Sector Wide Approach – history and some theoretical considerations.

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1 Definition of a Sector Investment Programme

Sector Investment Programmes (SIP) were in particular conceived as an approach to overcome weaknesses in the traditional project approach identified by donors and recipient governments in Africa during the 1990's. Some common identified weaknesses were:

- Despite successes of individual projects the performance at the sector level was often weak;
- Projects and reform programmes that are driven by donor agendas rather than national priorities;
- The fungability of much aid, which ends up supporting activities other than those donors intended;
- Weak public expenditure management, in particular in budgeting for the recurrent cost implications of donor funded projects; and
- Difficulties of the governments to manage the aid and the strain on government's financial and human resources resulting from a rapid increase in number of project implementation units, dependence on technical assistance and differing donor implementation and accounting procedures.

In particular the World Bank promoted the concept of SIP. The World Bank identified six essential features that define a genuine SIP (Harold, 1995):

- It is "sector-wide" in scope and covers both current and capital expenditures;
- It is based on a clear sector strategy and policy framework;
- Local stakeholders are fully in charge;
- All main donors sign on to the approach and participate in its financing;
- Implementation arrangements should to the extent possible be common for all donors; and
- Local capacity, rather than long-term technical assistance, should be relied upon as much as possible.

Basically a SIP attempts to bring all donor support to a sector within a common management framework around a government expenditure programme.

Two main preconditions for SIP were identified:

- Macroeconomic conditions must be broadly stable to provide a foundation for a reliable medium term public expenditure allocation to the sector;

- The availability of government capacity to design and implement a SIP. Capacity in this context includes willingness and ability of the government to take a leadership role in the process, adequate capacity in project management and reasonably well developed and articulated strategies for the sector.

2 Definition of a Sector Wide Approach

The terminology has gradually been changed following criticism of the original SIP concept (see further below in section 3). This resulted in development of the term Sector Wide Approach (SWAP), which has been used by bilateral and UN agencies such as WHO. Cassels (Cassels, 1997) defined, based on health sector experience, a sector wide approach to health development as:

- A sustained partnership, led by national authorities, involving different arms of government, groups in civil society and one or more donor agencies;

- With the goal of achieving improvements in people's health and contributing to national human development objectives;

- In the context of a coherent sector, defined by an appropriate institutional structure and national financing programme; and

- Through a collaborative programme of work focussing on:
  - Development of sectoral policies and strategies;
  - Preparation of medium term projections of resource availability and sector financing and spending plans;
  - Establishment of management systems and institutional reform and capacity building; and
  - Structures and processes to be established for negotiating strategic and management issues and reviewing sectoral performance against jointly agreed milestones and targets.

While there are similarities between the SIP and SWAP, in particular the focus on public expenditure and sectoral policies and strategies, there are also differences: The original model (SIP as defined by Harold) saw the end point as comprising a rather rigid outline of a specific aid instrument[1]. Experience shows that this model suffers from limited applicability in the real world due to the stringent set of pre-conditions that are required. Cassels outlines a more flexible approach based around stakeholders forming a common vision – with no particular blueprint for implementation arrangements.

[1] Among others the focus on "investment" has been regarded as misleading given that the approach aims to support the whole of the public expenditure programme in a sector, and not just provide investment resources.

3 Some Considerations

3.1 Definition of the sector

Sector approaches are typically tried in high-aid dependent countries, with the absolute majority being in the Sub-Saharan Africa. The dominant sectors are health and education as well as road/transport. Only few sector approaches are tried in agriculture.

Both the SIP and SWAP concepts focus at public expenditure programmes. It is generally recognised in SIP/SWAP formulation that the appropriate definition of a sector in a particular context depends on what is the most appropriate planning and expenditure management units for the government budget. In general therefore a sector should coincide with a ministerial programme. In the absence of this, potential difficult problems of inter-ministerial co-ordination will be faced. In general, the more ministries and other institutions need to be co-ordinated, and the wider the range of issues that need to be addressed by the sector strategy, the more difficult it will be to manage the process.

There is in the literature a consensus that cross-cutting objectives (such as poverty alleviation, environmental protection, and the private sector or food security) should not be promoted through separate sector programmes.

It is widely acknowledged that the framework of SIP/SWAP works better in some sectors than others. Most progress seems to have been made in health while agriculture/natural resources seems a problematic sector for the classic sector approach. Firstly, the natural resource sector typically covers activities of numerous ministries and agencies within government. Secondly, this sector is dominated by non-governmental stakeholders (peasants, commercial farmers, private sector traders etc.), and in most countries it is the single largest private sector. Some of the goals of a classic SIP – developing a single sector-wide negotiated framework for resource planning for example, are rarely applicable under these conditions.

A note on fungability[2] will be appropriate in this context. One of the weaknesses identified in the traditional project approach was fungability. The sector approach should aim to reduce this weakness. It could therefore been argued that it would not in general be appropriate to devise for example an education sector programme that covered only primary and secondary education. This would entail a risk of intersectoral fungability if the programme led to increased government expenditure to tertiary education, typically not being the priority of the donor. This example shows that fungability will not be automatically removed through application of a sector approach. However, as fungability is linked to the question of ownership and objectives, it is only a problem if the objectives of donors and recipients differ. A method to overcome the problem of intersectoral fungability could be that the government must commit to some minimum level of expenditure to the sector – or at least to an expenditure formula that defines that minimum, for instance as a share of total government expenditure.

[2] That the effect of development aid earmarked to specific projects or sectors is to release recipient government resources to fund the government's priorities at the margin (i.e. aid, regardless of the specific project it is tied to, therefore functions as an increment to total government sources).

3.2 Key issues for aid effectiveness

One of the key reasons for governments and donors to pursue the application of SIP/SWAP is to raise the effectiveness of aid. These concepts are by some seen as nothing new but as being best practise. Below follows a brief discussion of the key features of SIPs in view of aid effectiveness.

3.2.1 Policy environment

As regards creation of a conducive policy environment, the chances of success is probably highest where development of a consensus has been made on major policy issues between senior local officials and donors. This would usually be the result of many years of joint work and discussion – the sector programme preparation process will usually not be able to create it itself. One of the reasons for failures to make significant progress in agricultural SIPs has been the absence of a consensus on the role of the state in the sector – for instance in the provision of agricultural extension.

3.2.2 Ownership

In relation to ownership there has been a failure to distinguish between two distinct objectives from stakeholder consultation: 1) Winning over powerful interest whose support is needed for the programme to work[3] and 2) Ensuring representation of the interest of those, such as the poor, who may otherwise be marginalised in decision making.

The notion in the SIP of the local stakeholders being fully in charge is in practise very complicated and related to the power structure both within the government and between the government and e.g. the private sector. Even in relatively simple institutional fields such as a single ministry, sector programmes will empower some actors (typically those in charge of overall planning functions – and those with an interest in reform and change) and dis-empower others, such as staff managing donor funded projects. Even where leadership is strong in a sector approach, the stability of the SIP might be in danger in case of shift in/transfer of key government officials, if implementation of the sector approach is focussed only on a small group of key individuals.

Sector strategies also need to identify and take account of the role played by private investment and service providers, and to include adequate consultation and information exchange mechanisms, as part of the definition of the role of the state in the sector.

In practise a SIP will often also be a vehicle for radical institutional reforms involving major changes in the role of the state. This has led to scepticism expressed by both donors and recipient governments about whether SIPs can in fact achieve their objectives. This scepticism is reinforced by what appears to be a mismatch between the objectives of national ownership which are central to the SIP concept, and what is perceived as the active promotion of this approach by the World Bank but also other donors. The approach may be unrealistic in the context of the often extreme aid dependence of many African countries.

3.2.3 Common implementation arrangements

Concern has been raised that common implementation arrangements may end up in practise as being World Bank arrangements and scepticism that common implementation arrangements will in

[3] E.g. if there is a need for substantial downsising and rationalisation of agricultural ministry activities, this has obviously been seen as a threat to civil servants implementing the programme – a fact that could easily lead to poor management of reforms.

fact lead to cost savings. This has led to the suggestion that where possible, common implementation should be subject to cost-benefit analysis of some form, rather than working on an a priori assumption that common arrangements will be desirable.

The principle implies the ultimate objective of establishing a common pool or basket of funding and the phasing out of separate projects other than perhaps as accounting devises. In this respect it must be taken into account that there are significant legal and administrative constraints on the capacity of many donors to participate in common arrangements in the short term.

3.2.4 Technical Assistance

In relation to technical assistance, it might be a more appropriate option than suggested in the SIP model to put an emphasis on improving the management framework for technical assistance, rather than necessarily seeking to eliminate all such support.

The experience of heavy reliance on expatriate personnel in what are effectively management positions may have been a prerequisite in the short term e.g. for establishing common implementation arrangements, especially in the field of financial control but also for support to policy/strategy development. Two preconditions for minimising technical assistance, which are typically not fulfilled are that 1) sufficient incentives exist to attract, retain and motivate high quality staff within government, and that 2) a pool of such staff exists locally. This put emphasis on effective civil service reforms as an assumption for effective sector programmes in their classic forms (see further below).

3.2.5 SIP preconditions

As regards the preconditions the typical case for most countries and most sectors is that these preconditions are only partly fulfilled. The question arises at what stage the preconditions should be fulfilled: At the stage of starting to prepare a SIP or at the stage of starting implementation ? The answer will depend on the degree of commitments from both government and the donors towards establishing a SIP that hold out some prospects of success. In this respect it should also be taken into account that the experience is that it takes several years to prepare such a programme.
That the success of a SIP in improving sector performance requires actions at a wider level than the sector is in particular illustrated in relation to civil service pay and incentives that are critical for sustainable capacity building. Experience has shown that there have been unrealistic assumptions or overestimation of the management capacity of the recipient governments. The processes of SIP preparation that have been advocated have often tended to increase, rather than reduce, the demands on government management and planning capacity.

A special case exist where e.g. the macroeconomic conditions deteriorate after start of implementation or other assumptions suddenly are not fulfilled anymore. There should be a credible link between performance – in terms of meeting expenditure commitments, institutional and policy reform, and adequate accounting – and the level of aid provided. This requires that there should be sufficient flexibility so that disbursements can be increased or reduced, rather than all support being switched on or off.

4 The role of Medium Term Expenditure Frameworks in SIP/SWAPs

The core of the SIP/SWAP concept is a public expenditure programme for the sector. For the public expenditure programme to be effective it requires that allocations to the sector be predicted and secured in the medium term. Concerns have typically been expressed about the long term financial sustainability of the role envisaged for the state in SIPs. This, paired with the necessity to take into account fiscal developments during implementation suggest that greater emphasis should be placed on defining the Medium Term Expenditure Frameworks (MTEF) during SIP preparation.

MTEF has now become a standard item in the World Bank's public expenditure management toolkit[4] and are receiving renewed attention in the context of formulation of PRSPs, in which the MTEF can be a vehicle for incorporating them into public expenditure programmes within a coherent macroeconomic, fiscal and sectoral framework.

However, the future use of MTEF will depend on its effectiveness as a public expenditure management tool. A preliminary assessment (Houerou, 2002) has been made of the impact of MTEFs in Africa. In relation to fiscal discipline the data provide no support for a link between the MTEF and reduced fiscal deficits in a pre- and post-MTEF comparison for the four most developed MTEFs in Africa. The cases do provide some limited support for the hypothesis that MTEFs are associated with reallocations of resources to government priorities. The reallocation, however, is partial, and not associated with the promised "whole of government" reallocations or even reallocations to all priority sectors - a much narrower scope for the MTEF in practise than envisioned. With respect to budgetary predictability there is no support for the assumption that MTEFs are associated with greater discipline and less deviation. In summary, the limited quantitative evidence shows, thus far, that MTEFs are not yet unambiguously associated with their objectives.

5 Concluding remarks

The SIP as a framework has suffered at times from the perception that it was a specific World Bank product. The experience drawn on was predominantly African. A move to sector approaches for development co-operation was also common in other parts of the world, but reflecting different starting points and experience.

The record with SIPs has been disappointing. Difficulties have increasingly been recognised and as a result the initial expectation of a rapid move to the full sector investment programme model has become more modest. The SIP model is now seen more realistically as a long-term ideal, if not overtaken by a sector wide approach. It is generally recognised that in most countries and most sectors in Africa, the conditions for an effective sector programme do not yet exist.

The effective use of aid also requires greater success in capacity building within governments than has to date been achieved in Africa. In the absence of progress in these areas, the conclusion is however not that sector approaches may not have a role in improving aid effectiveness. Rather the conclusion is that there are in many countries probably only limited opportunities for effective delivery of financial aid.

The experience is that a blueprint SWAP does not exists and that a high degree of flexibility in design is required. A key aspect, which is often emphasised, is the need to look at SWAP in the

[4] Stages of a MTEF are: Development of macroeconomic/fiscal frameworks; development of sectoral programmes; development of sectoral expenditure frameworks; definition of sector resource allocations; preparation of sectoral budgets and final political approval.

specific institutional context and not regard it as a blueprint for development based on one specific definition.

The SWAP concept does not seem unambiguously to be the best concept for the agricultural sector. The role of the government in agriculture is disputed, but would certainly include policy making and establishing an appropriate regulatory framework. In some countries the role of government also includes extensive service delivery as well as provision of subsidised inputs. Establishment of the role of the government versus the private sector becomes particularly important in design and consequent implementation of agricultural development assistance. As the most important roles of government in supporting agriculture are not about public expenditure – but on structure and regulation of agricultural input and output markets, price policies, land reform, interest rates etc., the application of a SWAP might not be very effective.

Considering that the agricultural sector basically consists of (millions of) smallholder farmers, and that government ministries in general seems to come to play an important role in implementation of sector programmes, a number of well co-ordinated projects to support the private agricultural sector could as well be the best approach to follow. A particular problem in this context is to escape that government bureaucrats get the upper hand on investment decisions in the private sector.

Considering that SWAPs seem to be concentrated in Africa, that only a minor number of SWAPs are in the agricultural sector and that there are specific problems associated with agricultural SWAPs, it could be asked if it is wise to rigorously apply sector approaches on all continents and within all sectors ? The concentration of SWAP efforts in highly aid dependent countries can in addition be contradictory to the fundamental principle of national ownership – especially where donor driven approaches in practise dominate in high aid dependent countries.

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