



Making sector budget support work for service delivery: an overview

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Sector Budget Support (SBS) is an increasingly popular modality of aid. It is used widely as an instrument to help African countries meet key development policy objectives, especially in the area of basic service delivery. Yet relatively little systematic evidence has been available, until now, on how SBS works in practice, and how effective it is in helping countries improve the delivery of their basic services, such as health and education.

This Project Briefing reports the main findings of a study of Sector Budget Support in Practice, carried out for the Strategic Partnership with Africa (SPA). Presented in overview here, and in more depth in two companion briefings, the findings and associated recommendations fill a significant gap in current aid policy thinking.

The SBS in Practice (SBSiP) study examined sector budget support in ten sectors in six African countries – Mali, Mozambique, Rwanda, Tanzania, Uganda and Zambia – using a common methodology. It was commissioned by the SPA to guide future practice in the use of SBS by partner countries and donors. Two associated briefings summarise a) the study's good-practice recommendations, and b) wider policy implications.

The SBSiP study contributes new evidence and fresh thinking in three main areas:

- what SBS consists of, in theory and actual practice
- what it is achieving, and what it is not
- why this has happened and what needs to be done.

What is Sector Budget Support in practice?

The question 'what is SBS?' is both simple and complex. The theory is relatively simple. SBS is distinguished from General Budget Support

(GBS) by its focus on a sector. GBS is used as a modality of support to the implementation of overall poverty reduction strategies at the national level.

At the same time, SBS is distinct from the sector programming arrangements that it supports. An SBS aid package is not the same as a sector programme or a Sector Wide Approach (SWAp). SWAps and other sector programmes are sector-level Programme-Based Approaches (PBAs), which involve the coordination of development assistance around country-owned policies and strategies. SBS and Common Basket funds are the two main modalities of support to sector-level PBAs. In sub-Saharan Africa, aid in support of sector programmes has overtaken GBS as the most significant family of aid modalities in support of PBAs.

What distinguishes SBS from the Common Basket approach is that funds are channelled via the recipient government's treasury, and use government budget execution systems. In this respect SBS is like GBS. However, in the case of SBS, the other inputs that accompany the transfer of funds relate to the sector being supported. These other inputs include policy dialogue, conditionality, technical assistance and capacity-building.

This answers the question of what SBS is at one level. However, it might seem to imply that SBS is a homogeneous category with clear boundaries. That is not the case. The SBSiP study confirms that aid falling within the basic definition of SBS includes a large spectrum of instruments, or a series of sub-types, with significantly different features and effects. Two sets of features, in particular, are found to be sources of important variations among SBS programmes.

The first set relates to the funding arrangements and consists of two variables that are often confused but – according to the SBSiP study – must be clearly distinguished:

- **Earmarking.** In the proposed usage, this

Key points

- Sector Budget Support (SBS) is increasingly popular but under-researched
- Access to basic services has improved, but not their quality and equity
- Effective SBS requires less 'traceability' and more focus on downstream delivery

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variable concerns the way provision of the SBS is justified against certain public expenditures in the country's budget. The SBS instruments studied all used some degree of earmarking; that is, justification of the support by reference to the country's budget. However, earmarking can be broad or narrow. Broad earmarking involves justification of the SBS against overall sector expenditures, or the development budget for the sector. Specific earmarking involves justification against specific budget lines, such as textbook procurement or grants for classroom construction.

- **Traceability.** According to the SBSiP approach, SBS funds are traceable when they are separately identifiable in the expenditure classification of the country's budget. Approximately two thirds of the SBS instruments studied were traceable, and one third were not. Traceable SBS instruments tend to be associated with specific earmarking. Traceable SBS is also more commonly associated with further derogations – or approved departures – from standard recipient-government financial management procedures, such as the use of parallel cash-management, reporting and audit arrangements. An SBS instrument which is earmarked need not be traceable.

The second set of variable features of SBS instruments relates to the non-financial inputs associated with SBS packages. There are three types of input whose focus or scope can vary:

- **Policy dialogue:** this is carried out typically in the context of the structures created for SWAPs, including a cycle of sector planning, budgeting and reviewing of performance. An SBS programme can use the SWAP dialogue structures exclusively, or can call for additional meetings.
- **Conditionality:** SBS conditions are usually related to satisfactory performance as assessed in sector reviews, but some SBS instruments have separate conditionality frameworks. There is a trend towards more structured performance assessment frameworks for SBS.
- **Capacity-building:** SBS can support technical assistance (TA) and capacity-building (CB) either by funding relevant components of a sector strategy directly, or by supporting activities in parallel using project modalities. Not all SBS instruments have significant TA or CB components.

In general, SBS focuses its policy dialogue and conditionalities on the improvement of government policies and systems. That is its important strength as compared with traditional development projects, which bypass and, at best, neglect country policies and systems. However, a major finding of the SBSiP study is that sub-types of SBS vary significantly in the degree to which they manifest this potential advantage. Traceable SBS instruments typically

involve substantial dialogue time being spent on operational issues relating to the funding stream itself, not on country systems or policies. Also, the more specific the earmarking employed, the more likely the dialogue is to be biased towards the area of funding to which the SBS is earmarked, and away from overall sector policies and systems. Traceable SBS programmes thus often resemble large ministry projects.

What has SBS achieved and what has it not achieved?

The study findings reveal an uneven pattern of achievement. Overall, SBS has supported greater efficiency in the use of public resources, by facilitating improvements in planning, budgeting, and financial management and accountability in the supported sectors. But the picture on service-delivery outcomes is mixed. In all but one of the sectors studied, there has been a significant expansion in the quantity of services being delivered, but there has been far more limited progress in improving the quality of those services and the equity with which they are delivered.

Even at the level of **sector systems**, progress has been somewhat uneven, and could have been greater:

- SBS has contributed positively to improvements in policy, planning, budgeting and reporting processes either by making use of SWAP structures or by supporting the establishment of SWAPs. In either case, SBS conditionality has helped ensure that key policy and planning documents are in place, and that sector reviews are held regularly. Dialogue and technical assistance have supported the quality of such processes in some, but not all, cases. Strategic resource allocation remains weak, as plans and budgets remain fragmented, and routine reporting on service delivery continues, typically, to be inadequate.
- SBS has also contributed to improvements in financial management, especially in sectors with multiple donors, in two ways. First, the transactions costs associated with the use of multiple financial management systems have been reduced. Second, requiring spending agencies to use government systems has helped to strengthen those systems. However, these effects would have been stronger with fewer derogations from use of systems and, in particular, less use of traceability requirements.
- Efficiency gains were greatest when there was a significant relative switch in aid modalities from project and/or Common Basket funding to SBS, and when non-traceable SBS was used. The fact that two-thirds of the studied SBS programmes insist upon traceability implies distorting effects on budget allocations, and persistently high transaction costs.
- The positive effects have been enhanced by over-

all improvements in countries' public financial management systems, which have been encouraged by GBS programmes. However, the links between SBS and GBS dialogue and conditionality tend to be weak, and sometimes inconsistent.

- SBS funds have helped facilitate policy implementation, which has reinforced ownership of policies. There is evidence that governments are progressively taking a greater lead in policy making. The relative predictability of SBS funding has helped. Accountability within government has been enhanced thanks to the stronger sector policy and review processes encouraged by SBS; however, financial accountability has strengthened more than accountability for service delivery.

In regard to **service delivery outcomes**, the SBSiP study assessed the effects of SBS in the context of the other major influences on outcomes, making allowances where necessary. The findings involve sharp contrasts. On the one hand, SBS has generally helped support the expansion of services and, therefore, the possibility of improved access, by financing a major share of service-delivery inputs.

- SBS has facilitated rapid increases in sector public expenditure in all but one of the case-study countries, financing between 10% and 40% of sector budgets, and sometimes more.
- Where the country context has been favourable, SBS has also contributed towards a reorientation of sector resources towards basic service delivery, through dialogue and use of earmarking. Improvements in access to basic services have been substantial where SBS has led to resources for service delivery becoming a larger share of increased sector expenditures. Earmarking to service delivery helped strengthen these effects in some cases, especially when it took place within a dialogue on resource allocation with the ministry of finance – the study's findings are, therefore, more favourable to limited, negotiated earmarking than to any degree of traceability.

On the other hand, SBS has not effectively addressed the quality and equity of service delivery. Although these were not always explicit objectives of SBS programmes, this is the major shortcoming of SBS in practice revealed by the SBSiP study.

- The contribution that SBS has made to service delivery inputs has ensured that some aspects of service quality and equity have been better than they would otherwise have been as a consequence of widened access, especially where free basic services have been introduced.
- However, SBS has not addressed the 'missing middle' which is the key to maintaining and improving quality and equity in service delivery – the process for managing front-line service providers, ensuring the actual delivery of services, human resource management, and strengthen-

ing accountability for service provision. Crucially, SBS has, in general, failed to affect the incentives faced by front-line service providers and their managers. No other aid modality, from projects to GBS, has done so either, but the gap between promise and results is more striking for SBS.

- The country context in which SBS has been provided – notably the political incentives surrounding service volume, access and quality – has played an important role in this failure. However, the design and delivery of SBS programmes has tended to reinforce, rather than counteract, the domestic political pressures. The immediate reason for this rather significant limitation is that the non-financial SBS inputs (dialogue, conditionality and capacity-building) have focused strongly on upstream policy and monitoring processes, largely neglecting the management of front-line delivery.
- Many of the most intractable issues affecting service delivery processes are not sectoral in nature (e.g. human resource issues), yet decentralisation and civil service reforms have not addressed these issues squarely, and SBS programmes have not compelled them to do so.

Why has this happened and what can be done?

In short, SBS programmes have been good for sector systems and policy processes, but not as good as they could have been with fewer derogations and a better coordination with GBS efforts. Even more serious, the downstream effects on service delivery have been skewed towards quantitative improvements, with major shortcomings when it comes to quality and equity. The proximate cause has been the rather exclusive attention given in dialogue, conditionality and capacity-building to upstream processes and systems. What, then, are the underlying causes that need to be addressed?

In dealing with both the upstream weaknesses and the downstream challenges, a realistic approach is needed. SBS instruments, as they currently exist, are the product of a relationship between donors and recipient institutions. This relationship, in turn, reflects the incentives both partners face. With respect to the persistence of derogations and the other factors weakening the impact on public financial management, the study finds the following factors to be relevant:

- On the donor side, there is a desire within country offices to be able to demonstrate where their funding is going. Traceability provides visibility. The most risk-averse donors play it safe by requiring additional financial reporting and audit requirements. The combination of traceability and additional requirements makes it easier to respond to headquarters' accountability concerns. Meanwhile, other donors feel that they at least need to demonstrate that funding has influ-

enced sector resource allocation. This manifests itself in earmarking and other efforts to show that aid has been additional to existing spending.

- On the recipient side there are conflicting incentives. It is clearly in the interests of the finance ministry and overall budget rationality for SBS funds to be neither traceable or nor earmarked. However, line ministries may well take the view that traceable SBS funding is more reliable than normal budgetary funding. Moreover, large ministry projects supported by traceable SBS are likely to generate perks for ministry staff – including vehicles and training opportunities – offering attractions like those of donor-funded projects.
- The weak link between SBS and GBS-supported cross-cutting reforms is explicable in terms of weak coordination incentives for both partner governments and donor staffs. Among the donors, sector specialists are most comfortable working with their respective line ministries, and economists with ministries of finance, and these preferences are mirrored on the government side. Therefore, relationships are strongest, and alliances of interest most likely to be built, within these silos.

Incentive structures also explain the failure to focus on the ‘missing middle’ of service delivery. Policy dialogue and, consequently, other non-financial SBS inputs tend to be situated within the comfort zone of those involved on both sides:

- Line ministry policy and planning departments tend to take the lead on the dialogue. They are usually staffed by people with planning and

sector economics backgrounds. They have, in practice, limited interaction with front-line service providers and little experience in the management of people and organisations at that level. They are more comfortable discussing within-sector planning priorities and budgets than the messy, intractable issues involved in improving service delivery at the grass roots.

- The donor staff involved in the dialogue often have a shallow knowledge of the country. The high turnover of donor staff at the country level and a growing lack of sector-specific expertise give donors limited capacity to engage in dialogue on downstream service delivery issues. The end result is that they too are more comfortable with a focus on upstream matters and aggregate performance in the sector.

These observations have serious implications for how best to proceed in building on the definite strengths of SBS and moving its performance closer to the potential. The SBSiP study provides two further contributions to a discussion of the way forward:

- a substantial set of Good Practice Recommendations which, it is suggested, donors and country authorities should adopt and promote (see Project Briefing 37 – Williamson and Dom, 2010a),
- a deeper and wider reflection on the implications of SBSiP and other recent studies for policy thinking about budget support and service delivery in Africa (see Project Briefing 38 – Williamson and Dom, 2010b).



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Project information:

The Sector Budget Support in Practice Study is a major research project carried out for the Strategic Partnership with Africa and funded by DFID. The purpose is to draw on the experience of Sector Budget Support in different countries and sectors to guide future improvements in policy and practice

by partner countries and donors. It represents the first major comparative and systematic assessment of Sector Budget Support. The Study was carried out in partnership with Mokoro and local researchers.

The research has important implications for donor and recipient aid policies, and provides a solid basis for the provision of guidance on the role of SBS as an aid modality. The study, completed in early 2010, has produced a series of outputs including a Synthesis Report and a Good Practice Note. For further information and the full study outputs, go to: <http://www.odi.org.uk/projects/details.asp?id=1013&title=sector-budget-support>

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