Sida

MAY 2007

Issues paper

Sector Engagement in Programme Based Approaches

Content

Published by Sida 2007

Department for Democracy and Social Development

Printed by Edita Communication, 2007

Art. no.: SIDA37316en

This publication can be downloaded/ordered from www.sida.se/publications

Sector Engagement in Programme Based Approaches
– Issues and Provisional Conclusions

This paper is the result of an ongoing consultative process between a task team at Sida Headquarters and staff in the field, including intensive discussions at a regional seminar in Kigali, Rwanda in November 2006. Participants at the seminar were field staff (sector specialist and economists) from the Embassies in Rwanda, Tanzania, Mozambique, Uganda and Zambia; and Headquarters staff from DESO, POM and AFRA. The countries participating at the seminar are all countries where Sida provides support to a sector through budget support (either through General Budget Support or Sector Budget Support).

The process has centred around issues that arise in preparation of Sida's decisions to engage in Programme Based Approaches from a sector point of view. The experience stems mainly but not exclusively from the health and education sectors. The assumption in all processes has been that Sida would support national programmes in the sectors through one of the different modalities for budget support that are used by Sida and other donors. Some of the questions that have arisen reflect uncertainties and ambiguities about definitions as well as the merits and demerits of different financing modalities. The task team is now at a point at which some general conclusions can be drawn. These are summarised below. The conclusions do not yet reflect an official Sida position. The issues paper will serve as an input to a future position paper on Programme Based Approaches including budget support.

The paper is mainly about bilateral, government to government support and does not deal with the role of or support to civil society and multilateral organizations although a few comments are made on their relation to the sector.

Purpose

One purpose of this paper is to identify and summarise issues that have arisen within Sida in the application of Programme Based Approach in the sector and where funding is provided through budget support. The paper also provides a synthesis of experiences of how Sida deals with these issues in practice. Another purpose is to draw some conclusions for Sida as an input into Sida's overall policy work in relation to Programme Based Approaches.

Main Conclusions

1) The Programme Based Approach (PBA) opens the door for the donors to the government's decision-making process, to the government's planning cycle and to the government's capacity situation. Thus the starting point and entry point to sector engagement (as well as most other issues) are the government's planning cycle and national budget process. In its acting Sida must respect these processes and contribute to strengthening them (with a focus on poverty alleviation). As expressed during the seminar – all is one – one government, one donor (group) and one consistent planning and execution process.

2) When using PBA (including GBS) it is important to distinguish between the funding flows on the one hand and sector engagement on the other. It is clearly possible to have a strong sector engagement without earmarking funds or providing direct funding to the sector. Since donors´ sector engagement traditionally has been linked to financing of the sector, this is a new "insight" for both partner country actors and donors and requires a change in mindset on both sides as well as a certain level of "maturity". Thus Sida should, when possible, strive for un-earmarked budget support combined with an active involvement in the sector.

3) Active sector engagement must be based on an assessment of the sector strategy including capacity needs. It is also important to make an analysis of Public Financial Management-issues in the sector. To this end Sida has developed a draft model ToR ("Assessing PFM in the context of a Sector Programme") which lists issues to be looked at. Continuous analysis of sector specific problems is necessary for an informed dialogue at macro-level. Sector engagement means to participate in a dialogue about sector issues, to strengthen capacity and to follow up results at the level of the sector.

4) A focus on and analysis of results provides a good entry point and base for dialogue about many of the issues that Sida wants to raise with the partner country e g the perspectives of poor people on development and the rights perspective, capacity development, Public Financial Management etc. Most problems come to the fore through an informed results analysis.

5) In PBA (including GBS) it is paramount for the economists and the sector specialists at the embassy as well as at headquarters to work hand in hand since a mix of different knowledge and capacity is required in these processes. This has not always been the case as the economists traditionally have been responsible for GBS and sector specialists have dealt with sector support programmes.

1. A Clearer Division of Responsibilities

1.1 The Paris Agenda and the Swedish Policy for Global Development (PGD) put new demands on development cooperation. Focus is shifted towards partner countries' own ability to ensure accountability towards their citizens and towards achieving results for poor people. Focus is also shifted towards viewing and accepting the partner countries' planning and budget process as the starting point for all support. All this necessitates a change in mindset among the partners involved. It also implies a change in accountability relations and in Sida's way of operating.

1.2. The Programme Based Approach opens the door to the partner government's world, where government activities are the most important thing and where development partners are asked to support reform initiatives through knowledge, capacity and financial support. This new division of responsibilities must be accepted and respected by the development partners and their role is to support and influence reform activities formulated by the government and not to introduce parallel programmes. The choice of financing modality and how to support the government's reform process is only one of the issues development partners need to consider. The partner government's world is there even if Sida would not provide any financial contribution at all.

1.3. Ownership and cost efficiency in a long term perspective are other strong reasons for why it is important to respect this division of responsibilities. Continued formulation of programmes by development partners will undermine ownership. Therefore, it is necessary to specifically motivate:

- Any support to the partner government not provided to government reform programmes (cross-cutting or in the sector)
- Any non-alignment to government objectives, systems, procedures, decision-making processes or legislation
- Any special institutional arrangements outside the government's normal rules and regulations.

2. Sector Engagement

2.1. Sectors such as health and education are particularly important for poor people and are areas where a rights perspective should be used. Therefore, there is a continuous need to support the sector to attain consistency in the government policy. Consistency is necessary in:

– the government's formulated policies and objectives for the sector and the resources allocated to the sector
– general poverty programmes and those poverty indicators that are valid for the sector
– the priorities and sequencing of reform in cross-sector programmes and those promoted in sector programmes. Sectors need to be able to influence the composition of cross-cutting reform programmes.

2.2. In the country strategy process there should always be an analysis of why a certain sector is chosen for continued Swedish support. The analysis should take as its base:

– country ownership/Joint Assistance Strategy process in the country,
– harmonisation aspects – donor composition in the sector – what happens if Sida withdraws from the sector?
– the added value of Sida engagement in the sector.

2.3. When Sida (in the country strategy) decides to be active in sector/policy areas in partner countries, the following principles should be applied:

– The starting and entry point is the government's planning cycle and the national budget process and the possibilities to strengthen these processes with a focus on poverty alleviation.
– Sida should aim at strengthening the role of the sector/policy area in this process, while supporting prudent macroeconomic policies and budget discipline.
– Sida should take as its starting point the perspective of the poor individuals' rights to services in the sector and the possibility to claim these rights.

– Sida should as far as possible work through existing structures. Instead of only making an analysis of gaps and weaknesses Sida should identify what actually works and contribute to strengthening that.

2.4. If Sida has taken the decision to be active in a sector Sida should also provide support to the sector plan. Sector engagement means an informed sector dialogue and promotion of capacity to plan and implement the sector policy.

2.5. An informed dialogue at the macro level requires information from e.g. sector level to be able to understand the obstacles to poverty reduction. Information could be gathered from other donors and Sida should always strive for joint processes. However, Sida should participate in dialogue and be active on both cross-cutting areas and at sector level in a partner country. This means that Sida should not reduce participation in any country to only being active at macro-level discussions relating to the provision of GBS. From a poverty perspective, engagement in more poverty oriented sectors or policy areas (education, health, agriculture, water etc) is important.

2.6. Irrespective of the financing modality used for sector support (see below), Sida should make an assessment of the sector strategy and plan, capacity needs, achievable results in the sector etc. An analytical assessment is crucial for an informed dialogue. Without a proper assessment and continuous focused analysis of sector specific problems and of the situation of the individuals that the support is aiming to target, it is difficult to know what to follow up and to pursue a dialogue about at sector level.

2.7. It is important to make a distinction between on the one hand "the sector or the sector programme" and on the other external financing modalities for the sector like budget support, pooled funding, project funding, etc. "The sector" is usually defined as:

– a policy area for which there is a national policy (health policy, education policy, agricultural policy)
– the legal and organisational structures that are in place for planning, implementation and follow up of the policy and
– the budget for the sector or sector programme.

2.8. The sectors need continuous support throughout all stages of the implementation of the sector programme. There needs to be a balanced position between financial control and a focus on the results. Monitoring and follow-up of results in the sector programme should not be influenced by the chosen financing modality.

2.9. Sida engagement in the sector should always be defined in a formal agreement irrespective of the financing modality chosen. The agreement should include:

– result indicators for the sector,
– a presentation of the amount of the Swedish contribution and if this includes a specific finance envelope/tranche to the sector,

- envisaged or decided capacity development resources,
- references to already existing sector frameworks like Code of Conduct, Memorandum of Understanding, disbursement mechanisms and regulations, and
- reference to existing sector programme components like institutional arrangements, sector policies, strategies and plans.

All this is important in order to formalise legitimacy and for the partner country and other partners to know if they can draw upon Sida resources in dialogue and annual activities in the sector.

2.10. Sida should always strive for joint processes with other donors. Information on sector development can be received from other donors and Sida should strive not to be active in too many sectors. In delegated cooperation it is important to carefully consider the consequences of entering into a partnership, and take necessary measures to ensure that Sida maintains its knowledge about the sector development, as well as ensures that the partnership itself does not undermine ownership or other important principles in the Paris declaration and the Swedish PGD.

3. The Financing Modality

3.1. According to the guidelines for cooperation strategies, General Budget Support (GBS) is defined as a *"non earmarked financial contribution to a country's state budget, the purpose of which is to support the implementation of that country's strategy for poverty reduction (PRS)"*. Sector Budget Support (SBS) is defined as a *"non-earmarked financial contribution to the state budget where assessment, dialogue, conditions and monitoring focus on a particular sector"*. In reality, the forms of supporting the sector vary and support to sector programmes is only carely provided as stated in the SBS-definition. Internationally definitions vary on the scope of SBS (see annex 1).

3.2. Internationally, in Sweden, and within Sida, GBS and SBS have different policy and normative backgrounds (see annex 1 for a discussion on definitions). Decisions on GBS were until 2005 taken by the Swedish government on the basis of yearly proposals by Sida. As a result of the new guidelines for cooperation strategies, Sida is given the authority to take decisions on budget support after the Government has agreed that the partner country fulfils the requirements for this aid modality. At the moment GBS is mainly handled by the economists at the Embassies and the Regional Departments at Sida in Stockholm.

3.3. SBS has its background from support to the sectors through Sector Wide Approaches (SWAps). SBS is mainly handled by the sector departments and the sector specialists at the Embassies. For GBS, the support is provided to the country's Poverty Reduction Strategy (PRS) and focus is on follow-up of the PRS indicators or an agreed subset of those indicators. In SBS, the support is provided to the sector plan and focus is on the follow-up of sector results. In both case (as for all Sida programmes), the perspectives of poor people on development and the rights perspective, that are part of the Government's Policy for Global Development (PGD), shall guide the analysis, follow-up and dialogue.

3.4. As regards GBS/SBS it is important to note that the financing modality is budget support in both cases. Thus, in financial terms there is no difference between Sector Budget Support and General Budget Support. The difference lies in the scope of the programme that these two aid modalities contribute to, which in turn has consequences for the institutional arrangements around the two forms of support. GBS is focused on the overall implementation and monitoring of the PRS. Its scope is normally operationalised through a jointly agreed Performance Assessment Framework (PAF) which focuses on key reforms, cross-cutting issues and development results. Generally, SBS focuses on the sector programme and a sector PAF in terms of follow-up, dialogue, and institutional arrangements.

3.5. These different traditions of managing the support *and* the different focuses of GBS versus SBS have mixed up discussions on the financing modality with the programme that is supported. As a result, in several cases where the sector support has been incorporated in the GBS, monitoring of progress and development in the sector has been neglected. In the recent assessments of GBS (with a decision in the cooperation strategy of active involvement in a specific sector and with no other financial envelope for the sector than GBS) the sector specific problems and the Swedish role in the dialogue regarding the sector were not assessed to a larger extent. The view on what involvement/follow-up of a sector actually implies in terms of what to dialogue about and what to follow-up on differs. In some countries Sida defines it as only following the indicators on the sector in the PAF (instead of actually supporting the sector programme). In SBS a separate assessment was made of the sector, in parallel to the general assessment of the preconditions for budget support.

3.6. As has already been pointed out, this tradition of managing support now needs to change. When the cooperation strategy has identified a sector as an area for support Sida should always support the sector programme and follow-up specific results in the sector, irrespective of the financing modality chosen to support the sector.

Choice of financing modality

3.7. One of the issues to consider in the assessment is the choice of financing modality. As for this the following principle should be applied:
In sector work Sida should strive for non-earmarked budget support combined with an active involvement in the sector or policy area. This financing modality promotes ownership and supports the governments own planning and budget process. Any other modality should be explicitly motivated.

3.8. The financing modality should be chosen from an assessment of the following criteria adjusted to the country context:

1. ownership,
2. harmonisation,
3. institutional capacity
4. defined results framework and
5. systems for public financial management, PFM-systems.

Sida should always be prepared to present arguments for why a certain modality is chosen. All Sida funding should be registered in the State Budget.

3.9. The decision on choice of financing modality that follows from this should correspond to the following statement and answer the following questions in the order presented:

1. The government's ownership and responsibility for improving welfare for its own citizens must be recognized. This follows from the Paris Declaration agreement.
2. Can Sida provide budget support to this country according to the requirements presented in the guidelines on the Co-operation Strategy?
3. Which reform areas/sectors are most relevant to support in the government's reform programme and in relation to other external support to the reform programme?
4. Which financing modality should Sida use in order to do this most effectively? As said, not using non-earmarked budget support should be specifically motivated.

3.10. Moving to budget support as the financing modality for sector engagement could require a preparatory process, which implies using other financing modalities that aim to strengthen specific focus areas. This preparatory process implies building a common understanding between Ministry of Finance and line ministries in the partner country and economists/sector experts in donor agencies on the advantage of non-earmarked budget support, a strengthened budget process, ownership gains, national priorities etc.

3.11. If decided in the cooperation strategy that Sida should be active in the sector (and thus support the sector programme) and that financing is to be provided through budget support a choice needs to be made on whether to integrate the support into the GBS agreement or whether to have a separate SBS agreement. As stated earlier, in both cases, an assessment is necessary on both the PRS-PAF programme and the Sector Programme.

3.12. If the sector support is integrated into the GBS agreement it is recommended that a tranche defining results to be achieved in the sector with a resource envelope is linked to the sector programme. If not, there is a risk that the entire support may be held back due to difficulties which only relate to the sector programme. Moreover, in the case where sector reviews are not yet aligned with the PRS cycle, or are being delayed in relation to the GBS review, such an arrangement would facilitate timely disbursement for the PRS programme and vice verse if the PRS review is delayed.

3.13. In relation to having a separate agreement on SBS to the sector programme there is in essence no difference but the above arrangement may save administrative costs. However, for clarity both within Sida and for the partner country it may be more adequate to have a specific agreement on SBS. This may for instance be wise if the appraisals are following different time schedules or are being delayed. Further arguments are presented in the tables below.

3.14. From the above follows that there is indeed no conflict between having both GBS and SBS at the same time. However, in reality, there are different understandings and definitions of the support modalities (both among donors and in partner countries). The following table reflects some arguments perceived by actors (the partner country and Sida) in the current discussion on financing modalities.

Arguments for using only GBS as a way of supporting the sector:

	Positive	**Negative**
Partner Country	– Untied financial support allocated in accordance with government's budget priorities – Possibility to develop an effective and participative national budget process	– Sector perception of loss of resources and more power to Ministry of Finance – Difficult to mobilise resources to the sector
Sida	– Possibility of integrated comprehensive reform programme in one process	– The Public's perception – Harmonisation limits with other donors who cannot use this modality

Arguments for using SBS for supporting the sector simultaneously with GBS:

	Positive	**Negative**
Partner Country	– Sector needs support – Harmonisation in the sector – Focus on both horizontal (PFM, civil service) and vertical (in the sector) reforms – Increased resources – Spread risks	– Difficult to integrate vertical and horizontal reforms – External funding formulates budget priorities – Distorted budget process
Sida	– Spread risks – Harmonisation – Sector knowledge maintained – Public perception	– Continuous split of programming

Further guidance on the choice of financing modality could be found in annex 2.

4. Fungibility, Earmarking and Additionality

4.1. Financial earmarking of sector budget resources is not effective due to the fungibility of budget resources. Furthermore, financial earmarking of funds complicates the partner country's budget process and creates administrative costs. Additionality requirements may also severely distort the budget process and increase funding of popular sectors at the expense of less popular sectors.

4.2. The Swedish policy is that funds should not be earmarked and that additionality requirements be avoided. However, in practice there are a number of sector programme support operations that are fully using the national Public Financial Management system, but with earmarking of funds. Furthermore, many other donors have earmarking and additionality requirements in their policies.

4.3. Earmarking is many times done for policy reasons with a belief that funds are safeguarded for the intended purpose although this is by and large fictional due to fungibility. It is also a way of signalling the importance of a certain policy area and the intention that funds should be used for it. If earmarking is considered an analysis should be made if this will have any negative effects on the government budget process and budget priorities.

4.4. The best way is to avoid financial earmarking but to focus on the results of the sector programme that is supported. Such ”engagement earmarking” (meaning that we focus our dialogue on a certain sector/policy area and thus strengthen the possibility of the sector/policy area to participate in the national budget process) does not distort the budget process and is not actually called earmarking.

4.5. The type of earmarking being done by vertical programmes, such as the Global Fund, causes huge negative effects for partner government planning and budgeting processes. Sida should strive to promote a way out from this earmarking both at country level and globally.

5. Results Based Management and Conditionality

5.1. Results are an entry point for dialogue on all crosscutting issues in the sector programme, such as rights issues, Public Financial Management, capacity building etc.

5.2. Managing for results involves a change in mindset – from starting with the planned inputs and actions and then analyzing their outcomes and impacts, to focusing on the desired outcomes and impacts and then identifying what inputs and actions are needed to get there. However, it also involves establishing baselines and identifying upfront performance targets and indicators for assessing progress during implementation and on programme completion. Results Based Management (RBM) should be an integrated part of the both the government's and Sida's planning cycle.

5.3. Sida should base result requirements on what is available in the countries and continuously work to improve results information. Sida should contribute to results being used as a management tool by the government within the program supported by Sida.

5.4. Sida's main approach in discussing results is through an informed dialogue and having a flexible approach in linking disbursements and conditionality to results achievement. However, it is important to be transparent and clear in relation to the partner country and to Sida on what triggers disbursements. It is important to consider when results can no longer be viewed as "satisfactory" and to formulate this in relation to individual conditions in each case.

5.5. Programme reviews and on-going dialogue should be used as opportunities for taking stock of progress in the programme and for partners to jointly analyse, whether things are on track and if not what actions need to be taken to bring them back on track.

5.6. Many donors link disbursements and conditionality to results-achievement. Sida has a tradition of a "flexible" approach to conditionality in favour of a dialogue on results. However, for Sida's and the government's clarity it is important to be precise on which results Sida does expect from the programme. Since Sida is mainly supporting joint programmes, in reality Sida is involved in the donor community's discussions on requirements for conditionality and disbursements.

6. Public Financial Management

6.1. The appraisal of sector support needs to be based upon a Public Financial Management assessment at sector level identifying weaknesses and strengths in particular with respect to reaching the poverty objectives in the sector, current efforts to overcome the weaknesses and possible ways of managing risks through the support. This knowledge has to be balanced against the positive effects of the support under consideration coming from alignment, monitoring and dialogue on key PFM issues, and capacity development. From this follows that it is not possible to define a bottom PFM level. The critical question is whether the support effectively contributes to poverty reduction in the given environment, through inter alia addressing the PFM constraints. However, if PFM systems are weak the answer to that question can be no.

6.2. The bottom level as regards to Sida's PFM knowledge should be to know whether:

1) The sector plan is possible to finance over the medium term;
2) The sector budget is in line with the sector plan, PRS, poverty and rights oriented;
3) What are the major system risks and constraints affecting service delivery and democratic governance in the sector;
4) Are these risks handled in a credible and prioritise way;
5) What does this mean for the possibilities of the sector programme to reach its objectives (use Sida at Work criteria),
6) what does this mean for the Sida contribution (design of financing modality, dialogue, etc)?

6.3. PFM analyses are important for all support modalities, not only GBS and SBS. An overall PFM assessment (in the country strategy) should always include aspects on the sectors' needs. If we are active in a sector a more thorough PFM analysis on the PFM-issues related to the specific sector should be made.

6.4. We should always strive to look at existing analyses such as Public Expeniture Reviews (PER) and Public Expenditure Tracking Studies (PETS) in the sector and try to influence these. Our main emphasis in PFM and budget analyses is to strive for a poverty and service delivery focus and that should be the point of departure also in the formulation of Terms of Reference for the PER and PETS. In some cases, if Sida aspects can not be considered in joint diagnostic studies, Sida-specific analyses that complement these could be necessary.

6.5. Development results require a comprehensive understanding of the sector policies but also how the delivery mechanisms and general capacity are affected by general and sector systems for public financial management and public sector management including human resource management.

6.6. From the above follows that to assess if the criteria for contributing to a sector programme are fulfilled (Sida at Work) knowledge about PFM is needed. It is not possible to take a position on effectiveness without considering if the sector plan is linked to the budget, the budget poverty oriented and if weaknesses in PFM executing systems can be handled.

6.7. The overall PFM assessment at country level which is usually done when the country strategy is developed should always include aspects of the sectors' needs.

7. The Perspectives of Poor People on Development and the Rights Perspective

7.1. The Swedish government, through the Policy for Global Development (PGD) puts special emphasis on the human rights perspective and the perspectives of poor people on development as a basis for the assessment. By basing Sida's analysis on the perspectives and specifying the results in relation to the perspectives Sida's dialogue is sharpened. Sida's main entry-points are through close presence in on-going planning and budgeting processes, reviews and follow-up of the programmes.

7.2. Assessments and continuous support benefit from using the two perspectives as explicit entry points for discussing sector-specific issues, as well as broader PRS-related issues, on both content and processes for development. The four principles – participation, transparency, non-discrimination and accountability – lead the analysis to capture important features of both process and content, which have direct influence on conclusions regarding needs for capacity development or identification of result indicators in the programmes.

7.3. The Paris Agenda with harmonisation, alignment, results for the poor and capacity development does not stand in opposition to applying the two perspectives in Sida's programming, but they strengthen each other. As for both, it is the partner country government that has ratified and signed Declarations and is responsible for their implementation. The contents in the programme are the key. The methods following from the Paris Agenda are needed in order to implement the contents more effectively.

7.4. It is important to complement budget support with support to civil society in order to get complementary results information, to increase the role of accountability mechanisms needed in society for a PBA to work effectively, enhance innovations, stress pro-poor approaches, and watchdog functions etc. Separate projects could therefore be necessary with the aim to strengthen the capacity of civil society in these respects especially if there is a lack of effective accountability procedures at government level.

8. Capacity Development

8.1. Capacity is recognised as one of the main issues to make programme based approaches work and deliver results. Much emphasis has recently been placed on capacity development for Paris declaration-related areas such as PFM and procurement, but less on other areas which are equally important to enhance state capacity to deliver services.

8.2. Promoting real (rather than formal) ownership is a key to sustainable capacity development but this requires changed attitudes as well as time and space for reflection. It also implies more focus on processes, and development of a joint understanding of what the government, Sida and other donors mean by capacity development. The practical implementation of the Paris Agenda intentions at local level is key in this process. Capacity development initiatives/activities as well as Technical Assistance (TA) should be demand-driven from government. Alignment should be the leading principle and it is important to analyse what this means in practical terms in each case.

8.3. Based on the Sida Policy and Manual for Capacity Development Sida should contribute to creating a broader and deeper understanding of capacity development beyond training, TA and mechanisms for procurement and coordination of the same. This could be approached by establishing joint (donor/government) working groups on capacity development and through drafting of Terms of Reference for and actual implementation of capacity development analyses using a broader and deeper view and covering the whole sector where appropriate. The aim is to ensure more of joint approaches to capacity development in terms of analyses, assessments, planning, implementation and evaluation and making this a learning process for the parties involved. This may require better competence and more resources from Sida.

8.4. If we are active in a sector, Sida should maintain a strategic dialogue on capacity issues at sector level. In countries where we support the sector through GBS this may, however, be more difficult without direct funding to the sector. It could therefore be necessary to provide project funds for strategic capacity development in the sector. Arguments *against* such a solution would be that capacity development should be fully integrated in and aligned to the planning process in the country and that separate funding may undermine national ownership. Arguments *for* such a solution would be that this could create a platform for harmonisation and could be a way to ensure that capacity development and innovations get priority and that it may be better than provision of uncoordinated TA.

8.5. Sida should make its *own analysis* of the key reform/development plans and other documents with regard to capacity development (results reports etc) based on the Sida at Work criteria (relevance, feasibility, sustainability etc), and the Manual on Capacity Development. Thus it is not sufficient only to state that such plans/documents/reforms exist.

8.6. Sida should in relation to joint capacity assessments and development plans, in its dialogue with other actors raise the need to balance between:

- strengths and weaknesses, i.e. also identify what exists and build on it;
- different aspects of capacity (individual, organisational, institutional), and different areas of intervention (PFM, RBM, HRM etc);
- the international development agenda and the local context;
- the “hard” (systems, structures etc) and “soft” (human, culture, informal rules etc) sides of capacity;
- comprehensive central-led reforms and local, small-scale development initiatives.

9. Steering Documents

9.1. In all joint programmes agreements such as Joint Finance Agreement (JFA), Memorandum of Understanding (MoU)or Code of Conduct (Coc) are signed. It is important that Sida actively participates in the negotiations and development of the steering documents since they form a platform for the programme development. Sida needs to be well informed about how the Public Financial Management and other systems work in the sector, in order to be able to promote more of alignment in the sector. Further, where taking an active role in the sector, Sida should ensure that any safeguards or exceptions from the rule of alignment are well founded and take a balanced approach regarding sector systems development and mitigation of fiduciary risk. Sida must not surrender to bilateral/multilateral agencies dominating the PFM area, but promote real sector ownership of the process.

9.2. Regardless of the choice of aid modality, Sida should ensure that the MoU/JFA for any joint financing arrangement, as well as Code of Conduct (or equivalent) in the sector, takes its starting point in the planning and budgeting cycle of the country, and is drafted by the sector itself (possibly with support, but then not donor specific).

9.3. The Nordic + template for JFA should be used where possible. If this is not possible, at least the good practices of this template should be promoted, such as its structure, its guidance notes etc. Its "opportunities for parallel mechanisms" should only be applied where absolutely necessary.

9.4. Sida needs to consider the steering/management effects of the different documents guiding cooperation in the sector – both sector-specific and central government documents, that is in what fora and with what transparency and process decisions are made regarding the sector programme. It is important to ensure that the documents jointly allow for the participation of all key actors in the sector to be part of the sector dialogue linked to planning, budgeting, implementation, monitoring and evaluation. Coherence should be strived for with the existing GBS steering documents. Therefore, it is important that the documents are also signed by relevant actors on the government side.

9.5. In the preparation of the support, Sida needs to define the best (from all partners' point of view) "entry points" regarding the rights and poverty perspectives. Sida must avoid overburdening already heavy processes (in this case the guiding documents) at the wrong point in time with safeguards in these areas. Therefore the analysis of the four principles should be made as early as possible, to identify key 'gaps' in terms of both process and content issues, which can be raised in dialogue and in the assessment. This implies presence in the country (directly or through an adequate representative) and knowledge about the perspectives as well as local conditions, systems and instruments.

9.6. The promotion of, and reference to, joint broad capacity assessments and plans as well as follow-up information should be included as important aspects of the sector programme's guiding documents.

10. Roles and Responsibilities

10.1 The general principles guiding Sida's perception of its role in the process of development cooperation have been expressed in Sida at Work (SaW). They apply also for Sida's participation in Programme Based Approaches. It is Sida's role to promote national ownership at all stages of the process. Development cooperation is also a partnership of mutual accountability in which the specific contribution of each partner should be made clear.

10.2. The experience on which this issues paper is based suggests that agreement about a results agenda is a good basis for national ownership of a programme and the partnership that is formed for its implementation. Once this has been agreed, the parties have a base for an analysis and a dialogue on what it takes in terms of national and donor capacity, financial resources etc. to achieve the results.

10.3. In practice this means that Sida, together with other partners will be involved in the management of a process of change. In this process, which should be aligned to broader national processes and structures, the different parties play different roles and assume different types of responsibilities. These should be specified in each case. It is common that the agreed "rules of the game" are specified in a Code of Conduct or similar procedural document. It is essential that the parties share and have a common understanding of their roles and responsibilities.

10.4. It is important for Sida to strengthen its capacity to participate in such processes of change. Different kinds of competences are required. Teams should be formed for each PBA-process. An important task within each team is to develop a shared results agenda. These are usually a combination of outcome based and process indicators. An important task ahead generally and for each process is to specify a limited number of measurable output indicators linked to the outcome indicators in the results agenda.

11. What Should Sida Conduct its Dialogue about?

11.1. The starting point and focus for Swedish dialogue should always be the results framework for the sector programme that is being supported. An ongoing dialogue is an important vehicle for communication and hence for implementation of the change process associated with Programme Based Approaches. It is important for Sida to have a clear perception of the purpose and forms of the dialogue. Every dialogue moment can not and should not be planned but experience shows that the dialogue is enhanced if a strategic approach is taken.

11.2. The main entry points and platforms for discussion about broader crosscutting issues that are important for Sweden such as the rights perspective and the perspective of poor people are present in ongoing planning, budgeting and follow-up processes in the programmes. Sida's main focus in this dialogue at sector level is to promote capacity development in order for the sector to be able to manage on its own and to provide service delivery and satisfy the rights for the poorest.

11.3 In PBAs dialogue on the programmes usually takes place in the working and steering groups established between donors and partner countries. Something which still seems to be missing is a dialogue on the political consequences of the recognition of the Paris Agenda in the partner countries. The impression is that many cooperation partner governments as well as many donors have not fully understood this new division of responsibilities in development cooperation and the consequences that follow.

11.4. In PBAs, within a harmonised context and with the partner government in a lead position, dialogue on specific Swedish issues needs to be done differently. When Sida is the lead donor the role of coordinating the voice of others could be more important than raising specific Swedish issues. However, that position could also provide an important opportunity for pushing a strategic Swedish agenda.

Annex 1
Discussion on Recent Definitions

According to the guidelines for cooperation strategies, *"general budget support"* is defined as a *"non earmarked financial contribution to a country's state budget, the purpose of which is to support the implementation of that country's strategy for poverty reduction (PRS)"*. A characteristic of general budget support is that it is not financially earmarked to any specific sectors or expenditures and that the funds are blended with domestic resources and thus fully planned, spent and reported according to national procedures.

According to the guidelines for cooperation strategies, *"sector budget support is defined as a non-earmarked financial contribution to the state budget where assessment, dialogue, conditions and monitoring focus on a particular sector"*.

Internationally and among donors, the definitions of SBS and mechanisms used by donors differ and are not consistent with each other. One donor can call its support Sector Programme Support whereas the other calls it Sector Budget Support. The main difference lies in that there are different views on earmarking and additionality.

The OECD/DAC has not elaborated a definition on SBS. The OECD/DAC evaluation on General Budget Support has used the definition of general budget support (GBS) as budget support that is not earmarked or only notionally earmarked. This means that some SBS is included in this definition. According to a recent guiding paper from OECD GBS should not be considered to target a specific sector, but development planning and preparation of structural reforms.

The OECD/DAC definition of Programme Based Approach (PBA) is: *"A way of engaging in development cooperation based on the principle of co-ordinated 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."* A Sector Wide Approach, SWAp is a programme based approach operating at the level of a sector or policy area.

It should be noted that this definition has the merit of making a distinction between three dimensions of the PBA namely a) the programme of the partner country b) the modalities for external support and c) the process of cooperation associated with preparation, implementation and follow up of the programme and of Sida's support to it.

The most advanced international definition on SBS has been elaborated by SPA at a workshop held in Dublin 5–6 October 2005. "*The primary purpose of sector budget support (SBS) is to accelerate progress towards the government's sectoral goals. In SBS, donor funds are taken fully into account in the recipient government's planning and budget process, and are transferred into recipient* *government accounts and blended with domestic resources to be spent according to national procedures. The main (but not necessarily exclusive) focus of monitoring, conditionality and dialogue in SBS is around sector-specific issues."*

The Swedish definition of SBS differs from that of most other donors as it states that SBS is un-earmarked. Thus, this differs from the reality of what type of support Sida is providing at the moment. In principle, sector programme support could take the form of budget support or basket funding. In practice, most Sector Programme Support have taken the form of pooled funding. At the same time, the term sector budget support has increasingly been used, in order to underline that that a certain sector programme support takes the form of budget support and not pooled funding.

It is important to have definitions that reflect actual practice of providing support. This is important in order to know if steps are being taken to a more aligned modality or not. For example, there is an interest in being able to distinguish between earmarked sector budget support (fully on-systems) and pooled funding where several PFM functions are off. Therefore a suggestion is to adopt new definitions that reflect what type of support modalities Sida uses for supporting a sector programme. These are:

Funding Modality	Further Definition
GBS	a. With sector focus (focus on dialogue and follow-up on the sector, integrated with the GBS-agreement)
SBS	a. Non-earmarked
	b. Earmarked to the sector
Basket/Pooled funding	
Funding through a multilateral	
Project Support	

If adapting these definitions the "news" would be that earmarked sector budget support should be defined as SBS. A rationale for this new SBS definition would be that the support is provided as budget support and national PFM-systems are fully used.

"GBS with sector focus" is a definition that does not exist in the government guidelines but the form of support (i.e. that Sida is following-up results in a specific sector within the GBS) is currently used in Rwanda, Mozambique and Tanzania.

Broadening the definition of SBS would imply that the strategy guidelines should be revised and this would have implications for the decision-making process. At the moment, Swedish government takes a decision on whether budget support is a suitable aid modality in a certain country. This decision concerns budget support as a financing mechanism and is thus valid for both GBS and SBS. However, there may be situations where earmarked SBS can be motivated despite a negative decision regarding un-earmarked budget support. This would then need to be clearly spelled out in Sida's cooperation strategy proposal.

Annex 2
Further Guidance on the Choice of Financing Modality

Budget support provides the framework for a process of cooperation that enhances national ownership, alignment and harmonisation. From a donor perspective it also opens for a broad analysis and understanding of the possible effects of alternative strategies for poverty reduction and an ongoing dialogue about planning, implementation and follow-up of the same. Whether the ultimate impact will be reduced poverty nation wide, depends ultimately on the political will and capacity of the partner country rather than the modality for donor support.

There is always a fiduciary risk associated with budget support but the same applies to other modalities of support. Budget support opens up for a dialogue on the need for transparency and improvement of accountability and financial management systems including procurement in a way that is less apparent when other modalities are chosen.

Basket/Pooled mechanisms may be motivated when there are limited prospects of addressing development problems effectively through the usage of national PFM systems. The decision should be made by weighing the development risks/benefits of using the government systems versus those of bypassing them, in the short and medium term perspective. Pooled funding mechanisms often in themselves impede development by neglecting the capacity problems they create. Moreover, by-pass solutions often fail to address the impediments and even cause new ones as incentives are affected negatively. Earmarked sector budget support is in most cases a preferred mechanism compared to pooled funding which only uses parts off the national PFM system.

When moving from one aid modality to another, it is important to be conscious regarding the mix of aid modalities chosen and the reason for this choice. Sida must also consider the capacity and dialogue consequences of the changed aid modality, and (if necessary) take necessary measures to ensure that sector development is handled in a satisfactory manner. Focus on e.g. capacity development, accountability mechanisms, non-discrimination and PFM in the sector does not become less important when funds are channelled directly to the ministry of finance, but rather the opposite.

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.

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