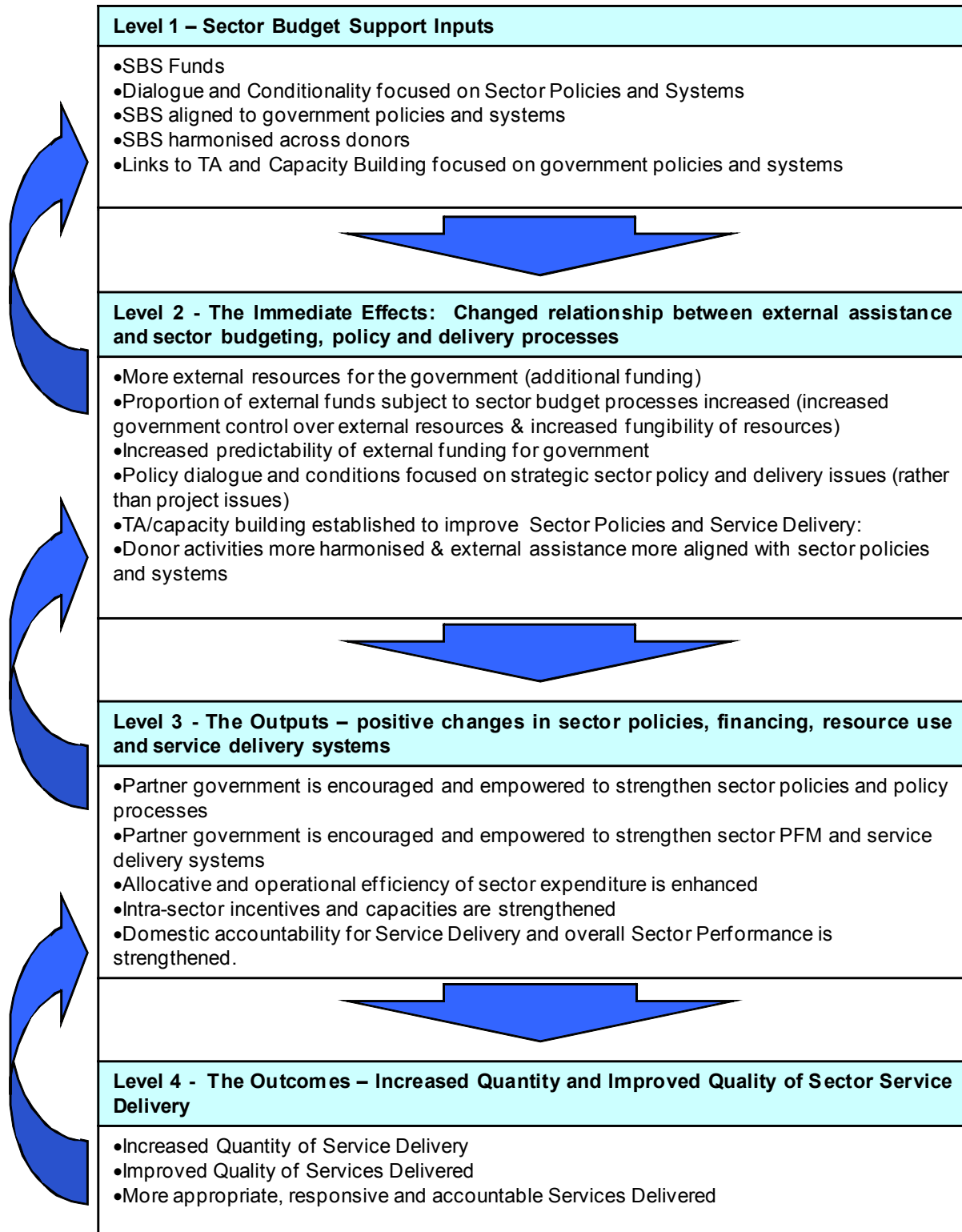
134. The OECD/DAC Evaluation Framework can appear bewilderingly complex for non-specialists: space precludes a presentation of the very detailed full logical frameworks associated with these approaches. Caputo et al. (2008) build on the five level intervention logic developed in the Evaluation Framework, but seek to present it in a considerably simpler form. Their aim is to produce an evaluation framework that is '*as straightforward as possible and totally user-friendly, to facilitate participation by government stakeholders and decision-makers who may not be familiar with sophisticated methodological tools*' (Caputo et al., 2007; p. 11).

135. They retain a flexible approach that is applicable to contexts where: i) only GBS is provided; ii) both GBS and SBS are provided, and; iii) only SBS is provided. The authors emphasise that, as far as possible, budget support operations should be evaluated jointly (with GBS evaluation

¹⁹ The seven partner countries in which evaluations were undertaken were: Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam.

focusing at the aggregate level and SBS evaluation focusing at sector level) since they contribute jointly to the changes in the funding composition of the budget, in the overall framework for policy dialogue, in the institutional context for public spending and in the overall partnership framework. For 'stand alone' SBS evaluations they argue that the framework should be applied at both aggregate and sector levels.

Figure 10: Summary of OECD-DAC Evaluation Framework for Budget Support



Source: Adapted from Lawson (2007).

136. As well as simplifying the intervention logic, the approach aims to obtain a stronger assessment of how budget support has influenced the outcomes and impacts of government strategy, a key weakness of previous evaluations undertaken using the OECD/DAC methodology (especially when compared to the stronger conclusions reached by these evaluations on the direct effects of GBS/SBS and the changes induced in government financial management and policy process). The authors argue that this resulted from an emphasis in earlier evaluations on the effect of budget support up to actual changes in public expenditure, with insufficient time and resources dedicated to understand the level of attainment of the expected outcomes and impacts and the related determinant factors. To try to address this imbalance, Caputo et al. (2008) advocate a 'three-step' approach, where the suggested steps are as follows: (i) the evaluation of inputs to outputs; (ii) an evaluation of outputs to impact, and; (iii) combining and comparing the results of the first and second steps, i.e. asking whether the outputs influenced by budget support in step 1 are consistent with the outcomes and impact of the outputs identified in step two. The framework proposed by Caputo et al. is somewhat less onerous and also formalises some of the questions GBS evaluation sought to address (e.g. Step 3).

137. The SBSiP methodology adapts the tree step approach. It breaks step a synthesis of the two approaches (i.e. OECD/DAC and Caputo et al.) in order to combine respective strengths and overcome respective weaknesses. However, the emphasis on the importance of the context in which budget support is delivered (undertaken in Step 2) is actually the real substantive question and should precede the other steps. The resulting four steps are as follows: (i) assess sector outputs to outcomes overall in context; (ii) document the SBS inputs; (iii) assess the effects of SBS inputs on outputs; and (iv) comparing the results of steps (i) and (iv) to ascertain the influence of SBS on sector outcomes.

138. A number of country level evaluations have been carried out that employ one of the explicit intervention logics outlined above, as outlined in Table 4 below.

Table 4: Overview of Budget Support Evaluations Using an Explicit Intervention Logic

Reference	Title	Country or Countries	Evaluation Framework
Booth et al. (2005)	'Joint Evaluation of General Budget Support: Tanzania 1995 – 2004.'	Tanzania	Evaluation Framework (EF)
IDD and Associates (2006)	'Evaluation of General Budget Support: Synthesis Report.'	Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam.	Enhanced Evaluation Framework (EEF)
Lawson et al. (2007)	'Joint Evaluation of Multi-Donor Budget Support to Ghana'	Ghana	Enhanced Evaluation Framework (EEF)
Lawson, A. (2007)	'DFID Budget Support to Sierra Leone, 2004 - 2007: Achievements & Lessons for the Future.'	Sierra Leone	Enhanced Evaluation Framework (EEF)
ODI/Mokoro (Forthcoming)	'Sector Budget Support in Practice: Synthesis Report.'	Mali, Mozambique, Rwanda, Tanzania, Uganda, Zambia	Hybrid of EEF and Caputo et al (2008)

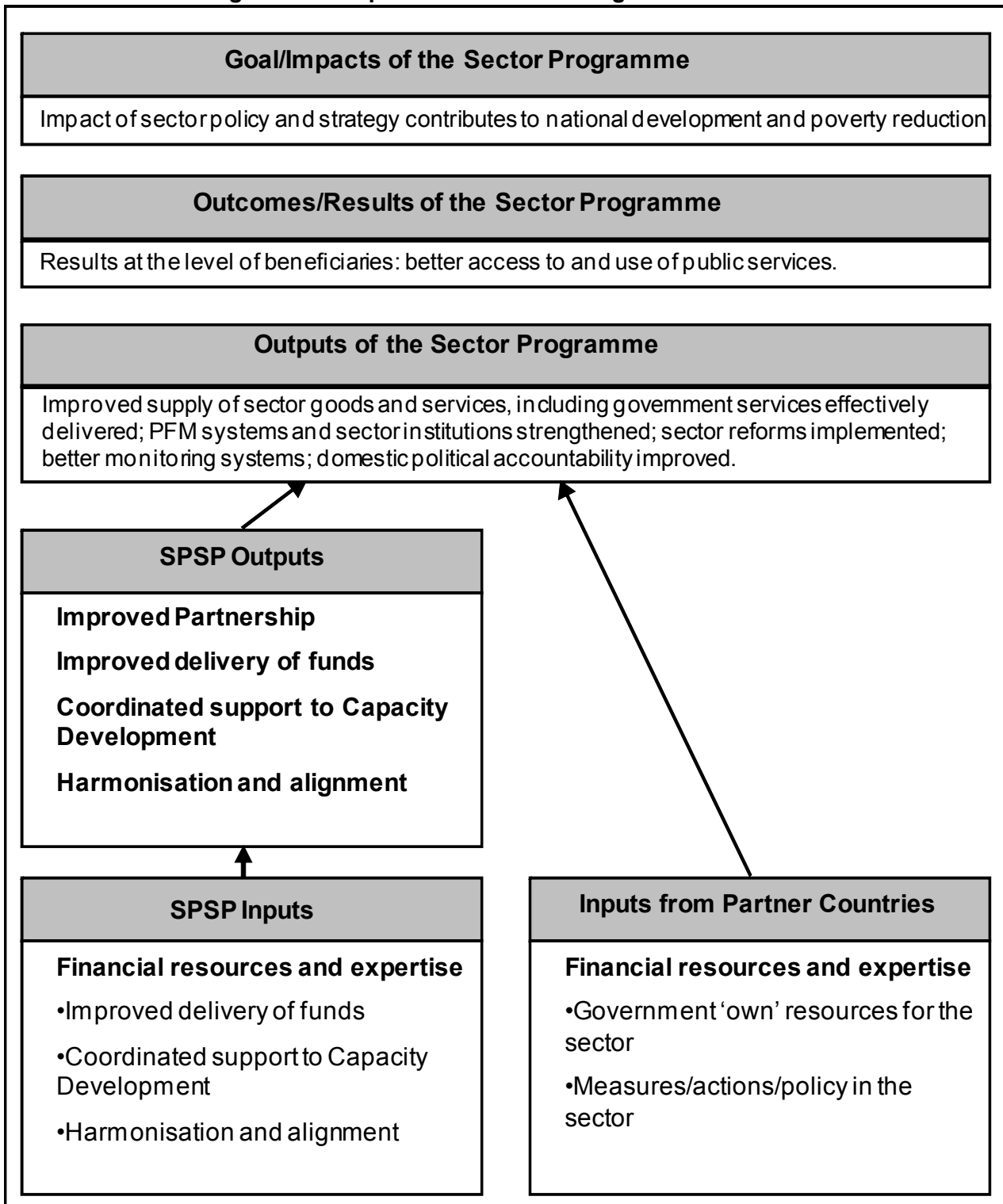
Source: Author.

6.2.4 Development of intervention logics by donor agencies

139. The process of budget support evaluation and the associated thinking has led some donor agencies to develop more explicit *ex ante* programme logics to inform programme design. The EC is already on the second generation of guidelines for sector policy support programmes (SPSP) (EC, 2007). These guidelines include a "simplified intervention logic" for a sector programme contributing to the achievement of its results (see Figure 11), encouraging programme designers to

select appropriate indicators relevant to different stages of the classical results chain and to consider how to obtain a 'best fit' between SPSP objectives and inputs.

Figure 11: Simplified Intervention Logic of an EC SPSP



Source: EC (2007; p. 48).

140. The French Development Agency provides another relevant case study. AFD (2007) provides a guide for French development cooperation agencies to strengthen (systematise and formalise) the way they report to external actors such as Parliament etc., about the results achieved with French aid. It is quite recent and it is not clear how widely it is being used. The

document suggests that the identified indicators (which for the EC would be outcome indicators e.g. enrolment in education) will be used for projects and might be used for sector support operations if the objective of a specific operation is about reaching 'direct development results', quantifiable and measurable by such indicators. In sector support operations where the objective is more general (e.g. sector improved management/governance) these indicators would not be relevant. The indicators would not either be relevant for GBS operations, as follow-up and monitoring will be carried out in line with jointly (government/other DPs) developed performance assessment tools.

141. AFD (2007) should be read together with the M&E mechanisms outlined in the French 'doctrine' on Budget Support (Co-Secrétariat du CICID, 2007).²⁰ The 'doctrine' 'programme logic' suggests that at least at the evaluation stage, final results to which BS may have contributed – such as those tracked by the above "Indicateurs Agréables" – will be measured (although no explicit link is made between the two documents). Measurement of GBS 'impact' or measurement of results in priority sectors will be carried out only at the end of a GBS programme, as a way of informing decisions on the design of the next operation (i.e. after 3 or 5 years) – see Annex 2 below.

142. Not all donors providing budget support have developed an explicit 'programme theory' however (Belgium has yet to do so for example). Donors also still differ in the stage they have reached in thinking about the link between BS and 'development results' (be they sectoral or general), with the EC already having commissioned the Issues Paper discussed above by Caputo et al. (2008), while AFD's documentation still exhibits some ambiguities on the matter (see AFD, 2007). However, there is increasingly an agreement that (i) budget support is provided in support of a policy and is not in itself a policy; (ii) the high-level results sought are those of the policy, not directly those of budget support, and (relatedly); (iii) evaluating the effectiveness of BS is about attribution analysis.

6.3 Statistical impact evaluation

143. As Riddell et al. (2008) observe, for many the litmus test of the benefit of aid is not the accurate tracing of the causal relationship between aid inputs and development outcomes. Instead, it is the ability to measure the difference between what happened with the programme and what would have happened without it (referred to as the counterfactual), either by examining the situation before and after aid was provided or by comparing one context, community or country where aid was provided with a similar one where aid was not provided. Such studies are referred to as impact evaluations, although their heavy methodological reliance on the statistical analysis of quantitative data (usually accompanied with the term 'rigorous') means they are often referred to as *statistical* impact evaluations – see Box 9.²¹

144. Increasing attention has been paid in recent years to the importance of impact evaluations for assessing aid financed interventions, partly in response to the observation that there is an 'evaluation gap' because governments, official donors, and other funders do not demand or produce enough impact evaluations and because those that are conducted are often methodologically flawed (CGD, 2006).

145. As Box 9 makes clear, impact evaluation is particularly well suited to the evaluation of aid projects. It is somewhat ironic that just as many economists and evaluators have argued that increased attention should be paid to rigorous evaluation methods for aid projects, so good

²⁰ Comité Interministériel pour la Coopération Internationale et le Développement (Inter-Ministerial Committee for International Cooperation and Development), established as a mechanism for all French agencies involved in development cooperation (AFD, MINIFI, MAE) to jointly establish policy directions for French aid

²¹ See Ravallion (1999) for an introductory guide to impact evaluation.

practice in aid delivery has moved towards more programmatic approaches channelled via recipient country government systems. This has created an imbalance in the availability of impact evaluations across aid modalities. As one commentator observes, *'There is quite a lot of experience with doing impact evaluations of specific projects and programmes. There is less experience with conducting impact evaluations in the context of sector and general budget support. Rigorous methods for evaluating impact are designed for projects rather than for the evaluation of a sector as a whole'* (NONIE, 2007; p. 2).

146. In recent years attempts have also been made to modify existing statistical impact evaluation techniques to make them applicable to the evaluation of programmatic aid interventions. First and foremost amongst these is Elbers et al. (2007), who propose to overcome the absence of a counterfactual by exploiting the heterogeneity within the sector instead. For instance, an analysis of the effect of the building of new classrooms may be analysed by utilising the differences between schools in pupil classroom ratios.

Box 9: Impact Evaluation Definition and Principles

Impact evaluation has taken different meanings during the last twenty years. The following have been the most common:

- An evaluation which looks at the impact of an intervention on final welfare outcomes, rather than only at project outputs, or a process evaluation which focuses on implementation;
- An evaluation concerned with establishing the counterfactual, i.e. the difference the project made (how indicators behaved with the project compared to how they would have been without it);
- An evaluation carried out some time (five to ten years) after the intervention has been completed so as to allow time for impact to appear; and;
- An evaluation considering all interventions within a given sector or geographical area.

The recent literature on impact evaluations has emphasized the second of these definitions. Statistical impact evaluation methods are designed for 'projects', where the intervention ('treatment' in the jargon) is homogeneous: it is well-defined and identical for all members of the 'treatment group'. This makes it feasible and sensible to infer the impact of the intervention from a comparison of a treatment and a control group.

However, nowadays the evaluation question is often quite different. Donors have started to move away from project finance in favour of sector aid and general budget support. As a result, ironically, donor agencies are becoming interested in statistical impact evaluation techniques (designed for narrowly defined projects) at the very time when their evaluation demands have shifted, making these existing techniques less suitable. This has led to methodological confusion. Donors want to assess the effectiveness of aid at the sector or even national level but it is not clear how this should be done

A project or programme has a clear-cut start, but this is not necessarily so at the sectoral level. This makes it more difficult to measure the before and after situation. In many cases, the intervention is not discrete and not necessarily targeted at a specific group. Therefore, it will be difficult to establish the counterfactual. Moreover, the heterogeneity of influences makes it more difficult to isolate specific interventions from the rest. Problems of contagion will be all-pervasive.

Sources: IEG (2005; p. 1), Elbers et al. (2007; p. 4) and de Kemp (2008; p. 4).

147. In 2006 the Netherlands' Policy and Operations Evaluation Department (IOB) began two impact evaluations of sector budget support to primary education in Uganda and Zambia (de Kemp, 2008). Both studies begin with the assumption that an analysis of the impact of sector support is analogous to an analysis of the impact of the policy to which a specific donor or cooperating agency contributes, thereby assuming away some important attribution problems and focusing instead on the impact of sector policy rather than SBS *per se*.

148. The conclusions are therefore of a very general nature – for example that *'Uganda and Zambia succeeded in enhancing access to primary education through the implementation of the development plans and the abolition of school fees'* (de Kemp, 2008; p. 18). While this 'whole of sector' impact information is of undoubted value, it still requires complementary analysis to ascertain whether donors' sector programmes contributed to (or undermined) the observed

impacts. Overall, these approaches to evaluation of budget support complement rather than substitute for detailed application of the evaluation frameworks discussed above, and indeed can be integrated into their thorough application to give added weight to the impact level of the causal chain.

7. Conclusions

149. This Literature Review has shown that the development by donors of more programmatic approaches to aid delivery is intimately linked to the aid effectiveness agenda and the Paris Declaration. Data suggests that use of programmatic approaches varies markedly across the main donor and creditor agencies. It is essential to bear in mind that SWAPs were originally conceived of as incremental and pragmatic *process* which is supported by an ever evolving mix of aid modalities. It is often an (implicit or explicit) objective of one or more donors within SWAP arrangements to move towards sector budget support. A key component of the definitions of programmatic approaches – both PBAs and SWAPs – is the idea of transition. Yet the evidence from the literature on SBS in practice suggests that there can be blocks to these transitions.

150. A key problem with the literature and in practice is the varied interpretations of different terms. The Literature Review has attempted to clarify, for the purposes of the broader SBSiP study such terms. There are three sets of terms which are commonly conflated that are very important to distinguish:

- The difference between an **aid modality**, which represents the broad categories of mechanisms by which donor aid funds are channelled, and an **aid instrument** which has several specific and distinct attributes beyond the disbursement channel, including conditionality, dialogue, earmarking and traceability. There are a wide variety of aid instruments in use in practice by different donors in different countries.
- The distinction between a **Sector Wide Approach**, which is not an aid modality but set of principles and processes to guide aid delivery at the sector level, and a **common basket fund** which is an aid modality in support of a Sector Wide Approach.
- The distinction between **earmarking**, which represents the justification of aid in support of an area of expenditure and **traceability**, where aid funds are separately identifiable in a recipient's budget and accounts.

151. As with many terms in this area Sector Budget Support itself is defined and interpreted in very different ways. Purist definitions of SBS rarely take place in practice. Therefore, for the purposes of the SBSiP study SBS has been defined as a modality which encompasses a broad spectrum of aid instruments with two common features:

- Firstly aid funds are channelled via the recipient government's treasury using the normal channel for government's own-funded expenditures; and
- Secondly, dialogue, conditionality and other inputs associated with the aid instrument are focused on a particular sector.

152. This definition provides more flexible framework that allows us to classify more carefully the different dimensions of aid instrument design labelled SBS. Crucial variables include extent of recipient discretion and nature of associated dialogue and conditions, but there are also multiple other variables relevant to SBS and related aid instruments. Whilst our definition represents a broad family of aid instruments, there are also many 'hybrid' approaches that fall outside the definition in some or all respects.

153. What can be concluded about the literature on the record of implementation of SWAPs, and associated reforms to aid instruments overall? The following broad observations can be made:

- The record of SWAPs has been mixed, but greatest progress has been in the development of policies, plans and budgets, and improvements in donor coordination. However success is context specific. The record on implementation of policies is less clear, although there have been improvements in alignment on donor funding towards the implementation of those policies.
- The scale of the shift in aid modalities towards budget support has been small. Furthermore, common basket funds can act as stumbling blocks in the transition towards budget support at the sector level. Common basket funds retain many of the distorting

features of projects. This means that a “vicious circle” of less effective aid associated with projects is perpetuated.

- Yet, a decisive shift towards budget support (both SBS and GBS) should help break this circle. However this would need to shift focus beyond policies onto budgets, domestic systems and institutions. Furthermore donor and recipient incentives, which often favour the use of project modalities, need to be tackled simultaneously.

154. A review of case studies of SBS and similar hybrids further reinforces these observations. For the purpose of this Study, there are three main conclusions and lessons that can be drawn from the first phase studies of SBS in practice in francophone Africa :

- Traceability, earmarking and associated additional arrangements determine to a considerable extent how SBS works in practice. These arrangements should be (but typically are not) developed on a negotiated basis, with a clear joint agenda to identify and address the underlying weaknesses which justify using traceability and any other additional requirements. This would facilitate a transition to full use of country systems without additional arrangements.
- SBS strengthens the sector-wide approach (SWAp), although participants typically underestimate the time involved in putting in place SBS and commonly associated sector-level instruments. Specific variables that are of particular importance in determining the extent to which SBS contributes to this strengthening include: the predictability of commitments and disbursements within the budget cycle; the broader public sector context in which the SBS is set up (which must be taken into account in instrument design and implementation); the diagnosis of government capacity and associated support (which should be an integral part of SBS operations), and; the importance of a substantive policy dialogue that is not unduly focused on the SBS process itself.
- Finally, since GBS and SBS often coexist in practice, their coordination should be more actively pursued in order to increase mutual coherence and overall effectiveness.

155. The literature reviewed other case studies of SBS and hybrid aid instruments. They broadly support the findings of SBS in francophone Africa. Further observations can be made:

- Donor procedures can be problematic, and can even take the transition in sector aid modalities backwards. Case studies point to a shift to common basket funding and budgetary aid modalities at the sector level promoting a projectisation of the budget rather than budgetisation of projects. This belies commitment to programmatic approaches for some donors and creditors.
- The financial architecture associated with different forms of traceability and associated earmarking is complex, and results in significant transaction costs.
- There are challenges presented by working in highly decentralised or federal environments. A shift towards programmatic aid modalities is often associated with centralising tendencies, although there are cases which show that this need not be the case.
- Using SBS to invest in the capacity of the institutions for service delivery alongside providing of funding for service delivery can help improve its effectiveness.
- The role of leadership on government side is an important factor in the success of new approaches to aid delivery. However donor behaviour may not always foster stronger leadership. Donors and their funding instruments can dominate dialogue, making it somewhat of a one-way street.

156. Finally, the Literature Review concluded by examining **methodological approaches to budget support evaluation**. Budget support – as with many recent developments in aid delivery – evolved in the field, with official donor agency guidelines taking a while to catch up and formalise arrangements. This has meant that approaches to assessment and evaluation have also evolved from the approaches used by project aid. There are two key trends that can be observed:

- The establishment of an **intervention logic**, as developed through contribution analysis, has emerged as an important element of solid evaluation. Intervention logics were missing

from original donor programmes, so the process of evaluation has involved ‘retro-fitting’ of “logics”. Some donor agencies have now caught up and are using intervention logics to assist programme design, though this is still very limited. Evaluation frameworks that have emerged for budget support, including the assessment framework used in this SBSIP study, represent such ex-post intervention logics.

- The struggle to get ever further down the results chain towards service delivery has increased emphasis on **statistical impact evaluations**, but these are much more applicable to project aid than programme aid for methodological reasons. They necessarily require support from and triangulation with other approaches. The use of quantitative approaches should be seen as complementary to the use of approaches to evaluation based on contribution theory and intervention logic.

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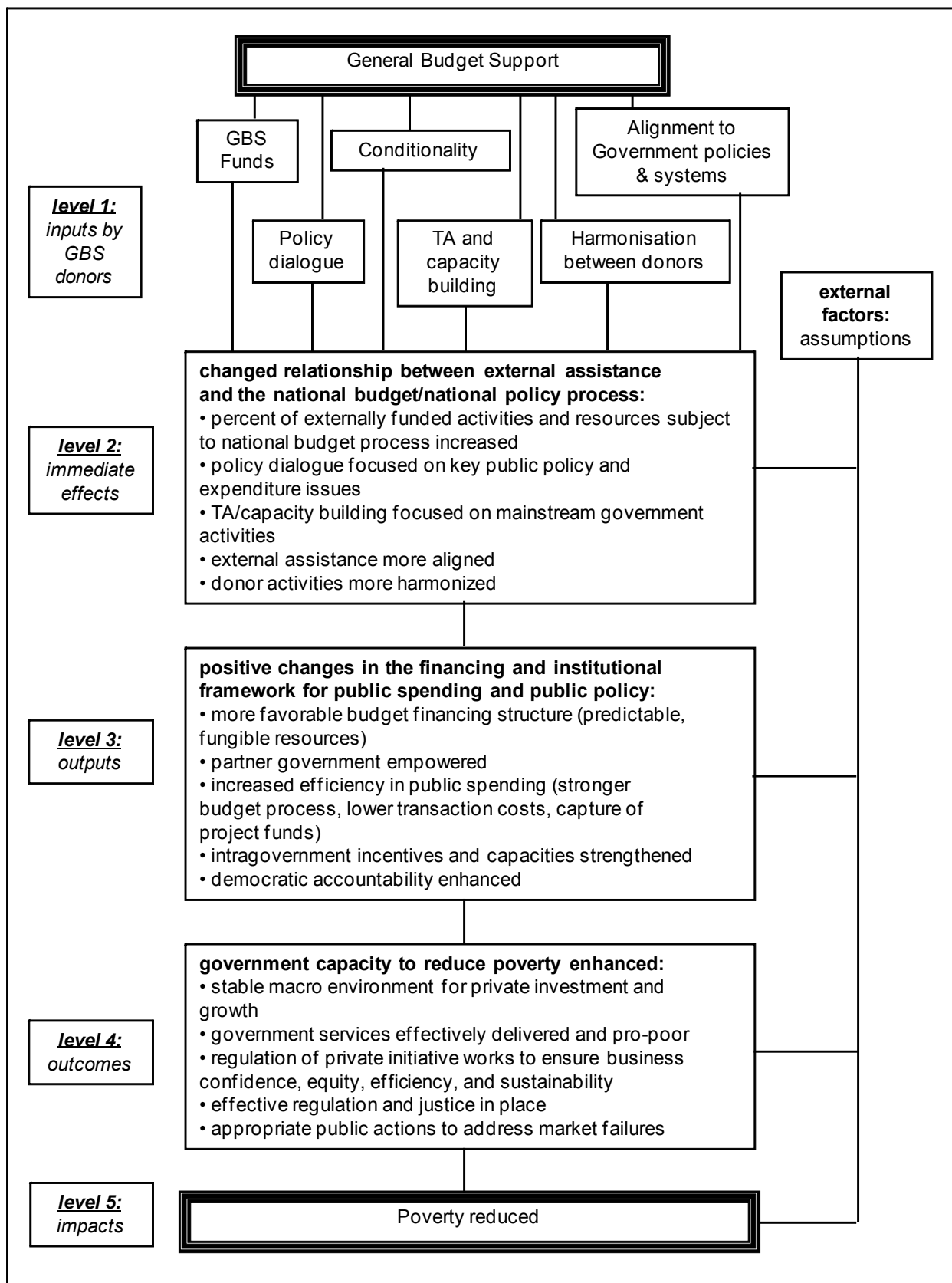
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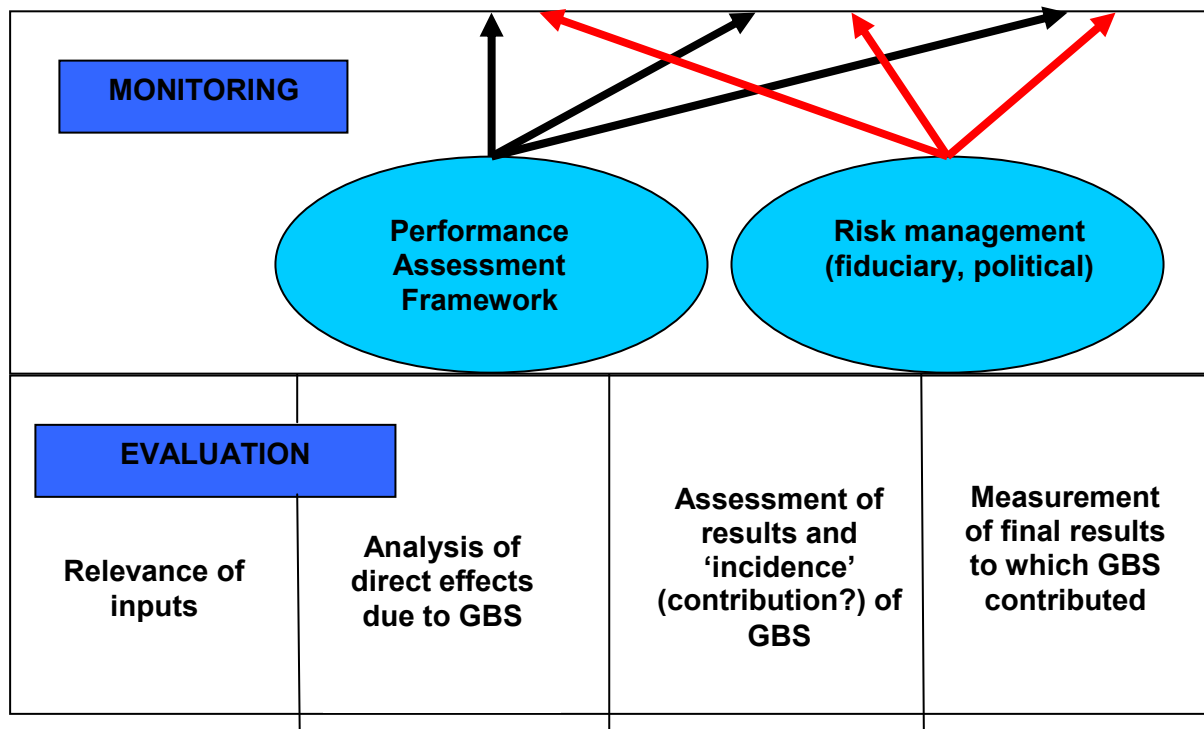
Annex 1: Simplified Version of GBS Evaluation Framework



Source: Booth and Lawson (2004).

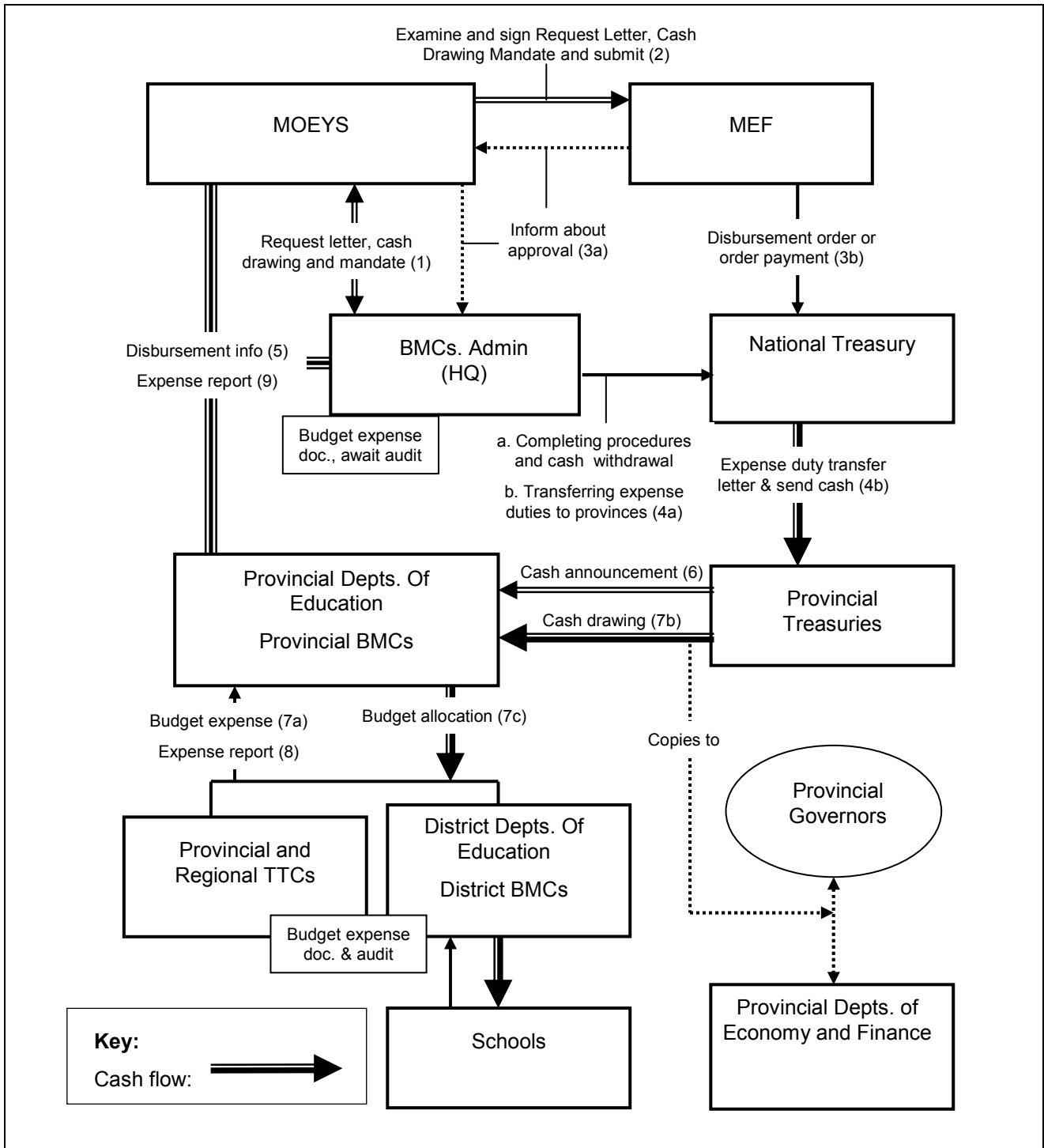
Annex 2: AFD Causality Tree and Associated Monitoring Mechanism

LEVEL 1 INPUTS	LEVEL 2 DIRECT EFFECTS	LEVEL 3 RESULTS	LEVEL 4 IMPACT
Funding Policy dialogue Donor/donor dialogue Conditionality Indicators TA/capacity building	Size and composition of government budget H&A Ownership Quality of the partnership Predictability Decreases transaction costs (for donor & govt) Accountability (donor and government)	Macroeconomic stability, fiscal and budgetary discipline Improved PFM Improved policies and institutions Quantity and quality of public service delivery (greater?)	Growth Poverty reduction Improved democratic processes (transparency, empowerment, participation)
Level 1 Inputs	Level 2 Direct effects	Level 3 Results	Level 4 Impact

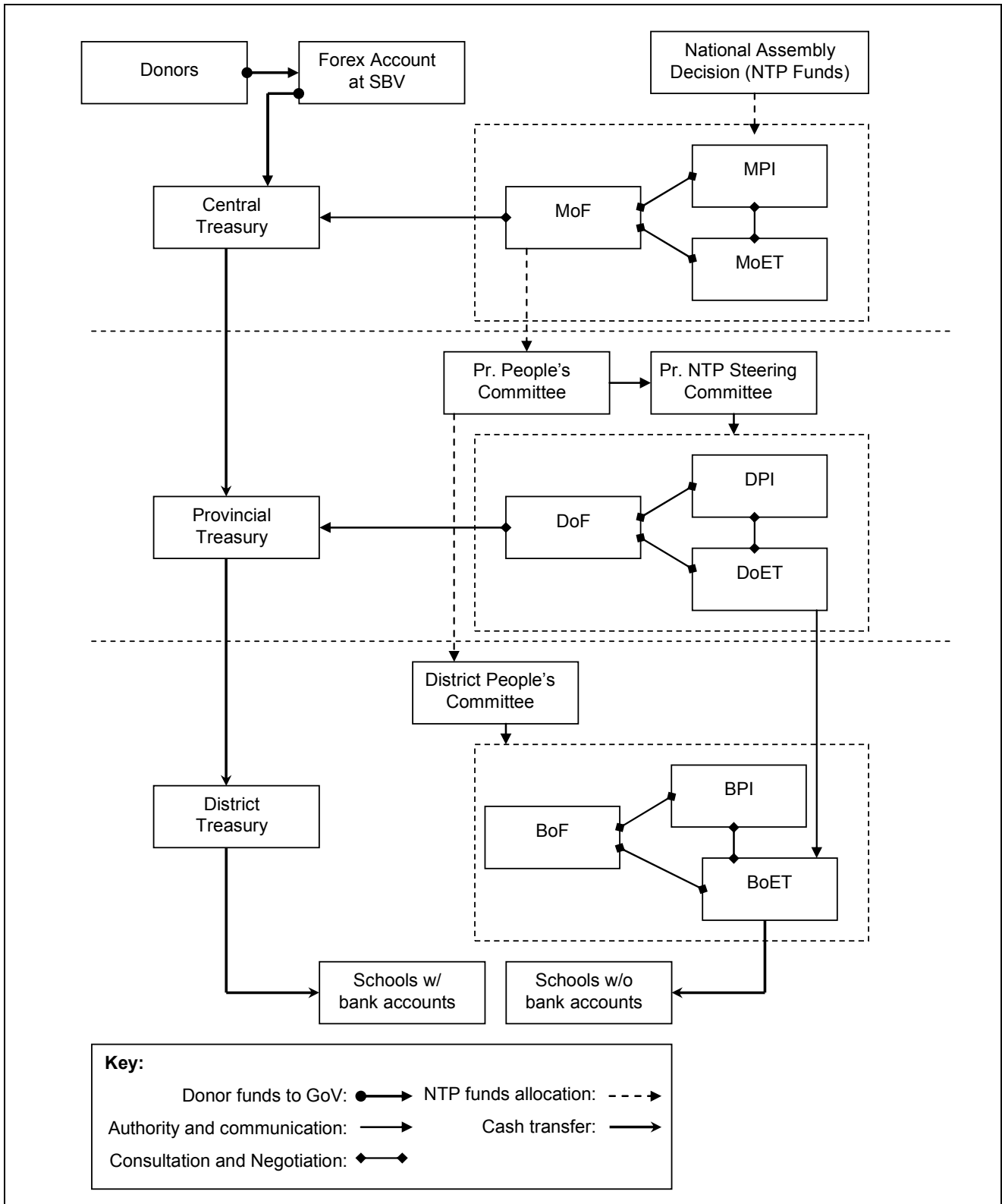


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Annex 3: Flow of Priority Action Programme (PAP) Funds in Cambodia's Education Sector

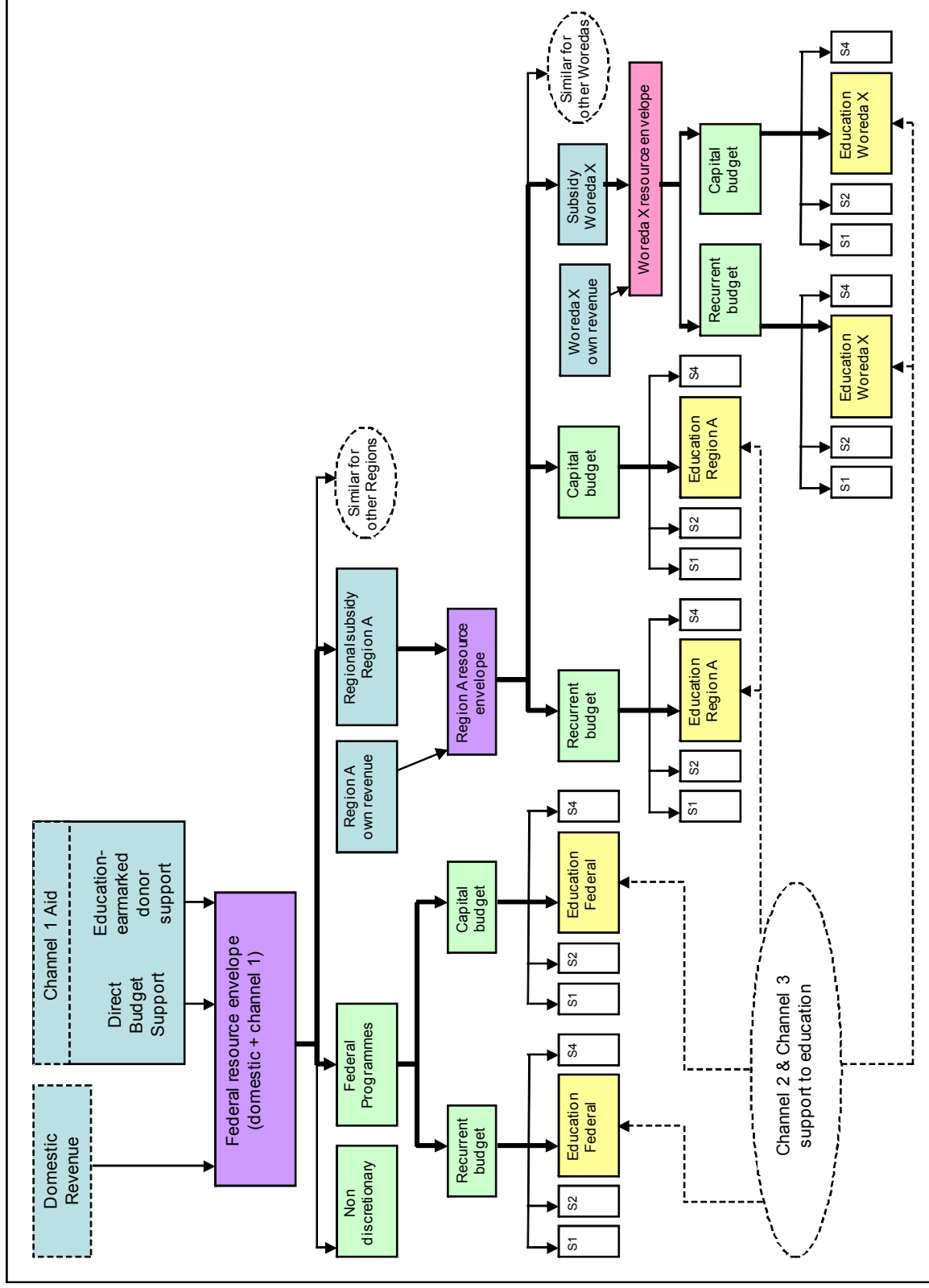


Annex 4: Flow of Funds and Information for NTP-E in Vietnam's Education Sector



Source: World Bank (2005).

Annex 5: Aid and Budget Preparation for Education in Ethiopia's Federal System



Source: Lister (2007).