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**General budget support
in developing countries:
ensuring the health sector's interest**



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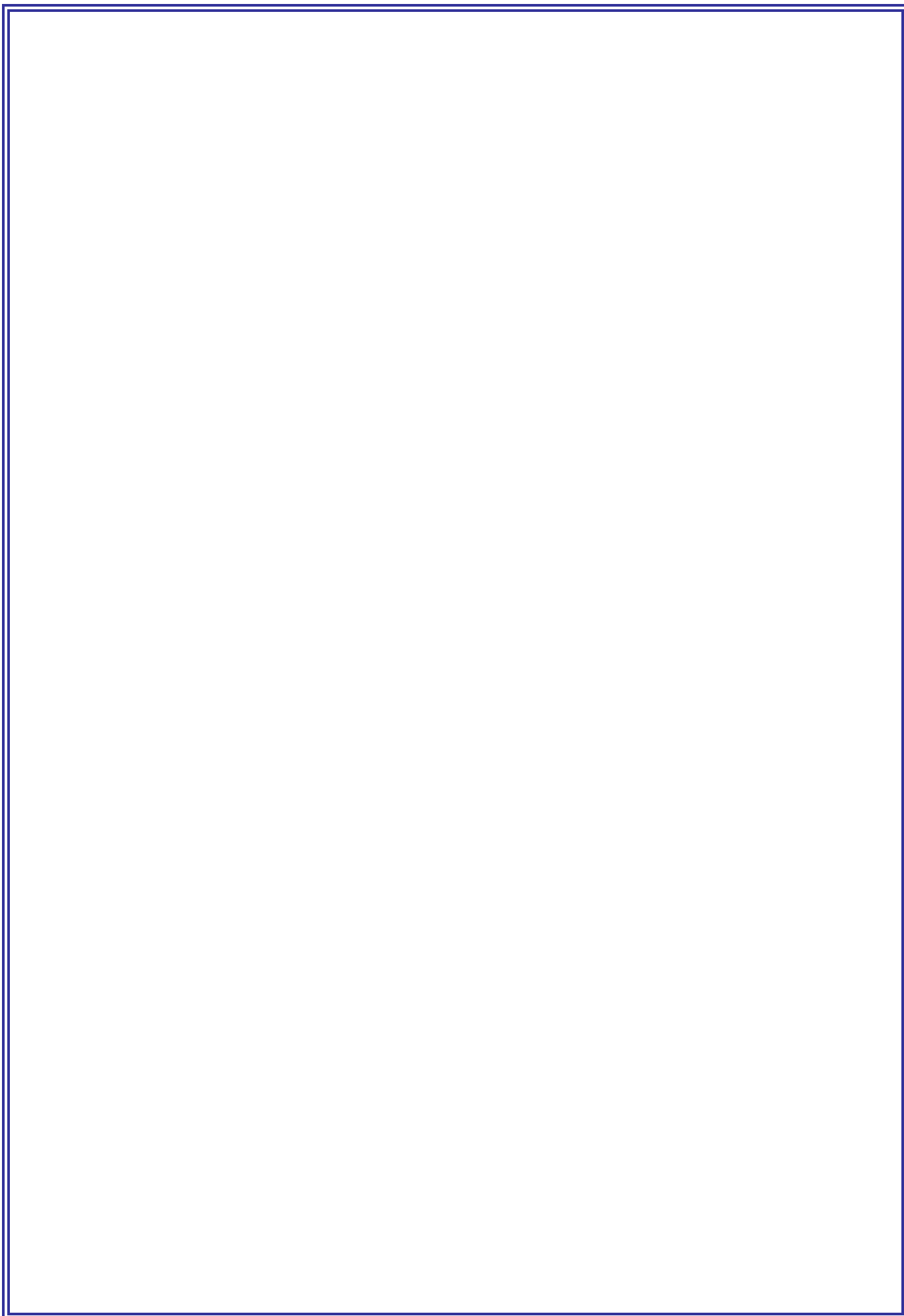
**General budget support
in
developing countries:
ensuring the health sector's interest**

by

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1. Introduction

Ministries of Health (MoHs) in low- and middle-income countries traditionally rely on project support as the main aid instrument to respond to their development needs. In the last decade, the international community has taken significant steps to scale-up resources for health projects. However, some major development partners and donors such as the World Bank, the United Kingdom or the European Union have provided increased assistance in the form of another aid instrument: General Budget Support (GBS). In this context, it is essential for ministries of health to acquire the necessary skills to obtain an adequate share of these resources.

What is general budget support? How does it affect the health sector? Most importantly, why should the health sector decision-makers be closely involved in it? This paper responds to these questions.

2. Major instruments for development aid

To understand GBS, it is necessary to describe the major instruments used in delivering development aid (see Figure 1).

2.1 Project support

Projects focus actions and resources on the delivery of a limited number of outputs, to contribute to the resolution of a specific problem in a determined time-frame.

Projects are expected to deliver their results in the short-term. Development partners and donors are usually strongly involved in identifying, negotiating and designing projects and in implementing them. Therefore, projects are often seen to be donor-driven, with activities that cannot be sustained after development partners cease their funding.

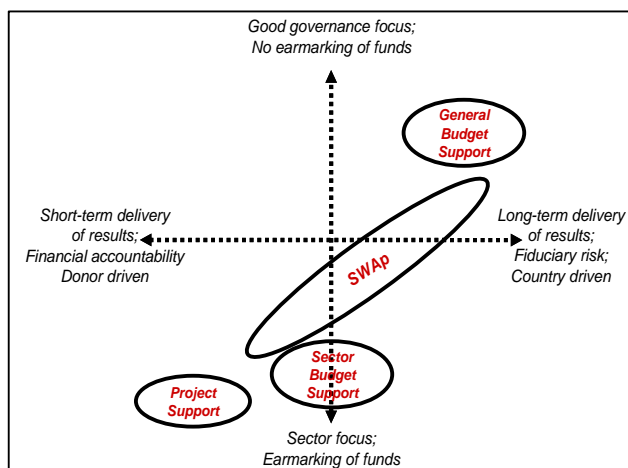


Figure 1 Representation of the individual characteristics of the major instruments for development.

However, projects have the advantage of targeting a particular problem, delivering expected outputs with high accountability and a clear focus on value-for-money; this has made them popular among donors. They are also popular among line ministries when the resources are channelled directly through them with minimal interference by core ministries like ministries of finance or planning offices.

2.2 Budget support

Budget support refers to aid where (i) funds are channelled *through the national treasury*; and (ii) the allocation and management of these funds respects national priorities *and procedures*.

Budget support targets results delivery in a longer-term horizon than projects. Over the past decade, it has been accompanied by a focus on the importance of good governance to create capacities for sustainable development. In contrast to projects, it concentrates on outcomes rather than outputs, and emphasizes the importance of ownership of policies and programmes by recipient countries. Policy-dialogue between donors and recipient countries is supposed to build on and reinforce partnership. Budget support programmes can take various forms and designs, although two main categories can be identified: GBS and Sector Budget Support (SBS).

2.2.1 General budget support

The major characteristic of GBS is the absence of earmarking of funds to particular sectors or activities. Recipient countries allocate funds between sectors at their discretion according to national priorities, and line ministries allocate funds across their different activities according to sector needs.

Poverty reduction strategies papers (PRSP) provide the basis for most negotiations on GBS programmes. Support is provided after reaching agreement on pro-poor outcomes, general expenditure priorities and mutual responsibilities between recipient countries and donors. Results are expected in the long-term in GBS, partly through crosscutting sector reforms leading to better governance.

In practice, GBS has not always translated into the delivery of goods and services. Some of the funds have been used to repay debt to overseas lenders and/or to increase currency reserves in the search of macroeconomic stability (see Box 1). While the donors can influence to some extent the sector allocation process through policy-dialogue, domestic parliaments have the ultimate authority over how much will eventually flow to the health sector. Ministries of finance and/or planning offices also have the most influence on the process through their role in the formulation of the general budget and GBS programmes negotiations.

Box 1: More aid, but not necessarily more spending

Inflation control and the levels of debt service and foreign currency reserves are often the major concerns of ministries of finance, in particular in high indebted and poor countries. As a result, they do not release all discretionary aid to development programmes.

For example, for every incremental dollar of foreign aid transferred to sub-Saharan countries between 1999 and 2005, only 27 cents were allocated to actual expenditure of state budgets. The remainder was used to build foreign exchange reserves or repay foreign debt.

2.2.2 Sector budget support

In contrast to GBS, SBS channels funds to specific sectors. The degree of targeting can range from an overall allocation to a sector, in this case health, in which the relevant ministry decides on how the funds are used, down to financing of specific budget items such as capital equipment (as opposed to specific projects).

The earmarking of funds in SBS ensures that they are spent rather than retained in the central banks as currency reserves or used for debt repayments, at least in principle. Its design is based on three key components: (i) a general sector policy document; (ii) a Medium Term Expenditure Framework (MTEF); and (iii) a sector coordination mechanism for policy-dialogue, joint planning, monitoring and evaluation. Accordingly, its results are expected in the mid- and long-term.

While ministries of health tend to look favourably on this type of funding because it is directed specifically to them, ministries of finance and planning offices sometimes react by reducing domestic financial commitment to health and may see SBS as a threat to their efforts at macroeconomic stabilization.

2.2.3 Budget support and conditionality

An important characteristic of budget support, and in particular of GBS, is its conditionality. Typically, the start-up release of funds and the release of subsequent instalments are subject to the recipient government fulfilling a variety of conditions.

This conditionality can be of various types, the most common deals with transparency, accountability and good governance in the use of financial resources. This has been referred to as "*fiduciary conditionality*". Funding will be continued only if recipient countries show accountability in their public financial management.

Box 2: Controversy on conditionality

The most controversial conditions relating to the social sectors have probably been the wage-bill caps imposed on developing countries under structural adjustment programmes monitored by the Bretton Woods Institutions. These caps have often been seen as an important limitation for the scaling-up of health systems.

Institutions such as the International Monetary Fund's (IMF) Independent Evaluation Office have questioned the utility of those caps and the way they have been applied in the past. As a result, the IMF recently adopted new policies regarding wage-caps that call for more flexibility and clear justification on their use.

Other types of conditionality have been far more controversial and the development partners have been moving away from them (see section 4.3). Those include, so-called "*policy conditionality*", where conditions target the adoption and/or implementation of general or sector policies, but also macro-economic and fiscal objectives (see Box 2). External funding agencies saw these conditions as necessary to create macro-economic stability and long-term growth, but they often implied restraining government spending, even in already struggling social sectors.

There is continued debate about the desirability and effectiveness of the different types of conditionality and this discussion goes beyond the scope of this paper. However, it is important to recognize that conditionality remains at the heart of budget support programmes, although the approaches taken vary considerably from donor to donor. In general, however, conditions are selected after discussion between the donor and the

recipient country, and the benchmarks for measuring performance are ideally taken from national policies and plans rather than imposed externally.

2.3 Sector-Wide Approaches

Sector-Wide Approaches (SWAps) are coordination mechanisms where support to a particular sector is improved through better policy-dialogue and coordination of aid directed to national sector plans. Development partners and recipient countries coordinate their efforts to support the particular sector in a structured manner using various development aid instruments, such as projects, budget support, common trust funds or technical assistance. Once in place, SWAps are expected to deliver their results in the short to long-term. SWAps are sometimes confused with SBS, largely because they often include pooled funding arrangements.

3. Why budget support (GBS and SBS) is being promoted?

Budget support has been promoted by certain development partners as a response to the perceived failings of classical project support. Projects often suffer from slow and delayed implementation, high transaction costs and limited sustainability. They tend to undermine state structures - for example, by hiring public sector staff at higher salaries, thereby depleting public administrations of their best staff, and by relying predominately on external technical assistance. Project proposals are often considered to be designed to respond to the preferences of donors rather than national priorities. This undermines ownership, national priority setting, and compromises the sustainability of the results of projects.

It is sometimes argued that general budget support is consistent with the principles of the Paris Declaration on Aid Effectiveness (Paris, March 2005):

- *Scaling-up of aid resources* - by reducing transaction costs; by increasing predictability of funding;
- *Ownership* - by promoting country leadership in the formulation of national development strategies and priorities;
- *Alignment* - by linking budget support objectives and conditions to national strategies; by strengthening country systems in using national institutions and management procedures for disbursement of funds and delivery of results; by aligning to national budget cycles; by promoting and strengthening national public financial management and procurement systems; by untying aid;
- *Harmonization* - by promoting common simplified planning and reporting procedures for donors; by building on comparative advantages and subsequent division of labour between development partners;
- *Managing for results and improving decision-making* - by adopting national monitoring and evaluation frameworks; by linking country allocation of resources to results and performance; by accepting funds fungibility for flexibility and result-based-management;
- *Mutual accountability* - by building on active policy-dialogue and broad partnership throughout the lifespan of budget support programmes.

However, no aid instrument by itself increases resources. That depends on commitments and political decisions of development partners, which affect all instruments in the same way. Budget support may well reduce some transaction costs, though it increases others. Nevertheless, it should result in more country ownership, alignment, and harmonization than project support.

Box 3: Fiduciary risk, a definition

The term refers to the risk of mismanagement of resources allocated for the achievement of an objective. In the case of budget support, it includes concerns on the use of resources for non-priority sectors, inadequate accounting and suboptimal performance. Corruption is only one aspect of fiduciary risk.

Even though budget support has been strongly promoted over the last decade as an aid instrument, not all donors want to engage in it. One of the most important reasons is that fiduciary risk remains an important issue (see Box 3). There is, however, no evidence that classical instruments such as projects are less prone to resource leakage or inefficiency.

4. What has been the effect of general budget support?

Some evaluations of recent GBS programmes have assessed the extent to which it *"is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth"*. Even if those evaluations do not systematically compare budget support to other approaches and instruments for development aid, they provide some useful information. They acknowledge the impact of attempts to promote good governance that have been linked to GBS, in particular in Public Financial Management and Administration. They also acknowledge improvements in "pro-poor expenditures". Yet, perhaps surprisingly, they point to the lack of direct impact on poverty alleviation or on improvement in the quality of social services.

These studies have also questioned the paradigm by which budget support should achieve a reduction in transaction costs, at least in the short-term, as it requires from recipient countries new skills and an increased commitment to reforms in key good governance areas such as public financial management.

Predictability in aid flow has not been achieved in countries where budget support has been introduced, as long-term commitment of donors has been no different for budget support than for projects. Delays in disbursement of funds due to bureaucratic procedures or disagreements between recipient countries and donors still exist. In fact, it has sometimes been argued that conditionality imposes more uncertainty on recipient countries who will be unsure if they will receive the next instalment.

4.1 The health sector and general budget support

The early participation of health sector decision-makers in the poverty reduction strategy (PRS) process, the prelude to budget support, can contribute to the identification of priorities in health and encourage the ministry of finance to release the additional financial resources to respond to those (see Box 4).

This will also enable the identification of realistic benchmarks of reforms for policy-conditions or performance indicators of budget support programmes. Most importantly, it will ensure shared accountability on selected benchmarks between core ministries, ministries of health and development partners.

In the case of SBS for health, earmarking resources could be seen to impose additional responsibilities on ministries of health: (i) taking the lead from policy-dialogue required during the design and implementation of the programme; (ii) collecting information and evidence required for the development of national plans; and (iii) assuming shared responsibility for the use of resources and delivery of results. However, these are fundamental responsibilities of any line ministry and are essential not only for the success of SBS or GBS programmes but also for the daily activities of the ministry.

Box 4: Additional budget resources for health

In Uganda, the multi-donor GBS has made substantial resources available to the discretion of the government for its pro-poor policies. The MoH has acquired through its engagement in budget support programme, valuable experience and is strongly engaged in subsequent budget negotiations and priority setting. As a result, health sector priorities are reflected in the national budget and its resources have enabled the removal of user-fees in public facilities, in an effort to improve access to services towards universal coverage.

4.2 Getting the right trade-offs

Forms of budget support and debt relief often make substantial additional resources available for national budgets but the fiscal reforms that accompany them sometimes pose an additional burden for the poor (see Box 5). A way to mitigate this burden is to ensure that some of the additional resources are allocated specifically to improve health of the poor.

Indeed, when ministries of health negotiate with ministries of finance for their share of additional budget support, they should use the argument that improving health is an important way of improving the lives of people, including their economic productivity. This requires the early and active engagement of ministries of health in GBS negotiations.

Box 5: Fiscal reforms and pro-poor expenditure

In Ghana, the negotiated budget support programmes foresaw the removal of approximately US\$ 250 million in energy subsidies to alleviate the state budget. If the removal of these subsidies had some impact on macroeconomic stability, their removal also negatively impacted the poor. This could be have been mitigated by reallocating part of the newly available budgetary resources to pro-poor programmes, including health.

4.3 Avoiding imposing damaging regulations and standards

Public Financial Management and Administration (PFMA) reforms are popular as conditions for GBS programmes, with subsequent benchmarks for performance based on them. Better PFMA is seen as essential to good governance and public services delivery. As a result, these reforms are actively encouraged across the different sector ministries by core ministries such as ministries of finance and public administration authorities.

It is important that ministries of health take an early role in negotiations of GBS programmes and PFMA reforms to ensure that the management practices implemented are relevant and appropriate to the specificities of the health sector in areas, such as hospital accounting and management, medical equipment and pharmaceutical procurement, and the management of health workers.

5. Conclusion

Budget support is not a magic bullet, and targeted health projects and programmes can be more attractive from the perspective of a ministry of health in many ways. However, GBS is playing an increasing role in today's aid environment. Ministries of health need to understand how it works, and how to influence decisions about the allocation of the resources it brings - as they should do for all aid instruments.

Active, early participation in poverty reduction strategy discussions and subsequent GBS negotiations will increase their ability to negotiate adequate funding. It will also ensure that any reforms initiated as part of conditions agreed in GBS programmes are realistic and non-damaging for the health sector.

To play this role, ministries of health may need to develop their skills in public administration, financial management and policy-dialogue. It will also require that they properly address good governance issues within the health sector.