

A review of evidence on the performance of financial aid instruments (beyond budget support)

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September 2016

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Abbreviations

ARTF	Afghanistan Reconstruction Fund
CABRI	Collaborative African Budget Reform Initiative
CoD	Cash on Delivery
DFID	UK Department for International Development
DLI	Disbursement Linked Indicator
DP	Development partner
EC	European Commission
eSBS	Earmarked Sector Budget Support
FAI	Financial aid instrument
FARA	Fixed Amount Reimbursement Agreement
FGS	Federal Government of Somalia
GAVI	Global Alliance on Vaccinations and Immunisations
HSPF	Liberia Health Sector Pooled Fund
HRITF	Health Results Innovation Trust Fund
IOB	Policy and Operations Evaluation Department, Netherlands Ministry of Foreign Affairs
ISS	Immunisation Support Services
LICUS	Low-Income Countries Under Stress
MDF	Indonesia Multi-Donor Fund
MoHSW	Liberian Ministry of Health and Social Welfare
OECD	Organisation for Economic Co-operation and Development
PAF	Poverty Action Fund
PFM	Public Finance Management
PIU	Programme implementation unit
PfR	Performance for Results
RBF	Results-Based Financing
RDP	Reconstruction and Development Programme
SBS	Sector Budget Support
SFF	Special Financing Facility
SWAp	Sector-wide approach
USAID	U.S. Agency for International Development
WB	World Bank

1 Introduction

This report accompanies and follows on from another report produced by this author, which identifies the six main categories of “financial aid”¹ instruments (FAIs) beyond un-earmarked budget support which are/have been in use by development partners (DPs), as well as an overview of the countries and sectors in which they have been utilised. This report presents a detailed overview of the available evidence on positive and negative performance in the use of each of these categories of financial aid, in order to support efforts by the UK Department for International Development (DFID) (and other DPs) to identify the most appropriate forms of financial aid to use in the various contexts in which they work and to improve the effectiveness of their implementation.

This Report will review evidence on the performance of these aid instruments against a range of criteria and performance measures. In particular it focuses attention on the degree to which these instruments have *strengthened incentives to deliver results and ensure that governments still maintain control of their national budget*. These objectives essentially sum up the motivation for DPs in using financial aid – to support development progress, through empowering and strengthening government institutions to fulfil their responsibilities – and therefore focussing on them helps to assess the degree to which financial aid has met expectations.

Section 1 of this report, which follows, provides more detail on the performance criteria used in this review, and also outlines the boundaries and limitations of its analysis. Section 2 then presents evidence to support reviews each of the six categories of financial aid instrument against these criteria. Section 3 summarises the analysis and makes some concluding remarks.

2 Performance review framework and parameters

As highlighted above, this review focuses attention on two main aspects of the performance of financial aid instruments: their contribution to achieving development results and to strengthening government budget and other systems.

In addressing the performance of FAIs with regard to development results this review will focus on two main elements:

- i. evidence on the development results (outputs, outcomes and impacts²) contributed to/achieved by the financial aid instrument;
- ii. evidence on ways in which the financial aid instrument has affected performance incentives in the government programmes it is supporting.

¹ The first report defines financial aid as - “Aid provided to a partner government, where the partner government is responsible for spending the grant funds. This means that the government, rather than the development partner (DP) contracts for the expenditure, but the DP can also be involved in the expenditure decision (how and where the funds are spent).”

² This paper follows the common nomenclature of these terms, e.g. as they are used by DFID (2013) - Outputs: the tangible and intangible products that result from project activities (e.g. number of teachers trained or wells constructed); Outcomes: the benefits that a project or intervention is designed to deliver (e.g. higher levels of educational attainment and greater access to improved water supplies and reduced levels of waterborne disease); Impacts: the higher level goals which a project or intervention aims to contribute to (e.g. improved levels of employment and income and lower levels of child mortality).

In addressing the performance of FAIs with regard to strengthening budget and other government systems this review will draw on the conceptual framework identifying the key elements of “on budget aid” developed by the Collaborative African Budget Reform Initiative (CABRI). CABRI has identified eight dimensions of “on budget” aid (see table 1 below), which can be used to assess the degree to which aid aligns with and strengthens budgets and important country systems more broadly. We will refer to these dimensions in our analysis.

Table 1: Dimensions of aid on budget

Aid on budget dimension	Definition
On plan	Programme and project aid spending is integrated into spending agencies’ strategic planning and supporting documentation for policy intentions behind the budget submissions.
On budget	External financing, including programme and project financing, and its intended use are reported in the budget documentation.
On parliament	External financing is included in the revenue and appropriations approved by parliament.
On treasury	External financing is disbursed into the main revenue funds of government and managed through government’s systems.
On accounting	External financing is recorded and accounted for in the government’s accounting system, in line with the government’s classification system.
On audit	External financing is audited by the government’s auditing system.
On report	External financing is included in ex post reports by government.
On procurement	Goods and services purchased through external financing utilise the government’s procurement systems.

Source: CABRI (2008)

Before moving on to the performance analysis it is important to mention a number of key points about limits to the evidence presented. Firstly, the evidence on results is largely associative and not based on robust causal analysis, as there is currently very limited robust evidence available on the degree to which financial aid instruments utilised have been the determining factor in achieving development results. Secondly, this review is relatively light touch and presents the highlights of the analysis from reviewing secondary sources, leaving the finer details to be explored by interested readers in the original sources.

3 Review of evidence on the performance of the main categories of financial aid instruments

The first report in this twin series of commissioned reports identified six main categories of FAI which have been/are in use by DPs. These are detailed in table 2 below.

Table 2: Categories of FAIs

Governance	Conditionality
Government-managed FAIs	1) + Ex-ante conditions (e.g. earmarked direct support to the budget)
	2) + Ex-poste conditions (e.g. Cash on Delivery aid, Performance for Results programme)
	3) + Ex-poste reimbursement (e.g. Fixed Amount Reimbursement Agreement)
Joint government-DP FAIs	4) + Ex-ante conditions (e.g. traditional trust / basket / pooled funds)
	5) + Ex-poste conditions (e.g. Health Results Innovation Trust Fund World Bank)
	6) + Ex-poste reimbursement (e.g. a number of trust funds)

This section reviews available evidence on the performance of each of these main categories of financial aid instrument in turn, utilising the performance measures identified in section 1 above.

3.1 Government-managed FAIs

As explained in the first report in this series, even though DPs universally retain some degree of control over aid programmes, those which essentially support existing government programmes and involve handing over day-to-day governance to the government's institutions are distinct. We categorise these FAIs as "government-managed", and they are the focus of the section that follows.

3.1.1 Government-managed FAIs + ex-ante conditions

This category of FAI, which we will refer to as earmarked Sector Budget Support (eSBS)³ involves the following characteristics:

- iii. provision of direct support to the budget of developing countries, which is earmarked for expenditure on specific parts of the sector budget; generally this form of aid uses country systems extensively, although the extent of and approach to use varies significantly across DPs;
- iv. initial funding provided ex-ante (on the basis of meeting eligibility criteria, such as strength of financial management systems, macroeconomic conditions and performance on development/poverty reduction) with adequate levels of general programme performance delivery commonly determining continued disbursements;
- v. in some cases, modest performance based tranches, which are disbursed on the basis of ex-poste assessment of agreed results criteria (addressed in the next section);
- vi. extensive policy dialogue, technical assistance and coordination activities.

This form of financial aid instrument emerged as an alternative to project support and parallel multi-donor funding programmes during the early 2000s. Its use expanded during the 2000s, especially in more stable low-income countries in sub-Saharan Africa in

³ The OECD defines SBS as un-earmarked funding to the national treasury, where the dialogue focuses on the general sector budget (OECD DAC 2006; p.26); however, other more flexible definitions are in use and earmarked direct support to the budget is generally also categorised as SBS; we address this tension in defining SBS by referring to this FAI as eSBS.

supporting sectors such as health and education. In recent years the use of this form of financial aid instrument has declined amongst bilateral OECD aid agencies (although not as much as for general budget support), although its provision through multilaterals has remained stable (OECD, 2015).

The analysis that follows summarises evidence on the performance on this financial aid instrument against the criteria presented in section 1 above. It focuses on the fixed tranche of these programmes and doesn't reflect on performance tranches, which are focussed on in the next section (3.1.1.2). This analysis also relies predominantly on insights from a recent in-depth multi-country study⁴ (ten sector case studies in six countries) of eSBS provided over the period 1998-2008.

3.1.1.1 Development results⁵

eSBS has been used predominantly in supporting service delivery in the health and education sectors, although it has also been used in supporting broader local government service provision and in providing support in sectors such as agriculture and roads. The record of eSBS in achieving development results has generally been good. However, this instrument has had far less success in strengthening incentives and capacity to improve the quality of services and other interventions which have been supported.

The effect of eSBS on service delivery has mainly been felt as a result of this financial aid instrument's significant contribution to scaling up the resources available for service delivery and other important development interventions. Some of the most significant examples of these effects come from the education sector in Rwanda and Uganda, as well support to local government in Uganda (see table 3 below). eSBS provided at least a third of sector/programme expenditure in these cases, helping very large numbers of additional people to gain access to vital basic services. It is though not clear to what degree eSBS was responsible for these results (as opposed to government funding and/or actions) as robust analysis to ascertain this has not been undertaken.

Table 3: Examples of the contribution of eSBS to scaling-up service delivery

Country	Sector	Contribution of eSBS
Rwanda	Education	Increased enrolment resulted from the introduction of free primary schooling, although eSBS was introduced early in this process in order to help fund its delivery. Over the period 2006-2009 the share of eSBS in spending on primary schooling increased from 11% to 48%, which supported an additional 670,000 children to gain access to primary schooling by 2007.
Uganda	Education	Again, increased enrolment resulted from the introduction of free primary schooling, although eSBS was introduced early in this process in order to help fund its delivery. The share of eSBS in spending on primary schooling peaked at 32% in 2002 (before falling as donors moved towards general budget support), which helped primary school enrolment to increase by 1.8 million over the period 1999-2003.

⁴ This study is called "Sector Budget Support in Practice", and was undertaken by the Overseas Development Institute and Mokoro over the period 2009-10 (Williamson and Dom, 2010).

⁵ By "development" we refer to the level of human and social development; by "results" we refer to the outputs, outcomes and impacts achieved by the programme.

	Local government	Between 2001/2 and 2005/6, SBS provided nearly a third of the funding provided by the central government for local government investments. This support helped to deliver nearly 21,000 service delivery infrastructure projects and supported a substantial expansion in access to services at the local level.
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Source: Williamson and Dom (2010)

eSBS has been able to support a scale-up in the resourcing of service delivery not only through its general financing to sectors, but also through the earmarking of funds to specific budget lines vital to service delivery, as well as dialogue promoting additional government financing and relevant policy reforms. With regard to the effect of earmarking, an example is provided by Tanzania's local government support programme, in which DPs earmarked funds for local government health facilities and their management, helping to scale-up these services (Williamson and Dom, 2010).

Donors have an interest in engaging governments in policy dialogue on their funding for sectors alongside SBS contributions in order to ensure that donor funding results in additional resourcing to a sector and doesn't simply substitute for the government's own funds. Perhaps the best example of efforts to promote additionality by governments alongside eSBS is Uganda's Poverty Action Fund (PAF) which ring-fenced a range of poverty programmes for funding through budget support (and debt relief). However, additionality is difficult to establish beyond the early years of programme (when government budget allocations may pre-date eSBS), as it is impossible to know what government budget allocations would have been without SBS. It is also the case that additionality requirements can come into conflict with alignment and ownership issues, as in the case of Uganda's PAF the additionality commitments made by the government reduced its flexibility to respond to evolving domestic priorities for spending (Williamson and Canagarajah, 2003).

Despite these notable contributions to service delivery, eSBS has had limited success in supporting improvements to the quality of service delivery beyond its support for inputs which are vital to effective delivery. On the side of donors a number of factors and practices have undermined the impact of eSBS on the quality of services it has supported, as detailed below (analysis from Williamson and Dom, 2010):

- *Restrictions on the use of traceable SBS* – where DPs require their eSBS to be traceable – i.e. separately tracked and reported on in the budget – partner governments cannot use these funds for recurrent costs; these restrictions posed obstacles to improving service delivery in a number of cases, including Mali education for which eSBS could not be used to address human resource challenges which were a critical constraint in addressing service quality challenges.
- *Weak focus of dialogue and other non-funding inputs beyond the central level* – the design and delivery of eSBS has generally involved a limited focus beyond processes relating to inputs and results reporting, and as a consequence there has been a “missing middle” with regard to support to day to day delivery; this trend has emerged both as a result of traceability requirements (which often restrict eSBS from being used for recurrent delivery), but also a general lack of expertise, capacity and local level contextual awareness within DPs; for example, in Uganda education eSBS by-passed local government systems by engaging directly with schools, an approach which undermined the oversight role of local Government in the education sector.

There are a limited number of cases where eSBS has more substantively addressed these issues – for example in Rwanda, education and in Uganda and Tanzania, local government – which clearly points to the fact that the quality of service delivery can be more effectively promoted in eSBS programmes and the challenge is to ensure these issues are adequately

addressed in their design and delivery (Williamson and Dom, 2010). It is though also important to note that these issues are inherently very challenging to address, as they require a detailed knowledge of local level dynamics, and eSBS is not alone amongst aid modalities in failing to successfully address these challenges.

3.1.1.2 Strengthening Government systems and institutions

One of the main reasons that DPs provide eSBS instead of other aid modalities in supporting developing countries is in order to strengthen government systems and institutions through the delivery of their aid. However, it is clear from analysis of the use of this financial aid instrument in practice that its success in achieving such goals has varied widely across DPs and the countries/sectors in which it has been used.

By definition eSBS uses government budget systems in the initial transfer to government, as it is delivered through the treasury and then allocated to sector budgets. However, in practice beyond this initial step the degree to which eSBS has engaged with government systems has been determined largely by the decisions DPs take regarding whether their eSBS needs to be traceable, i.e. separately tracked and reported on in the budget. Non-traceable eSBS can be mingled with domestic resources, be allocated to existing budget lines, utilise existing intra-government resource transfer mechanisms and can more easily rely on existing government reporting and oversight mechanisms. In contrast, when DPs decide that their eSBS should be traceable they commonly require their resources to be kept separate (often as large projects in the government’s development budget), reported on separately in the budget (including requirements for their own budget categories), the establishment of parallel transfer mechanisms and additional reporting and auditing processes.

The significance of the fact that non-traceable eSBS more extensively utilises sector-wide systems is that this approach to eSBS therefore has had greater success in strengthening these systems across a sector in a strategic way. In contrast, in its narrow/non-use of systems traceable eSBS tends to miss opportunities to strengthen government systems in a strategic way across a sector, and can even end up weakening them if DP demands outside of systems burden, fragment and sideline existing systems (Williamson and Dom, 2010). There are a number of pathways through which these effects emerge, as illustrated in table 4 below with the help of examples from eSBS evaluations.

Table 4: Illustrating the differential effects of traceable and non-traceable eSBS on Government systems

Pathways through which non-traceable eSBS has contributed to strengthening government systems	Pathways through which traceable eSBS has neglected to support or weakened government systems
Budget and other financial management systems	
<p>Utilises the existing budget structure and financial management systems, thereby encouraging greater dialogue between Ministry of Finance, supported ministries and DPs on strengthening these systems.</p> <p><i>For example, in the cases of Ugandan and Rwandan education, activities use of government public finance management (PFM) systems has helped to identify gaps in these systems, thereby guiding efforts to address these gaps.</i></p>	<p>Tends to distort and fragment these systems by requiring additional budget reporting and financial management requirements; as a result it becomes harder to link resources and policies, and also to link resourcing to results.</p>

Intra-governmental transfers	
<p>Utilises existing channels for intra-government transfers, thereby focussing political attention on them and providing opportunities to understand and address their weaknesses.</p> <p><i>For example, in the Uganda and Rwanda education cases non-traceable eSBS supported the expansion of the government's intra-governmental transfer system.</i></p>	<p>Can involve establishing parallel resource transfer systems, thereby creating complexity and increasing burdens on governments.</p> <p><i>For example, in Tanzania health case traceable eSBS led to a parallel grant system being created, which in turn created added complexity and burdens for local government institutions in reporting; this parallel system was continued even when the predictability of transfers through the government's own system of transfers improved.</i></p>
Reporting and auditing systems	
<p>Tends to utilise existing systems, thereby focussing political attention on them and providing opportunities to understand and address their weaknesses.</p> <p><i>The Uganda education case involved one sector specific diagnostic study a year, the findings of which were initially actively followed up on to address weaknesses in sector systems.</i></p>	<p>Tends to result in DPs requiring additional reporting and auditing, which can create burdens and take political attention away from existing systems.</p> <p><i>In the Tanzania health case an additional audit was commissioned by DPs with limited involvement from the government; as a result there was weak ownership over this audit which undermined its impact.</i></p>
Non-financial inputs (dialogue, technical assistance)	
<p>Focuses dialogue and technical assistance on efforts to strengthen the sector as a whole, thereby providing opportunities to strengthen systems that are fundamental to sector progress.</p> <p><i>For example in the case of Malian education, non-traceable eSBS facilitated a focus of dialogue on the fragmentation of planning and budgeting instruments across the sector.</i></p>	<p>Tends to focus dialogue and technical assistance on the parts of the budget funded by the DP, thereby skewing government and DP attention towards these parts of the system and limiting opportunities to strengthen systems more broadly in the sector.</p> <p><i>For example, in Morocco the focus of some SBS operations on subsectors, programmes or regions, rather than at the sector level limited efforts to address sector challenges and policies more strategically (Lawson, 2014).</i></p>

Source: Williamson and Dom (2010).

Note: Another relevant example is the neglect of systems related to recurrent inputs (e.g. salaries human resource development), which is dealt with in some detail in section 3.1.1.1 above.

The narrative that emerges from these cases is that where eSBS uses systems more extensively (as in the case of non-traceable eSBS) there tend to be stronger incentives for donors to engage with, understand and support the strengthening of these systems, as the success of their interventions depends on these systems operating effectively and improving (Glennie et al., 2013). Given the importance of the incentive effect it therefore seems likely that a notable proportion of an individual donors' funding in a sector/country needs to rely on local systems for such an effect to be felt.

This analysis draws attention to the fact that often it is the support that is provided alongside financing managed through government systems which can be critical to achieving impacts in terms of systems strengthening. Of most relevance is the dialogue on policy that donors engage governments in, as well as capacity building support which is often suited to being delivered through more traditional project style approaches alongside eSBS (Dom and Williamson, 2010). It is the combination of these inputs with financing which helps to achieve impact (IDD and Associates, 2006; Williamson and Dom, 2010; Lawson, 2014).

With regard to capacity-building and policy dialogue pursued through eSBS a number of lessons have emerged from recent evaluations of sector (and other forms of) budget support which are important to note. Firstly, these inputs should avoid a focus simply on relevant upstream institutions and processes (e.g. central government functions and oversight), and also focus on addressing down-stream institutions and processes which are required to effectively deliver services (e.g. management, capacities and accountability of front-line providers). Such an approach helps to strengthen systems across all relevant administrative levels and avoids neglecting key government functions (Williamson and Dom, 2010). Secondly, these inputs need to be better targeted at sustainably addressing the key constraints to improving systems and outcomes rather than the ad hoc (Williamson and Dom, 2010) and generic (Bernardi et al., 2015) approaches that have all too often been taken.

Whilst emphasising the importance of eSBS using government systems to the maximum extent (e.g. through avoiding traceability and additional oversight requirements) it is important to note that in many contexts eSBS providers are justified in having major concerns with regard to the weaknesses of government systems and in applying additional procedures and oversight measures. In such cases the research suggests that traceable eSBS still has the potential to strengthen systems in a narrow (if this leads to DP pursuing change just in the part of the budget/system used by their eSBS, which may well be a realistic goal in some cases) or broader and more strategic way (if, in contrast to practice to date, DPs using this form of eSBS continue to engage in sector-wide dialogue and technical assistance). Such an outcome does though rely on DPs being aware of the costs of narrow/non-use of systems and ensuring that these are weighed against the benefits of such approaches in making a decision about when and how to engage with systems. It also relies on DPs working outside of systems in ways that compliment rather than undermine systems. The research suggests that to date, eSBS providers have generally not taken such an approach to designing and delivering their eSBS, which is likely to have undermined its effectiveness in practice (Williamson and Dom, 2010). Exceptions to this picture – presented in the box below – illustrate what approaches are possible.

Box 1: Examples of eSBS delivered outside of systems but complimenting efforts to strengthen them

- **South Africa, service delivery** – eSBS was used to resource the Reconstruction and Development Programme (RDP) Fund, which is a fund managed by the Ministry of Finance outside of normal budget procedures. The RDP provided support to individual ministries for innovations in service delivery processes, which might help to increase the impact of public spending on poverty and inequality. Decisions on which programmes to fund are made by the government through proposals from the Minister of Finance to the cabinet (Lawson, 2014).
- **Zambia, roads** – eSBS involved undertaking additional technical and procurement audits, as well as diagnostic, public expenditure and value for money studies, all of which added value to the Government's oversight efforts and were later integrated into sector operations by the government (Williamson and Dom, 2010)
- **South Sudan, education sector** – DFID's support to secondary education has been delivered outside of the government's systems. However, this programme has been utilising the same reporting and other procedures that are used by the government in order to minimise the burden on schools in managing these funding streams and in order to facilitate the strengthening of sector-wide procedures (g7+ forthcoming).

It is also important to note that in many cases even though DPs have made full use of systems it has not been clear to what degree these approaches have been effective in supporting the strengthening of systems. This is partly down to the difficulty of analysing the distinct impact of providing financing through government systems amongst all the other policies and practices donors and governments apply alongside such financing (Glennie et al., 2013). This point also highlights the fact that governance factors are often a serious constraint on progress to achieving systems and institution strengthening and that instruments such as eSBS can only effect such constraints in a limited way (IOB, 2011).

A final issue to bring attention to relates to the challenges in using eSBS to promote inter-sectoral collaboration, which is often important in addressing development challenges in a comprehensive way. eSBS in Morocco supporting trade facilitation had limited success in addressing these issues coherently and effectively across government because it engaged in a substantive way with only one Ministry and failed to strengthen incentives for other Ministries to engage with reform efforts (Lawson, 2014). One of the benefits of non-traceable eSBS is that it tends to leverage the engagement of the Ministry of Finance with the sector being supported (Williamson and Dom, 2010).

3.1.2 Government managed FIAs + ex-poste results conditions

This category of FAI incorporates the following characteristics:

- i. provision of direct support to the budget of developing countries, with the degree of earmarking to parts of the budget varying across programmes in this category;
- ii. the majority of funds are disbursed on the basis of ex-poste verification of results achieved by the government in implementation (for some programmes in this category some funding can be provided ex-ante);
- iii. a varied approach to results linked to disbursements across programmes in this category; these include actions relating to policies or financing; outputs, outcomes or impacts; development results as well as systems/institutional strengthening results.

We focus on a number of programmes in this category of financial aid instrument (see the first report in this series), including i) the variable tranches of SBS operations, ii) the Global Alliance for Vaccinations and Immunisations (GAVI)'s Immunisation Support Services (ISS) programme; iii) the World Bank (WB)'s Performance for Results (PFR) programme; and iv) Cash on Delivery (CoD) aid programmes. These programmes have been referenced in order of the date of their establishment (the earliest first). In fact the PFR was only established in 2012 and CoD aid has only been piloted in one country (Ethiopia) since 2011/12. As a result only very limited (in the case of PFR) analysis on the performance of these latter programmes is available. The majority of the evidence referenced in this section is therefore based on SBS variable tranches and relevant GAVI programmes, which have both been in operation for over a decade.

3.1.2.1 Development results

These financial aid instruments have contributed to some significant development results to date. However, analysis does not robustly explore the degree to which these instruments were responsible for progress achieved, and it is also the case that their achievements in strengthening incentives for achieving results have also been limited.

An evaluation of GAVI's ISS programme found that in 23 out of 33 countries supported by the programme the number of children receiving DPT3 vaccine increased, helped not only by GAVI's funding but also increases in government funding that were also stimulated. However, given the limited data available on the countries supported it wasn't possible for this evaluation to attempt to attribute any of these changes to ISS funding. This evaluation also questioned whether the reward payment (\$20 for each child immunised) was sufficient to incentivise increased immunisation. This question was most prominent with regard to high coverage countries (where a higher proportion of those not immunised are in harder to reach groups, which require higher levels of spending to reach) and Low-Income Countries Under Stress (LICUS) where delivery capacity is weakest and therefore performance incentives may be less of a binding constraint (Chee et al., 2007). Other analysis has highlighted significant weaknesses in the data and quality assurance systems utilised by GAVI's ISS programme, with suggestions that incentive payments biased reporting of coverage upwards (Sandefur and Glassman, 2014). This effect may have undermined the ability of this programme to effectively strengthen incentives for improving the delivery of immunisation services.

Budget support has been relatively extensively evaluated and shown to be associated with very significant increases in access to services, albeit with limited impacts on the quality of services (see section 3.1.1.1). However, to date there has been very limited in-depth analysis of the distinct impact of the performance tranche of budget support operations, and this analysis does not provide robust evidence on the results directly supported by this instrument. This analysis does though provide some insight on the degree to which this instrument has helped to strengthen performance incentives, an important determinant of its potential to support the achievement of development results. Overall this analysis suggests that its contributions to strengthening performance incentives has been quite limited, due to challenges related to identifying suitable performance targets and data quality issues which affected efforts to set baselines and accurately monitor performance (ECA, 2010). It is also apparent that the level of resources involved are not sufficient to overcome domestic political constraints to improving performance of public services (Lawson, 2014).

Due to the limited period since their implementation began, there has not yet been any effort to assess the contribution of the PfR and CoD aid programmes to development results. However, questions have been asked about whether the level of funding that will be provided by CoD aid interventions (relative to domestic and other DP funds) will be sufficient to effectively influence incentives (de Renzio and Woods, 2008). In addition, the PfR programme has faced challenges in identifying suitably balanced performance indicators (World Bank [WB], 2015).

Looking at performance-based approaches to aid engaging governments, a number of critiques have been advanced regarding these approaches (some of which have emerged in reviewing the specific instruments addressed above). Firstly, doubts have been raised as to whether performance incentives are amongst the primary binding constraints in promoting improved institutional performance, rather than broader governance challenges (Paul, 2015). Secondly, it has been asked whether performance based approaches, which transfer risk from providers to implementers/recipients are appropriate in contexts of limited capacity and high contextual risk where some constraints to performance lie outside the control of the implementing agency (Eldridge and Palmer, 2009).

However in general, the evidence base on the degree to which performance-based approaches to providing aid through governments have helped to stimulate improved development outcomes is weak, largely because this question has been inadequately addressed by research studies. Eldridge and Palmer's (2009) review of performance-based approaches to aid in low income countries found only one study that applied adequate controls and a sufficiently robust design for assessing the contribution of such mechanisms to development outcomes.

3.1.2.2 Strengthening government systems and institutions

In general reviews of these FAIs have only provided limited insights on their contributions to strengthening government systems and institutions, and these are presented in this section.

By providing assistance through government budgets these instruments have helped to support efforts to plan and utilise budget resources more efficiently and provide the potential for promoting parliamentary and public accountability. However, these instruments have in practice engaged with the full range of government systems in very different ways, with possible implications for their contribution to strengthening these systems.

With regard to the GAVI ISS programme, there was relatively strong integration with planning and delivery systems at the national level, as the ISS programme was an important part of the National Immunisation Programme in all the countries reviewed. However, coordination with planning and delivery systems at the sub-national level was much less successful, although this in part reflected weaknesses in the government's systems linking administrative levels (Chee et al., 2007). Also, relevant to mention is that the fact that GAVI funding makes use of third party verification methods, which may limit its contribution to strengthening local reporting and auditing systems.

With regard to the performance tranche of budget support programmes, analysis of the European Commission (EC)'s approach suggests that it has been increasingly utilising performance indicators from national development strategies, helping to promote alignment and ownership and utilise performance systems already in use nationally (ECA, 2010). However, other analysis has highlighted that as performance tranches essentially involve working outside of normal systems and generate transaction costs, there is a risk that it may divert attention from addressing underlying problems in the quality of research and policy development processes at the sector level (Lawson, 2014).

Whilst the PfR programme has only recently been established a review has just been published of the first two years of its operations and it presents some interesting insights on its engagement with and support to strengthening systems. This review highlights how a significant proportion of the Disbursement Linked Indicators (DLIs) utilised by PfR programmes to date focus on systems strengthening and in general verification protocols have been designed to use and strengthen existing government systems for oversight and monitoring. However, to date only six of the 22 approved country programmes have been able to support the overall government programme they have engaged with. This is because for the other 16 programmes certain activities have had to be excluded, largely as a result of perceived high risks, conflict with PfR's environmental and social safeguards and the exclusion of high value procurement contracts. As a result this review concludes that there "are potential consequences for the leverage and impact of the instrument" (WB, 2015).

Studies of other programmes have questioned the degree to which performance based approaches to aid are able to effectively stimulate institution building. This is based on their all too common bias towards a focus on easier outcomes delivered over short time frames, rather than the more complex and longer term objectives involved in building institutions (Janus and Keijzer, 2015; Paul, 2015).

3.1.3 Government managed FAIs + ex-poste reimbursement conditions

This category of FAI incorporates the following characteristics:

- i. provision of direct support to the budget of developing countries, with the degree of earmarking to parts of the budget varying across programmes in this category;

- ii. funds disbursed on the basis of ex-poste verification that agreed areas of expenditure have been undertaken by the Government.

To date this form of FAI has only been used for a limited number of programmes – mainly in post-conflict countries with weak systems – and it has been the subject of even more limited analysis. This section therefore presents some very brief relevant insights on two reimbursement programmes providing financing through government budgets:

- i. USAID's Fixed Amount Reimbursement Agreement (FARA) in Liberia – this has provided support to the Ministry of Health and Social Welfare in Liberia (MoHSW);
- ii. the Special Financing Facility (SFF) in Somalia – this has been funded by the Government of Norway, and provides funding to cover civil service salaries and small-scale development projects.

USAID committed \$42m in financing over the period 2011-15 through its FARA programme supporting the MoHSW. FARA payments have been made directly to the Central Bank of Liberia, helping to support the Government to comprehensively plan for the use of and manage available resources in the health sector (Hughes et al 2012). Reporting from USAID on the FARA programme does though suggest that disbursements have been slow, as only \$11.6m was disbursed during financial years 2013 and 2014 (FA.gov 2015). This may in part be due to significant delays in payments to health facilities from the performance based financing programme FARA funds are supporting, which resulted from delayed reporting and submission of disbursement requests by MoHSW and late payments from donors (MoHSW, 2014). These experiences may indicate that the bureaucratic demands involved in administering the FARA instrument are high, which in turn contributes to slow disbursements and leaves the partner government to provide the required resources whilst reimbursements are being processed. This conclusion does though require further exploration.

The SFF in Somalia has also faced similar experiences to that of the FARA in Liberia, and therefore raises many of the same questions about the risks and benefits of the reimbursable approach to providing financial aid. In designing the SFF the Federal Government of Somalia (FGS) successfully convinced the Norwegian Government that it should provide funding for civil service salaries directly to the Central Bank of Somalia (rather than through a trust fund), helping to use, focus attention on and strengthen national systems. However, there have been very significant delays in making payments to the FGS from the SFF, which has meant that the FGS has had to advance funding and commonly wait 2-3 months for reimbursement. These issues have reportedly undermined the institutional reputation of the FGS, as well as programme delivery and the functioning of the FGS. Initially, these delays were largely down to political and institutional challenges in Somalia, but more recently have been caused by bureaucratic and political obstacles within the Government of Norway (g7+ forthcoming). Experience with the SFF illustrates how reimbursement approaches place risk predominantly on the recipient government and can involve significant bureaucracy and transaction costs if not managed effectively.

3.2 Joint government-DP managed FAIs

As illustrated in the first report in this series, distinct from government-managed financial aid instruments are those for which DPs retain a significant degree of control through jointly overseeing the management of resources (e.g. through resources being held outside of government budgets and governed jointly) and / or day to day implementation (e.g. through joint decision-making bodies) together with governments they support. We categorise these financial aid instruments as "joint government-DP managed", and they are the subject of the section that follows.

3.2.1 Joint government-DP managed + Ex-ante conditions

This category of FAI incorporates the following characteristics:

- i. Programme funds being jointly overseen outside of the government budget and/or joint decision-making on the activities funded by the programme;
- ii. A range of approaches taken to the degree to which programme implementation engages with and utilises government systems;
- iii. Disbursement decisions being made on the basis of ex-ante conditions, such as the quality of programme design, programme objectives or the implementer meeting certain eligibility criteria.

We present analysis on wide range of programmes in this category of FAI (see the first report in this series) which are commonly referred to as trust/pooled/basket/common funds. The terms pooled/basket/common funds are used interchangeably and can't be said to distinct sub-categories of FAI. It is though worth noting that trust funds involve an international institution (generally the World Bank or the United Nations) holding funds in trust for the international community, usually in post-conflict environments.

3.2.1.1 Development results

There is little evidence available on the distinct impact that joint government-donor funds have had as a financial aid instrument on efforts to achieve development results. This may be in part due to reported weaknesses in results reporting by many of these funds. A recent review of pooled funds in fragile states found that most had paid insufficient attention to monitoring and evaluation, with monitoring commonly extending only to outputs. In many cases, particularly for UN-managed funds, implementing agencies have been left to report on their own interventions with little or no external verification of their findings (Commins et al., 2013). Another review of the track record of multi-donor trust funds reported as many instances of these funds undermining managing for results as helping to strengthen them (Barakat et al., 2012).

Perhaps the most transformative approaches to monitoring results and feed them into decision making have emerged in the cases where joint government-donor funds have helped to promote joint review processes at the sector level. For example, in Uganda's water and sanitation sector, the joint review stimulated the development of a sector-wide performance measurement framework. It was reported that the responsiveness of the Government to performance assessments was limited and there were concerns that DPs were crowding out the voices of domestic stakeholders in these processes (Williamson et al., 2008).

3.2.1.2 Strengthening government systems and institutions

As already highlighted, the utilisation of government systems by this financial aid instrument has varied considerably across programmes. To some degree this characteristic has determined the extent to which these programmes have been able to support the strengthening of government budget and other systems. However, as has been highlighted with eSBS, working outside of systems does not automatically result in weakening government systems if this involves activities which can help to support sector strengthening and to address sector challenges strategically. This is especially the case where government systems are extremely weak or virtually non-existent (which might be the case following a destructive conflict) as the systems used by the joint government-DP fund can be integrated into national institutions as they are (re)built.

This section continues by outlining some of the practices of joint government-donor financial aid instruments in this category which have supported systems strengthening

efforts, and those which have undermined them it. This analysis also illustrates the pathways through which these effects have emerged, many of which are similar in nature to those identified for eSBS (in section 3.1.1).

As already highlighted, the degree to which joint government-donor funds strengthen systems is the degree to which these funds actually utilise these systems rather than working outside of them. These funds commonly require resources to be managed outside of the main budget, which contributes to fragmentation of budgets and inflexibility in resource management (Williamson et al., 2008). It has also been observed that when these funds utilise parallel systems extensively then capacity building efforts end up focussing on these parallel systems (Williamson et al., 2008) or on meeting DP procedures (Scanteam, 2007) and as a result government systems are neglected.

The case of the Liberia Health Sector Pooled Fund (HSPF) provides an important counter-example to these practices which have led to budgets becoming fragmented and Government systems being neglected. The HSPF is positioned in the MoHSW and funds from DPs utilise government systems for procurement, financial management, audit, monitoring and evaluation. As a result there has been a strong focus in the dialogue on identifying weaknesses in these systems and the capacity building activities which have been a part of the programme have focussed on strengthening the ministries' capacities in these areas (Hughes et al., 2012).

Another factor that research suggests has been critical in promoting systems strengthening in the operation of these FAIs is ensuring that the focus of the policy dialogue involved remains strategic and not bogged down in the minutia of the often complex workings of these joint government-donor funds. Where dialogue focuses on these minutia it fails to adequately promote sector-wide processes such as monitoring, assessing sector systems and addressing weaknesses in sector systems. Such dialogue can also draw institutional capacity away from core functions of the ministry involved, thereby undermining capacity in areas critical to the government performance (Williamson et al., 2008).

In contrast, when these funds are able to retain a dominant focus on addressing system wide challenges then their ability to support change at this level is enhanced. For example, the Common Fund in operation in Uganda's water sector in early to mid-2000s was focussed generally on strategic sector issues. This in turn helped to strengthen sector-wide monitoring through a joint review process and to focus efforts on strengthening delivery systems, including at the district level (Williamson et al., 2008).

A final issue to note relates to the governance of these joint government-donor funds. The balance of government and donor decision-making power in managing their resource flows and day to day activities varies across these funds. When the Afghanistan Reconstruction Fund (ARTF) was first established in 2002 the government was initially not invited to be a member of its Management Committee. It was then invited as an observer to the Management Committee in 2005, before being given minority representation on this Committee. This system of governance seems to have contributed to DP dominance of important decisions relating to investment projects and neglect of more strategic approaches to capacity building in the early phase of the ARTF's operations (Scanteam, 2007).

In contrast to the ARTF, the Indonesia Multi-Donor Fund (MDF) provided the Government of Indonesia with multiple levers to pursue ownership of the funds activities. The government was one of three co-chairs of the fund, it had strong representation (six voting members) in its steering committee and funding proposals were first vetted by the government body established to oversee reconstruction efforts following the 2005 tsunami (Scanteam, 2007).

3.2.2 Joint government-DP managed + ex-poste results conditions

This category of FAI incorporates:

- i. programme funds being jointly overseen outside of the government budget and / or joint decision-making on the activities funded by the programme;
- ii. a range of approaches taken to the degree to which programme implementation engages with and utilises government systems;
- iii. disbursement decisions being made on the basis of ex-poste results conditions, which commonly focussed on outputs and outcomes.

To date only a few aid programmes have been in operation which can be considered examples of this category of FAI, so there is only a very limited evidence base on which to draw for our analysis on these instruments. This section presents some very brief analysis from the review of one such programme which has also been evaluated in recent years, and that is the Health Results Innovation Trust Fund (HRITF).

The HRITF was established in 2007 to help develop the evidence base on Results-Based Financing (RBF) approaches in the health sector and promote their ability to incentivise improvements to the quantity and quality of services provision. It does so by piloting results based financing programmes, evaluating their impacts and disseminating the evidence and to support countries to develop the capacity to sustain and scale-up results based financing. A 2012 evaluation of the HRITF covered its implementation over the period 2007-11.

3.2.2.1 Development results

The HRITF's evaluation concludes that "It is too early to tell whether the pilots are likely to be successful, let alone sustainable", so it is not possible to make firm conclusions about this programme's support to development results. However, the evaluation did point towards limited effort by this programme to keep key decision-makers and other donors informed of progress with the programme in order to support efforts to sustain them beyond the World Bank's funding. This is a critical issue as given the resource constraints faced by many partner countries the scale-up of these programmes requires a strong case to be made to partner governments and will likely require continued external funding as well (Martinez et al., 2012).

3.2.2.2 Strengthening government systems and institutions

The HRITF's evaluation highlights how in its design it was foreseen that were possibilities that the HRITF could move towards utilising sector wide approach (SWAp) systems and possible delivery into funds pooled with other donors, albeit following an initial phase of establishing programmes. In practice, based on the case studies carried out for this evaluation, the HRITF has a reasonable record of using systems, especially in Rwanda (see box 2 below).

Box 2: Use of country systems by HRITF programmes

- **Kyrgyz Republic** – Programme funds are provided through the Treasury, but using a Special Means Account in order to track the use of funds. The programme's secretariat is a quasi-programme implementation unit (PIU), in that it makes use of national procurement and financial systems but recognises that different types of expertise – not available with the sector – are required and will need to be recruited externally.
- **Rwanda** – This is the only HRITF programme to date that fully utilises country systems.
- **Zambia** – The programme is run by the ministry of Health through a PIU, and utilises country systems to a significant degree. However, special accounts are used at the District levels in order to separately track the use of programme funds.

However, the evaluation makes clear that there are likely to be limits to the degree to which the HRITF will fully use systems, as its funds need to be separately tracked in order to support results monitoring (see examples in box 2 above) and it is funding innovative programmes for which relevant skills may not currently be available in Government institutions (Martinez et al., 2012). It is therefore clear that this programme faces challenges in managing trade-offs between working within and outside systems. It is though too early to tell how well these trade-offs are being handled.

3.2.3 Joint government-DP managed + ex-poste reimbursement conditions

This category of FAI incorporates the following characteristics:

- i. programme funds being jointly overseen outside of the government budget and / or joint decision-making on the activities funded by the programme
- ii. disbursements usually made direct through the budget, although a range of approaches are taken to engaging with and utilising government systems;
- iii. disbursement decisions being made on the basis of ex-poste verification of pre-approved expenditures having been undertaken by the government.

The main programmes which can be included in this category are Multi-Donor Trust Funds in post-conflict countries supporting the payment of civil service salaries. The most prominent examples include the ARTF and the Holst Fund providing support to the West Bank and Gaza. Substantive evidence is available only with regard to the ARTF, so what follows is a brief overview of relevant insights from analysis of this programme.

Challenges were initially experienced (both by government and the Monitoring Agent) in interpretation of the procedures for reimbursements, which led to delays in disbursements. These issues were mostly addressed within the first year of the programme, but they do point towards the significant transaction costs which can be involved with this type of instrument (Scanteam, 2007).

Government recurrent expenditures (75%-80% of the ARTF's funding) are reimbursed through the Government's budget. Engagement with the budget has supported the Government to integrate ARTF funding into budgets. It has also incentivised diagnosing and addressing weaknesses in the Government systems. As the strength of Government systems has improved the fiduciary standards of the ARTF have been adjusted in order to help promote a gradual and strategic approach to improving these systems (Scanteam, 2007).

In line with bank policy, the ARTF does not permit earmarking of funds for particular activities by the donors. However, donors can express preferences for specific projects or programs for a portion of their overall contribution. These preferences can be expressed only for activities for which a funding gap exists. This approach has helped to promote alignment with national priorities (Scanteam, 2007).

4 Conclusions

- **Government managed FAIs are more strongly associated with systems use and strengthening, although these are not appropriate for us in all contexts.** Due to the fact that government-managed FAIs are by definition closer to systems, they are more likely to use these systems and strengthen them (see next point). However, such FAIs are not appropriate for use in all contexts and there is significant potential for joint government-DP managed FAIs to support systems strengthening;

fulfilling this potential depends on appropriate design and delivery (see points below) and more often than not these FAIs have not fulfilled their potential in this direction.

- **Use of and alignment with systems by FAIs increases their chances of supporting systems strengthening.** When systems are used it is more likely that government and DPs will understand the weaknesses in these systems, face incentives to strengthen these systems and therefore ultimately contribute to strengthening these systems; use of systems also allows DPs to “do no harm” by avoiding undermining systems with unnecessary additional procedures and demands.
- **FAIs working outside of systems can still play an important role in strengthening sector functioning and results.** Government systems are often weak and there can be very significant blockages within institutions to achieving progress; as a result working outside of systems can help to safeguard resources, but also support transformative change in a sector by tackling system challenges from the outside and in innovative ways.
- **In designing FAIs and how they engage with systems, DPs need to better weigh the costs and benefits of different approaches and be prepared to adjust their approach as contexts change.** There is insufficient weighing-up of the costs and benefits of decisions to work outside of systems by DPs, which means that non/narrow use of systems all too commonly inadvertently undermines systems. On the other hand it is important to recognise when working outside of systems can be helpful, for example, to build external pressure and take a targeted approach to addressing systemic constraints or to simply allow funds to flow more predictably as these may be held up by donor concerns about fiduciary or other risks. DPs need to take a more informed and strategic approach to such decisions, and be prepared to adjust their approaches to move towards greater use of systems when opportunities emerge.
- **Joint government-DP FAIs utilising their own financing mechanisms need to retain a strong focus on broader sector and strategic issues.** There has been a tendency for these funds to get lost in the minutia of their operations and procedures, which can lead to neglect of addressing broader sector and strategic issues and even undermine efforts to address these issues. The actors involved therefore need to be disciplined in ensuring that broader sector and strategic issues remain an important part of the dialogue and activities.
- **Addressing quality issues by looking beyond national-level engagement is a challenge for all FAIs.** All categories of financial instruments – even though most closely aligned with systems – have faced challenges in working with and strengthening day to day delivery at the sub-national level which are vital to improving the quality of service provision/programme delivery. This points towards issues beyond the design of specific instruments, and highlights the importance of the degree to which DPs have the capacity, local knowledge and flexibility to work effectively to address these constraints.
- **FAIs involving ex-ante results conditions and disbursements face significant design challenges and therefore require careful design, robust testing and close scrutiny.** The challenges in designing such instruments include the selection of an appropriate indicators and avoiding exclusion bias and creating harmful adverse

incentives; identifying appropriate performance standards, i.e. at a level sufficient to promote improved performance but not too high as to exceed what is possible given capacity and undermine incentives; accessing reliable and timely data in order to support their functioning; finding an appropriate balance between working within and outside systems. Given these very significant challenges, it is important that these FAIs are designed carefully, are tested carefully (for instance, through pilots) and are scrutinised in order to ensure they are functioning well and adjustments can be made.

- **FAIs involving ex-ante reimbursements can involve significant transaction costs and risks for partner governments, although there are examples of good practice (especially with regard to covering government salaries) and they can be vital to early systems use and strengthening in contexts of fragility and weak systems.** The transaction costs and risks for partner governments in receiving support through FAIs involving reimbursements need to be better managed. There are, however, examples of good practice, especially with regard to covering government salaries, an area perhaps more suited to this instrument given it involves repeated transactions of a similar and predictable nature. These instruments have provided important early support through systems and supported efforts to strengthen them in very challenging contexts.

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