



# Evaluation

## *Comparative Review of Austrian Development Cooperation's Budget Support Operations*

*Final Synthesis Report  
Volume 1: Main report*



## **Imprint**

Austrian Development Agency (ADA),  
the operational unit of the Austrian Development Cooperation  
Zelinkagasse 2, 1010 Vienna, Austria  
Phone: +43 (0)1 90399-0  
Fax: +43 (0)1 90399-1290  
office@ada.gv.at  
www.entwicklung.at

The evaluation was commissioned by the Directorate-General for Development Cooperation of the Federal Ministry for European and International Affairs and the Evaluation Unit of the Austrian Development Agency and conducted by



Albert de Groot  
Willem Cornelissen  
Ines Rothmann

September 2010

This is an independent evaluation report. Views and conclusions expressed do not necessarily represent those of the contractors.

# Table of contents

<b>Table of Acronyms</b>	<b>3</b>
<b>Executive Summary</b>	<b>5</b>
<b>1 Introduction</b>	<b>11</b>
1.1 Background of the review	11
1.2 Objective	11
1.3 Methodology	12
1.4 Organisation	14
1.4.1 Phase 1: Inception	14
1.4.2 Phase 2: Field Missions	15
1.4.3 Phase 3: Synthesis	15
1.5 Outline of the Report	16
<b>2 The choice of aid modalities</b>	<b>17</b>
2.1 Introduction	17
2.2 The type of aid modalities	17
<b>3 Institutional organisation</b>	<b>21</b>
<b>4 External Context</b>	<b>25</b>
4.1 The Global Architecture of Aid	25
4.2 The external context at Partner Country level	26
4.3 The external context faced by ADC in Austria	29
4.3.1 Development co-operation and public support	29
4.3.2 Cooperation with NGOs	30
<b>5 Inputs</b>	<b>32</b>
5.1 Introduction	32
5.2 Policies	32
5.3 Financial resources	51
5.4 Human resources	51
5.5 Conclusions	59
<b>6 Outputs</b>	<b>61</b>
6.1 Introduction	61
6.2 Review questions on outputs	61
6.3 Conclusions	71

<b>7</b>	<b>Opening up the System: the Institutional set-up and Operational Procedures</b>	<b>73</b>
7.1	Introduction	73
7.2	Review questions on the Institutional set-up and Operational Procedures	73
7.3	Conclusions	87
<b>8</b>	<b>Main Conclusions, Recommendations and Lessons Learned</b>	<b>89</b>

## Table of Acronyms

AAA	Accra Agenda for Action
ADA	Austrian Development Agency
ADC	Austrian Development Cooperation
AfDB	African Development Bank
AWEPA	Association of European Parliamentarians for Africa
BS	Budget Support
BTC	Belgian Technical Cooperation
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organisation
DAC	Development Assistance Committee
DEC	Department for Effectiveness and Coherence (Netherlands Ministry of Foreign Affairs)
DFID	Department for International Development (UK)
DGDC	Directorate General for Development Cooperation (Belgium)
DGIS	Directoraat-Generaal Internationale Samenwerking (Directorate General for International co-operation (Netherlands Ministry of Foreign Affairs)
EC	European Commission
EU	European Union
FONSALUD	Health Sector Programme (Nicaragua)
FTE	Full-time Equivalent
GBS	General Budget Support
GDP	Gross Domestic Product
GPRSP-II	Growth and Poverty Reduction Poverty Strategy Paper II (Cape Verde)
H&A	Harmonisation and Alignment
HIPC	Heavily Indebted Poor Country
HOC	Head of Cooperation
HOM	Head of Mission
HQ	Headquarter
HRM	Human Resource Management
IRAI	IDA Resource Allocation Index (World Bank)
JAS	Joint Assistance Strategy
JBSF	Joint Budget Support Framework
JFA	Joint Financing Agreement
JLOS	Justice, Law and Order (Sectoral Donor Grouping – Uganda)
LGSIP	Local Government Sector Investment Plan
MASP	Multi-Annual Strategic Plan
M&E	Monitoring and Evaluation
MFA	Federal Ministry for European and International Affairs (Austria) or Ministry of Foreign Affairs (Belgium and the Netherlands)
MoF	Ministry of Finance

MoU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation of Economic Co-operation and Development
PAF	Performance Assessment Framework
PAP	Programme Aid Partner (Mozambique)
PARPA	Plano de Acção para a Redução da Pobreza Absoluta (Mozambique)
PBA	Programme Based Approach
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PETS	Public Expenditure and Tracking Survey
PFM	Public Finance Management
PO	Programme Officer
PRSP	Poverty Reduction Strategy Paper
SAI	Supreme Audit Institution
SBS	Sector Budget Support
SIP	Sector Investment Plan
SOP	Standard Operating Procedures
SPICAD	Support Programme for Institutional Capacity Development (Netherlands)
SWAp	Sector-wide Approach
TA	Technical Assistance
ToR	Terms of Reference
TYP	Three-Year Programme on Austrian Development Policy
TR	Track Record (Netherlands)
UJAS	Uganda Joint Assistance Strategy

# Executive Summary

## Background and Purpose

Since 2005, the Austrian Development Agency (ADA) has been increasingly providing budget support to its partner countries, mainly by joining existing budget support operations. In the period 2005-2009, it provided budget support totalling EUR 31.7 million to four countries (see Table 1). All four countries received sector budget support, while Mozambique also received EUR 4.8 million in general budget support.

Table 1. ADA's budget support commitments (in EUR million)<sup>1</sup>

Country	Budget Support Sector	2005	2006	2007	2008	2009	TOTAL
Cape Verde	Environment		1.8	-	-	4.0	5.8
Mozambique	Agriculture and Macro	1.0	1.0	-	7.8	-	9.8
Nicaragua	Health	2.5	-	-	1.0	1.2	4.7
Uganda	Justice, Law and Order, Decentralisation		1.8	3.5	2.6	3.5	11.4
<b>TOTAL</b>		<b>3.5</b>	<b>4.6</b>	<b>3.5</b>	<b>11.4</b>	<b>8.7</b>	<b>31.7</b>

Source: based on ADA Statistics.

The overall objective of this review is clearly elaborated in the Terms of Reference (ToR):

“... to provide the Austrian Ministry of European and International Affairs and the Austrian Development Agency with an assessment of the use of budget support as an aid modality to date, and how budget support creates synergies to other modalities used by ADC. The Review should provide “lessons learned” as well as recommendations for policy documents, procedures and capacities of ADC regarding budget support”.

To achieve this objective, the Austrian Development Cooperation's (ADC) budget support activities have been analysed by:

- Desk study and donor visits: Comparing ADC's policy documents, internal procedures and human resources with two comparable European donors, Belgium and the Netherlands; and
- Case studies: Assessing ADA's budget support operations in Cape Verde, Mozambique, Nicaragua and Uganda.

<sup>1</sup> As part of this review it was found that the financial support to the Nicaraguan health sector programme (FONSALUD 1.2 million EUR) does not meet the definition of budget support as agreed by the Development Assistance Committee (DAC) in 2008 through the new classification by type of aid. Therefore, Austria decided to no longer include this contribution in the budget support category from 2009 onwards and to re-classify it as “basket funds/pooled funding” type of aid. As a consequence, the total volume of budget support commitment from ADA in the period 2005-2009 reduces from EUR 31.7 million to EUR 30.5 million.

The ToR formulated a number of analytical questions that focused mainly on policy, procedures, capacity and implementation. The effects of budget support were not part of this analysis. These are the focus of joint impact evaluations which are currently conducted by the major budget support donors. The outcome will then be shared in the donor community.

## Findings and Conclusions

*Strategic focus: Joining existing budget support operations proved pragmatic and mitigated problems caused by an underdeveloped strategic outlook. ADC needs to continue to develop a strategic outlook if the Ministry of Foreign Affairs and ADA wish to advance specific objectives*

ADC has been slowly developing its policy framework for budget support. The ADC Budget Support Strategy was only formally approved in September 2009, and the draft Budget Support Guidelines are still being finalized. Furthermore, the country strategies in the four budget support countries were not regularly updated.

The lack of formal strategic guidance and up-to date country strategies has limited ADC's ability to formulate specific objectives. Given that ADC is a relative newcomer to budget support, providing limited guidance increases the risk of *ad hoc* interventions with little integration into wider, country-strategic thinking.

Nevertheless, this limited strategic guidance has not seriously undermined ADC's participation in budget support operations because ADC joined existing operations. The country case studies demonstrate that ADC has followed the harmonised procedures from the donor groups in the respective partner countries. This allowed ADC to use systems previously tested by other donors, hence reducing fiduciary risks.

*Size of budget support contributions: The small size of ADC budget support contributions, in absolute and relative terms, leads to fragmentation of aid.*

ADC is a small donor in financial terms. Its bilateral aid has been rather small in the four countries, with Austria's contribution being one of the smallest in the donor group. ADC's bilateral aid is low because the Austrian Official Development Assistance (ODA) allocates few resources to bilateral cooperation, and especially to its priority countries. The relatively high (although reducing) number of priority countries has added to this aid fragmentation.

*Policy dialogue and comparative advantage: Partner countries and donors appreciate ADC's constructive role in budget support, but ADC is not known for a specific comparative advantage*

ADC has built a good understanding of local circumstances in its partner countries and has offered valuable technical contributions to respective sectors. Other donors value ADC for its international commitments, such as the Paris Declaration and its transparent information sharing. All the sector budget support operations have been focused on one of the six priority sectors, except in Nicaragua (health). Yet, ADC's choice of sectors has differed across its partner countries. Its engagement can mostly be explained historically and has not been linked to a particular comparative advantage.



*Staffing and staff capacities: ADC has limited staff available for its budget support operations; limited systematic attention has been paid to training and knowledge management related to new aid modalities*

ADC's Coordination Offices have limited staff given the nature and scope of their current tasks. Using more aligned modalities and participating in the policy dialogue have increased demands on staff. Staff must also manage diplomatic tasks, limiting time available for aid management. So far, ADC has never assumed a role as lead budget support donor due to these limitations.

The involvement in budget support operations has also changed staff requirements for skills and expertise. Yet, training for ADC staff is not strategically targeted to strengthen their contributions to budget support operations. ADA has organized training on Public Finance Management (PFM), aid modalities and gender budgeting, but has not organized these systematically for all departments at the headquarters and Coordination Offices. Moreover, the headquarters and various offices exchange little of their experience on new aid modalities.

*Division of labour and responsibilities for budget support: ADC's present institutional set-up is out of line with international practice, which indicates that budget support requires other forms of aid management. Policy dialogue takes place at field level, but ADC is a centralised agency with little delegation*

Budget support comprises not only a financial transfer of resources but also a package of complementary inputs: policy dialogue and conditionality; harmonisation and alignment, technical assistance and capacity building.

In all four budget support countries, donor approaches to budget support have been harmonised. This has enabled the Coordination Offices to join the policy dialogue at the national level.

ADC is a small but centralised donor agency that delegates few of its management and financial responsibilities to its Coordination Offices. Effective engagement in budget support requires more decentralised aid management, including more responsive and stronger engagement in the policy dialogue.

The Coordination Offices are formally incorporated into Austria's diplomatic mission structure. None of the four budget support countries have a resident ambassador, meaning that these offices become responsible for both the political and technical policy dialogue with regard to budget support.

Recent international experience has shown that budget support is subject to increased politicization due to increased attention from donors to political and governance issues.

*Supplementary measures and synergies with other ADC interventions: ADC has taken supplementary measures in two of the four budget support countries reviewed, but mainly at a later stage*

ADC's draft Budget Support Guidelines underline the need to identify supplementary measures at an early stage to counter the potential weaknesses of partner country's institutions and processes. In two of the four countries, Uganda and Mozambique, ADC has taken supplementary measures. These measures were not explicitly defined during the preparation for

budget support operations or in the country strategy. In addition to the supplementary measures, ADC has sought synergies between budget support operations and other interventions in all four countries.

*Predictability of disbursement: The restrictions to commit resources to country programmes beyond one year are a major weakness in the Austrian system*

Multi-annual commitments and ensuring predictable disbursements are essential for effective implementation of budget support, no matter the size. The restrictions to commit resources beyond one year reduces ADC's predictability as a donor, since it lacks multi-annual aid targets or a multi-annual budget framework against which it can commit funds

## Strategic Recommendations

The most important recommendations of the review are:

*ADC is at a crossroad*

ADC is at a crossroad with regard to its involvement in budget support. After five years, it should now make clear choices on the way forward. Based on the findings of this review, three potential options have been identified:

Option 1: Scale up budget support;

Option 2: Specialise according to one's comparative advantage(s); and

Option 3: Discontinue budget support.

*Option 1: Scaling up of budget support*

Experience so far shows that donors tend to hold greater influence in the policy dialogue if they provide a sufficiently large financial contribution. It gives them a 'natural' weight, especially in highly aid-dependent partner countries with a large number of donors. Furthermore, budget support entails high transaction costs for all parties involved, irrespective of the budget support's size. Therefore, donors need to provide budget support that is (financially) interesting to the partner government and acceptable for their own cost-benefit considerations. The minimum amount should definitely be larger than one million euros per annum. The precise minimum will depend on a variety of factors, such as the type of budget support, the number of donors, the overall size of the government budget in the partner country, and the size of the budget of the specific sector (in case of sector budget support). This also explains why smaller donors are focussing more on sector budget support rather than on general budget support.

This first option may imply that ADC needs to increase its bilateral aid budget by focussing its support on a limited number of priority countries or reducing the amount of resources allocated to horizontal programmes. This could potentially enable ADC to provide an appropriate minimum level of budget support to a partner country and increase its effectiveness in the policy dialogue. Reducing the number of priority countries from 15 to 12 in 2010 has been a useful first step. In contrast, reducing the number of priority countries may not result in larger bilateral aid budgets due to the current pressure on ADC's overall aid budget.

### *Option 2: Specialize according to one's comparative advantage(s)*

ADC could focus on its comparative advantages, becoming a niche player in just one or two sectors or thematic areas across all its budget support operations. Smaller donors potentially add significant value to the policy dialogue despite their limited financial leverage. To accomplish this, they need to specialize and systematically invest in their staff. ADC could become a 'centre of excellence', complementing larger donors. It could provide coherent and linked-up support through various funding mechanisms to sector and national programmes. This might increase ADC's impact in the policy dialogue substantially.

At the operational level, ADC should clearly determine the strategic use of budget support in its entire portfolio at a global, country, and regional level. While the current Budget Support Strategy and the draft Internal Guidelines for Budget Support provide the necessary general strategic and operational background for budget support operations, the country strategies should further elaborate on the strategic choices that need to be made. These strategic choices include:

- Specific aims to be achieved;
- The appropriate mix of aid modalities;
- The nature and approach to supplementary measures;
- Whether a specific niche strategy is to be employed.

The country strategy should be prepared and updated in a timely manner and aligned with the national poverty strategy of the respective partner country. At the same time, a national poverty strategy cannot replace ADC's country strategy, but this country strategy should complement the national poverty strategy.

Choosing the comparative advantages on which to build are outside the scope of this review. It could be a specific sector or a cross-cutting issue like governance, gender or climate change. It could also be linked to global development trends. The comparative advantage should guide the preparation of the country strategies and should be used to brand the activities that Austria will carry out in its partner countries. For instance, if governance would be selected as ADC's key thematic area, ADC should not only provide budget support targeted to this area, but should also set up other aid modalities and supplementary measures to strengthen this area. Providing technical support to the Supreme Audit Institution would, for instance, fit into this strategy. Other smaller donors, such as Norway and Denmark, are following similar processes to strengthen their thematic focus.

### *Option 3: Discontinue budget support*

The third option is that ADC discontinues budget support and starts to play a more pragmatic role with more direct involvement at a project level. It could focus on particular forms of project aid, such as public-private partnerships and project aid aimed at civil society. This could create its own comparative advantage at the other end of the aid-modality spectrum. This would allow ADC to be more involved at a project and implementation level, supporting programmes or pilot projects linked to a sector strategy. Stand alone projects should be avoided whatever the circumstances.

This third option has serious implications for Austria. It might affect its reputation as reliable partner in fostering the aid effectiveness agenda as budget support is seen as an important tool in fulfilling these international commitments. Furthermore, it would become more complicated

for ADC to engage in higher level policy dialogue, trying to influence the behaviour of partner governments. This option means that ADC would not follow a partnership approach nor would it promote ownership by the partner government. Moreover, its financial support would to a lesser extent be allocated to the spending priorities of the partner government and channelled through the country's own PFM systems.

Looking at all three options, the second option seems most appropriate for ADC. Yet a strong commitment is required and clear choices need to be made to implement this option and to prevent 'muddling through'. Under the current conditions of limited financial resources and aid fragmentation, any adjustment that leads to increased focus and transparency may provide a new impetus to Austrian development cooperation.

## General Recommendations

In addition, there are a few general recommendations which are not linked to a specific option.

To improve its effectiveness as a development partner, ADC should consider implementing the following policy measures:

- Delegate more management, financial responsibility and authority to the Coordination Offices to make it easier for their staff to play their constructive role in the policy dialogue;
- Increase the number of staff in these offices;
- Invest more heavily in strengthening the capacities of these offices through systematic capacity building efforts; in particular, in areas such as PFM, aid approaches & modalities, and specific sector expertise;
- Organize more regular events for exchanges of experience between staff. This can allow ADC staff from both headquarters and the Coordination Offices to share their knowledge regarding different budget support operations and programmatic approaches, to promote joint understanding, and to generate lessons learned; and
- Seek more specific technical expertise and support from outside, for example, through strategic alliances with centres of excellence (research institutes, consultancy services).

Austria should consider measures to increase its predictability as a donor. It could introduce a multi-annual budgeting system to allow ADC to make financial commitments over a longer period.

Finally, the increased politicization of budget support might require greater diplomatic support to get better access to higher political levels of government (especially at Minister's level). Austria should consider how it can organize itself differently to participate in these issues, especially in times of political crisis in the partner country.

# 1 Introduction

## 1.1 Background of the review

Since a couple of years, Austrian Development Cooperation (ADC) provides Budget Support (BS) to Uganda, Mozambique, Cape Verde and Nicaragua. Towards the end of the phasing-in period (2005-2008) roughly 10-15% of bilateral ADC budget should have been channelled through BS, preferably through Sector Budget Support (SBS).

BS has also been used as a vehicle for scaling-up aid and to provide aid in a more effective and efficient way. The Three-Year Programme 2007-2009 anticipated an evaluation of these effects of BS.<sup>2</sup> Later on, it has been decided to change this into a review that will focus on procedures. This review should provide guidance on how to proceed with the provision of BS once the phasing-in period is completed.

This Review compares ADC's policy documents, internal procedures and human resources regarding BS with those of other comparable European donors, and assesses ADC's BS operations through four country visits.

## 1.2 Objective

The overall objective of the Review is clearly elaborated in the original Terms of Reference (ToR) to which ECORYS responded:

“... to provide the Austrian Ministry of European and International Affairs and the Austrian Development Agency with an assessment of the use of Budget Support as an aid modality to date, and how Budget Support creates synergies to other modalities used by ADC. The Review should provide “lessons learned” as well as recommendations for policy documents, procedures and capacities of ADC regarding BS.” [Terms of Reference, p. 3].

To achieve this objective, the Austrian Development Cooperation's (ADC) budget support activities have been analysed by:

- Desk study and donor visits: Comparing ADC's policy documents, internal procedures and human resources with two comparable European donors, Belgium and the Netherlands; and
- Case studies: Assessing ADA's budget support operations in Cape Verde, Mozambique, Nicaragua and Uganda.

---

<sup>2</sup> This evaluation was in fact already envisaged when ADC started with the provision of BS; it was 'part of the package' of the phasing in process of BS.

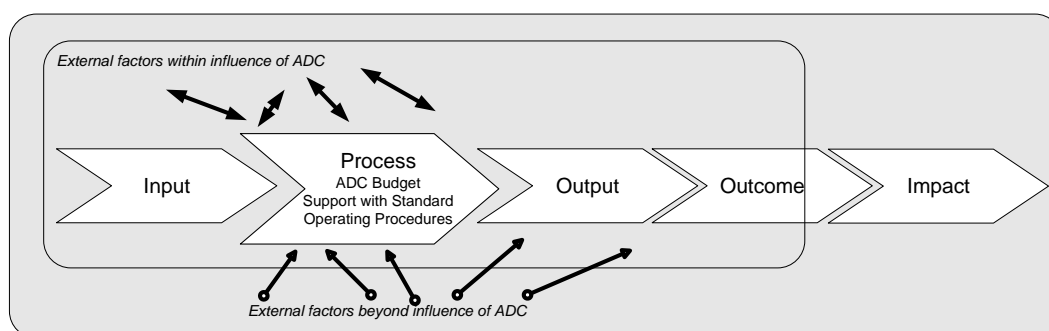
## 1.3 Methodology

The ToR refers to “implement a Review instead of a classical evaluation: which [...] should provide guidance on how to proceed with the provision of BS once the ‘phasing-in period’ is completed”. The analytical questions formulated in the ToR have been grouped into four levels:

- **Policy level** – i.e. overall policies and strategies as compared to best practice and practices of comparable donors; the relation of BS to other aid modalities; the collaboration and disbursement forms, cross-cutting issues and the like;
- **Procedural level** - the ‘Standard Operation Procedures’ (SOP), being the organisation of processes and procedures, like the application of guidelines, outlines, supplementary criteria and accompanying and monitoring measures, as well as disbursement and control mechanisms;
- **Capacity level** - the human capabilities (experience and knowledge) in relation to institutional capacities at headquarters and field offices; and
- **Implementation level** - the application of BS in practice within a certain partner country, the relation with other donors and the policy dialogue with the government of the partner country.

The open systems approach<sup>3</sup> was used as the analytical frame for this Review, as depicted in the next diagram. This approach starts by considering ADC BS as ‘a system’. In first instance, this system is regarded as a monolith that counts with its specific input that produces specific output. Outputs are mainly related to operations in the field. The relation between input and output is the efficiency, which has been the main focus of this review. The output produces results or effects.

Figure 1.1 Open Systems Approach applied to ADCs Budget Support Operations



The system is sensitive to influences from outside, such as the behaviour of other donors and in particular the international agreements like the Paris Declaration. It also exercises its influence on its environment, such as on the policy of the partner country (mainly through policy dialogue) or on the acting of other development partners.

During the review, the relations of the system vis-à-vis its environment (i.e. the other donors and recipient countries) were first analysed. Then, the focus shifted towards inputs (i.e. policies and financial and human resources) and the produced outputs (e.g. financial contributions,

<sup>3</sup> Source: Institutional Assessment and Capacity Development. European Commission, Sept. 2005.

supplementary measures and ADC's role in the political dialogue). Finally, the system was 'opened up' and its internal features were studied. In this respect, elements such as institutional set-up and operational procedures were focused upon.

The open systems approach offered a comprehensive, structured and stepwise approach with different dimensions. In addition, it added dynamism ('the flow') to the review and provided coherence and structure to the analysis.

### *Limitations*

There are three main limitations of the review that need to be pointed out.

First of all, as explained above, the review was mainly focused on the **efficiency** of ADC's BS operations. The focus on results, effects and **effectiveness** in the review was restricted to the procedural sphere and not related to the possible effects of the provision of financial resources for development purposes. The review had, in other words, no explicit focus on evaluation criteria such as effectiveness and efficiency.

Secondly, while a benchmarking method was used to compare ADC's approach to BS with the approaches of two comparable European donor agencies it has **not** been the intention of the benchmarking exercise to make **a comparative assessment** of Austria's performance vis-à-vis the performance of the two other donors. Given financial and time constraints, no in-depth analysis was carried out of the other donors' approaches. Their approaches were studied by analysing relevant policy documents and existing evaluations and by conducting a few interviews with donors' headquarter (HQ) and field mission staff. Only limited triangulation could have taken place.

Thirdly, it needs to be stressed that the approaches of the comparable donors need not necessarily reflect best practices. The purpose of the comparison was to gain insight into the practices from other donor agencies that are more experienced with BS operations, as useful lessons might be distilled from their experience. Since the approaches of the other donor agencies are not always best or even better practices they should be interpreted with care.

### *Analytical Questions in ToR*

In this report, we have structured the analytical questions of the ToR according to the four dimensions of the open systems approach. We have numbered each of these questions in a consistent manner. This same numbering is also in the Annexes I and II of this report for the benchmarking of Belgium and the Netherlands.

### *Selection of benchmark countries*

During the briefing meeting, early in the inception phase, Belgium and the Netherlands were selected as the comparable European donors, also called benchmark countries. The rationale for the selection of these two benchmark countries is presented in the Box 1.1. below.

#### Box 1.1 Reasons for the Selection of Belgium and the Netherlands as Benchmark Countries

- One smaller and one larger donor;
- Belgium is institutionally very similar to ADC, with similar capacity problems;
- Belgium has a similar strategy to BS as ADC with a clear focus on SBS;
- The Netherlands is more like-minded and a front-runner in BS;



- The Netherlands is represented in all four BS partner countries;
- Both donors are Dutch speaking – easing the analysis of documents;
- ECORYS has significant experience working with both donors and has easy access to their staff.

### *Data Collection*

The evaluation relied on three main sources of data:

- documents from donors’ archives;
- available literature and evaluations on BS;
- open-ended interviews.

Statistical data on trends in aid commitments and disbursements were collected during the inception and field phases. This yielded valuable information on aid volumes of country programmes and composition by aid channels for ADC and other donors.

This review included the following types of analyses:

- Construction of timelines with key events, inputs and outputs;
- Actor analysis based on identification of key actors and their roles in the processes;
- Analysis of trends in aid commitments;
- Identification of consequences using qualitative interviews and triangulation with secondary information; and
- Comparative analysis.

## 1.4 Organisation

This review was carried out in the following three phases:

- Phase 1: Inception with desk study and donor visits;
- Phase 2: Case studies in four partner countries; and
- Phase 3: Synthesis: reporting and presentation.

### 1.4.1 Phase 1: Inception

The final Inception Report was submitted in February 2010. The desk study entailed ‘studying the documents’ but also information gathering and analytical work that needed to be carried out in Vienna/Rotterdam prior to the field missions. It encompassed (1) a comprehensive assessment of Austria’s BS policy and procedures; and (2) an initial benchmarking analysis of the two benchmark donors.

During the inception phase all relevant policy and country documents provided by the Austrian Ministry of Foreign Affairs (MFA) and the Austrian Development Agency (ADA) were analysed. The review team also studied available policy documents from other donors and reports about other BS evaluations carried out in recent years. The information was used to identify ‘common practices’ that may serve as benchmark for the assessment of the procedures of the ADC’s BS mechanisms.<sup>4</sup>

---

<sup>4</sup> The benchmarking of policies and procedures does not necessarily imply a comparison against ‘best practice’ but even where this is not the case, lessons can still be learnt.



The next task carried out during the Desk Study Phase was the comparison ('benchmarking') of the ADC procedures with those of Belgium and the Netherlands, in particular to assess how they deal with the challenges of delivering SBS and General Budget Support (GBS) as respectively a small and a medium-sized donor. Over the last few years new studies have become available on the positioning of small donors in BS mechanisms<sup>5</sup>, of which the conclusions serve as background information.

#### *Briefing Meeting with ADA*

A Briefing Meeting was held early in the inception phase with ADA in Vienna on 22<sup>nd</sup> October 2009. This included a presentation and discussion of ADA's BS rationale, processes and challenges as well as the organisational set-up of ADA and Austrian development policy in general. The methodology was also discussed, including the proposal to use the open systems approach and the benchmark countries were selected.

#### *Interviews with ADC and other donors*

Interviews were held with policy makers and other ADC staff as well as other departments and institutions involved in the formulation and implementation of the ADC BS policy in Vienna on 26<sup>th</sup> and 27<sup>th</sup> November 2009. As part of the benchmarking exercise, staff within Belgian and Dutch donor agencies were also interviewed. A full list of all of the stakeholders interviewed during the desk study phase is presented in Annex IV.

### 1.4.2 Phase 2: Field Missions

The core focus of the second phase of this review was on the four case studies in respectively Cape Verde, Mozambique, Nicaragua and Uganda. Each mission lasted one week and was carried out along the generic Terms of Reference by one team member, accompanied by a local consultant.

Each country review team consulted the Austrian Coordination Office in country and met with representatives of partner governments, other donors, non-governmental organisations (NGOs) and other civil society members. In all four countries, the country teams organised a debriefing to the staff of the Coordination Office at the end of the field mission. The main purpose of these debriefings was to present preliminary findings and conclusions and to validate these findings. A final draft report was presented as regards each case study in May 2010.

### 1.4.3 Phase 3: Synthesis

In this phase, the review team synthesized the results and findings of the country studies and the desk study and prepared this main report. The entire set of review questions were answered, clustered, and synthesized. Although the report builds mainly on the synthesis of the country cases studied and the inception report, additional findings and observations were also collected through interviews at HQ level in Vienna and at the HQs of the two benchmarking countries, and by reviewing policy documents and relevant literature.

---

<sup>5</sup> See for example Stefan Koeberle, Zoran Stavreski, Jan Walliser. *Budget Support as More Effective Aid*. World Bank, 2006.

The duration of the entire review was from October 2009 to September 2010.

## 1.5 Outline of the Report

This report is organised in seven main chapters. Chapter 2 describes the spectrum of aid modalities. Chapter 3 briefly describes the institutional organisation of ADC and makes a comparison with the two benchmark donors. These differences are important for a good understanding of the inputs, outputs and operations of these three donor agencies. Chapter 4 analyses the external context of the review of BS: the global architecture of aid (4.1) at partner country level (4.2) and in the home country (4.3). This forms the background for the analysis in the next three chapters, which focuses on inputs (5), outputs (6) and the institutional set-up and operational procedures (7). In the last chapter, Chapter 8, findings relevant to ADC's BS operations are summarised and recommendations as well as lessons learned for policy documents, procedures and capacities of ADC regarding BS are presented.

## 2 The choice of aid modalities

### 2.1 Introduction

Foreign aid involves the transfer of money, goods, and knowledge from developed to developing countries. Aid modality (equivalent to aid instrument, aid form, or financing approach) is a tool to finance development activities and transfer some or all of these factors. Aid modality is not a development strategy *per se*. But, it determines how funds and knowledge are transmitted to recipient countries, how goods are procured, and how recipients and donors interact in such processes.

Present day BS<sup>6</sup> originates from the use of debt relief funds in the 1990s, specifically from the Heavily Indebted Poor Country (HIPC) initiative. With the debt crisis experienced by many low income countries, an international consensus emerged to form a comprehensive debt relief mechanism based on good policies in the partner countries. The HIPC-initiative was born and linked to Poverty Reduction Strategies (PRSP) in order to assure that the funds released were used for priority expenditures. A reduced need for debt relief in the last decade has led to a shift towards 'Programme' Based Approaches (PBAs) and modalities - especially GBS, SBS and basket (or pooled) funding arrangements under the Sector-Wide Approach (SWAp). Their emergence is also a reaction to overcome the weaknesses of the existing aid modalities, typically 'stand-alone' projects and structural adjustment operations.

The choice of aid modalities is a central issue in the discussions on the effectiveness of Official Development Assistance (ODA). The way ODA#s delivered affects outcomes, and some aid modalities are argued to be more effective than others. Donors will most likely continue spreading risks by using a range of aid modalities. Therefore, this chapter discusses the different types of aid modalities.

### 2.2 The type of aid modalities

Development assistance is delivered in various forms, but most of these may be classified as either projects or programmes. The wide spectrum of aid modalities that can be drawn upon range from stand-alone projects using parallel systems at the 'lower' extreme, to sector support (whether off-budget via so-called 'baskets' or via BS), to GBS at the 'higher' end. The distinction between different modalities is not always clear-cut and the specific definitions of aid modalities have been subject to changes over time. In this Chapter we will discuss the features of three main aid modalities as summarised in Table 2.1.

---

<sup>6</sup> For the purpose of this report the term BS will be used to denote both GBS and SBS. If something applies specifically to either of these types of BS, this will be communicated accordingly.

- BS (2 types);
- Basket funding;
- Project financing (2 types).

Table 2.1 Characteristics of the main aid modalities

Aid Modality	Conditionality	Earmarking	Accountability
General Budget Support	Macro & budget	None or notional	Govt. systems
Sector Budget Support	Sectoral	Notional	Govt. systems
Basket funding	Sectoral	Real within sector	Blend of govt. and donor systems
Projects using govt. systems	(Sector and) project	Real to project	Blend of govt. and donor systems
Projects using parallel systems	Limited: due to low government ownership	Total (real)	Donor

Source: Adapted from Foster and Leavy (2001).

Project support is one extreme form, whereby little use is made of partner country's government systems. Government systems refer to allocation, procurement, accounting, reporting, audit, etc. BS is the other extreme, with full use of government systems. In general, the closer the priorities of the donor and the partner government in the country align the more likely support through the government system is, attaching less conditionality and earmarking. Where priorities differ substantially, the donor is likely to exercise more control over its funds by using aid modalities not disbursed through the government systems.

### *Budget Support*

BS is an unearmarked financial contribution to the government budget of a partner country with the purpose to implement poverty reduction strategies, macroeconomic or structural reforms.<sup>7</sup> This support includes a lump-sum transfer of foreign exchange and is not linked to specific projects. It is often backed up with supplementary measures aimed at institutional and capacity development. BS uses the partner government's systems, whereby any conditionality is focused on policy measures related to growth, poverty reduction, fiscal adjustment, and strengthening institutions, especially budgetary processes.

In partner countries where donors have provided BS for a longer period, some form of regular policy dialogue between a donor (group) and the partner country has been set up to discuss performance and address issues of mutual concern. The basic arrangements for the dialogue are generally laid down in a Memorandum of Understanding (MoU). This document contains the objectives, commitments and responsibilities of all partners. As an annex, the Performance Assessment Framework (PAF) generally lists the specific performance criteria, jointly agreed between the BS donors and partner government. The elements of the PAF provide the basic structure for the regular policy dialogue.

<sup>7</sup> Different donors use slightly different definitions. The OECD/DAC, for instance, defines BS as a method of financing a country's budget through a transfer of resources from an external financing agency to the national treasury. The transferred funds are managed in accordance with the recipient's procedures for budgeting, accounting, etc. Some donors use a stricter definition. According to the EC definition, for instance, financial resources should become part of the general resources of the partner country (i.e. part of General Treasury Account).

BS can be divided into GBS and SBS. Both are non-earmarked financial contributions to the partner government budget. The difference is that assessments, dialogue, conditionalities and supplementary measures are linked either to overall (GBS) or to sector (SBS) issues. In most donors' practice a sharp distinction between GBS and SBS is not present. Both types aim to increase ownership and empower the partner government, reduce transaction costs by limiting fragmentation of ODA activities and increase effectiveness of public administration, as government systems are strengthened. BS is further expected to provide incentives for improved harmonisation among donors and alignment with partner country systems, including improved policy dialogue on priority issues and the means to achieve them.

### *Basket funding*

Basket funding is the most common aid modality in the spectrum, positioned in-between projects at the one extreme and BS at the other. In this modality, donors pool their resources using a special account either managed by one of the participating donors or by the respective line ministries. The planning and other procedures and rules governing the basket fund are common to all development partners, but their conformity with the PFM systems of the partner government and of sector conditions may vary. These funds are targeted towards the sector or a programme as a whole but are accounted for separately.

Initially, confusion existed on the definitions of BS and basket funding and in particular on the boundary between SBS and sector basket funding. In recent year, consensus has been reached that SBS uses the normal national procedures of the partner country and basket funding typically uses special arrangements negotiated with donors. Basket funding would only count as SBS where money is transferred from the basket into government accounts to be mixed with domestic funding and used according to normal national procedures.<sup>8</sup>

### *Project support*

A general definition of project support, which could be adhered to by most donor agencies and partner countries, would be: funds provided to implement a specific and predefined set of development activities over a specified period of time. Project support is further characterised by the use of a separate management structure and detailed objectives, activities and expenditures. Project funding is an individual development intervention but often takes place within the framework of a broader programme, in most cases a SWAp.

Two different project forms can be singled out: project aid using parallel systems and project aid using government systems. In project aid using parallel systems the donor often takes the lead in design and appraisal, decides the inputs to be provided, and uses its own disbursement and accounting procedures: it is off-budget. This form has received much criticism for being fragmented and donor-driven and for not taking into account the wider context. As a result, project aid using government systems has emerged. This instrument is in general subject to the policy conditions related to the sector in which it is used and the resources could be disbursed through the government systems with government accountability. To date, most project aid makes limited use of government systems.

---

<sup>8</sup> Similar confusion also existed in Nicaragua, where the ADC participated in a basket funding mechanism, called *Fondo Nicaragüense para la Salud* (FONSALUD). This is a basket funding with characteristics of BS. (see Chapter 4 and the country report for Nicaragua).

Project support as a budget item includes several sub-groups. The most important of them is simply referred to as 'project support'. Another large sub-group is capacity development and refers to contributions/components aimed at strengthening the capacity of the partner government.

### 3 Institutional organisation

In this Chapter, we will briefly explain the core differences in institutional organisation of ADC and the benchmark donors, because these differences are important for a good understanding of the inputs, outputs and operations of the three donor agencies.

In Austria, many actors are involved in ODA.<sup>9</sup> In financial terms, the largest actor is the Federal Ministry of Finance, which accounted for 77.2% of total Austrian ODA in 2007. The other main actors are ADA (7.8%), the Federal Ministry of Science and Research (5.0%), and the Federal Ministry for European and International Affairs (3.4%).<sup>10</sup>

ADC is vested in the Federal Ministries Act (1986) and the Federal Act on Development Cooperation (2002) and its Amendment (2003). Section 1 of the latter Act establishes that international development co-operation is the responsibility of the Federal Government. The Federal Act introduces the term “Austrian Development Cooperation” referring with that term to all institutional actors that report aid flows to the Development Assistance Committee (DAC). The policy making, the overall coordination as well as the political responsibility over the implementation of the development cooperation is mandated to the MFA. ADA is the implementing agency that converts the policies and strategies into programmes and projects.<sup>11</sup> Since Austria does not have a consolidated ODA budget, eight separate ministries use their budgets to fund aid-related activities.<sup>12</sup>

Within MFA, Division VII is responsible for the Three-Year Programme on Austrian Development Policy (see Chapter 5) and the ‘coordination of international development policies’<sup>13</sup> and hence for the coherence in the policies and programmes, including BS.<sup>14</sup> In practice, the relations between MFA and ADA have become more intertwined than what would have been expected according to the Cooperation Agreement. According to the OECD DAC peer review, Division VII has limited capacity to execute the Development Cooperation Act, and to deliver and co-ordinate aid policies, country and regional strategies.<sup>15</sup> The MFA often relies on ADA to perform these strategic and policy-making tasks that, in fact, fall under the MFA’s mandate.<sup>16</sup> An overview of the institutional relations of Austria’s aid system is presented in Figure 2.1.

---

<sup>9</sup> Source: <http://www.entwicklung.at/actors/en/>.

<sup>10</sup> Source: Austrian Development Cooperation, ADC Report 2007; Official Development Assistance in Figures, Part II.

<sup>11</sup> “Gemeinnützige GmbH im Eigentum des Bundes”.

<sup>12</sup> Source: OECD-DAC, Austria Peer Review, 2009:9.

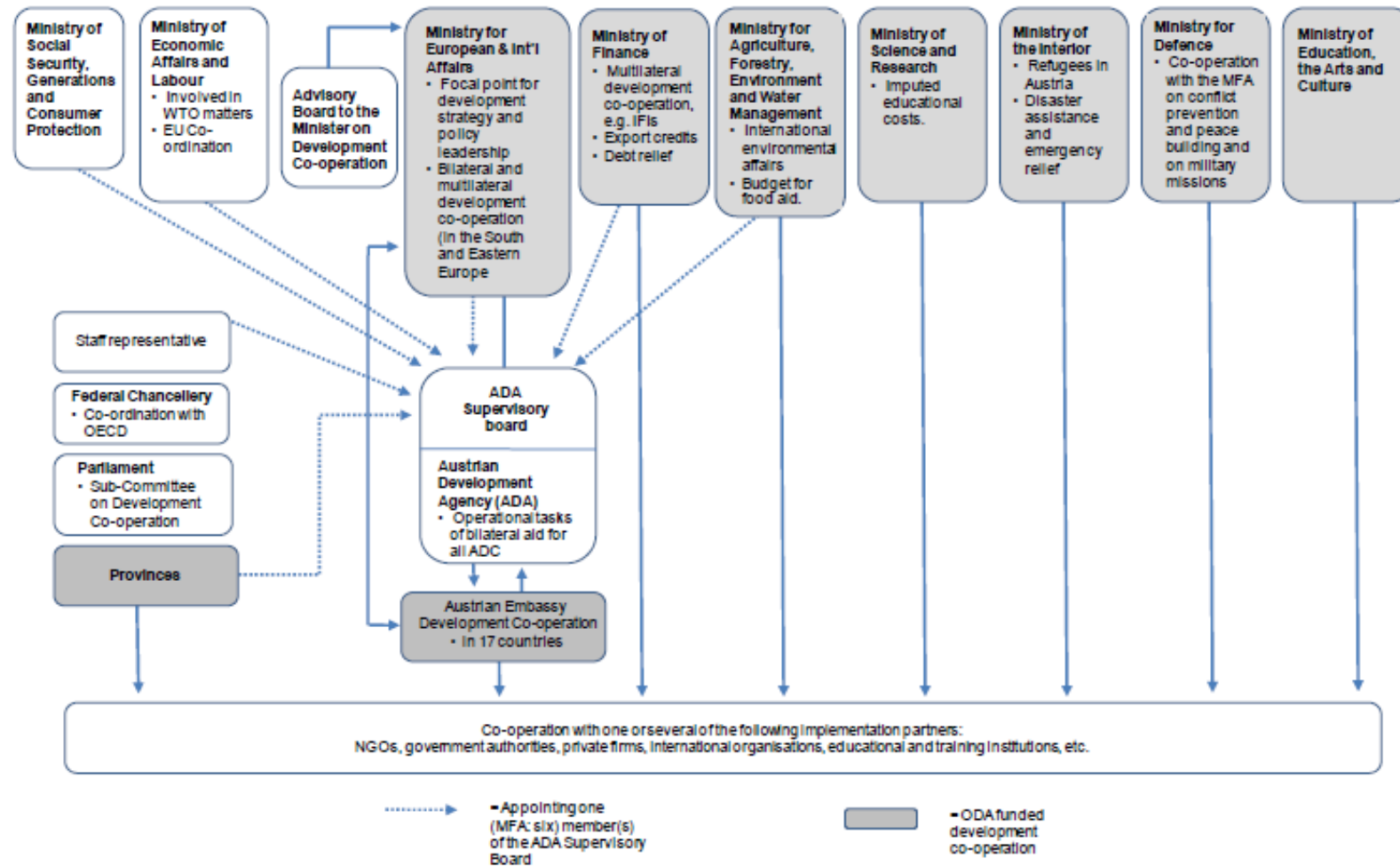
<sup>13</sup> Source: ADA, OEZA Basisinformation, 2009:9.

<sup>14</sup> Between 2005 and 2008, MFA counted with a State Secretary for development co-operation.

<sup>15</sup> Source: OECD-DAC. Austria Peer Review, 2009:9.

<sup>16</sup> Source: OECD-DAC. Austria Peer Review, 2009:15.

Figure 2.1 Institutional relations of Austria's system



Source: OECD-DAC Peer Review Austria 2009:23.



MFA has established an inter-ministerial working group on coherence and there are informal consultations on issues such as defence, environment and climate change, and trade and investment.

The Minister of Foreign Affairs is seconded by an Advisory Board on Development Policy, comprising eleven well-known development experts as members, amongst them the ADA Managing Director, a representative of the Ministry of Finance and a representative of the NGO-platform (the Minister holds the chair).

ADA is a limited company of public interest owned by the government.<sup>17</sup> The formal relation between MFA and ADA is laid out in a cooperation agreement. The MFA coordinates Austrian development policy and plans ADC strategies and programmes, while ADA is in charge of implementing the programmes and projects, with an important contribution also being made by the Österreichische Entwicklungsbank, other ministries, federal states, and municipalities.<sup>18</sup> ADA is, in addition, in charge of the supervision, monitoring and evaluation of the Austrian development cooperation.

A significant part of Austrian ODA is multilateral. Multilateral development cooperation plays an important role in Austria's development cooperation approach and the cooperation in the United Nations, the organisations of the United Nations Development Group and the European Union (EU) is entrusted to MFA.<sup>19</sup>

While ADA manages Austria's development Coordination Offices in partner countries, these offices work for the whole of Austria's development aid system. They are formally incorporated into Austria's diplomatic mission structure. In practice, the link between diplomacy and development at the field level is rather weak. The involvement of Austrian embassies in development cooperation hinges on diplomats' personal knowledge of development and instructions that diplomats get from the MFA. This can result in a strict separation between embassies and the Coordination Offices.<sup>20</sup> In the four BS countries, there is no resident Austrian ambassador while diplomatic affairs are managed by an embassy in the respective region. As a consequence, the Head of Cooperation (HOC) has a parallel function as Head of Mission (HOM), fulfilling diplomatic and representative functions in absence of a resident ambassador. With regard to BS, the Coordination Office is responsible for the political and the technical policy dialogue.

The same organization structure with a separate implementing agency also exists in Belgium. The main players within the Belgian development cooperation are the Directorate General for Development Cooperation (DGDC) and the Belgium Technical Cooperation (BTC). Since 1999, development cooperation policy and implementation in Belgium has been split between these two partner organizations. DGDC is the Belgian federal administrative entity for development aid.<sup>21</sup> DGDC is responsible for policy,

---

<sup>17</sup> "Gemeinnützige GmbH im Eigentum des Bundes".

<sup>18</sup> Source: <http://www.entwicklung.at/actors/en/>.

<sup>19</sup> Source: [http://www.entwicklung.at/activities/multilateral\\_development\\_cooperation/en/](http://www.entwicklung.at/activities/multilateral_development_cooperation/en/);  
<http://www.entwicklung.at/actors/mfa/en/>.

<sup>20</sup> OECD-DAC Peer Review Austria 2009:23.

<sup>21</sup> It is a part of the Federal Public Service Foreign Affairs, Foreign Trade and Development Cooperation, and comes directly under the Minister for Development Cooperation.

planning, financing and evaluation of the direct bilateral development cooperation. In addition to direct bilateral (governmental) cooperation, the DGDC co-finances and coordinates the other types of cooperation and is responsible for managing 60% of Belgian ODA. BTC, a public company fully owned by the Belgian State, is responsible for the implementation and monitoring of the direct bilateral cooperation.

Within all its partner countries, Belgium has a diplomatic representation and a representation office of BTC. Formally, the attaché (diplomatic personnel) leads the policy dialogue with the partner government and is supported by BTC. BTC with its relevant sector experts is responsible for the technical dialogue at sector level. This division of responsibilities with regard to the policy dialogue on BS seems to have resulted in various coordination problems at partner country level.<sup>22</sup> In recent years, Belgium has taken measures to improve this internal task distribution and has heavily invested in the policy dialogue by posting of BTC technical assistants both in ministries in the partner country and in donor offices. The former are accountable to the partner organization, while the later are working closely together with the attachés.

In the Dutch system a separate implementing agency does not exist. Bilateral development cooperation forms an integrated task of the Dutch embassies and lines of communication are short. The political dimension of the policy dialogue is supported directly by the political and diplomatic staff of the embassy, while sector experts are dealing with the technical dialogue.

---

<sup>22</sup> Due to the absence of a resident Austrian ambassador in all four BS countries, Austria has not faced the same coordination problems as Belgium because the Coordination Office is responsible for the full policy dialogue.

## 4 External Context

As with all other donor organisations, ADC's aid-giving system clearly does not operate in isolation but rather is affected by a wider external context. The external context is particularly important within this review – mainly because it has the potential to influence all other dimensions of the system (inputs, outputs, institutional set up, etc.). It is also important within the context of the benchmark analysis insofar as different donors react differently to factors from their external environment. This Chapter examines the external context facing donors operating BS operations. We define three key elements to the external context and look at each of them in turn:

- *The global architecture of aid* – driven in particular by the Harmonisation and Alignment (H&A) Agenda resulting from the Paris Declaration and the Accra Agenda for Action (AAA, Section 4.1);
- *The external context facing a donor at the Partner Country level* – influenced by a variety of factors including the structures and systems put in place by the Government, the number of other donors (and their relative preferences) and a variety of other context factors (Section 4.2); and
- *The external context faced by a donor in its home country* – most notably from wider public opinion and the lobbying and advocacy of development-related NGOs (Section 4.3).

### 4.1 The Global Architecture of Aid

There has been a significant push in recent years to make aid more effective and to reduce the often considerable burden which donor countries place on partner countries. Although in fact more nuanced and wide-ranging (see below), this debate has come to be seen in terms of a so-called 'Harmonisation and Alignment Agenda', i.e. the notion that donors should harmonise their activities (with those of other donors) and better align them with partner country policies. It is also closely associated with two related international agreements between donor and recipient countries – the Paris Declaration (2005) and the AAA (2008).

The Paris Declaration, endorsed in March 2005, is an international agreement signed by over 100 ministers and donor agency heads which committed their countries and organisations to continue to increase efforts in harmonisation, alignment and managing aid for results with a set of monitorable actions and indicators. It identifies five main areas for achieving joint progress toward enhanced aid effectiveness:

- *Ownership* - Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption;
- *Alignment* - Donor countries align behind these objectives and use local systems;

- *Harmonisation* - Donor countries coordinate, simplify procedures and share information to avoid duplication;
- *Results* - Developing countries and donors shift focus to development results and results get measured;
- *Mutual Accountability* - Donors and partners are accountable for development results.

The AAA was drawn up in 2008 and builds on the commitments agreed in the Paris Declaration. In a so-called ‘Agenda to Accelerate Progress’ it contains four key commitments:

- *Predictability* – donors will provide 3-5 year forward information on their planned aid to partner countries;
- *Country systems* – partner country systems will be used to deliver aid as the first option, rather than donor systems;
- *Conditionality* – donors will switch from reliance on prescriptive conditions about how and when aid money is spent to conditions based on the developing country’s own development objectives;
- *Untying* – donors will relax restrictions that prevent developing countries from buying the goods and services they need from whomever and wherever they can get the best quality at the lowest price.

Both the Paris Declaration and AAA have important implications for BS as an aid modality – both in terms of its position within the overall ‘modality mix’ as well as in terms of the way it is given. They are unambiguously supportive of BS and creating the conditions in which it can flourish. For example, the Paris Declaration has an indicator to halve the proportion of aid flows to government sector not reported on government’s budget(s) (with at least 85% reported on budget).<sup>23</sup> Whilst this does not specify BS *per se* (programme or even project aid can technically appear ‘on budget’), the notion that BS will increase in importance as an aid modality is clear. The AAA further increased this impetus, including inter alia a commitment that ‘donors recollect and reaffirm their Paris Declaration commitment to provide 66% of aid as PBAs. In addition, donors will aim to channel 50% or more of government-to-government assistance through country fiduciary systems, including by increasing the percentage of assistance provided through PBAs’ (Clause 15e).

## 4.2 The external context at Partner Country level

There are harmonised donor approaches to BS in all four BS countries – generally structured around Joint Assistance Strategies (JAS) with accompanying Joint Monitoring Frameworks. Formal pressure on small donors to adhere to these frameworks varies from country-to-country.<sup>24</sup> However, the implicit pressure on donors to adhere to harmonised

<sup>23</sup> Other key Progress Indicators include 1 (Partners have operational development strategies – Number of countries with national development strategies that have clear strategic priorities linked to an MTEF and reflected in annual budgets) and 2 (Reliable country systems – Number of partner countries that have procurement and PFM systems that either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these).

<sup>24</sup> For instance, this pressure is higher in Mozambique - where the Government strongly pushes for alignment – than in Uganda where non-members are still able to work with JAS members and the Ugandan Government.

frameworks is immense – largely because it is the only way in which they can engage in policy dialogues with other donors and with the partner country government.

In this section we will discuss briefly the ‘external environment’ in each of the case study countries.

### *Cape Verde*

A BS Group<sup>25</sup> was created in 2005, and included the World Bank, the European Commission (EC) and Netherlands. The coordinated approach used by the BS Group to align and harmonise their support for poverty reduction around the Growth and Poverty Reduction Strategy Paper (GPRSP-II – published May 2008) has helped to bring in new partners. As a result, BS Group has expanded to a total of seven partners with the African Development Bank (AfDB), Austria, Spain and Portugal joining the group. Donors conduct joint annual reviews, with the aim of consensus-building and lowering transaction costs for the Government. The Government and donors have developed a joint, streamlined matrix, which is used as a basis for discussions and disbursement in the donors’ respective operations.

### *Mozambique*

The Government of Mozambique started its efforts to engage in GBS in 1998. The approval of the Government's poverty reduction strategy PARPA (Plano de Acção para a Redução da Pobreza Absoluta) enabled the conditions for donor alignment on an agreed poverty reduction strategy. GBS was formalized in 2000 as a “common framework agreement” in a Joint Donor Programme for Macro-Financial Support between the government and bilateral donors. An original group of six donors rapidly expanded to 19 in 2009. Austria joined this group in 2007. While the focus of the agreement was on GBS, it also embraced other forms of programme aid and, specifically, sector support.<sup>26</sup> A Performance Assessment Framework (PAF) has been used as the shared instrument for dialogue and government performance assessment and for deciding on donors’ commitments for the following year. The assessment of the PAF indicators takes place during regular joint annual reviews in which both government and development partners’ representatives jointly participate.

Mozambique’s National Programme for Agricultural Development (Proagri) was developed in the mid-to-late 1990s as an attempt to build a common vision for national agricultural development. Proagri I (1999-2005) became the first sector programme in Mozambique. Austria supported Proagri I and decided in 2007 to support also its successor, Proagri II. In 2009, eight donors (Austria, Denmark, EC, Finland, Sweden, IFAD, Ireland and Canada)<sup>27</sup> supported Proagri II.

### *Nicaragua*

In 2003, ‘like minded’ donors in Nicaragua took the initiative to establish a Budget Support Group (BSG). With rotating leadership, this group appealed to both bilateral and multilateral development partners, including the World Bank (through its Poverty

---

<sup>25</sup> Cape Verde's major traditional bilateral donors are Portugal, USA, Luxembourg, Netherlands and Austria. The EC, Africa Development Bank, UN, World Bank and IMF are the major multilateral partners.

<sup>26</sup> OECD/DAC, Joint Evaluation of General Budget Support, Country Report Mozambique, 2006.

<sup>27</sup> As of 2010, Italy will also join with earmarked funding.

Reduction Support Credit, PRSC), the EC, Finland, Germany, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom (UK). A Joint Financing Agreement (JFA) became the basis for the GBS and the policy dialogue. In May 2005, a harmonisation and alignment action plan was agreed upon between Government and its development partners.

The policy dialogue that was initially appreciated by both Government and development partners<sup>28</sup> alike but experienced a twist in tone -from 2008 onwards- as a result of delays in disbursements by development partners in combination with a number of controversies.<sup>29</sup> The development partners could not maintain a single harmonised position and either slowed down the process of further alignment, froze their support for certain periods, reduced their contributions or pulled out.

Prior to and parallel to the development of GBS mechanisms, a number of sector (SWAp) programmes emerged in the education, health, water supply and rural development sectors. The first attempt for a kind of ‘programme aid’ was made in 2000 and this resulted in an initiative for a SWAp in the health sector in 2002.<sup>30</sup> From the start onwards, Austria has participated in the efforts to come to a sector-wide approach. This materialised in the signing of a MoU late 2005 for a basket funding mechanism, called *Fondo Nicaragüense para la Salud* (FONSALUD).<sup>31</sup> FONSALUD is a financing mechanism established in support to the (former) health sector programme, the Five Year National Health Plan (2005-2009). It is a basket funding with characteristics of BS. In 2005, the other partners to FONSALUD were Sweden, the Netherlands, Finland, the IDB, the World Bank, UNFPA and later Spain.

### *Uganda*

The provision of BS to Uganda goes as far back as 1998, with the funding of the Poverty Action Fund, which used notionally earmarked BS alongside HIPC debt relief. Today there are three different forms of BS in Uganda:<sup>32</sup>

- SBS – BS notionally earmarked to a particular sector, sub sector or programme within the sector, whether inside or outside the Poverty Action Fund. This represents the second largest BS flow, and has involved the largest number of donors – 13 up to 2004;
- Poverty Action Fund GBS – BS that is notionally earmarked to the Poverty Action Fund as a whole, but not to individual sectors;
- Full GBS – this is completely un-earmarked. About six donors have used full GBS as an instrument, and this includes the World Bank’s PRSC.

---

<sup>28</sup> The Budget Support Group in Nicaragua is composed of nine donors: the EC, (the UK), Finland, Switzerland, Germany, the Netherlands, Norway, the Inter-American Development Bank (joined later, in 2007) and the World Bank.

<sup>29</sup> Amongst the points of controversy figure the exclusion of two political parties in the run-up for the municipal elections in November 2008, and indications for electoral fraud during these elections.

<sup>30</sup> A breakthrough was the study launched by DfID and UNFPA: Dr.Linda Humphrey, Dr.Miguel Orozco. Support to the SWAp initiative in reproductive health and the health sector in Nicaragua. 2002.

<sup>31</sup> The MoU dates from August 2005. Austria signed later in autumn 2005. *Memorandum de Entendimiento (MdE) entre el Gobierno de Nicaragua representado por el Ministerio de Relaciones Exteriores y el Ministerio de Salud y los Socios para el Desarrollo Signatarios que apoyan al Sector Salud en relación al Fondo Nicaragüense para la Salud (FONSALUD)*.

<sup>32</sup> OECD/DAC, Joint evaluation of general budget support 1994–2004, Country Report Uganda, May 2006.

Austria provide SBS to the Justice Law and Order Sector Second Strategic Investment Plan, which is currently also financed by, Norway, Sweden, the Netherlands, and Ireland. Austria was also part of the SBS group in support of the Local Government Sector Investment Plan between 2006/7 and 2008/. This later group is currently financed by Belgium, Ireland, Denmark and the Netherlands. Given the limited progress with the LGSIP, most SBS donors decided to withdraw from funding, including Austria.

## 4.3 The external context faced by ADC in Austria

### 4.3.1 Development co-operation and public support

In Austria, the awareness about structural poverty alleviation of the public in general is modest at the best.<sup>33</sup> The general public still identifies development co-operation with NGOs. The public sector -the state- is not perceived as an ideal provider of development co-operation and there is limited confidence that resources will be used adequately. In spite of this, public support for development cooperation in Austria still seems rather strong, although it is lower than the average support in the EU-27. In a survey from the Euro Barometer in October 2009 on the importance of helping people in developing countries, 78% of Austrians indicated that this is either very important (27%) or fairly important (51%).<sup>34</sup> From the population in the EU-27, 88% indicated this as very important (39%) or fairly important (49%).

In most countries in Europe, the support for development aid has been reduced somewhat (varying mainly between 1% and 7% at country level) in recent years, probably due to the global economic and financial crisis. Nevertheless, 77% of the European population still thinks Europe should keep its promises to increase its levels of aid to developing countries in spite of the crisis. In Austria, the support to keep our promises is less, but still 65%. Therefore, there still seems to be strong public support in Austria for meeting the EU aid commitments. Yet, this strong public solidarity has not been translated into solidarity at the political level. The recent tightening of aid budgets, partly as a result of budgetary constraints induced by the financial crisis, exemplify this. Therefore, a scaling up of Austrian aid will not take place in the coming years; instead, the aid budget will be reduced.

Apart from awareness raising in general, there is no systematic communication strategy by the MFA and ADA regarding Austria's aid policy in general and the focus on development results in particular. Information, communication and development education are separated in ADA's organisation chart into the Information Office and the Public Awareness and Education Division, which is one of the four divisions. Both report directly to ADA's Managing Director. ADA allocated EUR 6.5 million of its operational budget to communication and education activities in 2007. Of this amount, EUR 4 million went towards global education activities, run mainly by Austrian NGOs. The objective of the latter is to create and support lively debates among Austrians about

---

<sup>33</sup> Source: Interview Information and Communication Unit, ADA.

<sup>34</sup> See Euro Barometer, Special Barometer 'Development Aid in time of Economic Turmoil', 19 October 2009.

development challenges and aid effectiveness.<sup>35</sup> The 2009 OECD DAC Peer Review stated that ADC and other aid-spending ministries need to review the way how they share with the public their policies and strategies, and hence how they can raise the profile of Austrian development co-operation.

The main aim of ADC's communication system is the raising of awareness and creation of public support for development co-operation by using different tools. ADA newsletters such as *Weltnachrichten*, *OEZA aktuell*, and *Newsletter Menschenrechte*<sup>36</sup> are intended to raise the general awareness of the public. Furthermore, over the last four years ADC has supported 'the North-South Dialogue of Parliaments'<sup>37</sup>. This project aimed at strengthening the political and societal support for development politics and international co-operation on national and bilateral levels. Within this project a quarterly newsletter has been published aimed at informing parliament, i.e. the parliamentary sub-committee on development cooperation, as well as other professional readers. The discussion forum „Dialog Entwicklung“ offers the opportunity for dialogue between the MFA/ADA and civil society. NGOs for their part are also actively promoting a critical dialogue on recent developments in ADC policy and strategies. For example, a number of key Austrian NGOs developed a positioning paper on BS in November 2005.<sup>38</sup>

The OECD DAC Peer Review suggested developing a comprehensive and well-targeted communication and advocacy strategy that promotes public and political debate about development co-operation in Austria.<sup>39</sup> The MFA should take the lead on developing it, in consultation with the Ministry of Finance (MoF), ADA and other government stakeholders of such a strategy. Efforts should be strengthened to win larger political and public support for development co-operation, and in particular for achieving international aid targets and the MDGs.

#### 4.3.2 Cooperation with NGOs

Cooperation with NGOs has always been of great importance to Austrian development cooperation.<sup>40</sup> The Austrian NGOs are to some extent the roots of the Austrian development cooperation, since some of them started their activities back in the 1950s and 1960s. A significant part of ADC's technical bilateral aid is provided via, internationally active, Austrian NGOs, for many of whom faith and charity has been their main motivating forces. NGOs can work as contractors to implement projects/programmes in the framework of ADC's regional, country, and sectoral programmes or cooperation can take place on a co-financing basis where ADC, based on NGOs' own initiative, co-finances specific projects and/or programmes.

The role of Austrian NGOs as contractors for implementing ADC's projects and programmes has diminished over time due to two core reasons. First, initially ADA's

---

<sup>35</sup> OECD, DAC Peer Review Austria 2009, Paris, 2009:29.

<sup>36</sup> See ADA website.

<sup>37</sup> See <http://www.nordsued-dialog.org>.

<sup>38</sup> AGEZ, KOO, and EU Platform, Positionspapier zu Budget Support, Wien, 25 November 2005.

<sup>39</sup> OECD, DAC Peer Review Austria 2009, Paris, 2009:12.

<sup>40</sup> Austrian Development Cooperation, NGO Cooperation; Austrian Development Cooperation Policy document, 2007, Vienna.



cooperation with NGOs was mainly focused on the implementation of ADC programmes and projects, but over time ADC increasingly developed their specific funding instruments (like NGO co-financing, humanitarian action, and development education in Austria). As a result, a part of the ADC funding shifted from programme/project implementation to these specific instruments. The second reason is linked to the Paris Declaration and new architecture of aid, as described in Section 5.1, which is a response to the growing international concerns about the effectiveness of aid and led to more focus on harmonisation and alignment. These developments encouraged ADC to provide more aid through PBAs and to work more with local partners in the partner countries. This reduced opportunities for Austrian NGOs to work as contractors for ADC.

### *NGOs and BS*

The shift towards the use of PBAs in general, and BS specifically, has been of concern for Austrian NGOs. While most interviewees from NGOs did not question the benefits of BS, they stressed the possible negative budgetary implications for them and expressed some concerns about that BS might result in a too strong focus on central-level policies and structures.

With regard to the dialogue on BS, ADA has organized workshops on BS for NGOs while NGOs contributed constructively to the development of the Austrian BS Strategy. NGOs have a regular dialogue with MFA and ADA through a structured dialogue mechanism whereby NGOs have the right to put topics on the agenda. In spite of this, they would welcome more transparency from ADC concerning its BS policy, especially with regard to its allocations of funds and its subject matter of the policy dialogue at country level.<sup>41</sup>

---

<sup>41</sup> Sources: Interviews with Horizont 3000, Licht für die Welt, Globale Verantwortung, and Koordinierungsstelle der Österreichischen Bischofskonferenz für internationale Entwicklung; Interview NGO Cooperation and Humanitarian Aid Unit, ADA.

# 5 Inputs

## 5.1 Introduction

In this Chapter we will discuss the inputs in ADC's BS system and compare them with the inputs in the systems of the two benchmarking agencies, Belgium and the Netherlands.

The inputs in the BS system that will be discussed in this Chapter are:

- Policies;
- Financial resources (the BS in monetary terms); and
- Human resources (capability and capacity of ADC staff managing BS).

## 5.2 Policies

The policy inputs are:

- The 'Three-Year Programme on Austrian Development Policy 2006-2008';<sup>42</sup>
- The 'Budget Support Strategy' 2009;<sup>43</sup>
- The 'Internal Guidelines for BS', draft September 2009;<sup>44</sup> and
- The Country Strategies for Cape Verde, Mozambique, Nicaragua and Uganda.

### *a) The Three-Year Programme (TYP)*

The TYP is Austria's main instrument for giving strategic direction to all government bodies involved in aid and defines priority themes, countries and aid channels for achieving the objectives. The TYP is prepared by the MFA in close collaboration with the Ministry of Finance. Other Ministries relevant for Austria's Development Cooperation are involved in the consultative process. The TYP combines a three-year strategy with an operational plan for the MFA and ADA. The strategic objectives of the TYP 2006-2008 relevant for the implementation of BS are stated in Box 5.1.

#### Box 5.1 The TYP's strategic objectives for BS

- A general scaling up of aid with the aim to reach the EU agreed minimum country targets of 0.51% of ODA/GDP by 2010 and 0.7% in 2015;
- Increased thematic concentration efforts. Austria will focus on six themes/ priority sectors:
  - Water & sanitation;

---

<sup>42</sup> Federal Ministry for European and International Affairs, Three-Year Programme on Austrian Development Policy 2006-2008, Revised version 2006, Vienna.

<sup>43</sup> Austrian Development Cooperation, Budget Support Strategy, Vienna, December 2009.

<sup>44</sup> Austrian Development Cooperation, Internal Guidelines for Budget Support, Draft September 2009.

- Rural development;
- Energy;
- Private Sector Development;
- Education and scientific cooperation; and
- Good Governance (including human rights, rule of law, democratisation, conflict prevention and peace.
- Moreover, Austria aims to promote the fight against HIV-AIDS. As the health sector is not a priority sector, support to this sector will primarily be provided through UN special programmes. The role of women is identified as another focal cross-cutting area of ADC support;
- The number of priority partner countries will remain at 15 in the regions of Central America, Sub-Saharan Africa, the Balkan and Asia and the Middle East, but the country assistance programmes will be supplemented by regional programmes;
- A qualitative shift of how ODA funds are spent, promoting a shift towards 66% of the bilateral operational budget to be implemented in the form of PBAs by 2010;
- Introduction of new modalities, i.e. SBS in order to promote the effectiveness and efficiency of aid. A phasing in scenario is envisaged whereby BS should account for 10-15% of the total operative ADC budget by the end of 2008; and
- Increased dialogue with civil society to improve transparency and accountability and understanding of Austria's development cooperation objectives and results.

Source: Federal Ministry for European and International Affairs, Three-Year Programme on Austrian Development Policy 2006-2008, Revised version 2006, Vienna.

The TYP highlights the need to formulate strategies and internal guidelines that guide its operationalisation and the development of appropriate procedures and quality assurance systems for aid implementation.

*b) The 'Budget Support Strategy' (BS strategy)*

The MFA prepared a first draft of the strategy on BS in 2006, in consultation with ADA and other ministries involved in development cooperation and NGOs. The draft was ready in 2007 and intended to be approved in the MFA hierarchy. Nevertheless, due to pressures from inside and outside MFA, MFA did not approve this strategy but reviewed it on a no-objection basis with the result that it was published as an ADA policy paper in 2009 instead.

The BS strategy provides an overview of definitions and concepts and highlights the advantages and risks of BS. The BS strategy has guided ADC implementation of BS operations in the four BS countries since 2007, in spite of its long approval process and not being endorsed as official government policy.<sup>45</sup> Box 5.2 outlines the key pillars of ADC's BS strategy.<sup>46</sup>

Box 5.2 ADC's BS strategy's key pillars

- ADA will gradually increase the proportion of bilateral aid provided as BS and aims to provide at least 10 to 15 percent of its annual operational budget in the form of BS by the end of 2008,

<sup>45</sup> Interviews with MFA and ADA.

<sup>46</sup> Austrian Development Cooperation, Budget Support Strategy, Vienna, December 2009.

whereby not all bilateral aid for a partner country will be provided as BS but complementary projects (e.g. those aimed at strengthening the administrative structure or civil society of the partner country) and other measures will also continue; ADA seeks, overall, to employ the most effective and efficient mix of aid modalities;

- ADA will only provide BS in priority countries, in order to ensure that Austria's cooperation offices are actively involved in the policy dialogue and that is being built on the experience gained during the many years of cooperation;
- Austria will focus the provision of budget support on its existing priority sectors in order to make full use of the comparative advantage it has acquired during the many years of involvement in the specific priority sectors it has concentrated its resources on;
- ADA will only provide BS in cooperation with other donors as it makes little sense for a comparatively small donor country such as Austria to provide budget support without the participation of other donors, given the facts that the preparation and monitoring of budget support programmes is very demanding and requires a broad range of specific professional expertise.

Source: Austrian Development Cooperation, Budget Support Strategy, Vienna, December 2009.

The BS strategy, further, highlights that only parts and not an entire country programme will be implemented through BS and that an appropriate complementary mix of modalities is maintained.

*c) The 'Internal Guidelines for BS'*

The strategic priorities and targets set out in the BS strategy and the TYP 2006-2008 have been operationalised in 2009 in the draft 'Internal Guidelines for BS'. These guidelines provide guidance to actors involved in the programme cycle for BS operations. This programme cycle encompasses programme identification, budgeting, appraisal, approval, implementation, and Monitoring & Evaluation (M&E).

*d) The respective country strategy documents*

Guidelines on the process of developing country strategies and their content have been prepared under the leadership of MFA and in cooperation with ADA management.<sup>47</sup> Country strategies need to be formulated for the Austrian priority partner countries. Yet, limited resources and lack of consensus on the purpose, content and monitoring of individual country strategies between MFA and ADA has hindered the regular design and update of these country strategies. In a number of the priority countries studied an up-to-date strategy is lacking, while Arbeitsfeldprogrammes (i.e. annual work plans) and the Arbeitsprogramm (i.e. ADA's annual work programme which has a formal status and needs to be endorsed by the Minister every year) are guiding the programme implementation.

**Cape Verde.** In Cape Verde, ADC has formulated and approved its last country strategy in 2006. This strategy covered the period 2006-2008. In March 2009, ADC decided to phase out the bilateral development cooperation with Cape Verde and to extend the country strategy (2006-2008) by one year without revision. The implementation of this strategy is guided by ADA's annual work plans for Cape Verde, prepared by the Coordination Office in close cooperation with HQ.

---

<sup>47</sup> MFA, Strategieentwicklung Methodologie. MFA, Country/Regional Strategies, 16 October 2009.

The main objective of the country strategy is to improve the living conditions of the poor in the rural and semi-urban communities of Santiago.<sup>48</sup> The strategy 2006-08 is focussed on the two interrelated programmes 'Integrated Resource Management' and 'Decentralization and Regional Development'. Gender and environment are considered to be cross-cutting themes.

The development cooperation activities are, according to the country strategy, being based on Cape Verde's PRSP. The majority of this support should be provided by means of project aid, while SBS is suggested to support the Second National Action Plan for the Environment, PANA II (Plano de Acção Nacional para o Ambiente II 2004-2014).

**Mozambique.** The Mozambique Country Programme 2002-2004<sup>49</sup>, which was extended till 2007, has governed the country programme from 2002 on. It evolved around two main pillars: (1) rural development, focusing on agriculture, economic development and water & sanitation and (2) decentralization, concentrating on capacity building support to sub-national authorities in the area of planning & budgeting.<sup>50</sup> While there was no formal successor country strategy guiding the country activities between 2008 and 2009, the programme built in practice forth on the earlier strategy. Recently, a new country strategy has been concluded for 2010-2013 and sent to Mozambican partners for approval.

**Nicaragua.** There has been no formally approved country strategy governing the Nicaragua country programme since 2006. The last country strategy dates back to December 2002 and covers the period 2003-2006.<sup>51</sup> This country strategy states that the underlying principles for the bilateral co-operation with Nicaragua rest in the PRSP (ERCERP), the policy dialogue and the efforts of government to eliminate corruption. It concluded proceeding with the ongoing activities in rural development, small and medium enterprise development and social sectors. Also the cross-cutting issues gender and environment as well as the concentration in the Atlantic Coast were continued. Bilateral negotiations between Nicaragua and Austria were concluded in 2007 and have not been renewed since then. The elaboration of a new country programmes is in a well-advanced stage.

**Uganda.** ADC's country strategy 2003-2005 focussed on three main sectors: water & sanitation, governance (in particular support to the Justice, Law and Order Sector (JLOS) and decentralization) and private sector development.<sup>52</sup> There has been no formally approved update of this strategy since 2006.<sup>53</sup>

---

<sup>48</sup> Kap Verde, Landesprogramm 2006-2008, Bundesministerium für auswärtige Angelegenheiten Österreichische Entwicklungs- und Ostzusammenarbeit, November 2006.

<sup>49</sup> The Mozambique Country Programme 2002-2004 and successor strategies will be referred to as country strategy in this report for consistency reasons.

<sup>50</sup> Österreichische Entwicklungszusammenarbeit, Landesprogramm Mozambique, Dezentralisierung – Ländliche Entwicklung, 2002-2004, Beira 2002.

<sup>51</sup> Österreichische Entwicklungszusammenarbeit, Landesprogramm Nicaragua 2003-2006, Dezember 2002.

<sup>52</sup> Austrian Development Cooperation, Country Programme Uganda 2003-2005, Wien 2002.

<sup>53</sup> Different stakeholders in ADC indicated in this regard that Austria contributed to the preparation of the Uganda Joint Assistance Strategy (UJAS) and that it received some strategic guidance from this document. Therefore, they felt less need for a country strategy.

In summary, it should be noted that, apart from the TYP 2006-2008 and Cape Verde's country strategy, the policy documents discussed can hardly be considered to be true, effective, "inputs" for the period covering the review. As stated above, both the BS strategy and the draft BS guidelines were only available from 2009 onwards. Furthermore, there were periods without updated and approved country strategies for Mozambique, Nicaragua and Uganda. Therefore, many of the policy inputs described below could not have contributed to the outputs described in the next chapter. The analysis of these inputs will, therefore, mainly be forward-looking and serve to provide insight into the current state of the policy inputs.

It is worth mentioning that since 2006 an informal document existed within ADC that described some best practices of other donors' procedures. It was used to assess the viability of BS operations in the respective countries. Discussions with staff members revealed that this document provided some guidance to decide upon the provision of BS.

The review questions of the ToR **on inputs** related to the **policies** are:

*ADC's BS policy/strategy compared with international best practice/practices of comparable donors*

How does ADC policy/strategy compare with international best practice and practices of donors comparable to Austria? What should be the future direction of ADC policy on BS in the light of its comparative strengths and weaknesses? (A1/4a)

This question relates to many of the other ToR questions and will be addressed in detail in this, and coming chapters. Chapter 8 "Main conclusions, recommendations and lessons learned" provides, in essence, the main answer to this question.

*Policies on the external division of labour in light of being a smaller donor*

Do ADC policies/respective policies of smaller donors define their role with regard to the division of labour in BS? Do these policies suggest that smaller donors should focus on areas of comparative advantage and specific expertise ("niche strategy")? Are there other specific strategies defined by ADC/comparable donors? (A2/4a).<sup>54</sup>

ADC aims to position itself as an active member of the donor community in the priority countries, by actively focusing on the areas in which it enjoys a specific comparative advantage. Its role as a relatively smaller donor is outlined in the BS strategy. According to this strategy, ADC will:

- Only consider BS in priority countries;
- Prefer to give BS in the priority sectors; and
- Only provide BS in cooperation with other donors.

Cooperation with other donors is sought to reduce the transaction costs that come with engaging in BS and to make the necessary expertise viable. The priority countries and

---

<sup>54</sup> Annex V provides an overview of the adapted questions of the ToR as stated in the inception report. Between brackets the inception report number of the question is provided, as well as the questions' number according to the ToR.

sectors are focused upon in order to employ the know-how and experiences gained through cooperation to date, cash-in on specific ADC expertise, and promote a clear value added in the policy dialogue.

Apart from these general guidelines, both the BS strategy and the BS guidelines do not include more detailed strategic guidance regarding, for example, the comparative advantages that could be focused upon or provide information on what a niche strategy might entail. In addition, no specific strategic guidance on ADC's BS operations as a small donor has been provided by the country strategies of Mozambique, Nicaragua, Uganda, and Cape Verde. For all countries but Cape Verde, no formally approved country strategy was available that governed BS operations. While Cape Verde's country strategy has stressed the implications of being a small donor in general,<sup>55</sup> it has not defined the possible specific value added and niche of BS.

#### *Policies of Belgium & the Netherlands*

Belgium is struggling with a lack of strategic guidance as regards BS in general and does not spell out a specific strategy as to how -as a smaller donor- it aims to promote a comparative advantage. There is no overall BS strategy but there is an operational guideline -though not with formal status- that outlines the major building blocks of how Belgium aims to implement BS operations.

Belgium considers the principle of division of labour, similar to ADC, as particularly important for a small donor. It has not explicitly defined particular niches or comparative advantages both in general<sup>56</sup> and with regard to BS.<sup>57</sup> Belgium recognises that it can have a value added in BS, also as smaller donor, if it provides a sufficient financial volume of BS to sector (see Chapter 6, question B2) and by investing in capacities for the policy dialogue (see this Chapter, Question A4, and Chapter 6, question B3).<sup>58</sup>

The Netherlands is not a small donor and does not focus on a specific niche. It supports partner countries' policies (or Poverty Reduction Strategy or National Development Plan) with GBS, but a larger share of its ODA budget is devoted to SBS.<sup>59</sup>

#### *Policy on delegated cooperation*

Do respective ADC/comparable donor policies define "delegated cooperation" as a desired/accepted option? If so, under which circumstances/conditions? (A3/4a).

---

<sup>55</sup> It has underlined the need to focus on the two interrelated programmes 'Integrated Resource Management' and 'Decentralization and Regional Development' to offer its specific know how in the dialogue with the government. ADC has, furthermore, identified, within the integrated resource management programme, the water sector as priority sector in order to concentrate its activities and to make best use of its specific expertise and know how.

<sup>56</sup> In practice its country engagement is focussed on fragile states and the education and health sectors.

<sup>57</sup> Based on interviews.

<sup>58</sup> Overall impact at country level has been undermined due to the high fragmentation of Belgian aid as a result of operating still in many non-priority countries and non-priority sectors, see for more information Annex I. (Source: ECORYS, 'Evaluatie van de Directe Bilaterale Ontwikkelingssamenwerking, 1999-2005', 22 December 2006).

<sup>59</sup> Scientific council for government policy, Less pretension, more ambition. Development aid that makes a difference, Amsterdam University Press, Amsterdam 2010.

ADC's policies do not define delegated cooperation as a preferred option. This is because ADC wishes to ensure some added value, beyond providing financial resources, with its BS operations by effectively participating in the policy dialogue and bringing in good technical expertise at the sector level. Delegated cooperation is, according to ADC's BS guidelines, accepted as a feasible option when it is part of an exit strategy. ADC could then, for example, choose to continue financing a BS operation until its conclusion, while delegating its management and monitoring to another donor.

#### *Policies of Belgium & the Netherlands*

Belgium and the Netherlands both work with delegated cooperation. Delegated cooperation is used by Belgium as part of its division of labor strategy and can be used when exiting from a sector. It is considered to be a possible option in the case of SBS and obligatory in the case of GBS (with delegation to EC or World Bank). It is estimated that delegated partnerships account for about 5-10% of Belgium's country programmes with 2 sectors, and for approximately 25% of its country programmes with 3 sectors.<sup>60</sup> Belgium is currently experimenting with delegated partnerships for GBS in the case of Mozambique. It has delegated its GBS support to the EC, but early experiences highlight that this has so far not worked well. Delegating financial resources to the EC has been costly, as the EC is charging a management fee, while at the same time Belgium stays engaged in the political dialogue. This delegation has not reduced the transaction costs for Belgium and created confusion among the G19 development partner group as to who is leading the policy dialogue (Belgium or the EC).<sup>61</sup>

The Netherlands has implemented delegated co-operation in a number of countries, mainly with respect to SBS. It has concluded far reaching agreements with the Nordic countries (in particular Norway) so that one donor can act on behalf of the other and each others procedures are fully recognised.

#### *Policy on donor's role in the policy dialogue*

Do ADC/comparable donor policies on BS address the role of ADC/the comparable donors in the policy dialogue? Do they deal with the possible tension between ADC's/comparable donors' interest to influence the dialogue vs. the need for harmonisation among donors? (A4/4a).

ADC's policies address its role in the policy dialogue. ADC should, according to the BS strategy and the BS guidelines, actively participate in donor coordination and policy dialogue through local Coordination Offices. In order to promote a clear added value in the policy dialogue, BS is preferred in the priority sectors.

The BS guidelines specify that respective Programme Officers (POs) of the ADC Coordination Office should actively participate in the technical working groups that are relevant to the BS operations and where an added value can be accomplished. No specific guidance is provided regarding the question what this added value can/should entail. The HOC should actively participate in higher-level fora. The guidelines, furthermore, state that these fora are part of the wider harmonisation framework and that ADC should

---

<sup>60</sup> Estimates made based on the interviews.

<sup>61</sup> ECORYS, Country Report Mozambique, 21 May 2010. Based on information provided in interviews.



participate in these regarding its total country strategy. ADC's policies do not deal with the possible tension between donors' interest to influence the dialogue vs. the need for harmonization among donors.

#### *Policies of Belgium & the Netherlands*

Belgium will only provide BS if it can add significant value by playing an active and qualified role in the policy dialogue and is regarded as an equal partner despite its size. Its Vademecum provides a number of principles, whereby field offices need to pay attention to generating a clear understanding of how Belgium aims to play an important role in the policy dialogue. Whenever BS ends, Belgium tries to stay engaged in the policy dialogue and Monitoring and Evaluation (M&E) in order to review whether results have been consolidated and funds have been properly accounted for.

The Netherlands focuses very strongly on the policy dialogue within the framework of the overall donor co-ordination structures that exist within each country and aims try to play a leading role in this dialogue. It distinguishes two types of policy dialogue. One type is a more technocratic dialogue on service delivery and value for money, discussing the monitoring indicators contained within the PAF. This dialogue is with government officials of the partner country, mainly from Ministry of Finance and line ministries.

The other type of dialogue is political with high level politicians (ministers or in some countries even the president) to discuss the underlying partnership principles that underpin the MoU of BS agreed with the partner country. In most countries, the Dutch ambassador is involved in this. This political dialogue has in recent years grown in importance. The Dutch has also pushed the EC to become more active in the political dialogue with regard to BS.<sup>62</sup> The underlying principles discussed in this dialogue cover issues such as democracy, respect for human rights and rule of law, commitment for poverty reduction and good public finance management.

#### *Policy on the relationship between BS and other aid modalities*

How do ADC policies define the relationship between BS and other aid modalities (which categorisation/terminology is used, which significance does BS have vis-à-vis other aid modalities)? And, compared to ADC, how do other comparable donors define the relationship between BS and other aid modalities? (A5/4a).

ADC's BS guidelines define BS by referring to the OECD/DAC and EC definition of BS as described in Chapter 2. The guidelines, subsequently, state that BS funds are thus not earmarked for specific purposes and are managed in accordance with partner country's budgetary procedures. The funds of the donor are included in the budget of the partner country ("on budget") and managed through the accounts of the national treasury ("on treasury").

According to the BS strategy and the BS guidelines, ADA should aim at using the most appropriate, effective, and efficient aid modality mix in each partner country. BS needs to

---

<sup>62</sup> The EC seems to be reluctant to get too much involved in political dialogue and stresses the need for predictability of its BS disbursements.

fit within the wider country assistance strategy and a clear preference exists for SBS to priority sectors.

The BS strategy states, very general, that different aid modalities have different strengths and weaknesses, but does not provide details about these specific strengths and weaknesses nor does it describe what an appropriate, effective, and efficient aid modality mix entails. These questions have also not been addressed in the BS guidelines. According to the BS Strategy, the specific country strategy should determine the modality mix and explain why the specific modalities have been chosen.

As mentioned before, no formally approved country strategy was in place for Mozambique, Nicaragua and Uganda that could have provided guidance with respect to the BS operations in these countries. As a result, guidance on the appropriate modality mix has lacked. In Cape Verde's country strategy, the most appropriate, effective, and efficient aid modality mix was not clearly defined. Therefore, in all four BS countries, the guidance regarding the modality mix has been weak.

#### *Policies of Belgium & the Netherlands*

Although there is a clear focus on BS within the Belgian development cooperation, BS is perceived to be a part of the wider aid modality mix. Belgium includes pooled or basket funds in its definition of BS, as often these aid modalities are precursors to SBS. It has, similar to ADC, a clear preference for SBS. The choice for SBS should be seen within Belgium's "portfolio approach", whereby different modalities besides SBS can be used, but all should be complementary to one another in supporting coherently a sector programme. Belgium has also not defined a clear approach and strategy as regards modality choice and mix.

The Netherlands also perceives BS as one element of the overall modality mix. Decisions on aid modalities are taken on a country-by-country basis. In contrast to ADC, the Netherlands does provide embassies with a clear operational framework for deciding on the appropriate aid modality mix. A highly elaborated decision-making tool – the 'Track Record' - (see Question A9 for more information) is used for making these decisions. Once a decision in principle has been taken for a particular aid modality in a given country, an "Appraisal Memorandum" is completed. This provides a detailed step by step elaboration – including all relevant information and risks.

#### *Policy on shares of BS of total ODA*

Do ADC/respective donor policies define a minimum or maximum share of BS of total ODA provided by ADC/the respective donor? (A6/4a).

It is stated in the TYP 2006-2008 that a phasing in scenario is envisaged whereby BS should account for 10-15% of the total operational ADC budget by the end of 2008. The BS strategy, furthermore, prescribes that not an entire country programme may be implemented through BS. ADC policies do not define a specific maximum share of BS of total ODA.

### *Policies of Belgium & the Netherlands*

Both Belgian and Dutch policies do not prescribe minimum or maximum shares of BS of total ODA. For Belgium, a maximum share of BS is defined on the country level as Belgian BS operations may not exceed 50% of the total country programme.

### *Preference for type of BS*

Do ADC/respective donor policies foresee a preference for either Sectoral Budget support (SBS) or General Budget Support (GBS)? (A7/4a).

ADC policies state a clear preference for SBS.

### *Policies of Belgium & the Netherlands*

As mentioned before, Belgium has also a preference for SBS. The Netherlands, on the contrary, does not have a preference for either SBS or GBS. The Dutch define the appropriate aid modality mix on a country-by-country basis following the usage of the Track Record methodology, see Question A5.

### *Policy on providing BS at the sub-national level*

Do ADC/respective donor policies define whether BS is, in addition to the national level, also provided at municipal or district level? Which strengths and weaknesses of such an approach are recognized? (A8/4a)

BS earmarked to a sub-national or regional level should, according to ADC's BS guidelines, not be pursued due to the risk of undermining national accountability structures, skewing national resources allocations, and therefore weakening ownership. In addition, the possible lack of capacity at the decentralised level is also mentioned as a reason for not providing BS at the sub-national or regional level.<sup>63</sup>

### *Policies of Belgium & the Netherlands*

Belgium has not defined any policy for providing BS to the sub-national level. There are, however, discussions taken place in Mali to review whether support to provinces by donors can be pooled or provided through BS. The Netherlands does not give sub-national BS, but does recognise that the risk exists that BS can contribute to overly centralised systems of government. The Dutch MFA wants to ensure a fair budget allocation system (fairness in terms of allocations to sub-national levels and fairness from the perspective of social inclusion), through existing budget review instruments, like the Public Expenditure Reviews and Public Expenditure Tracking Surveys.

---

<sup>63</sup> Nevertheless, a situation might occur in which this option should be studied further, for instance to strengthen the coherence with other activities. The health sector in the autonomous Atlantic Regions (RAAN and RAAS) in Nicaragua might be such a case. There is little strategic use, nor synergy, if BS strengthens the central government health sector that covers all, apart from the autonomous regions, while the regional governments responsible for health in RAAN and RAAS cannot receive BS that could improve the environment /context of all health projects supported by Austria (because all its projects are in RAAN and RAAS).

## *BS selection and eligibility criteria*

Which (selection and eligibility) criteria are defined in ADC/comparable donor policies to decide whether to provide BS to a country? (A9/4a).

According to the BS strategy, only ADC priority countries and ‘good performers’ can be eligible for BS. The decision to commence budget support needs, according to the BS guidelines, among other things, to be based on a comprehensive country and risk analysis. This analysis should focus on the eligibility criteria, as set out in the BS strategy, in the following areas:<sup>64</sup>

1. Good governance (i.e. adherence to human rights, respect for democracy and rule of law, and peace and security);
2. Macroeconomic stability;
3. National development or sector development strategy;
4. A Medium-Term Expenditure Framework (MTEF);
5. Sound Public Financial Management (PFM) and accountability;
6. Adequate institutional structures and absorption capacities;
7. A donor coordination framework under the leadership of the government; and
8. A performance monitoring system with a focus on results.

### *Policies of Belgium & the Netherlands*

Belgium uses the following eligibility criteria:<sup>65</sup>

- Guarantees of good (economic) governance: Using the World Bank’s IDA Resource Allocation Index (IRAI). IRAI is based on the results of the annual Country Policy and Institutional Assessment (CPIA) exercise that covers the IDA eligible countries;
- Macro-economic stability: the country needs to be on-track with an IMF programme;
- Presence of other donors providing BS: there needs to be at least one multilateral donor (EC or WB though they do not need to be in same sector) and one other bilateral donor in same sector;
- Reliable PFM: credible PFM reform programme in place and PFM analysis needs to be undertaken (Public Expenditure and Financial Accountability (PEFA), Public Expenditure and Tracking Survey (PETS), Public Expenditure Review (PER), etc.).

The Dutch use the Track Record (TR) as the principal instrument to assess the suitability of different aid modalities – including GBS and SBS - at a country-level. It is designed to provide an assessment framework which:

- Determines what level of alignment is feasible in a partner country and whether the aid modalities to be deployed satisfy the criteria corresponding to this form of alignment;
- Supplies annual monitoring information on country and programme progress; and
- Offers a mechanism for bringing together all underlying analyses that are relevant to decisions on modality mix and programme profile.

A detailed description of the Dutch TR is provided in Annex II (question A9).

---

<sup>64</sup> Austrian Development Cooperation, Internal Guidelines for Budget Support, Draft September 2009.

<sup>65</sup> For more information, please see Annex I.

Our comparative review with Belgium and the Netherlands, but also with other larger donors like DFID and the EC (see annex III for a summary of the eligibility criteria and risks assessments for BS required by various donors), has shown that ADC's eligibility criteria are large in number. Most other donors apply a more sequenced risk analysis, whereby a small set of measures function as eligibility criteria supplemented by an analysis of additional risks in order to give direction to the policy dialogue and risk mitigation strategies during implementation. Most other donors use a (combination of) stable macro-economic environment, PFM and a sound national or sector policy as basis for BS eligibility. These are then complemented with a more detailed risk analysis of other areas, which are comparable to those required by ADC.

Furthermore, the BS eligibility criteria of ADC are very much in line with the seven risk areas which the EC reviews when designing support to a sector programme. It should be noted however, that the EC does not give equal weight to all its criteria to determine GBS or SBS eligibility. As laid down in the EC 'Guidelines on the Programming, Design & Management of GBS (January 2007)',<sup>66</sup> to determine eligibility the following three criteria have to be classed as 'good enough': a stable macroeconomic environment, a well defined national or sectoral policy, and a credible and relevant programme to improve PFM that is in place or under implementation. The other four out of seven criteria have to be covered in form of a risk assessment but may show deficiencies.

#### *Policy on BS to fragile states*

Do ADC/respective donor policies on BS allow BS to be provided not only to good performers but also to fragile states? (A10/4a).

ADC's BS strategy and BS guidelines clearly state that BS may not be provided to fragile states.

#### *Policies of Belgium & the Netherlands*

Both Belgium and the Netherlands do allow the provision of BS to fragile states. Belgium operates currently in a number of fragile states, with which it had colonial ties, such as the DRC, Burundi and Rwanda. It has kept the eligibility criteria for BS broad enough to facilitate providing BS to fragile states whenever this is feasible and appropriate. Although its BS guidelines are applicable to both fragile and non-fragile states, Belgium does recognize that the guidelines might need to be adapted for the fragile states situation.

The Netherlands provide their BS to 'good performers' that fulfil their eligibility criteria, but incidentally also to the fragile state Burundi (as a form of emergency relief) and to states with security problems like Georgia and Colombia. In fragile states, the eligibility criteria for BS are not fulfilled. In their assessment, the Netherlands pay relatively strong attention to the political willingness of the partner government to reform and to the recent developments. In general, the question whether the Netherlands provide BS to a fragile state depends on the fragility of both the political and security situation.

---

<sup>66</sup> European Commission/ Aidco, "Guidelines on the Programming, Design & Management of General Budget Support, January 2007.

### *Policy on risk management*

Do ADC/respective donor policies address the risks of BS and how to deal with them? What are these risks and how are they to be dealt with? (A11/4a).

ADC's BS strategy distinguishes, based on DFID's 2007 Thematic Briefing "How can risks of General Budget Support be managed", the following four categories of risks related to BS:

- Macroeconomic risks;
- Fiduciary risks;
- Corruption; and
- Political risks.

To address these risks, and especially the fiduciary risks and risks of corruption, the BS strategy describes a number of key processes related to risk management. First of all, when selecting priority countries and countries eligible for BS, it needs to be ensured that certain minimum conditions and criteria are fulfilled. BS is only to be provided to "good performers". The BS guidelines demand a country and risk analysis that should focus on the eligibility criteria as set out in the BS strategy, see question A9. Once a detailed country and risk analysis has been completed, all the information is compiled and conveyed to all relevant ADC staff. Based on this information a recommendation is written on whether or not to provide BS. This recommendation should weigh the anticipated benefits of BS against the risks associated with the BS provision, as identified by the country and risk analysis, and draw summarised conclusions.

Second, the strengthening of partner country's PFM is described as an effective instrument to reduce corruption and fiduciary risk. Third, the system of checks and balances needs to be strengthened, by supporting Parliament, Supreme Audit Institution (SAI) and Civil Society Organisations (CSOs). Fourth, the political dialogue with the partner country is also mentioned as an important process to manage risks. Fifth, joint assessments and control mechanisms are described as key risk management instruments. It is stated that the active participation in these joint assessments and control mechanisms forms the basis for ADC's participation in the provision of BS. Sixth, the availability of reliable information and good quality analyses is deemed essential for risk management. Adequate resources must, therefore, be provided to support this.

The BS strategy, subsequently, notes that it will be a major challenge for ADA to provide sufficient technical expertise to effectively participate in the processes described above (especially in the political dialogue and the joint assessment missions).

### *Policies of Belgium & the Netherlands*

Belgium manages the risks related to budget support, firstly by setting minimum conditions associated with the preparation and implementation of the budget support programmes (eligibility criteria). In addition, Belgium makes a more specific analysis of performance risks to decide whether or not to provide budget support or to suspend disbursement during implementation.

The specific analysis related to performance risk pays attention to:

- Quality of the sector (or national) reform programme;
- Extent of political willingness in the country to implement reforms;
- Availability of capacity in the country to implement reforms;
- Availability of capacity in the donor group to follow up the policy dialogue and the progress of reforms; and
- Existence and quality of policy dialogue in partner country.

Risk management involves also ongoing M&E (audits and other assessments whose results can be attached to the disbursement conditions). Other assessments include for example a fiduciary risk assessment for which Belgium relies on other available assessments such as PEFAs, PETS and PERs, etc.

Moreover, an ex-ante financial control is performed by the Inspectorate of Finance during programme and implementation, through its mandate to approve programme documents and annual disbursements of BS. The OECD/DAC Peer Review has criticised long programming and approval procedures, which tend to be heavily centralised and focus on ex-ante controls. This limits the predictability and results-orientation of Belgian BS.<sup>67</sup>

For the Netherlands, the Track Record system (see Question A9) provides a basis for systematic analysis and risk mitigation in each country. Where risks are identified (whether fiduciary or related to the policy dialogue) there are a set of steps that can be taken (see Question A12 below), but the ultimate decision is taken on a country-by-country basis, with a heavy political involvement in the deliberations.

#### *Policy on the criteria for an immediate discontinuation of BS disbursements*

Do ADC/respective donor policies define specific situations or criteria for an immediate discontinuation of BS disbursements to partner countries (e.g. human rights violations, corruption scandals etc.)? (A12/4a).

According to the BS guidelines, the infringement of the so-called “fundamental conditions” could potentially lead to an immediate halt of BS. Only in the most serious situations a within-year cut of BS can be considered. The guidelines do not provide a detailed description of these “fundamental conditions”. Instead, it is stated that these conditions “are normally focussed on the respect for human rights and democratic principles, or also on the government’s basic policy stance in regard to macroeconomic stability and poverty reduction”.

The BS guidelines, furthermore, state that if BS conditions are not met, a graduate response should be chosen “that takes the aid relationship through a series of fully reversible steps in the direction of complete withdrawal over a period of time”.<sup>68</sup> The choice for a graduate response was made in order to avoid detrimental stop-and-go cycles and all-or-nothing responses.

---

<sup>67</sup> Belgium OECD DAC Peer Review 2005.

<sup>68</sup> Austrian Development Cooperation, Internal Guidelines for Budget Support, Draft September 2009.



### *Policies of Belgium & the Netherlands*

Belgium has, similar to ADC, not spelled out a specific strategy on the situations that may trigger the immediate discontinuation of BS disbursements. The specific risk analysis helps Belgium to decide whether or not to provide budget support and to suspend disbursement during implementation. Belgium aims to formulate a response closely coordinated with other donors in case the underlying partnership principles (e.g. free and fair elections, maintenance of human rights, reduction in corruption), which trigger a discontinuation of disbursement of BS, are breached or in case too limited progress has been made. Belgium will then also consult its internal Working Group on BS at HQ. The synthesised advice from the Working Group will be forwarded for approval to the Minister, upon prior approval by the Inspectorate of Finance. Recently, it has included in its guidelines that in case of fraud in a BS operation, the partner government will be asked to pay back the BS funds. Belgium expects to develop an appropriate policy in this area after having reviewed more extensively international best practices and lessons learned from its partner countries.

The Netherlands does have an official strategy, which is laid down in the Sanctions Policy for BS. The decisions are, nevertheless, taken on a case-by-case basis with, since 2008, a greater involvement of the Minister for Development Cooperation in BS decision making (the ultimate decision rests with the Minister). In cases where the partner country makes political choices that are not in line with Dutch official stands and policies, then an re-assessment is made of the policy-, political-, and financial aspects that may lead to consequences for the provision of BS. If the Netherlands begins to have doubts about the partner country's commitments to the Underlying Principles in the MoU then it seeks an initial dialogue with the government. Irrespective of the response from the partner country, several options can be used – all within the framework of a policy dialogue whereby the Dutch seek to give clear signals of their dissatisfaction and expected remedial actions:

- (Temporary) suspension of BS;
- Shifting from GBS to SBS; and
- Implementation of extra controls (independent audits).

Wherever possible, the Netherlands seeks to act in concert with other donors.

### *Policy on fixed and variable tranches*

Do ADC/respective donor policies state whether to use “fixed” tranches only or a model of “fixed and variable” tranches? Concerning variable tranches, are minimum contribution volumes specified in order to make this instrument feasible? (A13/4a).

ADC will, according to the BS guidelines, not employ variable tranches as these are only effective when the level of BS disbursed is high enough. No specific minimum contribution volumes for variable tranches have been specified.

### *Policies of Belgium & the Netherlands*

Similar to ADC, Belgium does not work with variable tranches. Reasons for this include the facts that graduated response mechanisms can only be effective if sufficient financial leverage can be generated and dialogue & responses around relevant performance criteria



are coordinated. Belgium is of the opinion that it cannot exert the necessary financial leverage given its relatively smaller size.

The Netherlands does make use of variable tranches. A system with ‘incentive tranches’ has been adopted, but only in partnership with other donors. The size of the incentive tranche is relatively small compared to the fixed tranche and its disbursement is linked to achieving the targets agreed in the PAF. The Dutch presents this tranche as a reward for additional efforts as opposed to a way of punishing poorly performing countries (a “carrot” as opposed to a “stick”). It is disbursed in full if a partner country has achieved at least 70 percent of its agreed targets.<sup>69</sup> At management level in the MFA, some doubts have been expressed regarding the success of this system. Some see it as very paternalistic donor behaviour and doubt the effectiveness of small incentive tranches on behaviour of the partner country.

### *Policy on cross-cutting issues*

How are cross-cutting issues (particularly gender and environment) embedded in the respective ADC/donor policies on BS? (A14/4a).

When the country and risk analysis is undertaken it should be assessed, according to the BS strategy and the guidelines, if the national development/poverty reduction strategy and, in the case of SBS, sector strategy sufficiently address the cross-cutting themes that are of particular importance to ADC. Gender and the environment are mentioned to be of specific importance in this respect. A strategic environmental assessment may need to be undertaken depending on the environmental relevance of the BS programme envisaged and existing analytical work produced by other donors.

### *Policies of Belgium & the Netherlands*

Belgium does not explicitly refer to cross-cutting issues like gender and environment in its BS strategy, although in practice these cross-cutting issues are often considered in the policy dialogue and integrated into the respective sector support programmes.

The Dutch aim to address cross-cutting issues primarily through the policy dialogue. Dutch representatives strive for the inclusion of these indicators on cross-cutting themes in the PAF. These PAF indicators form the starting point for the policy dialogue. In addition, the PRSP forms the basis for a wider dialogue and this generally covers also environmental and gender-based themes.

### *Policy on supplementary measures*

Which supplementary measures are defined as part of BS operations in ADC/ respective donor policies (e.g. strengthening PFM and planning systems, support to line ministries, promoting accountability vis-à-vis parliaments and civil society)? Do such policies foresee financial resources to be provided for these objectives and modalities to coordinate such support with other donors involved? (A15/4a).

---

<sup>69</sup> In fact the Dutch have adopted the system from the United Kingdom. This system deviates from the EC system in which tranches are disbursed proportionally linked to share of the target that has been achieved.

ADC's BS guidelines state that based on the institutional assessment, which is part of the country and risk analysis, supplementary measures should be identified to counter potential weak points of partner country's institutions and processes. The supplementary measures should always be coordinated with other donors. An assessment of the status of supplementary measures, followed by a needs assessment, is considered to be necessary in order to support supplementary measures in a strategic and efficient manner.

According to the guidelines, the supplementary measures should focus on:<sup>70</sup>

1. "Technical capacity for implementing units, mainly located within the government;
2. Control function capacity for legislature, civil society, donors etc.; and
3. Enabling environment, such as information availability or adequate legal framework".

For its BS operations in Cape Verde, Mozambique, Nicaragua, and Uganda, ADA's policy inputs did not explicitly define supplementary measures directly linked to the preparation of its BS operations.

#### *Policies of Belgium & the Netherlands*

Belgium has not spelled out a specific strategy on how to supplement BS operations, see Chapter 7, Question C5. It aims to underline the importance of strengthening PFM and good governance within sector programmes and focuses on public sector & human resource management, see Chapter 6, Question B2.

The Dutch consider it as being particularly important to support political participation and strengthened accountability alongside BS operations. They regard government capacity building in partner countries not as just being the business of the government but rather as a mutual responsibility in accordance with the Paris Declaration.

#### *Policy on measures to support the future independence of partner countries from BS*

Do ADC/respective donor policies include measures to support the future independence of partner countries from BS ("exit strategies") (e.g. strengthening of the domestic tax system)? (A16/4a).

The future independence of partner countries from aid, including BS, is, according to the BS guidelines, the ideal scenario and should actively be supported. BS is perceived as an important instrument to support this future independence, by strengthening national institutions and ownership. In addition, supplementary measures that make governments less dependent on aid and increase domestic revenues (such as tax income, tariffs, royalties etc.) are deemed essential and should be actively supported. What exactly this active support entails and how it should be provided in practice is not spelled out in detail.

#### *Policies of Belgium & the Netherlands*

Belgian policies do not include a specific strategy to support the future independence of partner countries from BS. Dutch policies increasingly include measures focused on the strengthening of tax systems. Taxation is deemed important as it can become, in the long-

---

<sup>70</sup> More detailed guidance on supplementary measures is provided in annex C of the guidelines where detailed examples of supplementary measures are provided.

term, partner country's most important source of independent financing and is perceived to contribute to domestic accountability.<sup>71</sup>

### *Policy on review and evaluation procedures for BS operations*

Do ADC/respective donor policies describe (joint) review and evaluation procedures for BS operations? (A17/4a).

ADC's policies do indeed describe (joint) review and evaluation procedures for BS operations. A detailed blueprint description of procedures is not provided as it is acknowledged that no simple recipe or standard formula can be applied to monitor BS successfully. According to the BS guidelines, the monitoring of BS operations will mainly take place at two levels:

- "Broad monitoring at the macro level, including monitoring of the political situation, macroeconomic development, PFM systems etc.;
- Specific monitoring of agreed performance targets (performance assessment framework) as the basis for the release of budget support tranches."

The Coordination Offices are, according to the BS guidelines, responsible for the monitoring of BS operations. The monitoring should be based on the:

- Review of reports and documents;
- Policy dialogue;
- Performance assessment framework;
- Joint review and monitoring missions; and
- Informal monitoring.

The BS guidelines, furthermore, provide some good practice principles for monitoring BS, which include the principle that "ADC should not implement any uncoordinated solitary monitoring processes". The guidelines, in addition, state that ADC should actively participate in joint review missions and their analytical work. Finally, joint evaluations in ADC's partner countries should be supported as feasible.

### *Policies of Belgium & the Netherlands*

Belgium also defines two levels at which the monitoring of BS operations takes place:

- Broader monitoring of progress in the area of PFM and with regard to implementation of the national and sector strategies in light of a policy dialogue with the partner government;
- Specific monitoring whether the eligibility criteria continue to be fulfilled to allow the disbursement of BS.

Belgium's M&E activities are based on a number of key principles, most of which are in line with the guidance provided in ADC's BS guidelines, like:

- The M&E systems should be based on the systems through which the partner government reports to its own parliament and should make use as much as possible of existing information;

---

<sup>71</sup> Dutch Minister of Development Co-operation, Letter to the Second Chamber of the Dutch Parliament on BS ("Kamerbrief naar aanleiding van motie Ferrier over begrotingssteun"), 3<sup>rd</sup> July 2009.

- Belgium relies in M&E of BS on joint donor reviews and other relevant appraisals (e.g. PFM assessments) and actively participates in these missions;
- Belgium sticks to the agreements of M&E negotiated for BS at country level and promotes the predictability of funding in terms of volume and timing; and
- Belgium will not only monitor progress based on joint donor reviews of government PAFs but will also review other sources of information (e.g. from civil society, media, NGOs, etc).

Dutch policy also describes (joint) review and evaluation procedures for BS operations, albeit in general terms. The M&E procedures differ in most cases from country to country on the basis of the level of harmonisation and relations/agreements with the partner country.

## 5.3 Financial resources

The review question of the ToR **on inputs** related to **financial resources** is:

What is the level of financial resources ADC commits to BS? (A18/4c).

Up to late 2009, ADA has provided BS to 4 out of its 15 partner countries, being Uganda, Mozambique, Nicaragua and Cape Verde. The total level of financial resources committed<sup>72</sup> to BS between 2005 and 2009<sup>73</sup> was EUR 31.7 million. ADA committed, during this period, a total of EUR 5.8 million BS to Cape Verde, EUR 9.8 million BS to Mozambique, EUR 4.7 million BS to Nicaragua, and EUR 11.4 BS million to Uganda (see Table 5.1).

Table 5.1 ADA's BS Commitments<sup>74</sup> (DAC, in EUR million)<sup>75</sup>

	2005	2006	2007	2008	2009 <sup>76</sup>	TOTAL
Cape Verde		1.8	-	-	4.0	5.8
Mozambique	1.0	1.0	-	7.8	-	9.8
Nicaragua	2.5	-	-	1.0	1.2 <sup>77</sup>	4.7
Uganda		1.8	3.5	2.6	3.5	11.4
<b>TOTAL</b>	<b>3.5</b>	<b>4.6</b>	<b>3.5</b>	<b>11.4</b>	<b>8.7</b>	<b>31.7</b>

Source: based on ADA Statistics.

In all four countries, ADA committed relatively small amounts of BS. This seems mainly to be due to the relative small size of the total bilateral country programmes, instead of to the specific share of BS within their country programmes, see also Chapter 6, Question B2.

## 5.4 Human resources

The review questions of the ToR **on inputs** related to **human resources** are:

### *Number of staff involved in BS operations*

What number of ADC/comparable donors' staff, at headquarters and field level, is involved in deciding, planning and implementing BS in relation to the number of operations as well as the volume of funds disbursed? (A20/4c).

<sup>72</sup> The term "commitment" here is used in accordance with the DAC definition - meaning the total funding volume of a binding funding agreement entered into in a given reporting year.

<sup>73</sup> Figures for 2009 are provisional.

<sup>74</sup> See comment footnote above.

<sup>75</sup> As part of this review it was found that the financial support to the Nicaraguan health sector programme (FONSALUD 1.2 million EUR) does not meet the definition of budget support as agreed by the DAC in 2008 through the new classification by type of aid. Therefore, Austria decided to no longer include this contribution in the budget support category from 2009 onwards and to re-classify it as "basket funds/pooled funding" type of aid. As a consequence, the total volume of budget support commitment from ADA in the period 2005-2009 reduces from EUR 31.7 million to EUR 30.5 million.

<sup>76</sup> Figures for 2009 are provisional.

<sup>77</sup> Austria has recently decided to re-classify this financial support, which was previously defined as budget support, as basket (or pooled) funding, starting from 2009.

Determining the exact number of staff involved in deciding, planning and implementing BS operations is difficult, as roles and responsibilities both at MFA and ADA are not delineated by aid modality but by functions, such as geographic, thematic or sector responsibilities, finance & audit, planning, communication and administration, etc. Most of the staff at MFA and ADA is in some way or another involved in the programming cycle of BS operations. The following persons play a particular role in this cycle:

- The HOC and POs in the Coordination Offices;
- The relevant country & thematic desks at ADA and MFA;
- The Director of Programmes and Projects at ADA; and
- The Director of Planning Department at MFA.

As specific roles and responsibilities within the programming cycle for BS operations are in the process of being finalized, by means of the Budget Support Guidelines, we base our comparison between Austria and the two benchmark donors on their respective total personnel figures of the MFAs and implementing organizations.

Within MFA, the department responsible for development cooperation is Division VII (see Chapter 3). This department has a total of 33 staff of which 21 permanent staff responsible for task management, 2 internships and 10 support staff. Of the total permanent staff, 11 have diplomatic status while 10 are non-diplomatic staff.<sup>78</sup>

Table 5.2 ADA staff distribution between HQ and field, 2004-2009 (in FTE)

	2004*	2005*	2006*	2007*	2008**	2009***
<b>Total ADA staff</b>	<b>128.6</b>	<b>140.6</b>	<b>150.1</b>	<b>154.6</b>	<b>145</b>	<b>150</b>
o/w:						
• Staff at HQ	48.8	62.6	70.1	75.6	74	76
• Staff in partner countries	79.8	78.0	80.0	79.0	71	74
o/w:						
International	21.3	19.0	21.0	22.0	24	24
Local	58.5	59.0	59.0	57.0	47	50

(\*) Figures provided by ADA Human Resource Management (HRM) Department and based on external audit figures.

(\*\*) Figures provided by ADA HRM Department and are as from December, 2008.

(\*\*\*) Figures provided by ADA HRM Department and are as from 27 October, 2009.

ADA staff numbers have steadily increased from 129 Full Time Equivalent (FTEs) in 2004 to 150 FTEs in 2009 with roughly equal distribution across Vienna HQ and partner countries. ADA recognizes that the number of staff at HQ is relatively high compared to the overall understaffed field offices. There is currently a cap on 158 FTEs.

Within Coordination Offices in the partner countries, about a third of ADA posts are filled by international staff and two-thirds by local staff. International staff numbers at

<sup>78</sup> Data provided by MFA.

field offices have increased somewhat since 2004 because of ADA's policy to attract more sector expertise, and local staff numbers have consequently decreased. Each Coordination Office has either a HOC or an acting HOC, totaling 18 in 2009. Furthermore, there were 13 sector experts and 10 programme managers at the Coordination Offices in Austria's priority countries, 7 were international and 16 were local (see Table 5.3).

Table 5.3 ADA staff profile in partner countries in 2009

<b>Total ADA staff</b>	<b>74</b>
Sector Experts	<b>13</b>
- International	5
- Local	8
Programme Managers	<b>10</b>
- International	2
- Local	8
HOC / Acting HOC	<b>18</b>
Other local staff	<b>33</b>

Source: ADA HRM Department and as per 30 November, 2009.

Among ADA's four BS countries, the Cooperation Office in Nicaragua is the largest with 8 staff members and Cape Verde the smallest with 4 staff members (see Table 5.4).<sup>79</sup> All four offices have next to the HOC also POs, except for Cape Verde. While in Uganda and Cape Verde the technical staff is exclusively international staff, Mozambique and Nicaragua work also with nationally recruited technical staff. In Uganda and Mozambique, the POs in charge of the BS operations under review have both managed two BS operations, while in Nicaragua and Cape Verde, the responsible officers managed one BS operation.

The cap on total staff numbers might have impeded a systematic expansion of qualified personnel (both sector experts and programme managers) to support the BS operations. This has become a particular issue at the Coordination Offices, which are generally considered to have limited staffing. The envisaged reduction of partner countries is also not necessarily leading to a freeing up of human resources for other partner country operations, because many contracts with staff in the phase-out partner countries (Senegal, Cape Verde, Macedonia, Montenegro) are not being extended.

<sup>79</sup> This office in Cape Verde still existed during the field mission in February 2010, but it has been closed on 30 June 2010.

Table 5.4 ADA staff in Coordination Offices in the four BS countries, as of end December 2009

	Cape Verde	Mozambique	Nicaragua	Uganda
<b>Technical staff (Total)</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>3</b>
Head of Cooperation (HOC) (all international)	1	1	1	1
Programme Officers (POs)				
- International	-	1	-	2
- National	-	1	3	-
<b>Administrative staff (Total)</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>4</b>
Head of Administration				
- International	-	-	-	-
- National	1	1	2	1
Other Support Staff (national)	2	2	2	3
<b>Total staff</b>	<b>4</b>	<b>6</b>	<b>8</b>	<b>7</b>
Number of POs in charge of BS operations under review	1 HOC in charge of Environment	1 PO in charge of GBS and Proagri	1 PO in charge of Health	1 PO in charge of JLOS & LGSIP
Volume of BS commitments (DAC) per PO in charge of BS operations under review (period 2005-2009*)	EUR 5.8 Mio. per officer (HOC)	EUR 9.8 Mio. per PO	EUR 4.7 Mio. per PO	EUR 11.4 Mio. per PO
Number of operations managed per PO in charge of BS operations under review	1 BS operation managed by 1 HOC	2 BS operations managed by 1 PO	1 BS operation managed by 1 PO; 2 operations in preparation	2 BS operations managed by 1 PO

Source: Authors' own calculations based on ADA statistics and other data provided by the Coordination Offices.

(\*) Figures for 2009 are provisional.

### *Comparison of ADA staffing with that of Belgium & the Netherlands*

Comparing ADA staffing with the staffing of the benchmark donors is somewhat undermined due to sketchy data availability on total staff numbers over time and differences in staff's responsibilities. For example, while Division VII in the Austrian MFA is primarily responsible for bilateral development cooperation and the Ministry of Finance for multilateral cooperation, the Belgian MFA manages total Belgian development cooperation. However, it is possible to compare Austria and Belgium by assessing the volume of funds managed by the two implementing agencies (ADA and BTC) in relation to their staff numbers.

Bilateral development cooperation funds managed by ADA equaled EUR 102.8 million in 2008 which were managed by roughly 150 FTEs (2009 figures). Belgian bilateral development cooperation was EUR 269 million in 2008 which was managed roughly by 393 BTC staff. In other words, the volume of Belgian bilateral development cooperation managed by BTC was approximately 2.5 times higher than that managed by ADA. It is however difficult to compare staffing directly between BTC and ADA. But total staff



numbers for ADA seem to be similar to that of BTC taking into account financial volumes.<sup>80</sup>

There are, however, a number of qualifications to be made to this comparison. First, in addition to the 393 BTC staff, in 2008 also 184 technical assistants worked in the projects worldwide for BTC together with about 73 development cooperation volunteers. In 2008, this amounted to a total of 650 staff at the disposal of BTC worldwide. Considering also technical assistants and volunteers, the total number of staff at BTC was 4.3 times higher than that of ADA. Second, BTC is currently in the process of recruiting a substantial number of additional experts, given its goal to achieve 0.7% of ODA/GDP by 2015 and its consistent shift towards BS and pooled funding arrangements. Third, Belgian development cooperation is in the field not only represented by BTC staff but also by MFA staff (which are usually an additional 2 international and 2 national staff per Belgian embassy). In the four ADC BS countries, there is no resident Austrian ambassador while diplomatic affairs are managed by an embassy in the respective region.

Furthermore, the small number of staff in the Coordination Offices and their responsibility for diplomatic tasks means that they have limited time available for aid management tasks, like project monitoring and, where relevant, the participation in the various sector and cross-cutting working groups.

Responsibilities for the Dutch development cooperation lie fully with the Ministry of Foreign Affairs, within which the Directorate General for International Cooperation (DGIS) is responsible for development cooperation. In 2005, the Ministry of Foreign Affairs (MFA) had 3,115 foreign service staff (53% men, 47% women) plus 2,067 local staff. While DGIS has a staff of 319 persons, it directly oversees 157 staff and shares management responsibility for an additional 162 staff with other director generals. The Dutch MFA estimates that approximately 1,000 of the foreign service staff work specifically on development co-operation, with about 50% of these based in The Hague and about 50% overseas. A very rough estimation is that approximately 150 staff members are involved in the programme based approaches at embassy level and at HQ level. Hence, larger size of funds spent by the Netherlands on development cooperation is also reflected by a substantial higher amount of staff. Especially compared to the Netherlands, ADC's field offices have serious diseconomies of scale.

Considering the staffing situation of other donors in ADC's four BS countries, most other donor agencies operate with a much higher level of staff than the coordination offices, involving generally one international and one national staff per sector of engagement.

### *Staff's professional background*

What is the professional background of respective ADC's/comparable donors' staff at headquarters and field level (experience with BS as a modality vs. sector knowledge vs. country knowledge vs. macro-economic knowledge)? Is there a specific thematic back-stopping capacity at ADC's/comparable donors' headquarters and/or in the field Coordination Offices? (A21/4c)

---

<sup>80</sup> It is assumed here that FTEs are roughly equal to staff numbers.

The diplomatic staff of MFA does not have a specific geographic or thematic profile, but is supposed to have diplomatic skills and generalist management qualities in order to facilitate rotation between embassies and HQ. ADA staff at HQ tends to have a specific geographic and/or thematic expertise. ADA staff at coordination offices is recruited usually based on a several years contract with generalist profile for HOC and specialist expertise for POs. Human capabilities of ADA staff are determined by knowledge and expertise, motivation and (financial) incentives.

### *Knowledge & expertise*

An in-depth analysis of the expertise and skills of ADA staff, both at HQ and the Coordination Offices, is outside the scope of this Review. The perception, based on a quick assessment only, is that POs and HOC have built good knowledge of the sectors of engagement, the financing modalities, and the country specific context. Most of this experience has been gained on-the-job, rather than by training. Apart from Nicaragua, the availability of local advisory capacity is quite limited. This limits the understanding of the particular country context and political economic issues and jeopardizes the institutional memory built-up and continuity (see also Question C10).

Currently there is limited specialized expertise on BS within ADA. Only two staff members have extensive relevant BS knowledge: one PFM adviser at HQ and one PO in the Coordination Office in Mozambique. However, the HOCs and the POs in charge of BS operations in BS countries, too, have all built up relevant knowledge on BS. Again, this knowledge has been gained primarily through learning by doing rather than by systematic training opportunities.

The profile of the officers in charge of BS in the four partner countries is quite diverse, as is highlighted in the Table below. This diverse profile has not only to do with the particular roles and responsibilities of the respective officers but also with the type of sectors in which the BS operation takes place. For example, in Cape Verde the HOC is in charge of the BS operation. He has been the only technical staff member in the office and seems to have a more generalist background. He is a geographer by education with past experience in environmental issues, information systems, and in harmonization and alignment. In Mozambique, the PO in charge of BS to the agricultural sector and GBS has also a more generalist background.

Table 5.5 Available expertise relevant for BS in the four case study countries, as of December 2009

Country	BS sectors	Officers in charge of BS	Position of officer in charge of BS	Type of expertise
Cape Verde	Environment	1 international	HOC	Generalist
Mozambique	GBS Agriculture	1 international	PO	Generalist, i.e. BS
Nicaragua	Health	1 national	PO	Specialist, Social Sectors
Uganda	Justice, Law and Order Decentralisation	2 international	PO	Governance Water & Sanitation

The Coordination Offices have received technical backstopping support from ADA's regional and thematic desks. The recruitment of additional staff in Vienna on PFM related matters has helped to build knowledge of PFM.

In the framework of BS operations, the use of centers of excellence (e.g. academic research institutes) or consultancy advice for specific expertise has been limited, except for the water & sanitation sector in Uganda and for environment in Cape Verde.

#### *Capacity development*

There is no explicit strategic targeting of the capacity development of ADA staff with an eye to support BS operations effectively. Some trainings on BS, PFM and gender budgeting have taken place but these have not been systematic across various ADA HQ departments and Coordination Offices. The opportunities for joint donor training or in-country training provided by other donors or specialized national training institutes have been limited, except in Mozambique. Overall training organized by ADA on sector-specific issues, (macro-)economic skills, PFM, and aid modalities (e.g. BS) has been limited across HQ and coordination offices.

Moreover, there are limited opportunities to exchange experiences on BS between HQ and Coordination Offices and among the officers. There is an annual HOC event and recently a bi-annual event for POs has been launched. More sector-related exchange of experiences across staff from different Coordination Offices or with the thematic desks in HQ is rare.

#### *Belgian and Dutch staff's professional background*

Like Austria, the Belgian development cooperation recruits staff with generalist background for the MFA positions and staff with thematic or geographic specializations for the BTC posts. Although the Dutch MFA tends to hire generalist civil servants through open competitions, the strong competition for positions tends to lead to high quality staff that has a genuine interest in international relations and development cooperation. Staff enters with varied academic backgrounds, although there is a relatively high share of economists, political scientists, lawyers and public administration specialists. Both donors tend to work with local contract staff in their field offices to strengthen the institutional memory built up and continuity of staff over time, in light of rotating international staff.

A major building block of both donors' capacity development strategy has been the recruitment of experts with relevant knowledge around aid modalities, PFM, and macroeconomics, as well as the building of in-house capacity in these areas at both HQ and field offices.

At BTC there are currently 15 BTC sector experts operating in its partner countries on BS. At BTC HQ, there are 3 experts primarily in charge of BS with another 2 planned (with expertise in governance, PFM, economics), besides sector expertise. Belgium has further undertaken efforts to promote capacity building around BS (but recognizes that a more comprehensive capacity building strategy will be needed both in the field offices as well as at HQ in the future to improve effectiveness in the policy dialogue):

- By the posting of additional sector expertise and PFM expertise (as BTC Technical Assistance (TA) was deemed necessary to support the policy dialogue around BS in the partner countries), and the successively building up of related expertise at HQ;
- By the development of a database that includes best practice principles as regards MoUs, Financing Agreements, and other issues related to the implementation of BS operations;
- Once a year, all attachés come together for the annual attaché event which can include discussions on lessons learned around BS;
- Likewise, there are regular trainings for BTC personnel on BS and related issues; and
- At HQ, the BS working group discusses monthly any issues arising from BS operations in the partner countries and reviews the relevance and appropriateness of Belgian BS strategy in this context.

At the Dutch MFA, through both dedicated training and on-the-job experience, staff quickly builds significant experience in both PFM and wider aid modalities – particularly after postings in countries receiving BS. The policy of rotating staff between HQ and field postings every 3-4 years may count against staff building significant country knowledge. In practice, however, many staff develops a strong affinity for a particular region (e.g. East Africa, South-East Asia, and Latin America) and build an extensive track record in that region – often rotating between countries in this region and postings at HQ related to that region over a period of many years.

The Dutch MFA is also aware that the capacities demanded of its staff will continue to evolve on a long-term basis. A strong focus is therefore on ensuring high-quality and innovative training for existing staff with a particular focus on building capacity for higher-level policy dialogue around GBS and political governance.

Since 2003, the Dutch MFA has operated its demand driven PFM Support Programme in 28 partner countries, covering all countries that receive Dutch BS. The programme primarily aimed at building PFM capacity of Dutch embassy staff. Within this programme, training events have been offered and on the job training takes place. The Dutch have also launched a Support Programme for Institutional and Capacity Development (SPICAD) to assist embassies with the move towards new aid modalities and the complexity of current programmes. This programme is flexible in its application and provides support across a wide-range of different topics, including working with drivers of change; capacity challenges in sectors; public sector and civil service reform; accountability and transparency; decentralization; inclusion and democratisation; and poverty analyses. Furthermore, the Dutch have developed a number of specialised and innovative courses on aspects of development co-operation such as PRSPs and SWAps together with other bilateral donors. For example, the “learning and developing” project allows the development co-operation sections at the embassies to work on the difficulties they encounter in implementing SWAps.

In recent years, it has been recognized that the shift in Dutch policy towards BS requires an expansion of capacity within embassies. In particular, a need is felt for more fiscal revenue experts, financial specialists and macroeconomists.

## 5.5 Conclusions

### *Policies (strategic focus)*

Since ADC began providing BS in 2005, it has been gradually developing an associated policy framework. Yet formal strategic guidance to BS remains limited. The ADC BS Strategy was only formally approved in September 2009, while the draft BS Guidelines are still being finalized. Furthermore, the country strategies in the four BS countries (Cape Verde, Mozambique, Nicaragua and Uganda) were not regularly updated. These missing pieces have limited ADC's ability to explicitly formulate specific objectives. Add to this the fact that ADC is a relative newcomer in the BS arena, and the organisation finds itself in danger of engaging in *ad hoc* interventions with little integration into wider, country-strategy thinking.

### *Financial resources (size of BS contributions)*

Our study of experiences of small donors and our more in-depth analyses of Belgium and the Netherlands show that donors tend to play a more effective role in the policy dialogue if they provide a sufficiently large financial contribution. It gives them 'natural' weight, especially in highly aid-dependent partner countries with a large number of donors.

Furthermore, BS entails high transaction costs for all parties involved, irrespective of the size of BS. Therefore, donors need to provide BS that is (financially) interesting to the partner government and acceptable for their own cost-benefit considerations. The minimum amount should definitely be larger than one million euros per annum. The precise minimum will depend on a variety of factors, such as the type of BS, the number of donors, the overall size of the government budget in the partner country, and the size of the budget of the specific sector. This also explains why smaller donors are focussing more on SBS rather than GBS operations.

The current size of ADC's aid and BS in the four BS countries demonstrates that ADC is very small in financial terms. Its contributions are amongst the lowest of all BS donors. ADC's bilateral aid is low because Austria allocates few resources to bilateral cooperation, and especially to Austrian priority countries. The relatively high number of priority countries adds to this aid fragmentation. Yet, increasing either ADC's total aid or its resources allocated to BS is unlikely to happen in the coming years due to the current trend of tightening aid budgets. This, together with the fragmentation, underlines the need for a more targeted and consolidated approach. Achieving a sufficient level of BS per partner country may require a small donor to concentrate its efforts on fewer countries and sectors. In this regard, Austria can learn some lessons from Belgium on how to manage its fragmented bilateral aid budget. Belgium concluded that its aid was allocated in too small amounts to too many partner countries. In response, it considerably reduced its number of partner countries from 25 to 18 while increasing its overall aid budget.

### *Human resources (staffing and staff capacities)*

How do ADC' staff capacities compare with the staff capacities of comparable donors? Are additional staff at headquarters or in the field offices required to ensure efficient and effective implementation of BS? Would additional staff help ADC to position itself as a small, yet active member of the donor community?" (A19/4c).

ADC's Coordination Offices have limited staff given the nature and scope of their current tasks. Using more aligned modalities and participating in the policy dialogue have increased workloads for staff and changed requirements for skills and expertise. Comparing ADC with the Belgian and Dutch development cooperations show that the amount of aid per FTE has been more or less similar, but that Belgium and the Netherlands have more staff in the field offices because of their larger aid budgets. Furthermore, the staff in the Cooperation Offices must now manage diplomatic tasks, further limiting time available for aid management. Especially compared to the Netherlands, ADC's field offices have serious diseconomies of scale.

Training for ADC staff is not strategically targeted at BS operations. ADA has organized training on PFM, aid modalities and gender budgeting, but has not organized these systematically for all departments at the headquarters and Coordination Offices. The opportunities for joint donor training, in-country training by other donors, or specialized national training institutes have been limited, except in Mozambique. Belgium and the Netherlands have more systematically strengthened their operations via targeted, capacity-building initiatives.

Moreover, the headquarters and various Coordination Offices exchange little of their experiences. An annual Head of Cooperation event and a bi-annual event for Programme Officers have been launched; however, more sector-related exchanges between Coordination Offices or with the thematic desks in headquarters are rare.

#### *Cross-cutting issues*

Engagement in BS and in the various working groups requires not only a good understanding of sector-specific issues but also of cross-cutting issues such as gender, environment, governance and PFM. The ADC BS Strategy and its draft guidelines explicitly refer to these issues. Within the preparation for BS, ADC carries out a country risk assessment. This assessment addresses whether the national development strategy (in the case of GBS) or the sector strategy (for SBS) sufficiently cover the cross-cutting issues. Cross-cutting issues are mainly covered in the policy dialogue related to BS and indicators for these cross-cutting issues are incorporated in the PAF. The Dutch development cooperation underlines the need to do this.

# 6 Outputs

## 6.1 Introduction

In this chapter, we will focus on the outputs produced. As noted in Chapter 5, many of the policy inputs discussed could not have informed the BS operations in the period under review. Attention will, therefore, be paid to the question whether the limited availability of policy inputs had implications for the outputs of the BS operations.

The expected *outputs* of the system are:

- Expansion of resources available to the partner countries for agreed upon policies and strategies. This agreement takes the form of a policy dialogue with the partner government and is shaped and facilitated by a harmonized donor community. This also comprises agreements on monitoring of results through performance indicators and Performance Assessment Frameworks (PAF);
- An improved implementation capacity of the partner country; and
- A reduction in transaction costs for partner countries.

## 6.2 Review questions on outputs

The review questions of the ToR *on outputs* are:

*Are BS operations in line with the policy inputs?*

Are BS operations currently funded by ADC in line with the policy provided by the a) Three-Year Programme on Austrian Development Policy, b) the policy documents on BS and c) the conditions defined in the respective country programme documents ("Landesprogramm") (see e.g. General Budget Support Mozambique)? B1/4d

*a) The 'Three-Year Programme' (TYP)*

The strategic objectives of the TYP 2006-2008 were described in Chapter 5, Box 5.1. For the BS operations, the most relevant objectives of the TYP are the fourth and fifth:

4. A qualitative shift of how ODA funds are spent, promoting a shift towards 66% of the bilateral operational budget to be implemented in the form of PBAs by 2010;
5. Introduction of new modalities, i.e. SBS in order to promote the effectiveness and efficiency of aid. A phasing in scenario is envisaged whereby BS should account for 10-15% of total operative ADC budget by the end of 2008.



With regard to objective 4, it is unlikely that Austria will achieve this 66% target by 2010. The OECD DAC Peer Review 2009 has highlighted that Austria has *reduced* its common arrangements through PBAs from 46% in six partner countries in 2005 to 31% in 10 partner countries in 2007.<sup>81</sup>

Regarding objective 5, the shift towards BS relied on the assumption of a scaling up of aid with the intention that budget allocations to other aid modalities and channels (e.g. to NGOs) would not decline. A slow phasing in of BS was aimed for to generate commitment to this new aid modality while responding to sceptics within ADC and to anxieties about budget cuts from NGOs.

The general trend in scaling up of BS has been positive until 2009. The target of BS to account for 10-15% of the total operative ADA budget by the end of 2008 has been fulfilled as BS accounted for approximately 10% of ADA's total bilateral commitments in 2008.<sup>82</sup> BS has been provided in 4 out of the 15 priority partner countries - Uganda, Mozambique, Nicaragua and Cape Verde. All four countries received SBS, while Mozambique was the only country that also received GBS.

A further scaling up of ADC aid is not likely to happen in the next few years, in part fuelled by the budgetary repercussions of the financial crisis and budget cuts. As a result there is increasing reluctance at the political level to proceed with the implementation of ADC's BS strategy.

#### *b) Policy documents on BS*

**The Strategy on Budget Support, 2009.** The BS strategy has guided ADC implementation of BS operations in the four BS countries since 2007, in spite of its long approval process and not being endorsed as official government policy.<sup>83</sup> The core issues of the four key pillars<sup>84</sup> of the BS strategy are to:<sup>85</sup>

- Phase-in BS and achieve the target of 10-15% of ADC's annual operational budget provided in the form of BS, while maintaining an appropriate, complementary mix of modalities;
- Only provide BS to priority countries;
- Provide BS preferably to priority sectors; and
- Provide BS only in cooperation with other donors.

In line with the first two pillars, ADC has managed to rapidly phase BS into the bilateral country programmes of the four priority countries studied and has achieved the target of 10% as described above. With respect to the third and fourth pillar, in all countries but Nicaragua BS been provided to ADC priority sectors and, indeed, only in cooperation with other donors.

In summary, ADC has fulfilled the requirements of the BS strategy in all the four BS countries, except with regard to the sector choice in the case of Nicaragua (see Table 6.1).

---

<sup>81</sup> OECD, DAC Peer Review Austria 2009, Paris, 2009.

<sup>82</sup> Source: Authors own calculations based on ADA Statistics.

<sup>83</sup> Interviews with MFA and ADA.

<sup>84</sup> See Box 5.2 above for a more detailed overview of the key pillars of the BS strategy.

<sup>85</sup> Austrian Development Cooperation, Budget Support Strategy, Vienna, December 2009.



Table 6.1 Fulfilment of the pillars of ADC BS Strategy in the four countries

Main pillars of ADC's BS Strategy	Implementation experiences with ADA Country Programme			
	Cape Verde	Mozambique	Nicaragua	Uganda
• BS only in priority partner countries	✓	✓	✓	✓
• SBS only in priority sectors (focal sector)	✓ (rural devt. and water & sanitation)	✓ (rural devt.)	no health (not a general priority sector)	✓ (good governance)
• BS only in cooperation with other donors	✓ one other in the sector and six more in BS Group	✓ seven others	✓ eight others	✓ five others

**The Guidelines for Budget Support, 2009.** The Guidelines for BS were formulated in 2009. Between 2005 and 2009, there were no official guidelines steering the programming cycle of the BS operations in the four partner countries. Nevertheless, the eligibility criteria applied and the risks assessments made in the four BS countries studied look very similar to those formulated in the guidelines.

*c) The respective country strategy documents*

It is difficult to say whether the BS operations in the countries studied were in line with the conditions defined in the respective country strategies. This is due to the lack of approved country strategies during the period of BS operations and/or the lack of strategic and operational BS guidance in the (old) country strategies that were available. The absence of recent country strategies in combination with limited strategic and operational guidance on BS has resulted in the situation whereby objectives, value added and niche, the modality mix, and the supplementary measures of the BS operations in the BS countries have not been clearly defined (see Chapter 5). Therefore, it is not possible for the review team to assess to what extent ADC's experience with BS, and its decisions taken, have been in line with the country strategies.

Nevertheless, the lack of strategic and operational guidance has not seriously undermined ADC's successful engagement in BS operations because ADC joined existing BS operations. As a result, systems developed and tested by other donors guided ADC's BS operations and hence reduced ADC's risks involved (see Chapter 7, Question C2).

A brief outline of the relevant issues per case study is provided below.

**Cape Verde.** As mentioned in Chapter 5, Cape Verde's last approved country strategy covered the period 2006-2008 and was extended in 2009 by one year without revision. Due to a lack of operational guidance on BS in 2006 (i.e. a formal BS strategy did not

exist yet) the objectives, the value added, the modality mix and the supplementary measures of BS were not clearly defined in this country strategy.

**Mozambique.** While there was no formal country strategy guiding the country activities since 2008 (see Chapter 5), the country programme built in practice on the earlier 2002-2004 strategy (extended till 2007).<sup>86</sup> The lack of a formally approved country strategy since 2008 undermined strategic objective setting with regard to ADC's aims in Mozambique. An effective country strategy design process in 2007 could have been supportive in defining the overall strategic objectives for ADC in the period beyond 2007 and in determining the appropriate modality mix.

**Nicaragua.** As described in Chapter 5, the last country strategy for Nicaragua dates back to December 2002 and covers the period 2003-2006.<sup>87</sup> This country strategy remained officially unaltered till recently.<sup>88</sup> The Coordination Office in Nicaragua has elaborated annual work plans that refer to ADC's broader policy documents, like the 'TYP' and the activities in the field of coordination and programme coherence for aid effectiveness.<sup>89</sup>

**Uganda.** As described in Chapter 5, there has been no formally approved update of the last country strategy (2003-2005). In practice, the current programme builds on the sector focus of the strategy 2003-2005 with a rationalisation of programme activities into fewer sectors and more aligned modalities. Over time, ADC has managed to increasingly consolidate and streamline its portfolio in order to fulfil its international commitments on aid effectiveness. Currently, ADC is active in 2 sectors: water & sanitation and governance and most of its funding has been allocated to these sectors.

### *ADC's role regarding financial contributions and supplementary measures*

What role does ADC play regarding both financial contributions and supplementary measures to BS operations in recipient countries compared to those of comparable donors? (B2/4d)

#### *a) ADC's role regarding financial contributions*

ADC has joined existing BS operations in all four BS countries by adding relatively small amounts of BS.

**Cape Verde.** In 2009, the eight members of the BS Group disbursed US\$ 73 million in the form of BS.<sup>90</sup> Roughly one third of this amount was received in the form of grants. Three European bilateral donors (Austria, EUR 1.0 Mio., the Netherlands, EUR 3.5 Mio. and Spain, 3.675 Mio.) provided SBS grants, the EC (EUR 8.5 Mio.) and Portugal (EUR 1.5 Mio.) gave GBS grants, while IDA (USD 15 Mio.) and the AfDB/AfDF (USD 32.8 Mio.) provided concessional loans.<sup>91</sup> Austria was the smallest donor in the BS Group with

<sup>86</sup> Recently, a new country strategy has been concluded for 2010-2013 and sent to Mozambican partners for approval: Mosambik Country Strategy 2010-2013, 15 March 2010.

<sup>87</sup> Österreichische Entwicklungszusammenarbeit. Landesprogramm Nicaragua 2003-2006. Dezember 2002.

<sup>88</sup> A design process has resulted in February 2010, in a new draft country strategy for the period 2010-2013. This new strategy helps to give some strategic focus and pays explicit attention to coherence and complementarity between aid modalities. However, it does not provide clear strategic choices when it comes to the use of BS or other PBAs.

<sup>89</sup> ADA. Planung des Arbeitsfeldprogramms 2010. Schwerpunktland Nicaragua. Version vom 19.01.2010.

<sup>90</sup> After converting from Euro to US Dollars against an exchange average rate of 0.72 for 2009.

<sup>91</sup> Source: Aide mémoires, BSG, 2008 and 2009.

a share of only 1.9% of the total BS disbursement in 2009. Yet, within the environmental sector, Austria is one of the two BS donors (with Spain). Therefore its share was much larger with 21%.

**Mozambique.** Compared to most other donors in the GBS group, G19, Austria is a relative newcomer. Based on information provided by the Programme Aid Partner (PAP), the total GBS commitments in 2008, 2009 and 2010 were respectively USD 386 Mio., USD 485 Mio. and USD 472 Mio. ADC's share in the total GBS commitments was 0.47% in 2008, 1.02% in 2009, and is expected to be 0.96% in 2010.<sup>92</sup> In terms of financial contributions, ADC was part of the four smallest G19 donors in all three years. During 2009 and 2010, Belgium, France and Portugal committed smaller amounts of GBS. The three largest G19 donors in 2010 were the World Bank (23%), DFID (15%) and the EC (14%).

External funds to Proagri through SBS accounted for USD 45 million in 2009, and were provided by eight donors (Austria, Denmark, EC, Finland, Sweden, IFAD, Ireland and Canada).<sup>93</sup> The EC was the largest donor, accounting for roughly 40%, and Austria was the smallest donor, providing approximately 3% of the SBS to Proagri.<sup>94</sup>

**Nicaragua.** The partners to FONSALUD, the Health Sector Fund in 2005, were Austria, Sweden, the Netherlands, Finland, the IDB, the World Bank, UNFPA and later Spain. In 2004, all partners made together a multi-year commitment of EUR90 Mio. for the period 2004-2009. Sweden committed USD 20 Mio.<sup>95</sup> over a five year period, the Netherlands USD 2 Mio. per year and Finland USD 6.9 Mio. over a four year period (only till 2008). The IDB approved a performance based UDS 30 Mio. loan, and the World Bank a loan of USD 11 Mio. Austria was the smallest bilateral donor. It committed EUR2.5 Mio., which is 1.1% of the total commitments.<sup>96</sup>

**Uganda.** Between 2006/7 and 2010/11, ADC committed a total of EUR7.5 million to support the JLOS Sector Investment Plan (SIP) II. Austrian contributions to the JLOS budget were 1.44% in 2008/9 and 1.52% in 2009/10 and roughly 10% of SBS contributions. Austria was the smallest donor of JLOS SBS while the Netherlands and Ireland were the biggest ones of the five donors, providing 33% and 25 % respectively of the JLOS SBS in 2008/9.<sup>97</sup>

From 2006/7 onwards, ADC has supported the LGSIP by means of SBS. Between 2006/7 and 2008/9 ADC committed a total of EUR 3.9 million over three years to support the LGSIP, of which EUR 2.6 million was disbursed. As of July 2009, Austria has withdrawn from the LGSIP and the last tranche of EUR 1.3 million was withheld.<sup>98</sup> Austria was a medium-sized donor in the LGSIP. In 2007/8, for example, Austria's disbursements accounted for 17% of the total donor funding disbursed to LGSIP.<sup>99</sup>

<sup>92</sup> [http://www.pap.org.mz/financial\\_contributions.htm](http://www.pap.org.mz/financial_contributions.htm).

<sup>93</sup> As of 2010, Italy will also join with earmarked funding.

<sup>94</sup> ProAgri Partners, Analysis of the State Budget Proposal for 2008, from Agricultural point of view, not dated.

<sup>95</sup> Expressed in Swedish kroner. In 2009 this amount happened to equal EUR 23.7 million.

<sup>96</sup> Based on MoU and documents MINSA.

<sup>97</sup> Austrian Embassy - Development Cooperation Uganda, Budgetberechnungen January 2010.

<sup>98</sup> ADA Statistics.

<sup>99</sup> Austrian Embassy - Development Cooperation, August 08 Update – Disbursements to LGSIP Basket 2006-2009.

In summary, ADC's share of total BS to a specific priority country or sector has, in general, been small. Its share of total SBS to the environmental sector in Cape Verde and to the LGSIP in Uganda, however, has been substantial. In most of the cases, ADC's BS contribution has also been relatively small compared to comparable donors' contributions. This low share seems mainly to be due to the relative small size of ADC's total bilateral country programmes and less to a low share of BS within their country programmes. The share of BS within the country programmes has often been higher than for comparable donors.

*b) ADC's role regarding supplementary measures to BS operations*

BS provides a partner government with (additional) financial resources for implementing its strategies and rolling out its programmes. Supplementary measures should strengthen the capacity of partner government to implement its programme in the most efficient and effective manner.

ADC's BS guidelines state that supplementary measures should be identified to counter potential weak points of partner country's institutions and processes. As was stated in Chapter 5, Question A15, no supplementary measures linked to BS were explicitly identified or defined in the policy inputs for ADC's BS operations in Cape Verde, Mozambique, Nicaragua, and Uganda. Nevertheless, supplementary measures to BS operations have been taken in both Mozambique and Uganda. In addition, ADC has supported capacity building through complementary activities outside the BS operation and supported civil society, see Question B5 below.

**Cape Verde.** ADC did not link any supplementary measures to its BS operation, but has been involved in a number of capacity building initiatives, as part of the Indicative Programme of Cooperation, see Question B5.

A number of other BS donors have been offering supplementary measures, directly linked to their BS operation. For instance, the 10<sup>th</sup> European Development Fund of the EC program includes a EUR 1.0 Mio. resource envelope for institutional support over the next 3 years.<sup>100</sup> It is planned to be used (i) to support the National system of Planning, (ii) to strengthen the capacity of the Court of Auditors in terms of inspection and control, (iii) to strengthen institutional capacity of IGF, and (iv) to launch a study on minimum salary. The AfDF has provided a grant of EUR 0.8 Mio. for the institutional support of the global/sectoral MTEF, including the M&E system. Spain is going to disburse EUR 1 million for capacity building to the General Directorate of Taxes.

**Mozambique.** In Mozambique, a part of the SBS to Proagri is used to finance capacity building of sub-national governments in the area of planning and budgeting. The new Joint Municipalities Programme is aiming to promote this, too. ADC further promotes transparency and accountability by supporting the Mozambican parliament through, among other things, the Association of European Parliamentarians for Africa (AWEPA) project.

---

<sup>100</sup> Draft Aide Memoire, Joint Mission Budget Support Group, Cape Verde, November 26, 2009.

**Nicaragua.** In the health sector in Nicaragua a special fund for TA has been established at the disposal of the Ministry of Health, but up to now, the ministry never made use of that fund. Development partners (esp. Sweden, the Netherlands and the World Bank<sup>101</sup>) provided supplementary services to the Ministry of Health for strengthening the government system as part of their mutual responsibility.<sup>102</sup> The Coordination Office (and ADC at large) has not provided supplementary support to FONSALUD.

**Uganda.** Both SBS operations (JLOS and LGSIP) comprised supplementary measures for capacity building and for increasing accountability for results, i.e. sub-national planning and budgeting. Austria's engagement in developing a sound M&E framework for the JLOS operation, its cooperation with non-state actors (e.g. Uganda Women's Network) and its involvement in the regular sector reviews, have contributed to increased accountability of the partner government.

#### *Role of Belgium and the Netherlands regarding financial contributions and supplementary measures*

Although Belgium has emphasised institutional capacity building, it does not seem to have a particular comparative advantage for providing supplementary measures for capacity building. Belgium funds institutional capacity building programmes in support of its BS operations, recently with a more specialised focus on public sector & human resource management (e.g. trainings for health personnel in the area of management, logistics, finance, etc). In addition, Belgium aims to underline the importance of strengthening PFM and good governance within sector programmes (see Chapter 5, Question A15). Moreover, quite unique for a donor agency, the Belgian development cooperation has disposed the technical expertise of its BTC sector or PFM/ macroeconomic experts to the partner government and to support the attaché of the Belgian embassy and other donors.

As mentioned in Chapter 5, Question A15, the Dutch consider it as being particularly important to support political participation and strengthen accountability alongside BS operations. In many partner countries, the Dutch finance specific activities that contribute to the strengthening of PFM, like activities in support of the SAIs and the National Statistical Offices.

#### *Austria's role in the political dialogue*

Concerning the political dialogue among the donor community and with the partner countries, which role does Austria play compared to other donors? How successful is Austria in contributing to the most visible and relevant level of policy dialogue with the government, specifically the Heads of Missions meetings? Which role does Austria play within the EU group in partner countries, and to what extent can

---

<sup>101</sup> As support mechanism, Sweden contracted expertise in the registry of documentation for monitoring purposes and provided both short-term and long-term technical assistance to MINSA in the area of (results-based) budgeting and planning. The Netherlands provided PFM training to development partners and MINSA staff, while the World Bank brought in expertise in the area of international health sector standards. Recently Spain contracted the services of the Health Research and Education Centre (CIES) and National Autonomous University of Nicaragua (UNAN) to gain better insight in the statistical evidence concerning maternal mortality.

<sup>102</sup> Interviews at the Ministry of Health and with Director CIES/UNAN, February 2010.

it incorporate its positions into the policy dialogue (again particularly at the level of Heads of Mission)? (B3/4d).

ADC's contribution to the technical policy and political dialogue around budget support has been mixed across the four partner countries receiving BS.

ADC is generally considered, by both partner country governments and the development partners, as an active, vocal, and competent partner in the BS dialogue mechanisms, both at the technical policy level and the political level. It is seen as a partner with no hidden agendas and is valued for its commitment to the Paris agenda, the promotion of aid effectiveness and the European Code of Conduct. ADC is appreciated for living up to its promises on the division of labour by focusing its activities on a decreasing number of sectors and for trying to specialize within the policy dialogue.

Through its engagement in key dialogue mechanisms and relevant working groups, ADC has been able to build networks and gain access to crucial information, strategic discussions at policy and political dialogue tables and M&E information on implementation progress. The HOCs in the four BS countries regularly participate in the HOM and HOC meetings.

Nevertheless, for a number of reasons ADC's effectiveness in the dialogue mechanisms around BS in its four partner countries has been restricted. First, its relatively small financial volume has limited its "natural" weight or leverage in the policy dialogue. With the current size of ADC's country programmes in Cape Verde, Mozambique, Nicaragua and Uganda, Austria is a very small donor in financial terms.

Second, ADC's choice of sectors for the respective BS operations has differed greatly across the BS countries and has mostly not been focused on a particular comparative advantage (e.g. specific technical expertise) or on a particular niche. It is important to carefully focus the engagement in the key dialogue mechanisms and working groups on this advantage and on the value one could add to the dialogue. Especially considering the capacity constraints, which are all the more stringent for small donors.

Finally, the absence of a resident ambassador might have limited ADC's access to higher political levels of government (especially at Minister's level). The country visits, however, have not provided clear evidence that this absence has negatively impacted implementation of the BS operations so far.

#### *Austria's role in budget formulation and other budget-relevant processes*

Does Austria participate, in a qualified manner, in processes related to formulating the budget (these are country specific, e.g. working groups on certain sectors of the budget, workshops on the budget as a whole, public expenditure reviews, discussions on the framework of the budget, discussions on the Medium-Term Expenditure Framework (MTEF), discussions on the relationship between budget and Poverty Reduction Strategy Papers (PRSP) and other budget-relevant processes (including macro-economic, decentralization, Public Finance Management (PFM) and PRSP processes)? (B4/4d)



The first years of ADC's involvement in BS are generally characterised by limited in-house PFM knowledge and a modest role in PFM matters at partner country level. From 2008 onwards, the establishment of a PFM thematic desk at ADA HQ and the recruitment of specialised staff for this the strengthened the in-house capacity in a structured manner. At country level, some staff of the Coordination Offices joined courses delivered by other donors, like the World Bank, DFID, the Netherlands, Sweden and Train4Dev. Also, ADA HQ started to organise some trainings on PFM. Such courses have provided the opportunity for staff to acquire knowledge about the basic principles and issues around PFM and its importance in the context of the provision of BS. In addition, HOCs and POs' regular participation in discussions and joint review missions of BS operations has facilitated the access to and building up of country specific knowledge of the budgetary process.

Only in the case of Mozambique, ADA has chosen for a PO to be actively engaged in the area of PFM through the GBS sub-working group on PFM and the Proagri sub-working group on PFM. Other Coordination Offices have followed the main challenges of PFM capacity building in their respective countries at a general level.

#### *Synergies between ADC's BS and other interventions*

Are there synergies between BS and other interventions of ADC, and how can these be supported/created? (B5/4d).

Synergies have been sought both within and outside the country programmes, albeit to varying degrees across the four BS countries. Engagement in projects (both with government and non-governmental) and at sub-national level has provided important reality checks and information from grassroot levels.

The nature of ADC's engagement with civil society has changed over time. While early support to civil society involved working with NGOs as organisations delivering public services, the focus now is much more on cooperating with civil society to promote a greater voice of the poor and vulnerable and to improve transparency and accountability. This is crucial in order to complement BS.

While in Nicaragua, support to civil society has been financed both within and outside the country programme, Uganda, Mozambique and Cape Verde have not financed separate NGO activities directly from their country programme funding. All four country programme activities are supplemented by activities financed by the NGO co-financing scheme, which is primarily managed by ADA HQ. Coordination offices have to varying degree been successful in linking their country programme activities with those of the NGO co-financing scheme. Strengthening those links is important for promoting a more effective dialogue around transparency & accountability and to promote complementarity to BS operations. Moreover, involving civil society more intensively during the country strategy design processes and strengthening further links with civil society during country programme implementation or monitoring, could facilitate greater dialogue with and awareness of ADC in the four BS countries.

Some comments on the synergies between BS and ADC's other interventions per case study are provided below.

**Cape Verde.** ADC's SBS and projects have been quite complementary and coherent in Cape Verde and have offered opportunities for cross fertilisation, see question B1 above. Several capacity building activities have been complementing ADC's BS operations in ADC's key areas, decentralization and environment, especially at the municipal and regional level. For instance, ADC supports the implementation of a Municipal Information System on the island of Santiago with a follow-up project providing on-job training and TA. Since 2007, ADC has also financed projects to elaborate municipal planning in the municipalities and at regional level in Santiago and to improve the harmonization of activities between the national, regional and municipal levels of government. Finally, it provided funds for TA and equipment to strengthen the Directorate General of Land Management's monitoring capacity in territorial planning.

**Mozambique.** In spite of the overall limited strategic guidance, ADC has tried to promote complementary actions to stimulate greater effectiveness of its budget support operations. ADC's support in the area of decentralization is seen as complementary to its engagement with GBS. The Coordination Office has also created synergies between its GBS and Proagri SBS operations by systematically cross-linking relevant experiences.<sup>103</sup>

**Nicaragua.** ADC contributes, next to FONSULAD, to the health sector in the autonomous regions RAAN and RAAS with its specific local knowledge through the activities of Austrian non-governmental organisations without providing any specific supplementary service.

**Uganda.** While the majority of the country programme is deployed in the form of BS, other cooperation takes place with the government (e.g. south western towns water & sanitation, PRDP support to JLOS), international organizations (e.g. support to Juba peace process and the Northern Uganda Peace & Reconstruction process) and NGOs (e.g. legal aid, transitional justice, gender). The Coordination Office has been able to maintain good linkages between the different programme components and modalities, especially within the governance area. For example, the JLOS SBS operation is supplemented by project support to PRDP, legal aid, human rights and transitional justice.

#### *Perception of local partners and other donors*

How is ADC's participation in BS operations perceived by local partners, other donors? How are ADC's staff involved? What has the "added value" of ADC's involvement been to date in the BS operations? (B/4d).

**Cape Verde.** The Government of Cape Verde and the other development partners in the BS Group value ADC for living up to its promises and for trying to specialize within the policy dialogue while being a small donor. Most of these partners have highlighted that ADC has been able to play a vital role in the dialogue in the environmental sector. Spain, the only other SBS donor in the environmental sector, appreciates the contribution of

---

<sup>103</sup> As defined by the document GBS Mozambique, Projektdokument Pilotprojekt.



Austria as equal partner in the sector dialogue. Furthermore, ADC is seen as an active partner with a good understanding of local circumstances.

**Mozambique.** The value added of ADC in the GBS and Proagri BS operations in Mozambique is mixed. ADC is generally considered by both, the Government of Mozambique and the development partners, as vocal and competent partner in the BS dialogue. ADC has largely followed national budget procedures and jointly agreed policies and standards. ADC is, furthermore, valued for its participation in joint reviews of GBS and Proagri and in the sub-working groups on PFM. This performance is also appreciated by the recent Independent Review of PAPs' Performance in Mozambique for 2009.<sup>104</sup> ADC is a very small donor to Mozambique in terms of volume and has limited capacity to play a strong role in the policy dialogue related to the two BS operations.

**Nicaragua.** ADC is not very well-known for its role in FONSALUD in Nicaragua, given its relatively small financial contribution and its limited role in the donor group. Among the FONSALUD partners, the Coordination Office has strived successfully for adherence to and expansion of the Paris Declaration principles.<sup>105</sup> It is active in various round tables and technical groups, but its role in most of these groups is limited due to capacity constraints. The FONSALUD partners, but also non-governmental organisations, identify Austria mainly by its projects in RAAN and RAAS, two relatively poor autonomous regions of the Atlantic Coast, key areas in the Health Plan, as well as by its involvement in sexual and reproductive health care.

**Uganda.** ADC is appreciated as an equal partner in the policy dialogue in Uganda. It is valued for eagerly pursuing its international aid effectiveness commitments and for bringing in cross-sectoral experience and experience from sub-national levels. It has largely followed national budget procedures and jointly agreed policies and standards in the MoU of the SBS operations. ADC has focused especially on sub-sectoral or cross-cutting issues in the policy dialogue. It has been able to play this role better in JLOS than in LGSIP. Overall, ADC remains a very small donor in financial terms.

## 6.3 Conclusions

### *Policy dialogue*

Other donors value ADC for its international aid effectiveness commitments. It shares information transparently and is perceived to have no hidden agendas. In the four BS countries, ADC is appreciated as a constructive but small partner. So far, it has never been lead BS donor in a specific sector, also due to its limited staff in the field.

In spite of their limited financial contributions, smaller donors can have important added value in the policy dialogue if they are willing and able to invest in staff and to specialize, preferably in a specific thematic niche or comparative advantage. Over the last decade, Belgium and the Netherlands have invested significantly in specialist expertise on aid

---

<sup>104</sup> Austria's performance was qualified as "very good" in this independent review (for seven out of the 19 donors in total, the performance was judged to belong to the highest category: "very good").

<sup>105</sup> With its interventions, ADC has influenced the current conditions of World Bank loans.

modalities, PFM and macroeconomics as well as in diplomatic skills to undertake an effective policy dialogue.

ADC has built up a good understanding of local circumstances in the partner countries and has offered valuable technical contributions to respective sectors. All its SBS operations have been focused on one of its six priority sectors, except in the case of Nicaragua (health). Yet, ADC's choice of sectors has differed greatly across the BS countries. Its engagement can mostly be explained historically and has not been linked to a particular comparative advantage or niche.

#### *Supplementary measures and synergies with other ADC interventions*

ADC's draft BS guidelines state that it should identify supplementary measures in close coordination with the other BS donors to counter potential weak points of partner country's institutions and processes. ADC has taken supplementary measures in Mozambique and Uganda. These measures were not explicitly defined during the preparation for BS operations or in the country strategies. ADC has sought synergies within its country programmes between its BS operations and its other interventions in all four countries, for instance by supporting capacity building initiatives. In some BS countries it has also tried to link its interventions to NGO activities.

# 7 Opening up the System: the Institutional set-up and Operational Procedures

## 7.1 Introduction

When a system is being ‘opened’, usually different ‘internal’ components can be identified, such as the structure and internal relations among stakeholders, leadership and the like. In the ToR these components are less explicitly mentioned but are implicit in the organisation structure and the operational procedures. These procedures determine and shape the Austrian involvement in BS operations. In this chapter, we will focus on the specific ToR questions related to the operational processes and institutional set-up.

## 7.2 Review questions on the Institutional set-up and Operational Procedures

The review questions of the ToR regarding **the institutional set-up and operational procedures are:**

### *Operational guidelines on BS*

Do ADC and the comparable donors have a clear operational guideline or outline for all or most procedures regarding BS available? (C2/4b).

Between 2005 and 2009, there were no official guidelines steering the programming cycle of the BS operations in the four partner countries. Both MFA and ADA have pointed out that Austria only provided BS by joining existing BS operations.<sup>106</sup> As a result, ADC was guided by systems previously tested by other donors. In this way the risks for ADC engagement were reduced.

### *BS Guidelines Belgium and the Netherlands*

Belgium is struggling with a lack of strategic guidance as regards BS in general and does not spell out a specific strategy (see Chapter 5, Question A2) as to how -as a smaller donor- it aims to promote a comparative advantage. There is no overall BS strategy but there is an operational guideline -though not with formal status- that outlines the major building blocks of how Belgium aims to implement BS operations.<sup>107</sup> These guidelines outline the most important procedures with respect to programme preparation, formulation and contracting, as well as risk assessment & management and M&E. These

---

<sup>106</sup> Interviews with MFA and ADA.

<sup>107</sup> Directorate of Development Cooperation, Vademecum Budget Support, 2008.

guidelines have been revised in 2008 taking into account the lessons learned from Belgium's internal evaluation<sup>108</sup> of BS and the external Joint donor OECD/DAC evaluation of BS.

In the Netherlands since the mid-1990s guidelines on programme aid have been in circulation. Initially, these guidelines referred mainly to balance-of-payments support, such as food aid and fertiliser aid. Over time, these guidelines experienced an evolution that followed the conceptual development of programme aid. First, the focus was broadened to debt relief and after that a shift has been made towards BS.

### *BS decision making process*

Who within ADC/the comparable donors is responsible for making the decision to provide BS to a partner country? Which criteria and processes are applied to arrive at this decision? (C3/4b).

The decision making processes regarding the BS operations were not guided by standardized procedures and/or formal guidelines. The country studies confirm that ADC has generally followed the harmonised procedures from the donor groups in the respective partner countries. Therefore, the actual decision making processes differed for the respective BS operations. In some cases, the informal document with best practices of guidelines and procedures from other donors was used.

**Cape Verde.** In Cape Verde, for example, the Coordination Office followed in 2006 the procedures as agreed in the MoU for BS. This MoU was signed between the Government of Cape Verde and the six BS donors.

**Mozambique.** In Mozambique the identification of the BS operations and country analysis were thoroughly done and the informal guidelines were used. The request for the provision of both GBS and Proagri II SBS was approved by MFA, in March 2007, and by the ADA Advisory Board, in May 2007.

**Nicaragua.** The process for joining FONSALUD in Nicaragua was assessed and discussed in the ADA Board prior to approval.<sup>109</sup>

**Uganda.** The request for programming related to Uganda's JLOS and LGIS SBS operations started in March 2006 when the Coordination Office send basic documentation to ADA HQ for consideration. An environmental assessment was undertaken for both proposed SBS operations, while evidence that a gender assessment was undertaken only exists with respect to the JLOS SBS. Both SBS operations were approved at the end of 2006.

### *Belgian and Dutch BS decision making processes*

All traditional donor agencies involved in BS operations have elaborated their own BS guidelines at different moments in time. The DfID guidelines have been used by many donors as an example. Belgium and the Netherlands have elaborated their specific

---

<sup>108</sup> ADE & HERA, Evaluation de la Contribution Belge aux Programmes d'Aide Budgétaire Pluriannuelle, August 2007.

<sup>109</sup> Source: ADA comment on draft report 4<sup>th</sup> June 2010.

guidelines describing the concepts, as well as the responsibilities of the various actors involved. In both countries, first a general analysis is prepared, based on which a principal political decision is taken for an aid modality. Subsequently a risk assessment needs to be prepared before a final decision can be taken. The implementation of BS operations is in both countries a joint effort of both HQ and field staff. There are, however, main differences in the level of delegation of responsibilities and authorities between HQ and field offices.

In Belgium, the Minister for Development Cooperation takes the final decision on whether or not BS is provided, based upon prior approval by the Inspectorate of Finance of the MoF. The procedure consists basically of 6 steps:

1. Assessment of feasibility;
2. Preparation of a 'Basic Note': (i) analysing the 4 minimum eligibility criteria; and, (ii) motivating the BS operation and explaining how it fits within Belgium's country assistance programme;
3. Approval of the Basic Note by the Minister;
4. Signing of the MoU;
5. Preparing a Technical Note with detailed risk assessment based upon the 4 minimum and 6 specific risk criteria and with recommendations on how Belgium aims to conduct the policy dialogue;
6. Final approval by Minister, after prior approval by the Inspectorate of Finance.

A shorter approval procedure can be followed in cases where Belgium joins an ongoing BS programme or if Belgium has previously been active in the sector. In this case, step 1-4 are skipped, and the process starts with step 5 preparing the technical note.

Some challenges in the programming cycle for Belgium include:

- Programming and approval procedures tend to be long, heavily centralised and focus on ex-ante controls (e.g. significant role of the Inspectorate of Finance in approval process). This limits the predictability and results-orientation of Belgian BS;
- The Belgian budget is not multi-annually, which undermines predictability vis-à-vis multi-annual commitments of BS;
- Although the attaché is formally leading the policy dialogue, in practice it is sometimes the BTC expert who has more in-depth expertise.

In the Netherlands, the procedure is similar but budgetary responsibility for development cooperation has been delegated to the embassies. The Dutch embassies have to prepare or update a 'Track Record' on an annual basis. Its framework requires a clear analysis and offers an operational structure for decision making on the full modality mix (including GBS or SBS). The embassy sends its Track Record to HQ for approval, in particular by the Department for Effectiveness and Coherence (DEC), and subsequently by the Secretary General for International Cooperation. The ultimate decision on providing BS is a political one and is taken by the Minister of Development Cooperation.

Once a principle decision has been made for a certain aid modality, the embassy has to prepare an 'Appraisal Memorandum'. This provides a detailed step-by-step elaboration of relevant information and risks. Within the context of the Paris Declaration, the Dutch made an effort to harmonise the track record exercise with the EC's assessment for BS.

But since the procedures were too much different, this effort was not successful and abandoned.

### *Preparation of BS operations*

How are the BS contributions being prepared by ADC/the comparable donors (defining the amount, negotiation authority etc.)? (C4/4b).

The sector programmes that qualify for BS have been identified by staff of the Coordination Offices in consultation with HQ. These programmes often include logical follow-up activities of former ADC projects. So far, Austria never took the initiative to start a BS operation, but it has always followed the trend in a particular sector. In its decision to shift to BS, the priority sectors identified by MFA in the TYP 2006-2008 were guiding the sector choice (see Chapter 5), but were not always strictly adhered to. The latter is evidenced by the SBS provided to the health sector in Nicaragua (see Chapter 6, Question B1 on the BS strategy).

BS commitments are negotiated and agreed between the corresponding line ministry and the Ministry of Finance of the partner country on the one hand, and a group of donors that are willing to support the sector programme on the other. In none of the four BS countries, the shift from the project aid to programme aid modality led to a 'wild swing' in the size of the Austrian contribution to the sector. ADC determined the size of its BS commitments mainly on its available budgets. Only to some extent, the needs of the partner government and its costing plans have influenced the size of the ADC commitments.

### *Belgian and Dutch preparation of BS operations*

In Belgium, the overall resource envelope is determined by the country allocations. After the approval by the Minister, MFA gives the mandate to the embassy to start negotiations with relevant authorities in the partner country. The embassy is responsible for this phase and is supported by the Working Group on BS and BTC.

In the Netherlands, the overall resource envelope is determined by the tentative country allocations, as defined in the multi-annual planning exercise. In principle, the embassy has a mandate allocating resources among the sectors within the overall frame of this allocation. In practice however, also in the Netherlands, the resource envelop per sector is already defined in the multi-annual planning exercise.

### *Planning of supplementary measures to BS*

How are measures supplementary to BS (e.g. strengthening Public Finance Management systems etc, promoting civil society involvement in the budget planning, execution and monitoring process) planned and decided on by ADC/the comparable donors? (C5/4b).

Supplementary measures can either be requested by the partner government or suggested and made available by the donors. They manifest the mutually responsibility of both the government and the development partners in the context of the Paris Declaration. In the four BS countries studied, ADC has taken measures in Mozambique and Uganda to

supplement the BS operations. In Nicaragua, ADC has not provided supplementary support while other development partners (esp. Sweden, the Netherlands and the World Bank) provided support to the Ministry of Health for strengthening the government system as part of their mutual responsibility.<sup>110</sup> The Coordination Office considers these supplementary services as 'joint initiatives' by the FONSALUD partners. The role of ADC regarding supplementary measures in partner countries has been discussed in Chapter 6, Question B2.

#### *Belgian and Dutch planning of supplementary measures to BS*

Belgium has no specific guidelines, criteria or procedures as far as it concerns supplementary services to BS.

In the Netherlands, the supplementary services are -as much as possible- planned within the framework of the programming of country strategy, the so-called Multi-Annual Strategic Plan (MASP). Nowadays, the need for supplementary services is determined by the ongoing policy dialogue with the partner government. The embassies may destine part of the bilateral resources to that end. If and when required, the Netherlands strengthen the capacities of the expertise available in the embassies to be better equipped to support the partner country. This is the case, for example, in Nicaragua.

#### *Monitoring and evaluation (M&E)*

What are the accompanying and monitoring measures ADC/the comparable donors applies/apply along with BS operations (tracking of and reporting on compliance with Performance Assessment Frameworks, involvement in policy dialogue, reporting to Headquarters, participation in monitoring measures such as joint missions etc)? (C6/4b).

In all BS operations the performance reporting on progress is based on pre-established indicators (usually of both kinds: process and results) elaborated by and presented by the partner government (usually the line ministry, and in case of general BS the Ministry of Finance). The frequency of the reporting is agreed upon in the MoU, and is usually on an annual basis. The monitoring of these reports is a joint task of the donors supporting the sector programme. That does not imply that monitoring (and the use of PAFs) is homogeneous over the countries and sectors. See for more information about the policy on M&E Chapter 5, Question A17.

**Cape Verde.** The Coordination Office has consistently participated in the annual review process of BS (i.e. both SBS and GBS), in Cape Verde. The government and BS Group have developed a joint, streamlined matrix that highlights the main policy and result indicators. This matrix is used as a basis for discussions and disbursement in the donors' respective BS operations. During these reviews, ADC and Spain have decided together whether they will continue their SBS disbursement to the environment sector. They base this decision on the fulfilment of three sine qua non indicators of a General Matrix and on satisfactory progress in the environmental sector measured by specific sector indicators. The sector dialogue of Austria and Spain with the Ministry of Environment has mainly been light and narrow and therefore less effective. First, it has been restricted in time to

---

<sup>110</sup> Interviews at the Ministry of Health and with Director CIES/UNAN, February 2010.

only the bi-annual review missions, while seldom any dialogue has taken place outside these review periods. Second, the dialogue has mainly been focused on output and outcome indicators and baselines, but not on real policies or financial and other inputs.

**Mozambique.** ADC's policy to commit<sup>111</sup> GBS funds is tied to the satisfactory achievement of the indicators defined in the Performance Assessment Framework (PAF) and the underlying principles defined in the MoU. The assessment of the PAF indicators takes place during regular annual Joint Reviews in which both government and development partners representatives jointly participate. Regular monitoring of the implementation of GBS takes place through the Joint Reviews, as agreed upon in the MoU. Joint and mid-term reviews in Mozambique have generally taken place on time and have shown satisfactory results. The progress reports are not necessarily presented together with the audit reports, although the *draft* conclusions of the audit reports used to be available during the Joint Reviews.

ADC's disbursement policy for Proagri is that funding is triggered by a satisfactory achievement of the indicators defined in the Proagri MoU Matrix, and of the three PAF indicators for agriculture. There are different tools to monitor the performance of Proagri, including the MINAG Annual Report, the agriculture sector assessment of the Joint Review, the MINAG Financial Management Report, the Audit Report and the Audit Action Plan. The Financial Audits for Proagri were consistently provided late between 2005 and 2008. Donors have raised the issue and there are efforts to improve PFM and MINAG is responding to the findings of the audit by an Audit Action Plan.

**Nicaragua.** The performance of FONSALUD is monitored against a PAF. Progress is discussed officially on an annual base in a joint review. In this review, the budget is being studied in detail, while the data underpinning the performance of the sector are being analysed and reviewed. During its early years (2005 and 2006) the joint review had some influence on the policy formulation, but since 2008 this influence has reduced. Currently, the pragmatic informal meetings between the Ministry of Health and the FONSALUD lead partners ('troika'<sup>112</sup>) are more influential. These meetings take place more frequently throughout the year. Austria's main contribution to the policy dialogue takes place at the FONSALUD round table.<sup>113</sup> Its inputs partly focused on the characteristics of the health provision to the (indigenous) populations of the Atlantic Coast regions.

**Uganda.** ADC's policy to disburse JLOS and LGSIP funds has been tied to a satisfactory assessment of the respective sector performance undertaken in the framework of the regular sector reviews. The JFA for LGSIP also linked disbursements to the receipt of satisfactory accountability, notably the annual report of the Auditor General. Performance assessment takes the form of a review of general achievements and challenges rather than being anchored in a distinct set of performance indicators. With the help of ADC, the

---

<sup>111</sup> 'Commit' refers in this context to making a commitment regarding the amounts scheduled for disbursement in a respective year.

<sup>112</sup> The troika is a committee of three development partners that represents the group of development partners in its relation with the Ministry of Health (and the Government of Nicaragua in general). The role each partner fulfils in this group is not related to the magnitude of financial resources made available, but to sector-specific knowledge and management capabilities.

<sup>113</sup> See Question B3 for more general information about Austria's role in the policy dialogue.



JLOS is currently in the process of defining such a performance assessment framework. The assessments have taken place during regular annual sector reviews in December in which both government and development partners representatives jointly participate. Regular monitoring of the implementation of JLOS takes place through annual progress reporting in the framework of Joint Reviews between GOU and development partners as agreed in the MoU.

The Coordination Offices in all four BS countries reports on a quarterly basis to ADA HQ on relevant developments and information as regards their involvement in the sector.

Project and programme evaluations are managed either by the implementing organisation, by ADA's country/thematic desks or by the Coordination Offices depending on the volume of the projects/programmes.<sup>114</sup> Strategic evaluations (e.g. country strategies, sectors, cross-cutting issues) are programmed and agreed upon by MFA and ADA within the framework of a two year work programme. For each strategic evaluations ADA contracts independent evaluators and manages them. MFA and ADA set up a reference group, jointly develop ToRs and jointly engage in the quality control process. There is no M&E capacity in MFA.

#### *Belgian and Dutch M&E*

The process of monitoring progress in sector support programmes is basically the same for all donors. As much as possible, monitoring forms part of the harmonised joint donors' activities.

Belgium is applying or is making use of the following tools for M&E:

- M&E of eligibility and of risk assessment;
- Use of partner country systems and joint donor procedures;
- Reliance on joint donor reviews;
- Using non-state information (CSOs, media, etc);
- Partner country audit reports (required for BS disbursements).

In the Netherlands, all available monitoring mechanisms are used – usually within a joint donor setting - through joint donor reviews and joint donor evaluations. See for more information on M&E policies Chapter 5, Question A17.

#### *Predictability and processes of disbursements*

*Are instalments by ADC/the comparable donors disbursed in a timely manner? How are prerequisites verified by ADC/the comparable donors? How do they induce the disbursement of instalments? (C7/4b).*

A key element of the AAA is predictability of aid, i.e. donors providing a longer-term commitment over a period of 3 to 5 years. It also implies that this commitment counts as an input to the Medium Term Expenditure Framework (MTEF) of the partner country, and hence should be communicated in advance to the Ministry of Finance of this country. The timeliness of disbursements according to pre-established moments in time is very important to the partner country, since it may influence the cash flows and hence the

---

<sup>114</sup> See also guidelines on the ADA homepage.

financing requirements. If the payment of instalments is postponed, the partner government might have to pre-finance.

Like for all Austrian government departments not covered by a legal act, there is the constraint of the so-called “Vorbelastungsgrenze”. The ADA Company Act (§2, Art. 3) allows for 60% of the first year’s funding to be committed for the second year, and 40% for the following years. While this approach to financial management is not unusual among OECD countries, it poses a problem to Austria since it lacks multi-annual aid targets or a multi-annual budget framework against which the MFA, ADA and the Coordination Offices can commit funds.<sup>115</sup> This restriction applies to all ADC’s aid modalities, including BS.

This restriction on ADC’s budget commitments for future years (‘future liabilities’) has not only undermined Austria’s predictability but has also increased the transaction costs for all parties involved.<sup>116</sup> A multi-annual budgeting system could solve this and hence allow financial commitments over a longer period of time.

In all four BS countries the disbursement scheme of ADC has been primarily based on the Austrian flow of resources and is hardly aligned to the budget cycle of the partner country. In practice however, this has only been a problem in Uganda and hardly in the other three BS countries.

**Cape Verde.** ADC provides BS to the environmental sector in Cape Verde since 2006<sup>117</sup>. The Joint Annual Reviews certified a positive assessment based on the pre-established targets and indicators in the environmental sector. ADC disbursed the full amounts envisaged for BS in each year. In the review of 2009, however, some discussion took place prior to the donors’ positive assessment, since the partner government initially made too limited progress in some areas subject to assessment.

ADC’s restrictions to make medium-term financial commitments have played a role in the first years of SBS provision (2006-08), but less in the last two years. ADC did neither apply flexible tranches nor within-year tranches for its SBS disbursements to Cape Verde. Spain, the only other SBS donor in the environment sector, is providing a part of its SBS by means of a variable tranche.<sup>118</sup>

**Mozambique.** In Mozambique ADC’s commitments<sup>119</sup> are dependent upon the satisfactory achievement of the targets defined in the PAF and the underlying principles defined in the MoU in the case of GBS. Since 2005/6 the Joint Reviews and the Proagri Technical Reviews have certified a positive assessment of the progress by the GOM with respect to GBS and Proagri, triggering full disbursement of ADC’s committed funds until today.<sup>120,121</sup> ADC has also been able to disburse budget support funds in line with the

---

<sup>115</sup> OECD/DAC, Peer Review Austria, 2008.

<sup>116</sup> The use of within-year tranches would even further reduce predictability and increase transaction cost.

<sup>117</sup> Initially (2004-07), the Netherlands was also providing BS to this sector and later from 2007 onwards Spain has stepped in.

<sup>118</sup> For 2010, for instance, Spain committed a fixed tranche of EUR 3 million and a variable tranche of EUR 1.5 million. Based on Cape Verde sector performance in 2009 Spain decided early 2010 to disburse only a small part (EUR 75,000) of this variable tranche.

<sup>119</sup> Commitments denote in this context the amounts notified to the partner government as scheduled for disbursement.

<sup>120</sup> Government of Mozambique, Joint Review 2009, June 2009.

disbursement schedules agreed between the GOM and other development partners, improving predictability (i.e. of Proagri SBS funds) (see also Question C6 above).

**Nicaragua.** Austria has been a predictable partner to the government of Nicaragua and has always paid in due time. ADC has always disbursed its contribution to FONSALUD during the month of July.<sup>122</sup> This timing is related to the resource flow management of the Austrian government and not to the budget cycle of the Ministry of Health in Nicaragua. The Ministry of Health knows in advance (and out of experience over the last years) when Austria will disburse and hence submits its disbursement request in a timely manner. The Coordination Office has not encountered difficulties to commit multi-annually and to deal with the ‘Vorbeltungsgrenze’. None of the FONSALUD partners applies variable tranches. This has contributed to a relatively smooth financial planning.

In 2006, the Ministry of Health started - as one of three pilot ministries- to elaborate a MTEF (*marco presupuestario de mediano plazo- MPMP*).<sup>123</sup> In 2008, the progress in achieving more ownership, alignment and harmonization as a result of the Paris Declaration on Aid Effectiveness in the health sector was evaluated.<sup>124</sup> The report concluded that although progress was made, a lot remains to be done. In response, the government decided to institutionalise the MPMP in 2011. This means that the entire budgeting system will be changed towards a results-based MTEF on a three-year rolling base. As a consequence, the FONSALUD procedures have to be revised too.

**Uganda.** Since 2005/6 the Joint Sector Reviews in the sectors JLOS and LGSIP have certified a positive assessment of the progress by the Government of Uganda in both sectors, although less so for the LGSIP in the fiscal year 2008/9 due to weak sector performance. As a result, ADC fully disbursed all JLOS funds committed for the period between 2006 and 2009, while it did not pay the last tranche of EUR 1.3 million for the LGSIP SBS disbursements. ADC has also been able to disburse its BS funds in line with the general agreements made between the Government of Uganda and other development partners.

#### *Belgian and Dutch disbursement processes*

Belgium makes its financial commitments for a period of 4 years, but its annual disbursements require a prior approval by the Inspectorate of Finance. Disbursements are based on the continued validity of the eligibility criteria (see Chapter 5, Question A9), on the agreed disbursement schedule and on the conditions formulated in the MoU. Due to programming and approval procedures which tend to be long, heavily centralised and focus on ex-ante controls, Belgian BS has often been disbursed unpredictably.

The Netherlands prefer making multi annual commitments for BS, especially in partner countries where they have a fruitful policy dialogue and team up with other BS donors. The Netherlands strongly underline the timely provision of BS. They elaborate a

---

<sup>121</sup> ADC, Agricultural Sector Performance 2008, 22 April 2009.

<sup>122</sup> ADC intended to disburse EUR 1 million per year in the period 2006-2009. A difference in actual disbursement 2007 and 2008 is due to a delay caused by a transfer problem with an intermediary bank in 2007.

<sup>123</sup> S.Sjolander, W.J.Cornelissen. The development of the SWAp in the health sector in Nicaragua. Managua. June 2006.

<sup>124</sup> Evaluación de los Procesos de Apropiación, Alineamiento y Armonización de la Cooperación Internacional en el Ministerio de Salud, May 2008, Requested by the Ministry of Health and the Swedish Embassy.

disbursement schedule in their multi-annual planning exercise and make an effort aligning this schedule to the budget cycle of the partner country, enabling the partner country to spend the money in the same budget year.<sup>125</sup> Apart from anomalies, the Netherlands strictly adhere to their disbursement schedule.<sup>126</sup>

### *Financial control*

How are financial controls in the area of BS operations applied by ADC/the comparable donors? (C8/4b).

It is hardly possible to execute ex ante controls on financial inputs from non-earmarked BS. After the money has been transferred to the Central Bank of a recipient country, the ex ante control only implies that the Central Bank provides evidence of its change into national currency and subsequent deposit on the Treasury Account. In the case of basket funding (like FONSALUD) separate escrow accounts<sup>127</sup> are kept at the Central Bank and there could be some control over tranche disbursements.

As a standard procedure in BS operations, new disbursements of BS can only be made after a satisfactory external audit over the use of the funds has been made available. This audit is often an important input into the joint annual review.

**Cape Verde.** In Cape Verde, external controls on SBS are in general carried out in a satisfactory manner by the SAI (Tribunal de Contas). Yet, the BS Group is currently concerned about lack of progress in the parliamentary approval of the new legislation relating to the court of auditors.

**Mozambique.** An increasing share of aid has come under the scrutiny of the budget process, and hence under the control of the Mozambican SAI. The financial audits on BS, provided by this SAI, have been satisfactory but are not always provided in-time, also due to capacity constraints.<sup>128</sup>

**Nicaragua.** In Nicaragua the financial control is vested in the external audit. Since FONSALUD is a basket fund with separate accounts, the audit is not only carried out by the SAI of Nicaragua<sup>129</sup> but also partly by different private auditing companies. The audit system is neither aligned, nor harmonised. The World Bank and the IDB hire a firm to conduct their own external audit, while the bilateral partners and UNFPA have a separate external audit. All external audits, except the one from the SAI cover only a part of all spending made by the Ministry of Health.

---

<sup>125</sup> For partner countries with the same budget year as the Netherland (January-December), the BS should be transferred in the first quarter of the year and for countries with a different budget year, the BS should be provided in the first quarter of this year. See the Dutch 'Handleiding Algemene Begrotingssteun', 2008.

<sup>126</sup> Among the four BS countries of ADC, such an anomaly took place in Nicaragua, where the Netherlands has frozen its disbursements for GBS, but continued its disbursements for the FONSALUD, based on satisfactory sector performance.

<sup>127</sup> An escrow account is an account within the control of a third party, into which money can be paid by one party without being received by the other party until a certain date, or until certain conditions have been met.

<sup>128</sup> ITAD, DFID Country Programme Evaluation Mozambique 2006-2009, 2010.

<sup>129</sup> All development partners have considered the option to accept the external audit by the SAI, but the problem is the time-lag of approximately 1.5 years. Source: Coordination Office, Managua, March 2010.

**Uganda.** The SAI in Uganda carries out the financial audits on the full government budget including the BS funds. Financial audits were late for the years 2005/6-2006/7. In 2007/08, these Audit Reports provided were on time but not the Special Audit Reports of the JLOS SWAp fund. The audits identified unqualified and qualified opinions across the JLOS institutions, though not material enough for the BS donors to postpone disbursements.<sup>130</sup>

With regard to the reporting to HQ, the Coordination Offices have kept HQ regularly up to date about the developments on BS, by means of quarterly, event-based, and financial reporting.

#### *Financial controls applied by Belgium and the Netherlands*

The Belgian development co-operation applies financial controls through:

- Ex-ante controls performed by the Inspectorate of Finance during programme and implementation through its mandate to approve programme documents and annual disbursements;
- Ex-post annual audit reports of the BS operation in the partner country, either undertaken by the national SAI on or an external audit firm;
- various internal financial controls undertaken by BTC during implementation of a BS operation; and
- Internal and external control and audit of the Belgian development cooperation led by Belgian Inspectorate of Finance and the Belgian SAI.

Most of these measures have also been also applied in Austria.

In recent years, Belgium has become stricter in ensuring accountability for BS by:

- Introducing the need for the partner government to repay funds in case of fraud;
- More strongly promoting good governance & PFM at sector level; and
- Enforcing more strictly the underlying partnership principles (e.g. free and fair elections, maintenance of human rights, and reduction in corruption).

In the Netherlands, the financial control over BS is -in theory- not different from the one applied to project financing. However, increasingly is being relied on the audit report by the SAI in the partner countries as part of the effort to come to full alignment.

#### *Internal division of labour*

What is the division of labour among the different actors involved in BS operations within ADC/the comparable donor agencies? (C9/4c).

Please see the Questions C3, C4, and C6, for more information about the division of labour regarding the BS decision making processes, the preparation of BS operations, and M&E.

---

<sup>130</sup> Currently, various donors have decided to withdraw from the sector, partly because of concerns around transparency and accountability.

Austria's international commitment to the Paris Declaration and its participation in BS operations has implied extended involvement in donor coordination and political and technical policy dialogue both at national, sector and sub-national level. Compared to other BS donors, ADC currently operates in a centralised manner, with limited financial delegation and authorisation to its Coordination Offices. Its participation in BS might require more decentralised structures and authorities. The ADA Work Programme 2009 has recognised this need.<sup>131</sup>

In all four offices, the HOC is responsible for the political dialogue and often for general aid effectiveness issues. In three of the four BS countries, the POs deal with the technical dialogue and the day-to-day management of BS. Only in Cape Verde, this role is taken up by the HOC given the overall small size of the office and the country programme.

With the shift towards BS, the tasks of the POs have changed significantly. Managing BS operations requires different skills and expertise. Staff no longer only manages contracts and monitors project activities but also has to act as a competent partner in the policy dialogue around BS with the partner government. Due to BS involvement, the time required for policy dialogue and sector-wide monitoring has grown considerably while traditional contract management and project monitoring are still requiring substantial time inputs. The POs responsible for BS have often still a number of additional responsibilities for other sectors and themes.<sup>132</sup>

#### *Internal division of labour for Belgium and the Netherlands*

In most donor agencies, including the two benchmark donors, the responsibilities of the various actors involved in a BS operation are described in detail in their guidelines for BS.

Generally speaking, the programming cycle of a BS operation is a joint effort of both HQ and field staff, but depending on the degree of delegated cooperation, field offices tend to have more or less financial and technical authority and responsibility over the programming cycle. In other donor agencies in the partner countries, involvement in managing BS operations has also changed the nature of tasks for field staff and increased demands on staff expertise.

In the Belgian system, MFA is generally responsible for policy formulation and evaluation, whereas BTC is responsible for programme implementation and monitoring. The Belgian embassies lead the policy dialogue on BS in the partner countries, while BTC is in a technical supporting role. However, quite some duplication of expertise and processes exist between MFA and BTC at HQ and field level (e.g. regional/country/sector desks at MFA and BTC, separate offices for embassy/diplomatic representation and BTC office in country) adding to transaction costs.

In the Netherlands, reforms introduced since 1996 have resulted in delegation of management responsibility to the field (read embassies). This has also implied a shift in

---

<sup>131</sup> The OECD DAC Peer Review, 2009, also indicated the room within ADA for further decentralisation to the field.

<sup>132</sup> In some cases, this officer is also responsible for activities outside the partner country in the context of regional cooperation programmes, as is the case in Nicaragua.

staff from the ministry HQ to the embassies. Embassies are responsible for the elaboration of the country support programmes, for the implementation thereof and for the financial management. This encompasses the responsibility for policy dialogue with partner country governments and other donors.

### *Division of staffs' capacities between HQ and field offices*

How are ADC's/comparable donors' staffs' capacities divided between headquarters and field offices?  
(C10/4c)

Information on the number of staff involved in BS operations at HQ and field offices, their professional background, and the total staff capacity has been provided in Chapter 5, Questions A19, 20, 21.

The involvement in BS has brought a change in roles and responsibilities and hence requires staff with different skills. Engagement in the various working groups requires not only a good understanding of sector-specific issues, and cross-cutting themes (such as PFM, governance and gender), but also a broader insight in the public sector and its policies.

Currently, HOCs in the four BS countries have a parallel function as HOM, fulfilling diplomatic and representative functions in absence of a resident Ambassador. Therefore, they need to have more general than specialized qualifications and this makes them, in general, less qualified to contribute to the technical dialogue.

In terms of staffing, a good balance is also required between local and international experts. Local experts have a different 'image and weight' than international experts, in particular if it comes to high level policy discussions. Since local experts do not rotate across ADA HQ and field offices, it is harder to expose them to international experiences. They have therefore limited accumulation of lessons learned from elsewhere that they can use in the national context. At the same time, specific local knowledge is required to understand the local political relations. Local advisory staff increases a donor's understanding of the country context and political economy issues and provide the institutional memory built-up & continuity.

**Cape Verde.** The Coordination Office operated most of the period under review with one HOC, one Financial Administrator, one secretary and a driver. All staff except the HOC is national staff. The HOC joins the monthly meetings of the development counsellors and the HOMs, but he is physically not able to attend all meetings of the working groups.

**Mozambique.** The Coordination Office in Maputo has one HOC and one PO for BS, while one PO for rural development is based in the Beira sub-office, next to a Head of Administration, a secretary and a driver. As a result of the office's involvement in BS, the PO for BS, who simultaneously was part-time Head of Administration, has become a full-time PO for BS in 2009. Another team member (previous administrative assistant) took over the job of Head of Administration. Feedback from government and development



partners in Mozambique recognise that Austria was sometimes too stretched across various working groups and other dialogue mechanisms.<sup>133</sup>

**Nicaragua.** The Coordination Office in Nicaragua counts with a HOC and three sector experts, one responsible for each sector. Each sector specialist is responsible for both the programme in Nicaragua and the Central-American programme. Next to the thematic staff members, there are a general administrator and support staff.

**Uganda.** The Uganda Coordination Office operates with one HOC, one PO Governance and one PO for Water & Sanitation, who are supported by a Head of Administration, two secretaries and a driver. For the period under review, all HOCs and POs (except for private sector development) were international staff. The current HOC was until 2007 the former PO for Governance and hence brings long-standing experiences with the ADC country programme in Uganda. The current POs for Governance and Water & Sanitation were both previously posted at ADA HQ in Vienna.

#### *Belgium's and the Dutch division of staffs' capacities*

In Belgium, the attaché in the partner country leads the policy dialogue together with staff at DGDC in Brussels. This attaché is also responsible for policy identification, formulation and evaluation. The representation of BTC and the relevant sector experts in the field together with the BTC office in Brussels are responsible for implementation, monitoring and reporting on BS operations. They support the policy dialogue and the planning processes led by the attaché and DGDC.

The capacities at HQ in Belgium have been gradually strengthened at sector level, as well as in the area of PFM, governance and macroeconomics. The same applies to the field level, where each SBS operation is supported by additionally recruited sector experts (and in the case of GBS by a PFM/macro economics expert). Yet, Belgium recognizes the need to further improve knowledge management and capacity development around BS.

In the Netherlands, the ambassador has the overall leadership at the partner country level and is supported by a Head of Development Cooperation. The Netherlands makes a relatively extensive use of locally hired staff that performs various policy and programme management functions. They also represent the Netherlands in local consultative groups and may act as co-ordinators when the Netherlands holds such a responsibility. They are, however, not hired with long-term career perspectives and tend to move after a few years of service.

If and when the Netherlands assume leading roles in donor coordination (for example in the FONSALUD in Nicaragua), they make additional manpower available. Since the development co-operation forms an integrated task of the Dutch embassy activities, the political dimension of the policy dialogue is supported directly by the political and diplomatic staff of the embassy.

---

<sup>133</sup> Including, for example, the HOM and HOC meetings, and the BS working groups on PROAGRI, the economist working group, the GBS sub-working group on PFM and the Proagri sub-working group on PFM and the decentralisation working group.



## 7.3 Conclusions

### *Implementation procedures*

How do ADC implementation procedures for BS compare with those of comparable donors and/or international best practice? Which shape should a standardised ADC process take in order to prepare, approve, implement and monitor BS operations? (C1/4c).

The limited formal strategic guidance to BS has not seriously undermined ADC's participation in BS operations because ADC joined existing BS operations. The country studies confirm that ADC has generally followed the harmonised procedures from the donor groups in the respective partner country. This allowed ADC to use systems previously tested by other donors, hence reducing risks. Best practices of other donors' procedures were also shared internally in an informal document.

Nevertheless, as ADC's experience with BS grows, it will be increasingly confronted with strategic issues that require more strategic and operational guidance at country level. Yet, two factors hinder the formulation and regular update of these country strategies: (1) continued deliberation within ADC on their purpose, content and monitoring; and (2) limited capacity within MFA to lead their design.

### *Division of labour and responsibilities for BS*

In recent years, significant international debate has taken place in the donor community on how to make aid more effective and to reduce the often considerable burden that donor countries place on partner countries. Donors have concluded that they should harmonise their activities (with other donors) and better align them with the policies of the partner countries. These developments have had important implications for BS. BS comprises not only a financial transfer but also a package of complementary inputs: dialogue and conditionality; harmonisation and alignment; and technical assistance and capacity building.

In all four BS countries, donor approaches have been harmonised and structured around Joint Assistance Strategies. The pressure on donors to adhere to harmonised frameworks is immense, largely because they represent the only access point for policy dialogues with the partner-country government and other donors.

BS requires more decentralised aid management in order to be more responsive in an environment that demands greater donor coordination, harmonisation, alignment, and stronger engagement in the policy dialogue.

ADC is currently a relatively small but centralised donor agency that delegates few management and financial responsibilities to field offices. This feature is not exclusive to ADC and can also be observed in Belgium. The Netherlands, in contrast, has delegated much management and financial responsibility to the embassies and has relatively more staff in the field and less at the headquarters.

The Coordination Offices are formally incorporated into Austria's diplomatic mission structure. In the four BS countries, the diplomacy has not been involved in BS operations because ADC does not have a resident ambassador in these countries. As a consequence, these offices become responsible for both the political and technical policy dialogue with regard to BS.

Belgium organises BS in a similar way, with a separate implementing agency (BTC). In all its partner countries, Belgium has diplomatic representation and a BTC office. Formally, the diplomatic staff leads the policy dialogue with the partner government, while BTC, with its sector experts, is responsible for the technical dialogue at a sectoral level. This division of responsibilities has resulted in various coordination problems in the field.

ADC has not faced similar problems due to the absence of a resident ambassador. The Coordination Offices indicate that so far this absence has a limited negative impact on BS operations.

In recent years, international experience has shown that BS is subject to increased politicization due to increased attention from donors to political and governance issues. If this trend continues, the need for involving an ambassador in BS operations might arise, to get greater access to higher political levels of government (especially at a ministerial level).

#### *Supplementary measures and synergies with other ADC interventions*

Just like Belgium and the Netherlands, Austria, does not have specific guidelines, criteria or procedures as far as supplementary measures to BS. Yet, the Netherlands plans its supplementary measures for each of its partner countries—as much as possible—within the framework of its country strategies. As a general approach, they stress that capacity building in partner countries is not just the business of the partner government but also a mutual responsibility of all development partners in accordance with the Paris Declaration.

#### *Predictability of disbursement*

Making multi-annual commitments and ensuring predictable disbursements are essential for effective implementation of BS, no matter the size. The restrictions to commit resources to country programmes beyond one year are a major weakness in the Austrian system. While this approach to financial management is not unusual among OECD countries, it poses problems for ADC since it lacks multi-annual aid targets or a multi-annual budget framework against which it can commit funds, thus reducing its predictability. This weakness applies to all aid modalities, including BS.

In Belgium and the Netherlands, predictable commitment and disbursement is not restricted by short-term budget horizons. Belgium makes financial commitments for a period of four years, while its annual disbursements require prior approval. The Netherlands elaborates a disbursement schedule in its multi-annual planning exercise. Overall, and apart from anomalies, the Netherlands adheres to its disbursement schedule and makes large efforts to align it with the budget cycle of the partner country.

## 8 Main Conclusions, Recommendations and Lessons Learned

### *Strategic focus*

1. Since ADC began providing BS in 2005, it has been gradually developing an associated policy framework. Yet formal strategic guidance to BS remains limited. The ADC BS Strategy was only formally approved in September 2009, while the draft BS Guidelines are still being finalized. Furthermore, the country strategies in the four BS countries (Cape Verde, Mozambique, Nicaragua and Uganda) were not regularly updated. These missing pieces have limited ADC's ability to explicitly formulate specific objectives. Add to this the fact that ADC is a relative newcomer in the BS arena, and the organisation finds itself in danger of engaging in *ad hoc* interventions with little integration into wider, country-strategy thinking.
2. This limited strategic guidance has not seriously undermined ADC's participation in BS operations because it could join existing BS operations. The country studies confirm that ADC has generally followed the harmonised procedures from the donor groups in the respective partner country. This allowed ADC to use systems previously tested by other donors, hence reducing risks. Best practices of other donors' procedures were also shared internally in an informal document.
3. Nevertheless, as ADC's experience with BS grows, it will be increasingly confronted with strategic issues that require more strategic and operational guidance at country level. Yet, two factors hinder the formulation and regular update of these country strategies: (1) continued deliberation within ADC on their purpose, content and monitoring; and (2) limited capacity within MFA to lead their design.

### **Recommendations:**

ADC should clearly determine the strategic use of BS in its entire portfolio at a global, country, and regional level. While the current BS Strategy and the draft Internal Guidelines for BS provide general strategic and operational background for BS operations, the country strategies should further elaborate the strategic choices that need to be made. The choices include some of the following issues:

- Specific aims of the BS to be achieved;
- The appropriate mix of aid modalities;
- The nature and approach to supplementary measures; and
- Whether a specific niche strategy is to be employed.

These country strategies should build on and align with the national poverty strategies of the partner countries. At the same time, a national poverty strategy cannot replace ADC's country strategy, but the country strategy should complement the national poverty strategy.

The strategies should be prepared and updated in a timely manner after consulting all the relevant stakeholders. The MFA should lead the formulation of country strategies, while different stakeholders within ADA and local NGOs should participate. External consultants could also be involved.

#### *Size of BS contributions*

4. Our study of experiences of small donors and our more in-depth analyses of Belgium and the Netherlands show that donors tend to play a more effective role in the policy dialogue if they provide a sufficiently large financial contribution. It gives them 'natural' weight, especially in highly aid-dependent partner countries with a large number of donors.
5. Furthermore, BS entails high transaction costs for all parties involved, irrespective of the size of BS. Therefore, donors need to provide BS that is (financially) interesting to the partner government and acceptable for their own cost-benefit considerations. The minimum amount should definitely be larger than one million euros per annum. The precise minimum will depend on a variety of factors, such as the type of BS, the number of donors, the overall size of the government budget in the partner country, and the size of the budget of the specific sector. This also explains why smaller donors are focussing more on SBS rather than GBS operations.
6. The current size of ADC's aid and BS in the four BS countries demonstrates that ADC is very small in financial terms. Its contributions are amongst the lowest of all BS donors. ADC's bilateral aid is low because Austria allocates few resources to bilateral cooperation, and especially to Austrian priority countries. The relatively high number of priority countries adds to this aid fragmentation. Yet, increasing either ADC's total aid or its resources allocated to BS is unlikely to happen in the coming years due to the current trend of tightening aid budgets. This, together with the fragmentation, underlines the need for a more targeted and consolidated approach. Achieving a sufficient level of BS per partner country may require a small donor to concentrate its efforts on fewer countries and sectors. In this regard, Austria can learn some lessons from Belgium on how to manage its fragmented bilateral aid budget. Belgium concluded that its aid was allocated in too small amounts to too many partner countries. In response, it considerably reduced its number of partner countries from 25 to 18 while increasing its overall aid budget.

#### **Recommendation:**

ADC should consider increasing its bilateral aid budget for some countries by prioritising fewer of them and/or reducing the money allocated to horizontal programmes. This should free resources to increase BS and ADC's impact in the policy dialogue. The recent decision within ADC to reduce the number of priority countries from 15 to 12 in 2010 has been a useful step. Yet, this latter reduction might not result in larger bilateral aid budgets, due to the pressure on ADC's overall aid budget.

#### *Policy dialogue*

7. Other donors value ADC for its international aid effectiveness commitments. It shares information transparently and is perceived to have no hidden agendas. In the four BS countries, ADC is appreciated as a constructive but small partner. So far, it has never been lead BS donor in a specific sector, also due to its limited staff in the field.

8. In spite of their limited financial contributions, smaller donors can have important added value in the policy dialogue if they are willing and able to invest in staff and to specialize, preferably in a specific thematic niche or comparative advantage. Over the last decade, Belgium and the Netherlands have invested significantly in specialist expertise on aid modalities, PFM and macroeconomics as well as in diplomatic skills to undertake an effective policy dialogue.
9. ADC has built up a good understanding of local circumstances in the partner countries and has offered valuable technical contributions to respective sectors. All its SBS operations have been focused on one of its six priority sectors, except in the case of Nicaragua (health). Yet, ADC's choice of sectors has differed greatly across the BS countries. Its engagement can mostly be explained historically and has not been linked to a particular comparative advantage or niche.

### **Recommendation:**

Given the limited role ADC can play as a small donor, it should further specialise, building further expertise in a few thematic niches with a more focused engagement. In this way, ADC's impact in the policy dialogue might increase.

Choosing the comparative advantages on which to build are outside the scope of this review. It could be a specific sector or a cross-cutting issue like governance, gender or climate change. It could also be linked to global development trends. The comparative advantage should guide the preparation of the country strategies and should be used to brand the activities that Austria will carry out in its partner countries. For instance, if governance would be selected as ADC's key thematic area, ADC should not only provide BS targeted to this area, but should also set up other aid modalities and supplementary measures to strengthen this area. Providing technical support to the Supreme Audit Institution would, for instance, fit into this strategy. Other smaller donors, such as Norway and Denmark, are following similar processes to strengthen their thematic focus.

### *Staffing and staff capacities*

10. ADC's Coordination Offices have limited staff given the nature and scope of their current tasks. Using more aligned modalities and participating in the policy dialogue have increased workloads for staff and changed requirements for skills and expertise. Comparing ADC with the Belgian and Dutch development cooperations show that the amount of aid per FTE has been more or less similar, but that Belgium and the Netherlands have more staff in the field offices because of their larger aid budgets. Furthermore, the staff in the Cooperation Offices must now manage diplomatic tasks, further limiting time available for aid management. Especially compared to the Netherlands, ADC's field offices have serious diseconomies of scale.
11. Training for ADC staff is not strategically targeted at BS operations. ADA has organized training on PFM, aid modalities and gender budgeting, but has not organized these systematically for all departments at the headquarters and Coordination Offices. The opportunities for joint donor training, in-country training by other donors, or specialized national training institutes have been limited, except in Mozambique. Belgium and the Netherlands have more systematically strengthened their operations via targeted, capacity-building initiatives.

12. Moreover, the headquarters and various Coordination Offices exchange little of their experiences. An annual Head of Cooperation event and a bi-annual event for Programme Officers have been launched; however, more sector-related exchanges between Coordination Offices or with the thematic desks in headquarters are rare.

#### **Recommendations:**

ADC should consider taking and implementing policy measures to become a more effective development partner in the policy dialogue within its BS partner countries. Several measures can be taken to achieve this:

- Increase the number of staff in the field offices;
- Invest more heavily in strengthening the capacities of these offices through systematic capacity building efforts; in particular, in areas such as PFM, aid approaches & modalities, and specific sector expertise;
- Organize more regular events to exchange experiences between staff. ADC staff from both the headquarters and field offices should share experience on different BS operations, promote joint understanding and generate wide lessons learned to inform policy making; and
- Seek more specific technical expertise and support from outside, for example through strategic alliances with centres of excellence (research institutes, consultancy services, etc.).

#### *Division of labour and responsibilities for BS*

13. In recent years, significant international debate has taken place in the donor community on how to make aid more effective and to reduce the often considerable burden that donor countries place on partner countries. Donors have concluded that they should harmonise their activities (with other donors) and better align them with the policies of the partner countries. These developments have had important implications for BS. BS comprises not only a financial transfer but also a package of complementary inputs: dialogue and conditionality; harmonisation and alignment; and technical assistance and capacity building.
14. In all four BS countries, donor approaches have been harmonised, generally structured around Joint Assistance Strategies. The pressure on donors to adhere to harmonised frameworks is immense, largely because they represent the only access point for policy dialogues with the partner-country government and other donors.
15. BS requires more decentralised aid management in order to be more responsive in an environment that demands greater donor coordination, harmonisation, alignment, and stronger engagement in the policy dialogue.
16. ADC is currently a relatively small but centralised donor agency that delegates few management and financial responsibilities to field offices. This feature is not exclusive to ADC and can also be observed in Belgium. The Netherlands, in contrast, has delegated much management and financial responsibility to the embassies and has relatively more staff in the field and less at the headquarters.
17. The Coordination Offices are formally incorporated into Austria's diplomatic mission structure. In the four BS countries, the diplomacy has not been involved in BS operations because ADC does not have a resident ambassador in these countries. As a consequence,

these offices become responsible for both the political and technical policy dialogue with regard to BS.

18. Belgium organises BS in a similar way, with a separate implementing agency (BTC). In all its partner countries, Belgium has diplomatic representation and a BTC office. Formally, the diplomatic staff leads the policy dialogue with the partner government, while BTC, with its sector experts, is responsible for the technical dialogue at a sectoral level. This division of responsibilities has resulted in various coordination problems in the field.
19. ADC has not faced similar problems due to the absence of a resident ambassador. The Coordination Offices indicate that so far this absence has a limited negative impact on BS operations.
20. In recent years, international experience has shown that BS is subject to increased politicization due to increased attention from donors to political and governance issues. If this trend continues, the need for involving an ambassador in BS operations might arise, to get greater access to higher political levels of government (especially at a ministerial level).

#### **Recommendations:**

ADC's participation in BS has required its field offices to join the policy dialogue at a field level. ADC's current centralized organisation structure, where most decisions are taken at the headquarters, is not the most appropriate one. Delegating more management and financial responsibility to the field offices would make it easier to play a stronger role in the policy dialogue.

The increased politicization of BS might require greater diplomatic support. The MFA and embassies should be further involved in implementing BS. Currently, the Austrian diplomatic staff is not involved in the policy dialogue. The MFA should consider how it can organize itself differently to participate in these issues, especially in times of political crisis in the partner country.

#### *Supplementary measures and synergies with other ADC interventions*

21. ADC's draft BS guidelines state that it should identify supplementary measures in close coordination with the other BS donors to counter potential weak points of partner country's institutions and processes. ADC has taken supplementary measures in Mozambique and Uganda. These measures were not explicitly defined during the preparation for BS operations or in the country strategies. ADC has sought synergies within its country programmes between its BS operations and its other interventions in all four countries, for instance by supporting capacity building initiatives. In some BS countries it has also tried to link its interventions to NGO activities.
22. Just like Belgium and the Netherlands, Austria, does not have specific guidelines, criteria or procedures as far as supplementary measures to BS. Yet, the Netherlands plans its supplementary measures for each of its partner countries—as much as possible—within the framework of its country strategies. As a general approach, they stress that capacity building in partner countries is not just the business of the partner government but also a mutual responsibility of all development partners in accordance with the Paris Declaration.



**Recommendation:**

ADC's BS operations might provide more added value if they are part of an integrated aid modality mix supported by targeted supplementary measures.

*Cross-cutting issues*

23. Engagement in BS and in the various working groups requires not only a good understanding of sector-specific issues but also of cross-cutting issues such as gender, environment, governance and PFM. The ADC BS Strategy and its draft guidelines explicitly refer to these issues. Within the preparation for BS, ADC carries out a country risk assessment. This assessment addresses whether the national development strategy (in the case of GBS) or the sector strategy (for SBS) sufficiently cover the cross-cutting issues. Cross-cutting issues are mainly covered in the policy dialogue related to BS and indicators for these cross-cutting issues are incorporated in the PAF. The Dutch development cooperation underlines the need to do this.

*Predictability of disbursement*

24. Making multi-annual commitments and ensuring predictable disbursements are essential for effective implementation of BS, no matter the size. The restrictions to commit resources to country programmes beyond one year are a major weakness in the Austrian system. While this approach to financial management is not unusual among OECD countries, it poses problems for ADC since it lacks multi-annual aid targets or a multi-annual budget framework against which it can commit funds, thus reducing its predictability. This weakness applies to all aid modalities, including BS.

25. In Belgium and the Netherlands, predictable commitment and disbursement is not restricted by short-term budget horizons. Belgium makes financial commitments for a period of four years, while its annual disbursements require prior approval. The Netherlands elaborates a disbursement schedule in its multi-annual planning exercise. Overall, and apart from anomalies, the Netherlands adheres to its disbursement schedule and makes large efforts to align it with the budget cycle of the partner country.

**Recommendation:**

Austria should take measures to increase its predictability as a donor. It could introduce a multi-annual budgeting system to allow ADC to make financial commitments over a longer period.

*Re-classification of BS*

26. The financial support from ADA to the Nicaraguan health sector programme (FONSALUD 1.2 million EUR in 2009) does not meet the definition of BS as agreed by the DAC in 2008 through the new classification by type of aid.

**Recommendation:**

This financial contribution should no longer be included in the BS category from 2009 onwards and should be re-classified as basket funds/pooled funding. ADA has already accepted this recommendation and has implemented it.



### *ADC at a crossroad*

27. In the period 2005-2010, ADC gradually moved into BS, mainly by joining existing operations initiated by larger donor agencies. In this period, ADC learned by doing and gradually developed its BS Strategy and guidelines.
28. With larger donors getting more heavily involved in aligned aid modalities, ADC as a smaller donor, has three options for the way forward. As a first option, it could decide to increase its BS operations. The second option is that ADC specializes according to its comparative advantage(s). In this way, ADC can complement larger donors to provide coherent and linked-up support of a sectoral/national programme.
29. Alternatively, as a third option, ADC could stop providing BS and create its own comparative advantage at the other end of the aid modalities spectrum. This would allow for more involvement at a project and implementation level, supporting programmes or pilot projects linked to a sector strategy. Stand-alone projects should be avoided whatever the circumstances.
30. Yet, choosing this third option might have serious implications. It might affect Austria's reputation as a reliable partner and lead to questions about whether it intends to meet its international commitments, such as the Paris Declaration. BS is seen as an important tool to implement these international agreements. Furthermore, discontinuing BS would hinder Austria's access to the higher level policy dialogue, a crucial avenue to influence the behaviour of a partner government. This move would also signal that Austria is not following a "partnership approach", where ownership of the partner government is promoted. Finally, it would imply that ADC support is not allocated to the spending priorities of the partner government (alignment) and it is not channelled through the PFM systems of the partner government but that Austria uses its own parallel systems and procedures.

### **Recommendations:**

ADC is at a crossroads with regard to its involvement in BS and should make clear choices. If ADC is unable to increase its BS operations, as a second option, it could specialize according to its comparative advantage and become a niche player. It could focus on a few sectors or areas while building up its specialised knowledge as a centre of excellence. In this option, it could still apply various funding mechanisms, including BS.

As a third option, ADC could also consider to stop BS and to focus on particular forms of project aid, such as public-private partnerships as well as project aid directed at civil society.

Looking at all three options, the second option seems most appropriate for ADC. Yet a strong commitment is required and clear choices need to be made to implement this option and to prevent 'muddling through'. Under the current conditions of limited financial resources and aid fragmentation, any adjustment that leads to increased focus and transparency may provide a new impetus to Austrian development cooperation.