



Norad

**Donor definitions of and practices in
providing budget support**
with particular reference to
sector budget support

NORWEGIAN AGENCY FOR DEVELOPMENT COOPERATION

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Discussion Report
May 2006

Abbreviations

APR	ANNUAL PROGRESS REPORT
BS	Budget Support
BSWP	SPA Budget Support Working Group
EC	European Commission
DFID	Department for International Development, UK
GBS	General Budget Support
ODA	Official Development Assistance
OECD/DAC	Organisation for Economic Cooperation and Development/ Development Assistance Committee
PAF	Performance Assessment Framework
PFM	Public Finance Management
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
SBS	Sector Budget Support
SPA	Strategic Partnership with Africa
SSWP	SPA Sector Support Working Group
USD	US Dollar

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1. Executive Summary

This report presents the outcome of research undertaken by the Norwegian Agency for Development Cooperation (Norad) in preparation for the Strategic Partnership with Africa (SPA) Dublin Workshop on sector budget support in October 2005. The report also includes some of the findings and conclusions of the workshop itself. The purpose of this report is to clarify the definition of sector budget support (SBS) as opposed to general budget support (GBS), and review and discuss donors' practices with regard to the two budget support modalities, with particular respect to SBS.

This report shows that donor definitions and practices related to the application of budget support vary. In particular, the emergence of the concept SBS, which has taken various forms and resulted in different practices among donors, has created a need for clarification. The OECD/DAC definition of sector budget support is not representative for many of the SPA donor's own definitions and practices. Nevertheless, work is in progress both in the OECD/DAC, the SPA, as well as by many of the donors, to clarify the definition of SBS and establish criteria for application. In particular, it is essential to establish a clear distinction between general and sector budget support on the one hand, and sector budget support and other types of sector support on the other.

Chapter 3 proposes the following definitions¹ of budget support:

- *Budget support* is a term used for aid funds that are managed by the partner government using its own financial system and procedures; either for general funding of the budget or for specific sectors.

The definition contributes to the distinction between budget support and other types of support that are not fully aligned with the partner country's financial management system.

As a subset of budget support, two forms of budget support can be defined:

- *General budget support* is budget support where the purpose is to contribute to the implementation of generic goals as set in the national development or poverty reduction strategy.
- *Sector budget support* is budget support where the purpose is to accelerate progress towards the partner government's sectoral goals².

The findings in chapter 4 suggest that budget support is a key instrument for donor support to all 15 African partner countries included in the survey. GBS is the main budget support instrument with an overall average of 22 per cent of the donors' total ODA. SBS, on the other hand, is an aid instrument with limited application in most countries with an average of 6 per cent of total ODA to the African countries in question. SBS can be claimed to be a major aid instrument only for a few donors in our sample. Accordingly, if alignment is an objective, there is significant scope for developing current sector support modalities into budget support modalities.

Chapter 5 assesses the application of sector budget support as opposed to other types of sector support, where the purpose is to support the implementation of a sector plan or budget. Insofar as the country qualifies for budget support, there are significant benefits to be reaped from the provision of sector budget support, in particular in terms of aid efficiency and development impact.

¹ These definitions are derived from the review and analysis of the SPA donors' own definitions in chapter 3. The SBS definitions are moreover consistent with the proposed SBS definition of the SPA Dublin Workshop. The definitions do not have any official status.

² This is the definition suggested by the SPA Dublin Workshop 2005.

Chapter 6 discusses the SPA donors' practices with regard to sector budget support as opposed to general budget support, as practices deviate considerably from the definitions. The central issue is to reveal under what conditions donors apply GBS and when they apply SBS. In particular, it is essential to find out which modality is chosen when support of a specific sector constitutes the purpose. The findings in this chapter suggest that SBS may be a useful modality for sector support purposes, if budget support conditions are satisfied. There are nevertheless situations in which the sector dialogue may better be handled within a GBS setting. However, one should be mindful of the riskiness of budget support in terms of e.g. political sensitivity and fiduciary risk. Research and practices related to the budget support modalities are still in their early days, and do not as yet provide sufficient material for firm conclusions on the application of the budget support modalities. In general, partner country conditions, in addition to national policies and considerations of the respective donors still determine to a large extent the different practices observed at the country level.

Chapter 7 offers some considerations and a list of recommendations for Norwegian practices with regard to general and sector budget support. This list is not exhaustive, and should be amended and supplemented according to future findings, policies and guidelines.

2. Scope of study

This report presents the outcome of research undertaken by the Norwegian Agency for Development Cooperation (Norad) with the assistance of consultant Jens Claussen, Nordic Consulting Group, Norway, in preparation for the Strategic Partnership with Africa (SPA) Dublin Workshop on sector budget support 5-6 October 2005. In addition, the report reflects the findings and conclusions of the Dublin Workshop.

The research undertaken included a survey of SPA donor policies, practices and experiences related to sector budget support as well as general budget support, and covered the following main tasks (ref. Terms of Reference in Annex I):

- Collect information on SPA donor definitions, criteria and use of terminology related to SBS.
- Assess the volume of GBS and SBS as defined by respective donors to assess the use of these aid instruments among SPA donors compared to other aid instruments.
- Assess in what way donors simultaneously use aid instruments that are fully aligned and not fully aligned with partner countries' public financial management system and, if so, the rationale for this.
- Assess in what way donors use general budget support for specific sector policy dialogue.
- Assess SPA donor practices in SBS implementation related to joint arrangements, alignment with the recipient government's planning, monitoring, disbursement, accounting, internal control and auditing procedures. This will be based on the construction of an index of criteria determining the extent of alignment.
- Assess SPA donors' application of conditions linked to releases e.g. their application of policy and/or performance-based releases.

The above tasks were implemented by reviewing documentation on GBS/SBS policy and practices (guidelines) by different donors, reviewing documentation published by OECD/DAC, using information provided in consultations with SPA donor representatives, data collected through a questionnaire to SPA donors and commitment and disbursement data from the OECD/DAC database on aid flows (IDS online). The questionnaire, the consultations and the respective donors' guidelines, where these were made available to the research team, constitute major input to the analysis in this report. The questionnaire applied in the survey is included in the annex to this report.

The SPA Dublin Workshop has been central to the discussions and analysis in the report and for the establishment of a proposed SBS definition, which has achieved a high degree of consensus among the SPA donors. The aim of the discussions and analysis presented in this report is to provide input in the debate on the Norwegian approach to the application of sector budget support as a possible supplement to or substitute for general budget support and other aid modalities. This in order to promote a higher degree of alignment in the application of aid modalities.

Norad is responsible for the assessments and analysis in this report. Valuable inputs and contributions have been provided by the consultant and staff at the respective SPA donors' headquarters. However, none of the contributors should be held responsible for any mistakes remaining in the document.

Oslo May 2006

3. What is sector budget support?

This chapter offers a definition of sector budget support based on SPA donors' perceptions and definitions. In order to establish this definition, we scrutinise the concept of *budget support* and discusses how this modality has emerged. Secondly, as a starting point for our analysis of SPA donors' definitions, we examine the OECD/DAC's budget support definitions. However, SPA donors found that the OECD/DAC definitions did not fully reflect differing practices with regard to sector budget support. Hence, we examine sector budget support in comparison to general budget support in order to identify the differences between the two modalities more clearly. This comparison helps to provide a clearer understanding of what donors perceive as sector budget support in order to arrive at a common definition. SPA donors' responses to the questionnaire mentioned in section 2 and their respective budget support guidelines, where available, provided material for the data analysis in section 3.3. Section 3.4 proposes a definition of GBS and of SBS, based on the findings in section 3.3³.

3.1 The emergence of budget support

Budget support is a term which has derived primarily from the application of balance of payments (BOP) support. This type of generic support was associated with stabilisation and structural adjustment programmes with a focus on policy change and reforms. Gradually, the focus shifted to a more recent emphasis on the implementation of poverty reduction strategies, public financial management and governance.

The term BOP support was used when the focus was on closing the external gap to maintain and/or increase the import capacity of the partner country and subsequently increase investments and growth. Over time, the focus shifted to the application of the “counter-value” of the resources provided to the end user, i.e. domestic resources for the state budget. Consequently, more attention was given to the overall resource allocation and financial management of the partner governments.

With the introduction of poverty reduction strategies (PRS) as a means of focusing public expenditure on poverty reduction and on processes to improve financial management to promote efficiency, the term “budget support” became widely used.

General budget support (GBS) succeeded balance of payments support as the term used by many donors for aid provided as general funding of partner countries' state budgets. Sector budget support has evolved partly from GBS, i.e. budget support with sector focus. It has also evolved as a term used for improved alignment of fund management arrangements for support to sector programmes.

3.2 OECD definitions of budget support

According to the OECD/DAC, the general characteristics of budget support are that the support is channelled to the partner government using the country's own allocation, procurement and accounting system, and that the support is not linked to specific project activities. The support is transferred to the recipient government's treasury, and is managed in accordance with the partner country's budgetary procedures.

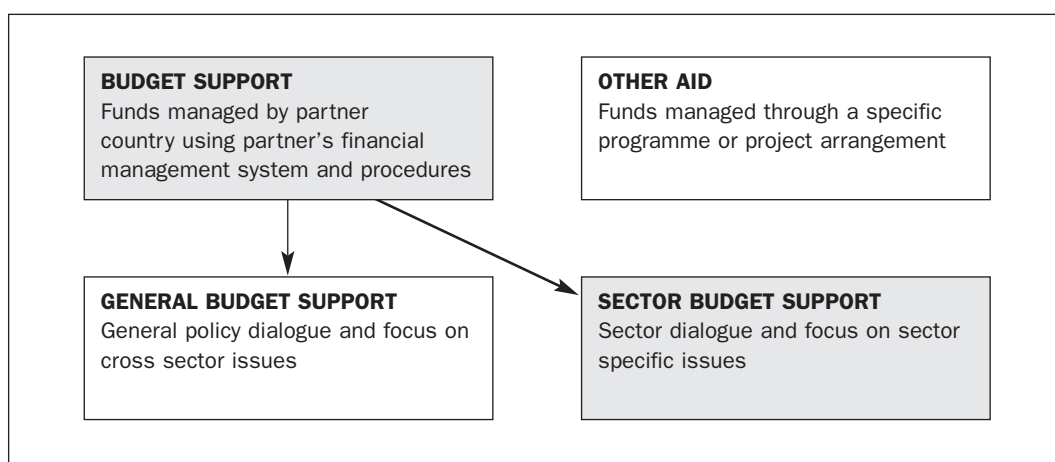
³ These definitions are derived from the review and analysis of SPA donors' own definitions in section 3. The SBS definitions are moreover consistent with the SBS definition proposed by the SPA Dublin Workshop. The definitions do not have any official status.

The OECD/DAC guidelines state that “the funds transferred to the national treasury for financing programmes or projects managed according to different budgetary procedures from those of partner country, with the intention of earmarking the resources for specific uses, are excluded from this definition”⁴. With this definition, the OECD/DAC excludes all types of funding that do not make use of the partner country’s financial management system.

The OECD/DAC does however recognise that budget support has two main sub-categories: general budget support and sector budget support. It states that, “in the case of general budget support, the dialogue between donors and partner governments focus on overall policy and budget priorities; whereas for sector budget support, the focus is on sector-specific concerns”⁵.

The figure 1 illustrates the broad OECD/DAC classification of the aid instruments.

Figure 1 - Classification of different aid instruments



The OECD/DAC guidelines make a clear distinction between aligned support and non-aligned support. Budget support is fully aligned, in the sense that it makes full use of the country’s own financial management system, whereas other types of aid can have a varying degree of alignment. The guidelines moreover indicate that there is a distinction between general and sector budget support. Nevertheless, SPA donors have found that these definitions of the OECD/DAC not fully reflect the various donors’ practices⁶. Hence, research was undertaken in relation to the SPA Dublin Workshop in order to help clarify the sector budget support concept.

3.3 SPA donors’ definitions of budget support

Dimensions of the donors’ definitions

All the donors that responded to the survey conducted for the SPA Dublin Workshop on SBS define budget support similarly to the OECD/DAC proposed definitions. The 15 individual donors’ or agencies’ responses are presented in the table in Annex II. The information generated is derived from the questionnaire distributed and the budget support guidelines that were made available to the research team. A summary of the table in Annex II is provided in Table 1.

4 DAC Guidelines and reference series, Harmonising Donor Practices for Effective Aid Delivery, 2003.

5 DAC Guidelines and reference series, Harmonising Donor Practices for Effective Aid Delivery, 2003.

6 See SPA Dublin Workshop in Strategic Partnership with Africa Report by the Co-Chairs of the SPA Working Groups, Sector Budget Support Workshop, Dublin 5-7 October 2005.

Table 1 Summary of Annex II, budget support and donor definitions

Modality/ Dimension	GBS	No. of replies	SBS	No. of replies
Purpose (to support)	The development strategy, PRSP	8	Sector plan/programme/policies	10
	General expenditures	1	Sub-sector policies/plans/budget	1
	Overall programme or budget	8	Sector budget/expenditure plan	7
			Overall budget (OECD/DAC)	1
Condition- alities/ dialogue	PFM/ fiduciary risk	8	PFM at sector level/fiduciary risk	7
	Macroecon. stability/policy	4	Sector policy	6
	Public sector reform	2	Sector results	5
	Poverty reduction	1	PFM general/fiduciary risk	4
	Budget execution and transparency	2	Macroeconomic policy	2
	PRSP and budget linkage	4	Expenditures sector level/budget	2
	Human rights	1	Human rights ⁷	1
	Governance	3	Poverty reduction ⁸	1
	Sector policies and results	2	Sector specific concerns (OECD/DAC)	1
	Overall policies/budget priorities	3		
Account- ability/dis- bursement	Through treasury by use of partner country's own PFM system ⁹	13	Through treasury by use of partner country's own PFM system	9
	Through sub-national level of partner government	1	Additional programme and financial monitoring and reporting requirements	3
			Through sector ministry or sub- national level of partner gvmnt.	1
Earmarking	No earmarking ¹⁰	14	No earmarking	5
			Earmarking ¹¹	9

The *purpose* of the support describes the donor's intentions in providing support through the selected mechanism.

Conditionalities are applied by most donors in one way or another for the purpose of ensuring that financial contributions are being used efficiently and as intended and/or as incentives to produce specific *outputs* or *outcomes* and/or undertake activities assumed to generate a specific *impact*. Conditionalities are widely used by all donors when applying budget support whether GBS or SBS. The conditionalities applied vary in nature according to the purposes they serve, and may, as we shall see later, be determined by the choice of modality. According to the Department for International Development (DFID) conditionalities may take at least three forms: *fiduciary conditionality*, related to public financial management; *policy conditionality*, where donors agree to provide aid on condition that the country pursues particular policies; and/or *process conditions*, which may for instance be linked to political and institutional change. The conditions may be monitored *ex ante*, that is, in advance of the release of funds, following the fulfilment of certain actions, or *ex post*, where monitoring of results takes place after the release of funds¹². The conditionalities may be used merely in the *dialogue* with the partner government, or be specifically linked to disbursement.

7 Benchmarks drawn from sector plans. This applies to DFID.

8 Benchmarks drawn from sector plans. This applies to DFID.

9 When providing information on this, some donors only stated whether or not they required specific programme reporting.

10 One donor did not provide information on this.

11 Information on the type of earmarking applied by the various donors was not available.

12 DFID March 2005; Partnerships for poverty reduction: rethinking conditionality.

Dialogue is also an aspect of the conditionality dimension. The dialogue may be related to the monitoring of the fulfilment of specific benchmarks or conditionalities, or be based on more general, political or technical issues of the development co-operation.

The *disbursement and accountability dimension* describes the disbursement channel; the treasury, sector ministry, or special programme account, and the financial management procedures applied. The latter reflects whether the country's own financial management procedures are being applied, or whether separate or additional reporting or management routines are required as safeguard mechanisms.

The term *earmarking* may be given different interpretations. The SPA Dublin Workshop distinguished between two main types of earmarking¹³.

- *Notional earmarking*, where the donor claims that the budget support they provide to the treasury is notionally or virtually earmarked to the sector, but only requires the government's normal expenditure reports show that spending in the sector has exceeded the volume of budget support provided. Notional earmarking can better be understood in relation to *real earmarking*, where the donor reimburses the partner country for specific expenditures.
- *Simple earmarking*, where the evidence required by the donor in order to trigger the transfer of funds is no more than the explicit inclusion of the SBS in the approved budget.

Notional earmarking is a way of tying resources to particular expenses. Nonetheless, one cannot ignore the fact that this type of earmarking remains virtual, and may, due to the fungibility problem, imply that resources are being spent at the discretion of the partner government. Simple earmarking helps to place donors' resources on budget, and has as such a value in terms of improved financial management and accountability. Nevertheless, this does not fully address the donor's desire to secure financial resources for a selected sector. Audited national accounts could confirm national resource allocation to a specific sector relative to individual donor's sector budget support, although the fungibility issue would remain.

In order to remedy the fungibility problem, donors may wish to claim that their SBS leads to "additional" spending in the sector or sub-sector. This is, however, hard to prove when significant shifts in budget allocations towards those sectors or sub-sectors are taking place anyway, in line with the new policy direction stated in documents such as Poverty Reduction Strategies¹⁴. Some donors may nevertheless choose to focus on additionality in their dialogue with the respective partner governments. The EU, for instance, maintains that the promotion of additionality of SBS ensures increased funding for the specific sector¹⁵. The SPA Dublin Workshop nevertheless states that "*donors wishing to claim or maintain additionality...should ensure that their dialogue with partner governments about increases in financing in a target sector is conducted within the framework of broader discussions about the PRSP and medium term budget allocations*"¹⁶. This should be done in order to strengthen national budgetary processes.

The issue of earmarking and how it is applied by the individual donor requires additional information beyond the information obtained in this study. The survey did not reveal which type of earmarking, if any, defines the individual donors' sector budget support.

¹³ It should, however, be noted that this list is not exhaustive, and that controversies remain with regard to the definition and application of earmarking

¹⁴ Sector Budget Support, A Note from the Dublin Workshop of SPA Working Groups, 5-6 October 2005, final draft of 21 November.

¹⁵ EC approach to sector budget support (SBS), Nicoletta Merlo/ Anton Jensen, DC Development 2005.

¹⁶ Sector Budget Support, A Note from the Dublin Workshop of SPA Working Groups, 5-6 October 2005, final draft of 21 November.

Findings

Table 1 shows that in the context of disbursement and accountability, most donors perceive budget support, general and sector, as a financial transfer to the recipient government's treasury¹⁷. One country has exceptions to this rule when it comes to defining sector budget support¹⁸. Moreover, the donors use as a criteria that the partner government's own public financial management procedures apply in relation to resource management. Nevertheless, donors may, as seems to be the case with SBS, require additional programme or financial monitoring and reporting. Nevertheless, from the information provided in the table there is a large degree of uniformity in terms of defining budget support. The donors' distinction between GBS and SBS appears first and foremost to be associated with dimensions other than the channelling and management of resource flows.

General Budget Support

GBS is used when the purpose is to support goals and objectives in the national development or poverty reduction strategy or the implementation of the national budget. In any case, the purpose is to help the country reach generic and nationally defined goals. GBS is not earmarked. However, donors' conditionalities or dialogue are generally related to the monitoring of progress on the implementation of national plans such as the poverty reduction strategy and state budget, the implementation of fiscal and macroeconomic stabilisation measures, and/or processes related to public financial management and fiduciary risk. The scope for conditionalities is, however, broad, and includes a wide variety of perspectives. There are also situations in which general budget support contains sector-related conditions and dialogue. This latter case will be reverted to in section 5.

Sector Budget Support

In defining sector budget support, the terms used and procedures applied vary more between SPA donors. The distinction between SBS and GBS on the one hand, and SBS and other programmatic and project support modalities on the other, is not clearly stated by the individual donors. As illustrated in Table 1, there appears to be some common characteristics among the SPA donors' definitions of SBS, however. One essential common characteristics can be found in the purpose dimension of the table. SBS is most often defined as support to a sector strategy or a sector budget. Table 1 shows a total of 17 responses for two these sub-categories together.

In terms of accountability and disbursement, 9 donors channel the funds directly to the treasury for use under the partner government's financial management system. The UK, however, appears to apply a wider definition, stating that SBS may also be provided directly to individual ministries or spending agencies as long as this is in line with the country's budget regulations. There may be cases and countries where direct transfer from donor to ministry and/or spending agency is fully aligned with the partner financial management system, which is the criteria stated by the UK.

The conditionalities applied or the focus of the dialogue are related to public financial management and performance at the sector level, monitored according to sector policy measures and/or results. Nevertheless, public financial management issues and fiduciary risk perspectives at the general level are important issues for 4 donors.

3.4 A proposed definition of sector budget support

In this sub-section, on the basis of the discussion above, we propose definitions for GBS and SBS. The definitions of SBS will be most extensively elaborated. The definitions reflect what the SPA donors perceive as GBS and SBS in their pure forms. Nevertheless, as the following chapters will underline, donors' practices often deviate from these pure definitions. Hence, good practices and policy suggestions will have to reflect such qualifications in order for the budget support modalities to be relevant and operative in a country-specific setting.

¹⁷ For SBS the number is lower than for GBS. This is likely to be partly due to the fact that several donors did not provide information on SBS.

¹⁸ The SPA Dublin Workshop also provided for the possibility of channelling sector budget support either directly through a sector ministry or a sub-national level of the government with significant policy budgetary authority. Sector Budget Support, A Note from the Dublin Workshop of SPA Working Groups, 5-6 October 2005, final draft of 21 November.

Table 2 below summarises the findings in this chapter and outlines how donors define the two distinct budget support modalities. One dimension is added to this table: the goal dimension. The goal is derived from the purpose. This dimension contributes to an improved understanding of the difference between the purpose of GBS and SBS.

The donors' primary distinction between SBS and GBS does not concern the way in which funds are transferred to the recipient country's authorities and how they are managed. The primary distinction is found in the purpose of the support, the goal, and in which conditionalities or focus of dialogue are applied. If the donors want to contribute to improved overall development or poverty reduction in the country and find that the financial management system is adequate from a risk management point of view (sometimes with additional safeguards), the modality chosen is GBS. Donors monitor progress and use a broad variety of general macro and public financial management (PFM)-related conditionalities, as a means for holding the partner government accountable for the grant.

If the purpose of and overall goal for the support is related to a particular sector, SBS is applied. SBS is budget support where the funds are intended to help implement a specific sector budget and/or national sector programme. The support will in turn contribute to the achievement of national sector goals. To help reach these goals, and ensure that the support is applied as intended, the donors maintain a dialogue or set conditionalities related to developments in that particular sector. In addition, it is common to monitor progress related to public financial management.

Table 2 The difference between GBS and SBS

Modality/ Dimension	GBS	SBS
Purpose	To contribute to the implementation of generic goals as set in the national development or poverty reduction strategy	To accelerate progress towards partner government's sectoral goals
Goal	Generic; e.g contribute to poverty reduction	Sector objective; e.g. MDG ¹⁹ s on health; contribute to reduced maternal mortality
Condition- alities/ dialogue	PFM Macroecon. stability Public sector reform PRSP and budget linkage/overall policies and priorities Governance	PFM at sector level Sector policy measures Sector results
Account- ability/dis- bursement	Treasury Partner country's own PFM system	Treasury or sector ministry Partner country's own PFM system
Earmarking	None	None Notional Simple

From the above, we can summarize the following;

- *Budget support* is a term used for aid funds that are managed by the partner country's financial system for funding of the state budget, either as a general contribution to the partner government state budget or for financing specific sectors.

The above is in contrast to other forms of aid supporting public sector activities, which are *not* fully managed in accordance with the partner government's financial management system.

¹⁹ Millennium Development Goals.

There are two forms of budget support, which can be defined by the following:

- *General budget support* is budget support where the purpose is to contribute to the implementation of generic goals as set in the national development or poverty reduction strategy²⁰.
- *Sector budget support* is budget support where the purpose is to accelerate progress towards the government's sectoral goals²¹.

GBS and SBS are terms characterised by full alignment of fund management with the partner government's financial system.

20 This definition is derived from the findings and analysis in this chapter. It does not have any official status.

21 This is the definition proposed further to the SPA Dublin Workshop. See Strategic partnership with Africa, Sector Budget Support, A Note from the Dublin Workshop of SPA Working Groups, 5-6 October 2005. The definition fits well with the findings and analysis in this chapter. However, the definition does not have a official status.

4. The volume of GBS and SBS

This section presents the results of the disbursement data to the 16 African countries in the sample from 13 of the 15 donors or agencies that participated in the survey. Each donor was asked to provide actual disbursement figures for 2004 using the following classifications:

The figures provided should be actual disbursements made in 2004 through the treasury system of the partner country to support the state budget.

Of this amount, funds earmarked for a specific sector or activity (SBS) should be reported separately from funds provided as a general contribution to the state budget (GBS).

Disbursement figures provided in the questionnaire include both forms of earmarking (see section 3) under the heading of “Earmarked Budget Support”. The key issue is whether the funds provided were intended to support a specific sector with the associated dialogue or conditionalities focusing on sector developments and outcomes. GBS on the other hand is not linked to any specific sector development. Accordingly, the distinction made in table 4 below between GBS and SBS is by purpose of support. However, this distinction may not have been sufficiently clear to all of the respondents. Hence, there are chances that some of the disbursement figures presented hide allocations also to other types of modalities, such as sector programme support.

Table 4 – Disbursement of GBS, SBS and total Official Development Assistance (ODA)²² by donors in the survey to the selected partner countries in 2004 (million USD)²³

	Total GBS	Total SBS	Total ODA	GBS percent of ODA	SBS percent of ODA
Benin	27.1	30.5	200.9	13.5 %	15.2 %
Burkina Faso	75.7	2.1	300.7	25.2 %	0.7 %
Ethiopia	171.1	28.3	543.6	31.5 %	5.2 %
Ghana	128.7	33.2	450.6	28.6 %	7.4 %
Kenya	8.9	0.6	222.7	4.0 %	0.3 %
Madagascar	25.5	-	260.4	9.8 %	-
Malawi	43.0	0.1	330.2	13.0 %	0.0 %
Mali	57.8	8.2	311.4	18.6 %	2.6 %
Mozambique	162.2	51.6	576.5	28.1 %	9.0 %
Niger	33.7	1.9	270.3	12.5 %	0.7 %
Rwanda	46.1	-	185.7	24.8 %	-
Senegal	40.9	6.4	244.2	16.7 %	2.6 %
Sierra Leone	41.0	-	148.8	27.6 %	-
Tanzania	260.9	27.1	1,059.5	24.6 %	2.6 %
Uganda	158.7	53.7	470.7	33.7 %	11.6 %
Zambia	62.9	108.6	572.9	11.0 %	19.0 %
Total	1344.1	352.3	6,149.0	21.9 %	5.7 %

The results of this survey show a wide variation in the application of GBS and SBS instruments in the partner countries as well as among the donor agencies in the survey.

²² The ODA figures are preliminary estimates from OECD/DAC. Final figures will be published in September 2005. Ratios showing 0.0% means less than 0.5% while – means zero.

²³ Disbursement data as reported from donors responding to the questionnaire submitted for this study.

Budget support is a key instrument for donor support to all partner countries in the survey (except Madagascar and Kenya). Total budget support constitutes close to 30 per cent of total ODA from the surveyed donors to the African countries in question. GBS is the main budget support instrument with an overall average of 22 per cent. SBS on the other hand is an instrument with limited application (except Benin and Zambia) with an average of 6 per cent.

Kenya appears as a relatively small recipient of budget support. SBS is of extremely limited use. Zambia and Benin, on the other hand, stand out as two major recipients of SBS. There are, however, reasons to question the accuracy of these figures. In Zambia, for instance, the main sector programmes (health, education and transport) are predominantly funded through arrangements separate from the country's treasury and PFM system. This information suggests that much of the registered sector budget support may in fact be unaligned or only partially aligned sector programme support.

Table 5 – Disbursement of GBS, SBS and total Official Development Assistance (ODA)²⁴ by donors to the partner countries in 2004²⁵ (million USD)

	Total GBS	Total SBS	Total ODA	Percent GBS of ODA	Percent SBS of ODA
Sweden	71.4	-	284.1	25.1 %	
Switzerland	0.5	8.0	131.8	0.3 %	6.1 %
Netherlands	169.5	70.8	535.5	31.7 %	13.2 %
Japan	4.5	-	346.0	1.3 %	-
Germany	34.9	-	717.3	4.9 %	-
France	-	10.5	667.4		1.6 %
Finland	8.7	4.2	61.3	14.2 %	6.8 %
EC	537.7	101.1	1,266.8	42.4 %	8.0 %
UK	342.3	19.2	1,029.5	33.2 %	1.9 %
Denmark	30.6	25.1	371.7	8.2 %	6.7 %
Canada	69.1	44.2	250.5	27.6 %	17.6 %
Ireland	37.5	69.3	185.3	20.2 %	37.4 %
Norway	37.5	-	302.0	12.4 %	-
Total	1,344.15	352.32	6,149.03	21.9 %	5.7 %

SBS can be claimed to be a major aid instrument only for a few donors in our sample (the Netherlands, Ireland and Canada). This finding is supported by the SPA Sector Programme Tracking studies²⁶, which present the application of aid instruments for the 13 sector programme operations in 15 countries²⁷. According to the tracking study, non-treasury approaches to support were the dominating modalities of support. SBS accounted for only for 17 per cent of total *sector support* in 2004.

An observation from our survey is that GBS features as a key instrument for at least 5 of the 13 responding agencies (more than 20 per cent of the aid to the countries in the survey), while for another three it is an instrument of some significance (between 10 and 20 per cent of their aid to the countries)²⁸. SBS is only a significant instrument for a few of the respondents which simultaneously apply GBS as a key instrument. The survey moreover revealed that two donors apply both GBS and SBS as main instruments for the same countries. For 5 of the respondents, GBS and SBS appear to be alternative instruments, i.e. they apply either GBS or SBS as an aid instrument to the same country. A further discussion of these findings will be made in section 6.

24 The ODA figures are preliminary estimates from OECD/DAC. Final figures will be published September 2005. Ratios showing 0.0% means less than 0.5% while - means zero.

25 Disbursement data as reported from donors responding to the questionnaire submitted for this study.

26 SPA Secretariat in collaboration with the SPA- Sector Support Working Group, Draft, Towards sector support alignment, SPA-2004 Sector Programme Tracking Report, January 12, 2005

27 The study uses slightly different definitions, also making a distinction between joint and individual donor mechanisms (project and basket funding), while this survey focuses in particular on alignment and non- alignment of disbursement, i.e. if the fund is or is not managed by the partner government's financial system. In other words, this survey is not concerned with how donors cooperate on the donor side, i.e. the extent to which they blend their resources prior to release of funding by a common basket/pooling arrangement. This survey makes a distinction solely with regard to what extent donors blend their resources with partner government domestic resources and the extent of alignment with partner systems.

28 See Table 2.

5. SBS versus other types of sector support

5.1 Risks related to the provision of SBS

The degree of alignment is significant when determining how to support a specific sector programme or plan. Insofar as the sector support chosen cannot be said to be on budget, through treasury, and channelled by the partner government's public financial management system without any parallel reporting and financial management procedures, the support will have a lower degree of alignment. The modality may, however, represent donor harmonisation, which is the case with basket or pooled funding.

There are various reasons for the choice of non-aligned or partially aligned sector support over sector budget support. The most apparent is that the country is not ready for budget support in the sense that, for instance, the public financial management system is weak, or that the sector policy programme is poorly developed. The EC, for example, has established a set of general conditions, which in addition to public financial management and a well developed sector policy programme, also includes a stable macroeconomic framework as a pre-condition for eligibility for SBS²⁹.

The provision of SBS inevitably contains a broader set of risks, including fiduciary risk, related to the quality of the public financial management system. In addition, lack of capacity, in particular within the line ministries, could pose a risk to an optimal implementation of the sector programme. However, technical assistance programmes would in most circumstances supplement the mere provision of sector budget support. Many donors moreover feel that using the donor's public financial management system strengthens the system.

5.2 Advantages of SBS

The SPA Dublin Workshop stated that “*SBS provides a more flexible financing facility than projectised assistance, including the possibility of financing recurrent costs*”³⁰. The workshop moreover found that “*SBS can effectively be combined with other aid instruments*” and that “*it can be used as a transition from project funding to GBS in countries where there is not yet a mature GBS environment*”.

The SPA Dublin Workshop on sector budget support suggested a number of advantages of SBS in relation to other sector support mechanisms. The following are positive qualities of SBS according to the SPA donors:

- Holistic and comprehensive approach to sector level reform.
- Support of ownership and improved alignment with national processes and systems.
- Provides central and line ministries with incentives to improve budget planning and execution in line with national priorities.
- Sector policy and implementation issues can be more effectively linked with macro cross-cutting issues.
- Strengthens cooperation between central and line ministries.
- Promotes aid efficiency.

It is likely that many of the above-mentioned advantages also apply to GBS, as these are qualities of budget support and alignment, rather than SBS per se. The extent to which such qualities will be more prevalent with SBS than GBS is not definite. However, a discussion of the application of the two modalities respectively is undertaken in the following chapter.

²⁹ EC Approach to Sector Budget Support, DG Development, Nicoletta Merlo and Antò Jensen, 2005.

³⁰ Strategic Partnership with Africa, Sector Budget Support, A Note from the Dublin Workshop of SPA Working groups, 5-6 October

6. The application of GBS and SBS

In this section we address the issue of application of sector and general budget support based on the survey conducted in advance of the SPA Dublin Workshop. In addition, findings from this workshop are referred to in the following discussions.

We have seen in the previous chapters how donor practices with regard to the application of GBS and SBS deviate considerably from the definitions and purposes described in section 3. Much due to the fact that the two budget support modalities have often emerged from different approaches, history has shaped these modalities into distinct forms in order best to suit the country specificities. In the following, we will look into applications of SBS and GBS. It is particularly interesting to see under what conditions the donors chose to operate with GBS and SBS respectively, and under what conditions a combination of the two modalities prevails.

6.1 On the purpose of the support

From the findings in section 3, there appears to be situations in which the donors choose to focus on specific sectors rather than overall policy and fiscal management. What the donor chooses to focus on in its monitoring of performance is determined by what the donors want to achieve, that is, the purpose of the support. For some donors, SBS may thus function as a supplement to GBS. As was stated under the SPA Dublin Workshop, some donors “.. *are attracted by the opportunity SBS provides to use their sectoral expertise to focus on strengthening sector performance* ..”³¹. This argument can help to clarify why some donors choose to operate with both modalities in one and the same country.

6.2 Risk-related considerations

GBS appears to be subject to broader thematic scrutiny than is the usual case for other instruments. This is reasonable when taking into consideration the level of ambition that characterises GBS. Due to its generic purpose and abstract goal, GBS, in spite of being subject to the same fiduciary risk as SBS, is considered to be more risky than SBS. The support encompasses a broader range of reforms and structural amendments, the fulfilment of which must be considered, at least in aggregate, to be more demanding, and hence risky, than the implementation of sector reform. Moreover, the abstractedness of the goal of the GBS complicates the achievement of the desired results, much due to the prevalence of a broader set of both internal and external factors. Such factors could be political instability, corruption, a poor harvest due to bad weather, or increased oil prices. External and cross-sectoral factors also have an impact on the achievement of sectoral goals, although to a more limited extent.

The fact that GBS is considered more risky than other instruments is often referred to, in particular by donors. Politicians may be reluctant to provide GBS to certain countries as they will be reluctant to risk losing tax-payers’ support, should unfortunate developments take place. In certain cases, SBS has been easier to sell politically than GBS.

The riskiness associated with GBS has, for instance, led donors such as the United Kingdom to apply SBS as an alternative to GBS in some countries. The riskiness might be related to political development issues, macroeconomic or cross-sectoral issues such as public financial management at the national administrative level. The latter was the case for the UK in Bangladesh. The British government nevertheless had faith in the reform-willingness within public financial management

31 SPA, Report by the co-chairs of the SPA Working Groups, Sector Budget Support Workshop, Dublin , 5-7 October 2005.

at the sectoral level, within the Ministry of Road and Infrastructure. DFID introduced SBS to this ministry with the hope that this would help precipitate more broad-based change³².

In Uganda, Norway reduced GBS while maintaining sector financing instruments. Such practice is however not uniform. In other countries, donors have decided to postpone the signing of all new agreements with the partner government when politically sensitive situations have arisen.

6.3 The quality of the dialogue

A central issue for the decision of whether to apply GBS or SBS, is the quality of the sector dialogue. In what forum can the sector dialogue and its more cross-cutting issues best be pursued? As was stated during the SPA Dublin Workshop on SBS, many donors feel that the SBS framework in many circumstances provides a better forum not only for the discussion of sector-related issues, but also for the facilitation of cross-sectoral and macro-related issues. The workshop moreover suggested that the sector dialogue can be more effective through SBS than GBS. As such, SBS may supplement GBS in establishing tighter linkages between macro cross-cutting issues and sector-related policies. On the other hand, if poorly designed, SBS could distort the government's planning and budgeting process, and weaken linkages between line ministries and the central government³³.

There could be situations where the above-mentioned issues are best handled within the general forums created in the GBS setting. A Norad 2004 report³⁴ discusses various donors' experiences related to shifting from earmarked sector support to GBS. The report discusses how a change of aid modality towards GBS would affect the dialogue and technical co-operation in priority sectors. At the time of writing, few countries had experience of de-linking sector support and sector dialogue. The report states that due to limited empirical evidence, conclusions on these issues are hard to draw. Nevertheless, it argues that prospects for maintaining a sound sector dialogue within the GBS framework look good in Tanzania. The report offers the following main findings on GBS with sector focus:

1. The GBS dialogue "takes over" many of the policy and cross-cutting dialogue issues that were previously discussed in sector programme working groups.
2. Staff resources in donor agencies are freed to be more involved in output and outcome related issues in the sector.
3. There is an ongoing convergence of issues in the dialogue linked to budget support and traditional sector dialogue. The macro dialogue has become more focused on PRSPs, poverty outcomes and governance, while the sector dialogue increasingly has become involved with issues such as civil service reform and public sector financial management.

The difference between GBS with sector focus and SBS is not clear-cut. Nevertheless, as it appears from the definition of the former, GBS with sector focus de-links the sector dialogue from the funding. This should imply that the disbursement of GBS to a lesser extent than what might be the case with SBS is dependent on performance at the sector level. There is nevertheless a dialogue through which the donors can seek to influence and monitor progress related to the selected sector. In those cases where the sector dialogue in GBS takes the form of traditional disbursement-related conditionality, the modality appears more as a combination of GBS and SBS. Box 1 below elaborates these hybrid models.

32 Strategic Partnership with Africa, Sector Budget Support, Draft note from Dublin Workshop of SPA Working groups.

33 Strategic Partnership with Africa, Sector Budget Support: A note from the Dublin Workshop of SPA Working groups, 5-6 October 2005.

34 Norad, From earmarked sector support to general budget support- development partner's experience, November 2004.

GBS with sector focus in Tanzania

The recent Norad report³⁵ suggests that issues central to the development of the education sector are better handled within the framework of the GBS (Poverty Reduction Budget Support- PRBS). This is due to the findings that the quality of the sector dialogue between the Ministry of Education and the donors, and moreover, the governance structures and roles related to education in Tanzania, is poor and ill-functioning. It is suggested that education support should be merged with the GBS. Monitoring of sector performance is planned to be part of the sector dialogue on education within the GBS framework. According to the current plans, no additional sector-related conditionalities or disbursement triggers should be introduced for this purpose³⁶.

The EC model: GBS with fixed and variable tranches

The EC is a donor which not only alternates between, but also combines GBS with sector focus and SBS. In its application of GBS with sector focus, the EC to a large extent operates with fixed and variable tranches. In this system, fixed tranches are often tied to the general purposes of the budget support, whereas variable tranches are related to progress at the sectoral level, and are tied to the achievement of sectoral goals and PFM. Hence, with this type of GBS, the EC addresses both the overall and sector purposes in GBS and SBS respectively. Nevertheless, the EC expects that its application of SBS will expand, also in countries which maintain GBS with sector focus³⁷.

The SPA Dublin Workshop on SBS states that the introduction of SBS, in particular in a GBS setting, but also in a setting where SBS prevails in several sectors, poses challenges³⁸. Budget support donors must be mindful of the risk of fragmentation and inconsistent budget support-related conditionality. Hence, harmonisation must be pursued. The conclusions of the SPA Dublin Workshop suggest that one should be mindful of not strengthening sector processes that are poorly aligned with the partner government's central processes. Finally, alignment should be promoted, both in terms of conditionality and management arrangements so as to avoid micro-management and parallel procedures to the national budgeting and management processes³⁹.

6.4 Other considerations

An additional explanation for using GBS and SBS in the same country may be that the two distinct modalities are managed by different agencies in the same donor country or by different departments within the same agency, one focusing on general development and cross-sector issues (typically economic management and fiscal policy issues), the other focusing on specific sector developmental issues (typically on quantity and quality of service delivery in a particular sector). This was confirmed in the consultations with some of the SPA donors and reflected in some of the guidelines. Moreover, the history of the development of aid instruments is another explanatory factor. While GBS is a modality stemming from a long history of policy-based support, SBS has gradually evolved from other forms of sector programme support. These assumptions support the suggestion that for many donors, a consistent approach to or policy on the application of the two modalities has not yet been developed.

There are other explanations for the alternation between GBS and SBS. The SPA Dublin Workshop highlighted the following issues⁴⁰:

35 Report to the Royal Norwegian Embassy in Dar es Salaam, Development cooperation in the education sector in Tanzania-modalities and dialogue, Norad 2005

36 Norwegian policies with regard to this modality and the incorporation of education support in the PRBS have not yet been formally approved. More work will be conducted on this in early 2006.

37 This double application will not be elaborated further, as it is not considered to be a relevant combination for Norwegian aid modalities.

38 Strategic Partnership with Africa, Sector Budget Support Workshop in Dublin 5-7 October 2005, Report by the Co-chairs of the SPA Working Groups

39 Strategic Partnership with Africa, Sector Budget Support Workshop in Dublin 5-7 October 2005, Report by the Co-chairs of the SPA Working Groups

40 Strategic Partnership with Africa, Sector Budget Support, A note from the Dublin Workshop of SPA Working Groups, 5-6 October 2005

- In countries where aid represents a relatively small portion of a partner country's GDP, SBS may be a preferable modality, at least for smaller donors. The individual donor could apply SBS in order to focus resources and maximize impact. This has for instance been part of the rationale behind the introduction of Norwegian sector budget support for education in Vietnam.
- Most donors find that SBS facilitates a deeper and broader technical engagement with sector policy issues and a more effective sector dialogue with a broader range of sector stakeholders than what is possible through GBS.

SBS could also provide an opportunity for addressing *linkages* between sector policy and implementation issues and macro cross-cutting issues. This is significant given that constraints on sector performance lie both within and outside the sectors. SBS may also be a better forum than GBS for governments, supported by external partners, to strengthen the way that line ministries and central ministries work together in order to better integrate programming, planning and budgeting.

6.5 Conclusion

This chapter has reviewed and discussed various practices with regard to the application of general and sector budget support. This has been done in light of the findings on donors' definitions of GBS and SBS and with regard to the donors' volume of SBS and GBS. It has been argued that insofar as the support is on-budget, through treasury, and is being channelled through the partner country's own financial management system, it is budget support, and hence, fully aligned. Both SBS and GBS have this quality per definition. These modalities are likely to have significant potential for aid efficiency and development effectiveness.

Assuming, however, that the purpose of the support is to contribute to the implementation of sectoral goals in a given country, the donor is left with the choice between GBS or SBS, or a combination of the two. The final choice of modality will to a large extent be the result of country-specific processes, the historic development of the aid modalities applied by the individual donors, the characteristics of donor harmonisation in the country, and not least, to what extent the donor is comfortable with providing budget support to the country in question. In addition, the political sensitivity of the support and the relative volume of the donors' budget support to the recipient country's GDP are likely to be essential factors in the final choice of budget support modality.

7. Considerations and good practices for Norwegian Budget support

Further to the discussions in the previous chapter, section 7 lists some general considerations that should be made in order to find the appropriate budget support modality in a country. It is here assumed that the country has been found eligible for budget support according to Norwegian policies and guidelines for budget support⁴¹. The current guidelines are nevertheless primarily focused on GBS, and provide a list of themes or entry conditions, which must be assessed prior to signing a new budget support agreement. SBS-practices and entry conditions are not elaborated in the current guidelines. Nor are issues related to the monitoring of SBS and related risk management. However, revision of the guidelines will be considered during 2006.

The choice of budget support modality

There are initially three basic questions that should be posed:

- What is the purpose of the intended support?
- Which budget support and sector programme support modalities prevail in the country?
- Through which modality can harmonisation best be pursued?

If the purpose of the support is linked to the achievement of *overall objectives*, GBS should be chosen. If the purpose is linked to the achievement of *nationally defined sector goals*, SBS should be the preferred modality.

- SBS may also be used in countries where Norway figures as a relatively insignificant contributor to the state budget in order to maximize impact.
- SBS may be used as a substitute for GBS in countries where the achievement of generic goals in the national development strategy or the poverty reduction strategy appears particularly challenging⁴².

GBS with sector focus or a combination of GBS and SBS

There are situations in which efforts to achieve sector goals can be more effectively managed within a GBS framework. The modality chosen would then be GBS with sector focus. The notion “focus” should nevertheless be qualified. It could imply that the disbursement of GBS is non-dependent on specific conditionalities at the sector level, whilst the donor solely maintains a dialogue on specific sector issues with the partner government. Or, it could imply that there are specific sector-related conditionalities tied to the disbursement of GBS.

The fixed and variable tranche-system operated by the EC is one way of maintaining a sector focus within GBS. Particular conditionalities are then tied to performance in selected sectors, and the outcome of assessments, also at the sector level, determine the total GBS available for disbursement. Nevertheless, this latter form of GBS with sector focus is quite similar to a situation in which both GBS and SBS prevail.

41. E.g. Guidelines for Norway's provision of budget support for developing countries, MFA 15.08.2004

42. The situation with respect to corruption and sound public financial management should nevertheless be satisfactory, as deficiencies related to these issues are likely to have an impact on the achievement of sectoral goals.

The final choice of modality will to a large extent be determined by the forum for and quality of dialogue. The following factors should be taken into consideration:

- which challenges is the sector facing; sectoral, cross sectoral, macro-related?
- which forum is the most suitable for the dialogue on sector challenges, for monitoring of performance, technical assistance, capacity-building etc.? Is this forum efficient and constructive?
- will the emergence of a new forum for (SBS) dialogue contribute to higher transaction costs for the partner government with regard to increased and poorly aligned processes (in particular processes which are not properly aligned with central government processes)?

Annex I – Terms of reference

Terms of reference for a study on donor practices in providing sector budget support.

Introduction

The Strategic Partnership with Africa (SPA) is the an association of multilateral and bilateral development agencies with African partners, providing assistance to low-income Africa. Within the SPA, two working groups have been established to focus on specific issues of mutual interest. The working groups are the Budget Support Working Group (BSWG) and Sector Support Working Group (SSWG), the former related to general budget support, the latter related to ear-marked support for specific sectors.

A two-day joint workshop between the SSWG and BSWG is planned in September 2005 to (i) review donors' respective policies, practices, experiences, and perspectives on the advantages and disadvantages of Sector Budget Support (SBS) as opposed to General Budget Support (GBS) and other aid modalities; (ii) to move towards a common understanding and definition of SBS and how and when to provide it rather than other aid modalities.

Objective of study

As input to the joint workshop, Norway will on behalf of the members of the working groups, undertake a study of member donor policies, practices, experiences and perspectives related to Sector Budget Support (SBS) and sector issues in General Budget Support, and identify a common set of terms, conditions and procedures that can form the basis of a joint framework for donor sector budget support.

Scope of work

A consultant will be contracted to conduct a survey, in collaboration with the Norwegian Agency for Development Cooperation (Norad), of SPA donor policies, practices and experiences related to the above-mentioned donor policies and practices with the following main elements:

- Collect information on SPA donor definitions, criteria and use of terminology related to SBS through consultations with donor focal points and from policy documents, donor guidelines, handbooks and other sources.
- The consultant/Norad will analyse these documents and consult with selected donors to prepare an issues paper. This should map different donors' SBS definitions, criteria, policies and operational modalities and experience of moving into (and out of) SBS. It may be necessary to develop a typology of SBS sub-modalities. The issues paper would indicate where common ground already exists or might be found, and identify issues which need resolving.
- Assess the volume of GBS and SBS as defined by respective donors to assess the use of these aid instruments among SPA donors compared to other aid instruments.
- Assess in what way donors simultaneously use aid instruments that are fully aligned and not fully aligned to partner countries' public financial management system, and if so the rationale for this.
- Assess in what way donors use general budget support for the specific sector policy dialogue (sectoral benchmarks, prior actions, performance criteria, etc.)
- Assess SPA donor practices in SBS implementation related to joint arrangements, alignment with the recipient government's planning, monitoring, disbursement, accounting, internal control and auditing procedures. This will be based on construction of an index of criteria determining extent of alignment.

- Assess SPA donors' application of conditions linked to releases, e.g. their application of policy and/or performance-based releases.

The above survey will be conducted using a combination of reviews of documentation on GBS/SBS policy and practices, consultations with SPA donor representatives, data collection through a questionnaire to SPA donors and use of commitment and disbursement data from OECD/DAC database on aid flows (IDS-online).

Time frame and reporting

Work will commence on 2 May 2005 with the formulation of a questionnaire, collection and preliminary review of available SPA donor policy documents and guidelines, and preliminary analysis of commitments and disbursement data from the IDS database. The outcome of this process will be presented in the form of an inception report for review by representatives of SPA donors for their comments on the proposed format and content of the questionnaire, the approach to implement the survey among SPA members and the timetable and selection of direct consultations with selected SPA member country headquarters. The finding of the overall survey and proposed common framework for SBS will be presented to the co-chairs of the two working groups in the form of a draft report to be presented by 24 August. Based on comments on the draft report, a final report will be produced and presented at the joint September 2005 seminar.

Annex II – Budget support and donor definitions

	Dimensions ⁴³	GBS ⁴⁴	SBS ⁴⁵
CANADA	Purpose	Direct support to government's national budget for general strategy, PRSP ⁴⁶ , or medium term budget.	Support sector plan.
	Disbursement/ Accountability	To government/ treasury using government's financial management system. Disbursements are aligned with budget calendar.	To government/treasury using government's financial management system. Disbursements are aligned with budget calendar. Additional reporting requirements.
	Earmarking	Non-earmarked.	Earmarked.
	Conditionality/ dialogue	Indicators on progress related to PRSP or National Development Plan.	Sector conditions requiring agreement and execution of agreed policy and expenditure plan for specific sector. PFM ⁴⁷ and fiduciary risk.

43 The four dimensions reflect the factors that influence on the choice of instrument. The dimensions are drawn from the DFID 2001 policy paper "The choice of Financial Aid Instruments by Foster and Leavy. We add another dimension, representing the purpose of the support.

44 General Budget Support

45 Sector Budget Support

46 Poverty Reduction Strategy Paper

DENMARK	Purpose	For increase in general public expenditures, to support national strategy.	Support to sector plan-sector/sub-sector expenditures.
	Disbursement/ Accountability	Funds pooled with other government funds through treasury and disbursed using government's own systems and PFM procedures.	Funds pooled with other government funds through treasury and disbursed using government's own systems and PFM procedures.
	Earmarking	Non-earmarked.	Earmarked to sector.
UK	Conditionality/ dialogue	Macro/ PRSP, overall budget composition and MTEF ⁴⁸ , PEM ⁴⁹ , and public sector implementation capacity.	Macro policies and central PEM, sector policies, budget share and sector exp. plan, sector PEM. Sector policy measures, sector results.
	Purpose	PRBS(G)50 is a general contribution to the overall budget in support of government programme.	PRBS(S) ⁵¹ is a general contribution to the overall budget in support of a particular sector programme conditionality as with PRBS (G) with benchmarks drawn from sector plans

47 Public Financial Management

48 Medium Term Expenditure Framework

49 Public Expenditure Management

50 Poverty Reduction Budget Support - general

51 Poverty Reduction Budget Support - sector

	Disbursement/ Accountability	May be transferred directly to central exchequer, or sub-national level of government in a federal system; using country's financial management, procurement and accountability systems.	May be transferred directly to central exchequer (with earmarking), sector ministry account, or sub-national level of government in a federal system; using country's financial management, procurement and accountability systems.
	Earmarking	Non-earmarked.	May be earmarked, see accountability cell.
	Conditionality/ dialogue	Conditionality based on a mutual commitment to (i) poverty reduction, (ii) human rights and other international obligations, and (iii) strengthening financial management and accountability. Committed aid may be interrupted, reduced or suspended only in response to a significant move away from one of these commitments. DFID will make an assessment of progress towards jointly agreed benchmarks ⁵² drawn from national plans, but specific policy actions cannot be used as conditions required to be met in order for committed aid to be disbursed.	Conditionality as with PRBS (G) with benchmarks drawn from sector plans.
EU	Purpose Disbursement/ Accountability	Support for PRSP or development strategy. Disbursement to treasury using country's own PFM system, no additional programme-specific or financial reporting requirements.	Support of a sector programme Disbursement to treasury using country's own PFM system, no additional programme-specific or financial reporting requirements.

⁵² For DFID's conditionality policy, a benchmark is an action, process, target or indicator to monitor progress against agreed objectives and inform policy dialogue.

	Earmarking	Non-earmarked.	No earmarking, but some degree of additionality might be required
	Conditionality/ dialogue	General Conditions on PRSP, macroeconomic stability, PFM reforms, Fixed tranches and variable, outcome-based tranches Outcome indicators mostly in health, education, PFM (including budget allocations)	General conditions on Sector policy ⁶³ , PFM, and Macroeconomic framework. Increasingly fixed and variable tranches. Sector outcome indicators for variable tranches. Dialogue on sector policy, expenditure and action plans.
FINLAND	Purpose	Support to budget/PRSP, to public sector expenditure in a situation where the country is unable to raise and allocate enough public resources to reducing poverty and promoting economic growth.	Support to public sector expenditure in a situation where the country is unable to raise and allocate enough public resources to reducing poverty and promoting economic growth. Support to specific sector.
	Disbursement/ Accountability	Disbursed to treasury, use of government PFM system. No additional programme specific or financial reporting requirements. Alignment in commitments and disbursements.	Disbursed to treasury, use of government PFM system. no additional programme-specific or financial reporting requirements. Alignment in commitments and disbursements.
	Earmarking	Non-earmarked.	Earmarked.

53 According to questionnaire

	Conditionality/ dialogue	Conditions based on mutually agreed performance assessment frameworks, which are based on national development plans (PRSP). Key dialogue issues are e.g. PRSP-budget linkages, budget execution, budget transparency, quality of PFM.	Conditions based on mutually agreed performance assessment frameworks focusing on the implementation of the sector strategy or sector policies funded. Key dialogue issues also include issues like quality of PFM.
FRANCE	Purpose	Macroeconomic support for poverty reduction policy.	Support for sector programme.
	Disbursement/ Accountability		Additional programme and financial monitoring and reporting formats and procedures may be required.
	Earmarking	Non-earmarked.	Non-aligned with budget cycle, may require additional external audit.
	Conditionality/ dialogue		Either Direct Budget Support (non-earmarked) or sector budgetary common fund. PFM, fiduciary risk, sector results.
GERMANY	Purpose	Support to partner country's overall programme (PRS).	No SBS programmes until now.
	Disbursement/ Accountability	Funds transferred to treasury by use of country's own PFM system, alignment in commitment and disbursement, no additional programme-specific and financial reporting requirements.	
	Earmarking	Non-earmarked.	

	Conditionality/ dialogue	Dialogue is focused on sectors in which Germany has comparative advantages. PFM, political governance, fiduciary risk, sector policy and sector results.	
IRELAND	Purpose	Funding to state budget.	To sector in support of sector strategy/budget. Transfer of funds to treasury using county's own PFM system. No additional programme-specific or financial reporting requirements. Use of auditor general's report. Earmarked. PFM, fiduciary risk.
	Disbursement/ Accountability	Transfer of funds to treasury using country's own PFM system. No programme-specific or financial reporting requirements. Use of auditor general's report.	
	Earmarking	Non-earmarked.	
	Conditionality/ dialogue		
JAPAN	Purpose	Has only a few trial GBS programmes.	
	Disbursement/ Accountability	Transfer of funds to treasury; no additional programme-specific or financial reporting requirements. Use of auditor general's report.	
	Earmarking		
	Conditionality/ dialogue		
NETHER- LANDS	Purpose	Direct support for general budget/ macro-policy.	Support of sector policies/budget, direct support to line ministry's budget.

	Disbursement/ Accountability	Disbursement through treasury using country's own PFM system. Support fully under government financial management system and policy agreement fully part of the budget planning process. No additional programme specific or financial reporting requirements. No additional external audit requirements.	Disbursement through treasury using country's own PFM system. Support fully under government financial management system and policy agreement fully part of the budget planning process. No additional programme-specific or financial reporting requirements. No additional external audit requirements.
	Earmarking	No earmarking.	Earmarked to sector policy programme.
	Conditionality/ dialogue	(Ex ante assessment); Positive Track Record from Track Record System; poverty reduction, economic management, good governance, dialogue.	PFM, fiduciary risk sector level, sector policy, sector results. According to track record system.
NORWAY	Purpose	Support to national budget.	Support sector expenditure plan.
	Disbursement/ Accountability	Aid transferred to national budget/ through treasury, using country's own PFM system. No additional programme and financial reporting and external audit requirements. Alignment in commitment and disbursement.	Aid transferred to national budget /through treasury, using country's own PFM system. No additional programme and financial reporting and external audit requirements. Alignment in commitment and disbursement
	Earmarking	Non-earmarked.	No earmarking.
	Conditionality/ dialogue	Often with conditions tied to composition of budget and development of reform programme on PFM.	Dialogue and reporting focused on sector. PFM, fiduciary risk, sector policy measures, sector results.

SWEDEN	Purpose	Support for expenditure-side of budget/ PRS.	Support to specific sector.
	Disbursement/ Accountability	Support through treasury. No additional programme specific or financial reporting requirements. No additional external audit requirements.	Through treasury, no additional programme-specific or financial reporting requirements. No additional external audit requirements.
	Earmarking	Non-earmarked.	Non-earmarked.
	Conditionality/ dialogue	Focus on PRSP implementation, budget execution, and national audits, macro-aspects and reforms.	Assessment, dialogue, conditions and results monitoring focus on specific sector. PFM/ fiduciary risk.
SWITZER- LAND	Purpose	Support for overall programme budget.	Support of sector policy budget or budget.
	Disbursement/ Accountability	Support through treasury. Alignment in commitment and disbursement. Reporting follows government procedures.	Alignment in commitment and disbursement. Reporting follows government procedures.
	Earmarking	Non earmarked.	Earmarked to sector policy programme.
	Conditionality/ dialogue		PFM, fiduciary risk, sector policy measures, sector results.
WORLD BANK	Purpose	Development Policy Lending (DPL), e.g Poverty Reduction Support Credits (PRSCs); support for national programme. DPL; For quick disbursing to implementation of structural reform in sector or economy in general.	

	Disbursement/ Accountability Earmarking Conditionality/ dialogue	Disbursed via special account by fulfilment of conditions. Use government's financial management system. Non-earmarked. Release conditions on e.g. passage of reform legislation, performance benchmarks, or progress w. macroeconomic framework.	
OECD/DAC	Purpose Disbursement/ Accountability Earmarking Conditionality/ dialogue	For financing of the budget. To treasury, use of government PFM system. Ideal; full alignment in financial and programme management and reporting and external audits, alignment with budget cycle. No earmarking of funds. Dialogue kept on overall policy and budget priorities. Aim: streamline conditionality.	For financing of budget. Use of government financial management system. Ideal; full alignment in financial and programme management and reporting and external audits, alignment with budget cycle. No earmarking. Dialogue on sector specific concerns. Aim: streamline conditionality.

SPA - Sector Budget Support Working Group
**Questionnaire on donor practices in providing
sector budget support**

For any questions related to this questionnaire please contact:

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1. GENERAL INFORMATION

Please provide the following details.

NAME OF DONOR ORGANISATION	
Name and position of respondent	
E-mail address	

2. DONOR POLICY FOR SECTOR BUDGET SUPPORT

There is no global definition of General and Sector Budget Support (GBS/SBS). Accordingly, in this questionnaire we are trying to capture how IFIs/donors use the terminology in their own classification of aid instruments.

Please check applicable boxes below:

DOES YOUR ORGANISATION HAVE MANUALS/GUIDELINES/HANDBOOKS OR OTHER DOCUMENTS THAT DEFINE DIFFERENT AID INSTRUMENTS YOU APPLY? (CHECK APPLICABLE BOX)	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> OTHER, PLEASE EXPLAIN;
If yes, please send by email to jens.claussen@ncg.no or provide a web address where these documents may be downloaded from.	Web address:

3. CRITERIA USED TO CLASSIFY AN AID INSTRUMENT AS SBS

Different aid instruments may be classified, among others, according to the following dimensions:

- What is being **subject** for support i.e. a government budget in general (financing for its overall development strategy), a particular programme (sector wide, sub-sector or cluster of projects) or a specific project/component of a programme.
- Degree of **Harmonisation** - Extent of donor cooperation to support any of the above, i.e. separate agreements and transfers, or joint financing arrangements using a common account to collect donor contributions (pooling arrangement, basket funding, cofinancing, joint financing, etc.). It will also include separate or common modalities for project/programme appraisal, monitoring, review and evaluation.
- Extent of **alignment** with partner system – external funds managed by partner system i.e. transferred to partner treasury revenue accounts (ministry of finance), transfer directly to sector partner institution, transfer to programme/project management unit within institution. It also include to the extent programmes are implemented with use of partner management and monitoring systems and procedures.

In the following we would appreciate if you could check applicable boxes indicating criteria are considered relevant by your organisation in classifying an aid instrument as SBS

Criteria for alignment to partner systems	
Funds transferred to treasury ⁵⁴	<input type="checkbox"/>
Commitments aligned with the partner budget calendar	<input type="checkbox"/>
Disbursements aligned with the partner budget calendar	<input type="checkbox"/>
Use partner's own programme monitoring and reporting formats and procedures in accordance with their own management and financial regulations i.e. no additional programme specific reporting requirements	<input type="checkbox"/>
Use partner's own financial monitoring and reporting formats and procedures in accordance with their own management and financial regulations i.e. no additional financial reporting requirements	<input type="checkbox"/>
Use partner's auditor general's report i.e. no additional external audit requirements	<input type="checkbox"/>

⁵⁴ Funds transferred to treasury means that the funds; either direct from each donor or indirect through a pooling arrangement/common account/basket is transferred to the treasury of the partner country for regular management of the funds in accordance with own financial management regulations (notional earmarking).

Criteria for harmonisation between donors i.e. have established procedures for and conduct the following processes jointly with other donors.	
JFA/MOU with other donors ⁵⁵	<input type="checkbox"/>
Joint appraisals with other donors	<input type="checkbox"/>
Joint reviews with other donors	<input type="checkbox"/>
Joint audits with other donors	<input type="checkbox"/>

4. CRITERIA FOR APPLYING DIFFERENT AID INSTRUMENTS

Does your organisation use one or more of the following criteria to decide on GBS, SBS and other aid instruments (check relevant box)?

CRITERIA	GBS	SBS	OTHER AID INSTRUMENTS
Overall policy complying with your conditions for support	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Political governance acceptable to your requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sector policy developed and in line with objectives of your support	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PRSP reviews conducted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Country fiduciary risk at an acceptable level to your requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other, please explain:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. CONDITIONALITY APPLIED TO SBS

Conditionality refers to factors that the donor documentation states will directly influence disbursement decisions. These factors may be precisely specified or more loosely worded. They may include actions or undertakings on policy or process, and performance measures, benchmarks or indicators of various sorts, including results indicators. It includes making a “general assessment” of the area, in such a way that no single factor is considered on its own, as long as the assessment is guided by a policy matrix or other instrument that specifies what factors are to be reviewed.

In which areas do you normally apply conditionality for your SBS (check relevant box)?

AREA OF CONDITIONALITY	CHECK AREA OF CONDITIONALITY
Fiduciary/public financial management	<input type="checkbox"/>
Political governance	<input type="checkbox"/>
Fiduciary risk	<input type="checkbox"/>
Sector policy measures	<input type="checkbox"/>
Sector results	<input type="checkbox"/>
Other, please explain:	<input type="checkbox"/>

⁵⁵ Joint financing arrangement (JFA)/MOU with other donors meaning there is a formal agreement between donors use a common fund transfer mechanism (pooling/basket funding arrangement or cofinancing through delegation of fund management to other donor) often i Norad: Donor definitions of and practices in providing Budget Support

6. WHERE THE CONDITIONALITY IS DERIVED FROM

How, if any, are the conditionalities derived according to your internal policies and procedures (check relevant box)?

SOURCE OF CONDITIONALITY	
Text of conditionality is <i>drawn entirely</i> from the PRSP, PRS Annual Progress Report (APR) or from another government document	<input type="checkbox"/>
Text of conditionality is drawn <i>partly</i> from the PRSP or APR and partly from another government document (for example a sector programme policy/strategy document or action plan)	<input type="checkbox"/>
Text is not drawn from the PRSP or APR, but largely from another government document (for example a sector programme policy/strategy document or action plan)	<input type="checkbox"/>
Conditionality is not drawn from any of the above documents but is <i>broadly consistent</i> with measures in the PRSP, APR and/ or other government document	<input type="checkbox"/>
Conditionality is <i>additional</i> to measures in the PRSP, PRS-APR and other government documents (that is, the issue is not mentioned in those documents)	<input type="checkbox"/>
Other, please explain:	<input type="checkbox"/>

7. DISBURSEMENT DATA 2004

For the countries below please indicate the amount disbursed as *non-earmarked* funding to the state budget through treasury systems and funding through treasury systems *earmarked* a sector ministry(ies) budget for the calendar year 2004.

Please enter amounts in respective column (in USD unless other currency specified)

COUNTRY	NONE EARMARKED	EARMARKED SECTOR MINISTRY(IES)	CURRENCY, IF OTHER THAN USD
Benin			
Burkina Faso			
Ghana			
Ethiopia			
Kenya			
Madagascar			
Malawi			
Mali			
Mozambique			
Niger			
Rwanda			
Senegal			
Sierra Leone			
Tanzania			
Uganda			
Zambia			

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DAC Guidelines and reference series; *Harmonising Donor Practices for Effective Aid Delivery*, 2003.

DFID March 2005; Partnerships for poverty reduction: rethinking conditionality.

Norad; *From earmarked sector support to general budget support- development partner's experience*, November 2004.

Norad; Report to the Royal Norwegian Embassy in Dar es Salaam; *Development cooperation in the education sector in Tanzania-modalities and dialogue*, 2005.

Strategic Partnership with Africa, Sector Support Working Group; Draft, *Towards sector support alignment, SPA-2004 Sector Programme Tracking Report, January 12, 2005*

Strategic Partnership with Africa, Sector Budget Support; *A Note from the Dublin Workshop of SPA Working Groups*, 5-6 October 2005, final draft of 21 November.

Strategic Partnership with Africa, Sector Budget Support Workshop in Dublin 5-7 October 2005, *Report by the Co-chairs of the SPA Working Groups*

Guidelines

CIDA: *Operational Guide on Direct Budget Support and Pooled Funding to Recipient Countries*, Prepared by Finance Division of the Human Resources and Corporate Services Branch in collaboration with the Direct Budget Support and Pooled Funding Working Group, CIDA May 2005.

DANIDA/DK: *Guidance Note on the Provision of Budget Support*, Ministry of Foreign Affairs/ Danida, 1st Edition October, 2003.

EC: *Guidelines for European Commission Support to Sector Programmes*, February 2003

Finland: *Guidelines for Budget Support Co-operation in Finland's Development Co-operation, Guidelines for Preparation, Implementation and Monitoring of Budget Support Co-operation*, Ministry of Foreign Affairs, 2004.

Kfw: *Begriffsbestimmung "Programmorientierte Gemeinschaftsfinanzierung"*, Kfw, Entwicklungsbank, Kfz's approach to Joint Financing Agreements.

Netherlands: Track Record User Guide *"What level of alignment is possible and what are corresponding aid modalities?"* The Hague, October 27, 2004.

Norway: *Guidelines for Norway's provision of budget support for developing countries*, MFA 15.08.2004

SIDA: *Appendix 2 to Guidelines for co-operation strategies, clarification of guidelines on the assessment and management of budget support for poverty reduction*, SIDA 2005

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