

Expert Meeting on measuring the contribution of General Budget Support to Social Sectors

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Background Paper¹

It is the responsibility of donors and recipient governments, as well as of civil society in the North and the South, to ensure that the Millennium Development Goals (MDGs) are reached. In order for this to happen, it is necessary to identify and measure MDG focus throughout the chain of policy formulation and implementation: policy priorities, policy dialogue, financial allocations, results indicators and the actual impact achieved on the ground. **In this context, results monitoring is now more important than ever. Tracking financial allocations is part of monitoring, and poses particular challenges in General Budget Support (GBS).**

The two central questions of the expert meeting are:

- Can proof be given that GBS is a useful tool for the advancement of the MDGs?
- Is it possible to measure the contribution of GBS to the MDGs in a donor-specific way?

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1. *Rationale of the Expert Meeting*

The OECD/DAC statistical reporting directives are based on the principle of reporting the ‘purpose of aid’. The assumption in the instrument is that aid is usually allocated for specifically designated purposes and that there is some relationship between the direction of the allocation of aid and the quality of the aid. Monitoring the use and impact of development aid is usually seen as requiring a consideration of the amounts of money spent on certain sectors or issues, assuming that this has a relationship with the actual impact on the ground. A list of all different purposes of aid gives the basis for the sectoral differentiation in the statistical figures produced.

The Millennium Development Goals (MDGs) are the *minimum* framework of targets to which the EU has committed, reflecting the goals agreed in the UN Social Summit (1995), the UN Beijing Conference on Women (1995) and the UN Financing for Development Conference (2002). The MDGs reflect the consensus of the international community that the seven goals are the priorities for development, and that their achievement is essential for the eradication of poverty.

The conclusion is therefore justified that the areas defined by the MDGs are the sectors that need the most attention for effective development policy.

The EC and EU Member States are increasingly giving their development assistance through General Budget Support (GBS). As this change is happening - with the EC now committed to providing up to 50% of its aid through GBS, and with some donors moving from Sector Support to GBS² - it is important to consider what impact this shift has on the reporting of the quality of EU aid.

GBS does not feature in the sectoral allocations as, by definition, GBS is un-earmarked since it is used as an integral part of the national budget of the recipient country. This means that, currently, donors do not statistically allocate the money given through GBS to a certain sector (e.g. health or education) but it is registered by the OECD/DAC as GBS in the OECD/DAC creditors reporting system (CRS).

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In spite of this, various donors claim that they support certain issues through GBS, but do not or cannot back this claim up with actual figures.

Box 1: Definition

The concept of General Budget Support (GBS):

Funds provided through general budget support are disbursed through the recipient government's own financial management system and are not earmarked for specific uses. However, they are accompanied by various understandings and agreements about the government's development strategy. Instead of focusing narrowly on the use of the aid funds, government and donors jointly monitor implementation of the agreed strategy as a whole.

Effective reporting is of crucial importance in order to enable citizens to hold their governments to account. Moreover, it is also important because the effectiveness of development aid is seriously impaired unless human and social development issues are fully promoted..

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2. *Measuring Goal 8*

2.1 2015-Watch Report 3 – focusing on the issue of GBS

2015-Watch looks at the progress or regression in the EC's and EU Member States' development assistance towards achieving the MDGs.³ The most recent report, which focuses on education, found that EC spending on basic education amounted to only 1.53 % of all sector allocable aid in 2004. It is only 1% if basic education is taken as a percentage of the total EC aid (including non-sector allocable aid).

In response to the most recent report, the Commission argued, that it would advocate resources allocated through GBS being (partially) included as a contribution to basic education.⁴

The question raised by the Commission as to whether GBS should be (in part) allocated to social sectors touches on some crucial issues. The challenge of tracking how much aid channeled through GBS is allocated to social sectors has been taken up by a number of donors. Notably, the Netherlands, the UK, the European Commission and the OECD are currently developing different models to identify if and how GBS can be allocated to social sectors.

The discussion on this issue takes place based on the recognition that effective monitoring and accountability requires credible analysis. Moreover, there is a clear consensus that effective development co-operation necessitates aid money being used for poverty eradication and human and social development, and its quality is determined only by a proven positive impact on the ground.

To tackle this issue, initiatives have been taken to assess whether, and if so how, GBS contributes to social sectors and whether, and if so, how, this can be measured.⁵ The purpose of the expert meeting is to assess the credibility of the different options proposed to deal with the question of whether GBS can be reported in terms of its contribution to social sectors. The key questions for the expert meeting are therefore:

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1. How can it be proven that aid channeled through GBS advances the MDGs?
2. How can this be measured?

Box 2: Some observations on measuring GBS effectiveness in social sectors

Effects of GBS on social sectors and poverty eradication

A recent evaluation of GBS, commissioned by a consortium of donor agencies and seven partner governments under the auspices of the DAC Network on Development Evaluation, published by IDD and Associates in May 2006 clearly indicates that there are:

“some clear links from Partnership General Budget Support to improved basic services through funding and through collective commitments of donors and government to service delivery targets.”⁶ However, it was found that there was a: ‘bias towards the expansion of public service without sufficient attention to quality.’

Regarding the link between GBS and poverty eradication, the study found that it could not confidently track GBS’ impact on poverty eradication.⁷

Methodological challenges

The IDD and Associates evaluation summaries that methodological challenges for evaluating GBS as follows:

- a) The initial inputs are themselves complex – a combination of funds with associated dialogue and conditionality, technical assistance and capacity building, harmonization and alignment
- b) Most of the initial inputs are not discrete
- c) The desired ultimate effects are complex
- d) Changes in outcome and impact indicators will be partly (and sometimes dominantly) the effects of other causes
- e) The chain of causality is a long one, both conceptually and temporally. Following a results chain all the way from inputs to impact is known to be challenging, particularly in moving from outputs to outcomes and impact. In any circumstances, the intervals from inputs and their immediate effects to outputs and impacts will be significant. When effects are expected to result from processes of institutional change, the plausible interval for effects to be manifested is longer still. Moreover, results may be such that they are measurable only periodically and with difficulty. This lengthens the interval, in practice, before results can be ascertained.
- f) In case of GBS, many of the intermediate effects postulated are not in themselves straightforward to measure, let alone to attribute proportionately to multiple causes
- g) The logic of causation is often itself controversial⁸

3. Measuring *What and How?*

3.1. *Nominal allocations of specific sectors in national budgets*

Some proposals have been made to develop a model focused on measuring allocating GBS to certain sectors, especially health and education. The basic idea of this model is to consider the national budget of the recipient country. If the country spent a certain percentage of its budget on, for instance, education, the donor should notionally allocate the same percentage in that country to education in its own records.

This model is problematic, firstly because there tends to be a lack of centralised sources of government budget information. Secondly, it poses a number of political questions that are best illustrated with the following hypothetical cases.

1. The national budget in a partner country increases, but the allocation to education decreases. This country received GBS from donor X. Despite the GBS, the education budget has gone down. However, if donor X is able to book a notional part from the education sector to an allocation for this sector, it will show as a positive contribution. However, in reality, GBS has not contributed to an increase in the education sector and it could be claimed its result on the budget, in this case, should be counted as negative.
2. The national budget in a partner country has increased and so has the budget for education. This is mostly the result of a few donors which have put enormous emphasis in supporting that country's education sector. Donor X has provided a large amount of GBS, and, therefore, can notionally claim a large part of the education budget as its own allocation, even if donor X had not provided any support at all to the education sector of the country. Donor X would then get the credit for the efforts undertaken by other donors, or the credit would be awarded twice, once to the donors putting in the programmes for education and once by donor X as part of its claim for GBS.

3. A partner country has a decreasing budget. One donor in particular is concerned with protecting the education sector and puts in specific targeted funding to protect recurrent costs. Donor X contributes a large amount of GBS, which is conditional on support to education and anti-terrorism. While the country's education budget for recurrent costs is protected through the targeted funding of the one donor, its military costs increase enormously. Donor X would be able to claim the part of the education sector and again the investment there would be claimed twice, while the increase in the military expenditure remains unaccounted for. In this case, the increase in the military budget should also be recorded and be excluded from the ODA figures.
4. A partner country received a large amount of GBS and has requested a specific focus on support to teacher's salaries for education. Donor X communicates that it prefers to support the country with GBS but this envelope will only be approved if the country agrees to sign an agreement to open the country for donor X's investment. The country, needing the money for the budget, agrees to sign the investment agreement. Another donor takes over the teacher's salaries in a sector-wide programme for education that the country had requested. Donor X would be able to claim a part of the education budget as part of its GBS, even if its efforts have concentrated on getting an investment treaty signed in exchange for GBS.

The main issues that emerge from these hypothetical cases are:

- The idea of nominal accounting is based on the assumption that in GBS, attribution to the donor is not important. However, some of the above examples demonstrate that different donors can have different effects on the national budget and, therefore, will their contributions to the MDGs should be differentiated;
- How are budget decreases in the MDG sectors accounted for? A decrease in the budget could not be accounted as a positive contribution of a donor in that particular year;

- How can double counting be avoided? An effort being counted twice lacks credibility;
- How can the right donor be credited for its efforts? The proposed methodology would allow an effort by one donor to be attributed to another donor;
- How does the public know that the allocation reflected in the budget figure is a genuine reflection of the priority given by a donor to support the MDGs in the partner country?
- How does the public know that the national budget is the result of ownership in the partner country and not the result of pressure exercised by the donor in exchange for GBS? Does the government budget respond to the priorities of the electorate in its country, or does it prioritise policies proposed by donors in exchange for GBS?

It would appear that in this methodology, nominal funding to non-ODA sectors such as military spending should also be attributed to the donor, and these should then be deducted as non-ODA.

Apart from these methodological considerations, this model does not consider the actual impact of aid. It also fails to illustrate the strengths of GBS: predictability of funding and contributions to recurrent costs, including teachers' and nurses' salaries, which are essential services for the functioning of the education and health sectors.

Box 4: Ownership or Budget Intrusion?

Ownership

Recent research on GBS by Eurodad suggests that:

“while budget support increases the sense of ownership, it often comes at the cost of greater intrusion and influence of donors in all aspects of national budgets.”¹

Moreover, it has been suggested that GBS has led to increased upward accountability to donors.

3.2. *Focus on Predictability and Results*

An alternative model to focus GBS on predictability and results in the MDG sectors is being considered. This model is based on the premise that achieving the MDGs will require higher recurrent spending. However, recipient countries are reluctant to allow such increases despite increased funds available through aid and particularly GBS, due to unpredictability and volatility of aid. This model, called MDG contracting, is also strongly focused on results, mainly based on indicators enshrined in the MDGs.

MDG contracting is based on a commitment period of six years. It is available to countries which comply with three eligibility criteria (a well-defined national development strategy, stability-oriented macroeconomic policies, a credible and relevant programme to improve Public Financial Management) and which have effective monitoring systems in place for the regular collection of appropriate results indicators.

Eligibility and disbursement conditions are to be verified every three years with financial consequences of a maximum of 15% of the GBS allocation. Moreover, country performance with regard to key MDG results is to be closely monitored. Importantly, incentives for performance and reactions to underperformance should not result in the withholding of funds in the short-term. Provision of GBS will only be interrupted if there is a major evident lapse in a partner's commitment to one of the eligibility criteria or general principles of co-operation.

This proposal has a number of advantages:

- The GBS is clearly focused on the MDGs;
- The GBS is used for providing its strongest 'asset': long-term predictability and funding of recurrent costs;
- Fungibility of GBS to other non-ODA sectors such as military expenditure is discouraged;
- Strong emphasis on monitoring through result indicators which are closely linked to impact (as for instance through the Basic Capabilities Index);
- Allows measurement of allocations and contributions to recurrent costs.

4.1 2015-Watch – The Methodology

Measuring MDG 8, the goal which expresses the aim that donors contribute to the achievement of the MDGs, is the final objective of the OECD/DAC reporting system. Others have also attempted to do this.

Alliance2015, a strategic partnership composed of six European development NGOs⁹, aims to monitor the progress of European donors and particularly the EC towards achieving the MDGs. It has published the 2015-Watch series of reports, which annually review the implementation of Goal 8, which sets out the responsibility of aid donors to help achieve the MDGs.

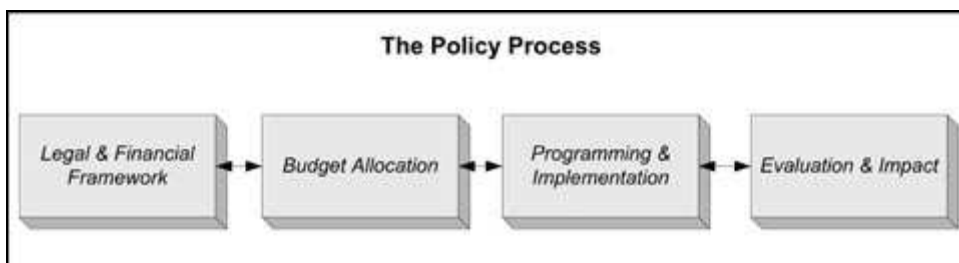
These reports apply a methodology developed by Alliance2015 which considers the entire policy process: legal and political framework, financial allocations, programming and implementation, and evaluation and monitoring. This methodology allows the consideration of many different elements that influence the effectiveness of aid in general and GBS in particular.

Overall, the methodology aims to measure the contribution of donor countries to the achievement of the MDGs. The methodology analyses the extent to which donors' development policies are oriented towards this internationally-agreed set of goals. It has been designed to allow comparative analysis over time and to monitor a donor's progress or otherwise in the quality of its contribution to the MDGs. The methodology also allows the performances of different donors to be compared.

Moreover, the methodology is a diagnostic instrument. By using it to analyse donors' development policies, it is possible to determine the relative strengths and weaknesses of any given donor in terms of policy orientation. It is also possible to pinpoint the precise stage(s) of the policy process which are insufficiently oriented towards the achievement of the goals.

The methodology is based on the concept that the quality of donors' development aid is directly related to the quality of their policy processes. This is divided into four distinct phases: objective setting; allocation of resources; programming and implementation; and monitoring and evaluation.

Box 3: The Policy process measured by 2015 Watch



The methodology was the subject of an Alliance2015 Expert Meeting on “Measuring progress towards Millennium Development Goal 8”, which was held in Brussels in November 2004.¹⁰ The meeting brought together experts from the NGO community, the European Commission, the OECD/DAC and UNIFEM and endorsed the methodology as a crucial tool for monitoring progress towards the MDGs. One of the recommendations that came out of the meeting was the need to include GBS more strongly in the methodology, which was subsequently done.

While the sectoral allocation is measured as a percentage of sector-allocable aid, GBS is included through a series of indicators of the policy process. Important elements consist of associated conditionality, political dialogue and frameworks (development policies, donor harmonisation), programming documents and processes (CSPs, PRSPs, NDPs, etc) and monitoring of impact.

4.2 Social Watch - Evidence of Measuring Impact in Social Sectors

Monitoring of impact is difficult and methodologically precarious, as the chain of causality is long and complex. In spite of this, it is of fundamental importance, as only actual impact on the ground ultimately gives an indication of successful work. Social Watch has taken up the task of measuring real progress in human and social development on an annual basis. These findings, compiled on a country-by-country basis and centralised by the Social Watch Secretariat, give a very good indication on progress (or lack of) towards greater human and social development. In addition, Social Watch has developed its own Gender Equality Index, which measure progress towards gender equality and women's empowerment and is significantly different from the UNDP Human and Social Development Index.

In addition, Social Watch has developed the Basic Capabilities Index, which is an accurate measure of the provision of essential social services in countries and in regions within countries.

Conclusion

Understanding the opportunities and challenges posed by GBS is of fundamental importance for all actors in development co-operation. The mechanism has great potential to make development assistance more effective through increased alignment, greater country ownership, harmonisation, lower transaction costs, reduced volatility, etc.

However, as stated at the beginning of this paper, two key questions emerge:

- How can it be ensured that aid channeled through GBS will advance the MDGs?
- How can this be measured?

This paper has outlined the reasons for measuring the allocation and impact of aid, including aid given through GBS, and has provided a brief overview of different models currently being development to tackle this issue. It is apparent that developing statistical tools to measure the allocation of aid given through GBS to social sectors is a difficult and methodologically problematic issue, to which attention must continue to be given.

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Footnotes

¹ The authors of this paper are Mirjam van Reisen and Maxi Ussar, edited by Ben Moore: www.eepa.be

² From Project Aid towards Sector Support: An evaluation of the sector-wide-approach in Dutch bilateral aid 1998 – 2005, The Hague, The Netherlands, November 2006.

³ 2015-Watch: The EU's contribution to the Millennium Development Goals - Special focus: HIV/AIDS, Bonn: Alliance2015, author: Reisen, M., van (2004); 2015-Watch: The Millennium Development Goals: A comparative performance of six EU Member States and the EC aid programme, Bonn: Alliance2015, author: Reisen, M., van (2005); 2015-Watch: The EU's contribution to the Millennium Development Goals - Special focus: Education, Bonn: Alliance2015, author: Reisen, M., van (2006).

⁴ Letter from Stefano Manservigi, Director General for Development, European Commission, to Jaap Dijkstra, President of Alliance2015 regarding the Launch of the new 2015 Watch report *the EU's contribution to the MDGs - special focus: Education*, 5 January 2007.

⁵ See for instance: DRN – Development Researcher's Network, FTP International, Evaluation of EC Support to the Education Sector in ACP countries, Brussels, May 2002.

⁶ IDD and Associates, Evaluation of General Budget Support: Synthesis Report, University of Birmingham, Birmingham, May 2006 Page 7

⁷ Ibid., Page 9

⁸ Ibid.

⁹ Alliance2015 is a strategic partnership of six European development NGOs. Its members are People in Need (Czech Republic), Cesvi (Italy), Concern (Ireland), Deutsche Welthungerhilfe (Germany), HIVOS (Netherlands), IBIS (Denmark).

¹⁰ 2015-Watch: A tool for assessing the orientation of development policy towards the Millennium Development Goals, *EEPA Occasional Paper*, Camilo Tovar and Mirjam van Reisen.

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