

September 2014

REGULAR BUDGET SUPPLEMENTARY ACCOUNT (RBSA) - REVIEW

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Executive Summary

RBSA is a category of voluntary resources set up by the ILO in 2008 to increase the funding of its Decent Work Agenda through flexible unearmarked voluntary contributions to the Technical Cooperation programme. In the context of ILO's current reform, attention has focused on the usefulness of unearmarked contributions and on the effectiveness of this particular funding modality, both from ILO and donor perspectives. This review, undertaken by two independent consultants in June-July 2014, was commissioned by ILO to assess:

- The effectiveness of ILO's methods to manage and use RBSA, identifying lessons learned so far as compared to traditional voluntary funding;
- The value of results achieved with RBSA funding, in the context of the overall resource framework and results achieved by the ILO;
- The extent to which the intentions and expectations that motivated the donors' decision to move to unearmarked funding were met.

To that effect, through documentation review and interviews with ILO staff and donor representatives, the consultants addressed RBSA from the triple perspective of relevance, efficiency and effectiveness. Initial findings and conclusions were shared in a short workshop with a cross-section of ILO staff. This report will eventually be shared with donors who contribute to the RBSA modality.

RBSA helped ILO to overcome constraints of its existing funding arrangements with limited additional resources to a stagnant RB, providing flexibility to a TC programme restricted by earmarked resources. RBSA allowed ILO to respond strategically to development issues and challenges. Eventually, RBSA resources were deployed to promote programme reforms to improve services in countries with weak programme results. In that respect, RBSA was an important element in the transformation process, affording ILO operational flexibility for strategically important development priorities.

In supporting ILO's reform work on outcome-based planning and areas of critical importance, RBSA became a tool to support reforms and a flexible source of funding at the country level. But because the reform thrust was not properly channelled, RBSA became entangled with reform instruments, while country level operators were looking to RBSA for operational support to fill gaps left by limited earmarked resources. Technical cooperation at country level needed the flexibility of an unearmarked-resource type, but RBSA was not adequate to perform alone this important function.

The potential added value of unearmarked resources to the Organisation was largely diluted by the time RBSA funding became available to the countries that needed such resources. They were often too limited to address real priorities, though useful to cater to varied needs of the country programmes. Put through the straightjacket of the RBSA allocation mechanism, programmatic flexibility had a tendency to shrink dramatically. Predictability declined as resource decisions moved from the countries to more broad-based allocation processes that to them were *a priori* less transparent and therefore less predictable. Rather than decreasing, transaction costs exploded, as RBSA selection processes tied up significant staff time.

The RBSA operational strategy to boost ILO performance by using unearmarked resources was therefore only moderately successful. It performed well on attracting funding to the modality, but management of resources failed to realise the potential of unearmarked resources. Savings from simplification turned out to be less than expected.

From a donor perspective, all donors that currently contribute to RBSA are satisfied with the arrangement and willing to continue funding ILO activities through this modality in addition to their other contributions to ILO. However, more clarity and understanding and better visibility of the modality would help donors advertise it as an attractive modality in funding options, and draw more donors to provide unrestricted support to ILO. A closer sense of partnering with current donors would help in that respect, as well as greater transparency in the way ILO works generally, and how it uses its funding.

The complex resource allocation processes of RBSA and associated transaction cost stand in contrast to the small amounts at stake. The multiple criteria quality control applied to RBSA funding requests probably added only marginally to the effectiveness of resource allocation. They succeeded in identifying initiatives that satisfied unmet local needs but owing to the nature of DWCP, they were not able to pick out the most critical initiatives or to establish

the relative merit of initiatives across countries or sectoral outcomes. However, they did contribute to assuring better integration with ILO's outcome work streams.

The HQ-based screening processes surrounding RBSA allocation were perceived to remove resource decisions from Country Offices. The underlying selection criteria were difficult to apply in practice and taken together not fully transparent. Even though it may be possible to clarify and fine-tune existing selection criteria and to make the selection more inclusive in order to make the selection process more robust, programmatic benefits are unlikely to warrant the cost. A less ambitious prioritisation system likely to combine global executive decision making with country self selection and greater ex-post accountability could replace the existing RBSA allocation arrangement.

Accepting earmarking of RBSA resources increased ILO's administrative workload. The emergence of alternative broad earmarked funding options in the context of multi-year donor outcome-based funding modalities provides an opportunity to turn RBSA in a pure unearmarked voluntary funding window with streamlined administration based on a single pooled account. Earmarked reporting on particular uses of unearmarked RBSA resources could be offered as an option for donors interested in the more strategic funding type offered by the RBSA.

Accountability arrangements for RBSA are globally adequate insofar as the actual use of funds in country programmes is concerned. However, the accountability system fails to give RBSA sufficient visibility both in regard to its donor funding sources and reform function. Similarly, the Regular Budget accountability system, which relies on line responsibilities for control, is less apt for governing RBSA technical cooperation resources. To overcome those weaknesses, the related operational monitoring and reporting system should be adjusted, including appropriate involvement of ILO Governing Body structures.

RBSA undoubtedly contributed to bringing outcome-based programming and ACIs, the present stage reform process, into closer focus. In aligning its resource allocation mechanism with the reform instruments, it provides incentives to country offices to engage in these processes and foster their implementation. Interaction between Country Offices and HQ were bound to turn on country programme outcomes, their integration with higher-level strategic objectives and results indicators and measurement. Dialogue on planning and framing outcomes between central services and the Field has intensified. Similarly, under recent ACI initiatives, HQ-Field discussions regarding RBSA allocations now centre on horizontal collaboration and teamwork. The effects of these realigned work processes will eventually translate into better delivery of services to the countries. The RBSA funding modality has thus helped the Organisation to expand the focus of its reform instruments and lubricated their implementation.

On balance, RBSA was beneficial, but could have had a greater effect on ILO's long-term cooperation capacity.

The report concludes with the following six recommendations:

- 1. Clarify the purpose, definition and rules of the RBSA funding modality; inform donors accordingly**
- 2. Confine RBSA to its original function as an unearmarked flexible resource pool and unified account**
- 3. Return RBSA to being an instrument for strategic response with appropriate adjustment of its allocation modality**
- 4. Explore options for overcoming the limitations imposed on RBSA by the biennial appropriation mould**
- 5. Complement the oversight and accountability structure for RBSA unearmarked resources**
- 6. Promote strategic partnership with donors around the RBSA modality**

1. RECOMMENDATIONS

As a funding modality designed to receive and allocate unearmarked resources, RBSA plays an important element in improving ILO's aid effectiveness. The following recommendations are oriented towards restoring the full potential of ILO's unearmarked resources in the context of its overall resource framework, thereby overcoming the constraints of its regular and XB resources. They are formulated so as to assist the ILO in adjusting the way the Organisation manages the RBSA modality, both internally and externally.

It is recommended that ILO's Management:

- i. **Clarify the purpose of the RBSA funding modality**, as well as the rationale for directing its resources towards measures improving the longer-term effectiveness of the ILO's technical cooperation. This would involve revisiting the definition and rules of RBSA and ensuring donors' understanding and endorsement of its *modus operandi*. It would also provide an opportunity to streamline and simplify procedures across the various funding modalities to match their specific requirements while keeping administrative and transaction costs to a minimum. This needs to be done within a broader integrated resource framework to ensure consistency between all types of funding, and rationalise planning, programming, budgeting and resourcing. ILO could benefit from the experience from other agencies and the lessons they learned from their approach to and use of un-earmarked funds, in the context of their own relations and negotiations with donors. This could be useful too in considering other agencies' budgetary presentations, and the interface of budgets with diverse types of funding (unearmarked, lightly earmarked, tightly earmarked).
- ii. **Confine RBSA to its original function of being a fully unearmarked flexible resource pool and unified account**. Donors should be encouraged to commit their "lightly earmarked" funding to the dedicated outcome-based funding modality. This should be accompanied by proposals to see donors' bilateral thematic/geographic priorities acknowledged, such as through specific bilateral policy dialogues with donors. Such a discussion with donors could be initiated as part of the agenda of the next RBSA donor consultation. In turn, the RBSA modality should be advertised and promoted by ILO to attract more donors to unearmarked funding, and encourage donors to support the modality. This should be part of a coherent communication drive to underline the need for unrestricted funding. Recognising that the existing ILO standard template can generally not be used for RBSA, as most donors' funding to the ILO is part of a "general arrangement" covering all types of funding, reach consensus with donors on a standardised outline for agreements governing the attribution of contributions to RBSA. Matters of "light earmarking" could be addressed through a standard outline approach, defining what is acceptable, and in what conditions, and what is not. In such cases, ILO could propose alternative funding arrangements
- iii. **Return RBSA to being an instrument for strategic response** at the corporate level, to development issues and programmatic challenges affecting field operations. While this may mean, in the short term, continued support to improving outcome-based work streams, the merits of doing so need to be carefully weighed against the merits of supporting other pressing issues. RBSA allocation procedures would need to be adjusted to more explicitly and directly support specific ILO priorities, thus avoiding scattered allocations and doing away with a multitude of proposals far in excess of available resources. This will require executive management (DDG/FOP) decision on the countries/themes to be supported through RBSA as well as an approximation of allocations. Regional programming units would then prepare corresponding implementation plans, updating OBW-related information in IRIS/SM in the process. A smaller share of the RBSA could be used to foster strategic responses directly at the field level, for example, through an "innovation fund", to which any Field Office could submit proposals for new areas of work at country level, possibly outside the scope of the OBW. Precise criteria would need to be defined (allocation size, templates for proposals) but the intent

should be a very limited number of significant allocations per biennium (3-5 allocations of US\$ 1m. or more). Finally, discussions need to start with donors on how to create additional programming flexibility of an unearmarked type at the country level.

- iv. **Explore options for overcoming the limitations imposed on RBSA by the biennial appropriation mould** of the Regular Budget with a view to accommodating the longer-term horizon of technical cooperation and DWCP. The goal should be to preserve the advantages of RBSA integration with the RB system while adding spending flexibility, for example, along the lines of a global trust fund for unearmarked voluntary resources.
- v. **Complement the oversight and accountability structure for RBSA unearmarked resources**, as necessary, to better capture their contribution to enhancing ILO long-term technical cooperation capacity and service delivery in countries. Appropriately, this should be done in the context of monitoring and reporting on ILO's strategic efforts to improve its technical cooperation performance and including appropriate involvement of ILO Governing Body structures (Technical Cooperation Committee).
- vi. **Promote strategic partnerships with donors around the RBSA modality**: provide donors with more information in an informal manner, either through regular consultations with Permanent Missions in Geneva, or through informally sharing updates on projects funded by RBSA, including in areas that are of particular interest to donors. Such customised reporting should not require much staff time or purpose-written material, but rather informal follow-up with Field operations and friendly communication with donors in a spirit of partnership. As part of this closer exchange, it will be necessary to brief donors in greater detail on RBSA allocation arrangements to improve their understanding of the process, in a transparent and uniform manner. Such donor briefings should take place regularly (yearly) to ensure continuous information of rotating staff. The format, timing, venue and content of RBSA donor consultations should be reviewed to ensure that the event meets its purpose: build a strong partnership between ILO and donors with a view to retain and expand their support and promote funding for ILO activities with other donors. Different formulae could be proposed, such as rotating venue, rotating hosting (e.g. donors instead of ILO) or participation of outside guests (e.g. other potentially interested donors; representatives from other agencies; Field recipients). In turn, it would be useful to show appreciation to donors who participate in RBSA funding as they demonstrate support to ILO's programmes. Donors could be solicited (and are willing) to support in promotional efforts. This can be done through briefings, reporting, news items and through custom-designed information kits. ILO could also consider promoting RBSA through purpose-designed Field visits for interested donors, including potential RBSA donors.