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Making sector budget support work for service delivery: wider policy implications

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Key points

- Incentives are the key to what sector budget support (SBS) does well and what it does badly
- Strengthening service delivery incentives will involve substantial multi-level efforts by SBS donors and partners
- These efforts must address the underlying causes, rather than the symptoms, of weak incentives

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This is the third in a series of three ODI Project Briefings based on a study of Sector Budget Support in Practice for the Strategic Partnership with Africa (SPA). It builds on the overview and good-practice recommendations provided in the companion briefings by considering the wider policy implications of the study.

The Sector Budget Support in Practice (SBSiP) study fills an important gap in knowledge about how the aid modality of Sector Budget Support (SBS) is shaping up in practice, and what needs to be done to improve its performance. ODI Project Briefing 36 summarises the study's overall findings (Williamson and Dom, 2010a), while Project Briefing 37 sets out broad principles for good practice in the design and implementation of SBS programmes (Williamson and Dom, 2010b). The approach outlined in these briefings calls for donors to have less frequent resort to earmarking and, particularly, 'traceability' requirements, and for service delivery to be put more firmly at the centre of the design and implementation of SBS programmes. A more consistent application of these principles would confirm the position of SBS as an effective instrument, alongside complementary aid modalities, for improving basic service delivery and contributing to the reduction of poverty in Africa.

But the findings of the SBSiP study, which involved case studies of sectors in six countries: Mali, Mozambique, Rwanda, Tanzania, Uganda and Zambia, imply more than technical adjustments to the design of programmes. The main good-practice recommendations are themselves quite challenging. For the reasons given in briefing 36, they imply the need to re-engineer the internal incentives within both aid agencies and recipient organisations. In particular, avoiding harmful 'derogations' from use of country systems (such as traceability requirements) demands a more sophisticated approach to managing risk for which most agencies are structurally unprepared. The call to give a more central place to addressing downstream service-delivery problems has even more substantial implications for the way governments and donors conduct their business and relate to each other.

The need to consider the wider policy implications is increased by the observation that the SBSiP findings are, in some important respects, strongly convergent with those of studies and evaluations on other modalities of aid in Africa and elsewhere. The study shows that sector budget support has made an important contribution to opening up access to basic public services and to improving the efficiency of public expenditure. These important achievements parallel those attributed to General Budget Support (GBS) in several evaluations. However, the GBS evaluations also agree with the present study in pointing to a downside to these aid modalities as currently practised. Both GBS and SBS, along with all other established aid instruments, are struggling to have an impact on the quality and equity of service provision.

In an aid environment which places strong emphasis on showing 'results' and demonstrating value for money, the difficulties encountered in translating systems' improvements into better service-delivery outcomes are not only troubling. They are also a threat to the progress that has been made in moving aid into more advanced modalities. They provide ammunition to those who would be content to put the clock back to the days when aid simply by-passed country institutions for the sake of directly benefiting poor people on a localised and unsustainable basis.

The reasons for the state of affairs uncovered by the SBSiP study warrant serious attention. The underlying causes need a more thoroughgoing discussion than has yet taken place. This briefing suggests three aspects that need priority attention:

- the implications of study findings on the role of incentives in effective aid;
- why 'putting the clock back' would be an inappropriate response; and
- the way forward.

The role of incentives

An important contribution of the SBSiP study is what it reveals about some of the underlying factors in effective aid. The unusually intensive case studies which were undertaken on the ten sectors and six countries permit a closer consideration of the interests and incentives in play than is ordinarily possible. The key issue that emerges is the problem of the incentives faced by those working within the recipient institutions, the incentives guiding donor behaviour, and their interaction.

What has worked well following the roll-out of SBS has done so because the aid package (budget funding in support of service delivery plus non-financial inputs focused on improving sector policies and systems) has shifted certain incentives in a helpful way. It has reinforced the domestic political impulse to widen access to basic services. It has enhanced the incentive within sector ministries to develop sector policies and rationalise sector spending around service-delivery goals. For these actors, it has weakened the incentive to pursue free-standing donor projects, while donors, for their part, have become less interested in project-marketing. These positive experiences would have been more common but for the insistence of the majority of donors on the 'traceability' of their funds, which has the effect of diluting the benign incentive effects and reproducing some of the harmful ones associated with project support in a new guise.

What has worked poorly is also explicable in terms of incentives. SBS has had slight impacts on front-line service quality because it has not influenced the incentives of front-line service providers or their managers. This has happened in good part because of the orientation of political leaderships in the study countries. Leaders have become strongly favourable to expanding the volume of public services, because it wins votes and is easy (in part because donor funds help pay for it); but they do not show equivalent interest in quality of provision, in part because it is known to be difficult. Reinforcing this pattern, the non-financial inputs provided in SBS programmes have been focused on upstream policy and systems issues. The business of improving performance at the front line is admittedly very challenging. However, sector planners and their donor counterparts have also had incentives to stay within their respective comfort zones.

On the whole, the positive incentive effects of providing aid as SBS are well appreciated in the aid community. They form part of the standard case in favour of budget-support modalities, having earlier contributed to the thinking which produced Sector-wide Approaches (SWAps) and other Programme-Based Approaches (PBAs) to aid management at country level. They are recognised explicitly in the evaluation frameworks which are used to assess performance.

The same cannot be said of what the SBSiP study calls the problem of the 'missing middle' in the SBS service-delivery chain or the factors leading to its neglect. The conclusion which follows is that donors and their country partners need to become much more attuned to the incentive mechanisms through which SBS and other aid packages may be expected to influence service-delivery outcomes for the better. They need to pay more attention to potentially perverse incentives, including those affecting their own behaviour and generated, in part, within their own organisations. This will not be easy, but it is essential if SBS is to prove that it can be a really effective instrument for supporting basic public service provision.

On not putting the clock back

One reason for taking this challenge seriously is that the easier options will certainly make matters worse. The limitations identified in the SBSiP study are not the inevitable consequence of providing SBS, but the result of delivering SBS in a particular way. The case studies do not suggest that any other aid modalities have done or could possibly do better. In fact, they add to the evidence that Common Basket funds and 'vertical programmes' are generally inferior instruments. The remedies that need to be adopted are, therefore, those that address the particular obstacles identified, not ones that would be sure to make things worse. This may seem obvious, but given the tendency of aid policy to follow swings of fashion in the face of evidence, it needs to be stated strongly.

In other words, there is a significant danger that policy reactions to findings such as those of the SBSiP study will be perverse. That is, they will address some symptoms of the malaise by means which only deepen the fundamental problem. A distinct possibility is that the next wave of seemingly fresh policy ideas will be not more but less attuned to the vital incentive issues affecting service delivery. Leaving aside the possibility of a wholesale reversion to a project mode of service delivery, inappropriate reactions would include:

- more derogations from use of country systems and insistence on 'traceability' of funds on the basis of the spurious assumption that this reduces risk and guarantees outcomes;
- new forms of performance-based disbursement which lack a clear and evidence-based concept of how incentives and sanctions are expected to

feed down, through the 'missing middle', to the actors whose behaviour needs to change;
- an exclusive emphasis on 'strengthening the demand side' of service delivery in the absence of evidence on how any increase in pressure from service users might connect effectively with providers' incentives.

As these examples illustrate, what is needed are approaches that are genuinely tough-minded, realistic and comprehensive, not ones that merely sound that way. One elementary fact about service-delivery systems in developing countries (as in other countries) is that they consist of complex chains of 'principal-agent' relationships, with big breaks and information asymmetries, meaning that it is extremely unusual that incentive effects trickle down to where they are needed and in the form in which they are intended. Another essential observation is that the 'demand' for service improvement is unavoidably weak so long as there are large differences in social status and capacities for collective action between service providers and their clients. This is particularly relevant to access and equity, since these differences are most pronounced for the most vulnerable groups in society. Donors and governments need to think about how to address these challenges, rather than acting as if they did not exist.

The way forward

As argued in briefing 37, a consistent approach to tackling the shortcomings highlighted in the SBSiP study will involve a concerted effort to change the way the non-financial inputs in SBS packages are delivered. However, it needs to be added that this can only happen as part of a wider effort to understand and act upon what, for want of a better term, we may call the political economy of this aid modality. The way forward therefore includes a change of approach at three levels: programme design; thinking about staffing and aid-effectiveness principles; and agency-wide learning and dissemination.

At the first level, building on the suggestions in the good-practice recommendations, programmes should:
- Shift much of the focus of non-financial SBS inputs (dialogue, conditionality, and technical assistance/capacity development) to the most problematic downstream questions relating to service delivery – and ensure that this happens in aid programmes supporting cross-cutting reforms as well. Begin by investigating what these problems are and making an inventory. Give attention to front-line human resource issues (e.g. absent teachers, under-motivated health workers); the management and supervision of front-line delivery; and the hard facts about accountability to service users.
- Deliver the components of the package in such a way that they give a central place to ways of improving incentives, especially at downstream levels. This means getting close and trying to understand exactly what is going on before attempting to find ways of securing worthwhile improvements and strengthening incentives. In other words, permit serious systems and institutional assessments to be carried out at the local level (as illustrated by the SBSiP local government case studies in Uganda and Tanzania). Then, from the conclusions of this work, identify actions to improve delivery, and build these into the concept and design of the SBS package.
- Consider capacity development and dialogue up-front in the design of the SBS package. Think about whether it is convenient for these elements of the package to be projectised, to give them the required flexibility and responsiveness to emerging issues. Projectisation of such non-financial SBS inputs should not be confused with a wholesale reversion to projects, or indeed with an aid 'portfolio approach' that is motivated merely by donor risk-avoidance.

For the reasons given in briefing 36, doing these things will take sector specialists and counterparts out of their comfort zones. It is not obvious why they should want to do it if there is not a substantial policy drive to take more seriously the service-delivery purposes behind the commitment to SBS. But apart from the challenge of re-engineering incentives, there are two other issues that need attention at the intermediate level. They concern human resource planning and the implications of current aid-effectiveness doctrines.

In the bilateral agencies covered by the SBSiP study, there has been a 25-year trend towards the decentralisation of development cooperation offices to country level and the replacement of project personnel, often technical specialists, with policy and systems advisers, often generalists. At the same time, the closure of projects and the shift to Programme-Based Approaches have had the effect of concentrating staffing in capital cities and virtually eliminating the need for 'field tours'. We would not argue that the generalists who lead sector work are, in general, incapable of adjusting to the kind of downstream design and monitoring agenda suggested above. The issues in question are not necessarily of a highly technical nature. However, under current arrangements advisers have very limited scope for getting out of the office and into the 'field'. A sea change in thinking about priorities will be required to address this problem.

Meanwhile, many donors have been overly influenced by a crude version of the Paris Declaration/ Accra Agenda vision of national ownership of development efforts. On this view, 'aid effectiveness' permits and even requires a scaling-back of donor involvement in sector-specific problems such as those affecting the quality of service delivery. The notion is that these are 'matters for the country', so that it is legitimate as well as convenient to limit dialogue, conditionality and capacity-building around SBS programmes to the improvement of overall sector policy frameworks and monitoring. Similar justifications are offered for donors' failing to get seriously involved in the key cross-sectoral human resource challenges when supporting civil-service and decentralisation reforms. These understandings of the aid-effectiveness agenda are clearly at variance with the findings and recommendations of the SBSiP study.

These wider issues, together with the more specific action proposals on SBS approaches, need to be the subject of wide discussion, learning and dissemination – within agencies and between donors and country partners. They are not matters for budget-support or sector specialists alone. The SBSiP study uncovered, among other things, a rather striking lack of authoritative guidance or active discussion within agencies about the subjects covered in this briefing and its companions. The study component which collected information at donor headquarters made two important observations. First, there is little guidance from donor headquarters to country offices on the design and implementation of SBS instruments. Second, the design features of different SBS programmes vary considerably not only between donors but between programmes of the same donor. This may testify to a desirable flexibility, which allows SBS instruments to be shaped according to country context. However, the variations centre upon derogations such as traceability, suggesting they may also reflect an excessive pragmatism and an absence of systematic thinking.

Improving the design and delivery of SBS programmes properly belongs at the country level. It needs to reflect the concerns of the officials of the recipient country and marry up with the prevailing approach to aid management. Headquarter requirements should not take the form of blueprints which prevents the harmonisation of approaches across donors at the country level. On the other hand, there would be much to gain and nothing to be lost from wider discussion and more forceful dissemination of the principles reflected in the good-practice recommendations of the SBSiP study and the additional points about incentives and realism expressed in this briefing.

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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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