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Guidance on Programme-Based Approaches

Sida

Guiding principles for Sida

1. **Sida should apply a programme-based approach to all of its development cooperation.**

2. **The partner's results analysis and planning cycle should be the point of departure for Sida´s analytical work and dialogue.**

3. **Sida should promote its priority issues primarily through engagement in dialogue rather than through earmarking of funds**

4. **Sida should link its financial commitments to the partner's results framework and budget cycle.**

5. **Full alignment should be considered the first option for financial support to a Government or an organisation's programme.**

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1. Introduction

The purpose of this paper

The purpose of this guidance is to support the implementation of programme-based approaches (PBAs). The paper seeks to clarify a number of definitions related to programme-based approaches and to guide Sida staff in what working with PBAs means in practice. The paper aims to aid Sida staff in carrying out qualified analysis and dialogue when supporting programmes and to operationalise the Paris Declaration in line with the Swedish Policy for Global Development (PGD) when performing these tasks. The paper should contribute to increasing the share and improving the quality of PBAs, in order to achieve development results for people living in poverty.

The paper replaces Sida's previous policy for sector programme support as Sida's key guidance for PBAs.

How should the guidance be used?

The guidance should be used in all development cooperation, to ensure that the principles of the Paris Declaration on aid effectiveness – ownership, harmonisation, alignment, managing for development results, and mutual accountability – are promoted.

The paper should be used jointly with other important guiding documents from OECD/DAC, the EC and Sida. It should be the main reference document for methodological support to field offices and for competence/capacity development activities within Sida relating to programme-based approaches.

The paper pre-supposes the existence of a cooperation strategy or equivalent framework[1] which provides an analysis of the key issues and limitations in terms of areas or sectors of cooperation, the degree of partnership with the state – including volume of state-to-state cooperation, eligible modalities, and the extent and focus of cooperation with non-state actors. In such a context, the paper constitutes a working tool linked to Sida's contribution management cycle. The positions set out in the paper should be contemplated with this in mind so as to permit the adaptation of the programme-based approach to different settings.

[1] E.g. in accordance with the conclusions of the Council of the European Union on "EU Code of Conduct on Complementarity and Division of Labour in Development Policy"

What is a programme-based approach?

A programme-based approach (PBA) is defined as 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[2]".

PBAs share the following features:

I. leadership by host country or organisation;

II. a single comprehensive programme and budget framework;

III. a formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement; and

IV. efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation.

When working with a PBA it is important to distinguish between:

a) the focus of the contribution, i.e. the programme and its expected results

b) the form of cooperation related to a programme; or aid modality; and

c) the financing modality used to support a programme[3].

Why a programme-based approach?

Before the mid 1990s, most development cooperation was carried out in the form of projects. During the 1990s, it gradually became apparent that the situation with a large number of aid-funded projects managed outside country or organisational systems was increasingly difficult for partner countries to manage and coordinate, and thus inefficient from the perspective of long-term poverty reduction. PBAs were introduced, in the beginning mainly in the education and health sectors in order to move from scattered 'islands' of support, to support to a whole sector programme, a thematic programme or an organisation's overall programme. PBAs were introduced in order to reduce transaction costs of external support to development programmes, and to strengthen the ownership of the recipient government or organisation. Later, the Paris Declaration, through its five principles (ownership, alignment, harmonisation, managing for development results and mutual accountability), strengthened the case for PBAs as a way of operationalising these principles. However, it is important to keep in mind that a programme-based approach can be implemented without any external funding at all, with the purpose of strengthening coordination, coherence and efficiency in relation to desired results in a certain area.

Thinking holistically and adapting to reality

Development assistance is more likely to contribute to sustainable results when it is provided in support of a strategy or plan formulated and implemented by the partner government or organisation, and when using the country's or organisation's (be it a civil society, private sector or government organisation) own systems to the fullest extent possible, complemented with efforts to strengthen these systems. The adoption of a PBA means that development partners and other stakeholders adapt

[2] Definition according to the Paris Declaration.

[3] See Annex 1

their support and interventions to the partner country's or organisation's planning and budgeting cycle, decision-making process and overall capacity situation. It also involves the opportunity for development partners to raise important development issues relating directly to policy formulation and the planning cycle with the partner government or organisation. Working with a PBA implies that Sida and other development partners must understand, respect, adapt to and contribute to the development of the following parameters of the partner country or organisation:

- its policy, objectives and priorities (including national and international legislation);
- its planning, budget, follow-up and reporting processes (including related documents);
- its systems and procedures for decision-making and implementation; and
- its capacity situation (in terms of staff competence, organisation and management, relation to stakeholders/other organisations, and institutional framework)

For Sida to be successful in playing its different roles as analyst, financier and dialogue partner, it should – in addition to the overall context – take the existing policy, plan, systems and capacity of the partner as its starting point. From an analytical point of view it helps to view the process and objectives as one (although reality is naturally more complex and diverse) – one common set of objectives, one programme, one financial framework, one Government or organisation (including its decentralised levels or local offices), one consistent planning and follow-up process, one development partner group and one mechanism for interaction with relevant stakeholders – be they civil society, private sector or (local) Government organisations. The planning, budget and follow-up processes should be characterised by inclusiveness, transparency and accountability in relation to programme stakeholders.

2. Sida and Programme-based Approaches

2.1 Sida should apply a programme-based approach to all of its development cooperation

Sida should, to the greatest extent possible, apply a programme-based approach to all of its development cooperation. In all of its work (including, for example, project support and support through multilateral organisations etc.), Sida should ensure that the principles of the Paris Declaration – ownership, alignment, harmonisation, managing for development results and mutual accountability – are operationalised, in order to effectively achieve development results for people living in poverty.

Sida should:

I. Enhance the capacity of Sida's cooperation partner to formulate and operationalise policy, set its own priorities, and coordinate relevant actors related to its programme(s). If the partner needs to develop its capacity for doing so, Sida should be ready to assist in a demand and needs driven manner, in order to enhance ownership and sustainable results. Various options for enhancing capacity should be integrated as part of the overall programme (internal/domestic solutions, local or international consultancy, technical cooperation south-south cooperation, twinning, networking etc).

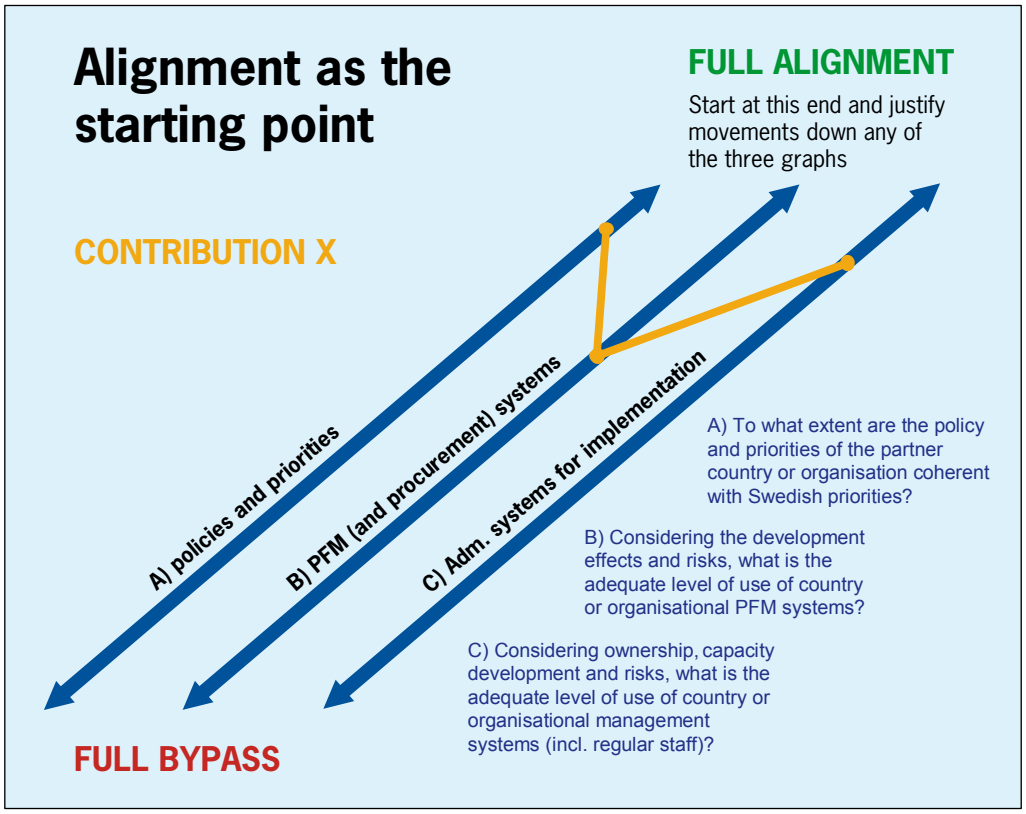
II. Ensure that the expected results of Sida's contributions are in line with the policy, objectives and priorities of the partner country or organisation[4] and are adapted to its current capacity. Sida is responsible for ensuring that organisations acting on Sida's behalf (multilateral organisations, NGOs, etc. through which Sida channels its support) increasingly work in this way in relation to their local or regional partners.

III. Ensure that the management of the activities and follow-up of results related to Sida's support are integrated in the normal organisational (implementation) structure and regular decision-making procedures (e.g. implemented by regular staff), and use the partner country's or organisation's regular systems and procedures for planning, imple-

[4] This approach naturally presupposes that the conclusion in the cooperation strategy is that there is a clear political will on the part of the country or organisation in question and that the overall objectives of the policy area/programme are in line with Sweden's goal and priorities.

mentation and follow-up (including statistics). Sida should therefore not, in principle, hold its "own" bilateral annual reviews, but instead encourage joint reviews involving all programme stakeholders. Any deviation from the principle of alignment (to policy, systems and implementation mechanisms) should be justified.

IV. Ensure that the objectives, commitments and roles of the cooperating partners are agreed in such a way that they in practice allow for ownership and mutual accountability among the parties involved. Mutual Accountability instruments such as Codes of Conduct, Compacts, Partnership Principles or equivalent should be balanced in terms of the commitments of the different partners involved. They should also be specific enough to be able to assess performance against these commitments. Regular (preferably independent) reviews of the fulfilment of partner commitments have proven an important aspect of Mutual Accountability mechanisms.



2.2 The partner's results analysis and planning cycle should be the point of departure for Sida's analytical work and dialogue

Swedish priority issues need to be adapted to the specific context in which Sida is working. Focus should be on enhancing the capacity, incentives and interest of the partner country or organisation to conduct relevant analyses and thereafter develop its own strategies for how to address aspects of the programmes that are important for achieving results for people living in poverty.

Sida should:

I. Identify adequate entry points for dialogue, learning and integration of the two perspectives[5] of the Swedish Policy for Global Development and Swedish priority issues which can contribute to the development of the overall programme. Enhance local capacity to integrate these issues in a fruitful manner. One such key entry point should be the joint results analysis[6]. Other entry points could include dialogue at different levels, competence development initiatives and joint studies at an early planning stage of the programme;

II. Actively promote broad ownership of the programme through encouraging the involvement of relevant stakeholders – such as democratically elected institutions/assemblies, relevant civil society actors, and different levels and departments within the organisation – in the planning, monitoring and evaluation of results.

III. Ensure that advice and dialogue is context-specific (e.g. based on existing country analyses) and relates directly to key programme documents and processes, rather than generic checklists and principles. Advice should be provided at a point in time when it is relevant and likely to have an impact, e.g. ahead of or during the development of a new poverty reduction strategy, multi-annual plan or equivalent. Isolated issue-by-issue advice should be avoided.

IV. Avoid demanding additional information except when this is vital for analysing the effects of the programme for poor people. Sida should instead base its results analysis and dialogue on information and analysis available from the country or organisation, complemented by information from other sources (Civil Society, multilateral organisations etc).

2.3 Sida should promote its priority issues primarily through engagement in dialogue rather than through earmarking of funds

Working with a programme-based approach does not imply that Sida cannot monitor results or focus its dialogue on a specific priority issue or theme within a programme. However, rather than engaging through direct financial support to the priority area, engagement should increasingly focus on being part of the planning, follow-up and dialogue on the policy area/sector in question. This implies a focus on results rather than on inputs. In the case of state to state cooperation, this can, for instance, mean distinguishing sector engagement (through dialogue) from any financial contribution. This requires a careful analysis of which issues to address through dialogue, as well as the level of ambition and strategy for this dialogue.

This way of working requires a high level of knowledge about the issue in question, how it applies to the specific context, as well as familiarity with the working cycle of the programme or cooperating organisation. At country level, it is often advisable for development partners, in accordance with the principles of complementarity and division of labour, to divide responsibility for follow-up and dialogue between them, thereby drawing on the combined expertise of the development partners involved in a specific programme.

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[5] The perspectives of people living in poverty and the rights perspective.

[6] This results analysis should be based on information and analysis available from the organisation, complemented by information from other sources (Civil Society, multilateral organisations etc). Sida should avoid demanding additional information except when this is vital for analysing the effects of the programme for poor people.

Sida should:

I. Make an explicit choice of where to engage (preferably during the cooperation strategy process) and remain well-informed on the related area or theme chosen, regardless of whether funds are earmarked to this area/theme or not. Sida must make a proper assessment of the area/theme, and continuously analyse and contribute to a relevant and qualified dialogue in the chosen area[7].

II. When separating financing from dialogue, Sida must ensure that any decision on whether to maintain engagement with regard to a certain area or theme is subject to dialogue with the partner country or organisation. Regardless of the financing modality, Sida needs to clearly agree the forms of cooperation with the sector(s)/organisation(s) and formalise its engagement in a sector/policy area in a transparent way.

III. Sida should clearly define a dialogue engagement strategy (including entry points) related to the sector or policy area, as well as the objectives (and linked results indicators) that Sida intends to follow up on.

2.4 Sida should link its financial commitments to the partner's budget cycle and results framework

Development assistance that fails to align to a partner's planning cycle risks undermining coherent planning, budgeting and monitoring of results – and thereby hampers achievement of results. Introducing new conditions after the budget and work programmes have been defined, for example, means introducing new tasks for which no planning has been carried out nor budgets allocated and hence distorts the partner's work.

By adopting the following approach sida can enhance the predictability and coherence of a partner's planning, budgeting and results monitoring process.

Sida should:

I. Be transparent and predictable regarding the criteria used for assessing whether conditions are in place for further commitments and disbursements. Conditionality should be drawn from the programme's joint results framework;

II. Provide solid financial commitments in time for the budget process of the coming year. Sida should decide on and communicate the level of support (and linked conditionality) early enough to ensure that when the planning and budgeting for the forthcoming year starts, the partner has valid information about overall financing and thus the possibility to plan for the use of the support.

III. Encourage performance reviews for the current fiscal year early enough to allow such reviews and related results analysis to feed into the planning and budget cycle for the forthcoming year;

IV. To the extent possible, avoid conditioning release of support against in-year reviews, since non-disbursement in such cases creates fiscal gaps, resulting in the need for costly short-term lending or ad-hoc down-sizing of budgets as a consequence;

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[7] The choice of where to stay involved should be based on both the needs of the cooperation partner (does Sida play a unique role or have a unique relationship?), the needs of Sida to stay informed about the area or theme ("reality check"), and the existence of other actors who could play this role instead of Sida.

V. When possible, use a graduated response mechanism[8] to performance in order to enhance predictability of disbursements, handle risk and create incentives for results-based management. Such graduated response mechanisms mitigate the consequences of "stop and go-funding", and delays in disbursements which have negative impacts on budget implementation. A graduated response requires clear performance criteria and a non-mechanical assessment based on analysis of the reasons for not achieving (or meeting/exceeding) expected results. Fixed and variable tranches may be one way of designing a graduated response.

2.5 Full alignment should be considered the first option for financial support to a government or an organisation's programme

Progress so far in implementing the Paris Declaration has seen more advances in the area of harmonisation than in alignment. This is the case even though experience clearly shows that alignment, especially when several actors engage, has stronger impact in terms of strengthening systems and achieving development results. Although harmonisation efforts need to continue, a stronger emphasis must be placed on alignment. This means really buying into the development agendas and priorities of the partner government or organisation and strengthening the local systems by using them as well as investing in their development. The choice of financing modality is important in this respect. When choosing financing modality, Sida should consider the potential positive effects on the development of country systems (for planning, budgeting, financial management, results follow-up etc.). The impact on domestic accountability as well as the fiduciary and political risks of using or not using these systems should also be taken into account[9].

By taking full financial alignment as the starting point, Sida should strengthen its justification for why a certain financing modality is chosen. A stronger focus on alignment means that the most aligned financing modality, i.e. non-earmarked financial support with full use of national systems, should be the first option. Sida should start its chain of reasoning by asking itself *"why not employ fully aligned financial support?"* Any deviations from the principle of full alignment should be clearly justified.

In the case of state to state cooperation, this principle will naturally lead to differing final results in terms of financial alignment, dependent on whether or not the country is eligible for budget support.

Sida should:

I. Always present clear arguments for why a certain financing modality has been chosen. Sida should justify any deviations from the principle of full alignment to the country's or organisation's priorities and systems.

II. When full alignment is not possible, all opportunities for *partial* alignment should be explored. Sida should start using the cooperating partner's systems (planning and follow-up, public financial

[8] A graduated response mechanism allows for partial disbursements in cases of partial fulfilment of conditions or partial performance.

[9] There is evidence that use of parallel joint financing mechanisms, such as basket or pooled funding with substantial parallel procedures, have similar negative effects on systems and accountability as the previous projects they are set to replace.

management, procurement etc.) as early as possible and at the same time support the development of these systems. Any special arrangements should do as little harm as possible to national or organisational systems, ownership and domestic accountability;

III. See support to capacity development and reform as an integral part of a programme plan and budget. The cooperating partner should be encouraged to include capacity development activities as part of its regular plan and budget and justify any earmarking of funds for reform-related purposes.

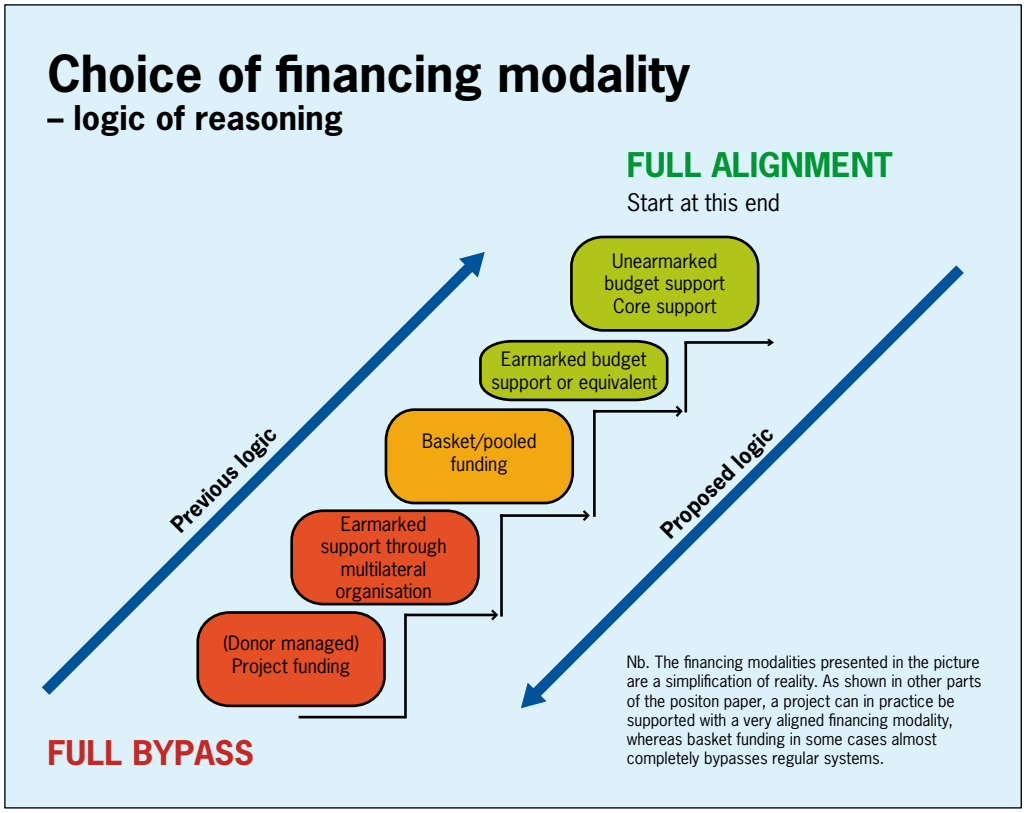
IV. Consider the positive and negative effects on the following parameters when choosing a financing modality (and designing support)[10]:

a. *Effects on the results* of the programme and their sustainability;
b. *Effects on institutional capacity* and development of the planning/budgeting, PFM, procurement systems etc.
c. *Effects on democratic governance,* including possibilities to strengthen domestic accountability, transparency, participation and non-discrimination.
d. *Fiduciary risks (including corruption);* e.g. the risk that funds are not used for intended purposes. All financing mechanisms entail fiduciary risks, although different ones;
e. *Political risks,* e.g. risks related to the underlying political relationship between the development partner and partner country or organisation. More aligned and general support and greater volumes of funds are typically associated with greater political risk. This also includes the risk of development partners, through high-level dialogue, gaining inadequate influence over domestic policy formulation and decision-making processes.

Ways to mitigate political risk include:

- political context analysis, including an understanding of existing checks and balances in the country's or organisations' system;
- clarity on the underlying conditions of the support;
- designing aligned support in such a way that it is less likely to be used for sending political signals; and
- inclusion of graduated response mechanisms when political signalling is deemed necessary.

[10] Specific government guidelines apply for general budget support for poverty reduction.



The table below could assist in making the assessment of positive and negative effects of a certain financing modality.

Aspect to consider when choosing a financing modality	Pros (+) of financing modality x	Cons(-) of financing modality x
Results and their sustainability		
Effects on institutional capacity, systems etc.		
Effects on Governance incl. accountability		
Fiduciary risks		
Political risk		

3. Adapting the PBA to the Specific Context and to different Actors

Operationalising the principles of the Swedish Policy for Global Development (PGD) through a programme-based approach

A programme-based approach can, if applied adequately, offer an opportunity to work in an effective manner with the PGD, incorporating the poor people's perspectives on development and the rights perspective. The principles of the Paris Declaration and the four principles of non-discrimination, participation, transparency and accountability[11] have many mutually reinforcing elements. The two perspectives and related four principles offer entry points in relation to the partner's working cycle and for enhancing development results, not least by linking them to a common results framework.

Alignment, for example, is not only about alignment to a country's or an organisation's financial systems, but equally about adapting to existing national and international legislative frameworks, relating, for example, to human rights, gender equality and the environment. Ownership is not merely about that of a Government or organisation, but also about broader ownership of development plans through grounding in democratically elected assemblies, and among civil society organisations with a legitimate citizen mandate. Mutual accountability is just as much about enhancing domestic accountability mechanisms (e.g. through reduced fragmentation of external interventions and increased transparency), as it is about enhancing the accountability relations between partner countries/organisations and development partners. Through the handover of decision-making and responsibility for results to partner organisations, can increasingly be held accountable by citizens, their members and other stakeholders.

A PBA offers a way to operationalise the perspectives of people living in poverty and the rights perspective in a way that is coherent, transparent and adapted to the reality of the partner country or organisation. The PGD, the two perspectives and other Swedish priorities should, as always, guide Sida in its contribution assessments, results analysis and dialogue relating to the programmes it supports.

In the cases where Sida finds that the two perspectives or relevant Swedish priorities are insufficiently reflected in plans, budgets and results reporting of the partner, Sida should enhance dialogue on these issues,

[11] These are the four principles for operationalising the perspectives of the poor and rights perspective.

either through its own voice or by promoting increased dialogue between actors that can further results related to these issues. Dialogue should be conducted at strategic moments and with smart entry points in relation to the working cycle of the partner country or organisation. Another possible entry point consists of support (or dialogue with) actors related to the programme, who can pursue these issues in a fruitful manner. However, enhancing the poor people's perspectives on development and the rights perspective in large government programmes has proven a challenging task. Sida and other international development partners have made important progress in terms of adequate mechanisms for this, but methods need to be further developed, not least through lesson learning from good examples that have already been implemented at country level.

Working with a PBA does not imply that that Sida cannot raise issues of vital importance to poverty reduction in its dialogue, even if these are not emphasised by the partner country or organisation, or other development partners. It simply means that Sida needs to do this in a way that focuses on end results, and that is in line with the principles of the Paris Declaration.

PBAs in different types of countries and sectors

The principles and analytical framework laid out in this guidance are relevant to work in all categories of countries and thematic areas. The analytical *reasoning* is as relevant for Sida when working in long-term cooperation countries, as when working in situations of fragility or in countries whose development programmes are primarily focussed on EU integration. In fragile states, for instance – where democratic structures, systems and capacity are often weak and interventions tend to be poorly coordinated – the promotion of broad ownership, alignment, harmonisation etc. in relation to relevant actors, is just as important (if not more so) as in countries where PBAs have more of a tradition. However, depending on the context, the proportion of support to different types of actors will vary, as will the balance between capacity development and reform-related support on the one hand, and support to regular operations on the other. A PBA must also be adapted to the specific sector or policy area context. The role of the state versus civil society and private sector actors varies between sectors and mechanisms for involving relevant actors must therefore be adapted to each sector context.

Hence, although these principles are relevant to all categories of countries and all thematic areas, the local context and programme circumstances will determine exactly how Sida should work and the format Sida's contribution should take: i.e. the mix of alignment and harmonisation, as well as selection of adequate mechanisms for mutual accountability. In some environments, less aligned support may persist for some time to come. However, considering the opportunities for alignment, broad ownership and mutual accountability, this guidance should also contribute to project-oriented interventions becoming more sustainable through better integration into the partners planning and results framework.

Applying a PBA in relation to different partners

Applying a programme-based approach in relation to a government programme, for example, does not imply that other actors in the same arena cannot be supported in parallel. On the contrary, it is normal to have a mix of support to different actors in a sector or thematic area, based on an analysis of the context, the drivers of change and the roles

played by other development partners. The decision on whether to support a specific civil society organisation directly, or perhaps through a government-coordinated programme, requires careful analysis of what role it plays in the development of the sector.

Working with a PBA means buying into the agenda and the systems of the organisation being supported – regardless of whether it is a government, civil society, private sector or multilateral agency organisation – and taking an active role in encouraging other development partners to do the same. Although the programme-based approach often implies providing more general support to broader development programmes, this does not imply that Sida should only support large programmes with substantial amounts of funding. Sida must carefully analyse, on a case by case basis, how its support contributes to a diversity of perspectives and chances for poor and marginalised people to be given a voice. Additionally, Sida must be prepared to also support weaker, yet legitimate, civil society organisations that play an important role in furthering the development agenda of people living in poverty.

Applying a programme-based approach to all development cooperation activities should be an effective way to improving cooperation with Civil Society organisations (CSOs), multilateral organisations and other actors. The best way of applying a PBA needs to be analysed for each specific situation. The following examples can serve as an illustration:

- The Aids Support Organisation (TASO) provides care and support to people living with HIV/AIDS in Uganda through counselling and medical services. TASO's Strategic Plan and activities are aligned to the National HIV/AIDS Strategic Framework and Plans. Sida, together with the Government of Uganda and other cooperating partners, have provided un-earmarked financial support to TASO's Strategic Plan.
- A process of moving towards a PBA with two Human Rights NGOs (Association for the Prevention of Torture, APT, and International Federation for Human Rights, FIDH) was initiated in 2007. Both organisations have developed a Strategic Management Plan for three years. Development partners have been called to the presentation of these plans and Sida has been vocal in emphasising that development partners must align to the plans and harmonize their requirements on financial and narrative reporting to the procedures of the organisations. Sida and a few other development partners have now made commitments to supporting the overall three-year plans.
- The UN Office of the High Commissioner for Human Rights (OHCHR) prepared its first Strategic Management Plan (SMP) for 2006–2007. Seven bilateral development partners have since aligned to the SMP and now provide general (un-earmarked) funding to OHCHR. This is limited, however, by conditions attached to the development partners' budgetary frameworks in relation to regional allocations etc. OHCHR prepares one annual financial and narrative report and the group of seven development partners hold one joint annual review with the organisation.

Challenges of adopting a programme-based approach

Working with a programme-based approach presupposes a minimum level of consensus on the priorities established in the partner country's or organisation's plan (including budget allocations). It also presupposes the political will to reach poverty- or development-related objectives as well

as capacity on behalf of the cooperating organisation to take on the role of coordination. Furthermore, it requires a commitment on behalf of at least a critical mass of development partners to be part of the common planning and results framework. The commitment levels required of development partners with regard to such programmes and their results are perceived as greater than those relating to (parallel-managed) project scenarios. This implies that withdrawal of support to a programme in the case of an undesired political development, for example, may be difficult and sensitive. Nevertheless, projects managed by development partners can face the same types of problem, although more limited to the project environment.

Other challenges of programme-based approaches relate to the incentive systems (in the broad sense) of development partners and partner countries/organisations. Incentives still often favour parallel and donor-led support. Working with a PBA makes it more difficult to attribute specific results to the support of a specific development partner. For development partners, this implies having less of a direct influence over the priorities and design of development programmes, and that greater efforts have to be put into assessing whether the priorities of the partner organisation are sufficiently in line with their own poverty reduction objectives.

Finding adequate and workable entry-points for ensuring that cross-cutting issues such as gender, human rights and environment/climate are adequately addressed, as part of the dialogue and the programme cycle, remains a challenge. Furthermore, when employing a PBA the role of development partners becomes less prominent in relation to the partner country or organisation. The results and programmes "belong to" the partner country or organisation – and not primarily to the development partners. For development partners, the programme environment can often seem more complex and less manageable, as a PBA means that they are exposed to the overall challenges facing the partner country or organisation and not merely the specific elements of a limited donor-managed project.

Being just one of many development partners supporting a programme may also seem less appealing than being the only development partner supporting a certain activity, not least because of the complexity of having a multitude of actors at the dialogue table. At the same time, the opportunities for political dialogue opened up by working with a PBA imply the risk of development partners gaining too much influence over a country's or organisation's decision making procedures, which in turn risks undermining regular accountability mechanisms.

Finally, local actors with a vested interest in, or that are simply accustomed to, parallel implementation mechanisms may be less keen on relating their work to a common programme. A line ministry and its staff, for instance, may have embedded incentives that translate into a preference for continued direct support from development partners.

When conditions for complete harmonisation and alignment are not met, the opportunities for different aspects of partial alignment and harmonisation should be explored. In such cases, the partner country or organisation should be supported in its efforts to increasingly assume ownership (in the broad sense) and leadership of its own development, including the coordination of development partners. Sida should always, where possible, take the lead in terms of practicing the principles of the Paris Declaration and identify strategies to convince other development partners and

cooperating organisation(s) to do the same. This is crucial, since the positive effects of alignment may be severely hampered if significant numbers of development partners continue working through modalities with substantial parallel mechanisms. It is important to bear in mind that the programme-based approach does not only apply to major interventions in the form of sector programmes or overall poverty reduction programmes.

The way of thinking can be applied to large and small programmes and projects and in relation to different types of actors. Adopting a programme-based *approach* also does not mean that all future Sida cooperation will take the form of major comprehensive sector or organisational programmes. It is merely a way of enhancing a demand and results driven approach, where partners' development agendas guide Sida's interventions.

Annex 1 Definitions related to Programme-Based Approaches

Introduction to definitions

It is essential that there is a common understanding within Sida about concepts and definitions in relation to *Programme-Based Approaches (PBAs)*. Definitions used often vary among donors and development partners which can create confusion and make harmonisation and alignment more difficult. Adding to this confusion is the fact that a clear distinction is often not made between the programme, such as the Poverty Reduction Strategy or a specific sector plan, and the financing modality that is used to support the programme, such as budget support or pooled funding.

Furthermore, it is important that definitions reflect the forms of support that Sida actually is providing. It is also important that definitions enable a distinction between fully aligned and less aligned financing modalities in order to facilitate monitoring of progress in moving towards more harmonised and aligned forms of PBAs.

In June 2008, the OECD/DAC agreed on a new classification by types of aid for the purpose of the statistical reporting. During spring 2008, Sida has undertaken a review of its current aid modalities and definitions. A proposal for a new classification has been elaborated, consistent with the new OECD/DAC classification and the reporting requirements by the Swedish government.

OECD/DAC defines Programme-Based Approaches as 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"*. PBAs share the following features:

a) leadership by host country or organisation

b) a single comprehensive programme and budget framework

c) a formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting financial management and procurement[12] and

[12] For the purpose of classification of aid, the OECD/DAC has adopted the following criteria for c): There is a formalised process for donor co-ordination and harmonisation of donor procedures for at least two of the following systems: i) reporting, ii) budgeting, iii) financial management and iv) monitoring and evaluation.

d) efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation[13].

When working with PBAs, it is important to make a distinction between

a. the focus of the programme
b. the financing modality used to support the programme and
c. the form of cooperation or aid modality

Focus of the support

The focus of the support relates to the objectives and expected results of the programme supported by the donor partner. The programme can either focus on the implementation of a partner country's Poverty Reduction Strategy (PRS) in its entirety or it can focus on a specific sector, subsector or policy area. In relation to Non-Governmental Organisations, multilateral organisations or other organisations, the focus can either be on the overall programme of the organisation, e.g. its strategic plan, or on a specific programme of that organisation.

Financing modality

The financing modality is the way in which funds are channelled in support of the programme. A programme can be supported by different financing modalities. They range from budget support, that by definition uses national systems and procedures, to other modalities such as pooled funding and project financing that to a varying degree use special arrangements negotiated with donors. Characteristic for budget support is that funds are mixed with the partner government's domestic resources and are planned, channelled and reported according to the partner country's national procedures and systems. In a similar way, core funding to an organisation implies that funds are mixed with the organisation's own resources and are planned, managed and reported according to the procedures of that organisation.

Form of cooperation/Aid modality

The form of cooperation or aid modality describes the format of the cooperation between Sida and its partner. The form of cooperation is a wider concept than the financing modality. It combines the focus/purpose of the support with the design of the cooperation. For example, General Budget Support is a form of cooperation used for supporting the implementation of a country's Poverty Reduction Strategy as a whole, whereas Sector Budget Support is a form of cooperation that aims to support a specific sector or policy area. Thus, the focus of General Budget Support and Sector Budget Support differs, but the financing modality is budget support in both cases.

Donors can support and implement programme-based approaches across a range of aid and financing modalities, including budget support, pooled funding, trust funds and project financing, as long as the four PBA criteria above are fulfilled. However, the extent to which different forms of cooperation and financing modalities normally fulfil the PBA criteria vary. For example, budget support by definition uses national systems and procedures, whereas project support often uses special arrangements agreed with donors and therefore less often fulfil the PBA criteria.

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[13] The OECD/DAC has adopted the following criteria for d): The donor´s support to the programme uses at least two of the following local systems: i) programme design, ii) programme implementation, iii) financial management and iv) monitoring and evaluation.

Sida's position on earmarking and additionality

Earmarking can be defined as the tying of support to the financing of pre-specified areas/items within the partner country's or organisation's budget. When it comes to earmarking of expenditures within a state budget, the intention is that, by placing conditions on the use of funds, development partners can ensure that their financial support is spent on a certain sector, such as health. Earmarking is a financial concept and should not be confused with the purpose of the support. For instance, development partners may support a sector programme and have conditions with regard to reforms and results related to the sector without earmarking their support financially to the sector[14].

Financial earmarking is normally not effective due to the fungibility of budget resources. Fungibility implies that if the donor earmarks funds for expenditures in a certain sector, the partner government can withdraw the same amount of its own resources and spend them in other areas. The degree of fungibility is hard to assess and it depends on the degree to which the priorities of the development partner and the partner government coincide. Earmarking is also problematic from the point of view of allocative efficiency. Fragmented demands by development partners on funding levels for specific purposes undermine and complicate the budget process and thereby undermine ownership. Therefore, Sida should aim at non-earmarked financial support.

Additionality is another related concept. It involves requirements that donors´ support be additional to the partner government's own resources allocated to the sector and can also be problematic. Partner government's budget priorities are thus not respected and the budget process becomes supply driven by individual development partners who may only be interested in the development of a particular sector. This can severely distort the budget process and lead to the funding of some sectors at the expense of others. Furthermore, measuring additionality is virtually impossible because of the fungibility of resources and because it requires knowledge of how much the partner government would have spent in the absence of donor resources. For these reasons, Sida should engage in dialogue on the annual stat budget/Medium Term Expenditure Framework and its overall priorities and, to the extent possible, refrain from requesting additionality.

[14] Public Finance Management in Development Co-operation, A Handbook for Sida Staff, p. 131

List of Definitions

Forms of Co-operation/Aid Modalities

Form of Co-operation/Aid Modality – This concept describes the format of the cooperation between Sida and its cooperation partner. It combines the focus/purpose of the support with the design of the cooperation. The form of cooperation is thus a wider concept than the financing modality.

Programme-Based Approaches – 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". PBAs share the following features:

a) leadership by host country or organisation

b) a single comprehensive programme and budget framework

c) a formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting financial management and procurement and

d) efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation.

General Budget Support for Poverty Reduction (GBS) – a non-earmarked financial contribution to the recipient country's national budget with the purpose of supporting the implementation of the country's national development strategy such as a Poverty Reduction Strategy or equivalent. A characteristic of GBS is that funds are not financially earmarked for any specific sectors, thematic areas or expenditures, but constitute a general support for the implementation of the PRS. The term Poverty Reduction Budget Support, PRBS, is also used. The scope of GBS is normally operationalised in a jointly agreed Performance Assessment Framework (PAF), drawn from the PRS, which specifies key reforms and results indicators against which the GBS is monitored. A Joint Financing Arrangement or Memorandum of Understanding is normally agreed that specifies principles and procedures for the GBS cooperation. *(See further under financing modality: budget support).*

Sector Wide Approach, SWAp – a programme-based approach operating at the level of an entire sector or policy area. A SWAp is a process in which funding for the sector supports a single policy and expenditure programme under government leadership and adopts common processes across the sector.

Sector Programme Support – support for a sector programme (SWAp) at sector level. The support can focus on a sector, sub-sector or a policy/thematic area. A sector programme support implies co-ordinated financial support by several donors in support of a sector policy and a sector plan under the leadership of the partner Government. A sector programme support can use different financing modalities such as budget support or pooled funding. Often, a Joint Financing Arrangement is agreed with the donors using the same financing modality, in order to specify common procedures. A Performance Assessment Framework for the sector is often agreed with actions, indicators and targets for monitoring sector results.

Sector Budget Support – a form of sector programme support that uses budget support as the financing modality. Sector programme support is a financial contribution to the state budget with the purpose of supporting a strategy and plan for a sector, a sub-sector or a policy area. When providing sector budget support, the funds are part of the budget process in the partner country and are managed in accordance with national systems and procedures for public financial management. Conditions, dialogue and monitoring of results focus primarily on the sector or policy area. Sector programme support with pool funding – A form of sector programme support that uses pooled/basket funding as the financing modality.

Support to a Specific Programme managed by an Organisation – Support to an organisation with the purpose of supporting a specific sector, policy area or geographical area. This form of cooperation involves both support where an organisation (often an international organisation) is used as a channel for the support (e.g. a Multi Donor Trust Fund administered by the World Bank) and support to a part of an organisation's own work programme (e.g. support for a research programme of a research institution). The extent to which this form of co-operation can be considered as a PBA depends on whether the four criteria for a PBA are fulfilled.

Project – A project is a set of inputs, activities and outputs, agreed with the partner country, to reach specific objectives/outcomes within a defined time frame, with a defined budget and a defined geographical area. Projects can vary significantly in terms of objectives, complexity, amounts of funds involved and duration.

Financing Modalities

Financing Modality – the way in which funds are channelled in support of the programme. A basic distinction can be made between budget support, on the one hand, which is part of the national budget process of the partner country and used according to national public financial management rules and procedures, and other types of support, on the other hand, which are more or less using parallel systems and procedures agreed with donors.

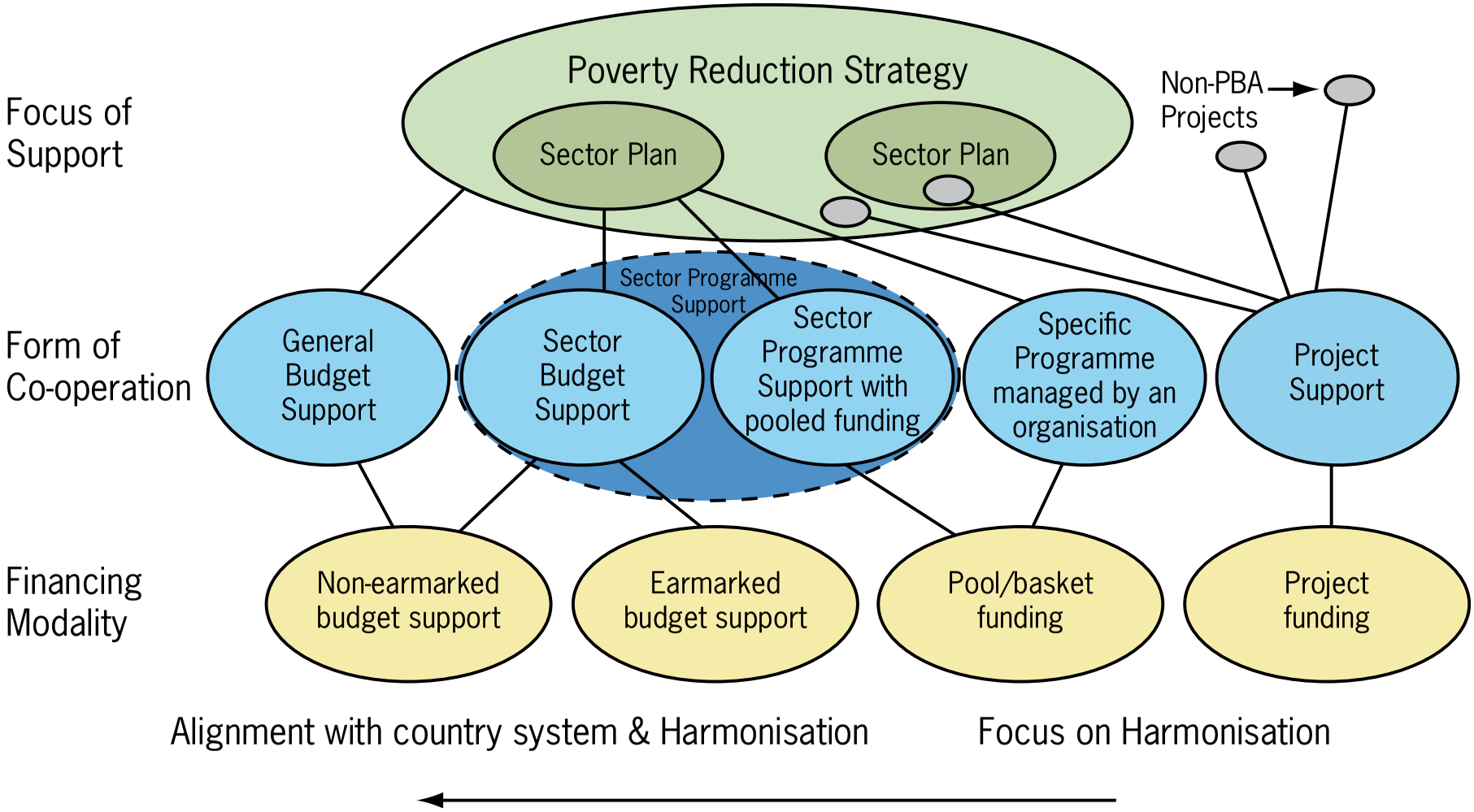
Budget Support – a financial contribution to the partner country's national budget. The funds are an integral part of the budget process in the partner country and are fully managed in accordance with national systems and procedures for public financial management. Characteristic for budget support is that funds normally are channelled to the Treasury of the partner country and that funds are mixed with the partner government's own resources.

Pooled Funding/Basket Funding – joint financing by a number of development partners of a set of activities through an autonomous bank account. Pooled funding typically includes special arrangements and procedures agreed with donors, for example, with regard to disbursement, procurement, reporting, monitoring and audit. The procedures and rules governing the basket fund are common to all development partners, but their conformity with the public expenditure management procedures of the recipient government may vary.

Project Funding – parallel financing through separate accounts and procedures for an individual development intervention designed to achieve specific objectives within specified resources and implementation schedules.

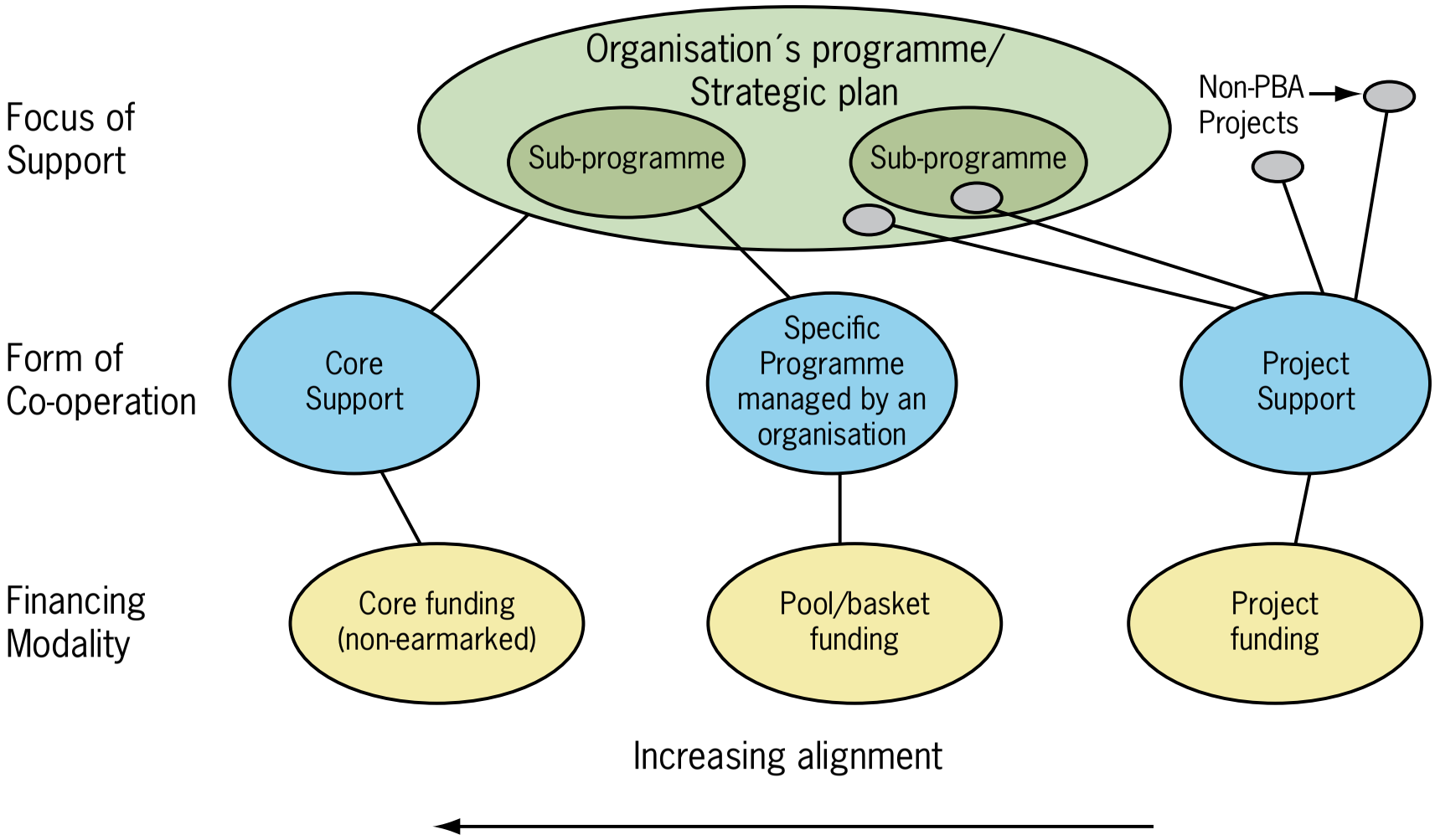
Programme-Based Approaches

Overview of forms of co-operation and financing modalities for support to a partner country



Programme-Based Approaches

Overview of forms of co-operation and financing modalities for support to an organisation



Annex 2 Further Reading and Methodological Support

Methodological Support

Guidelines on the Programming, Design & Management of General Budget Support, European Commission, January 2007.

Guidelines for General Budget Support for Poverty Reduction, Swedish government, April 2008

Support to Sector Programmes. Covering the three financing modalities: Sector Budget Support, Pool Funding and EC project procedures. European Commission, July 2007.

OECD/DAC: Budget Support, Sector Wide Approaches and Capacity Development in Public Financial Management. DAC Guidelines and Reference Series, 2005.

Public Finance Management in Development Co-operation – A handbook for Sida staff. Sida, April 2007.

How to Start a PBA, Janet Vähämäki and Camilla Salomonsson, January 2008

References and Further Reading

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Joint Evaluation of General Budget Support 1994–2004, IDD and Associates, 2006.

Inventory of Programme Support at Sida 2000–2006. POM Working Paper 2007. Martin Schmidt

Sector Engagement in Programme Based Approaches, Sida, May 2007.

Questions and Answers on Programme Based Approaches, POM Working Paper 2005:7

Current Thinking on the Two Perspectives of the PGD, Sida, 2006

Managing for Development Results Principles in Action – Source book on emerging good practice. OECD/DAC, May 2007.

The Paris Declaration in Practice – A Review of Guiding Documents in Sector Programmes, Camilla Salomonsson and Martin Schmidt, March 2007.

Review of Five Assessments for Sector Programme Support, Sida, March 2007

Common funds for sector support – Building blocks or stumbling blocks? ODI Briefing paper, February 2008.

Policy Paper and Principles on Anti-Corruption, OECD/DAC, 2007.

The Challenge of Capacity Development, Working Towards Good Practice. OECD/DAC, 2006.

Policy for Sida's support to civil society in development cooperation, May 2007.

Principles for good international engagement in Fragile States and situations, OECD/DAC April 2007.

Sida works according to directives of the Swedish Parliament and Government to reduce poverty in the world, a task that requires cooperation and persistence. Through development cooperation, Sweden assists countries in Africa, Asia, Europe and Latin America. Each country is responsible for its own development. Sida provides resources and develops knowledge, skills and expertise.
This increases the world's prosperity.

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