

**Working Paper 140**

**New Approaches to Development Co-operation:  
What can we learn from experience with implementing  
Sector Wide Approaches?**

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This paper was commissioned to inform the forthcoming UK Government White Paper on Globalisation and Development to be published in November 2000.

## Acronyms

AAGDS	Accelerated Agricultural Growth and Development Strategy
ACF	Agricultural Consultative Forum
AgSSIP	Agricultural Services Sector Investment Programme (Ghana)
BoT	Bank of Tanzania
CAPE	Centre for Aid and Public Expenditure
CDF	Comprehensive Development Framework
DAC	Development Assistance Committee
DFID	Department for International Development
EC	European Commission
ESAF	Enhanced Structural Adjustment Facility
GDP	Gross National Product
GoT	Government of Tanzania
HIPC	Highly Indebted Poor Countries
IDA	International Development Assistance
IMF	International Monetary Fund
MAFF	Ministry of Agriculture, Fisheries and Forests (Zambia)
MFPED	Ministry of Finance Planning and Economic Development (Uganda)
MoFa	Ministry of Foreign Affairs
MRALG	Ministry for Regional Administration and Local Government
MTBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
NGO	Non-Governmental Organisation
NSSD	National Strategies for Sustainable Development
OECD	Organisation for Economic Cooperation and Development
PAF	Poverty Action Fund
PEAP	Poverty Eradication Action Plan
PROAGRI	Agricultural Programme (Mozambique)
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
SPA	Special Programme Assistance
SWAP	Sector Wide Approaches
UN	United Nations
UPPAP	Ugandan Participatory Poverty Assessment Plan
ZASIF	Zambia Agricultural Sector Investment Programme

## 1. Introduction

The first section explains the rationale for the development of sector programmes in the context of evolving thinking on aid effectiveness, and defines the sector wide approach. It discusses the emerging evidence on the circumstances in which sector programmes are likely to be successful, and sets out a framework for assessing when different types of aid intervention, including sector programmes, are likely to be appropriate.

The paper goes on to discuss how sector programmes need to be nested within the overall strategic framework of national policy, including the potential role of the Comprehensive Development Framework, and the poverty reduction strategies required for access to HIPC debt relief and concessional IMF finance. The paper discusses the problems of co-ordinating donors and Government in support of a single strategy, deriving some lessons for the ambitious national strategy exercises from the experience of sector programmes. It includes discussion of approaches to dealing with disagreements, including the continuing role of conditionality.

The ultimate stage in donor co-ordination would be for donors to provide direct budget support to a single Government led strategy. The paper discusses the policy issues raised by direct support to the Government budget, and lessons from experience of budget support in Africa.

The final section looks at the extent to which sector programmes and similar approaches are relevant to countries with weaker policy, governance and institutional environments.

## 2. Sector Approaches in the Context of Development Co-operation

Sector wide approaches are one of a number of recent innovations in aid practice which respond to lessons which have been learned in the long history of development co-operation (Box 1 provides a schematic history). The key insights of recent work on aid effectiveness<sup>1</sup> are that:

- Development co-operation requires a supportive policy environment in order to achieve sustainable benefits;
- Conditions imposed by donors have a poor track record in persuading Governments to reform their policies;
- Donors themselves can be part of the problem, especially where there are large numbers of donor projects. If donor projects are not set within a coherent plan and budget, the result can add up to a development effort which is expensive to manage, and in which there is wasteful duplication, uneven coverage, inconsistent approaches, and poor sustainability of projects once donors withdraw. Perhaps most serious of all, donor projects have tended to be set up outside core Government systems, often employing their own staff. They have drained capacity from Government when they should have been building it.

### **Box 1: Schematic History of Development Co-operation**

**1960s:** With donor support, newly independent Governments in a hurry displace the private sector: National development plans, Government led industrialisation, nationalisation.

**1970s:** Donors in a hurry displace Government: Donor driven projects with their own management structures outside Government, integrated rural development.

**1980s:** Governments return ownership to private sector: structural adjustment, privatisation..

**1990s:** Donors begin to return ownership to Government: Sector Programmes, direct budget support, 'partnership' rhetoric replaces conditionality.

**2000s:** Increased emphasis on accountability to domestic institutions: Governance, participation, PRSP, CDF.

*Adapted from a presentation by Barry Ireton*

The new aid forms which have emerged in response to these findings focus on three things:

Firstly, Governments need to be convinced of the need for sound policies, rather than reluctantly coerced: ownership and commitment are needed. There is a danger of course that this will amount to conditionality by another route: donors are far from indifferent to the make up of the policies which Government 'owns.' Governments still face loss of support if they do not commit to policies of which the donors broadly approve. This does not mean that there is a single blueprint to be applied everywhere, but some things are fundamental, notably reasonable macro-economic and budget management, a supportive environment for private sector development, and a role for the public sector which is consistent with Government management and financial capacity. Above all, Governments must demonstrate a serious intention sustainably to reduce poverty. The distinction between old style 'conditionality' and new style 'ownership' is a subtle one, a shift of focus from buying promises, towards assessing commitment and track record.

Secondly, donors need to exercise a degree of selectivity, focusing financial flows on countries putting in place a sound policy environment. This does not mean abandoning the populations of

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<sup>1</sup> World Bank (1998)

countries with less committed Governments, but the emphasis in such countries may be more on helping to bring about the necessary policy and institutional environment in which financial aid can be helpful.

Thirdly, where a reasonably sound policy framework is in place, Government and donors should work together to implement a single, coherent expenditure programme which prioritises the use of all sources of funding for public expenditure. The public expenditure management systems in development partners are increasingly becoming recognised as the key instrument for achieving development goals through public action, and are adapting to become medium term, to cover all funding sources, and to link budget allocations to the objectives to be achieved.



### 3. Experience of Sector Approaches

#### 3.1 Definition

The sector wide approach attempts to respond directly to the problems we have identified. For the purposes of this paper, the defining characteristics of a sector programme are that all significant funding for the sector supports a single sector policy and expenditure programme, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all funds. This working definition deliberately focuses on the intended direction of change rather than just the current attainment. Most programmes, even quite well established ones, are in the midst of a process for moving over time towards broadening support to all sources of funding, making the coverage of the sector more comprehensive, bringing ongoing projects into line with the SWAP, and developing common procedures and increased reliance on Government.

#### 3.2 Experience to date

Annex 2, taken from a CAPE review of the status of sector programmes, summarises conclusions from the experience so far. This section focuses more particularly on the circumstances in which the sector approach is likely to be appropriate, and those where it is not.

Sector programmes are found exclusively in highly aid dependent poor countries. Roughly 80 sector programmes are being prepared and implemented, 85% of them in Sub Saharan Africa. Health and education are the most important sectors covered by SWAPs, accounting for well over half of the total, including all of the extant programmes outside Africa. There have been 13 programmes in roads or transport, 10 in agriculture, and a few in energy, environment, urban development and water. Table 1 provides a breakdown, drawn from SPA reporting and CAPE information.

**Table 1 Sector Programmes by Sector and Region**

	SPs	Agri	Ed	Energy	Env	health	Roads/ Trans	urban	Water
West Africa	<b>32</b>	4	8			10	8	1	1
East Africa	<b>15</b>	2	3	1	1	4	3	1	
Southern Africa	<b>20</b>	4	3	2	2	5	2		2
Asia	<b>9</b>		6			3			
Latin America	<b>2</b>		2						
<b>Total</b>	<b>78</b>	<b>10</b>	<b>22</b>	<b>3</b>	<b>3</b>	<b>22</b>	<b>13</b>	<b>2</b>	<b>2</b>
Sub sector		2 - ag. services	5 basic education						
Multi-sector			Pakistan SAP						

### 3.3 Under what circumstances are sector programmes likely to be successful?

This pattern of development of sector programmes reflects their essential rationale. They are a mechanism for co-ordinating support to public expenditure programmes, which has implications for where they are relevant and feasible:

- Where public expenditure is a major feature of the sector, hence the dominance of health, education, and roads.
- Where the donor contribution is large enough for co-ordination to be a problem, hence the dominance of Africa where aid frequently accounts for 10% or more of GDP, far higher than all other regions.
- Where there is basic agreement on strategy between Government and donors. Attempts to introduce a sector programme where a policy consensus is lacking have generally resulted in failure: Box 2 provides two examples.
- Where there is a supportive macro budget environment, to permit sector authorities to plan with reasonable confidence that agreed budget resources will be available.
- Where institutional relationships are manageable:- sector programmes have worked most effectively where they are defined in terms of the area of budget responsibility of a single sector ministry, programmes in education or health have proved more manageable than sector programmes for cross-cutting themes such as the environment. More controversially, sector programmes also appear to be easier to manage where there is a relatively small group of significant donors to the sector, willing to delegate some responsibilities to each other: where donors are numerous and each demands a strong voice in policy dialogue, the process becomes difficult to manage.
- Where incentives are compatible with SWAP objectives:- problems are likely to occur if the sector strategy involves cutting the budget, staffing or responsibilities of the Ministry which is expected to take the lead role in implementing it, as has often been the case with agricultural sector programmes. At lower levels, Government needs to put in place incentives and performance management systems to attract staff to be posted to where they are needed, and to ensure that they perform in line with the objectives of the programme.

These criteria explain why sector programmes have been especially common in the social sectors in aid dependent countries, and largely absent from countries where aid plays a smaller role, and from sectors where public expenditure plays a smaller or more contested role. Agriculture in Africa is the major exception, but it is widely acknowledged that attempts to introduce SWAPs in agriculture have been much less successful precisely because these criteria have not been met. Ministries of Agriculture have often resisted pressures to re-define their role, and cut budgets and staffing, while many other stakeholders inside and outside Government have a more important voice and impact on agricultural development than the activities of the agriculture ministry and donors to it. Box 3 gives a Zambian example of some of the problems.

## **Box 2 Problems where commitment to an agreed strategy is unclear**

### **Ghana Agricultural Services Sector Investment Programme**

In Ghana although the central Government poverty reduction strategy recognised the important role of agriculture, this concern was not shared by MoFA. As a result the Accelerated Agricultural Growth and Development Strategy (AAGDS) was primarily focussed on economic growth with little mention of poverty<sup>2</sup> which left donors and Government contending the issue of why AgSSIP should be funded. Consensus was never reached on this on this and differences of opinion have therefore continued throughout the process<sup>3</sup>, and adversely affected implementation.

### **Tanzania Education Sector Reform and Development Programme**

Tanzania education is an example of a sector programme where the fragility of support only became apparent too late in the process. A four year development process was strongly led by expatriate consultants, working with local counterparts, although the then Secretary in the Ministry appeared to be supportive. During 1996 and 1997 Government and donors drew up and adopted a common work plan, which was followed by a pre-appraisal in early 1998, and by donors signing up to the SWAP. However from the time hard decisions had to be made, the SWAP started to disintegrate.

Vested interests in Government recognised the impact of reform and gained the upper hand over reformers and therefore donor engagement was limited. Most crucially hard budget decisions on teaching service rationalisation, secondary education financing and standard setting and regulations were avoided<sup>4</sup>. In any case the design of the ESDP did not facilitate allocation decisions. It only covered the development budget, partly as a result of it being run by local consultants from outside the main Ministry of Education, who emphasised capital over recurrent expenditures.<sup>5</sup> The ambitious programme was clearly inconsistent with the MTEF and was rejected by donors and criticised in Parliament. There is still no sector programme in place.

## **Box 3 Zambia Agricultural Sector Investment Programme (ZASIP)**

In the course of developing ZASIP MAFF civil servants, with the tacit agreement of the World Bank and UNDP are perceived to have used the planning process to preserve their own role. This, plus other features such as the emphasis on capacity building in the ministry, the programme's funding arrangements and the attention given to a financial management structure within MAFF, meant that it has been seen primarily as a public sector investment programme, although this had not been the intention at the outset.<sup>6</sup> MAFF therefore was inadvertently encouraged to continue to try to implement sub-programmes and activities that it could not appropriately manage or lead, but should have left to the private sector. In addition the regulatory framework remained un-supportive to the changed roles of Government and the private sector. The sum result has been that programme achievements have been limited, and MAFF has not taken up its expected function of policy maker, regulator and selective service provider.

A solution proposed at the October 1998 Mid Term Review has been the institution of an Agricultural Consultative Forum (ACF) consisting of MAFF, other ministries, the private sector, NGOs and donors. The intention was to focus programme co-ordination away from MAFF. However success has been limited – NGOs and the private sector report that it is a very useful body, and that they have been able to obtain a lot of information from MAFF as a result. Yet they have the perception that MAFF does not seem to take the ACF seriously, and they still do not feel effectively consulted on issues affecting agriculture.<sup>7</sup>

<sup>2</sup> Ticehurst (2000)

<sup>3</sup> *Ibid.*

<sup>4</sup> Ratcliffe Macrae Associates (1999).

<sup>5</sup> Chijoriga et al.

<sup>6</sup> Gould et al (1998).

<sup>7</sup> Chiwele (2000).

Box 4 brings together some of the key criteria in the form of a diagnostic tool which can be used to help make judgements on the type of aid which is appropriate in the circumstances of specific countries with whom DFID has an aid relationship.

#### Box 4: Assessing the policy environment, and management capacity

Four considerations are particularly important in the appraisal of alternative aid delivery mechanisms at the sector level, as indicated in the table below:

	<b>Good Sector Policies linked to Resources</b>		<b>Weak Sector Policies not linked to Resources</b>	
	High Sector Management Capacity	Low Sector Management Capacity	High sector Management Capacity	Low Sector Management Capacity
<b>Good Overall Macro-economic and budget management</b>	High Aid Dependence	Sector programme, using government procedures.	Sector programme, gradual transition to use of government procedures.	Targeted support for sectoral policy development, initiate preparation of sector programme. Low level, targeted support for sectoral policy and capacity development.
	Low Aid Dependence	Broad programme support in crisis situations. Targeted aid to support innovation.	Targeted support for capacity development	Targeted support for consultation and policy development. Low level, targeted support for sectoral policy and capacity development.
<b>Weak Overall Macro-economic and budget management</b>	High Aid Dependence	Sector programme and support to central management functions.	Targeted support to development of central management functions.	Targeted support to development of central management functions and sector policy. Low level, targeted support for policy analysis.
	Low Aid Dependence	Targeted support to development of central management functions.	Targeted support to development of central management functions.	Low level, targeted support for policy development. No case for aid, policy dialogue and analysis.

**Appropriate sector policies based on realistic estimates of resource availability:** Where the policies of the donor agency and recipient government diverge, or policies are based on unrealistic assumptions of resource availability, donor agencies will prefer to target assistance through standalone projects rather than broad programme support. Project interventions will need to be based on a view of what will be affordable and sustainable in the long term.

**Macro-economic and financial management capacity:** If the government's track record in terms of macro-economic and financial management is sound, and there are adequate safeguards to ensure transparency and accountability in the use of funds, there are strong grounds for the provision of programme rather than project aid. On the other hand, if macro-economic and budgetary management is weak, this will erode capacity and constrain the implementation of sound policy at sector level. The most useful donor intervention may well be to support the overall macro-economic reform and improvement in budget systems, before developing sector programmes.

**Sector management capacity:** If sector management is strong but policy weak, focus on policy dialogue, project interventions pending success in influencing policy. Where policy is strong but sector management is weak, a sector approach with strong emphasis on capacity building is feasible. If macro management is weak, sector management is likely to worsen, may need attention to overall staff incentives and budget management before SWAP can succeed.

**Level of Aid Dependence:** If development assistance represents a significant proportion of sector or overall budget resources, sector programme can be mutually beneficial in improving policy coherence and reducing inefficiencies of donor driven projects. Where aid dependence is low, there is little to be gained from the introduction of a programme approach at sector level, since the volume of assistance will be limited and can usually be managed effectively through standalone projects

## 4. Sector Programmes and Country Strategies

### 4.1 Towards more comprehensive country strategies

The donor community has recently promoted more comprehensive approaches to development co-operation:

- In 1998, the World Bank launched the **Comprehensive Development Framework (CDFs)**, to provide a framework for key stakeholders (including both developing country stakeholders and the donor community) to identify national priorities for each sector. There are 13 countries undergoing the CDF Pilot process. The World Bank website emphasises ‘that the Comprehensive Development Framework is intended to be holistic, seeking a better balance in policymaking by highlighting the interdependence of all elements of development – social, structural, human, governance, environmental, economic, and financial. It aims to bring together the various stakeholders in development under Government leadership, developing a consensus among governments, donors, civil society, the private sector, and other development actors. The CDF is intended to be a new way of doing business, a process rather than a blueprint. The aim is to allow for strategic selectivity, reduce wasteful competition, and emphasize the achievement of concrete results, especially the central goal of poverty reduction and reaching agreed targets such as the International Development Goals.’
- The development of **Poverty Reduction Strategies (PRS)** has started since 1999. These were originally proposed in order to link the granting of HIPC debt relief to assurances that countries had effective policies and programmes for reducing poverty. At its September 1999 meeting, the Development Committee, a joint ministerial committee of the Board of Governors of the World Bank and the International Monetary Fund, went further and endorsed proposals that Poverty Reduction Strategy Papers be prepared by national authorities, in close collaboration with Bank and Fund staff, in all low income countries receiving support from IDA and from concessional IMF resources (the Poverty Reduction and Growth Facility which has replaced the ESAF). ‘The Committee emphasized that the strategies set out in the new Poverty Papers should be country-driven, be developed transparently with broad participation of elected institutions, stakeholders including civil society, key donors and regional development banks, and have a clear link with the agreed international development goals – principles that are embedded in the Comprehensive Development Framework..’
- In addition to these two processes, there are **national strategies for sustainable development, (nssds)** which emerged out of the Rio UN Conference on Environment and Development, and were highlighted again at Rio plus 5 which called for all countries to have nssds in place by 2002. The OECD DAC in their International Development targets (1996) calls for the ‘implementation of nssds in all countries by 2005 so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.’ To date, there has been little debate over what exactly constitutes an nssd, but the DAC High level meeting endorsed the following definition of an nssd in May 1999: ‘A strategic and participatory process of analysis, debate, capacity strengthening, planning and action towards sustainable development.’ One of the main characteristics is that nssds are not new or separate planning initiatives, nor should they be environment focused, along the lines of National Environmental Action Plans. They require a tactical review of existing strategies to identify ways to ensure integration and co-ordination of existing plans to ensure that economic, social and environmental issues are included. The DAC of the

OECD are now undertaking Dialogues to inform an understanding of nssds in five developing countries: Bolivia, Thailand, Tanzania, Nepal, Burkina Faso, a regional dialogue in the Sahel and a review of parallel processes in Ghana and Namibia.

Although these various strategic frameworks have been supported by the OECD donors, they need to build upon and respect existing national planning and policy frameworks. Many Governments recognise the need to articulate a vision of where the country is going in the longer term, and the role which the Government will play in helping to get there. Uganda and Ghana are just two examples. Both countries have established long term visions based on a broadly participatory process. The vision is reflected in a set of policies and expenditure programmes, incorporated in a medium term planning framework which relates goals back to the resources needed to achieve them. This is most effective where there is a medium term framework for the budget, and where both the goals and the priorities are annually adjusted in the light of changing resources and in the light of actual experience. Both countries are pilots for the CDF, Uganda has produced a PRSP and Ghana is in the process of preparing one. However, the CDF and the PRSP in both cases build upon the pre-existing national planning and strategy framework. This is as it should be if donors are serious about ownership.

Some of the difficulties of the CDF approach are well illustrated by recent developments in Bolivia, often argued to be the blueprint from which the CDF was developed. The attempt to build a national consensus around a comprehensive development strategy has faced significant problems in the wake of recent unrest, with Government also revising its position on some of the fundamental policy issues<sup>8</sup>. The case illustrates that national consensus may in practice be unachievable or unstable, and the strategy process needs to find ways to deal with conflicting interests and viewpoints. These issues have also been faced in sector programmes, and are discussed in the section on improving co-ordination.

## **4.2 The place of sector programmes within national strategies**

The calls for a more comprehensive country strategy recognise that policy and expenditure programmes within a sector can only be framed with some assumptions about the national context. This includes the growth of population, the economy, and total Government revenues; national priorities for policy reform and public expenditure including what share will be available to the sector; what roles will be played by Government relative to other private and non-Government players, and how aspirations will be prioritised within the available domestic and foreign resources. The focus of sector programmes has been on co-ordinating support for the public sector role in the sector. This only makes sense if that role has been defined with attention to alternatives to public sector options, and with sufficient attention to policy and regulatory functions as well as direct service delivery.

Even within health and education, the majority of expenditures are often born by households, if we include expenditures on non-Government providers, official or unofficial fees for access to Government services, and costs which Government does not subsidise, such as school uniforms, books, or the cost of drugs or in patient 'hotel' costs. In other sectors such as agriculture, the Government role is modest relative to the scale of the sector, and many of the most crucial interventions relate to policies outside the responsibility of the sector ministry, for example exchange rate, trade, and pricing policies may have the most immediate impact on farmers. The planning and implementation of public expenditures needs not only a coherent view of the role of Government expenditure in the sector, but also careful consideration of how Government policies

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<sup>8</sup> Financial Times, 26/4/00

need to be reformed in order to achieve the goals for the sector, including policies which are not sector specific.

A rational approach to how the sector programmes might be 'nested' within the overall national strategy might have the following features:

- **Government develops an overall strategy or vision for sustainable development**, which will inter alia need to explore the roles which Government will play within each sector. The strategy should be based on good diagnostic information, and develop from a participatory process in which the interests of poor and vulnerable groups are represented. The debate around such a vision should aim to ensure that discussion is taken outside the parochial interests of the sector ministry and of commercial lobbying groups. Developing a Government vision through a participatory process does not imply achieving a bland consensus, but a set of achievable longer term priorities which command sufficient support to enable them to be implemented.
- **Cross-cutting institutional reforms put in place the necessary framework to support sector development.** This includes the basic institutional structures for macro-economic and budget management, civil service reform, and legal and regulatory structures. Much of this will involve policy reforms undertaken by bodies outside the sector ministry.
- **The medium term budget process allocates Government and donor resources between competing priorities.** The sector Ministry needs to believe that there is a hard budget constraint before choices will be made and redundant functions willingly closed. The medium term budget can become the instrument by which Ministry ambitions are scaled to the agreed priorities and roles and to the available resources. The budget process can also become the key national process for holding sector ministries to account for how they have used resources, especially if supported (as in Uganda) by a process for monitoring how effectively funds are used, including involvement by civil society and by communities. (Box 5).
- **The SWAP defines a sector programme consistent with the Government role and with the budget resources available, and co-ordinates Government and donor resources in support of it.** There is an iterative relationship, in which reforms initiated in cross cutting fora will be implemented by sector ministries, while sector level discussions will contribute proposals for how the broader policy environment needs to change in support of sector goals. If donors wish to have influence through policy dialogue, they will need to intervene at the appropriate level for the issues they are hoping to persuade government to address: issues which affect several sectors, including budget allocation and civil service reform, can not be appropriately addressed within sector programmes alone.
- **Process, not blueprint.** The sector policy and expenditure programme is continually adjusted through time and rolled forward with each budget cycle.



Box 5 describes how a process based on these broad principles operates in Uganda.

### **Box 5: Ensuring transparency and accountability in Uganda**

The Government of Uganda has a commitment to transparency and participation, this is achieved by:

- **Encouraging broad participation in policy formulation and implementation**, at the national level, leading to the development of a Poverty Eradication Action Plan (PEAP). At district level, the Participatory Poverty Assessment Project (UPPAP) is working with 10 districts on participatory approaches to planning for poverty reduction.
- **Setting budget priorities and realistic limits**, consistent with ceilings established in the Medium Term Budget Framework. Sectoral working groups, comprising the Finance Ministry, line ministries and technical advisors, help develop sectoral priorities within the expenditure limits. Key expenditures are protected from cuts by identifying programmes important for poverty within the MTBF and including them in the Poverty Action Fund (PAF), which is fully integrated within the budgets of line ministries.
- **Transparency to users**, use of media and public display to inform the public of funds and staff provided to facilities, permissible charges, service standards, so civil servants can be held to account
- **Monitoring the impact of poverty policy**, using 5% of PAF funds earmarked for this purpose, through a Poverty Monitoring Unit which integrates annual household surveys, conducted by the Statistics Bureau, with other data sources (e.g. participatory analysis, sector surveys, line ministry data sources) to track progress, and ensure that policy is continually influenced by poverty data and perceptions of the poor. MFPED supports regular Service Delivery Surveys, to check population access to services, views on problems and constraints in accessing them, and overall quality. Donors, NGOs involved in monitoring..
- **Ensuring that donors participate in monitoring and review**, by establishing an annual cycle for the management of donor funds. Starting in March of each year with the collection and analysis of data for a progress review, followed in April by a formal review of progress and rolling forward of sector Work-plans for the following FY and indicative actions to the end of the strategic plan in 2003. By the end of April, Government and donors agree on targets derived from Work-plans and sign individual financing agreements. In December, donors and government undertake a joint review of mid-year progress feeding into the annual Public Expenditure Review.
- **Complying with accounting requirements**. Uganda's Treasury Office of Accounts has produced final accounts within 4 months of year close in 1996 and 1997, and an Office of the Auditor General audit has been produced within the statutory 9 months. Internal auditors within the Ministry carry out a pre-audit of all payments to check they are authorised and within the vote. There are also OAG staff within Ministries, continuous ex-post audit of transactions throughout the year, and queries to the Secretary of the Ministry. A centralised payment system prevents accounting Officers exceeding vote allocation and provides accurate and timely data on level of payments.
- **Acting and following up on findings of auditors reports and monitoring systems**. Where a Tracking Study revealed significant diversion of funds to unintended uses, Government reacted by imposing conditions on the use of block grants by districts and improving transparency through advertisements in press and displayed at facility level. A follow-up found 90% compliance with the requirement to display school budgets and staff lists. Issues of corruption and financial probity have received further attention: the 1998 integrity study looked at incidence of staff seeking bribes by sector, participatory poverty assessment district reports have raised local corruption issues.
- **Improving Capacity for Financial Management**, through an enhanced Budget Framework process, integrating recurrent and development planning, at a sectoral and local level; a staff development plan in financial management at centre and local level, including non-salary measures to improve motivation and recruitment; computerisation of local accounts; and improved audit and audit follow up, including supporting accountability to the Parliamentary Accounts Committee.

## **5. How can sector programmes contribute to improved donor co-ordination?**

The logic of the movement towards increasingly comprehensive national and sectoral development strategies is that all stakeholders co-ordinate their efforts in support of a single national strategy.

In an ideal world, the leadership of donor co-ordination would come from the Governments of the developing countries themselves. It should be the job of Government to mobilise and co-ordinate different sources of financial and technical support for national development, and each Government should be accountable through the democratic process for how effectively funds are used. Some Governments are relatively successful in mobilising donor support behind policies and programmes which they lead and co-ordinate. Problems have arisen where Governments with weak management capacity have been overwhelmed by the sheer numbers of donors and of donor projects, with the result that public expenditure has become an unplanned aggregation of donor projects lacking a coherent framework of policies, priorities and service standards. Sector programmes are intended to be a solution to this problem.

Where Government and donors agree, or where donors are willing to be lead by Government priorities, co-ordination can be a co-operative process in which partners work together to raise efficiency and effectiveness of development co-operation. Where the partners do not agree, the donor co-ordination agenda is more likely to be dominated by efforts by donors to influence Government (and/or each other) to modify views on policy and priorities, and merges into discussion of the issue of conditionality.

### **5.1 The changing agenda of donor co-ordination**

It is ironic that, at the same time as the rhetorical emphasis on the importance of Government ownership has increased, the donor role in shaping the international development agenda has become ever more dominant. Donor co-ordination now operates at every level from the global to the project level, and donors have involved themselves in everything from Governance to economic and social policy:

- Global: e.g. global targets and priorities such as the international development targets, policy positions agreed in the Development Assistance Committee, allocation of flows between countries;
- National: e.g. meetings and discussions to discuss national policy and priorities, usually with Government in Consultative Groups and Round Tables, but often including separate donor-only meetings to co-ordinate positions, especially on Governance issues;
- Sectoral: e.g. sector programmes to co-ordinate Government and donor support to a coherent policy and expenditure programme. Where sector programmes are not being introduced, there can still be a role for exchange of information in sectoral groups to avoid duplication and inconsistency.
- Procedural: Discussions at every level from the DAC through to individual sector programmes or even projects, aimed at improving the effectiveness of aid and reducing management costs by moving towards common procedures, which also involves pressure on Government to bring financial management into line with international standards.

The donor role in policy dialogue with Government only became prominent from the 1980s, with the growth of adjustment lending. Before that, the donor role had focused on project level appraisal and on provision of technical advice. It had stopped short of intervening directly in the policy process. During the structural adjustment years, donors increasingly made aid flows conditional on policy reform, though donors recognised each country could have only one adjustment programme, and the responsibility to negotiate policies on behalf of all of the donors was delegated to the World Bank and the IMF. Other donors sought to influence the Bank and Fund, and had opportunities to make their views known via Consultative Group and Round Table meetings, but the role of other donors in policy dialogue was largely to reinforce the conditions negotiated by the Bank and the Fund: USAID was virtually alone in engaging in its own policy dialogue, but they largely focused on sector level issues, and were careful to ensure consistency of their advice with that of the Bank.

One consequence of the movement towards sector programmes has been to involve more donors in dialogue on sector policy issues. The implicit bargain is that donors agree to give up a role in running projects on the ground in return for a voice in the overall direction of sector policy.

## **5.2 Co-ordination in sector programmes**

The process involved in getting to a sector wide approach can be characterised as one in which sector strategy is formulated and costed, matched to available finance through an iterative process, converted to a workplan, and formalised in agreements between the implementing agency and the sources of finance. Some of these processes proceed in parallel, or may not be fully completed, but it is conceptually helpful to distinguish them. All countries reviewed have a history of sector strategies and plans, of varying quality and varying commitment, and efforts to move towards a Government donor agreement on policies, priorities, and goals do not start from a blank sheet. The long history makes it difficult to judge where the initiative came from.

It is possible to characterise a number of ‘models’ for how development partners can be co-ordinated around a single sector programme:

- Government sets out a clear vision and strategy for the sector and seeks donor support. The Uganda universal primary education initiative represents one example, with the President having an electoral mandate for a policy which had been subjected to a national debate with broad participation. Sector programmes in Ethiopia were also strongly led by Government, which sought to attract donor finance on their own terms while limiting the donor involvement in policy dialogue.
- Government change agents use their alliance with donors to drive through a sector policy and programme despite opposition. This model can be quite vulnerable to the loss of the key architects of reform, as happened in Zambia health, where efforts to shift resources from hospitals to district services were later reversed. Successful examples have given early attention to broadening the basis of support. Ghana health is a generally positive example, where broad consultation throughout the health system, and a decentralised approach to budget management, ensured that the reforms received broad support among health workers at all levels. Strong support within the Ministry is often insufficient: programmes hastily signed up on the basis of a narrow support within Government often become stalled for long periods while unresolved disputes with other departments or stakeholders are brought to resolution. Parliamentary or Cabinet endorsement of sector strategy and key policy reforms can be a valuable check that the programme is owned by Government collectively.
- Donors lead a strategy development process, and then sell the resulting ideas to Government. This often results in failure or long drawn out policy debates.

- Simultaneous development of strategy and the sector programme by Government and donors. The most successful sector programmes have had a relatively clear and simple vision or theme for the sector:- universal primary education in Uganda, decentralisation of funding to integrated district health services in Ghana. Where the process has started without a clear vision, the result has often been a long period of prevarication, endless rounds of comments, and a final programme which is perceived as lacking in focus and over ambitious. (Box 6). Though the Box 6 examples come from agriculture, similar experiences could be quoted from education or health, with the health sector facing a particular problem in reconciling very limited public funding with public expectations for expensive curative services.

#### **Box 6: The need for a clear strategic vision**

Where a clear vision is lacking, programmes have got bogged down at the policy development phase, leaving issues unresolved until much later into the process, and often not addressed sufficiently to move forward. The Zambia agriculture programme entailed approximately 488 policy planning workshops held under the Agricultural Sector Task Force between 1992–1995<sup>9</sup>, and yet at the mid term review in 1998, the report stated that agreement on sector policy framework and the principles governing GRZ actions affecting the agricultural sector was still outstanding.<sup>10</sup> The Malawi ASIP never managed to progress beyond policy development, prompting the conclusion that there can be too much participation.<sup>11</sup> Similarly, it took at least four years of preparation before PROAGRI implementation commenced

### **5.3 Co-ordinating the donor role within the policy process**

Defining a sector policy and expenditure programme is a challenging task, especially where reforms are needed which will create losers as well as gainers. Donor time horizons may be dominated by the need to reach commitment and disbursement targets, by the need to reach closure on issues within short missions, or by the desire to have results to show at the end of a three year tour. This places pressure on Government decision-making processes, leading to rushed consultation, and over hasty signing up of financing agreements which then face implementation delays because crucial stages of approval have been skipped.

The policy process is continuous: no sector programme can resolve all issues at the outset, and some key issues will be deferred pending further study, other policies will require adjustment in the light of experience. Donor technical capacity frequently overwhelms Government, who are unable to respond to the barrage of technical and policy advice they receive. Rather than relying on short missions by donors and consultants, there is much to be said for building stronger in-house capacity for Government to commission and use policy analysis. The Ministry of Finance has established strong policy capacity on poverty issues in Uganda, and makes good use of the capacity to inform the design and review of policy; there are other isolated examples, such as the policy research unit in Bangladesh health and population, though dominated by expatriates. Overall, however, one lesson of the sector programme experience is perhaps that too little attention has been given to building Government capacity in policy analysis relative to the resources devoted to outside advice and monitoring exercises.

Given the problems which Government faces in managing large numbers of donors wishing to have a voice in sector policy, it can be helpful if the donors co-ordinate common positions, and decide in

<sup>9</sup> Gould et al (1998).

<sup>10</sup> Institute of Economic and Social Research (1998:v).

<sup>11</sup> Bialluch et al (1999:42).

advance of meetings which issues should be emphasised. This can help keep agendas manageable, and can work well in situations where the major donors have broadly similar views, and where specific donors are recognised as having the expertise to lead on certain issues.

It works best of all in situations where the donor group is working closely with the key leaders of the reform process within Government, so that the 'inner circle' becomes a working group which takes responsibility for thinking through how best to handle issues, and to present them both to the wider Government and to the donor community as a whole. This is the way that the most effectively managed sector programmes appear to work, with the inner circle usually composed of those donors with representatives with technical skills in country and/or those providing substantial support, especially those providing pooled funding. The role of Danida/DFID/ World Bank and latterly the EC in the Ghana health programme for example has been critical to keeping the process on track and moving forward. The co-location of Danida and DFID field office has been especially helpful, and has ensured both close liaison and provided a friendly and informal location for resolving difficult issues with Government.

The role of donors staff in providing technical support has been formally recognised in both Uganda and Tanzania under the medium term expenditure framework process. Donors are co-opted on the technical sector working groups which prepare medium term budget submissions .

The privileged access of some donors often causes some resentment by minor or excluded donors, and needs careful handling, but is necessary if progress is to be made. An interesting feature of the way in which relationships have evolved is that they are often based as much on personal skills and willingness to get involved as on institutional relationships. A healthy ambiguity can develop in relationships, with local donor field officers sometimes seen as representing the Government case to an inflexible or sceptical head office.

One issue in scaling up to the CDF/PRSP level concerns the extent to which leadership of policy dialogue can be delegated to the World Bank. Donors were content to cede leadership of the economic reform and structural adjustment agenda, recognising the pre-eminent expertise of the Washington institutions. Similar claims for leadership on poverty and across the whole field of issues covered by the CDF would rightly be contested. Leadership needs to come from Government, but the dialogue and assessment needs to involve the whole donor community. The Bank accept this in official statements, but in practice their own operational pressures have tended to limit the real scope for others to participate. The joint missions approach which is common in sector programmes, with agreed terms of reference and a single team appointed based on known expertise and on behalf of all development partners, would be a model worth considering.

#### **5.4 Dealing with disagreements in sector programmes**

Sector programmes, like the CDF, are based on an assumption of co-operative relationships between Government and development partners: all parties reach agreement on jointly financing a common policy agenda, work plan and expenditure programme for the sector. The rhetoric emphasises ownership and partnership, and there has often been a reluctance to use the language of conditionality. It has been argued that SWAPs start with great optimism about the strength of partnership, but that this erodes over time as problems are experienced: this strengthens the argument for putting 'rules of the game' in place at the out set, including setting out the remedies available to the partners when one or other of them fails to implement their side of the bargain (Box

7.).<sup>12</sup> The recent experience in Bolivia might suggest that similar lessons are relevant to the CDF process.

### **Box 7 'Best Practice' Codes of Conduct, and current status**

**All activities will be under one common sector-wide programme, fully costed, and integrated into a medium term budget framework.**

- **Status:** most programmes attempt to cost the programme and integrate donor and Government finance. In some cases, only the development programme is fully integrated (e.g. Ethiopia programmes, Bangladesh health and population.) Some projects may be outside, though reporting is generally improving in Africa. Medium term budget frameworks increasingly important in rolling SWAPs forward: Ghana, Uganda, Tanzania, Mozambique.

**Government takes responsibility and accountability for the performance of the sector as a whole, with all projects and components consistent with and contributing to agreed sectoral goals. Partners have responsibility to support the planning and financing of the sector programme.**

- **Status:** Weak integration with private sector spending, though Government often minority of sector. Goals not always well linked to outputs and inputs. Donor financing still unreliable on timing and amount.

**All partners aim to synchronise their own processes to joint cycles and systems for appraisal, programming, review, monitoring and evaluation. Procedures and mechanisms for joint missions and appraisals are defined.**

- **Status:** Generally good, though some avoidable inefficiencies, e.g. large missions wasting time information gathering; donor trust depends on rigorous and open review process.

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**Reporting will be harmonised towards one common report system for all activities in the sector.**

- **Status:** In place, but need to develop content.

**Technical assistance should be demand driven, with preference to short term and local TA.**

- **Status:** Examples of pooled TA under Government control, e.g. Ethiopia, Bangladesh.

**Resources will be channelled increasingly through government systems and consolidated into joint accounts, with a view towards overall budgetary support. Common disbursement, accounting, reporting, auditing and procurement system are defined.**

- **Status:** The SPA pilot survey of 16 Sector programmes<sup>13</sup> (which had SWAP characteristics) showed that more than 80 percent of aid is given in the form of projects with individual donor procedures, only 17 percent as sectoral budget support. However, common donor disbursements through Government are being used in some difficult policy environments, e.g. Mozambique, Tanzania education (7 donors), Uganda education, Ghana education. No examples in Asia.

**Partners are committed to openness, transparency, consultation, the sharing of information, and in the case of problems, dialogue before any interruption of support.**

- **Status:** Variable. Interruption for Governance reasons unavoidable (Ethiopia, Pakistan.) Ghana health did use dialogue to resolve difficult hospital funding issues, though donors complained at lack of transparency. Uganda PAF and education a model for transparency.

One problem has been that the ‘partnership’ has proved one sided, with Government unable to exert any leverage on the donors: the Ethiopian Government declined to negotiate an aide memoire setting out rules of conduct for the SWAPs for precisely this reason. Donors have been slow to pull back from project detail, slow to provide pooled funds, and have often failed to meet financing commitments on time, but have still insisted on their place in policy dialogue. Peer pressure on donors is beginning to influence donor behaviour, but donors have yet to live up to the expectations which have been created for the sector approach.

Where there have been disputes about actions and behaviour in a SWAP it has generally been better to discuss disagreements informally in private before any official steps are taken and before the letter of the agreement is used. The success of informal discussions often depends on individual personalities. They play a huge role in making donor – Government relationships harmonious and managing conflict when it arrives. Informal discussions are often crucial for successful implementation of a sector programme.<sup>14</sup>

#### **Box 8: Dealing with disagreements: regional hospitals in Ghana**

In the case of Ghana health, the Aide Memoire signed between Government and the donors was referred to by donors in seeking a resolution of a disagreement over Government funding of regional hospitals at levels not envisaged in the programme. The obligation to consult and the process for evaluating new capital projects had been clearly stated, and the failure to honour the agreement became the justification for donor sanctions (for example, DFID re-imposed earmarking of budget support.) The situation in Ghana was rectified by including an agreement in a new aide memoire for government to produce and share with donors a full costing of the medium term capital programme, for including regional hospitals in the next annual review round, and by the Government’s commitment to maintain agreed recurrent budget levels.<sup>15</sup>

## **5.5 Conditionality and sector programmes**

Conditionality is applied at all levels, and it is important to set the conditionality of individual sector wide programmes in the broader context. Sector programmes are influenced by conditions set outside the sector programme itself. IMF programmes agree limits on the level of public expenditure, even when financed from budget grants. A major feature of the PRSP process and of the new IMF poverty reduction and growth facility is to make more explicit the trade offs between poverty reducing public expenditures and the macro-economic risks from higher public expenditure. More positively, IMF programmes frequently include agreements on the shares of public expenditure going to the social sectors. Less positively, sector programmes may be interrupted by the operation of cash budgets, which can place limitations on budget releases within the budget year. Thus, at the most fundamental level, the budget envelope available to a sector programme depends on the outcome of the budget discussions which, in many low income countries, are subject to agreement by the IMF. Conditionality on the Government contribution to a sector programme is meaningless unless endorsed by the central budget authorities, usually Ministry of Finance.

Because sector programmes depend for their success on the operation of the budget system, some donors have considered making them cross conditional on adherence to the macro-economic

13 SPA (1999).

14 Walt *et al* (1999).

15 Republic of Ghana and Co-operating Partners (1998) & (1999).

programme agreed with the fund, in addition to sector level conditions. Many donors appear to agree that applying both macro-economic and sector conditions in a SWAP would undesirably increase uncertainty and risk disrupting social spending. It is preferable to make sector aid conditional on specific sectoral indicators.<sup>16</sup> In practice, a serious breakdown in macro stability will in any case be likely to impact eventually on the sector programme conditions, especially any related to Government funding.

## 5.6 Sector level conditions

Conditionality implies sanctions for non-performance. There is no consensus at sector level of the appropriate role of conditionality within sector wide approaches, even though there is active discussion within the donor community.

At sector level, there are still examples of explicit policy conditionality:

- Pakistan social action programme was explicitly conditional on Government committing increased expenditures to the sectors from domestic revenues, a key aim being to leverage the Government to allocate more funds than it otherwise would have done.<sup>17</sup> The programme was largely unsuccessful in this, and the coup saved donors from the dilemma of how they should react to Government failure to meet conditions. This coercive approach to conditionality in a SWAP appears to be a unique example.
- In Uganda education, the World Bank used a sector adjustment credit to support the SWAP. This included explicit conditions for tranche release, covering both budget allocation and education policy issues.<sup>18</sup>

It is more typical, however, for SWAP financing agreements to take a similar form to project agreements, with both partners agreeing to implement the programme set out in the Government strategy document and workplan, and to abide by the agreed management and decision-making arrangements. Some aspects of the programme may be the subject of specific undertakings, with the World Bank most inclined to include specific policy undertakings in financing agreements. For example, Bangladesh health and population credit is conditional on a range of both policy and implementation conditions, including implementing agreed re-organisation of the Ministry, and implementation of an Action Plan with 22 key measures.<sup>19</sup> Failure to implement many of these policy conditions on time has been intensively discussed in programme reviews, but has not lead to an interruption of disbursement.

Bilateral donors most commonly include conditions related to the disbursement and accounting and audit of funds. The extent to which there are formal agreements beyond this varies. However, the absence of formal conditions does not mean an absence of donor conditionality. The aide memoires produced after each review are normally signed by Government and donors, and their recommendations are treated as accepted by Government, even though Government often has had only hours to study the draft.<sup>20</sup> The next annual review gives the donors the opportunity to assess progress in implementing them, and some donors are able to vary the level and the channel by which their funds for the sector are disbursed from year to year. Donors can easily signal their pleasure or disappointment at progress and commitment by Government.

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16 Foster & Naschold (1999).

17 World Bank (1999a).

18 World Bank (1998b).

19 World Bank (1998).

20 Observation based on participation in reviews of Ghana health, Bangladesh health and population, and discussion of Pakistan SAP.



Though explicit procedures are helpful for dealing with situations where either side has failed to implement important aspects of the programme, it is arguable that the main donor influence on policy has been through support to policy analysis and dialogue, and through the experience of joint working, rather than hard conditions. Positive examples include:

- Uganda tracking studies, which revealed serious problems of diversion of funds from intended uses, provoked serious attention to increased transparency, better monitoring, shorter funding routes.
- Funding arrangements to regions in Ethiopia changed to allow for swifter disbursement of money for HIV services in recognition that the epidemic is moving too fast for normal Government systems to apply. There is also now a greater concentration on more appropriate approaches to reproductive health.
- Tanzania has developed decentralised district planning processes, and transferred responsibilities for district hospital management.
- In Bangladesh health, the decision to integrate health and population services was heavily influenced by research showing that facility based family planning services were able to maintain contraceptive prevalence.
- Not all of the lessons are one way: the positive experience of funding decentralised schools construction through Government systems in Uganda has led donors to review the need for expensive alternatives.
- Different donor views of the role of the private financing in the health sector in Tanzania were resolved through development of a number of pilot projects to test market based options.

Though co-ordination of policy views can be helpful, there are dangers if common conditionality results in a stop-go pattern of finance. The sector approach is intended to make more use of direct budget support in the form of pooled funding. This is far more flexible and easy to use well from the point of view of Government, but is also more easily interrupted than project support. The risk is that a far larger proportion of the donor support becomes at risk of short term interruption if conditions are not met. So far, complete interruptions of support have mainly been related to Governance and political conditionality, the Ethiopia-Eritrea war and the Pakistan coup both having had significant impact on donor flows to sector programmes. Where there has been a failure to implement conditions within the sector, the donors have been more measured in their reactions: for example, in the case of the Ghana health dispute over regional hospitals, DFID re-imposed some earmarking of support, but did not interrupt funding, and the disagreement was finally resolved amicably.

## **5.7 Results based conditionality**

There has been some discussion among donors, including DFID, concerning the desirability of moving the basis of conditions away from actions (did you do what was agreed) towards results or outputs (did you achieve what was intended). The intention is to give Government more flexibility and more responsibility, with the analogy to modern management theory about how decentralised processes should be managed. However, it is seriously flawed when applied to development assistance:

- Governments need reasonable certainty over the level and timing of donor flows to support the budget. When conditionality is based on actions which Government controls, it is able to

predict these flows. Basing conditionality on whether outputs are achieved introduces an arbitrary element into the budget.

- Failure to reach targets may be due to factors outside Government control, e.g. weather conditions or the impact of global market conditions. Linking conditionality to outputs then risks amplifying the effects of a shock, when a more sensible donor role would be to offset the shock by increasing support rather than reducing it. Of course, donors can look at why results were not achieved and may decide to waive conditions where the cause is outside Government control, but Government is left with an unhelpful uncertainty over the donor resources likely to be available.
- If Government and donors have agreed on what needs to be done, and it is implemented as planned, but does not achieve the expected results, the appropriate response is for all parties to the agreement to review the reasons, and adjust the strategy. It is unreasonable for donors to in effect place the blame, the responsibility, and the risk entirely on Government.

## **6. Funding the Government Budget: Lessons from Sector Programmes**

There is increasing discussion of donors providing financial assistance in the form of direct support to the budget as a whole. If there is broad agreement on a national strategy and medium term budget, there is logic in seeking to support that strategy by providing support through Government's own systems and procedures. This has multiple advantages. The problem of fungibility is dealt with by dialogue on overall national expenditure priorities, enabling donors to monitor whether development assistance is contributing towards a pattern of expenditure which is shifting over time towards the agreed policy priorities. The costs of managing the aid flow are dramatically reduced. The focus of Government and donor attention can be on improving the overall management and accountability for public expenditures, rather than being diverted to more parochial project concerns.

These arguments should not be applied everywhere: they are relevant where donors are an important enough source of funding to have a legitimate claim for some influence on the overall pattern of expenditures. As argued in Box 3, where Government is not heavily aid dependent, it may make more sense for donors to seek more of a niche role, developing innovative approaches for adoption and replication using Government funding.

The movement towards general budget support, whether at the level of the sector or the entire budget, involves a bargain whereby donors give up direct control of how their money is used, in return for enhanced dialogue on the overall budget and how it is managed. There are two aspects of control:

- How funds are used: General Budget Support means Government determines how funds are used, either across the budget as a whole, or within a sector programme;
- How funds are managed: Pooled funding means Government manages and accounts for funds, preferably using standard budget procedures indistinguishable from those used for Government revenues.

These two aspects are logically and in practice distinct, and we shall discuss them in turn.

### **6.1 How funds are used**

There needs to be a sufficient agreement on priorities, and sufficient confidence that they will be adhered to, for donors to be content to give up earmarking to specific uses. In the presence of fungibility, general budget support with policy dialogue can be a more effective way to ensure that additional resources actually reach agreed priority uses: Government is accountable for reporting to the donors how total resources were used, and loses the freedom to adjust the use of its own revenues to offset priorities negotiated with the donors. The SWAP at sector level prevents fungibility within the sector by defining a spending programme for the whole sector. This will not usually be a complete blueprint, but is likely to define the investment programme in some detail, and may include specific targets for resource shifts. For example, the Ghana health programme has a number of specific targets relating both to the shares of health spending in the total Government budget, and to allocations within that budget for the shares going to recurrent and to district level. It has also defined the investment programme for the sector, and the procedure for modifying it, enabling a dialogue to take place on the vexed question of the role of regional hospitals (Box 8).

The previous project level approaches would have given donors no legitimate voice in discussing overall resource allocation within the sector.

In Uganda and Tanzania, dialogue on expenditure priorities has been extended beyond the sector level to encompass the entire medium term expenditure framework. Diagram 1 sets out how sector programmes can be fitted within the annual budget cycle, based on the experience of countries such as Ghana and Uganda which have introduced medium term budget frameworks in which both Government and donor flows are reflected. In this model, sector programmes are 'nested' within an overall medium term framework for allocating Government and donor resources. In Uganda, the process includes an opportunity for donors to be consulted on public expenditure priorities. Of course, the main factor determining priorities within democratic states should be the national political system, and the main accountability for how resources are used should be to domestic constituencies. However, it is recognised that donors also need to be accountable to their own electorates for how aid funds are used. In the Uganda case, Government has committed itself to protecting additional expenditures on designated poverty programmes identified within the budget. The Uganda approach also features an effective process for independently monitoring how funds are used and to what effect. By setting out transparently what it hopes to achieve, the resources needed, how it intends to allocate them, and how results will be monitored, Uganda is able to make a strong case for donors providing support not tied to specific purposes. (Box 6).

The medium term budget framework needs to be supported by some longer term scenario analysis if sustainability issues are to be addressed. Investments in new schools, hospitals, clinics, roads need to be planned with a clear view of the future availability of financial resources to staff, equip, operate and maintain them. Donors may be willing to provide some support for these annually recurring costs in the medium term, but it would be unwise in the light of recent trends for Government to base policy on the assumption that future growth of external support will keep pace with the demands of a growing population with increasing demands for services.

It is irresponsible for donors to inflate sector budgets beyond the level which can be sustained in per capita terms. Poor countries need to make some cruel choices. The health sector may have just \$6 per head to spend, which on optimistic assumptions about growth of the economy and of revenue may require twenty or more years to double to \$12. These are the figures within which Government needs to plan, balancing the claims of the health sector for a higher share against the equally pressing demands of other sectors. If donors undermine the hard budget constraint by offering additional resources tied to the health ministry, they make it less likely that Government will focus on those few interventions which make a difference to poverty reduction, and which can be extended to the whole population and sustained in the longer term.

The case for general budget support is strongest where Government is successful in allocating and disbursing funds in line with national priorities. Effective Governments ensure that different funding sources are fungible, adjusting their own funding in the light of unexpected divergences of donor funding from expected levels in order to preserve their own priorities. Earmarking of donor flows to specific uses only makes sense when two conditions are fulfilled:

- that aid is less than fully fungible so that donor allocations can change the final pattern of expenditure, and
- that donors can achieve a more significant influence on the pattern of allocation by earmarking than by dialogue and conditionality.

These conditions are most likely to be fulfilled when the allocation problems result from weaknesses within the public expenditure management system. If budget discipline is weak, key expenditures may be squeezed by overspending elsewhere, unless protected by donor earmarking.

The non-salary recurrent budget is often especially vulnerable to being squeezed between the pressures of wage bargaining, and the attractions of investment projects. Earmarking can provide a more credible approach than conditionality because sanctions are automatic: the donor funding is only released if the expenditure to which it is linked occurs. Conventional conditionality requires the donor to decide not to disburse because performance was weak, a decision which is much more prone to being influenced.

Earmarking can be used in ways which also ensure that Government flows are maintained. World Bank disbursements frequently are linked to a fixed percentage of specific Government expenditures; an alternative approach is to reimburse Government expenditures beyond a baseline level. The poverty action fund in Uganda is set up in this way, with the PAF funding defined as additional to what Government had previously programmed to spend on the identified programmes within the budget.

A degree of earmarking is often welcomed by reformers in Government who are struggling to defend budget lines from other pressures. The extent to which it is reasonable for donors to introduce such rigidities within the budget allocation system will depend on the overall accountability of the budget, and the legitimacy of the pressures which are being resisted. In situations of budget crisis, too rigid an insistence on protecting key budgets, by whatever method, can undesirably focus all of the adjustment on parts of the budget which do not enjoy such protection.

## 6.2 Using government procedures

This section deliberately emphasises the use of Government procedures, rather than simply using common procedures. There are some, limited benefits from pooling donor resources and using a single set of donor procedures, and there is a long history of doing this on projects, with World Bank often managing funds on behalf of co-financing donors. The more important challenge, however, is to integrate donor flows within the Government system. This enables Government to prepare an integrated budget, and focuses the effort of all stakeholders on improving general public sector financial management.

Turning to the decision on who manages and accounts for public expenditure, a key principle is that, however money is disbursed, donors need to be concerned about the financial management of the budget as a whole, not just the part which they directly finance. Ensuring that financial accountability for direct donor disbursements is sound should be of little comfort in a fungible world: donor funds will get allocated against those parts of the budget where accountability is strong, but will achieve no overall improvement in financial management. They may even reduce financial management if accounting staff are diverted to satisfying donor requirements. One important benefit of pooled funding is that it can focus attention on the overall financial control environment.

Sector programmes have been slow to make use of common disbursement arrangements, and SPA tracking records that some 80% of donor flows to African sector programmes still use donor disbursement routes.<sup>21</sup> However, the percentages are increasing in long established programmes such as Ghana health, where 60% of funds are now disbursed via Government systems.<sup>22</sup> Moreover, it has proved feasible to design systems for disbursing through the Government

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<sup>21</sup> SPA (1999).

<sup>22</sup> Ministry of Health Ghana and Health Partners (2000).

consolidated fund which meet the accounting requirements of DFID even in difficult environments (Box 9).

### **Box 9: Common Financing Arrangements in Tanzania**

Seven donors are pooling funds from October 1999, initially for support to 35 health districts in the first wave of decentralisation.

The MOH requests the Basket Financing Committee (a joint government and donor body) to approve the release of funds for activities costed in the agreed Plan of Action. If approved, this is passed to the Ministry of Finance who request forex transfer from donors. Donor funds are merged in a joint Holding Account in the Bank of Tanzania (BoT), converted by BoT into Shillings, and placed in the Consolidated Fund, where they are merged with Government of Tanzania (GoT) funds. The Accountant General warrants funds to the Permanent Secretary for Health (who is the accountable officer).

Some funds go via local government District Health Plans: this follows the same procedure but the Ministry of Regional Administration makes the request, and funds go to Regional Sub-Treasuries, who issue cheques to district accounts against their approved sectoral budget. The Permanent Secretary Ministry for Regional Administration and Local Government (MRALG) is the accountable officer. Issuance of cheques is centralised, which allows the Platinum system to track spending by source of funds and activity code.

District health plans are agreed at council level, scrutinised at regional level against guidelines and ceilings, consolidated and forwarded to MRALG. Proposed minimum standards to be reached at district level are reconciled with the essential service package. The Steering Committee receives district plans and approves release of funds on quarterly basis against approved district plans and budgets. Readiness Criteria have to be met before districts can receive and manage funds: these include approved district health plan and budget, positive assessment by the MRALG of technical and financial management capacity according to benchmarking criteria, satisfactory and timely reports, and the Government budget contribution deposited.

Under the accounting system, the first request for funds will cover 2 quarters. At end of Q2, request for Q3 funds will be accompanied by a statement of accounts for Q1, to be prepared within 30 days of close. A steering committee decision is to be made within 15 days of receipt. An annual independent audit is carried out by OCAG and independent firm, resulting in a management letter assessing controls and systems.

*Source: DFID(EA), Support to the Tanzania Health Sector, PRC (99)21, June 1999*

While supporting the principle of disbursing through Government systems, it is also important to recognise that capacity takes time to build. The presentational risks from too rapid a reliance on Government systems can be high: lack of capacity may lead to a dip in disbursements, or exposure of major fraud or mismanagement may lead to a reversal of progress. While capacity is being built, or while corruption is a significant risk, there may even be positive advantages in relying on donor procurement for some items in the short term.

## **6.3 Budget support using common procedures: Summary of lessons learned**

A number of critical lessons have been learned from the efforts to promote budget support using pooled funding in sector programmes:-

- Financial accountability is easier to achieve than accountability for outputs or outcomes. Within decentralised systems, it is important to give central direction on strategic national objectives, and to hold budget holders to account for their progress in achieving them by

linking purely financial reporting to monitoring of output indicators. This has proved extremely difficult to achieve, and is the major challenge in moving towards direct budget support.

- The public expenditure management system as a whole needs to function reasonably effectively: good diagnosis of development problems, sound resource estimates, allocations and releases in line with priorities and with budgets, monitoring and performance management, and accountability for inputs and outputs. Where there are significant weaknesses, they should be addressed as a condition of budget support. If not, the inefficiencies within the system may mean that a better development result can be achieved through donor earmarking in a situation where weak budget management is likely to mean that fungibility is less than complete.
- The main accountability for the budget should be to domestic constituencies, and donors can help to promote the role of Cabinet, Parliament, civil society, and individual communities in holding Government to account for how public funds are used: Box 6 sets out how Uganda has made use of transparency and of civil society to improve the effectiveness of public spending in education.
- Turning to disbursement through Government systems, slow but steady can pay off, with an important role for 'pathfinder' donors willing to develop the procedures and test them by risking putting money through them. In the case of Ghana health, the pooled funding arrangements have grown from very low levels to involve more donors and increased flows, with the result that they now account for 40% of flows to the health programme, 60% if earmarked flows managed through Government systems are also included.
- It is feasible to provide adequate accounting discharge for donor flows even within a highly decentralised system and a difficult environment. Ghana health achieves full accountability and relatively clean audit reports while disbursing funds through more than 300 budget management centres spread throughout the country.
- Significant efficiency savings are achievable by relying on local systems, e.g. in Uganda education, the costs of classroom construction were reduced and the numbers completed were increased when funds were allocated via districts.
- Where financial management is variable, the promise of direct budget support can be a powerful incentive to improve budget management. In the case of Ghana health, only those budget management centres which met certain 'readiness criteria' were allowed to manage their own funds. Those who failed the first round of inspections sought training and support to improve their performance, with the result that the vast majority of BMCs have subsequently been able to meet the criteria. It is of course important to ensure that insisting on meeting financial management standards does not disadvantage poor districts: in the Ghana case, the assessment influenced how funds were managed, not the level of funding allocated.
- It is important for donors to stand back from direct involvement in the detail of the system. In the case of Tanzania health, it was proposed that a committee with donor representation should have responsibility for the approval of individual district health plans, which essentially would imply donors attempting to continue to apply project style approaches rather than taking a more strategic view.
- It is important to be realistic about the capacity of the system to generate reports. The Ministry of Finance approved system for supporting SWAPs in Mozambique calls for submission of quarterly expenditure reports shortly after the close of the quarter. From past experience, it seems unlikely that this can be achieved, and the system is likely to rapidly face problems in maintaining disbursements.
- Direct budget support means that departments and budget centres are as dependent on donors as they are on domestic revenues for achieving the objectives of their spending programmes, and donors have a responsibility to ensure that disbursements are timely. There is a strong case for minimising within year conditions which interrupt the regular flow of disbursements.

For example, once the fundamental accounting systems have been shown to be sound, quarterly disbursements should be made when needed, not delayed by linking to disbursement reports for previous periods. Of course, disbursement reports are needed, and continued delinquency in providing them should attract sanctions, but too short a leash is likely to have costs to the smooth implementation of the budget which are disproportionate to the benefits.



## 7. Dealing with Difficult Environments in Sector Programmes

Difficult environments for aid can be caused by a range of problems: conflict, poor human rights or political governance, macro-economic instability, poor policies affecting the sector, and weak institutions for implementing the programme.

Uganda provides an example of a country which was able to sustain normal aid relationships despite internal and external conflict. The key in that case was a remarkable degree of budget transparency, showing how additional resources were being allocated to poverty reduction despite the defence burden. Ethiopia and Pakistan provide counter examples, where war and military coup led to interruption of sector programme financing. The greater ease of interruption of budget support is a feature which might be perceived as positive or negative, depending on the view one takes of the desirability of being able to apply short term sanctions for behaviour which donors disapprove of.

Weak macro economic management can impact on sector programmes in a number of ways, but most commonly by causing budget releases to be unpredictable and often lower than budgeted. Donors face difficult dilemmas in how to react. There is an argument that aid should be used counter-cyclically. Short term external shocks, especially when caused by factors external to Government policy, should be offset by increased donor flows, but identifying temporary from permanent changes is difficult. It will usually be worth continuing with a pre-existing commitment to a sector programme, at least initially, even when Government macro management has weakened. However, it will not normally be sensible to enter in to new sector programme commitments until the macro economy has been stabilised.

Policy and institutional problems come in many forms. A key question concerns where the problems emanate from. If they are caused by factors beyond the ability of sector managers to deal with, then the sector programme needs to be supported by a broader framework of ongoing reform if it is to have a serious chance of success. For example, public sector expenditure programmes can achieve very little if public servants are paid less than a living wage, and a strategy for addressing the problem over the medium term, as Uganda did in the 1990s, should be an essential pre-requisite for any direct support to the public sector.

Most sector programmes are operating in difficult environments, with macro stability recent or uncertain, corruption and incentives problems, and weak policy and implementation capacity. The difference between countries in terms of performance is one of degree and of judgement. The key lessons are:

### 7.1 Ownership

- It is possible to work in unpromising environments, but a shared vision is essential if support is to be provided to a sector programme. Pushing a strategy which Government does not support leads to frustration and eventual rejection. The experience of trying to buy agreement with offers of additional support is almost universally a negative one. Providing extra funding at sector level may actually delay necessary reforms, by putting off the evil day when hard budget constraints begin to bite.
- Assessing commitment is difficult, and donors need to beware false dawns, when newly appointed reformers with the same vision as donors appear to be committed to solving long standing problems. Experience suggests that programmes have a high risk of being stalled or

reversed if they are not based on a broader consensus within Government and within the sector ministry. Important decisions requiring the consent of other departments need to be agreed before funds are committed, if long delays are to be avoided. A process of transparent, open debate on future direction is likely to provide a more secure foundation for progress.

- In hostile national policy settings, there may be little that can be done by outside donors. It may be feasible to work with advocacy groups outside Government to increase pressures for reform. It may be worth supporting the development of technocratic capacity in the hope of progress in the longer term, since internal policy advice is more likely to be heeded than unsolicited reported by outsiders. The experience of Ghana health suggests that long term institutional development at district level can eventually pay off as well trained staff progress to senior technocratic roles, though this is likely to be very context specific, and the risks of staff leaving or being unable to overcome the environment in which they work is high.

## **7.2 Diagnosis**

- Good policy may be frustrated by dysfunctional Government. It is important to understand how bad the situation is before developing programmes to improve it: what happens to public expenditure, what services are being provided, from what service providers, what formal and informal charges apply, who has access and who is excluded, how do civil servants obtain their incomes? Participatory poverty assessments, service delivery surveys, financial tracking surveys, and integrity surveys, have shown that it is possible to research how public funds are actually used down to the service delivery level.

## **7.3 Pressures for change**

- With a Government which is committed to change, it may be possible to alter the culture: Uganda for example has adopted a multi-track approach, including a strong emphasis on transparency and on empowering the user of services by sending moneys down to facility level, enhanced monitoring and accountability, and a commitment to more prosecution of wrongdoers.
- Incentives are central. Paying more may not improve performance unless linked to performance management, but very little can be achieved in Government when salaries are below a living wage. If there is some hope of civil service reform eventually raising salaries, there may even be a case for supporting salaries to keep key staff in place during difficult periods.
- Encouraging contacts with similar countries who are tackling their problems may help to promote emulation.

## **7.4 Support the budget process, even where it is weak**

- Even where the budget process is currently weak, donors should not by pass it, but should seek to strengthen the role of central authorities in making choices between competing priorities. This means working via the central budget authorities when negotiating development co-operation, and ensuring that they receive full information on aid intentions and disbursements.
- If the budget process does not prioritise, donors have a responsibility to ensure that any earmarked support which they offer is of such high priority that the expenditures being supported would have been chosen anyway by a Government concerned to maximise poverty

reduction within the level of resources which are available. This is a much stiffer test than just ensuring that interventions benefit the poor, but it is an essential criterion if we are concerned to lay the foundations for a future Government to pursue sustainable development for all.

- If the budget situation is bad and not getting better, little can be achieved, though there may be modest scope for helping the better parts of the public sector to reduce their dependence on central budget releases, for example through internally generated funds.

Overall, the lesson from the experience of trying to operate sector programmes in hostile environments is not a positive one.

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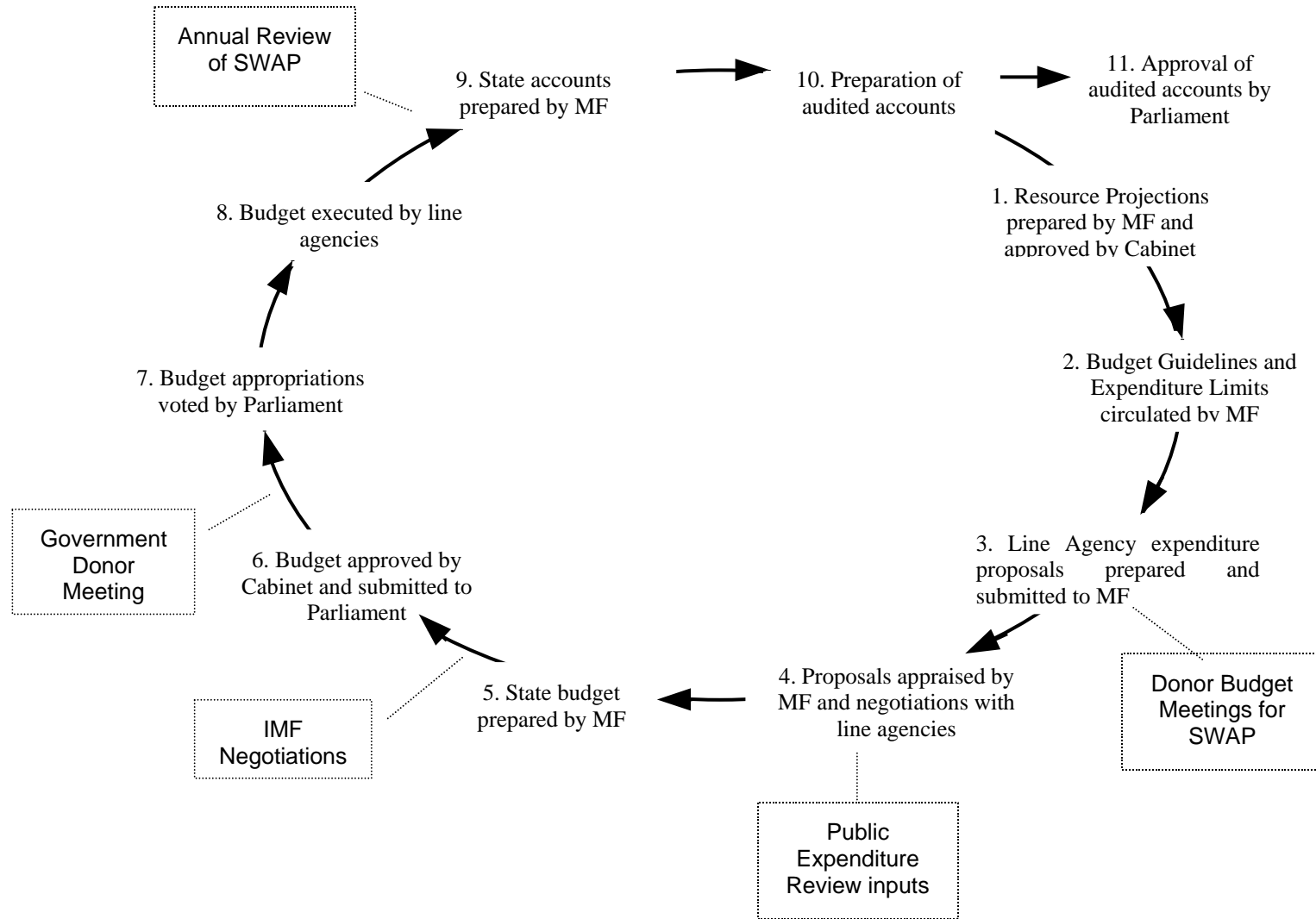
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## Annex 1 Budget Cycle & SWAPs



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## **Annex 2: Main Lessons of Experience from Sector Wide Approaches**

### **Acknowledgement**

This Annex is a slightly adapted version of the Summary and Conclusions from the CAPE report ‘The Status of Sector Wide Approaches’, financed by Ireland Aid for the like minded donor group. The full report is available from the ODI CAPE web site.

### **Ownership, partnership, and conditionality**

- The SWAP approach is probably not appropriate everywhere: Annex 3 proposes a framework for assessing the circumstances when programmatic aid forms such as SWAPs are (or are not) likely to be relevant.<sup>23</sup>
- The conclusion of successive SWAP reviews is that governments need a broad and high level commitment to a strategy to which donors can broadly agree; this remains true. To be meaningful, this needs to be linked to hard choices. Linkage to a credible medium term budget process and civil service reform process in some countries (Uganda, Tanzania, Mozambique, Ethiopia, and Ghana) helps ensure this vision has some basis in costed reality.
- Policy change happens through consultation, persuasion, and alliance formulation over extended time. A SWAP needs to reflect this and respect that it implies not all things can be addressed up front. Donor attempts to lead the policy process with short term TC often fail. To develop dialogue and capacity among partners to address policy issues, there is a need for a permanent analytical capacity to support government, an effective policy process, a focused annual review process with good concentration on the important problems and the immediately feasible solutions, plus a process for how important but not immediately feasible solutions will be addressed in future.
- The SWAP approach has provided an increased opportunity to address sector wide problems at macro and sector level. This is not always being taken but the forum exists, as does the mandate for donors to participate. There are encouraging signs that the process is one that will develop.
- SWAP conditions are often implicit, and related to Government taking the action specified in the agreed SWAP documents, refraining from action inconsistent with them. Formal aide memoires can be helpful where problems arise. ‘Stop / go’ conditions have tended to be Governance related. A more graduated approach has been used elsewhere: earmarking, adjusted timing or levels of future commitments, plus the nagging of annual reviews are the main sanctions.
- Governments are unable to hold donors to their side of the bargain, making budget dependence on donors a significant risk to the programme.

### **Managing the SWAP**

- In SWAPs there is a clearer potential link between policy and implementation than was evident in the project world where Government strategies were dependent on fragmented donor projects to implement them.

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<sup>23</sup> Foster and Fozzard (2000).

- Donors are not always standing back from detail enough, partly because they do not trust the review process to provide rigorous ground truthing of the programme.
- The review process needs to be better organised, and the information and analysis needs to be rigorous, verifiable, and independent of influence/editorial control by government. The timetable and process for reviews and preparation activities need to be clearly specified and adhered to.
- There are positive opportunities for the review processes to gather content and momentum. It may be possible to build links to PRSP and MTEF processes. Uganda (but not in health) shows what might be done. There are similar discussions in Mozambique and Tanzania.
- Donors as a group need to focus on delivering coherent and consistent messages, giving priority to essentials.
- Action plans need to recognise capacity limitations by prioritising action lists especially where much needs to be done by an overloaded government.
- Pressure for immediate results must be counteracted by realism to avoid disappointment and damage to programmes.
- Transactions costs which increase in the negotiation stage should reduce in future but will only do so if donors place increased reliance on the formally agreed procedures for review.

## **Poverty and participation**

- Civil society participation in strategy and policy formulation are generally low.
- Uganda is a 'good practice' example of linking diagnosis to strategy and budget, with strong involvement of civil society in monitoring.
- Direct involvement of communities is rare, although there are some pilots: e.g. participatory planning in Uganda.
- The quality of poverty diagnosis is low at programme design stage in most cases. The review process is providing an opportunity to inject better analysis and feedback, e.g. from participatory poverty assessments and service delivery surveys.
- The general approach to shifting resources towards primary level services should a priori benefit more poor people, though the link from stated aims to the resources provided is weak in some cases (especially in health), and de facto rationing and high formal and informal user fees may exclude the poor.
- It is not fully recognised that Government is a minority financier in most sectors: its regulation role deserves more emphasis.

## **Capacity**

- Overloaded Line Ministries have to achieve and maintain high levels of momentum and productivity, especially when transaction costs have increased as a result of initial SWAP negotiation. There is danger of burn out.
- More positively, the move away from project implementation units means that capacity is being built within central governments to plan and implement sector programmes; this is an improvement.
- The capacity issue cannot be solved only at sector level; it may need supportive action to reform civil service procedures and pay, modify the responsibilities of line ministries to focus on the essential, and delegate more budget responsibility to those charged to deliver the programme. Links to civil service and local government reforms and budget reform are still too weak.

- Donors can support making the links, but may require different skills, fewer sector specialists, and more staff skilled in budget and public service issues.
- Decentralisation to district level supports capacity development in financial and service management (Ghana, Tanzania, Uganda, and Ethiopia).
- There is better understanding in some countries of the links between capacity and corruption and incentives problems (Uganda, Tanzania, and Mozambique). Uganda is trying to address these through increased transparency and community pressure linked to a living wage. However effective sanctions for those caught in corrupt activities are needed, but not in place anywhere.

## **Targets and monitoring**

- Monitoring and information systems are still underdeveloped. Sector wide information, though weak, is improving.
- Information for monitoring is stronger on actions than outputs and patchy on inputs. Useful information is becoming available on diagnosis of problems of service delivery and perceptions and access by the poor (Uganda, Bangladesh Tanzania, Zambia, Ghana), but more is needed for peer comparisons.

## **Common financial procedures**

- Though 80% of disbursement to SWAP type operations is using donor project procedures, increasing disbursement is taking place through government systems with joint reporting to government and donors, including major flows in difficult environments such as Tanzania, Mozambique and Uganda. The common procedures are typically linked to capacity building at central and local level, in a mutually reinforcing way which builds incentives for better performance.
- Common procedures should be common across sectors and use the Government financial accounting system: Mozambique, and the Uganda poverty action fund are developing examples.
- Confidence in financial accountability can be improved by greater transparency, opportunities for community involvement and channels for feedback and complaint, and independent survey and tracking involving civil society.
- The difficulty the World Bank has experienced in reconciling direct budget support with procurement and disbursement procedures is a major problem. Donors should encourage lobbying for change in World Bank procedures and practice to accommodate budget support.