

International Financing Mechanisms to Support Health Systems Strengthening

European Commission: MDG Contracts and General Budget Support

What are they?

European Commission aid to ACP (Africa, Caribbean and Pacific) countries under European Development Fund (EDF) 10, which covers the period 2008-2013, is budgeted at some 22.8bn euros. Of the 11.6bn programmed to date to country programmes¹ around 31% has been for general budget support and a further 16% for sector budget support (which has many of the same features). This represents a major increase on the 31.7% committed through these instruments under EDF 9.

During EDF 10 the EC also proposes to introduce a new instrument, the MDG contract (MDGc), which builds on its current budget support arrangements. The MDG contract aims to increase predictability by adopting a longer time frame and also by changing the way it measures progress and therefore makes disbursements.

The commitment period for MDG contracts will be 6 years (this compares to 3 years under normal EC general budget support). As is the case for general budget support the MDGc will be made up of a fixed and a variable tranche. The former, typically 70% of the total (but subject to negotiation at the country level), is virtually guaranteed thus ensuring a high degree of predictability. The remaining 30% will be released in the form of a variable tranche as a reward for good performance. Half of the variable tranche will be based on the results of an annual review of performance along the lines of current budget support practice. This will focus on PRSP implementation, performance monitoring (especially related to the availability of data), improvements in public financial management, and macroeconomic performance. The other half of the variable tranche – the MDG tranche - will operate differently. It will be released if satisfactory progress is made against selected outcome indicators after a mid contract review. This suggests that at least part of the support will be back loaded rather than front loaded. It also means that reliance on annual performance reviews has been reduced and a longer term perspective of progress is being used.

Seven African countries - Malawi Mozambique, Zambia, Ghana, Burkina Faso Rwanda and Uganda have been identified as initial MDGc countries. The intention is to expand this number over time as experience is gained. These will typically be the good performers. This support will account for roughly half of the EC's budget support

What do they add?

- **Broader development impact:** The provision of general budget support makes maximum use of government systems and can help address broader development bottlenecks – such as public sector reform and, in particular, human resources and public financial management issues - which cannot be addressed at the sector level alone. In doing so it will contribute to the development of health systems in ways that other instruments cannot
- **Increased predictability:** Funds are committed for a 6 year period - a longer timeframe than for general budget support from other donors. There is less emphasis on annual performance which can be volatile and is often related to factors outside the control of governments

¹ Out of a total of 13.5bn euros which has been allocated to country A-envelopes

- **A strong results focus:** A significant share of support is performance based though for part of it performance is judged over a longer timeframe – an attempt to combine the benefits of predictability and paying according to results achieved.
- **Potential to leverage additional resources:** A number of member states have expressed an interest in providing support using the MDGc mechanism which opens the possibility of more harmonised donor approaches at the country level.
- **A willingness to operate in difficult settings:** A key comparative advantage of the EC is its willingness to provide budget support in fragile states settings where other donors would not be prepared to do so². The EC is likely to be the only budget support donor in Sierra Leone and Haiti in the coming years and also plans to provide such support in other difficult settings such as Burundi, Central African Republic and Ethiopia. Although such support is relatively high risk (resources are only programmed for one year in such settings which helps minimise these risks) it has the potential to bring high rewards. Where it works it may also open the door for other donors to provide programme based support.
- **A possible complement to an expanded IFFIm;** countries are often reluctant to make capital investments – even where donor support is available - out of concern that they would be unable to meet any ongoing recurrent costs needed to sustain these investments. By providing long term predictable financing the provision of general and sector budget support (particularly through the MDGc) should reduce the risks attached to making such investments and help break some of the barriers to scaling up

Issues and Options

The MDGc is an untried and untested mechanism which offers considerable potential to provide long term predictable funding in unearmarked form which can be allocated according to government priorities. Although it does not directly earmark funds to health systems strengthening it can still provide support. Much will depend on how the contract is designed at the country level, if the performance framework used includes measures of health inputs – for example the level of health spending or the share of the budget to health – it could ensure additional resources are available to help finance health systems investments. The same would be true if the framework includes key health output or outcome indicators which rely on strong health systems such as access to safe deliveries.

As a new instrument it will be important to evaluate its overall development impact and apply any lessons that emerge. In relation to the health systems agenda it will be important to review how the contracts are actually designed and how performance progresses against the key health indicators. Efforts should be made to see how HSS related indicators could play a more prominent role in the performance framework. This will require continued efforts to demonstrate that investment in health systems should, indeed, be a priority and that any evidence is widely disseminated especially to the country level to inform resource allocation decisions.

It will also be important to track whether the MDGc approach can complement results based financing approaches such as those supported by the World Bank and others which use different methods to encourage good performance.

Should the approach prove successful it could create a platform for additional voluntary support from other donors which might wish to provide parallel financing within the MDGc framework. A number of options could be possible including supplementing the fixed tranche to increase the availability of predictable funding or to supplement the MDG tranche to reward progress against key indicators of interest.

² This applied to EC general budget support not the MDG contract