WORLD BANK OPERATIONS EVALUATION DEPARTMENT

Moving from Projects to Programmatic Aid

OED Working Paper Series ♦ No. 5

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Summer 2000
The World Bank
Washington, D.C.

www.worldbank.org/html/oed

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Acknowledgments

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The Working Paper Series is published by the Partnerships and Knowledge Group, Outreach and Dissemination Unit, by Elizabeth Campbell-Pagé (team leader), including Caroline McEuen (editor), Kathy Strauss and Aichin Lim Jones (graphics and layout), and Juicy Qureishi-Huq (administrative assistant).

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Preface

Despite the potential benefits of globalization and technological change, world poverty has increased and growth prospects have dimmed for developing countries during the 1980s and 90s. The Comprehensive Development Framework (CDF) was launched by the World Bank in January 1999 in response to these difficult circumstances. It has evoked considerable interest throughout the development community as an approach that can address the increasingly intertwined challenges faced by development practitioners. Its basic elements are not new. What is new is their joint articulation as a framework to guide development assistance. The first point is that development constraints are structural and social, and cannot be overcome through economic stabilization and policy adjustment alone—they require a long-term and holistic vision of needs and solutions. Second, policy reform and institutional development cannot be imported or imposed; without domestic ownership, reforms and investments are not sustainable. Third, successful development requires partnership among government, local communities, the private sector, civil society, and development agencies. And fourth, development activities must be guided and judged by results.

In this context, the *1999 Annual Review of Development Effectiveness* (ARDE), authored by Nagy Hanna under the guidance of Robert Picciotto, set out to examine development experience through the lens of CDF principles. A number of papers were commissioned to support the ARDE by providing in-depth review of evaluation and research findings that assess the relevance of the CDF principles and constraints as well as promising approaches to their implementation.

Introduction

Donor agencies and multilateral lending institutions are paying more attention to turning traditional project-based approaches into aid for broader public expenditure (programmatic aid). This involves incorporating aid resources more fully into the budget of the aid-receiving country, using the government's, instead of special project, systems and changing donors' accountability instruments and methods.

This implies moving through a hierarchy of approaches—from individual projects to sector approaches with common financing mechanisms and beyond to budget support. The process is one of capacity building that requires donor cooperation and strong leadership from the aid-receiving government.

This paper reviews three issues in this process and the links between them. First, experience with the application of sectowide approaches. Second, the record of attempts to improve fiscal management through establishing medium-term expenditure frameworks. Third, the potential role of some specific World Bank lending instruments in supporting these moves.

Failing to link policy, planning, and budgeting may be the single biggest contributor to poor budget outcomes at the macro, strategic, and operational levels in developing countries. A rigorous medium-term expenditure (or budget) framework is now generally accepted as a necessary step for improving the overall effectiveness of fiscal management and aid. However, there are often serious practical difficulties for implementation. A medium-term fiscal framework (stating fiscal policy objectives and integrated targets and projections) differs from a medium-term budget framework, which builds on the medium-term fiscal framework, with medium-term estimates broken down by spending agency. In practice, medium-term expenditure frameworks have often involved both medium-term budget frameworks and additional budget innovations aimed at establishing activity-, output-, or outcome-based budgeting ("extended medium-term expenditure frameworks").

Although there is no necessary connection between a sectorwide approach and a particular financing instrument, some instruments are more useful than others. Sector investment and maintenance loans have been used to support sectorwide approach-type initiatives, but their relative inflexibility makes them impractical for a lender-of-last-resort role to support a sector program. Adaptable program loans, however, are more flexible instruments that may support processes where there is agreement on long-term results but a need for short-term flexibility in how they should be achieved.

Experience with Sectorwide Approaches

Lack of agreement on definitions of sector programs and approaches have caused confusion. This chapter defines a sectorwide approach as an effort to bring donor support to a sector within a common management and planning framework for implementing an agreed sector strategy. Its most important feature is that is brings the sector budget back to the center of policymaking and unifies expenditure management in pursuit of agreed sector objectives. This definition highlights several key elements:

- A sectorwide approach is a *process* not a particular instrument or program.
- At the core of the sectorwide approach are the sector strategy and the public expenditure program that supports it.
- A common management and planning framework may be involved, but does not necessarily imply a common pool funding mechanisms.

This definition is broader than that of Harrold (1995), which defines six essential features of a sector investment program:

- Sectorwide in scope and covering both current and capital expenditures.
- Based on a clear sector strategy and policy framework.
- With local stakeholders fully in charge.
- Signed on by all main donors in a process led by government.
- With common implementation arrangements.
- Using local capacity rather than long-term technical assistance for design, management and implementation.

Using definitions based on this set of features has led to certain problems. It has encompassed both the broader sectorwide approach (based on integrated budget support) and a more controversial view about particular problems and proposed solutions. Particular stakeholder consultation mechanisms and roles for technical assistance were argued to be central to increasing ownership—an approach not endorsed by all donors. At the same time, the Harrold definition (in effect) set out guidance for a specific type of World Bank operation. Narrow donor concerns—the definition of a sector, how many features a program needs to be classified as a sector investment program—dwarfed more fundamental issues in discussions. There has been tendency to focus on specific financing mechanisms rather than other "process markers" that might be implied by the broader sectorwide approach definition given above.

Donor organizations have also used the sector terminology to refer to the coordination of their project activities with government activities—while not necessarily implying a broader coordination with other donor programs or with the government. This confusion between donors has in turn created difficulties for the promotion and discussion of the concept with aid-receiving governments, contributing to the frequently long and unsatisfactory preparation processes for sector investment programs. There is no necessary tie between the sectorwide approach as defined here and specific World Bank instruments: a range of instruments could support such a process. By the same token, using a sector investment and maintenance loan as a lending instrument, for example, does not imply a sectorwide approach.

The Underlying Problem

Why do we need sectorwide approaches? Because of inadequate planning for the recurrent costs of investments, too many project management systems, too much/little technical assistance, and too little coordination among donors. Underlying all this is the breakdown of the budget process through which the government manages its activities in a sector. Where sectorwide approaches are most relevant (where aid dependence is high), the budget process is failing to deliver one integrated planning and management system for public funds, including resources supplied by donors.

This is caused by donor attempts to bypass both macroeconomic and administrative constraints to maintain funding for particular activities. These constraints became intense during pre-adjustment macroeconomic and political crises and were exacerbated by the pressures on government expenditure and central bank lending (not matched by civil service staffing cuts or improved civil service efficiency) accompanying structural adjustment programs. This made it increasingly difficult to meet counterpart funding obligations. The increasing emphasis given to social sectors under adjustment by donors also contributed to high sector-level aid dependence.[1] Aid increased when government management capacity was severely eroded.

Governments have accommodated this movement of donor funds beyond the budget for a variety of reasons:

- Since the budget process cannot guarantee a reliable and timely supply of funds (especially for nonstaff costs), managers have an incentive to bypass the budget to secure resources directly from donors, and to resist integrating management of donor funds into the budget.
- The expansion of the project and donor bureaucracy increase demand for management and policy analysis skills, often in posts far better paid and with better equipment and conditions than the civil service can provide.
- Donor willingness to fund particular sectors (such as health, education, and agriculture) may have allowed governments—in a time of fiscal stringency—to sustain funding to politically sensitive sectors unattractive to donors. The price: increased donor dependence and higher transactions costs.

The result has been a comprehensive breakdown of both accountability and management of public expenditure. The sectorwide approach tries to bring the sector budget back to the center of policymaking to unify expenditure management. This can increase the effectiveness of aid and government expenditures in achieving agreed development objectives.

Progress with Sectorwide Approaches

No initiative by aid-dependent countries has realized all elements of the sectorwide approach:

- A common management and planning framework encompassing all major donor and government activities.
- A strategy-led public expenditure program that integrates recurrent and development expenditure and is embedded in a broader medium-term budget framework.
- A common pool funding arrangement that includes most of the sector budget.

How can we draw conclusions from incomplete experience? We can look at why some processes have progressed more slowly or encountered more problems than expected. And we can look at promising approaches that have yet to bear fruit.

One starting point is a recent Special Program of Assistance for Sub-Saharan Africa exercise that used survey responses from donors to classify sectorwide approaches based on five criteria (annex table 1).

- Existence of a comprehensive sector policy and strategy framework.
- Existence of a medium-term sectoral expenditure framework and an annual sectoral expenditure program.
- Consistency between the sectoral expenditure program and the overall macroeconomic framework.
- Satisfactory macroeconomic management (compliance with International Monetary Fund macroeconomic program).
- Donor coordination organized by the government with all major donors providing support within the agreed sector framework.

Roads saw the most progress, followed by health and education. Despite strong initiatives by the World Bank, agriculture has achieved little (Jones 1999).[2] Why the disparity? The roads sector boasts simple institutions and clearly (and narrowly defined) policy problems. It (usually) suffers only unpredictable funding and corruption in contracting institutions.[3] Health and education by contrast receive a large share of budget expenditure (as does roads) and are a central focus of poverty-oriented development strategies. Broad consensus around at least some key sectoral policy issues (including the role of the state in primary healthcare and education) has emerged in several countries.[4] Agriculture, however, has complex institutions and downward budget pressure as the state withdraws from a direct role in production, marketing, and service provision. There are also disagreements between governments and donors (and among donor agencies) about the role of the state.[5]

Only Ethiopia and Uganda[6] have programs that meet all five criteria in more than one sector. Both have particularly strong and effective Finance Ministries and high-level political commitment to fiscal discipline, and thus predictable budgets. Although other countries (such as Ghana and Zambia) have achieved progress at sector level, macroeconomic and associated fiscal instability has undermined the gains.

Regarded as particularly advanced and significant initiatives, the processes reviewed in 1996[7] (Jones 1997a) did not meet the five criteria three years later—for several reasons. As pioneering programs they were treading untested ground, and both the Zambia Agricultural Sector Investment Program and the Tanzania Integrated Roads Program had design defects. And macroeconomic instability and increasing tension between government and donors over governance undermined programs in Zambia.

More generally, promising processes took more time. For example, Asamoa-Boah and Smithson (1999) argue that there were four stages in developing the Ghana Health program. The first began in the late 1980s as dissatisfaction developed with donor-inspired projects. The second, in the early 1990s, experimented with new forms of donor support and broad consultation on options. The third, 1993–95, developed a medium-term strategic framework. And the last, from 1996 to the present, elaborated common management arrangements, and a sector program began to replace projects. In 1999 the process survived its strongest test when concerted donor action prevented hospital spending that was outside the agreed expenditure framework. A new medium-term expenditure framework process may provide greater budget predictability.[8]

Asamoa-Boah and Smithson (1999) identified the following as factors in Ghana's success:

- A history of intensive capacity-building created a critical mass of potential supporters of reform with a common vision. It also helped the Ministry of Health reorganize along functional lines, and it strengthened management systems and budgetary reform, making resource allocation more transparent.
- The Ministry of Health became more assertive as donors became more flexible. Official development assistance from the World Bank, Danida, and the United Kingdom linked preparation of new tranches of support to the broader process, while long-term technical assistance helped bridge donors and the Ministry.
- The Ministry of Health argued that government management systems special units like a health reform secretariat should undergird program implementation.
- Modest in its commitments and timetables, the Ministry of Health concentrated on building support from a broad constituency in the health system (particularly senior managers at the regional level).

Problems in Applying the Sectorwide Approach

Key preconditions for moving toward a sectorwide approach are:

- Strong and effectiveness leadership at the sector ministry level.
- Commitment to the process elsewhere in government, particularly in the ministry of finance and at a senior political level.
- Broad consensus between government and donors on key policy and management issues for the sector.
- A reasonable degree of macroeconomic and political stability leading to a relatively high level of budget predictability.

If these conditions fail to hold, problems arise:

- *Weak leadership from the sector ministry.* If the sector ministry is not the leader the donor will be, and its concerns (policy, ideology, project cycle and timetable, desire to maintain the flow of funds) will drive the process. When this happens, planning and consultation processes (donor-funded) run parallel to normal government systems. In agriculture, for example, long and costly processes of "program preparation"—in Kenya, Lesotho, and Malawi—center around "secretariats" and "task forces" with only loose ties to government. At best, donor initiative will spark discussions of key sector problems and help achieve some rationalization of donor activities. At worst, the ministry will see the sector program as another set of donor requirements for project preparation, and other donors can become alienated. Weak (or poorly embedded) ownership at the wider political and stakeholder level can leave the process vulnerable to shifts of personnel or political power.
- *Lack of commitment from the ministry of finance and senior politicians.* Lack of involvement and commitment from the Ministry of Finance means that the process is not integrated into the budget cycle and there can be no assurance that plans will be funded. In this situation there are few incentives for the sector ministry to seek more transparency in the use of donor resources (by bringing them within the budget envelope) and no prospect of implementing a coherent medium-term expenditure program for the sector.
- *No consensus between government and donors on policy and management.* Ideally, disagreement will lead to consultation, discussion, and research from which consensus may develop. But if the desire of both donors and government to maintain funding flows and keep the process formally on track causes them to fudge key issues, these will re-emerge as points of contention. What was perceived by donors as persistent backtracking by the Zambian government on commitments not to intervene in maize and fertilizer markets undermined the credibility of the process in Zambian agriculture (Chiwele 1998). Divergent expectations are another problem—as seen in the early stages of the Ethiopian Health and Education Sector Development Programs.[9] Typically, a ministry exercising strong leadership has a clear agenda aimed at moving quickly to common pool financing and reducing transaction costs in aid management. Some donors may see this as unrealistic may be more interested in having policy discussions, and will have concerns about their own objectives.
- *Macroeconomic and political instability.* A weak macroeconomic environment and disagreements about governance can easily derail sectorwide approaches. Failure to embed the program in a broader macroeconomic and expenditure framework increases its vulnerability to budget shocks.

If these problems are resolved, donors and aid-receiving governments will face such management issues as:

- *Financing arrangements, particularly the scale and form of pooled funding arrangements.* Even relatively advanced arrangements (like the common pool funding of district health services in Zambia and Ghana) account for only a small fraction of donor expenditure and a minority of donors, and require heavy prior investment in system development. For some donors (the United States and Japan), such funding arrangements are infeasible for fiduciary reasons.

- *Measuring performance and setting conditions for tranche release.* Limited experience with time slice financing through common pool arrangements means there has been little opportunity to address this problem. Donors need to decide what form of conditionality can ensure accountability. The most straightforward arrangement would be to link disbursements to government performance in providing counterpart resources (to achieve incentive compatibility). Or more ambitiously to link them to achieving sector performance targets and maintaining key policies. This may require an unrealistic degree of donor flexibility. While common financial systems are not necessary to ensure coordinated sector financing, some agreement on appropriate performance criteria (and how donors should react to failure to achieve agreed criteria) is necessary. In the Zambia ASIP slow data collection and processing delayed implementation of a highly sophisticated sector performance measurement system, and ultimately no attempt was made to tie fund disbursements to these performance criteria. These issues are discussed in relation to the World Bank's experience with programmatic instruments in section four.
- *Decentralization.* In many countries, developing sectorwide approaches co-exists with decentralization. Although compatible in principle, the two may conflict in practice (Akroyd and Duncan 1998). The amount of tension depends on the level of government at which intersectoral resource allocation decisions are made. Under a system of tied or conditional grants, central budget planning and service-standard setting can be the basis for a sectoral program. If a local government can freely use its revenue or block grants, the scope for national sectorwide approaches will be limited. In Ghana there are national services for education, health, and forestry.
- This preserves unified sector management but limits decentralised decisionmaking. Field staff from the Ministry of Food and Agriculture are moving to local government, and it is unclear how budget mechanisms will maintain an integrated sector approach.
- *Weak capacity.* One reaction to weak government capacity (and sometimes to disagreements between donors and government on the role of the state) has been to increase direct donor funding to NGOs that provide services that complement or substitute for government services. Improved government capacity makes it easier for donors to channel funds through government to NGOs, or to switch funding to government services.

Emerging Best Practice in Applying Sectorwide Approaches

Several basic principles have emerged from experience:

- Let the government lead—with donor support. Resist the urge to substitute donor initiatives for local ownership, and don't mistake one for the other. Donors with strong history of involvement in the sector, but without a strong commitment to particular projects, are the best sources of information and guidance.
- Avoid parallel systems. Instead, strengthen and reform government budgeting and planning.
- Involve the Ministry of Finance—there are strict limits to what a sector ministry can achieve alone. Where the Ministry of Finance has not been closely involved from the start (and has not provided guidance on the resource envelope for planning) the process may be derailed or delayed by budget disagreements.[10] But it is also important that line

ministries have the authority to set priorities in line with agreed strategies (in the event of unforeseen budget cuts, for example).

- Build and economize on management, planning, and policy skills within government. This will reduce the transaction costs of aid management.
- Be realistic about decentralization. Are plans feasible given current institutional capacity? Do they clearly define roles of different levels of government?
- Learn from similar experiences in other sectors and other countries. The Ministry of Finance should take a lead to make this happen.
- Move slowly and realistically when developing pooled funding arrangements. This requires careful preparation and capacity building, and doesn't have to achieve unified planning and resource management. Rather, the priority should be establishing common review processes and timetables.
- Educate stakeholders. What is the rationale behind a sectorwide approach? What problems does pooled funding create, and how can we solve them? How do we address safeguard policies? Must all government activities in the sector be compatible with donor safeguards, or just those for the project?

What should donors do when a precondition isn't met? They must decide whether engagement or disengagement will best foster change and consensus building, and whether to focus more on the central or sectoral level. Dropping all conditions for a sector program initiative is not the answer. Donors should simplify and coordinate their activities while engaging in strategic discussion and building common vision (through sector and public expenditure reviews, for example). The Ministry of Finance and senior political leaders should be encouraged to provide strategic guidance.

Experience with Medium-Term Expenditure Framework Initiatives

Failing to link policy, planning, and budgeting may be the single biggest contributor to poor budget outcomes at the macro, strategic, and operational levels in developing countries. A rigorous medium-term expenditure (or budget) framework is now generally accepted as an effective institutional and technical solution. The World Bank's *Public Expenditure Management Handbook* describes the medium-term approach as the "linking framework" that "facilitates the management of the tension between policy and budget realities to reduce pressure throughout the whole budget cycle."[11] The International Monetary Fund's *Manual on Fiscal Transparency* also emphasizes the need for a "clear statement about the broader fiscal policy objectives of the government, the implications of current fiscal policies in future years, and the sustainability of the fiscal position over the medium term." These must be stated in a fiscal and economic outlook paper. In public expenditure reviews, inadequate medium-term frameworks are given more attention than any other budgetary issue.[12]

In many respects then, the medium-term framework has become the new panancea of public expenditure management, and a logical mechanism around which to structure public expenditure reform loans or other government-wide instruments of budget support.

If the medium-term expenditure framework (or medium-term budget framework) is to be a useful operational tool for the World Bank and bilateral agencies, three questions must first be answered:

- How do we define a medium-term expenditure framework, and how does it differ from a medium-term budget framework?
- What are the essential institutional and technical features that distinguish a successful framework?
- Is the medium-term expenditure framework agenda tooambitious? How have developing countries handled these new frameworks, and what does that tell us about the preconditions for success?

The answers to these will begin to show us what the medium-term framework can do as an integrating macro perspective for sector programs, and as a mechanism around which to structure scaled-up lending instruments.

Distinguishing Medium-Term Budget Frameworks and Medium-Term Expenditure Frameworks

The medium-term framework can evolve through three developmental stages. It begins as a medium-term fiscal framework—a statement of fiscal policy goals and a set of integrated medium-term macroeconomic and fiscal targets and projections. (The International Monetary Fund's *Manual on Fiscal Transparency* includes this as part of the minimum requirements).

The next step is a medium-term budget framework, comprising both the medium-term fiscal aggregates and a set of integrated, consistent medium-term estimates broken down by spending agency. The idea is to express strategic priorities in terms of medium-term resources, thus providing a measure of budget predictability to spending agencies while respecting the constraints of fiscal discipline. Thus, the medium-term budget framework might be considered the most basic type of medium-term expenditure framework.[13] Taken in this sense, medium-term expenditure frameworks and medium-term budget frameworks are synonymous. A basic framework of this kind focuses on the "level one" and "level two" objectives of public expenditure management[14]: maintaining aggregate fiscal discipline and strategic prioritization of resource allocations. In so far as it succeeds in making policies and budgets more predictable, it may also achieve the level three objective of operational efficiency.

Medium-term expenditure framework initiatives as they have been implemented in practice have often involved additional budgetary innovations aimed at moving towards activity-, output-, or outcome-based budgeting. Reforms that seek to improve operational efficiency in addition to reinforcing fiscal discipline and improving strategic prioritisation are called extended medium-term expenditure frameworks.

There are advantages and disadvantages to integrating medium-term budget frameworks and more detailed, performance-focused reforms within extended medium-term expenditure framework initiatives. On the one hand, integration promotes consistency in budgetary reform and gives an overall performance focus to budgetary initiatives. And if output-focused budgeting approaches can reveal the true cost of policies, it will facilitate a more informed debate on strategic priorities and thus a more robust set of decisions on intersectoral resource allocations. There is significant evidence that inefficiencies in government expenditure may mean that boosting sectoral expenditure levels will do little to improve outcomes (for examples see Gupta, Honjo and Verhoeven 1997, and Ablo and Reinikka 1998 for Uganda).

On the other hand, establishing and maintaining a rigorous and effective medium-term budget framework requires addressing many technical, political and human resource issues. Simultaneously introducing radical changes to the structure of budgeting may overload fragile management and implementation capacity. Any resources directed elsewhere may prejudice its effective introduction.

Lessons from Experience

From basic medium-term budget frameworks in South Africa and Uganda to more advanced medium-term budget frameworks in the OECD countries, and from extended medium-term expenditure frameworks in Ghana and Malawi we have learned that:

- Stringent conditions must be met to achieve the full benefits of a medium-term budget framework (IMF 1999).
- Developing countries probably cannot meet these conditions. But the gap between the expenditure implications of policies and the resources available to finance budget operations is typically so large that even basic acceptance of the principles of a medium-term budget framework will make sector policies and plans more realistic.
- Government commitment to fiscal policy objectives must override all other policy commitments. Governments facing overriding political pressure to increase spending (like in Ghana pre-1996) can undermine this commitment; senior political leaders and the Ministry of Finance can reinforce it (Uganda, South Africa). The weakness of the Malawi medium-term expenditure framework is largely attributable to the lack of such commitment.[15]
- Opportunities for obtaining extra-budgetary resources should be controlled. This is difficult in highly aid-dependent economies, especially so in highly aid-dependent sectors (typically, agriculture). Sectorwide arrangements can help, as they did in Uganda and Ghana's education sectors.
- Budget-driven policy change is sustainable only if resource allocations (and ideally the actual level of funding) become more predictable as a result of the establishment of medium-term expenditure frameworks. South Africa[16] achieved this; and Uganda has made significant progress too. And Uganda has been able to sustain this reform by bringing in more aid for programs and sectorwide approach arrangements.[17] Ghana and Malawi still have unpredictable budgets, and indications show that this is impeding budget coverage and reforms for policies to improve sustainability.[18] There is a severe danger of undermining the credibility of the process if governments are unable to stick to their commitments.[19]
- Technical improvements to revenue and debt forecasting and measures to smooth the flow of budget support grants will quickly make the budget more predictable. And technical improvements quickly highlight situations where government is inflating revenue estimates to avoid hard decisions on the budget.
- Making policy- and programs-costing more accurate will take a while—it requires a full base of information and a sector ministry interested in improving policy making and budgeting. Incentives for this need to be introduced and sustained.

The Role of Programmatic Instruments

Although there is no necessary connection between a sectorwide approach and a particular financing instrument, some instruments are more useful than others. Gavras (1998) identifies four types that can help a sectorwide approach create common funding arrangements.

- Traditional investment financing for specific components, with or without special accounts
- Tranches that may be linked to progress indicators
- Reimbursement of certain expenditures over a certain period in line with agreed priorities (time-slice financing)
- Some combination of these.

Gavras argues that time-slice financing is the most flexible, and therefore particularly suitable for financing sectorwide approaches because it can provide targeted reimbursable support. Time-slice mechanisms are applied to specific policies or outcomes and can be easily adapted to different preparation and implementation cycles. And using them can eliminate special accounts (which bypass and complicate normal government procedures and can lead to severe disbursement delays, as with Zambia ASIP). In principle, donor coordination around simple time-slice financing could be achieved. In practice, several factors are likely to complicate the financial arrangements supporting the sectorwide approach: differing terms of financing, desire for a geographic or specific subsector or functional expenditure category focus, differential financing rates or conditions on the recurrent/development split.

Two main types of programmatic instruments have been used to support sectorwide approaches,[20] sector investment and maintenance loans/credits and adaptable program loans.

Sector Investment and Maintenance Loans

Sector investment and maintenance loans are a traditional Bank lending product.[21] They have supported several candidate sector programs in the 1990s in Zambia (health, $56 million; agriculture, $60 million) Ghana (basic education, $50 million), and Ethiopia (education, $100 million). But the sector investment and maintenance loan's inflexibility—in relation to the "lender of last resort" role that the World Bank sought to fulfil—created problems in both Zambia programs (Jones 1997a).

The Morocco Agricultural Sector Investment Loan I (1992–1994) was conceived to provide time slice financing for the government's agriculture investments, improve how this money was invested, strengthen the Ministry of Agriculture's institutional capacity, and continue key sector policy reforms. But there was no attempt to agree on performance benchmarks or the expenditure program for the sector, or to coordinate with other donors. Another key problem was the Ministry's lack of interest —it didn't think the operation was increasing budget resources. And problems implementing complex procurement and disbursement procedures dominated supervision.

The Performance Audit Report (World Bank 1999b) found that the operation did not achieve its objectives of extending the policy dialogue or contributing to substantial institutional capacity building (with the exception of its contribution to privatizing veterinary services). Specifically, it found that time-slice financing for sector investment programs:

- Should be deferred until all key policy reforms have been implemented.
- Requires prior implementation of government restructuring based on comprehensive expenditure reviews, which must be coordinated with other donors.
- Requires clear progress benchmarks.

Adaptable Lending Instruments

Adaptable lending instruments are "programmatic across time and project components rather than across spending categories". The adaptable program loan "provides funding for long-term development programs where there is clear agreement on long-term objectives but where the path to achieve them requires much learning from results. A sequence of adaptable program lending starts with a first loan to fund the initial set of activities: subsequent funding is provided when agreed milestones are met."[22] The expected outcomes are:[23]

- Greater flexibility in adapting project design as borrower conditions and partnerships evolve.
- More structured support for projects entailing behavioral change.
- Less money and time committed to preparing operations that need flexible planning.
- Encouragement of a results culture.
- Reduced risk to borrowers and the Bank, who can exit easily from operations.

Adaptable program loans have also supported some sector programs: Turkey Basic Education (1999, $300 million), Mozambique Agriculture (1999, $30 million), Guinea Population and Reproductive Health (1999, $11.3 million), Zambia Basic Education (1999, $40 million) and Uganda Roads (1999, $40 million).

A review of initial experience (World Bank 1998c) with the two adaptable lending instruments was positive. The instruments are responding to borrowers' needs while providing greater flexibility for the Bank and opportunities to improve partnerships. The main problems related to the difficulty of reaching internal agreement within the Bank on how to meet fiduciary and safeguards policies, and how to set and use sector performance targets as a basis for joint donor fund-release decisions. Three main types of adaptable program loans were identified:

- Horizontal expansion.An approach is tested in one area and then scaled up geographically.
- Vertical deepening.The program develops through successive, logically sequenced stages of reform or investment.
- Maturation process.Arange of complementary activities are carried out from the beginning, becoming more sophisticated and effective through learning.

In each case, the key test is whether the program can meet the performance conditions that will trigger second and subsequent phases and funding, and whether these performance conditions are fair. The quality at entry report reviewing eight adaptable program loans noted that "the Bank and the clients need to focus more closely on setting appropriate triggers linked to key issues. Otherwise … there would be a risk of being locked into financing longer-term programs without sufficient progress on substantive issues" (World Bank 1999e). For example, the quality at entry review of the Turkey Basic Education Project (World Bank 1999d) criticized the triggers for second tranche release for being too conservative and for relating to the Bank's investment rather than to the government program.[24] The review also found that the operation ignored the risks of recurrent cost increases implicit in expanding basic education.

Adaptable program lending may prove to be the most appropriate instrument for supporting sectorwide approaches, at least in sectors that require lots of flexibility in financing (where a "lender of last resort" role is envisaged, for example). The review found that "most operations support broad sectoral development agendas at the level of full sectors and nations, or subnational regions. Again, it is likely that several operations would not have been brought to approval stage without the new instrument, owing to the difficulty in specifying adequately *a priori* activities, costs, implementation arrangements, and results beyond a three- to four-year time horizon" (World Bank 1998c).

Conclusions

The key requirement for moving from project-based planning and implementation to sector approaches with common financing mechanisms is the overall strengthening of the budget process. When the amount of aid is large, the key is to bring it all within the budget envelope. When the amount of aid is small (and is used for pilot programs or capacity building, and the like) lower level solutions may be better.

Sectorwide approaches can succeed in the proper environment: strong leadership and commitment to improving public expenditure management at the sector, ministry of finance, and most senior political level, donor cooperation and some consensus among donors and government on sector objectives and strategies, and a coherent process of capacity development that will make all this possible.

Annex

Annex Table 1. Results from the Special Program of Assistance for Sub-Saharan Africa Survey

Threshold level passed	Sector	Country*
1 and 2	Roads	Benin
		Cameroon
		Côte d'Ivoire
	Health	Ethiopia
		Senegal
		Uganda
		Zambia
	Education	Ethiopia
	Agriculture	Guinea?
	Energy	Madagascar
		Mali
		Senegal
		Ethiopia
		Uganda
		Mozambique?
		Kenya
1	Roads	Ghana
	Health	*Burkina Faso*
		Ghana
	Education	Mauritania
	Agriculture	Mozambique
		Zambia
		Ghana
		Mozambique
		Kenya
None	Roads	Tanzania
	Health	Côte d'Ivoire
	Education	Niger
	Agriculture	Tanzania
	Urban Sector	Zambia
	Water	Tanzania
		Mozambique

Note: Threshold 1: existence of a comprehensive sector policy and strategy framework, and existence of a medium-term sectoral expenditure framework and an annual sectoral expenditure program. Threshold 2: consistency between the sectoral expenditure program and the overall macroeconomic framework, satisfactory macroeconomic management (compliance with International Monetary Fund macroeconomic program), and donor coordination organized by the government with all major donors providing support within the agreed sector framework.

* Italics designate answers on a single donor response. A question mark indicates incomplete consensus.

Endnotes

1. For example, aid to the health sector in Ghana increased from US$1 million in 1984 to US$12 million in 1990, and US$25 million by 1995. By 1992 there were 15 major external agencies supporting the health sector (Asamoa-Baah and Smithson 1999, p.3).

2. This may reflect a general problem with the quality of agriculture operations. The QAE report found that one in three new Bank projects in the agriculture sector in 1998 should be rated less than satisfactory with the main weaknesses being in sector analysis, financial risk assessment, inappropriate conditionality and M&E arrangements (World Bank 1999e).

3. Both these problems were encountered in the case of the Tanzania Roads Sector, which had previously been seen as a pioneering sectoral initiative.

4. Hay (1999a) argues though that there has a tendency in several Health sector programs to avoid confronting fundamental issues about the role of the state in the sector. This has caused subsequent delays or problems.

5. The appropriate role for and modality of public sector extension provision has been a particular area of conflict in the past.

6. Hay (1999b) however argues that in the Uganda Health, sector there are major unresolved issues about fiscal sustainability of the extensive role for government in service provision that is envisaged, and that these are likely to limit further progress unless agreement is reached.

7. These were Zambia Agriculture and Health, Mozambique Health and Tanzania Roads.

8 Problems in macroeconomic management probably account for the classification of the Ghanaian programs in this exercise.

9. Jones (1997b).

10. This happened in the case of both the Kenyan and Mozambican agriculture programs, where the costed programs developed at sector level far exceeded budget ceilings subsequently indicated by the Ministry of Finance.

11. World Bank (1998b), p.32

12. In only four out of a selection of 19 African countries surveyed in 1998 was there an expenditure framework in place which projected an aggregate expenditure ceiling over a 3-5 year horizon, consistent with macroeconomic targets (Kostopoulos 1999).

13. World Bank public sector web-site: “What is medium-term expenditure framework ?”

14. The *Public Expenditure Management Handbook* categorises desired budgetary outcomes into three levels of objectives: Level One—maintenance of aggregate fiscal discipline; Level Two—

allocation of resources in accordance with strategic priorities; and Level Three—efficient and effective use of resources in the implementation of strategic priorities (operational efficiency.)

15. A review of the medium-term expenditure framework process in Malawi noted that there were three crucial shortcomings: (i) the absence of a long-term resource framework to guide the Policy and Investment Framework; (ii) the lack of a clear policy statement to guide the medium-term expenditure framework, and (iii) the failure to apply consistently an output and activity based framework to the preparation of the annual budget (Craig, Lawson and Smithers 1999).

16. The medium-term budget framework is described in Department of Finance (1997). An analysis of initial lessons is contained in Abedian (1999).

17. A comparative study of the use of cash budgeting in Uganda and Zambia concluded that in the former, active involvement from the President has been critical in maintaining fiscal discipline, while in the latter, ad hoc spending from the President's Office has contributed to substantially increased overall expenditure volatility (Stasavage and Moyo 1999).

18. In several cases, such as Zambia and Ghana, cash budgeting in the context of unpredictable revenue flows has caused significant problems for the predictability of expenditure. Other countries, such as Uganda, have managed this problem more successfully (Kitabire 1999).

19. For example in Ghana it appears that budget outcomes have been significantly out of line with the medium-term expenditure framework even during the first year of implementation (Foster 1999).

20. The role of adjustment instruments is outside the terms of reference of this paper.

21. The objective of a sector investment and maintenance loan is "to bring investments, policies, and performance in specific sector(s) or subsector(s) in line with economic priorities and ensure efficient operation and maintenance of investments in such sector(s). The focus is on public sector expenditures and institutional capacity to plan, implement and monitor investments, and the approach requires agreement on the composition of the public investment program in the specific sector or subsector, on policy reforms, and institutional strengthening."

22. World Bank (1998c) Box 4.1.

23. The second variant is the learning and innovation loan, which is "designed to (i) support small, time-sensitive programs that build capacity and/or pilot promising initiatives or (ii) to experiment and develop locally-based models prior to larger-scale interventions. While learning and innovation loans may be a useful instrument for particular kinds of capacity building, they are not really instruments designed to support scaling up processes.

24. The review noted that "The challenge, therefore, is to explicitly relate the tranche triggers to social and other indicators that are good proxies for demonstration of the government's political will and program performance."

25. Italics designate answers based on a single donor response. A question mark indicates incomplete consensus.

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