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Key points

- Complementary sector budget support (SBS) and general budget support (GBS) packages are the preferred modalities for support to service delivery
- Funding, dialogue, conditionality and capacity-building practices must change for SBS to realise its promise
- The required focus on service quality at the front line will not happen automatically

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Making sector budget support work for service delivery: good practice recommendations

Tim Williamson and Catherine Dom

Sector budget support (SBS) is being used increasingly to promote better basic service delivery in Africa. But the way SBS programmes work in practice has been under-researched, and there is, consequently, a shortage of well-grounded practical guidance on how best to design and implement them. The Sector Budget Support in Practice (SBSiP) study was commissioned by the Strategic Partnership with Africa to help fill this gap, drawing on case studies from Mali, Mozambique, Rwanda, Tanzania, Uganda and Zambia. An overview of the study's findings, covering what SBS is, what it has achieved and why, is available in ODI Project Briefing 36 (Williamson and Dom, 2010a), the first of three such briefings. This briefing builds on the overview of findings and offers guidance to country and donor policymakers on how to improve the practice of SBS, outlining good-practice recommendations.

Overall, the study confirmed that SBS is a potentially important and effective modality for supporting improved service delivery in developing countries. However, its record has been mixed in implementation. SBS has supported greater efficiency in the use of public resources, by facilitating improvements in planning, budgeting, and financial management and accountability. But progress has been uneven and would have been greater in the absence of certain correctable weaknesses in the design and delivery of programmes. SBS has also helped to support the expansion of service delivery, and thus the possibility of widened access to basic services, by financing a major share of service delivery inputs. However, it has not effectively addressed the quality and equity of service delivery. Although these were not always explicit objectives of the studied SBS programmes, this represents a major shortcoming of SBS in practice.

A key reason for this is that recipient governments and the donors supporting them have

not paid attention to the processes that enable or constrain the transformation of inputs into quality service delivery, such as school-level management. There has also been limited attention to the capacities and systems needed for managing, supporting and supervising front-line service providers. The SBSiP study refers to this as the problem of the 'missing middle' in the SBS service delivery chain (Figure 1).

This briefing is intended for the use of both donor agencies and recipient governments. The particular target audiences are:

- Within *recipient governments*, staff working within the policy and planning departments of sector ministries, and those within ministries of finance and planning with responsibility for aid management and the budget process.
- Within *donor agencies*, sector specialists as well as economists and public financial management and public sector reform specialists working at the country level.

The recommendations are also relevant to those preparing guidance on choice and design of aid modalities at donor headquarters. Whilst the focus is on SBS, there are broader implications – for Sector-Wide Approaches (SWAs), ways of combining aid modalities and coordination with General Budget Support (GBS) programmes in particular.

The briefing identifies key elements of good practice in the delivery of SBS according to the findings of the SBSiP study. A longer Good Practice Note is available, which sets out recommendations on the design and implementation of programmes in more detail. Here the focus is on three topics:

- the role of SBS within an appropriate mix of aid instruments;
- getting more focused on front-line service delivery; and
- ten principles for effective SBS.

Figure 1: The missing middle in SBS support to service delivery

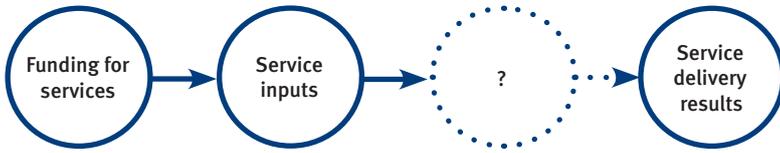
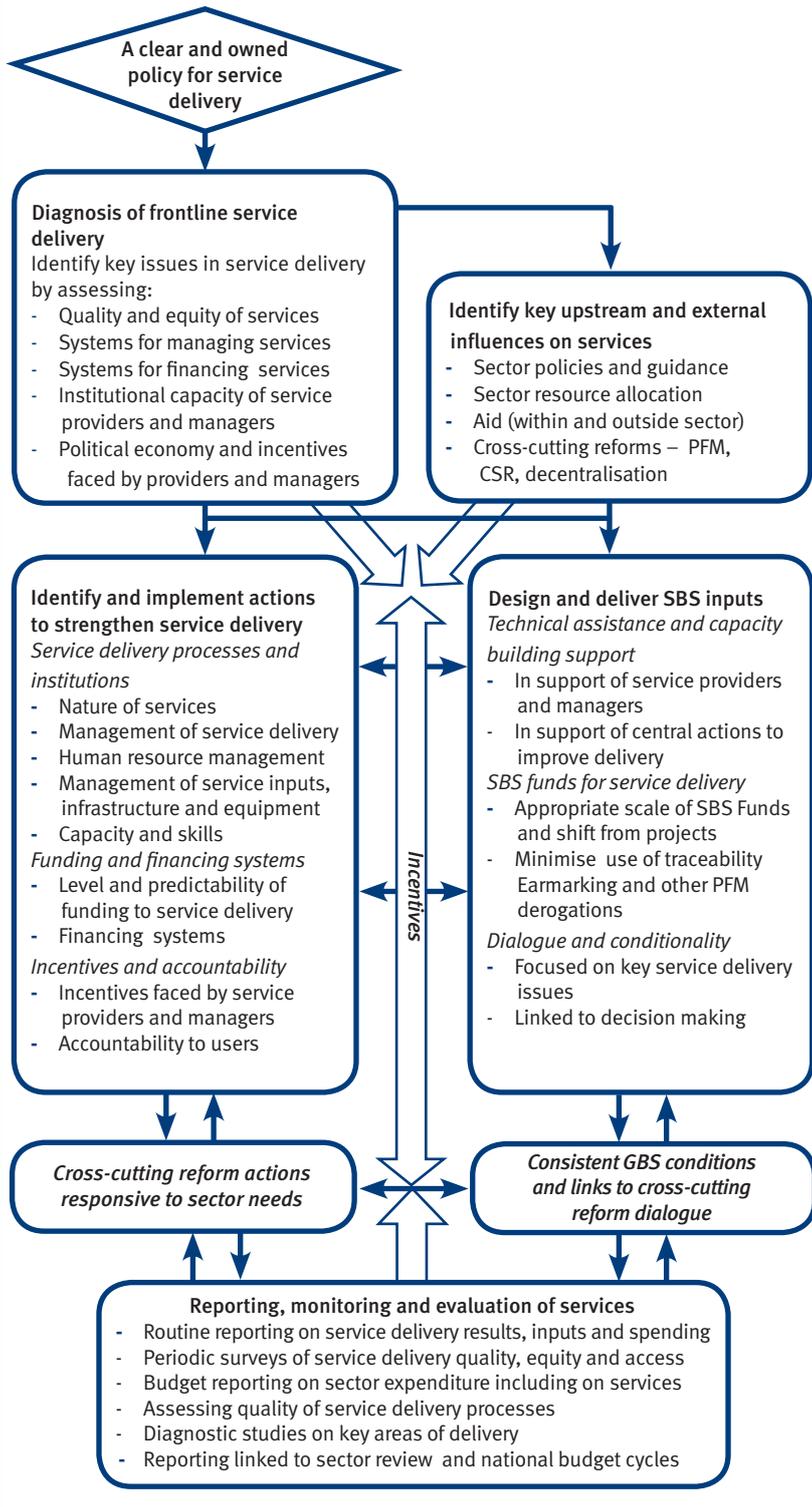


Figure 2: Approach to designing and managing SBS



The role of SBS within an appropriate set of aid instruments

The study points to a clear role for SBS – to support recipient governments in their delivery of public services. Assuming a basic country commitment to expanding public services, SBS is well suited to this role, providing flexible resources to recipient governments to help them finance the implementation of their policies and improve the equity and quality of provision. Thanks to its use of government financial management systems, SBS has the potential to be more effective in improving service delivery in a sustainable way than either free-standing projects or Common Basket funds.

GBS has comparable benefits, but is best suited to supporting and promoting cross-sectoral public financial management, decentralisation and civil service reforms. SBS can complement GBS by making these cross-cutting reforms more responsive to the needs of sector service delivery. It follows that SBS and GBS should be used in tandem as the preferred modalities for aid in support of public service delivery.

This does not exclude a more limited role for projects. Different aid modalities can usefully complement each other in support of a partner government's efforts to implement its service delivery objectives:

- Where project support is geared towards systems and capacity-building objectives, it can help strengthen the institutions used for all public expenditure, thereby increasing the effectiveness of SBS. Some 'non-financial' SBS inputs may best be delivered through project support modalities.
- The use of project aid to fund certain sectoral inputs should not be confused with a wholesale reversion to project aid. The health-sector cases included in the SBSiP study are particularly clear in suggesting that (in stable countries) project funding should not be used to finance service delivery.

What is required, both within a sector and for key cross-cutting reforms, is an appropriate set of aid instruments, whose design and implementation respond to the key constraints in public service delivery at the sectoral level.

Getting more focused on front-line service delivery

Service delivery needs to be placed at the heart of the design and implementation of SBS programmes. It is not enough for SBS to be flexible and focused on improving country systems. For the reasons explained in Project Briefing 36, the incentives on both sides of the sector aid relationship typically produce an exclusive emphasis on upstream planning and budgeting systems. There needs to be a deliberate effort to counteract this natural tendency. Crucially SBS programmes must address the incentives faced by those with influence over and directly involved in the delivery of front-line services.

The suggested approach to ‘making SBS work for service delivery’ is illustrated by Figure 2. The only prerequisite for effective SBS is a clear and country-owned policy for publicly funded service delivery. If this is met, the cycle of design and implementation of SBS has three main elements:

- The development of an inventory of the key issues and challenges in service delivery, and the main means at the disposal of central government for influencing them. The processes involved in service delivery are complex. They involve multiple institutions and chains of actors working at different levels with different and sometimes conflicting interests. A deeper understanding, on both the recipient and donor side, is required if SBS is to respond to them.
- Identifying actions that would be expected to improve service delivery (including equitable access and quality) based on a thorough diagnosis of the main service delivery issues.
- Designing and delivering SBS inputs, including dialogue, conditionality and capacity-building, to support the implementation of those actions.
- Deliberately seeking to build complementarity between sectoral and cross-cutting reforms, and between SBS and other aid inputs, in particular GBS.
- Strengthening monitoring and evaluation of service delivery, covering expenditures, inputs, change processes and results, linking this to sector reviews and the national budget process.

These guidelines describe a flexible cycle that should allow for innovation and learning; they are not a blueprint. Nor do they advocate for more sector plans and studies, but for mechanisms that focus attention on what really matters in the sector, and how SBS can be more deliberately oriented towards these issues using existing plans and studies.

Ten principles for effective SBS

The SBSiP study suggests ten core principles for the design and delivery of effective SBS:

- 1. Place the strengthening of institutions and systems for service delivery at the heart of the design and implementation of SBS.** This involves giving adequate attention to both a) upstream issues affecting the strength of service delivery and the ability of government to take action to address them; and b) downstream and front-line issues: establishing systemic and incentive-based solutions to the human-resource and other challenges involved in the quality and equity of service delivery.
- 2. Provide SBS funds on a large enough scale to ensure an expansion in sector resources commensurate with the needs of sustainable service delivery.** The scale of SBS matters not just in absolute terms, but also relative to overall sector resources and relative to other funding. Shifting incentives towards strengthening of domestic systems calls for a decisive shift away from paying for service delivery with project aid and/or Common Basket funding. On the other hand, it is important that SBS supports affordable levels of service delivery which can be sustained over the medium and long term.
- 3. Ensure that provision of SBS funds is accompanied by dialogue with the ministry of finance on sector resource allocation.** This dialogue should be part of the recipient’s budget process and any agreement to change budget allocations can be supported by the conditionality framework associated with SBS. When the budget process is unlikely to yield the required reorientation of resource allocations on its own, earmarking of SBS funds towards service delivery can prove useful. Earmarking must be negotiated with, and not imposed on, the recipient government. It should be confined to areas that are of key policy importance, be based on an agreed assessment of funding gaps in the sector, and be temporary. Earmarking and related additionality requirements are most effective when used in the context of ‘non-traceable’ SBS (see Project Briefing 36 for definitions), as the ownership of resulting budget allocations tends to be stronger.
- 4. Do not require that SBS funds are identifiable separately in the budget.** In other words, use non-traceable SBS. This helps reinforce domestic accountability, incentives and ownership in the context of the budget cycle, and minimises distortions. In the context of unreliable budget execution, commitments to protect budget disbursements for key sector budget lines can be agreed with the ministry of finance and do not require traceability. Only when recipient government budgets are so unreliable that a moderate degree of predictability cannot be assured, should donors consider the use of traceable SBS.
- 5. Insist that SBS packages include elements to address the underlying causes of risk, and do not involve unnecessary derogations.** The design phase of an SBS instrument should include a systematic assessment of risks (such as unreliable budget execution), and consideration of how their root causes can be addressed. Priority should be given to implementing actions to address weaknesses in country systems, as opposed to imposing derogations – agreed exceptions to the use of systems – which have the effect of bypassing them (including traceability). Whenever a derogation is imposed, a timetable for phasing it out should be identified and enforced.
- 6. Ensure that SBS funding will support financing systems that are aligned with institutional mandates for service delivery.** Prior to the provision of SBS, thought should be given to how domestic financing systems can be strengthened and

aligned with the institutional responsibilities for service delivery. Such systems may be misaligned, or non-existent. For example, funds for operational inputs may need to be allocated to local governments responsible for service delivery, instead of to central ministries.

7. Focus SBS inputs on alleviating the critical constraints to service delivery. This means identifying how funding, dialogue, conditionality and technical assistance/capacity building can support the strengthening of downstream processes, including the direct management of front-line service staff and delivery processes; human resources for service delivery, and incentives and accountability for service delivery.

8. Gear dialogue and conditionality to strengthening incentives for domestic actors to improve service delivery. This can be done at the centre (i.e. sector ministry headquarters and the ministry of finance), but must also be done at the level of service delivery. At the centre, the influence of conditionality and dialogue is indirect. This influence can be maximised by identifying a limited number of critical service-delivery issues which the centre can influence and then focusing dialogue and conditionality on those issues. At the delivery level, specific conditionality frameworks need to be developed which provide incentives for the strengthening of institutional capacity and systems. Conditionality frameworks, whether upstream or downstream, should focus on issues

and actions over which the institutions involved have control. Service delivery targets are typically not appropriate as conditions because service delivery processes are complex and individual institutions typically do not have full control over such results.

9. Make sure SBS delivers reliable funding for service delivery. This means that funding levels should remain predictable throughout budget formulation and execution cycle. Conditionality must be applied and SBS commitments made before the start of the budget formulation process, on the basis of last financial year's performance. Donors should never cut disbursements within a financial year. Providing medium- and long-term commitments to SBS flows helps cement predictability. Donors should be held to account, within a mutual accountability framework, for both the timing and level of SBS commitments and disbursement, relative to what was planned.

10. Insist that sector donors and government actors work together to make links to civil-service, decentralisation and public financial management reforms. Greater mutual reinforcement between cross-cutting and sector reforms can be achieved through more joint working; ensuring consistent rather than conflicting donor dialogue; and establishing consistent and mutually supportive conditionality frameworks for GBS and SBS.



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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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