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**Working Party on Aid Effectiveness and Donor Practices**

**DRAFT GOOD PRACTICE NOTE ON PROVIDING SUPPORT TO SECTOR PROGRAMMES**

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*This paper is presented for DISCUSSION at the next meetings of the Task Team on Harmonisation and Alignment (15-16 November 2004) and the Joint Venture on Public Financial Management (17-18 November 2004). It was elaborated by a consultant in close collaboration with the Secretariat.*

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**GOOD PRACTICE NOTE**  
**ON PROVIDING SUPPORT TO SECTOR PROGRAMMES**

**1. KEY ISSUES**

1. New approaches to the management of aid have stemmed from a recognition that country ownership is crucial to successful development, and that fragmented donor approaches can inadvertently undermine national systems that need to be strengthened. Aid should be delivered in ways that allow partner governments to incorporate it into a coherent overall strategy and that minimise the transaction costs involved.

2. These insights inform the trend for donors to adopt Programme Based Approaches (PBAs), which have been defined as:

*A way of engaging in development cooperation based on the principle of coordinated support for a locally owned programme of development, such as a national poverty reduction strategy, a sector programme, a thematic programme or a programme of a specific organisation.*

*PBAs share the following features:*

- *Leadership by the host country or organisation.*
- *A single comprehensive programme and budget framework.*
- *A formalised process for donor coordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement.*
- *Efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation. (Lavergne 2003)*

3. Sector approaches are those PBAs where government and donors are systematically working together at a sector level. Sector approaches are seen not just as a more efficient, but as a qualitatively different way of working, based on mutual accountability between the partner government and donors. When a sector approach has crystallised into an operational framework, we refer to it as a sector programme.

4. This paper's definitions of sector approach and sector programme are explained in Box 1. Note in particular that a neither a sector approach nor a sector programme is an aid instrument: a sector approach is a way of working, and a sector programme is the resulting plan of activities, which can be supported by a variety of aid instruments. Different aid instruments will be better in different contexts, for different specific purposes and at different stages of development of a sector programme. This paper provides guidelines that are relevant to all the donors involved in a sector and to all the instruments that may be deployed.

5. Part of the motivation for sector approaches is to reduce transaction costs (an efficiency argument) but the deeper justification is about effectiveness – achieving better results. Thus the EC's guidelines describe the common objectives of sector approaches as:

- to broaden **ownership** by partner Governments over decision-making with respect to sectoral policy, sectoral strategy and sectoral spending;
- to increase the **coherence** between sectoral policy, spending and results through greater transparency, through wider dialogue and through ensuring a comprehensive view of the sector;
- to **minimise** as far as possible the **transaction costs** associated with provision of external financing, either by direct adoption of government procedures or through progressive harmonisation of individual donor procedures.

#### **Box 1. Sector Approaches and Sector Programmes**

A **sector approach** consists of taking a whole sector as the unit of focus for policy, for expenditure planning and for coordination between government and donors.

The concept is dynamic: it is a way of working together between government and development partners. The aim is to broaden Government ownership over public sector policy and resource allocation decisions within the sector, to increase the coherence between policy, spending and results and to reduce transaction costs. Ideally, 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 funds.

The definition of a sector is pragmatic: it may be, for example, the whole education system or just the primary education sub-sector. Respecting the organisational mandate of the lead sector ministry has been found to be an important practical criterion (working across ministerial boundaries is harder, at least at first), but whatever definition is adopted, it is important not to lose sight of general cross-sectoral issues (e.g. civil service reform) and the specific links between the sector and other parts of the system (e.g. from primary to higher education, from roads to agriculture).

A **sector programme** is a specific, time bound and costed set of actions and activities in support of a sector strategy. In practice, where aid to a sector is significant, the sector programme will include (a) an approved sector strategy, (b) a costed expenditure framework with a medium term horizon, and (c) a government-led system and process for coordination among donors supporting the sector.

Many different terms are in use for both these concepts (e.g. Sector Wide Approach and sector development programme), and different agencies use different terms for their own instruments that support a sector programme (for example the EC refers to its own instrument as a Sector Support Programme). It is important to be clear, however, that neither a sector approach nor a sector programme is an aid instrument. A sector programme may be (and usually is) supported by a variety of aid instruments, including aid-funded projects, technical assistance, sector budget support and general budget support.

6. This is a good time to take stock of good practices for sector programmes. First, a great deal of practical experience has accumulated since the mid 1990s<sup>1</sup> and, although there are differences in their orientations, all significant aid agencies are engaged in them. It has become clearer what works well, and in which sectors (e.g. sector programmes have been most successful and straightforward in sectors where government is a major service provider and government responsibilities are dominated by a single sector ministry). Areas of relative difficulty are also more apparent. For example, the Strategic Partnership with Africa has highlighted the challenges of decentralisation within a sector approach, of inter-sectoral coordination when outcome and impact results depend on the actions of multiple line ministries, of the "productive" sectors for which a strong role for a line ministry is less obvious than in the more typical

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<sup>1</sup> The World Bank's 1995 paper on Sector Investment Programmes (Harrold et al) was seminal, but of course good governments have been thinking and acting on a sector scale for much longer.

service delivery sectors, and of securing substantive contributions to sector approaches by the private sector and civil society.

7. Secondly, the context for sector approaches has become more favourable, but also more complex, with the advance of Poverty Reduction Strategies, and coordinated action on a national scale to address systemic issues (including public finance management and national capacities) that have previously been addressed internally by sector programmes. Sector approaches are often prominent in the areas (education, health, transport, agriculture) that are stressed in PRSs. PRSs need to become an overarching framework for a country's sector programmes, while governments and donors can draw on experience from sector programmes in developing the collaborative framework for the PRS.

8. An effective sector partnership will have a number of key components, including:

- a clear sector policy and strategy;
- a medium term expenditure programme for the sector;
- a performance monitoring system that measures progress towards the achievement of policy objectives and targeted results;
- broad consultation mechanisms;
- a formalised government-led process for aid coordination at sector level;
- arrangements for programming of flexible and predictable sector funds;
- an agreed process for moving towards harmonised systems for reporting, budgeting, financial management and procurement.

9. This list of components (depicted in Box 2) is not proposed as a sequence of action. The sector policy and strategy is the foundation of the sector approach, and a disciplined expenditure framework is also essential, but all the elements are important, and all will develop iteratively as the programme evolves. But the list of components does provide a useful organising framework for this paper.

**Box 2. Components of a Sector Approach**

## 2. PURPOSE

10. This good practice paper seeks to provide operational guidance on how to establish, at sector level, partnerships between government and development agencies that improve the effectiveness of development policies and broaden government ownership over public sector policy and allocation of resources. Where such partnerships have already been established, it suggests how they may be further developed and enhanced.

11. In the nature of SPs, such advice is aimed at individual donors and at donors working collectively at country level. It is also relevant to partner governments. While recognising that there may be divergent interests and views among donors, and between donors and the partner government, the sector approach works by identifying, building on and extending the areas of common interest.

12. The paper draws on accumulated experience of SPs. These are complex and few are exemplary in every respect. As noted in earlier DAC guidelines:

*Good practices are a point of reference rather than a matter of prescription for all development agencies, in all countries, at all times. Adapting good practices to the different circumstances of different countries requires greater flexibility in donor policies and procedures to accommodate varying institutional capacities, traditions and partnership histories.*

## 3. GUIDING PRINCIPLES

13. The good practices presented in this paper draw on the following guiding principles for donors.

14. **Support government ownership and leadership.** Donors must leave the initiative with government, while providing flexible support, information and guidance. Aid coordination at country level is a government responsibility, while the government-donor partnership should be based on mutual accountability. Donors have a responsibility to be knowledgeable and sensitive about the country context and its institutions. They should seek areas of broad agreement and avoid micro-management of detail.

15. **Work with government to strengthen institutional capacity.** Setting up parallel systems tends to undermine the regular systems of government. Donors should therefore work as much as possible through partner systems and procedures while collaborating with governments

to address identified weaknesses. Both donors and partner governments should think in terms of national capacity, not just government capacity.

16. **Take a long term, strategic view.** Recognise the dynamic nature of sector programmes and accept that it will take time to realise all the potential benefits of a sector partnership. Sector programmes take a long time to establish and usually imply long-term institutional change and organisational development. They are typically implemented over at least a ten-year time frame implemented in three or five year tranches. Donors must have similar time horizons for a Sector Programme to succeed, and must be prepared to commit long term predictable resources. Address all stages of the planning and budgeting cycle for the programme, and build in a strong results orientation.

17. **Set the Sector Programme in context.** Donors need to be aware of the sector programme's implications for overall coherence across government, including its consistency with the Poverty Reduction Strategy, and its effect on the role of the central coordinating ministries, and on the relationship between central and local governments. Be careful that the sector programme does not itself become a parallel mechanism, and ensure that it reinforces the normal government planning and budgeting system. Address cross-cutting issues, including gender equality, the environment, HIV/AIDS, and public service reform.

18. **Be pragmatic and flexible.** Design processes which economise on management, planning and policy skills within government, while progressively building up capacity. Assess the costs as well as the benefits of proposed innovations. Recognise that there are competing interests on both government and donor sides which need to be sensitively managed; undertake a proper institutional and incentive analysis. Look for some "quick wins" that can help to build support for the programme (amongst both government and donor constituencies) in its early stages. Be realistic and learn from experience (including comparative international experience); recognise and manage risks.

#### 4. GOOD PRACTICES

##### *Adopting a Sector Approach*

*When should a Sector Programme be established?*

19. The basic principles of a holistic view, a medium term planning horizon and explicitly linking expenditures to policy are relevant to all sectors and are applied by effective governments everywhere. The effort of setting up a formal sector partnership between government and donors is more likely to be worthwhile when (a) donors are an important part of sector financing and many different donors are involved, and (b) the sector is one in which public expenditure and service delivery plays a substantial role. Box 3 highlights some conditions for success.

20. Early SPs largely derived from sector-level initiatives in familiar, well-defined sectors co-extensive with the responsibilities of a single line ministry. As SPs mature, and as they become more integrated with national PRSs, there may be opportunities "fill in the gaps", as other sectors seek to emulate the early movers. Box 4 is an interesting example from Uganda. Many of the features of a sector programme may apply to "thematic" PBAs (e.g. numerous HIV/AIDS partnerships, the developing partnership for food security in Ethiopia.)

*Sequencing*

21. The first thing to remember about sequencing is that the Sector Approach is a process. Attempting to be too elaborate at the outset risks fatigue and loss of momentum, as unrealistic expectations *are* disappointed. The most basic components are a statement of sector policy that all partners can support, and an agreed coordination framework through which the SP can be developed and subsequently managed. The principle of a comprehensive, costed and prioritised programme needs to be established early, since this will discipline government and donors alike. Both these and other components can be progressively elaborated as the partnership develops.

22. It is not usually helpful to put too much initial stress on moving to unified aid instruments, such as a pooled funding mechanism. There is a danger of raising unrealistic expectations on the government side, since these are inherently difficult to agree, and can accentuate divisions between donors with different preferences or constraints over the choice of aid instruments. However, it is useful for government and all donors to sign up to an agreed intention and process for adopting a sector approach and developing a sector programme. This should include the outlines of the agreed consultative mechanisms for the sector, but should highlight the fact that all aspects of the partnership will be developed and elaborated over time.

23. At the same time, avoid the danger of putting all the initial focus on the sector policy and strategy statements. Work on possible implementation mechanisms (including analysis of partner systems and procedures) needs to proceed in parallel, so as to avoid a hiatus when policy and strategy have been laboriously agreed but the implementation framework is still embryonic. In working on the implementation framework, it is vital to involve the Ministry of Finance and finance and procurement specialists from the donor side.



### Box 3. Some Conditions for Success

#### FOUR ESSENTIAL FACTORS:

**Strong and effective leadership at sector ministry level.** In the absence of effective government leadership, especially at ministry level, the process tends to become donor led, and there is a strong tendency for donor funded planning and consultation processes to be established that run in parallel to normal government systems.

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**Commitment to the process elsewhere in government,** particularly in the Ministry of Finance<sup>2</sup> and at senior political level. Lack of involvement and commitment from the Ministry of Finance means that the process is not integrated into the budget cycle and there can be no assurance that the plans developed will be funded. In this situation, there are few incentives for the sector ministry to seek increased transparency in the use of donor resources (by bringing them within the budget envelope) and no prospect of implementing a coherent medium-term expenditure programme for the sector.

**Broad consensus between government and donors on key policy and management issues for the sector.** In the absence of a consensus on key policy and management issues for the sector, it may be difficult to move the process forward. Ideally, problems at this level will lead to further consultation, discussion and research from which consensus may develop. However, a danger is that the desire of both donors and government to maintain the flow of funds and keep the process formally on track may lead to a "fudging" of key issues which later re-emerge as points of contention. A related problem is divergent expectations about the outcome of the process, with governments often concerned to move quickly to common pool funding or budget support arrangements, while donors may initially be more concerned with policy reforms.

**A reasonable degree of macro-economic and political stability leading to a relatively high degree of budget predictability.** A weak macroeconomic environment and disagreements about governance can easily derail Sector Programmes as donors lose confidence. The economic and political environment can be fragile, and dependent on events outside the sector. Failure to embed the programme in a broader macroeconomic and expenditure framework increases its vulnerability to budget shocks, whether they are due to poor macro-economic management, external events or the suspension of macroeconomic budget support by donors and multilateral agencies.

#### FOUR IMPORTANT FACILITATING FACTORS:

Establishing a sector programme is easier when:

- **Institutional relationships are manageable.** Sector programme have worked most effectively when they are defined in terms of the area of budget responsibility of a single sector ministry. They are also easier to manage when there is a relatively small group of significant donors in the sector.
- **There is an experienced "lead donor" or lead group of donors.** Sector Programmes usually need a lead donor willing to support government in managing donor and stakeholder coordination.
- **Incentives are compatible with the objectives of a sector approach.** Problems are likely to occur if the key ministry feels threatened by sector policy (e.g. if it involves budget cuts or a reduction in their role). In addition, where civil service and other government-wide reforms are in place to create incentives and other performance rewards, it is easier to counteract the incentives to maintain parallel systems. Part of the challenge for donors is to ensure that they eschew unhelpful incentives and strengthen those making for coherence.
- **"Quick wins" can be achieved to raise commitment and support.** Developing a sector programme is a lengthy process, requiring a big investment of time and energy up-front. Enthusiasm will quickly dwindle without tangible benefits at an early stage.

Sources: Jones, S. & Lawson, A. 1999; Foster, M, 2000 ; Brown A. et al, 2001, EC 2003.

<sup>2</sup> Where there are separate Ministries of Planning and Finance, it is also important to engage the planning ministry.

24. While the basic sector policy and strategy must be prepared by the Government, donors can help by resourcing contributory studies (drawing where possible on in-country research and consulting capacity) and facilitating extensive consultations. An important initial task is to take stock of the sector, including the full range of donor-supported activities, many of which may be off-budget or channelled through non-government partners. Donors should assist in making comprehensive information available. They should avoid rushing the process of strategic review, allowing for proper consultation amongst stakeholders on the government side.

25. Donors should also establish or refine mechanisms for donor-donor liaison. The partner government will be wary of donors "ganging up" in the sector, but a transparent mechanism, such as a donor sector working group, should help donors exchange information and develop a common stance towards the sector programme. The role of the lead donor (likely to be the chair of the donor group) should be agreed, and donors should seek ways from the outset to minimise the demands on government officials' time that they make separately.

#### **Box 4. Uganda's Justice, Law and Order Sector Programme**

The Justice, Law and Order Sector (JLOS) Programme in Uganda involves an unusually large number of government bodies, including the Ministry of Justice, the Ministry of Internal Affairs, the Judiciary, the Judicial Services Commission, the Law Reform Commission, the Directorate of Public Prosecutions, the Prison Service, the Police, the Ministry of Gender, Labour and Social Development (Probation Service), and the Ministry of Local Government (Local Council Courts). The Ministry of Finance, Planning and Economic Development also plays a key role, including treating JLOS as a sector with a single ceiling within the MTEF.

Crucially, the JLOS programme was initiated by GOU officials: this was both a reaction to and an imitation of SWAps in other sectors. Most of the components of the JLOS were not ring-fenced within the Poverty Action Fund, and so were subject to a diminishing share of expenditure as the headline poverty sectors grew; they also bore the brunt of in-year budget cuts from which the PAF budget was exempt. Development of a Sector Programme has helped to draw attention to the fact that justice and security have an indispensable part to play in providing the framework for equitable economic and social development, and deserve more attention and international support than they have tended to receive. A common sector investment plan (SIP) has been drawn up, and a joint Budget Framework Paper is prepared each year. The holistic approach allows a focus on connections in the system (e.g. many agencies are involved in reducing case backlogs).

A number of donors have joined in a basket fund mechanism that is a compromise between pure budget support and donor desires for tracking and audit of their funds. Some donors with a longer track record of support to the sector have chosen to continue project-focused support, but the projects are also part of the coherent sector investment plan.

#### ***Sector Policies and Strategies***

26. A coherent and consistently applied sector policy is at the heart of any successful sector programme. This must derive from and be consistent with, the overall strategic objectives of government and the overall strategic framework (for example, the PRSP). It must also be linked to a robust medium term projection of resources and their planned use – ideally presented as a formal medium term expenditure framework for the sector, endorsed at the political level.

27. The sector policy document will not be a rigid blueprint. It will establish basic principles, objectives and strategies for the sector. It will acknowledge that detailed policies and resource allocations will continue to evolve, and there should be a defined process and schedule for regularly updating the document and rolling it forward. It will not resolve every contentious issue, but the development of a single, sound sectoral strategy can help focus the recipient government and donors on achieving collective results, and a transparent process for its review and revision can help to establish a cycle that strikes a balance between planning and implementation.

28. A good policy document will:

- be authored by the government, not the donors, and fit clearly into the government's policy and planning system; it will be endorsed at a high political level;
- explicitly address the role of government in the sector – distinguishing regulatory functions from service delivery and noting the complementary roles to be played by communities, NGOs and the private sector;
- define the allocation of responsibilities across government – (a) between the main sector ministry, other line ministries that may be involved, and the central planning and finance ministries; (b) between the different tiers of central and local government – and focus on implementation capacity constraints and identify the principal requirements for institutional reform and capacity building;
- focus on the whole sector's resource requirements, including recurrent as well as capital expenditures, and demonstrating the sustainability of proposed public expenditures; it will address the effectiveness of existing policies and expenditures, and not put forward just a subset ("a shopping list") of additional activities for donor finance;
- have a strong results orientation, providing the essential framework for subsequent monitoring (see performance monitoring section below) with a focus on poverty reduction and attention also to key cross-cutting issues (including, gender equality, the environment, HIV/AIDS and the strengthening of public institutions and their accountability);
- set out clear mechanisms for monitoring, review and roll-over and identify the principal areas where further research and analysis may be required.

29. Donors can assist the process of developing sector policy and strategy by allowing time and space for discussion among government stakeholders. They should be prepared to support contributory studies commissioned and managed by the government, as well as sharing their own analytical work. They should not demand perfection: the best is the enemy of the good, and it is unrealistic (and inconsistent with the ownership principle) to expect agreement about every aspect of policy. For a sector programme to be viable, the policy document needs to allow broad agreement on strategic priorities and objectives. Donors should seek to establish that the document is a living one, with an agreed timetable and process for its review and update. Donor-donor discussions of the issues and the preparation of joint responses to government drafts can be useful in developing consensus amongst donors, disciplining them to focus on the essentials and shielding government from having to react to a multiplicity of similar responses.

### ***Sector Expenditure Frameworks***

30. The expenditure framework is what makes a sector programme operational. It ensures that proposals have been properly costed, and prioritised against a realistic estimate of resources available. It thus ensures sustainability, and it disciplines the donors to focus on government priorities.

31. A medium term expenditure framework is a system for planning actions and programming spending over a 3 to 5 year period. It reconciles systematically the achievement of strategic objectives with respect for aggregate resource limits. In some countries the whole budget process is managed through an "MTEF" system; in others it is limited to specific sectors and acts only as a broad guide to spending decisions. A sectoral medium term expenditure framework must have four minimum characteristics:

- firstly, it must be **comprehensive** in the sense of including all sources of financing to the sector and all proposed spending;
- secondly, it must be **realistic** so that projections of finance are not over-estimated and projections of costs are not under-estimated;
- thirdly, it must be **clear** about how resources will be utilised and what are the desired **results** to be monitored, meaning that it must derive from a clear action plan;
- finally, and most importantly, it must be **endorsed at senior political level**.

32. Only rarely will a new sector programme be able to draw on a strong context of medium term public expenditure planning. More often, improved costing of existing public expenditures will be a starting point (PERs may have a useful role) together with costing of proposed targets, such as those implied by MDGs. Again this is iterative (see Box 5): the affordability or otherwise of desirable targets will have implications for the quality/cost structure to be adopted. An important task will be to get a comprehensive view of sector expenditures, taking account of donor expenditures that may be off-budget, and the contributions made by clients, NGOs and the private sector. On the other hand, it is not helpful to attempt too elaborate an expenditure framework at the outset. The key thing is to establish the principle of resource constrained priorities, and of iterative review and roll-over of the expenditure programme linked to the annual budget cycle. The importance of political endorsement cannot be stressed too strongly. Donors must show discipline in applying their support not merely to objectives that are broadly consistent with those set out in the sector plan, but specifically to the prioritised expenditures it sets out. (See further discussion of funding and programming below.)

#### **Box 5. An Emerging Education Sector MTEF in Vietnam**

The Government of Vietnam has initiated a programme to pilot "bottom up" Medium-Term Expenditure Frameworks (MTEFs) in four sectors and four provinces.

The education sector is the first of these. Work to date is more an analytical tool than a platform for policy dialogue between the Ministry of Education and Training, the Ministry of Finance and the Ministry of Planning and Investment. Nevertheless, powerful insights are emerging from analysis of the existing cost structure of the sector and the interaction between existing policies and demographic trends. This strongly vindicates the forward-looking integrated approach to recurrent and capital budget planning. It is expected that the education MTEF work will become increasingly integrated with investment planning, State Budget formulation and political dialogue and that similar approaches will be taken in other sectors. The sector MTEF will provide an essential platform for sector budget support which is being considered by a number of donors.

33. The effectiveness of a sector MTEF depends on the wider environment of public expenditure management. A sector ministry will not have the incentive to take the MTEF seriously unless there is both discipline and predictability in the formulation of government budgets and in the release of budgeted funds. It is crucial that donors do not undermine budgetary discipline by making funds available to sector ministries outside of the regular resource allocation procedures presided over by the Ministry of Finance. Ideally, all government-to-government aid funds should be fully incorporated in the partner government's budget. If it is not possible for funds to be fully "on-budget" in this way, they should nevertheless be "on-plan" – i.e. their availability should be notified in advance so that they can be fully taken into account when the government decides the overall pattern of resource allocation for the sector, and donors should not seek to apply them to activities that are not prioritised by the government. Donors should also support the

integrity of the sector MTEF by providing full information on their disbursements, using the same broad categories as in the budget classification.<sup>3</sup>

### *A Sector Performance Monitoring System*

34. An agreed approach to performance monitoring is an essential part of a sector programme. It provides the means for government and donors with the means to judge whether a sector policy is reaching its objectives and its strategies are effective.

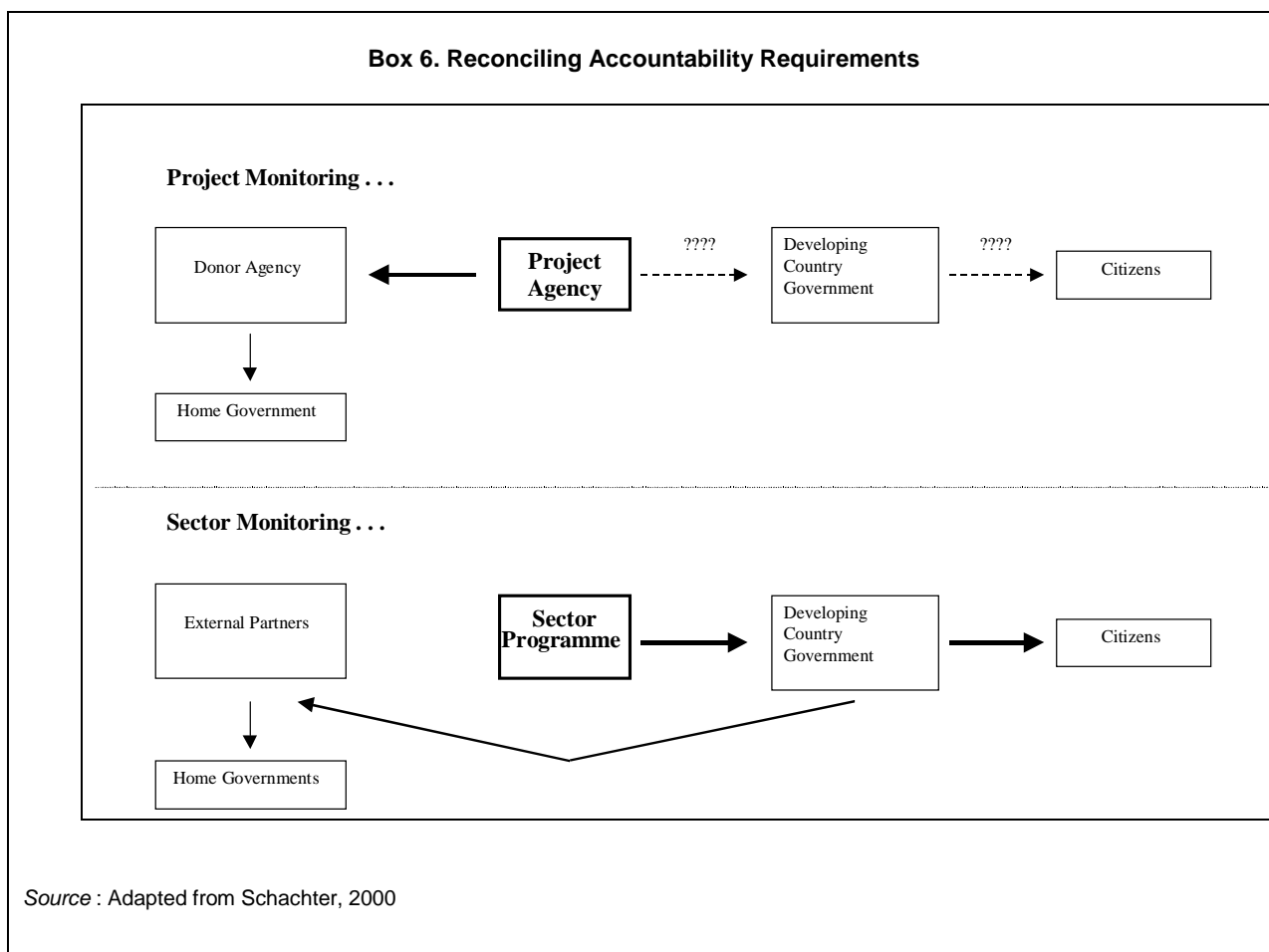
35. Sector programmes should be monitored in a way that reinforces the accountability of a developing country government to its own citizens. Donor partners reinforce, and to the extent possible rely on, the government's own systems of monitoring and accountability (as illustrated in Box 6). This is in line with existing DAC Donor practice guidelines on Reporting and Monitoring:

36. Donors should work with partners to rely and build on partner countries' reporting & monitoring systems.

- Where partner systems do not provide appropriate information, donors should work with partner countries to improve them according to a nationally led and clearly defined national strategy for developing and strengthening these systems.
- Donors should avoid creating parallel reporting & monitoring systems that undermine the sustainable capacity of partner countries to provide quality information that meets their own requirements.
- Donors co-financing a discrete set of activities — project, sector, or budget support — should work towards agreeing, in consultation with partner countries, common formats, content and frequency for a single periodic report that meets the needs of all partners. The reports should cover all of the activities in the defined area, and meet the information needs of key stakeholders in the country as well as individual donors.
- In addition to alignment with government systems, and co-ordinating among donors, it is important that donors also simplify, whenever possible, their own reporting requirements in order to help alleviate the burden on partner government systems.
- Donors should seek to reduce the number of donor missions and reviews by ensuring that such missions and reviews are rooted in a mutually understood need to facilitate learning and comply with accountability purposes.

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<sup>3</sup> Revision of the budget classification and Chart of Accounts is often an important PEM reform.



37. Planning and monitoring are interdependent. Sector plans have to set out a clear structure of goals and objectives that monitoring can be focused on. The principal objective and targets for a sector programme will naturally be at a high level of aggregation (national averages for key indicators), and will be a small subset of what should be monitored at lower levels of the system. The sector performance monitoring system therefore needs to strike a number of balances:

- between focus on a few high level indicators and the need to support a coherent national monitoring system that is relevant to (and used by) implementers at all levels;
- between long-term targets, and indicators that can be meaningfully measured and therefore targeted at shorter (e.g. annual) intervals;
- between financial monitoring (for fiduciary reasons and to verify inputs) and non-financial indicators of outputs, processes and outcomes;
- between sophistication and practicality.

38. An important part of any monitoring and evaluation system is the process for disseminating and using its findings. The design of a sector monitoring system should go beyond specifying the data to be collected and specify also the timetable and forums for circulating and discussing its outputs at all levels of the sector.

39. Reporting and monitoring is an area where quick wins are possible in donor harmonisation: it is much easier to agree common reporting procedures than common disbursement mechanisms. And an

agreed annual review process reinforces the conception of a Sector Programme as a flexible approach that is continually rolled forward and adapted in the light of experience. Many SPs schedule joint review missions and/or annual review meetings where donors jointly review and discuss sector progress with government.

40. Donors in particular should:

- avoid multiplying the number of key indicators sought; set performance targets and reporting requirements in ways that are sensitive to the country's institutional environment (see Box 7);
- be realistic about time scales for reporting, including financial reporting – especially when decentralisation lengthens the reporting chain;
- minimise their separate review and evaluation missions and routinely share M&E information;
- rethink accountability: support mechanisms that strengthen horizontal accountability and lessen the need for detailed upward accountability to higher levels of government and to donors themselves;
- monitor their own performance in making the partnership more effective.<sup>4</sup>

#### **Box 7. The Implications of Decentralised Budgeting**

Ethiopia and Uganda illustrate the importance of the local government dimension for sector programmes. Although both countries are embarked on serious decentralisation programmes, their very different institutional cultures and approaches also illustrate the importance of moulding SPs, in detail, not just in principle, to the institutional circumstances of the country.

Uganda has funded Local Government services through a series of tightly controlled specific purpose grants which make it easy to identify sector budgets for health, education etc across all tiers of government, and allow donor funds to be tightly earmarked to sectors. Ethiopia, however, has a federal system with unearmarked block grants which give regions and districts more discretion. Strictly, this means that aggregate sector budgets are not known until the individual budgets of 11 regions and several hundred districts are consolidated with the Federal budget.

Donors strongly support decentralisation in both countries, but need to adopt different mechanisms for channelling funds to support local services, so as to reflect and support the two countries' different approaches to decentralisation.

#### ***Sector Coordination Mechanisms***

41. The sector approach requires formal mechanisms for aid coordination at sector level. An effective government-led system of aid coordination is the cornerstone of a sector programme. It is generally possible to address weaknesses in any of the other components of a programme, so long as the coordination system is strong and there is adequate leadership of the sector by government. Conversely, where aid coordination is weak, problems in other areas tend to become intractable.

42. However, a basic principle is that such mechanisms should not substitute for or over-ride the proper structures and responsibilities of the partner government. Thus the national budget should be the principal mechanism for allocating public resources (including aid) and the national Parliament should be

<sup>4</sup> [refer to various indicators of harmonisation and alignment being developed by SPA, DAC and PEFA]

the source of authority for national policies, plans and budgets. Where weak governments and high levels of aid dependency have eroded this principle, a key objective for sector programmes and for other aid coordination arrangements should be that they help to restore appropriate lines of national accountability.

43. Hence, the design of sector coordination mechanisms needs to ensure not only that government is in the leadership role, but more specifically that the sector coordination arrangements are consistent with the structure and responsibilities of the national government. This means, in particular: (a) involvement of, and a clear role for, the Ministry of Finance<sup>5</sup>; (b) respecting the responsibility assignments and lines of accountability defined in the country's system of decentralisation; and (c) when it is practical, connecting the sector coordination mechanisms to the wider framework of coordination and dialogue around the PRS (see Box 8 for an example).

44. It is important not to see things too narrowly in terms of a "steering committee" at the apex of the sector programme. The coordination system is defined more broadly by its documents, forums, and calendar. *Documents* that help to define the coordination system include the sector strategy and expenditure programme, various agreements about the management of the sector programme (e.g. any Memorandums of Understanding or Codes of Conduct, TOR for coordinating committees, any overall manual of procedures, etc), and the agreed set of periodic and annual performance reports. Principal *forums* include, as well as the high level government/donor liaison/steering committee, technical level bodies to facilitate practical work, donor/donor coordination bodies, ad hoc working groups to tackle specific issues, periodic (probably annual) joint review missions and a wider consultative forum (again probably annual) that allows wider participation by a range of stakeholders. There should also be a supporting secretariat. The secretariat should not be a parallel structure outside government, but responsibilities for servicing the coordinating bodies need to be clearly allocated and adequately resourced. An agreed *calendar* links forums to periodic documents and provides rhythm and deadlines for the work of the partnership. The calendar should include (a) an annual programme, timed to fit with government's fiscal calendar, for meetings, reports, and reviews; (b) a multi-year timetable for roll-over of the main sector programme document (linked to government's planning calendar); and (c) a work programme for related thematic research and reviews.

45. A designated lead donor, and the sub-set of donors represented on the high-level coordination committee, can have an important role in simplifying links between government and donors. It is important that the lead donor is trusted both by the government and the donor group and is not perceived to be taking advantage of its privileged access to government to further its own agency interests.

46. Related good practices for donors are elaborated in the sections on harmonisation and consultation mechanisms below.

#### **Box 8. Aligning Sector and PRS Coordination Frameworks in Ethiopia**

Ethiopia has a number of long standing sector programmes (education, health, roads). These developed a durable framework of strategy documents/expenditure programmes, joint consultative mechanisms, and a system for annual monitoring and review. Following the adoption of a Poverty Reduction Strategy – the Sustainable Development and Poverty Reduction Programme (SDPRP), Government and donors are working together to develop a consultative framework that will facilitate general budget support for the SDPRP. This will involve integrating the sector programme institutions into the overall framework by (a) ensuring that the indicators and targets for sector programmes are consistent with, and as far as possible drawn from, the policy matrix of the SDPRP, (b) adjusting the sector programmes' annual timetables to feed into a timetable for budget support consultations that is linked to the Ethiopia fiscal year and planning calendar, and (c) addressing systemic issues, such as financial management and procurement, at national level, rather than within individual sector programmes.

<sup>5</sup> And the Ministry of Planning where this is separate.



### ***Sector Funding and Programming Mechanisms***

47. A comprehensive sector programme will embrace all public sector funding of the sector (including that which is aid-funded). It will set public expenditures in the context of other resources going to the sector, for example through private sector activities and community contributions, but a central concern will be to ensure that agreed government responsibilities are funded and implemented. These will be financed from a variety of sources: government itself will usually be the main financier, and will dominate the funding of recurrent expenditures; aid may be provided in a variety of ways – through direct budget support or sector budget support; through pooled funds earmarked to the sector; and through individual projects. Technical assistance as well as financial support is relevant.

48. The main obligations on donors supporting a sector programme are, first, to ensure that their support is focused on the priorities identified by the SP and, second, to deliver their aid efficiently and in ways that enhance government ownership and the development of government capacity. The SPA has adopted the so-called Addis Ababa principle:

*All donor assistance should be delivered through government systems unless there are compelling reasons to the contrary; where this is not possible, any alternative mechanisms or safeguards must be time-limited and develop and build, rather than undermine or bypass government systems. This applies to budget processes and procurement systems among others.*

49. PEFA has noted:

*The requirement that national authorities use different procedures for the management of aid funds diverts capacity away from managing the national systems. This is compounded when different donors have different requirements. Conversely, the use of national systems by donors can help to focus effort on strengthening, and complying with, the national procedures. The use of national procedures need not mean that donor funds cannot be kept separate from government funds, but that the banking, authorisation, accounting, disbursement and reporting arrangements are the same as those used for government funds.*

50. Budget support, where funds are entirely allocated using the government's own budgeting and disbursement procedures, is the modality that imposes least costs on the recipient, but it is not always an appropriate or available option for all donors. However, all aid instruments can be reviewed in terms of their impact on government systems. Several different factors need to be considered. *Earmarking* of funds reduces budgetary discretion and may make it difficult for government to achieve the desired balance in actual funding of the sector. The underlying principle of a sector programme is to achieve consensus on an overall level and pattern of funding for the sector, as an alternative to ring-fencing the activities that each individual donor has financed. The costs of earmarking are magnified if they are linked to unrealistic programming procedures: for example, attempts to programme donor funds separately and within the annual budget period frequently result in under-spending because of the time lost while programming takes place and before expenditures can be incurred. The *disbursement channel* may follow standard government procedures, bypass government accounts altogether, or use a non-standard disbursement through government (as when the sector ministry, rather than the finance ministry, is entrusted with donor funds). In general, donors should work with and through the finance ministry channels of government, even in cases where they require their funds to be segregated. Ability to utilise aid efficiently is also affected by the imposition of special *procurement* procedures. *Reporting and accounting requirements* are a further dimension in which donors frequently impose special requirements on governments. Again, the costs of such additional requirements, especially but not only when multiplied across a variety of donors, have frequently been underestimated.

51. The principle of pooling funds so as to minimise the direct and indirect costs imposed on the recipient is a valid one, but any such arrangements need to be designed with care. Donors should work with governments to strengthen their financial control, accounting and procurement systems to the point where they meet appropriate fiduciary standards. In the meantime they should take care that interim "hybrid" systems – e.g. where finance ministry disbursement channels are used, but with special additional accounting, reporting and procurement conditions – do not impose such additional efforts by the government that they set back the more important task of strengthening underlying government systems.

52. Project finance will continue to be the modality used by a number of donors supporting many Sector Programmes. The following rules of good practice should be observed:

- Any project must demonstrably support the programmes and priorities of the SP. The Government should not seek or accept funds or projects that are outside the scope of the SP or inconsistent with its priorities.
- Project documentation should include an explanation why the project approach (as opposed to budget support) is necessary or appropriate.
- Project costs should always be broken down according to the standard government classification (which should also be used in the main Sector \Programme documents).
- Government procurement procedures should be followed (if not, the project document should explain why, and explain how the additional administrative costs of following donor procedures will be mitigated).
- A multi-year projection (or preferably a firm commitment) of funds should be provided.
- The project documents should explain how budget and expenditure reports on the project will promptly reach government.
- The agreed joint sector review mechanisms should be used as the principal means of monitoring and supervision.

53. Even if adequate funds are available "in principle", from government and donors, to meet the total costs of a Sector Programme, this does not guarantee its smooth implementation. Funds have to be clearly allocated and budgeted to specific activities before any element of the SP can be implemented. Therefore, a crucial concept is **programming** – that is: *linking projects and activities clearly to assured sources of funds, and to detailed work programmes based on agreed schedules for implementation*. In practice, even when the resource parameters of a Sector Programme are broadly realistic, planned activities are always likely to exceed available budgets, and so the process of allocating funds also requires the further prioritisation of planned activities. The whole process is made much more complex by the need to combine funding from many different sources.

54. A traditional Public Investment Programme (PIP), focusing only on incremental capital expenditures, could be financed by donors serially "picking up the bill" for the different "shopping list" projects it presented. Sector Programmes attempt to overcome the typical lack of coherence and sustainability of a traditional PIP, but to do so successfully they require a much more sophisticated programming of funds. A comprehensive Sector Programme includes some one-off (capital) items, but also many recurrent costs that require continuing funding; its components are interdependent (e.g. there is no point in paying to construct schools unless the costs of training teachers to staff them are also met); the programme is implemented by many different agencies at different levels of government, each requiring

appropriate budget authorisation. Moreover, funding decisions for different sectors are interdependent: this applies not only to governments' own funds but also to their deployment of increasing levels of general budget support funding from donors. This means that planning and programming of each SP has to be part of an overall system for allocating resources across sectors. This in turn has implications for sector coordination arrangements, which need to be linked to the national systems for managing budget support and overall resource allocations (cf. Box 8). Donors should therefore support the close involvement in the SP of the Ministry of Finance and the articulation of sector programmes into a national MTEF system, ensuring a consistent medium term approach to planning and budgeting across all SPs. Not least, they should themselves recognise the importance of making their own aid commitments more predictable and reliable, with specific allocations fully programmed before the commencement of the partner country's fiscal year [cross-reference to predictability paper/section].

55. A final issue in this section concerns the planning and programming of technical assistance. TA in support of SPs should be provided on the following basis:<sup>6</sup>

- The use of TA should be driven by Government priorities and should, as far as possible, be consistent with the government's absorption capacity;
- Technical assistants should report in the first instance to government managers;
- They should work primarily to strengthen government institutional capacity by focusing on skills transfer to civil servants in priority government functions;
- TA may also perform "gap-filling" or systems development functions (where local expertise is insufficient, or for direct design of systems e.g. computerised accounting or MIS to ensure the smooth running of operations during the capacity building phase), but such roles should always be clearly specified and time-bound;
- TA should not be restricted to supporting individual funding agency programmes and should in general be moved out of traditional project management functions;
- Local and regional consultancy expertise should be utilised wherever possible and explicit efforts should be made to develop local consulting capabilities.
- The possibility of pooling TA should be explored, so that technical resources are made available through a unified set of procedures, under joint management arrangements, with the government taking the lead.

### ***Processes for Harmonisation and Streamlining***

56. Relying on common arrangements for reporting, budgeting, accounting and procurement systems is a key aspect of any sector programme and in many cases the one on which partner governments place the most emphasis. In practice, harmonisation often proves problematic, demanding of government time and costly in terms of technical assistance and preparatory costs. Usually this is because "ideal solutions" have been sought from the outset, which bring together all aspects of harmonisation into one unified process, typically structured around the establishment of a single common pool fund for the financing of the Programme. Experience suggests that this is not the most effective way to achieve progress towards harmonisation. Rather it is important to ask:

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<sup>6</sup> This section is drawn from the EC guidelines.

- Which aspects of harmonisation are likely to bring the greatest benefits?
- How will the costs of introducing different aspects of harmonisation compare?
- In the light of costs and benefits, what is the most appropriate sequencing of harmonisation processes?

57. The following pointers on harmonisation are suggested by SP experience to date:

- The formulation of an agreed, government-led sector strategy and programme is the foundation for harmonisation. Making sure that all donor support is "on-plan" is a vital precursor to moving donor funds on budget and/or harmonising systems and procedures among donors.
- Similarly, the establishment of a formal coordination framework for the sector can create a powerful collective pressure towards harmonisation.
- Reporting and monitoring is an area for "quick wins" in harmonisation (see section on the performance monitoring component of a SP); adoption of common formats, calendar and process for monitoring a SP can make early transaction costs savings for government while consolidating the focus of the SP on agreed results.
- Strengthening government systems, so as to harmonise by using them, remains the preferred approach. Most often it is broadly fiduciary aspects of budgeting, accounting, financial control and procurement systems that require attention, and these usually transcend sectors. The donor community has made substantial progress in developing standard criteria for fiduciary assessments. SP donors should aim as far as possible to draw on common fiduciary analyses and work with governments to develop and support agreed strategies for strengthening of government systems. Donors seeking to support the strengthening of different aspects of government management systems should operate within the framework of an agreed overall strategy which takes account of appropriate sequencing and the government's capacity to absorb and consolidate an agenda of reforms.
- Donors can also work to limit the transaction costs imposed by the variety of donor systems confronting government. Each donor should consider carefully the range of sectors and sub-sectors in which it seeks a direct involvement. More use could be made of co-financing and silent partnerships.
- Pooled funding of the whole sector or sub-components can also play a useful role in coordinating donors and reducing transaction costs for the government but, as noted earlier, careful design is required to ensure that benefits exceed the costs. More progress is made when the pooling group is similar in outlook and approach (a coalition of the flexible) than when attempting to cater to the constraints of the full range of donors. From the government's point of view, even a modest element of more flexible funding may be especially valuable in mitigating the inflexibility and lack of discretion that is often implicit in project modalities.
- In the spirit of mutual accountability, SP donors should transparently monitor their own progress in harmonisation and alignment. [cross-refer to the indicators of harmonisation and alignment being developed by SPA and DAC]

### ***Inclusive Consultation Mechanisms***

58. Sector Programmes have sometimes been criticised for being too focused on government's role as a service provider and taking insufficient account of the interests of other stakeholders. Most obviously, the interests of the clients for services should be central, but it is also important to take account of, and consult with, other providers in the sector. This may include NGOs, community based organisations and the private sector. In practice there are two dangers: first, preoccupation with managing the relationship between government and its donor partners may lead to neglect of other stakeholders; secondly, consultation may be thought of too narrowly in terms of participation in various formal sector/partnership bodies. Such participation is not costless, and it is not always the most effective way of engaging clients and other stakeholders or representing their interests. There is a variety of complementary ways to consult the interests of such stakeholders, including surveys and tracking studies, focus groups and research, as well as representation in the formal bodies of the SP.

59. Inclusive consultation should be a consideration at all stages of the SP cycle: not only during its initially planning and policy stage, but also as part of subsequent monitoring, evaluation, and accountability. As the EC guidelines have noted:

*The consultation mechanism might extend to formal participation in decision-making on sector policy and spending (through membership of sector working groups, for example) Or it might be limited to survey work in order to improve understanding of the sector and in particular of the supply and demand for services. The key point – stressed by the EC and other agencies — is that the concerns of the recipients of government services and other alternative providers of services should be understood and factored into the design of sector policy and strategy [and hence also into performance monitoring]. Careful attention to gender issues is essential if these systems are to work well.*

60. Examples of roles and consultation channels for different groups of stakeholder include:

- for beneficiaries: monitoring and advisory role provided as beneficiaries of services within sector/ user groups, including local committees, PTAs etc; inputs into client satisfaction surveys and focus groups; participation in provincial sub-committees of sector policy consultation processes; representation in national sector policy forum.
- for civil society groups, research institutions, possibly NGOs and private sector: provision of independent policy advice; supervisory monitoring role over government/ independent watchdog; national and sector policy fora; independent publications and media reports.

61. An inclusive approach to consultation and involvement of a wide range of national stakeholders has significant implications for the development of national, not just government, capacities, and will be facilitated by general transparency in the operation of the sector programme and its governance arrangements.